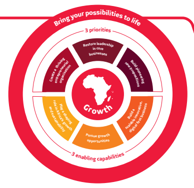
Absa Bank Kenya PLC

Integrated Report and Financial Statements 2020

Absa Group strategy

The Absa Group growth strategy launched in 2018 laid the foundation to reimagine the Absa Group business. 2020 brought with it a materially different operating context than the one in which the original growth strategy was set. The pandemic has fundamentally altered behavioural patterns, the way people work, collaborate, perspectives on health and the fragility of life. Moreover, it significantly impacted banking performance while rapidly accelerating the evolution of the industry. Against this backdrop, Absa Group proactively engaged in a strategy review process - while ensuring the immediate stabilisation of the business - determined to still deliver on its aspiration to be a leader on the continent.

2018 – 2020: Pre-COVID-19



Delivering the Group's growth strategy, premised on the overarching guiding purpose – to bring possibilities to life.

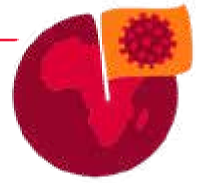
Three strategic priorities

- Create a thriving, entrepreneurial organisation.
- Restore leadership in the Group's core businesses.
- Build pioneering new propositions.

Three enablers

- Build a scalable, digital-first business.
- Pursue growth opportunities.
- Play a shaping role in Africa's growth and sustainability.

2020 – 2021: COVID-19



Immediate stabilisation of the business as a result of the COVID-19 pandemic arising from March 2020.

Ensuring business resilience through:

- Capital and liquidity preservation.
- Operational stability.

Delivering the Group's corporate purpose through:

- The safety and wellbeing of its employees.
- The safety and financial wellbeing of the Group's customers.
- Safeguarding the lives and livelihoods of the communities Absa Group serves.

The Six Capitals

The execution of the Absa Group strategy will result in the transformation of the Six Capitals to varying degrees.

The greatest tangible impacts

- Financial
- Intellectual
- Manufactured
- Human

Preserve and enhance

- Social and relationship
- Natural

The decisions made as a Group during the crisis have shaped Absa's identity. More than ever, the Group deeply understands and accepts its responsibility to a broad range of stakeholders, including employees, customers, communities, our environment and shareholders. As customers' lives grow more complex within an increasingly interconnected world, the Group's solutions must adapt to meet their needs, understanding how and where they want to engage with Absa. This evolution includes shifting from a product and segment-driven strategy to leveraging the Group's capabilities in delivering targeted solutions to create a differentiated experience for each customer.

The Group will employ a solutions-driven mindset, which includes excelling at execution as well as solving for the needs, aspirations and behaviours of its customers. Financial service needs do not exist in a vacuum, and so differentiation will come from implementing customer-first digital solutions; creating an ecosystem of financial services, lifestyle and value chain offerings, which deliver a seamless experience for customers across all channels and points of presence, at the right price.

Sustainable growth will continue to shape the Group's thinking and drive its planning as a critical measure of success.

2021 and beyond: Post-COVID-19

Customers are at the heart of our strategy

A purpose-led ethos and a customer-centric business model where the Group's focus is ensuring that its propositions, distribution channels, market footprint, capabilities, mindsets and behaviours deliver on the needs of its customers.

Four strategic imperatives

- **Lead with purpose and deliver shared value to a broad range of stakeholders.**
- **Address customers' intrinsic needs through hyper-personalised propositions delivered in the right key moments.**
- **Deliver propositions through effective, digital-first distribution channels that complement our customers' behavioural patterns.**
- **Establish a diverse market footprint that best meets customers' expectations.**

Four strategic enablers

- **Continue to invest in strategic capabilities that drive market leadership.**
- **Continue to build a modern technology architecture that powers digital transformation.**
- **Evolve the Group's execution model to deliver fast-lane innovation.**
- **Develop and nurture an entrepreneurial culture.**

Integrated planning

Underpinning the Absa Group strategy is a robust integrated planning process characterised by the allocation of capital to maintain balance sheet growth, along with clear prioritisation of change and the allocation of funds to deliver strategic initiatives. All while ensuring the Group delivers shareholder value by generating returns above the cost of equity and paying dividends when appropriate.

Rewarding sustainable performance

The Group's remuneration philosophy underpins its strategy, supports the evolution of the Group's culture and is aligned with the risk management approach. It aims to direct the efforts of its employees in delivering our strategy of creating sustainable value for Absa Group's stakeholders in a manner that is both fair and responsible.

More information about Absa Group and its strategy, can be found in the Absa Group 2020 Integrated Report available at www.absa.africa/absaafrica/investor-relations/annual-reports/

Icons used in this report

Six Capitals

Financial capital	A balanced funding mix and solid equity position to support operations and business activities of taking deposits and lending.
Manufactured capital	Infrastructure including the property, equipment and technology used in the production of services and the delivery of products to our customers.
Human capital	A strong ethical culture that is customer and employee centric with competent and skilled employees engaged within a diverse workforce.
Social and relationship capital	Collaborative relationships with a range of stakeholders including our customers, strategic service partners, regulators and communities where we operate that aim to contribute to socioeconomic development and societal wellbeing.
Intellectual capital	Safe, effective information and technology infrastructure combined with a strong brand and institutional knowledge, specialised skills and expertise.
Natural capital	Responsible use of natural resources including energy sources (electricity, solar and gas), air, water, paper and the management of impacts including carbon emissions, water and waste

Navigation

Web HTML only

Online reference download

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King IV

Stakeholders

Customers

Employees and Unions

Society and communities

Partners

Regulators and Government

Investors

Stakeholder engagement is a value-creating process that is of critical importance in furthering Absa's growth ambitions. Engaging with stakeholders in a structured and well-coordinated manner, through meaningful, transparent communication, enables us to cultivate relationships that can serve as valuable capital in both good and challenging times. It is a process that provides important information about our business as well as about our social, political and physical environment. Principle 16 of King IV advocates for the adoption of a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time. The range and extent of engagements is vast and our approach is informed by the specific stakeholder as well as by the need for engagement.

About this report

Sustainable value creation is the result of how we apply and leverage our capitals while making trade-offs. Our relevance and ability to create long-term value, now and in the future, are interrelated and fundamentally dependent on the forms of capital available to us. This includes how we use these forms of capital to realise positive returns to the business. It also includes the value that they deliver to business growth and sustainability as well as to society as a whole.

Reporting period and forward-looking statements

Our report covers the period from 1 January 2020 to 31 December 2020. Any notable or material events after this date and up until the approval of our Integrated Report are also included. Statements relating to future operations and performance of the Group are not guarantees of future operating, financial or other results. They involve uncertainty, as they rely on future circumstances – some of which are beyond our control. Therefore, ultimate results and outcomes may differ.

Target audience

This Integrated Report is our primary report to our investors. It also contains information relevant to other key stakeholders. The criteria in which tthese stakeholders have been identified and the material issues defined for the reporting period are further unpacked on page 9 of this report..

Financial and non-financial reporting

This report contains information regarding highlights stakeholder relationships, material matters, risks and opportunities and contain forward-looking statements. An attempt is made through the use of the six capitals model to articulate the linkages between both financial and non-financial indicators.

Assurance

We employ a combined assurance model to assess and assure various aspects of the business operations, including elements of external reporting. These assurances are provided by the Management and the Board. The scope of services performed by our external assurance providers refers to the Absa Bank Kenya PLC Annual Financial Statements (AFS), presented in pages 105 to 214. We received external assurance from our auditors, EY (pages 101 to 104), on the fair presentation of these annual financial statements.

The six capitals model

Financial capital
Our shareholders' equity and funding from investors and customers, which are used to support our business and operational activities, including credit extension.

Manufactured capital
Our business structure and operational processes, including our physical and digital infrastructure, that provide the framework and mechanics of how we do business and create value.

Human capital
Our culture and our people, investing in their development and our collective knowledge, skills and experience to enable delivery of innovative and competitive solutions for our customers.

Social and relationship capital
Our citizenship and strong stakeholder relationships, including rapport with the communities in which we operate, recognise the role that the banking sector plays in building a strong and thriving ecosystem.

Intellectual capital
Our brand and franchise value, research and development, innovation capacity, reputation and strategic partnerships, as well as the products we offer to our customers.

Natural capital
Our impact on natural resources through our operations and business activities.

Value creation through our sustainability framework

Absa Bank Kenya PLC strives to be a force for good by making a difference in its communities, which benefits both people and the planet. We are privileged to have a track record of over 100 years of serving our people. Over the years we have endeavoured our best to contribute to society through broad based initiatives that uplift all our stakeholders.

In 2020, we issued our sustainability commitments, a series of 13 commitments which we aim to achieve as part of our broader shared value agenda. We have set our key performance indicators including measures of success as follows:

No.	Commitment	Goal or Target	Target date	Our SDGs impacted
1	Diversification of our portfolio and increase our funding and capital allocation for initiatives that support; 1. Renewable and clean energy 2. Industries, innovation and infrastructure 3. Financially excluded groups 4. Sustainable cities and communities 5. Responsible consumption and production 6. Value chains	Increase portfolio and capital allocation by at least 10%	2025	7,8, 9, 10, 11, 12
2	Increase diversity in the supply chain focusing on Women, Youth and Persons with Disability (PWD)	Achieve 30% diversity	2025	8,10
3	Investing in the future of the youth through skills development with our ReadytoWork program	Train 1 million youth	2025	4, 8, 10
4	Become a net zero carbon footprint company by 2040	Achieve Net Zero	2040	12
5	Increase biodiversity and encourage environmental responsibility through planting trees	Plant 10 million trees	2025	15, 8
6	Empower our suppliers and create awareness on corporate sustainability and responsible business practices	Train all suppliers on sustainable business	2021	8, 16
7	Direct and indirect economic contribution to the Kenyan economy through our current and future funding	% of contribution to economy	Continuous	8
8	Become one of the best places to work in Kenya	Top 10	2025	8
9	Investing in training and upskilling the future skills and competencies of our employees	Train all employees on at least one future skill	2021	4, 8, 16
10	Increase proportion of women within all levels: junior, management and board positions: Gender parity	Attain 50% across all levels	2025	10
11	Assess and manage our indirect environmental and social impacts	Reduce and mitigate negative impact	2021	8, 12
12	Adherence to governance and control policies internally and through the supply chain	Embed ESG across all our policies and frameworks	Continuous	16
13	Continued partnerships for the goals	Number of partners and value created for society and business	Continuous	17, 8

Materiality

Determining materiality is critical to a business, ensuring its ability to manage both internal and external risks and opportunities. These, in turn, have a direct bearing on the ability of the business to protect value creation in the form of future financial performance, enhanced brand value and ensure legal compliance. This report aims to provide a response to the material issues raised by stakeholders during the year. Acknowledging the concerns raised and outlining how they were addressed facilitates the Bank's ability to create long-term embedded value for all stakeholders. The determination and assessment of materiality to the business is an ongoing process driven by both external and internal reviews. This is defined through a four-step process of identifying, validating, applying and assessing materiality.

Material issues are identified by discerning which matters have the potential to impact our sustainability and create value for our stakeholders.

Identify

Validate

We determine the validity of these matters according to their relevance against our current operating context. This includes validating the matters with the highest potential to significantly impact the viability of our business.

Once material matters have been validated we apply our strategy in order to respond expeditiously.

Apply

Assess

Assessing the material issues and their solutions on a continuous basis allows us to ensure that our strategy remains relevant.

Benefits of determination of materiality

- Track future trends, business risks and opportunities that influence our ability to create value
- Facilitate decision making
- Facilitate integration of non-financial and financial aspects of the business
- Embed value throughout the supply chain
- Enhance stakeholder engagement
- Allow for alignment of strategy to market shifts over time

Material matters raised by stakeholders in 2020

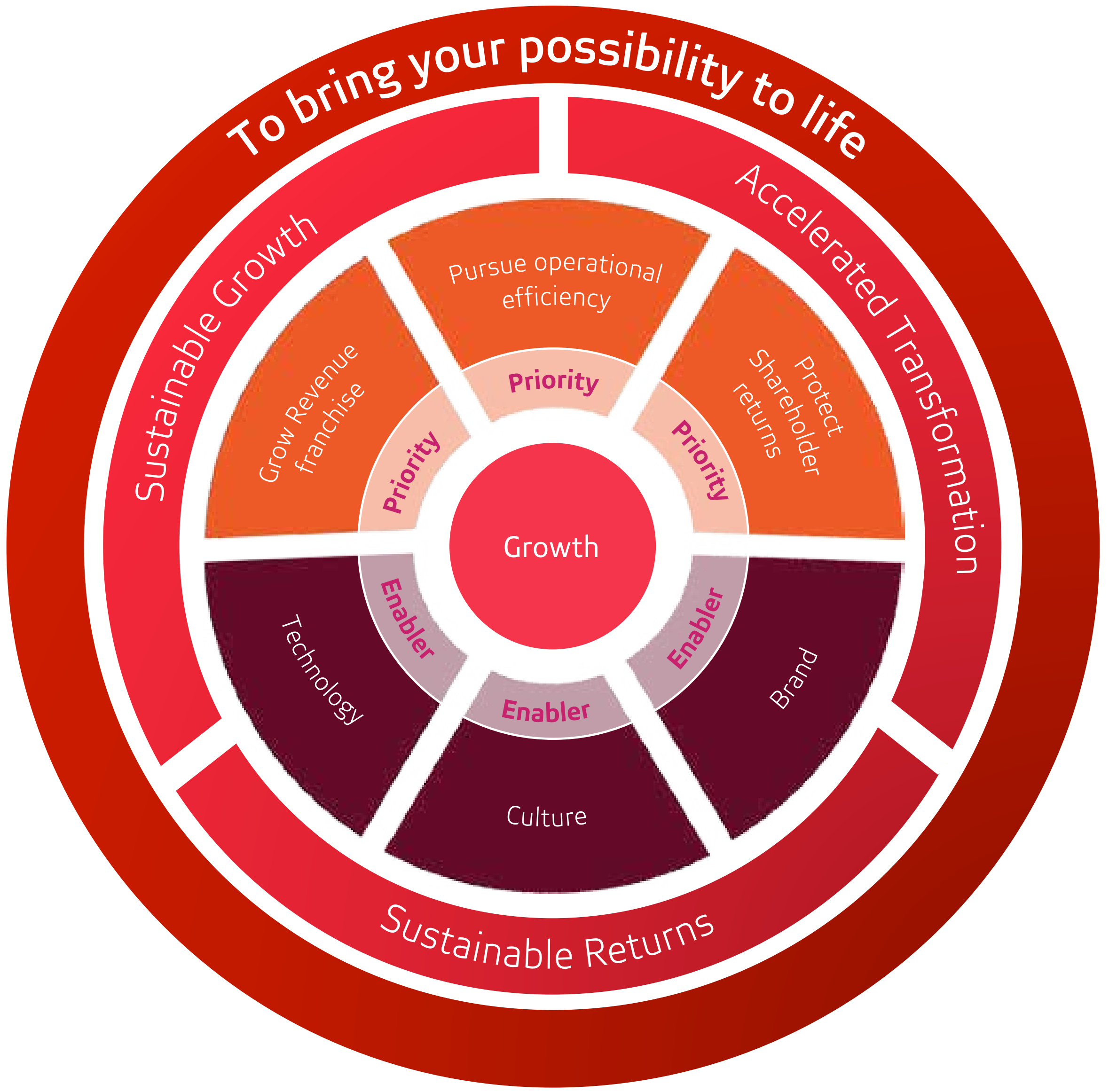
Stakeholder	Material issues raised	Page reference
Investors	• Business continuity and impact on financial returns due to COVID-19. • Response to changes in risk profiles of customers. • Adequate management of exchange rate fluctuations and lower interest rates. • Are we prepared for increased regulatory changes? • New technology rollout and maintenance of integrity of systems. • Securing the transition and communicating impact on shareholders. • Impact on investor returns on investment and dividends payouts.	30-33
Customers	• Support, engagement and protection. • Systems security and stability. • The impact of new data protection regulations. • Improvement in customer experience. • Better articulation of Absa and what to expect.	42, and 54 - 55
Society and Communities	• New focus of WEMA "Force for Good" programme • Collaboration with key clients to maximize impact on society .	68-69
Regulators and Government	• Business continuity and resilience. • Response to and management of COVID-19 pandemic. • Specific support being provided to the SME sector. • How product pricing and scalability is being managed. • Expected innovation in the sector. • Transition readiness and implementation. • Engagement on support required to rollout digital banking agenda. • Responsiveness to the Big 4 Agenda. • Consistent communication and engagement. • Regulatory adherence and compliance in South Africa and Kenya. • Provision of sufficient liquidity into the market to support the money markets.	64-67
Employees and Unions	• Support and protection. • Enablement to work from home. • Job security. • Products and services on offer and approach to the market. • Impact of rebranding to Absa. • Future proofing due to technology changes. • Data privacy law and expectations on employees. • Stability and availability of technology systems. • Training and development required on new system rollouts. • How to use data to make decision.	41,42,46 and 48
Partners	• Understanding of any new requirements. • Supplier empowerment. • Data protection protocols rolled out. • Increased levels of reporting in future. • Collaboration.	42-43

Our Strategy

Our Strategy: Growth, Transformation and Returns ("GTR")

Our strategy seeks to deliver step change in our desired strategic positioning as we pivot the Bank for local relevance, under the new brand

Our Ambition: *Become the best bank in customer experience as an enabler for sustainable growth*



1 Purpose
3 Priorities
3 Enablers
1 Measure of success

1 Purpose

Our purpose is to *'bring your possibility to life'*, as we believe in the actions of people who always find a way to get things done. We are obsessed with customers, with creating opportunities for them to make their possibilities real and to support them every step of the way. We are a future focused organization, driven by progress and our desire to thrive together with the society beyond commercial successes. This forms the foundation of our existence.

3 core priorities that will sustainably support our business model

Grow revenue franchise

Target to grow our revenue franchise through building a powerhouse corporate and investment banking franchise to complement a strong and diversified retail bank. In addition to this base; we see business banking and Digital Finance as areas that offer us an outsized growth opportunity

Pursue operational efficiency

Target to pursue leadership in operational efficiency through focus on automation and simplification aimed at building the most digital customer obsessed bank in Kenya

Protect shareholder returns

Target to protect and grow our shareholder returns to top-quartile and significantly above our cost of capital over the cycle; this will be achieved through optimization of our capital allocation, cost efficiency and outsized growth in ROE-captive revenues compared to general risk based revenue stream

3 core enablers towards successful delivery of the three strategic priorities, we will allocate our resources to accelerate implementation of three enablers:

Technology

Target to radically modernize our banking platforms and digital capabilities by investing in new technologies towards becoming the most digitally enabled bank in Kenya

Culture

Target to embed our entrepreneurial culture of brave, passionate and ready colleagues with the aim of becoming the employer of choice and a fun, vibrant and great place to work

Brand

Target to drive Brand love and local relevance while retaining the premium and global appeal. A brand that exposes the spirit of Kenya of always finding a way to get things done. We call this africanacity, we love africanacity

1 Measure of success

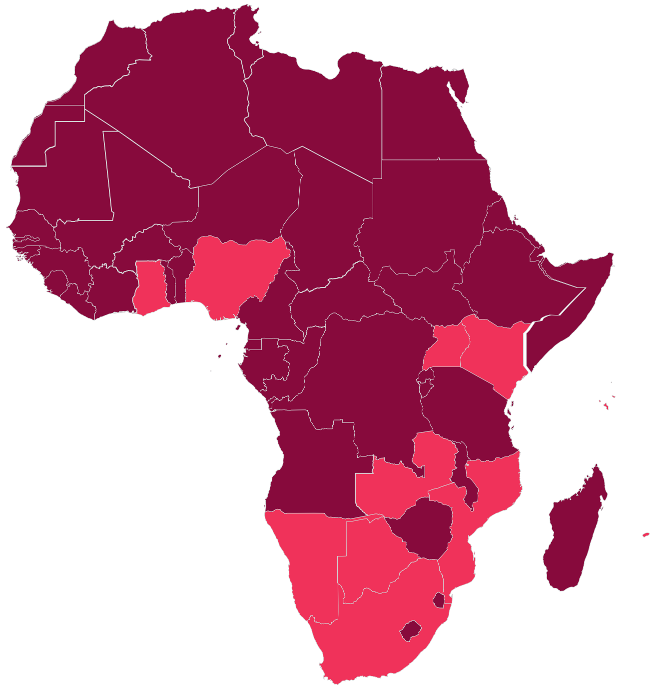
We set ourselves one measure of success: Growth. We view growth more holistically and more broadly for all our stakeholders and its for this reason that over the long term, the delivery of our strategy will fulfil our purpose, achieve our financial and commercial successes and create value for all our stakeholders; in a sustainable way.

Our strategy has been re-imagined in light of COVID-19

We believe our original Growth, Transformation and Returns strategy announced in 2018 remains valid. In fact, COVID-19 and the resulting operating environment has validated the importance of strategic equilibrium focusing on Growth and Transformation through varied economic cycles. The nuance of our original strategy announced in 2018 is therefore minimal: We will seek to pursue Sustainable growth, Accelerate our transformation effort and seek to deliver Sustainable Returns over the cycle. Our ambition of becoming the best in customer experience remains unchanged and COVID-19 has accelerated the Horizon towards that ambition.

Our Bank

Absa Group presence



We are an African group, inspired by the people we serve and determined to be a globally respected organisation of which Africa can be proud. We are committed to finding tailored solutions to uniquely local challenges and everything we do focuses on creating shared value.

As a financial services provider, we play an integral role in the economic life of individuals, businesses and nations. We help create, grow and protect wealth through partnerships in economic development while playing a shaping role in Africa's growth and sustainability.

Customers are served through an extensive branch and self-service terminal network, digital channels, financial advisors, relationship bankers and dealerships, originators, alliances and joint ventures.

14 countries[1]

36 737 employees

991 branches

9 686 ATMs

124 432 point-of-sale devices

Call centres

- Sales, service and general enquiries.
- Interactive voice response capability.

Our digital offering

- Transacting and sales through Absa Online Banking, Absa Access and Virtual Investor.
- Mobile apps, such as the Absa Mobile Banking App, NovoFX, Hello Money, Jumo and Timiza.
- ChatBanking on WhatsApp and Facebook Messenger.
- USSD code-based functionality.
- Online transactions via third-party sites.

Our wide array of partnerships

- Agency banking at third parties for bill payments, deposits and withdrawals.
- Access to financial services through our telecommunications and retail partners, which enhances our digital offering.

Country	Employees	Branches	ATMs	Point-of-sale devices	Founded
Botswana	1 132	31	115	4 611	1950
Seychelles	283	7	19	937	1959
Kenya	1 991	85	208	5 638	1916
South Africa	27 160	619	8 660	104 544	1888
Ghana	1 152	60	161	1 050	1917
Tanzania[2]	1 493	62	191	1 121	1925
Mauritius	657	13	40	1 007	1919
Uganda	909	39	76	1 159	1927
Mozambique	803	44	110	851	2002
Zambia	824	31	101	3 514	1918

[1] Other offices: Namibia, Nigeria, United Kingdom and United States.

[2] Absa Bank Tanzania and National Bank of Commerce combined.

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Becoming obsessed with the customer | Our shifting regulatory framework | Value creation through good governance | Financial review | Shareholders information

Ownership and reporting structure

Absa Group

- Absa Bank Limited* 100%
- Absa Financial Services Limited* 100%
- Absa Bank Botswana Limited 67.8%
- Absa Bank Ghana Limited 100%
- Absa Bank Kenya PLC 68.5%
- Absa Bank (Mauritius) Limited 100%
- Absa Bank Mozambique, SA 98.7%
- Absa Bank (Seychelles) Limited 99.8%
- Absa Bank Uganda Limited 100%
- Absa Bank Zambia PLC 100%
- National Bank of Commerce Limited** 55%
- Absa Bank Tanzania Limited 100%

Absa Bank Kenya PLC structure

Absa Group Limited 68.5%

Other public shareholders 31.5%

Absa Bank Kenya PLC

- Absa Securities Limited 100%
- Absa Kenya Nominees Limited 100%
- Absa Asset Management Limited 100%
- Absa Bank Insurance Agency Limited 100%
- Absa Pension Services Limited 100%

* In South Africa

** In Tanzania

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Our value creating business model

Our value creating business model

Inputs

External operating environment

- Economic recovery expected to be slower than anticipated partly mitigated by expected launch of Government stimulus and Government support for MSMEs
- The currency depreciation and volatility has continued and is expected to continue in the medium-term with government debt levels anticipated to increase
- Continuous assessment of political and regulatory environment aimed at considering their inputs to our business model

Our 6 capitals

Financial capital
- Equity – **Shs 2 716mn**
- Deposits – **Shs 237 739mn**
- Retained Earnings – **Shs 37 095mn**
- Market capitalisation - **Shs 72.5bn**

Intellectual capital
- Advanced technology, new investments and intellectual property - **Shs 20 000 mn**
- New-to-market innovative products and services
- Securing our operating environment with best in class cyber security protocols
- Investments in advanced data and analytics -**Shs 190 mn**

Human capital
- Customer obsessed and performance focused culture
- Solid credibility of executive and leadership team
- A vibrant, fun and great place to work

Manufactured capital
- **85** branches
- **210** ATMs
- Complimentary, digital and alternate channels

Social and relationship capital
- Sustainable strategic partnerships
- Sustainable investments
- New brand Absa and new values
- Robust stakeholder relationships

Natural capital
- Sustainability program established
- Sustainable real estate
- Sustainable uses of natural resources

Our business activities

Driving performance through 2 business units

Retail and Business Banking (RBB)
- Retail Banking
- Timiza
- Business Banking

Corporate and Investment Banking (CIB)
- Corporate Banking
- Global Financial Markets
- Investment Banking Advisory
- Securities Brokerage
- Asset Management

Viewing our execution through 5 lenses

1. Operating context:
Our strategy represents our proactive and effective approach to the operating environment. We review and refresh our strategic responses regularly to anticipate and manage risks

2. Governance, risk and performance management:
Our governance approach reconciles the interest of the bank and the society; and our strategy is achieved within our risk appetite parameters

3. Business areas:
Our business units and corporate functions have aligned their execution priorities to our corporate strategy, towards generating value to our stakeholders

4. Our strategy:
Our strategy focuses on creating shared value through delivering growth, transformation and returns

5. Our customers:
We are obsessed about our customers. This guides our strategy towards creating sustainable value

Outcomes

Investors

- **1%** Growth in total assets
- **7%** Growth in customer deposits
- **1%** Growth in revenue
- **49%** Normalised cost to income ratio
- **14%** Normalised return on equity

Customers

- Launched new products leading to increase in total number of customers to over **4.5mn**
- Recorded improved Net Promoter Scores at branch level
- **59 000** customers supported due to COVID-19
- **Shs 62bn** loan value benefitting from the repayment holiday

Employees

- **1 991** service-oriented colleagues
- **Shs 11bn** paid in employee benefits
- **55%** currently enabled to work from home with a target to increase to 60%

Regulators

- Nil regulatory breaches recorded
- All regulatory approvals secured towards our transition to Absa
- Positive regulatory engagements and relationship sustained
- All regulatory ratios maintained within regulatory guidelines

Society

- **6 000** government interns taken through ReadytoWork programme
- **215 000** Youth empowered through ReadytoWork
- **3 200** Women entrepreneurs benefited by SheTradesKE
- **574** students benefited from scholarship programme

Charles Muchene
Chairman, Board of Directors

> ***"As we navigated the year, we sought every opportunity to participate with our new identity in helping our country, our customers, colleagues and their families manage effects of the COVID-19 pandemic."***

Reflections from the Chairman

Ladies and Gentlemen, we have come to the end of 2020, and what a year that was!
The beginning of 2020 saw us complete the exciting re-branding of our business, culminating in public celebrations in February 2020 and the rolling out of elaborate plans to promote our new brand and grow our business. But no sooner had we kicked off these activities than COVID-19 struck, turning our year into one of compounded challenges not just for our business and industry, but also for local and global economies.

The evolving nature of the pandemic meant we had to re-think our priorities and also bring out the very best in each one of our people. More than ever before, we were challenged to show our humanity in the way we responded to the crisis and beyond that, demonstrate our agility and collaboration by adapting our ways of working.

I could not be prouder of how our managing director, Jeremy Awori, his entire Country Management Committee and every member of the Absa Kenya family responded to the immediate crisis, the subsequent recovery process and in together reimagining the future of our business. Thank you for your maturity and strength during the uncertain and challenging times. All this demonstrates what we can achieve when we are all at our best.

Even though the rolling out of vaccines offers hope for the future, COVID-19 and its impacts are going to be with us for much longer than was initially anticipated, with little prospect of going back to the pre-COVID-19 period as we knew it. Instead, the future calls for greater flexibility and adaptability as we pursue our Growth, Transformation and Returns strategy, recognising that remarkable courage and faster, data-enabled decision making will be key hallmarks in this unpredictable environment.

New ways of working

As we prepare to face the future, we appreciate that not only are the ways of working changing rapidly, with the workplace being online and predominantly global in nature, but also that work itself is being recreated. With the advent of the Fourth Industrial Revolution, man and technologies, such as robotics and artificial intelligence, are inextricably involved in delivering value to our stakeholders in ways we could only have imagined previously.

Increasingly, work is ceasing to be task-oriented and permanent, and hence resourcefulness is required to deliver projects through diverse arrangements with different teams of employees, partners and contractors. At Absa Kenya PLC, we shall continue to make the requisite investments in both our people and technology, anchored on our reputation as a solid, reliable and trusted international brand that stands out as an exemplar in governance.

For our customers, this rapid change should occasion excitement at the prospects of value creation and positive customer experience, with increased channel choices and self-serving outlets, complimented by more versatile face-to-face interactions will provide you with a broad range of convenient, real-time, digital solutions that meet your needs.

Given all this, I look back at the year 2020 with satisfaction in all that we have achieved despite the circumstances. On the financial metrics front, the business recorded revenue and balance sheet growth, cost efficiency, and a normalised profit of Shs 6.5 billion after increased impairment losses occasioned by the COVID-19 pandemic.

However, caution is advised given the continuing uncertainty, the need to preserve the Company's capital and liquidity from future shocks, and our desire to place the business in a strong position for the upturn. In the circumstances, therefore, the Board of Directors decided not to recommend the payment of a dividend in respect of the financial year ended 31 December 2020.

Separation

One of the key focus areas for the Board over the past few years has been the separation from Barclays. I am proud to note that this was successfully completed and we fully rebranded by the first quarter of 2020. The separation programme was a complex and challenging process achieved with seamless and disciplined execution, a hallmark of the Bank's capacity to handle arduous projects competently. This capacity proved invaluable in our Bank wide response to the pandemic which required managing and coordinating multiple on and offsite work streams with requisite oversight, change management, ensuring business continuity, and protecting value.

Our transition to Absa signals more than just a name change. We have repositioned our business to play an integral role in the economic transformation of our country through value creation for customers, stakeholders and society. Intentionally disruptive and vibrant, our new brand will play a leading role in innovations that transform the way finance works and impacts on people. This will involve creating more competitive digital, data, technology and innovation capabilities and leveraging on strategic partnerships.

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Reflections from the Chairman

Our underlying culture is brave and passionate demonstrating a willingness to find ways to create sustainable value. We are developing and nurturing an entrepreneurial culture that is results driven focused on delivering personalised, needs-based propositions while remaining true to our corporate purpose and values. And, as a truly African brand, we demonstrate unique and relevant ways of getting things done, with ingenuity and distinction, which we call Africanicity.

Strategy

We remain committed to our strategy that focuses on Growth, Transformation and Returns underpinned by sound risk management practices, capital generation, operational efficiency and obsession with the customer.

Growth: Our growth pillar aims at pursuing sustainable and selective growth through diversification of our franchise and pursuit of both an organic and inorganic strategy. Our growth aim is to reposition Absa as a large scale player in Kenya, gaining revenue market share.

Transformation: Transformation aims at achieving operational leadership by investing in broad based automation and digitization to improve customer experience and deliver digital first and digital always capabilities.

Returns: Returns Pillar seeks to offer sustainable returns by protecting and growing our shareholder returns to top-quartile and significantly above our cost of capital over the cycle; this will be achieved through optimization of our capital allocation, cost efficiency and outsized growth in ROE-captive revenues compared to general risk based revenue stream.

We continue to refine our approach to adapt to contextual changes and adjust to the necessity to fast tracking opportunities when they arise. In 2020, our strategy proved resilient and relevant despite the marked changes in our context, validating our thinking and providing us with the overarching guidance to navigate complexity and create sustainable value.

Sustainability

The Board remains abreast with the ever changing business landscape in the financial sector and the growing convergence between business and society. We view this trend as an opportunity to leverage on co-creation and collaboration so as to contribute differently and constructively to a changing world.

In 2020 we launched our 13 sustainability commitments revamping our intent to be a "Force for Good" in society. These commitments focus on our contribution to the attainment of the Sustainable Development Goals (SDGs) and our national development priorities and improving our impact on People and the Planet. We are signatories to international sustainability initiatives including Principles for Responsible Banking at Group level and the UN Global Compact Kenya chapter.

Our response to COVID-19 has shown how business can be a significant contributor to societal value through strategic interventions that ease the burden for stakeholders and protect the business in the long term. By offering pay holidays, restructuring loans, waiving fees, bolstering digital channels and protecting customers, we showcase the new approaches to social engagement that provide win-win benefits for our stakeholders and the Bank. This type of arrangements will be normal going forward giving credence to our corporate purpose of 'bringing your possibility to life".

Board changes

During the year 2020, the Board underwent some changes in its composition. We bid farewell to Mr. Ashok Shah on completion of his term and to Ms. Winnie Ouko who stepped down to pursue other interests after six years on the board. Both Ms. Ouko and Mr. Shah demonstrated unparalleled commitment to the success of this business, bringing their experiences and insights to bear on the deliberations of the Board and the committees they chaired. We shall miss them and their contributions and wish them well for the future.

Any churn on the board provides an opportunity to bring in new skills, competencies and attitudes to further support the Board's quest for excellence. We were privileged to have Mr. Charles Murito and Mr. Fulvio Tonelli join the board in the course of the year. Mr. Murito's deep knowledge and experience in using technology as a tool to better customer experience, and Mr. Tonelli's deep knowledge and experience in the fields of risk, strategy and controls will all stand the Board in good stead as we confront the challenges ahead. I welcome them both on board and look forward to their participation and contribution.

Going forward

It is during challenging times like the ones we have been through over the last year that the real mettle of business leaders is tested. All members of the Board availed themselves for the many meetings that were called during the early months of the COVID-19 pandemic, many of them at short notice. Each one of them played a role in guiding, supporting and encouraging management, and each one of them brought their best game with them every time. Thank you for your counsel and leadership.

To our shareholders, you have been very supportive of the business throughout the year. Thank you for the support and understanding that the Board has to balance between short-term interests of individual shareholders and the longer-term interests of a sustainable business.

Above all I would like to celebrate our customers who have remained loyal and optimistic as they journey with us, even as they have had to weather the economic downturn occasioned by the pandemic. We look forward with cautious optimism to a post-COVID world in which sustainable value creation continues to present us with even greater scope to *bring your possibilities to life*.

Muchene

Charles Muchene
Chairman, Board of Directors

Our Board of Directors

The Absa Board is committed to continuous improvement in our corporate governance principles, policies and practices, and does so by remaining abreast of evolving regulations and best practices. This is further enhanced through engagement with regulators and industry bodies, and regular feedback from other stakeholders.

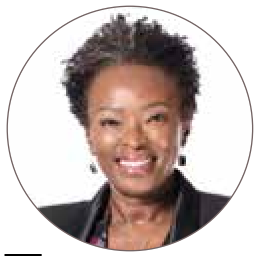
Good corporate governance practices are important in creating and sustaining shareholder value and ensuring that behaviour is ethical, legal, transparent and for the benefit of all stakeholders.


63
Charles Muchene
Chairman


50
Jeremy Awori
Executive Director and Chief Executive Officer


47
Yusuf Omari
Executive Director and Chief Financial Officer


50
Dr. Laila Macharia
Non Executive Director


55
Patricia Ithau
Non Executive Director


67
Japheth Olende
Non Executive Director


56
Louis Onyango Otieno
Non Executive Director


44
Charles Njenga Murito
Non Executive Director


60
Fulvio Tonelli
Non Executive Director


42
Loise Gakumo
Company Secretary

Changes during the year

Appointed:
- Charles Njenga Murito
- Fulvio Tonelli

Retired:
- Ashok Shah
- Winnie Ouko

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Our Board of Directors

Charles Muchene
Chairman
Appointed to Board: August 2016
Appointed Chairman: October 2016
Committee Membership: CGNRC SC

External Directorships
- AIG Kenya Limited

Previous Roles
- Chairman and Non-Executive Director, East African Breweries Limited
- Independent Non-Executive Director, CfC Stanbic Holdings Limited
- Country Senior Partner and Financial Service Industry Leader, PricewaterhouseCoopers

Qualifications
- Bachelor of Commerce (Hons), University of Nairobi
- Fellow, Institute of Certified Public Accountants of Kenya
- Member, Institute of Certified Public Secretaries of Kenya
- Member, Institute of Directors

Jeremy Awori
Executive Director and Chief Executive Officer
Appointed to Board: February 2013
Committee Membership: SC

External Directorships
- Board Member, Kenya Private Sector Alliance (KEPSA)
- Executive Council Member, Kenya Bankers Association

Previous Roles
- Former Chairman, Kenya Bankers Association
- Chief Executive Officer, Standard Chartered Tanzania
- Regional Sales and Performance Director, Standard Chartered Middle East, South Asia and Africa
- Head of Consumer Banking, Standard Chartered UAE
- Executive Director and Head of Consumer Banking, East Africa

Qualifications
MBA, McGill University (Canada)
BSc. Pharmacy, Manchester University (UK)
Fellow, Aspen Global Leadership Institute
Member, Young Presidents Organisation

Yusuf Omari
Executive Director and Chief Financial Officer
Appointed to Board: June 2009
Committee Membership: None

External Roles and Memberships
- Board Member, University of Nairobi Enterprise Services
- Board Member, the Institute of Certified Public Accountants of Kenya (ICPAK)

Previous Roles
- Head of Compliance, Barclays Kenya
- Head of Internal Audit East and West Africa, Barclays Kenya
- Senior Auditor, KPMG

Qualifications
- Advanced Management Program (AMP), at IMD Switzerland, Strathmore and IESE Business School
- MBA, Strathmore Business School
- B.A. Economics, University of Nairobi
- Fellow, Institute of Certified Public Accountants of Kenya
- Certified Internal Auditor

Dr. Laila Macharia
Non Executive Director
Appointed to Board: August 2014
Committee Chairperson: CC
Committee Membership: ARC (Acting chair), SC

External Roles and Memberships
- Chairman, Africa Digital Media Group
- Chairman, Africa Leadership Initiative - East Africa
- Non-Executive Director, Centum Investment Company PLC
- Non-Executive Director, Two Rivers Development Limited
- Non-Executive Director, Pearl Marina Estates Limited
- Non-Executive Director, Vipingo Development PLC
- Member, Centum Foundation

Qualifications
- LLD, Stanford Law School (US)
- LLM, Stanford Law School (US)
- LLM, Cornell Law School (US)
- LL.B, Cornell Law School (US)
- B.A., University of Oregon (US)
- Member, State Bar of New York (US)
- Member, State Bar of Maryland (US)
- Member, Law Society of Kenya

Patricia Ithau
Non Executive Director
Appointed to Board: March 2016
Board Chairperson: Absa Securities Limited
Committee Chairperson: CGNRC
Committee Membership: ARC

External Roles and Memberships
- Regional Director, Stanford Institute for Innovation in Developing Economies – Stanford Seed
- Non-Executive Director, Trade and Markets East Africa
- Non-Executive Director, Kenya Private Sector Alliance (KEPSA)
- Non-Executive Director, WPP Scangroup Ltd
- Non-Executive Director, Jambojet Ltd
- Trustee, Vodafone Foundation UK
- Executive Coach, Academy of Executive Coaching

Previous Roles
- Managing Director, L'Oreal East Africa
- Managing Director EABL – international
- Managing Director Uganda Breweries Ltd

Qualifications
- Advanced Management Program (AMP), Strathmore and IESE Business School
- MBA, United States International University Africa
- Bachelor of Commerce (Hons), University of Nairobi
- Dip. Executive Coaching, Academy of Executive Coaching

Japheth Olende
Non Executive Director
Appointed to Board: March 2018
Board Chairperson: Absa Bank Insurance Agency Limited
Subsidiary Board Membership: Absa Asset Management Limited
Committee Membership: CC, CGNRC

Previous Roles
- Board Member – Retirement Benefits Authority
- Board Member – AIG Kenya Insurance Company
- Board Member – AIG Uganda Insurance Company
- President, American Chamber of Commerce Kenya Chapter
- Director, Association of Kenya Insurers
- Director, Eagle Eye Laser Centre

Qualifications
- Bachelor of Commerce (Hons), University of Nairobi
- Chartered Insurer, CII London
- Member, Institute of Directors

Louis Onyango Otieno
Non Executive Director
Appointed to Board: March 2018
Board Chairperson: Absa Asset Management Limited
Committee Chairperson: SC
Committee Membership: ARC, CGNC

External Roles and Memberships
- Board Member, Nation Media Group
- Chairman, Sera Afrika

Previous Roles
- Director, Corporate Affairs, Microsoft 4Afrika
- General Manager, East and Southern Africa, Microsoft Corporation
- President, American Chamber of Commerce - Kenya
- ICT Advisor to the Presidents of Tanzania, Uganda and Mozambique
- ICT Advisor, COMESA Business Council
- Board Member, Kenya Vision 2030
- Board Member, Red Media Africa (Nigeria)
- Board Member, Enablis East Africa
- Board Member, Fintech International

Qualifications
- MBA, Long Island University
- BSc (Hons) Computer Science, Mercy College

Charles Njenga Murito
Non-Executive Director
Appointed to Board: June 2020
Committee Membership: CGNRC, CC

External Roles and Memberships
- Regional Director, Sub Saharan Africa, Government Affairs & Public Policy, Google

Previous Roles
- Country Director, Google Kenya
- MD & Chief Commercial Officer of Programming, Wananchi Group (Zuku)
- Director, Business Development, Middle East and Africa, Turner Broadcasting (Europe)
- Senior Manager, Programming Strategy, Turner Broadcasting (Europe)
- Chief of Staff to the President, Warner Bros. Entertainment Inc.
- Brand & Sales Manager, East Africa, MTV Networks Africa
- Sales Executive, Content Sales, Domestic TV Distribution, Warner Bros. Entertainment Ltd.

Qualifications
- MBA, Entertainment Business and Finance
- Cass Business School, London 2011
- Bachelor of Science, Psychology and Management
- Woodbury University Burbank, California 2000

Fulvio Tonelli
Non-Executive Director
Appointed to Board: October 2020
Committee Membership: ARC

External Roles and Memberships
- Board Member, Absa Group Limited

Previous Roles
- Partner, Chief Risk Officer, Chief Operating Officer, PwC South Africa

Qualifications
- BCom (Accounting),University of Witwatersrand, Johannesburg, SA
- BCom, University of Witwatersrand, Johannesburg, SA

Loise Wambui Gakumo
Company Secretary
Appointed to the role: March 2019

Previous Roles
- Group Company Secretary & Chief Legal Adviser, Centum Investment Company PLC

Qualifications
- MBA, University of Nairobi & Kenya School of Government (In progress)
- LLB, University of Nairobi
- Dip. Law, Kenya School of Law
- Advocate of the High Court of Kenya
- Notary Public
- Commissioner for Oaths
- Practising Certified Public Secretary (CPS) Kenya

CGNRC - Corporate Governance Nomination and Remuneration Committee
SC - Strategy Committee
CC - Credit Committee
ARC - Audit and Risk Committee

Value creation through good governance

The Board seeks to create maximum shared value for stakeholders through the Bank's strategy and operations while taking cognisance of the overarching purpose, material macro environment trends and ensuring the business model is sustainable and resonates with stakeholder needs. The Board also monitors the availability, quality and quantity of capital inputs as a key component of good governance, ensuring the Bank is adequately and appropriately resourced. All these aspects inform the Bank's strategy and provide inputs for the setting of financial and non-financial targets.

Governance philosophy

Absa Kenya is committed to the highest standards of governance, ethics and integrity. We seek to act in the best interest of our stakeholders and have adopted sound governance structures, frameworks, policies, procedures and practices in the operations of the Bank. In the course of the year, the Board has diligently provided oversight of these governance functions, ensuring their strict adherence and implementation. We believe that good governance contributes to improved performance, enhanced stakeholder value, transparency and accountability while providing clear proof of our commitment to adhere to our corporate values.

Directors' responsibilities

The Board's collective roles and responsibilities are primarily to:

- Establish and direct the bank's strategy.
- Deliberate and approve policy and planning.
- Provide governance oversight and monitoring.
- Ensure accountability.

This is achieved through effective leadership and oversight of the Bank including strategy formulation and execution. The Board also ensures that it delegates the responsibility of the day to day management of the Bank to a competent executive management team. Other responsibilities of the Board include ensuring compliance to legislative and regulatory requirements, providing information and disclosures to stakeholders, protecting the interest of stakeholders and ensuring adherence to sound risk management practices.

Each director is provided with a role profile and a charter of expectations upon appointment, documents which clearly outline the behaviour and competencies expected from them, including expected time commitment. On average, the time commitment for Non Executive Directors is 30 to 40 days per year. Performance indicators are included in the role profiles to guide the directors, and it is against these indicators that their individual performance is evaluated each year.

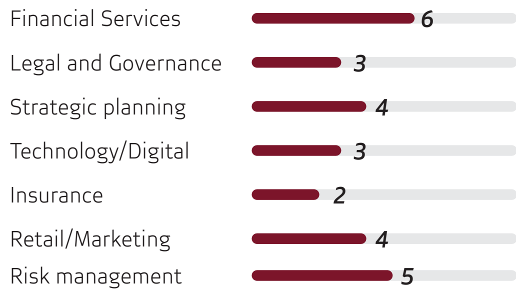
Board composition and diversity

The Board is composed of nine members. The majority of Board members are independent Directors, ensuring independent judgement and diversity of views and opinions, thus protecting and preserving the best interests of the Bank's stakeholders.

Approach and policy: The magnitude and complexity of the Bank influences our Board's composition and we strive to have an appropriate balance of diversity to ensure robust governance, keen commercial decision-making and strong technical inputs. The Board regards diversity of perspectives at Board level essential to provide effective oversight over the setting and execution of strategy and the creation of value for stakeholders.

Board skills

Boards of financial companies require a wide array of skills to provide sound governance oversight, direct strategic imperative and create value for stakeholders. Board skills requirements are influenced by trends in the macro environment, the Bank's strategy and the need for strong thematic expertise and experience based on key stakeholder needs. Our Board skills profile showcases a diversity of knowledge, skills and experience as outlined below:



Board tenure

At each Annual General Meeting (AGM), one-third of the directors, who have been longest in office, retire, but are eligible for re-election. Where a new Board member is appointed, they hold office until the first AGM held after their appointment before they are eligible for re-election by the shareholders.

Policy: There is a staggered rotation of Board members to ensure sufficient knowledge, skills and experience and to maintain continuity, while also introducing new expertise and perspectives.

Shareholding 2020

Summary of Absa Group Limited Shareholding 2020

Major ordinary shareholders

Split by geography

Absa Bank Kenya PLC share register periodic report for December 2020

Absa Bank Kenya PLC share register periodic report for December 2020

Top 10 shareholders

Rank	Name	Domicile	Total Shares	%
1	Absa Group Limited	FC	3,720,816,000	68.50%
2	Patel,Baloobhai;Patel,Amarjeet Baloobhai	LC	42,565,720	0.78%
3	Kenya Commercial Bank Nominees Limited A/C 915b	LC	41,863,390	0.77%
4	Standard Chartered Nominees Resd A/C KE11450	LC	37,857,590	0.70%
5	Standard Chartered Kenya Nominees Ltd A/C Ke004667	FC	31,157,110	0.57%
6	Standard Chartered Nominees Resd A/C KE11443	LC	26,292,300	0.48%
7	Standard Chartered Nominees Resd A/C KE11401	LC	26,062,912	0.48%
8	The Jubilee Insurance Company Of Kenya Limited	LC	19,869,027	0.37%
9	Kariuki,Patrick Njogu	LI	18,439,200	0.34%
10	Standard Chartered Nominees A/C 9230	LC	17,693,720	0.33%
11	Others		181,255,109	26.68%

Absa Bank is a solid international and trusted brand in Africa. We are also a dynamic bank with strong African roots. We intend to capitalise on the exceptional brand equity and recognition of Barclays while bringing our own unique culture.

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Our country management committee

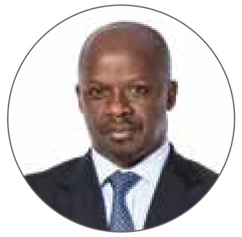
Absa Bank Kenya PLC country management committee is a diverse and experienced management team comprising the Chief Executive Officer, Chief Financial Officer and 12 other members in senior management.

Jeremy Awori
Chief Executive Officer

Yusuf Omari
Chief Financial Officer

James Muchiri
Chief Operating Officer

David Hardisty
Retail and Business Banking Director

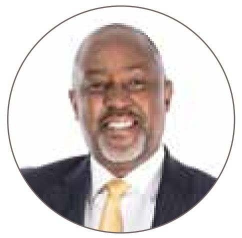


James Agin
Corporate and Investment Banking Director

Anthony Kirui
Director Global Markets

Geneva Musau
People and Culture Director

Laban Omangi
Director Compliance and Legal



Chiera Waithaka
Chief Risk Officer

Christine Mwai-Marandu
Country Credit Director

Moses Musyoka-Muthui
Country Strategy Director and Head of CIB Finance

Caroline Ndung'u
Marketing and Corporate Relations Director

Anthony Mulisa
Regional Treasurer EA and Separation Programme Director

Joshua Ndung'u
Regional Director and Chief Internal Auditor, Kenya

Detailed biographies of our Country Management Committee members are available on our website.

Jeremy Awori
Executive Director and Chief Executive Officer

> ***"We successfully concluded the most complex transition and rebranding program in the history of financial services sector in Kenya; right at the heels of which the COVID-19 pandemic emerged requiring us to embed our new brand and adopt our business model in new ways."***

Reflections from the Chief Executive Officer

2020 was an eventful year for us, as we finalised the transition from Barclays Bank of Kenya to Absa Bank Kenya PLC in Mid-February while also addressing the emergence of the COVID-19 pandemic in Kenya.

This context presented a challenging environment for the nascent brand occasioning several critical changes to the way we operate and work while observing World Health Organization (WHO) and Government guidelines to minimize infections. Our new brand carries a promise of *"bringing possibilities to life"*. It exudes energy and passion, reflective of Kenya's youthful population, progressive business sector and dynamic markets and in tune with our four core values; we drive high performance to achieve sustainable results; we are obsessed with the customer; our people are our strength, and we have an African heartbeat.

Absa's response to COVID-19

Employee safety and wellness

From the onset of this crisis, we ensured that our colleagues and their families were safe and protected with a focus on their holistic wellbeing. We quickly enacted business continuity management procedures to prevent disruption of services and remote working to enable our colleagues to continue to work safely from home. Essential frontline colleagues work under strict hygiene protocols that are still in place, despite the decline in infections and gradual opening of the economy. Key aspects of our employee safety processes include daily self-screening, provision of Personal Protective Equipment (PPE), enhanced cleaning and sanitation procedures and wellness support through care calls. Notably, our technology capabilities enabled us to seamlessly change our way of working including rapidly increasing our Virtual Private Network (VPN) accessibility, deploying remote working protocols and rolling out mobile versions of our People and learning systems. We went further and kitted home offices with suitable furniture and electronic devices to support remote working.

Additionally, our colleagues were not left behind in providing support to our society. Through the WEMA *"Force for Good"* initiatives, they raised over Shs 13 million that went into supporting vulnerable members of our society.

Supporting our customers

Supporting our customers through this difficult time has been a priority. This included waiving transactional fees on Bank to Mobile wallet, ATM fees and a 0.3% cashback on Point of Sale services to support our customers go cashless. We also rolled out a comprehensive relief program which supported over 59,000 lending accounts amounting to over Shs 62 billion in loan restructures or repayment holidays. This represents 40% of our lending portfolio and 30% of our balance sheet. We supported distressed bancassurance customers by providing payment holidays on life premiums, while extending our credit cover.

Consistent thought leadership

Our thought leadership efforts focused on the SME sector which was predicted to bear a greater impact of the economic slowdown. Towards this end, we advanced over Shs 9 billion to SME customers while going beyond banking by offering thought leadership sessions to help them navigate the impact of the pandemic on their businesses. We managed to reach over 1,600 SMEs through this initiative.

We remained open for business

Even during the inter-county lockdown and curfews, all of our branches stayed open to provide essential banking services. We rapidly responded and elevated our focus on operations to ensure uninterrupted business continuity, heightened our cyber surveillance to Sev1 and focused resources to alternate channels leading to 99.8% uptime ensuring our customers didn't experience any disruption of service.

Our frontline staff have been phenomenal during this period. Their diligence and dedication have led to consistency and excellence in service delivery: Remarkably, our onboarding turnaround time improved by 30% compared to the pre-COVID-19 period and our internal branch NPS scores have improved by 12 to 52 points in the same period with all our branches remaining open.

Further, we are cognizant that the pandemic has reduced opportunities for our customers, so we opted to provide alternative investment vehicles in line with our customer obsession agenda. Towards this, we launched the Absa vertical card, the first in the market and Absa One account that have so far exceeding our expectation on uptake.

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Reflections from the Chief Executive Officer

Supporting our communities

We focused our efforts towards protecting lives and livelihoods, in line with our commitment to be a *"Force for Good"* in the communities that we operate in. We contributed to the expansion of screening and testing and provided PPE for thousands of health workers in four major hospitals. Humanitarian support was provided to vulnerable members of society such us Boda Boda (motorcycle) riders and newspaper vendors. Working together with various counties and customers such as the Laikipia County and Eliud Kipchoge Foundation, we delivered over 1000 meals to vulnerable households. We also partnered with Minet Kenya to offer Tele-Welfare to our health care givers and any citizen who has been infected or affected by COVID-19. Ninety percent of calls received through this initiative related to mental wellness thus laying bare the adverse short and long-term effects of the pandemic.

Concluding the separation from Barclays Bank PLC

Separating from Barclays successfully, was one of our priorities this year, and I am pleased to report that it has now been completed on time and within budget. This is a great achievement for Absa, since the project's size and complexity were unparalleled and first of its kind for Kenya's banking industry. At Group level, our three-year separation process was the largest of its kind globally. At its peak, nearly 1,300 colleagues and contractors were working on 273 separation and transition projects.

Execution in 2020

Our 5 year strategy seeks to deliver Sustainable Growth, Accelerated Transformation and Sustainable Returns. In 2020; we achieved broad-based success building on a strong foundation of previous achievements.

On sustainable growth, we grew our income under a tough macro-economic environment. Our Customer loans and advances grew 7% year-on-year to Shs 209 billion. We safeguarded Shs 254 billion of deposits for our customers, a growth of 7% year-on-year. Our pre-provision profit grew by 6%, a well contained cost base arising from improved efficiencies from our investments declined 4% year on year at normalised level and a decrease in operating profit by 44% year-on-year, impacted by increase in provisions and one-off separation and Voluntary Exit Scheme programs.

On Accelerated Transformation, our key priority for the year was to ensure the finalisation of the transition to the Absa brand. For us, this transition was not just a change of name but a chance to reflect on our organisation and our culture and institute changes that would make us fit to thrive in the future.

We set out to fully transform our business into a truly customer-obsessed organisation; one that puts the customer right at the centre of all decisions, propositions and initiatives. In order to get it right, we spent a lot of time speaking to our customers across all segments to better understand, not just their needs but also tastes and preferences.

We redefined most of our existing propositions and processes, and developed new products to drive mutual growth. For instance, we have reduced the number of our customer transaction forms from a total of 179 to 43 thereby simplifying the banking process and enhancing customer experience.

We have introduced the first-in-market Absa vertical debit and credit cards as well as revamped our SME Wezesha Biashara proposition to enable us play a bigger role in the SME sector. This proposition offers unsecured loans of up to Shs 10 million which is the highest in the market, as well as LPO financing and invoice discounting of up to Shs 50 million amongst other benefits.

We also introduced our new Absa One Account, an all-in-one account with no minimum balance requirement and monthly fees. The Absa One account offers unsecured loans of up to 6 million shillings for individuals and 10 million shillings for businesses. It also offers rewards of 0.5% cashback on all ATM and debit card transactions. The Absa One account also comes with a multicurrency prepaid card with up to 8 major currencies and gives you access to Absa Connect lifestyle events, among others.

Our brand building efforts have led to positive growth in key measures some even exceeding the Barclays brand scores; Total Brand Awareness increased from 28% in Q4 2019 to 72% in Q4 2020, Our measures on actively being involved in society increased to 35% with significant increase in connection, relevance and usage.

On Returns, we aspire to maximize returns for our shareholders by ensuring we optimize on our strengths. As a result of the collective focus on strategy execution, our ROE has turned around remarkably from the lows occasioned during the COVID-19 pandemic and we expect it to return back to pre-COVID-19 levels.

Doing business responsibly

This year, we have fully demonstrated our commitment to the sustainability agenda through the launch of our Sustainability Commitment Report, where we outlined 13 high level commitments that will guide our strategy over the short, medium and long-term. These commitments are anchored on the social, environmental and economic tenets of sustainable development.

Conclusion and appreciation

In conclusion, our strategy allows us to set a fresh course, building on our Shared Growth agenda in order to deliver shared value. As such, playing a shaping role in society is one of the key guiding principles for our new purpose and strategy, at the heart of which is growth. The future is firmly in our hands as we seek to work with all our stakeholders to bring your possibilities to life and to build our great nation.

Jeremy Awori
Executive Director and Chief Executive Officer

Yusuf Omari
Chief Financial Officer

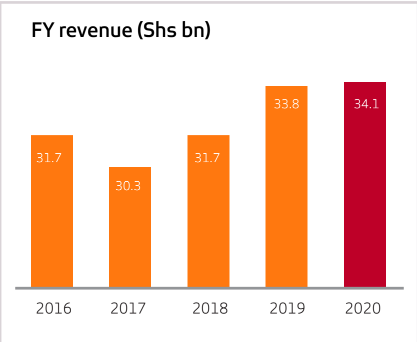
> ***"2020 was headlined by the COVID-19 pandemic emerging in the country in March with the immediate impact felt on the broader economy and banking sector as a result of the slowdown in business activities following the lockdown for the better part of Q2 and into Q3 2020"***

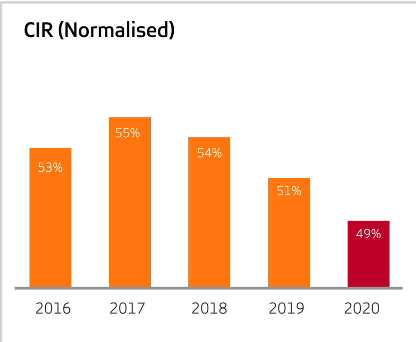
Reflections from our Chief Financial Officer

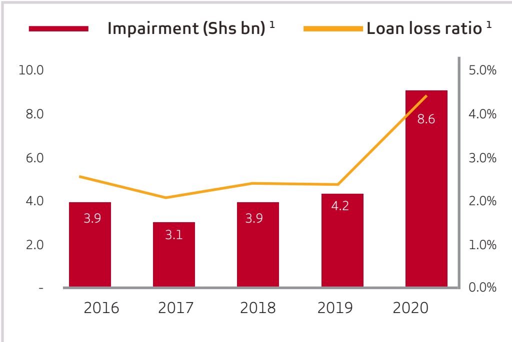
Highlights

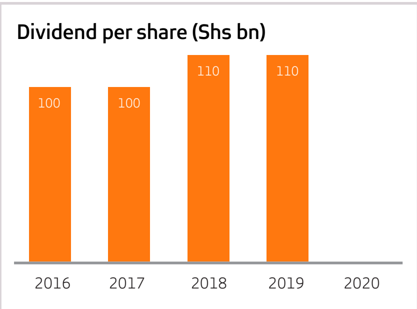
Total Revenue	Return on Equity (Normalised)	Profit before tax (Normalised)	Net interest margin	Core Capital
Shs 34.1bn (2019: Shs 33.8bn)	**14%** (2019: 18.4%)	**Shs 8.8bn** (2019: Shs 12.3 bn)	**7.8%** (2019: 8.5%)	**Shs 51.9bn** (2019: 46.3bn)

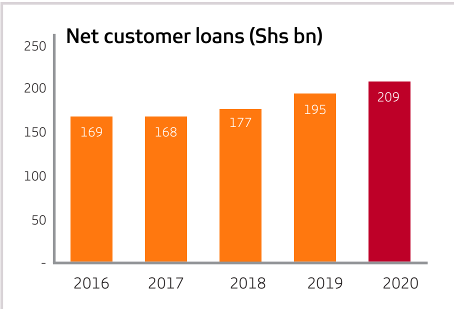
Dividend per share	Cost to income ratio (Normalised)	Loan loss ratio	Earning per share	Risk weighted assets
Nil (2019: Shs 1.1)	**49%** (2019: 51%)	**4.1%** (2019: 2.2%)	**0.77** (2019: 1.37)	**Shs 297.3bn** (2019: Shs 277.8bn)

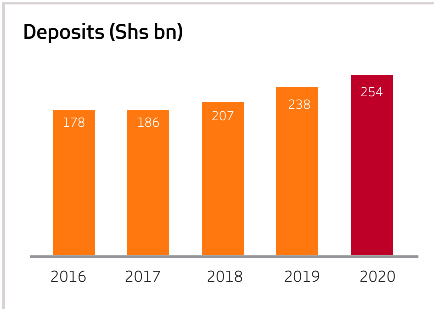


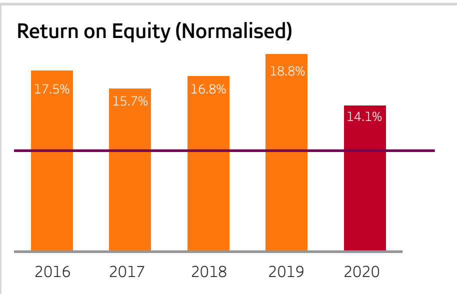












1. COVID-19 provisions and portfolio provisions

Key macro-economic variables were depressed to historical lows; Real GDP growth in 2020 is expected to slow to a two-decade low of 1.1% on the back of reduced demand by Kenya's main trading partners, disruptions of supply chains and domestic production.

The Kenya shilling continued in the path of moderate depreciation given cautious investor sentiment and a worsening trade balance as inflation edged to an average of 5.3% in the year.

The banking industry continued to witness increasing complexity in the legislative and regulatory environment; with a number of these introduced by the Government and regulator to cushion the customers against the adverse impact of covid-19.

The initial impact of the pandemic and resulting economic fallout raised concerns over business continuity in various sectors and customers. As reviewed elsewhere in this report, the Bank responded rapidly and effectively to the pandemic, and has been in a strong position to withstand some of the significant potential impacts that lie ahead, and seize the opportunities arising.

Exceptional cost related to restructuring

We took the opportunity of increased automation and improved digitization to further simplify our organizational structure. This was achieved through a Voluntary Exit Scheme (VES) followed by a redundancy program at a cost of Shs 1,06 bn that was accrued in 2020.

On the back of benefits coming from years of continued investments in automation e.g. robotics, we rolled out a staff voluntary exit program in Q4 2020.

Financial reporting changes: Normalisation

2020 saw the completion of the separation program. The transition was completed on time and within budget with the costs involved reported over a two-year period: 2019 – 2020. This saw the migration of all our technological systems and rebranding of all our business assets and premises to Absa. We will provide normalised financials results to adjust for the consequences of separation and to better reflect our underlying performance, and to inform our capital and dividend decisions. We will continue to present financial statements that comply with the International Financials Reporting Standards (IFRS) and the Companies Act 2015 requirements.

We refocused our financial strategy towards preserving of capital at the onset of the pandemic; carefully making trade-off decisions towards balance sheet optimization without compromising growth opportunities. Given our view of the future economic environment, we acted decisively to increase credit provision for both the performing and non-performing book to three-fold as at end of the first half. Despite this action and paying our declared 2019 dividend in full, we remained with a solid capital position at 14.7%; at year end significantly above regulatory requirement of 10.5%.

Performance highlights

The normalised profit after tax was Shs 6.5bn, published cost Shs 19.8bn including the separation expenses; published profit after tax (PAT) was Shs 4.2bn.

Our return on equity excluding one-off expenses to support separation costs and VES was 14% while the headline return on equity stood at 9%. The performance was largely on account of high impairment partially offset by growth in income and well controlled costs.

Income statement analysis

	2016 Shs' million	2017 Shs' million	2018 Shs' million	2019 Shs' million	2020 Shs' million	Change (%)
Net interest Income	22 334	21 801	21 992	23 179	**23,381**	1
Non Interest revenue	9 349	8 457	9 702	10 588	**10,700**	1
Total Revenue	31 683	30 258	31 694	33 768	**34,081**	1
Operating expenses	16 904	16 782	17 178	17 285	**16,647**	(4)
Pre provision profit	14 779	13 476	14 516	16 482	**17,434**	6
Impairment on loans and advances	3 927	3 115	3 871	4 201	**8,585**	104
Profit before Tax	10 852	10 361	10 646	12 281	**8,849**	(28)
Exceptional items	0	0	0	1 529	**3,202**	
Profit after exceptional items	10 852	10 361	10 646	10 752	**5,647**	(47)
Income tax expense	3 453	3 435	3 230	3 296	**1,484**	(55)
Profit after taxation	7 399	6 926	7 416	7 456	**4,163**	(44)
Normalised profit after taxation	7 399	6 926	7 416	8 516	**6,524**	(23)

Revenue growth despite COVID-19 pandemic and economic slowdown

The Bank posted a 1% growth in a challenging economic environment caused by the COVID-19 pandemic. Our revenue sources remained well diversified with net interest income (NII) and non funded Income (NFI) accounting for 69% and 31% of total revenue respectively.

NII increased by 1% to Shs 23.4 bn with growth negatively impacted by yield on loans drop by 120 basis points. The marginal compression is as a result of drops in the Central Bank Rate (CBR) whose benefits the Bank passed on to the customers as a responsible lender.

NFI increased by 1% driven by growth in bancasurance and foreign exchange but largely impacted by low transaction volumes, fee concessions as a result of covid-19 as well as slowdown on loan disbursements resulting into lower risk fees compared to the previous year.

Cost growth driven by separation expenses

The Bank total costs stood at Shs 19.8 bn representing a 5% year-on-year growth. This includes separation costs and VES costs amounting to Shs 3.2 bn.

Normalised costs dropped 4% year on year to 16.6 bn despite the inflationary adjustments and heavy investments.

These improved performances are as a result of our efforts from diligent cost management initiatives and improved operational efficiencies. Top of these initiatives are lower variable costs as a result of the automation of our processing centres, investment in alternative channels, and branch rationalisation programmes.

The total cost to income ratio increased to 58% from 56% in 2019, while normalised cost to income ratio improved to close at 49% from 51% in 2019. We are within our strategic goal to achieving of cost to income ratio of below 50% in the medium term.

Rising credit impairments

Impairment recorded an increase of 104% from Shs 4.2bn to Shs 8.6bn which is attributable to charge on key corporate names and portfolio performance deterioration offsetting recovery efforts. As a result our loan loss ratio increased to 4.1% from 2.2% in 2019.

Net non-performing loans (NPLs) was 2.4% better than the industry which stood at 6.3%, while coverage ratio stood at 71% against an industry average of 62%; a true reflection of prudence and adequacy in provisioning.

We have partially mitigated the adverse impairment growth by enhancing our underwriting standards and creating internal efficiencies on the collections and recoveries fronts. Additionally, we have embarked on collaborative engagement in managing COVID-19 impact on clients and close monitoring of performance and moratoria extensions as well as adopting repayment relief restructure based on sectors and segments.

Balance sheet analysis

	2016 Shs' million	2017 Shs' million	2018 Shs' million	2019 Shs' million	2020 Shs' million	Change (%)
Total Assets	259 718	271 572	325 313	374 904	**379,441**	1
Net Loans and advances to customers	168 510	168 397	177 354	194 895	**208,855**	7
Liability	217 330	227 474	281 107	329 715	**332,936**	1
Deposits due to customers	178 180	185 977	207 408	237 739	**253,630**	7
Total Equity	42 388	44 098	44 207	45 189	**46,505**	3
Total equity and liabilities	259 718	271 572	325 313	374 904	**379,441**	1
Net advances to deposits (%)	95	91	86	82	**82**	

Sustainable loan growth momentum

The Bank reported 7% growth to close at Shs 209bn with year-on-year growth across all segments of the business.

Our key focus products namely scheme loans, general lending, trade, asset finance, overdraft and mortgage recorded good traction with respectable year on year growth. We continue to revamp our asset products offering to ensure they meet the demands of the markets and our customers.

Key activities on building the asset book included strategic partnerships and leveraging on ecosystem banking to reach the wider customer population.

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Reflections from our Chief Financial Officer

Solid deposit growth

Customer deposits grew by 7% to Shs 254 bn boosted by growth in transactional accounts. Our new product propositions such as twin accounts and Zidisha reported marked improvement year on year.

Strategic investments done on transactional banking front include Strategic Host to Host system, Biller System & Remote Cheque Capture; from which we expect to reap full benefits within the medium to long term.

The Bank's cost of funds (COF) dropped to 2.6% (2.9% as at 2019) driven by focused growth in transactional account volumes. There is focus on transaction accounts to push the rate lower.

Capital and liquidity remain strong

Our capital and liquidity ratios remain very strong showing sufficient headroom above the regulatory requirements. Our total capital adequacy ratio is at 17.5% and liquidity reserve positions at 38.7% against the regulatory limits of 14.5% and 20%, respectively.

We do not foresee any adverse impact on our capital ratios by the separation program and we are well positioned to support future growth in line with our strategy.

Future performance outlook in the context of COVID-19

While the covid-19 pandemic continues to evolve and to pose great challenges, we are well aligned and prepared to respond to and manage the emerging risks. We have a strong and dedicated staff in place to navigate our way through these headwinds and emerge stronger and more competitive into the future.

In evaluating the impact of COVID-19 on our business activities, we have looked at possible scenarios regarding the scale of the pandemic's reach. In all scenarios, we anticipate continued social, economic and financial disruption, with implications on our customers and the associated ecosystem within which we operate. There remains significant uncertainty as to how the pandemic will play out into the future

Given shifts in the business environment, our immediate and top most priority is to defend the core franchise while repositioning our business for growth through a strategy reset process. From a financial strategy point of view, we will be carefully timing the recovery cycle to ensure that we invest in time of recovery and adjust our risk view for growth, being prudent in expense management will remain a priority across the cycle.

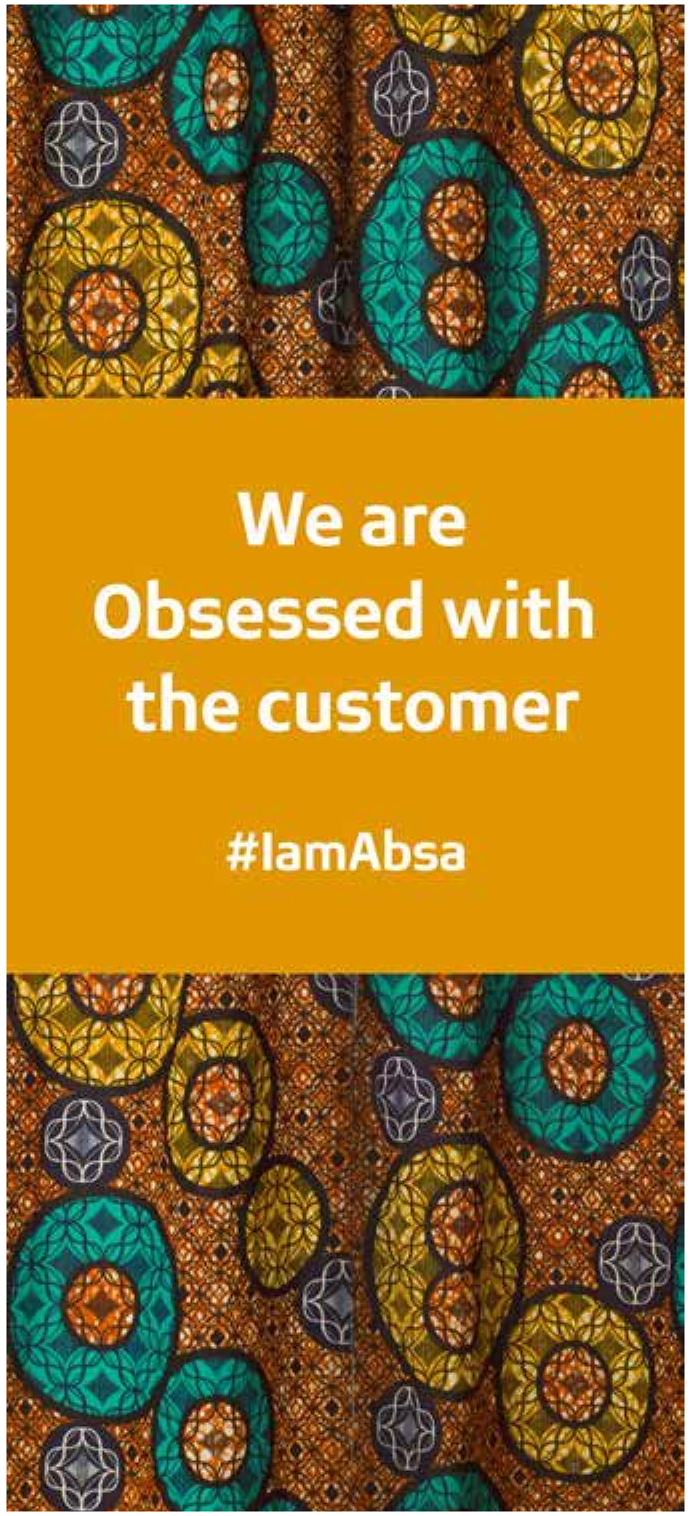
Finally, we remain committed to ensuring that our shareholders are rewarded accordingly as the recovery cycle emerges.

Yusuf Omari
Chief Financial Officer

Segments reports

Retail and Business Banking (RBB)

RBB serves individuals; micro, small and medium enterprises; non-governmental organisations and public sector institutions with a comprehensive suite of banking and insurance offerings, including transactional banking, card solutions, lending solutions, deposit-taking, risk management, investment products, and card-acquiring services.



Retail and Business Banking performance

	2020 Shs' million	2019 Shs' million	Growth (%)
Net interest income	18,680	17,634	6%
Non-interest income	5,684	6,485	-12%
Impairment	(6,667)	(3,260)	105%
Customer loans	131,206	119,737	10%
Customer deposits	206,752	186,239	11%

Retail and Business Banking strategy

Our strategy pillars are centered on a customer promise of relevance, convenience and accessibility.

Strategic priority

Strongly grow, diversify and transform the retail and business bank

Six pillars

- **Product relevance:** rationalise our product offering to solution customer needs in insurance, flexible transactional accounts, mobile micro-loans, diversified card offering, unsecured lending and an expanded mortgage outreach.
- **Sales effectiveness:** scale our digital fulfilment to improve on productivity and cost efficiency driven by capabilities in data analytics.
- **Transaction migration:** develop enhanced digital capabilities that provide flexible and efficient service delivery with a drive for digital channels adoption by our customers in various segments.
- **Service and customer experience:** promote a service culture of easier, faster, better customer service through quarterly service improvement plans at regional and branch level, training and service recognition awards.
- **Relationship deepening:** increase engagements to drive retention and value based concessionary offerings through portfolio pricing in recognition of loyalty.

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Timiza Virtual Banking

The Timiza platform was launched in March 2018 as an integrated virtual banking proposition for the retail mass market, offering services such as loans, insurance and bank account services. Some distinguishing features of Timiza include:

- A fully digital on-boarding process via Unstructured Supplementary Service Data (USSD) *848# and mobile application.
- A 30-day micro loan offering for qualified customers which can be extended for another 30 days with a facility fee of interest.
- A deposit proposition linked to Zidisha savings account, allowing customers to save and earn significant rewards for maintaining account balances.

As at the close of 2020, Timiza had registered over 4.3mn customers.

Mortgage

Our mortgage proposition offers several solutions including new home purchase plans, Buy to Let, construction mortgage, plot and construction, LaRiba mortgage, re-mortgage as well as foreign currency mortgages.

SME banking

Our SME banking offers business solutions to Small and Medium Enterprises (SMEs) including unsecured bid bonds, unsecured loans, invoice discounting and LPO financing.

Summary of year's performance

Despite a demanding separation and rebranding programme at the beginning of 2020 coupled by a contracted economy from the prevailing health crisis, RBB recorded a good balance sheet performance. This result was anchored on contained funding costs, a record asset book growth and a comprehensive product offering in Bancassurance. This mitigated the impact of a downturn in interest rates, travel restrictions which affected transaction turnover and mobile fee concessions extended to cushion our customers from the COVID-19 pandemic.

Asset growth levels were sustained in line with the strategy with a double-digit growth recorded across the portfolios delivered by aligning internal processes with improved acquisition strategies, a deliberate shift towards digital channels as well as by improving customer value propositions. Similar momentum was evident in our deposit growth, where new product development delivered double-digit deposit growth.

Forecast for 2021

Our priorities in 2021 will be the focus on six key aspects, namely:

- Improving our digital channels to provide more convenience to our customers and drive efficiency.
- Agency banking.
- Relationship deepening.
- Enhancing our existing partnerships and creating more strategic partnerships.
- Product and proposition enhancements.
- Increased marketing.

Our key goal remains to be the retail bank of choice to our customers.

Corporate, Investment Banking and Global Markets

Corporate and Investment Banking

Corporate and investment banking provides products and services to large corporates, development organizations and public sector companies, in addition to engaging with markets business. Our key strategy in this segment is to be the powerhouse corporate and investment banking franchise and the undisputed leader in markets business as perceived by key stakeholders.

Corporate and Investment Banking performance

	2020 Shs' million	2019 Shs' million	Growth (%)
Net interest income	4,701	5,545	-15%
Non-interest income	5,016	4,104	22%
Impairment	(1,918)	(941)	104%
Customer loans (Net)	77,649	75,158	3%
Customer deposits	46,878	51,500	-9%

Corporate and Investment Banking strategy

Key business objectives

- Growing a sustainable powerhouse CIB business, within a robust control environment.
- Diversifying the growth agenda in our key focus segments, industry and client base .
- Drastically improving transactional banking digital platforms, Ecosystem and customer experience, and scaling up debt and investment banking offering.
- Maximizing shareholder returns while positively influencing and impacting the communities and the environment in which we operate.

Strategy ambition

Corporate and Investment Banking strategic ambition is building a powerhouse CIB Franchise and Institutional Bank driven by 3 pillars and underpinned by 3 underlying capabilities;

Strategic Pillars	Transactional Banking	Debt and Investment Banking	Ecosystem Banking
Underlying Capabilities	Customer Experience	Strong Relationships	Robust Control Environment

Focus areas

- **Key focus sectors:** Manufacturing, agriculture, wholesale and retail, energy, oil and gas, telecoms and transport, services; education, tourism and health, property and real estate.
- **Focus customer segments:** Global Corporates, Global Development Organizations, Financial and Non-Bank Financial Institutions, Large Regional/Local Corporates and Public Sector.
- **Product expansion:** Structured Trade Commodity Finance (STCF), Fuel Open Tender System, Commercial Property Financing (CPF), Risk Management Products (RMPs), Ecosystems and Value Chains (ESD).
- **Digital platforms:** Integrated, end-to-end digital and technology enablement to support client experience, new products and efficiencies.
- **Data and analytics:** Transforming data into client value, proactively engaging clients via predictive analytics.
- **Thriving CIB organization and people:** Innovation culture, inclusivity, diversity, high performance and productivity as well as colleagues value proposition and experience.
- **Shaping role in society:** Strategic partnerships with clients, thought leadership, education delivery and reform, and embedding sustainable development goals in core business operations.

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Impact of COVID-19 on the business strategy

Our strategy remains largely unchanged with adjustments being made to our business model to mitigate for the impacts of COVID-19, evolving macro changes and emerging capital preservation scenarios. The pandemic continues to create adverse impacts on the economy affecting all sectors causing clients to adverse change their business operations and spending priorities.

Subsequent facility restructures resulted in increased impairments, negatively impacting on the overall performance of the banking sector. Additionally, regulatory measures to cut down interest rates depressed Interest Income further aggravating our performance. In a bid to support our clients during the pandemic, we restructured facilities worth Shs 10.4bn; deferred loans worth Shs 3.2bn and granted new COVID-19 related limits of up to Shs 1.4bn during the year. We leveraged on COVID-19 protocols to onboard our customers on electronic platforms and channels, and improved our agility in credit decision framework for consistent and coherent responses to clients' needs.

Summary of year's performance

We on-boarded 34 new clients in 2020 (42 in 2019) and supported more than 600 existing clients. Our clients continue to benefit from our solid and longstanding relationships, spanning our four segments. Our diversified client portfolio is in line with our diversification strategy for growth and business objective of creating a wider positive impact for our stakeholders including the broader society.

Despite the COVID-19 pandemic, we further increased financing to our clients by supporting a further 60 corporate clients during the year (122 in 2019) in the key economic sectors. We issued Shs 34.6bn in new loans and advances (20.7bn in 2019) across the varied sectors including individual client disbursement of Shs 6bn (2.3 bn in 2019), a testament of our strong relationships and support to our key client base.

We remain one of the country's top corporate lenders in the market, and will continue to extend financing to our clients and spur economic growth and drive the country's Big 4 Agenda on Manufacturing, Universal Healthcare, Affordable Housing, and Food Security.

We continued our focus on Structured Trade and Commodity Finance where we actively participated in the Fuel Open Tender System. We also sustained our participation and involvement in origination of public sector syndicated loans for both local and offshore financing, and leveraging on our strategic partnerships in providing origination advisory services for Government based projects.

We booked new clients and deals in the relatively new China desk established the previous year as part of our China corridor-banking proposition aimed at facilitating business and trade between Kenya and China. We will continue to focus on the growth of this segment.

We have delivered a wide range of solutions for our clients through innovative technology and end-to-end digital enablement leading to seamless, consistent and superior client experience. We rolled out Absa Access internet platform for billers and statements, and rolled out Trade Finance Online platform. These have driven uptake of our transaction banking platforms and cash management services. The growth in uptake of remote cheque capture remained robust, enabling customers with large volumes of cheques to transact conveniently without having to visit the Bank. Platforms and channels improvement journeys were sustained in earnest.

In summary, we remain one of the leading corporate and investment banks in Kenya. Our diversification strategy, investments in digital platforms and customer experience improvements continued to drive our financial performance in 2020 despite COVID-19 pandemic challenges, evolving macro changes, and regulatory measures that lowered interest rates.

Looking forward

We project that the COVID-19 challenges will start easing off during 2021 permitting the opening up of economic activities. We will continue growing a sustainable CIB business, pursuing a diversified growth agenda, improve digital platforms, channels, ecosystems and customer experience while and scaling up debt and investment banking offerings. We aim to maximizing shareholder returns and enhance stakeholder value while positively impacting the communities and the environment we operate in. We intend to gain more traction in Ecosystem Banking through a broader focus on our customer's value chain players and growth in our China desk through new customer onboarding. This is in line with our Growth, Transformation and Returns (GTR) strategy and living our purpose of bringing possibilities to life.

Global Markets

	2020 Shs' million	2019 Shs' million	Growth (%)
Net foreign exchange income	3376	2563	32%
Fixed income	629	492	28%
Brokerage	66	56	18%

Markets strategy

Our mission is to build the greatest markets business in Kenya

Key business objectives

- To be the home of FX: Achieve 20% turnover growth YoY, doubling revenue by 2023;
- Transactions that transform markets: To be the preferred execution partner in risk management products and solutions;
- People: Train the best, hire the best;
- Full service securities offering: Growing with our clients and becoming the fixed income powerhouse in Kenya; and
- Continuous market development: Deepening our markets, creating economic value by developing a strong market-making capability.

Focus

- **Product expansion:** Partnering with other financial institutions in the continent to expand our footprint into francophone West Africa. Collaborating with the Absa Global Limited Countries to maximise customers' service delivery.
- **Digital platforms:** Broader transition to new Absa Group Limited banking platforms already took place in 2018. This has maximised solution provision in the market, with well-trained staff who have an established way of working with each other across the Absa Group.
- **Data and analytics:** Leveraging the capabilities of the recently established Data Office, we look to build on data and scientific insights to expand CVP.
- **Thriving markets business and people:** Developing a competitive EVP and attract the best human capital to meet the evolving market needs.
- **Shaping role in society:** Providing thought leadership and driving policy development through tools such as the Africa Financial Market Index (AFMI); a barometer of how Africa financial markets have performed, participating in key market associations including Bond Market Stakeholders Forum (BMSF) and Treasurers' Forum.

Summary of year's performance

Overview

2020 triggered a review of our ways of conducting business following the COVID-19 pandemic which tested the robustness of our strategies and initiatives set to deliver the agreed targets. The Global Markets team proactively adopted new ways of executing business which saw a redesign of team structure to ensure safety and operating efficiency of its staff compliment. This was another period where the Global Markets team had to navigate through tumultuous markets characterised by extreme volatility, tight liquidity and regulatory constraints. Despite strong headwinds, the team remained disciplined with focus on customer centricity and solutions delivery being paramount amid the pandemic.

The business recorded growth across all metrics including revenues, number of clients, and product offering on the back of robust synergies with Corporate, Retail and Business Banking and support functions. Investment and enhancement in our customer value proposition to improve customer experience is expected to further lift our profitability and strengthen our position as a market leader in our chosen area. The Global Markets business remains in line with our strategic ambition to double revenues in 5 years by 2023. We have continued to influence market policy with the launch of 2020 Absa Africa Financial Market Index (AFMI), which is the Bank's third release of the report in the last 3 years.

Performance

The Global Markets business registered a 29% YoY growth in revenue in 2020 on the back of very strong performances across all revenue lines. Revenue growth was underpinned by growth in client activity on both flow and event driven business, triggered by market volatility which saw profitable strategic bets and client trades.

The stellar performance in Risk Management Products which has seen revenues grow 10 times over the last 3 years confirms the strategic ambition ABK took a few years ago to invest in this product line. The business line continues to present opportunities into the near future with expansion of product offering to satisfy growing appetite for currency options and yield enhancement solutions.

In line with the digitisation agenda, the Markets business successfully rolled out currency trading platforms; Absa Access and NovoFX, which allows clients to make payments and convert currencies efficiently with minimum human intervention. This is expected to increase client activity and volumes traded. Further investment and exploration of new client trading solutions will see transformation in client experience in currency trading.

Looking ahead

The Global Markets business continues to build on laid down strategies and initiatives with focus on the following but not limited to Financial Institutional sales, FX and FI Trading, Risk Management Products and Brokerage (Equities & Bonds). Diaspora Customer Value Proposition (CVP) and key trade corridors remain priority strategic initiatives for Absa Bank. Building on the synergies with Corporate and RBB, we are in line to achieve our ambition to double Markets revenues by 2023.

COVID-19 response

COVID-19 response

Absa Group and Absa Bank Kenya	Our People, Customers and Suppliers	Collaboration	Our Communities
War room	Health and wellbeing and promotion of ongoing economic stimulus	Adherence to policies, guidelines and frameworks	WEMA "Force for Good"

Absa Group

As a financial service provider with a significant physical and commercial footprint across the continent, Absa Group proactively sought to support key stakeholders including employees, customers, suppliers, national governments and communities in the face of the COVID-19 pandemic. From the very early stages of the pandemic, Absa Group created an integrated 'war room' to manage the response. The war room consisted of a multi-disciplinary team from across the entire group. The war room later became the Absa COVID-19 Advisory Board and consisted of members from the corporate real estate, physical security, wellness and people function, communications, compliance, legal, risk, finance, technology, audit and customer facing business units.

Working teams were replicated across the Group's local subsidiary banks with the aim of ensuring a coherent and consistent approach to managing the risks posed by the virus to key stakeholders and business continuity. Local teams worked closely with relevant authorities in their countries to enforce stipulated protocols, regulations and requirements thus playing a critical role in stemming the spread of the virus and supporting the economy.

Essentially, within the Absa Group, each country was mandated to design their own response to COVID-19 then approaches were merged to ensure alignment across the Group. Underpinning all these activities was the requirement for sound governance practices and stakeholder engagement.

Absa Bank Kenya PLC

In Kenya, the national government designated banking as an essential service being a vital part of the national infrastructure to facilitate payments, ensure commercial activities, support the economy and effect mitigation measures. Absa Bank Kenya established an inhouse team to provide leadership on the response of the Bank to the pandemic including issuing of clear guidelines on workplace screening, virtual working, social distancing in the workplace, identifying infrastructure and equipment needs and spatial reconfiguration of our premises. In addition, this team developed key protocols to protect the health of stakeholders, address incidences of COVID-19 infections and mitigate the risks to business.

Because COVID-19 was the biggest challenge faced by the business in 2020, we developed models to determine the amount of impairment we could carry on our books. This approach required engagement with a wide variety of stakeholders including the regulator, government departments, customers and strategic partners in South Africa. This provided us with the framework we needed to work with, including methods to manage stakeholder relationships. We were prudent to set aside provisions to address these risks, this included capital provisions and liquidity management.

These measures are part of our resilience plan, which was prepared well before the pandemic and provided for actions in case of a pandemic. The versatility of the resilience plan enabled us to respond quickly and promptly provide the necessary guidance to our stakeholders. Still, the response to COVID-19 was not without challenges including the need to understand the pandemic, evaluate the potential impact on different customer profiles and our ability to respond to these impacts. We embarked on assessments that included a global outlook, macro-economic assessments, evaluation of risk factors and sector specific evaluations, which enabled us to provide our customers and employees with tailored solutions based on data.

Customer engaging staff were also provided with clear guidelines on addressing customer concerns and enabled them to restructure facilities on offer. Our prompt and proactive response was a key enabler for customers and staff. For example, facility restructuring only took three days meaning we were able to continue offering services with minimal interruptions. The provision of these guidelines allowed us to quickly respond to the need in the market. Our turnaround time for authorization was 3 days on average with a maximum of 10 days in exceptional. We were therefore able to continue offering services with minimal interruptions.

On a practical level, acquiring key supplies for mitigation of COVID-19 proved to be a challenge in the earlier days of the pandemic as global demand outstripped the ability of suppliers to respond to demand. However, this shortage, which was particularly acute with the acquisition of Personal Protective Equipment (PPE) was resolved by mid-year.

Specific measures undertaken by Absa Bank Kenya PLC are discussed next in relation to key stakeholder groups.

Our People

Questions about COVID-19

- Are we expected to go to work during the shutdown?
- How do we respond to the government announcements?
- Am I on leave when I am quarantined or am I working from home?
- My working hours are being affected by the curfew what do I do?
- How do my targets change based on this new economic environment?
- How am I covered under my medical aid?
- What do I do if scheduled to travel?
- Are we still issuing loans to customers?

One of the immediate concerns resulting from the COVID-19 pandemic was the need to protect the health and overall wellness of our colleagues. Not only was the pandemic a direct threat to colleagues, the subsequent measures taken by the Bank to prevent the spread of the virus and protect their wellbeing also created new challenges for our people. Absa Bank Kenya undertook a holistic approach to addressing the effects and impacts of the virus on our people complement.

At the onset, we ensured that employees receive the requisite information required to understand and respond to the pandemic. We provided specific communications to employees outlining how they should adhere to the Ministry of Health (MoH) protocols. We also issued mandatory COVID-19 safety protocols to be observed by employees with the aim of minimizing their risk of infection.

This was reinforced by our COVID-19 advisories which enabled employees to remain informed and updated on the measures required to address emerging concerns in respect to the virus. Among the key safety measures undertaken included daily self- screening when entering our premises. In addition, employees were expected to observe the Bank's protocols on wearing of masks, social distancing, sanitising and temperature checks. To enable employees to observe the COVID-19 protocols, we provided them with Personal Protective Equipment (PPE) to mitigate the risk of transmission in the working environment. This is especially important for client facing teams predominantly in our branches. We also enhanced our cleaning and sanitation procedures in all our premises to allow for thorough cleaning and disinfection of shared spaces.

Virtual work was instituted with approximately 60% of employees enabled to work remotely. The Bank established a financial facility to enable colleagues to purchase equipment and set up home offices. The facility also provided for bulk purchasing through consolidated orders, enabling employees to enjoy discounts, source the appropriate products and purchase good quality equipment and furniture. The key consideration to determine which employees work from home was the ability of employee to carry on business remotely. For staff who we retained in our premises, our focus was on protecting their health and wellbeing thus we rolled out enhanced health protocols.

Other measures put in place included ensuring that staff medical packages provided for COVID-19 care, ensuring employees were catered for in case of infection, undertaking care calls to employees to assess their wellbeing, soul food sessions aimed at addressing financial and physical wellbeing and town hall meetings. A key facet of the COVID-19 period has been the enhancement of training and learning through the Absa Digital Academy, Udemy courses and LinkedIn Learning channels.

Among the emerging concerns that the Bank addressed was the need to safeguard the health of Lead Generator Teams (LGT) while also catering for their livelihoods. LGT has over 500 employees who drive 75% of our sales by primarily going out to meet with prospective customers. In return the team is remunerated on commission basis for the business they successfully secured.

Bearing in mind this variable pay model, restrictions on meeting customers would have severely impacted their livelihood. Clear measures and guidelines were issued for LGT, catering for customer engagements while protecting employees and customers, supporting business growth, and providing an opportunity to LGT to earn their living.

The town hall sessions are interactive, about an hour in length with 20-30 minutes taken for presentations, the rest of the time is spent on discussions with staff. When it is felt additional follow up is needed on key issues raised, we follow up with additional material in the form of circulars.

These measures have enabled our people to continue offering services to customers with minimum interruptions as we observe the national guidelines and protocols on COVID-19 and protect the health of our stakeholders. One of the unforeseen benefits we have actualised from these implemented measures was improved staff cohesion. For example, we tend to train staff on a regional basis due to logistical and operational constraints. The preference for online training channels allowed the bank to train staff from across regions using the same material at the same time. Colleague feedback on these trainings has been positive including appreciation for the opportunity to engage in skills development on a group-wide basis thus reducing the "silo" mentality inherent in regional based trainings.

Customers

Our commitment to customers is that "we are open for business". This commitment was borne by the realisation that the pandemic would create major disruptions in our customers' lives and livelihoods, especially for those in business. In this regard, we adhered to the measures issued by the Central Bank of Kenya including ceasing to list borrowers at Credit Reference Bureaus for a period of time and offering a 3 month payment holiday.

Approximately 59,000 customers benefited from the repayment holiday representing 40% of our total loan accounts constituting a loan value of Shs 57 billion. For the agriculture sector, this intervention was critical, especially for those who were exporting products as many export markets were on lockdown meaning clients could not get their produce to market.

To facilitate this repayment holiday, we developed guidelines for employees and undertook training to enable them to determine parameters of the offer and customers that would benefit from the proposition. We tailored our offer to each business so that the repayment holiday would provide the anticipated benefits for the customer. A large number of customer requests were received requiring us to enhance our team to ensure we responded expeditiously. For our SME customers, their facilities were automatically restructured for 3 months on request. Post these three months, the SME is reviewed and the extension provided on a case by case basis. For larger corporates, a sector-based approach was followed.

Our branches continue to comply with COVID-19 safety protocols providing customers with sanitizer, hand wash stations and markers were put in place to facilitate social distancing within the branch. We also enhanced our cleaning and sanitation procedures to allow for regular and thorough cleaning of shared spaces. Wearing of masks in our premises became mandatory as stipulated by government.

There was a conscious shift and emphasis on use of digital channels by customers. We issued extensive advisories to customers encouraging the use of digital channels and offering specific incentives including cash back on use of debit cards and fee waivers for mobile banking products. We have seen a marked shift in the behaviour of customers, this specifically with the government measures implemented to encourage the use of cashless channels. In doing so we saw a 60% increase in the use of digital channels with the Bank, as well as a 200% growth in the value of these transactions. This migration indicates a new way of working with customers which has improved efficiencies in branches and is expected to lower the cost of banking.

Our Suppliers

Due to COVID-19, Absa Bank Kenya had to onboard new types of suppliers to provide us with products that were unusual for a bank such as personal protective equipment and sanitiser. Usually, the onboarding of new suppliers is a lengthy process, as each is vetted and cleared before being pre-qualified. We resorted to modifying the procurement process to fast track the integration of suppliers while finalizing the vetting process. Full acceptance was thus done afterwards when we completed the vetting processes.

Additionally, certain suppliers needed to be reclassified from a risk perspective. This specifically focused on cleaning services. Previously this was classified as low risk, but this categorisation was revised due to the critical role cleaning played in maintaining hygiene and sanitation standards, a key measure for the Bank in responding to the pandemic. These suppliers were re-classified as high risk and their role enhanced to include deep cleaning and sanitation.

Their scope changed to include increased frequency of cleaning. This was initially monitored through the implementation of daily performance and service management protocols. This extended beyond the usual Key Performance Indicators (KPIs) and required increased reporting to enable the tracking and deployment of support to our suppliers as needed. Since most suppliers were not used to this level of engagement, we established a forum to discuss this shift in requirements and scope, facilitating open engagement and trouble shooting.

The pandemic had a knock-on effect for our affirmative action efforts aimed at integrating special groups as suppliers. Specifically affected were youth, differently abled persons and women. We have since readjusted our targets to pursue inclusion of these groups going forward.

Additional initiatives rolled out to support suppliers, included supplier management, trainings, and adhoc support. We are also keen on encouraging supplier collaboration in social initiatives supported by the Bank.

Collaborations

We partnered extensively with several organizations and companies to implement our COVID-19 response plan. The Central Bank of Kenya (CBK) provided guidance on emergency measures to mitigate the adverse effects on the banking sector from the coronavirus pandemic to which we are fully compliant. We provide daily reports to CBK tracking implementation of the required health and safety protocols.

Key focus areas for implementation included:

- Provisioning and limitation of interest on non performing loans.
- Provision of relief on personal loans.
- Extension of payment periods (not longer than 2 years). MSME relief to be offered.
- Personal loans with repayment terms extended and reclassified.
- Record keeping required.
- Banks to cover cost of restructuring or extension of loan terms
- All loans restructured to be reported on a monthly basis.

The Ministry of Health (MoH) was a key supporter, providing leadership and advice on how to respond to the pandemic. They provided a framework for us to apply across all entities and guidance on government protocols. The Kenya Bankers Association provided clarity on the ministry framework ensuring that the banking sector was fully aligned with government requirements.

Guidance and protocols covered:

- Mental health and Psychosocial Support
- Quarantine Protocols
- Community health strategy
- Environmental and social management framework
- Use of PPE
- Infectious control and waste management plan
- Health and Safety in the workplace
- Infection prevention and control
- Public use of facemasks
- Community health policy
- Emergency Response and labour management

Absa Bank Kenya also participated in the USAID funded Kenya Investment Mechanism forum to discuss the challenges faced by customers due to COVID-19. We also collaborated with Minet and the Department of Public Health around the issue of psycho-social concerns linked to COVID-19.

Our shareholders

In the course of the year, we reviewed our risk limits and took a conservative stance on capital allocation. Through this process we were able to update our risk modelling frameworks and upgrade our systems as they link to retail and wholesale banking. In line with the risk model and due to the challenging economic environment, we have taken a cautious approach to capital, as part of our capital preservation strategy. Accordingly, we did not pay out interim dividends in 2020. This position will be reviewed in future based on the commercial prospects and a new dividend framework has been developed.

Our society – WEMA "Force for Good"

As part of our effort to support vulnerable communities, Absa Bank Kenya PLC set aside Shs 13Million to support activities identified by colleagues to support communities contending with COVID-19. Fifty four teams took part in identifying and engaging organizations that support vulnerable members of society. The activities identified included working with county governments to provide food to families displaced by floods as well as providing hand washing facilities and water tanks. Working with NGOs and CBOs to provide food and PPEs to Boda Boda riders and families and training women groups on alternative ways to earn income. We conducted financial literacy and soap making training and gave food donations to orphanages. In total we invested Shs 5,602, 067in our communities through colleague matched fundraising activities.

Changing the way we work

Changing the way we work

Our transition from Barclays Bank of Kenya to our new brand, Absa Bank Kenya is now complete.

Changing the way we work is strategically linked to our transformation pillar. Our main focus during 2020 was to build the foundation required to ensure the fulfilment of our vision to be a leading bank in Kenya which is obsessed with the customer and able to respond dynamically to the needs of its customers.

To achieve these aims we focused on finalizing the transition from Barclays Bank to Absa Bank Kenya, and the implementation of digitization and automation processes which will position not only the business but our colleagues for the pending 4th industrial revolution.

This digitization agenda has spawned the development of new platforms and products launched in 2020, which enhance our service offering, enabled our customers to meet their financial needs while providing additional support in response to the pandemic.

With these changes our staff, supply chain as well as customers have been provided with training and bespoke messaging to ensure a seamless transition to our new way of working.

This has borne fruit, extending our footprint in the market, instilling confidence in our brand, and onboarding new customers.

Further enhancements to the way of working include managing risks associated with this new way of working. With the shift to the use of more digital platforms, we have noted new and additional risks that we need to manage.

Enhanced data protection, system maintenance and cyber security protocols assist us to keep our customer assets safe, and adequately manage the risks to shareholder returns.

Transition to Absa

2013	2013	2016	2016	2018	2018	2020
Barclays Majority Shareholder in Kenyan Entity since 1916	Barclays restructures regionally forming Barclays Africa Group Limited - 12 African countries make up the Group	Barclays Bank PLC (UK) divests from Africa	Between 2016 and 2019, Barclays PLC reduces its shareholding in Barclays Africa Group Limited (BAGL) from 62.3% to 14.9%.	June 2018 Barclays Africa Group Limited changes name to Absa Group Limited	June 2018 separation process initiated with Barclays PLC (includes the Kenyan Entity)	In February 2020, Kenyan entity changes its name to Absa Bank Kenya PLC.

Our transition from Barclays Bank of Kenya to our new brand, Absa Bank Kenya is now complete. The separation and transition process commenced in 2018 and was finalised in February 2020. This has been a complex and intricate process managed by teams at Group and locally who ensured all changes required to attain the transition were conducted proficiently.

The transition process in 2020 was completed at a cost of Shs 2.1 billion covering technological changes, rebranding, stakeholder engagements and staff empowerment sessions. In the process, we implemented 166 technology specific projects. These were delivered without impact on customers or incremental risks to the Bank. These projects included upskilling our staff to enhance their capacity to deliver on the promise of the new brand, rebranding our branches and all brand collateral. The Transition team also actively engaged with stakeholders in several sessions including customer engagements, staff meetings and engagement initiatives, investor briefings and regulator meetings.

"Force for Good"

A key intent for the transition process is to refresh the Bank and make it fit for purpose for the future of banking and finance. This transformation has been an essential part of our strategy and our aspiration is to transform our business for the modern era. This means investing in technology to become a digitally enabled bank and spurring innovations to enhance efficiency and improve shared stakeholder value. Through transformation, we want to enhance ease of access to our services, greater personalisation of customer experiences and delivery of relevant products and services. Transformation also means we will become an aspirational, fun and vibrant place to work while also becoming a *"Force for Good"* in society.

Brand transition

With over 100 years in the market, the Barclays brand was highly regarded and easily recognised. Transferring this brand value to the Absa brand was a major facet of the transition enabling the new brand to gain traction in a highly competitive sector. We undertook several assessments of the brand to determine whether there was any unfavourable impact due to the transition. At completion of the transition process, the brand value had been successfully transferred to the Absa brand.

The Brand Health Tracker, an indicator for determining the perception, level of awareness, and stability of the brand was at 28% during the launch month of February; reaching a high of 68% by the close of the year. This provides a positive outlook for the Absa brand marked by increased acceptance and growth.

We continue to engage with key stakeholders, especially customers to socialise them on the Absa brand and enhance touch points. For example, during the brand launch we also launched One Absa Account which has lower costs and ease of use. The market response was robust as customers found it easier to use. This linked to our new approach to the market of providing solutions to customers that are relevant with simplicity of delivery.

Relocated 91 systems from Barclays PLC with significant enhancements to support customer experience, with some entirely new technology project	Delivered 166 projects across the change program with minimal downtime experienced by customers.	Rebranded 178 locations and all our legal assets with minimal disruption to colleagues and customers including changing of our trading ticket at the NSE. High brand equity score of 22	Implemented a colleague change program on new Absa values and culture and kitted 2,000 colleagues leading to significant improvement in the Colleague Experience Index to 78	Launched 12 new propositions over the last 3 years focused on customer experience, with most underpinned by new technology resulting in improved internal NPS of +52

Fourth Industrial Revolution and Digitisation

The World Economic Forum states that "the Fourth Industrial Revolution represents a fundamental change in the way we live, work and relate to one another. It is a new chapter in human development, enabled by extraordinary technology advances commensurate with those of the first, second and third industrial revolutions. These advances are merging the physical, digital and biological worlds in ways that create both huge promise and potential peril"

Even before the COVID-19 pandemic, Absa Bank Kenya was focused on utilising technology-based solutions to improve the way the Bank delivers for customers and how employees work. This is a core part of our Growth, Transformation and Returns strategy anchored on the development of our technology and digital capabilities. The future look of business is rapidly changing with increased automation, use of advanced analytics, robotics and artificial intelligence. These technological innovations provide opportunities for the Bank to deliver value to customers conveniently and cost-effectively.

Remote working

Remote working is a key change to the way we work, spurred on by the COVID-19 pandemic. This is a clear precursor to the future of work and we have adapted it into the mid and long term. To improve the ability of employees to work remotely, we have enhanced our technology solutions providing for virtual work in particular virtual meetings and events. For events, we ensure that all supporting features are in place for a well-run event including testing all systems to be used before the event. We also supported employees with connectivity needs to ensure they are able to engage effectively with their colleagues.

Employees also need appropriate equipment and access to our networks to deliver value for stakeholders. With the increased number of employees offsite, we have increased Virtual Private Network (VPN) access by upgrading our VPN servers to increase capacity. The original VPN server capacity was not intended to host large numbers of employees remotely accessing our systems. Initially the network was overloaded but we quickly resolved this issue by increasing capacity. This has enabled our colleagues to work through secure and encrypted connections providing greater privacy. We fast tracked the use of digital platforms to make work easier and facilitated engagement with customers while working from home.

The overall focus is to transition as many people as possible to work from home. It is envisaged that going forward 30-40% of staff will permanently work from home. This will result in a reconstruction of the way work is done including reducing the need for physical space within the workplace. For example, our business school has now become fully virtual and our training programmes are now entirely hosted on our technology platforms. In the midterm, we will continue to identify more roles that can be performed remotely as this is the new normal in our workplace.

We are focused on scaling up our employee's skills levels to make sure they are relevant to future work and banking. We envisage a future where face to face engagements will be limited while virtual interactions will increase resulting in a greater need for automation.

For example, disciplinary hearings will no longer be done face to face thus saving time and cost for both employees and the People team involved, ensuring speedy resolution of concerns raised.

From a strategy perspective, we are pushing more services to the cloud. This is driven from a cost perspective and to increase the level of availability of the system. We are moving to using Application Programming Interface (API) technology and open source technologies as these are more easily delivered. Artificial Intelligence is an area of great interest that is growing in significance for banking operations and which we are exploring actively.

Restructuring the workplace also means supporting staff to transition to other roles and responsibilities. Customer facing staff within branches were most affected by this restructuring and moved to other roles including managerial roles resulting in enhanced responsibilities, improved pay packages and additional benefits.

Delivering value through a digital workplace

Digitisation has been a key strategic focus for Absa bank over the last five years. Our aim is to provide technology solutions that are relevant to our customers and enable them to transact with convenience at any time. We have integrated multiple systems to ensure our digital platforms are available and stable. Stability of our core banking platform stands at 98%.

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Fourth Industrial Revolution and Digitisation

With the onset of COVID-19, we have redirected customer engagements from customer facing channels to digital channels in a bid to reduce the risk to customers and staff of getting infected and slowing the spread of the virus. This required enhancement of our digital channels so that they could serve increased numbers of customers efficiently. Availability of our digital channels is also 98%.

Data informed customer engagements are a key facet that we are working on. We intend is to provide tailored solutions to our customers based on data collected on previous customer engagements. This will allow us to become more targeted when offering solutions to customers. Enabling us to engage our customers on issues that are relevant and matter to them. This approach will also enable a faster turnaround time in providing solutions, improving our overall levels of efficiency. This is part of our philosophy of being customer obsessed which strives to make it easier and better to service our customers. In future front office staff will be able to see what customers are being onboarded for, without having to navigate through multiple systems. This means it is easier to serve the customer and cross sell.

A large part of our technology backbone is supported by external suppliers such as Mobile Network Operators (MNOs). Inevitably, we have integrated multiple systems which means any disruption on the side of the MNO or integrator can cause instability and affect our ability to deliver value. To limit these types of interruptions, we have entered into ongoing engagement with our service providers including monthly sessions to assess performance against the individual SLAs. In these meetings we discuss challenges faced and identify solutions and ways in which Absa can support the provider. This proactive engagement is expected to result in improved service for customers and enhanced stability of the systems on which our operations depend.

System maintenance

As part of ensuring that our colleagues are able to work remotely, we maintained continuous oversight of our systems to ensure their availability and versatility for colleague usage. Patching of machines was one of our major concerns in the course of the year. A patch is a set of changes to a computer program or its supporting data designed to update, fix, or improve it. This includes fixing security vulnerabilities and other bugs that cause our systems to produce an incorrect or unexpected result, or to behave in unintended ways. Patches are often written to improve the functionality, usability, or performance of a program. With respect to patching we have set a clear target (minimum of 90 per quarter). This target has been met and exceeded in certain quarter.

Cyber security

The move to digital and technology-based solutions and channels creates a greater risk for cyber-attacks placing us in a position where we must enhance the methods used to protect customer information, business operations and employees. We are adhering to international best practice in this regard and work with both local and international experts to ensure that our technology is secure, and all protocols are in place and observed fully.

Our people

We intend to transform into an aspirational, fun and vibrant place to work which is critical to delivering exceptional customer experiences and superior performance. In 2020, we focused predominantly on protecting our workforce from COVID-19 and enabling colleagues to work remotely. We revamped our trainings which are now entirely online and noted marked increases in uptake of training in the course of the year. Our staff complement remains diverse representing the broad cross section of our society.

Average training hours

Training hours provided in 2020 **8 343**	Training hours on woman in 2020 **10 972**
Training hours spent on management **15 106**	Training hours spent on senior management **4 488**

New culture

The Absa way is a program we have launched to build the Absa culture and to support staff during the transition. e-learning was the predominant tool utilised to deliver this culture in 2020. Due to COVID-19, this was done mostly using digital channels as opposed to the traditional face to face approach. Several internal sessions were conducted aimed at supporting staff, specifically during the transition to minimise stress and disquiet within the people compliment. Assurance was given on job security, brand integrity, company ethos, with the future prospects for employees being clearly articulated.

In these sessions, employees were kept fully abreast on the transition and acquainted with the Absa culture and corporate values. The cultural change process is anticipated to continue beyond the transition process to further inculcate the banks values within the people compliment. We have change champions throughout the Bank who share information on the transition and enable teams to implement required changes. To acknowledge our employee's perspectives and concerns related to these changes, we have conducted internal research and Gallup surveys. These results have led to adjustments in management approach and clearer articulation of concerns raised.

Culture transformation is primarily focused on delivering value for customers and stakeholders through new ways of working, redefined processes, skills development and new leadership behaviours. We want to create a culture that is entrepreneurial, innovative with a sense of ownership and shared purpose and identity. It also aims at increasing the speed at which we make and execute decisions accompanied by teamwork and a sense of belonging. The overall aim is to create a Bank that is obsessed with the customer offering, the highest level of service with expediency, operating cost-efficiently underpinned by sound governance and ethical conduct.

We drive high performance to achieve sustainable results

- We play to win and are accountable for results.
- We innovate, we are decisive and we act quickly.
- We learn from our failures; we are bold enough to change course.

We are obsessed with the customer

- We are curious, we anticipate the customer's needs.
- We take ownership of delivering the One Absa customer experience.
- We outperform by going beyond customer expectations.

Our people are our strength

- We integrate diverse perspectives to invent the future.
- We collaborate with courage, honesty and powerful energy.
- We trust, value and grow our people to achieve their full potential.

We have an African heartbeat

- We deliver a uniquely Absa experience across Africa.
- We co-create across Africa to deliver better solutions.
- We actively engage our communities to bring people's possibilities to life.

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Voluntary early retirement

In November, we rolled out a Voluntary Exit and Redundancy (VER) programme as part of our strategic realignment of roles and skills, in line with our Growth, Transformation and Returns strategy. Two phases of this program were executed initially through a voluntary exit phase followed by redundancies, resulting to the exit of 105 colleagues.

Engagement with unions

Approximately 20% of our employees are currently unionized. We view our unions as strategic partners to our business.

Employee unions were concerned about the safety of their members due to the COVID-19 pandemic and the impact that the slowdown in economic activities would have on their members. In addition, with the enhancement of remote working, unions sought clarity on the criteria used to determine which employees worked from home and those who would continue working from our premises.

It was clarified that staff who worked from home were selected based on the employee's role and the ability of their function to be conducted remotely without undue impact on work performance. Inevitably, certain employees continue to perform client facing functions from our premises, especially in the Bank branches. In these cases, we have put in place measures to protect employees and customers.

Absa Bank Kenya continues to provide clear support to employees who work from our premises to ensure that their health and safety is fully safeguarded through provision of guidelines, protective equipment, social distancing and enhanced hygiene and sanitation practices.

Discussions with unions during the year also focused on the initiative required to manage the changing work landscape with the advent of COVID-19 as well as the 4th industrial revolution. These combined factors are moving work to digital and technology-based activities causing certain functions to become redundant. We are working to upskill employees to ready them for the future of work ensuring they acquire the relevant skills for the modern workplace.

Remuneration and benefits remain an area of discussion. We continue to monitor and benchmark our levels of remuneration to market related rates, ensuring that we are competitive in our compensation packages.

Other workplace changes and actions

Managing risks

We instituted a Risk Data Aggregation and Risk Reporting (RDARR) framework to enable the Bank to aggregate risks and report accordingly. The main principles governing this framework are accuracy, integrity, completeness and timeliness. We conducted staff trainings and provided support to enable the implementation of the framework and ensure colleagues understood their roles and responsibilities. All checks are done prior to the aggregation of any data to ensure that informed decision making is taking place.

Data Protection

The Kenya Data Protection Act 2019 became law in November 2019. This aligns with the South African Protection of Personal Information (POPI) Act, and The EU General Data Protection Regulation (GDPR). Absa Bank Kenya PLC instituted measures during 2020 to ensure alignment with the requirements under the act facilitating the bank's ability to prevent, detect or respond to any Data Privacy Risks in line with local and international regulations and to ensuring that Data Subject rights are maintained.

A Data Protection policy implementation programme was executed in 2020 through a Working Committee mandated to ensure Absa Bank Kenya complies with the requirements of the regulation. This committee included strategic employees from within the business, represented by legal, operations and ICT management.

Data protection starts with our people, thus the most important focus area when managing risks is adequate implementation of internal policies and procedures. Training of Data Stewards was thus completed in 2020 with awareness campaigns rolled out to all staff through the use of the Mandatory Learning Management System. In addition, a review of existing policies and procedures was undertaken, modifications made as required and operationalized, with a focus on governing data in the system.

With the Act in place, Absa Bank Kenya has a data governance structure in place, with a data governance owner in each of the bank's divisions. Data Privacy Impact assessments are included as part of any change process ensuring new solutions are secure by design and taking into consideration all data privacy areas to limit any exposure. Monthly data governance meetings are held to identify additional gaps in policies and procedures with a view to address and track actions to completion.

Cyber security

The move to digital and technology-based solutions and channels creates a greater risk for cyber-attacks placing us in a position where we must enhance the methods used to protect customer information, business operations and employees. We are adhering to international best practice in this regard and work with both local and international experts to ensure that our technology is secure, and all protocols are in place and observed fully.

Addressing fraud

Fraud is a major challenge for financial institutions globally and Kenya is no exception. We therefore take fraud prevention seriously and have instituted stringent processes to address fraud attempts. One of the major approaches in this regard is empowering our staff to avoid, detect and frustrate fraud. In 2020 we undertook fraud awareness sessions for all branches with a total of 1,087 colleagues trained. In addition, we sent out 11 fraud awareness alerts to employees of the Bank, providing information on fraud trends and concerns. Overall, there was a marked decline in the number of fraud cases in 2020 in line with the decline in key economic activities in the country. In addition, we noted a reduction in incidents as a result of customers inadvertently sharing of banking details. Overall, there is however a shift in the risks needing to managed as we move towards a more digital way of working.

Becoming obsessed with the customer

Becoming obsessed with the customer

New culture	Embracing digitization	COVID-19 response	Fraud management	Managing different customer needs
New way of working, collaboration and enhancing value for all	New products on offer enhance our customer value proposition	The need to respond and protect our customer base, stimulate economic activity and enhance social wellbeing	Responding to changes in this risk as we transition to new ways of working. Protecting our customers interests	Customers with disabilities, women led businesses, SME, our supply chain

The journey to becoming obsessed with the customer requires a concerted effort in redesigning our systems, improving our products on offer, enhancing our risk management protocols and ensuring the culture required to realize this vision is in place.

This objective can be realized by understanding the needs of our customers and focusing on the provision of training and tools required to our colleagues to ensure implementation of our vision.

We are obsessed with the customer

We are curious, we anticipate the customer's needs.

We each take ownership of delivering the "One Absa" customer experience.

We outperform by going beyond customer expectations.

Customer engagement

Our ambition is to deliver the best customer experience in Kenya. We aim to offer a seamless customer experience that consistently and predictably speaks to customer expectations across channels. Our strategic focus areas in this regard include reduction of queuing times in Branches, enhancing our queuing time management system, creating a clear in-branch experience and redesigning branches. We have earmarked several initiatives to address the people and culture components that influence customer experience including client ownership, enablement and communication, enhanced service recognition and rewards and service training programmes.

A core part of our strategy is to deliver for our customers through digital channels. We are therefore spearheading a digital transaction migration process to encourage customers to move from traditional banking channels to digital channels accompanied by enhanced digital services and user experiences on these channels. Self-service capabilities will also create digital branches where customers can transact without human interface. We are working on enhanced telephony models and use of digital channels for advanced customer communication and transactional banking.

This digital drive means that stability of technology is a key customer experience driver across all customer segments covering core banking, support systems and digital channels. Face to face customer engagements in 2020 was limited due to the COVID-19 pandemic. However, we maintained focus on the new brand by providing topical information based on typical aspects raised by customers, including:

- Will my account details change? No
- Will my relationship manager change? No
- Is there a change at board level? No
- Is there a change to the strategy? No
- Are products changing? Yes
- Is our money safe? Yes

Digitisation

Developing our digital capacities to deliver value for our customers is essential. Increasingly, customers are seeking interactions that are convenient and readily available. Our aim here is to provide digital tools and services that enable our customer to undertake financial transactions seamlessly at their convenience. While digital channels are not a new phenomenon in the financial sector in Kenya, we are committed to offering the most innovative and digitally enabled bank with exceptional service capabilities.

Absa One

Absa Bank Kenya has developed Absa One, a customer proposition that offers a wide variety of benefits all packaged in one account with a brand that is aspirational and dynamic. This is a simple pay as you go account customised around everyday financial needs. For businesses, this account is designed for all types of businesses, partnerships and sole proprietors and structured to offer SMEs solutions that bring growth possibilities to life.

- Transact
- Borrow
- Save and invest
- Insure
- Rewards and loyalty

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Timiza

Timiza enables customers to do their banking on their mobile phones allowing them access to their bank accounts, instant loans, purchase insurance and transfer funds. The platform also enables customers to save and manage their finances. In 2020, we issued more than 700,000 loans valued at over Shs 8 billion through Timiza as shown in the key performance data below.

KPIs	2020
Newly registered customers on Timiza	299,887
Total registered customers	4.3mn
Total number of loans disbursed	778,238
Total value of loans disbursed	Shs 8.2B
Average loan ticket size	Shs 10,000
Total number of airtime and bill transactions	69,000
Total savings liability balance	Shs 25mn

Managing customer's with unique needs

Customers with disabilities

As part of our efforts to celebrate the diversity of our customers and providing an excellent client experience, we participated in the Digital Accessibility programme which aims to further enhance access of Persons with Disabilities (PWDs) to financial services and products. Digital accessibility aims to ensure all users with or without disabilities can perform the same functions and access the same information.

The first of its kind in the region, this transformative initiative is being coordinated by the Kenya Bankers Association (KBA) in collaboration with inABLE (a champion of assistive technology) and FSD Kenya. The project will involve five other banks that have volunteered to participate in the pilot phase of the programme. The initiative entails assessing the Bank's digital platforms and providing recommendations on how we can make them more accessible to persons with impairments ranging from hearing, vision, physical and age-related challenges.

A broad range of recommendations were offered through the survey including the need to enhance Bank policies to incorporate digital accessibility for PWDs, consistent compliance testing and engagement with PWDs through usability studies. Absa Bank Kenya is committed to improving the experience for Customers with Disabilities and ensuring accessibility challenges are addressed appropriately. To this extent, we have commenced the development of a digital access roadmap for PWDs.

Women in business

Our commitment and supporting women in business was enhanced by the launch of a Shs 10 billion fund to advance credit to women-owned small and medium enterprises over the next five years. This women's fund is part of our commitment towards advancing diversity and inclusion by empowering women with financial resources and capacity building to grow their businesses. In 2020, due to the impact of the COVID-19 pandemic, this program did not pick up as planned. However, the program will be relaunched in 2021 covering financial and non-financial services.

This fund will be availed to women entrepreneurs through existing banking products including unsecured and secured loans, trade finance, asset finance, property finance and working capital facilities.

Key features of the fund include:

1. Flexible security with a Shs 10Million unsecured loan.
2. Flexible loan repayment terms of up to 5years.
3. Leverage on business partners to offer Shs 50Million on an unsecured basis to facilitate business growth.
4. Unsecured lending of up to Shs 12 million to service Local Purchase Orders (LPOs) of corporate clients.
5. Eliminating the requirement for audited accounts to assess financing limits of up to Shs 30Million. Instead Absa uses bank account statements supplemented by Mpesa statements to assess customers.
6. Financing of project costs up to 80%.

In addition, we have supported women entrepreneurs through our partnership with the International Trade Center (ITC), offering Absa funded webinars that have been attended by 5000 women. In 2020, we conducted 9 webinars and 2 networking events that reached 2 million people with 3.6 million impressions generated, one million video views and 315,000 engagements.

Small and Medium Enterprises (SME)

Wezesha Biashara

In February 2020, we launched our revamped Small and Medium (SME) proposition under the banner of Wezesha Biashara that is aimed at boosting growth for SME businesses by providing easy access to business loans. Business owners will access unsecured business loans of up to Shs 10 million, LPO financing of up to Shs 12 million, unsecured invoice discounting of up to Shs 50 million and unsecured bid bonds of up to Shs 10 million. Further, the Bank has partnered with leading motor vehicle dealers to provide up to 95% vehicle financing with a one-month repayment holiday.

Additionally, we launched the Wezesha Express Loan, a new proposition designed to speed up the turn-around-time for processing loans. Under this proposition, SME customers will get loans of up to Shs 3 million within 48 hours.

SME 2020 initiatives

To support the growth of SMEs in the country, we launched the Absa One Biashara account, an all-in-one account with no minimum balance requirement and no monthly fees. Through the Wezesha Biashara caravan, we engaged over 10,000 business owners across the country, showcasing our SME solutions.

The COVID-19 pandemic adversely affected business operations. To support our SME customers, we provided different financial relief initiatives that supported them to navigate through the effects of the pandemic. We further offered capacity building programs that equipped them with the necessary skills to overcome the challenges and pivot. We partnered with industry umbrella bodies and subject matter experts to offer virtual training, mentorship and networking sessions, impacting over 4000 SMEs directly.

The Government through the Public Finance Management Regulations (2020) has set up a Sh3 billion stabilisation facility to enable the participating banks (Absa, Coop, Credit Bank, DTB, KCB, NCBA and Stanbic) extend credit to MSMEs that meet the requirements, including compliance with tax obligations and business permits and having a good credit standing. The finance will be utilised for working capital, acquisition of assets and recovery from COVID-19 impacts.

SME Partnership with Coca-Cola

We have partnered with Coca-Coca Beverages Africa, Amref Health Africa and the Women Enterprise Fund to support SMEs in Laikipia County under a campaign *"Open Like Never Before"*. This partnership will see us support affected businesses across the entire value chain with revolving, short-term working capital financing, to bridge any cash flow challenges between stock purchase and receipt of payment from their customers. This will allow the distributors and retailers the flexibility to accept extended payment terms from Coca-Cola, as well as increase their credit should they require it. Coca-Cola will provide data to guide credit scoring and determine how best to support these businesses financially, with the overall goal of empowering them for sustainable growth.

This will enable us to issue business continuity loans for these businesses which have been impacted by the economic slowdown resulting from the COVID-19 pandemic. Coca Cola and Amref have committed to support the eateries to adhere to the strict government requirements and protocols in view of COVID-19. The continuity loans will enable SMEs to restock their businesses and remain afloat buttressed by uptake of their services. Over 200 distributors and 18,000 trade outlets will be targeted in a phased approach in the course of this initiative.

Value that will be created through this partnership include:

- The acquisition of new bank clients across CIB and RBB segments;
- Lending and cross sell opportunities;
- Strengthened relationship with Coca Cola due to our ability to solution across the value chain;
- Use of data analytics for credit scoring and de-risking;
- Leveraging on sustainability as we map out our sustainable finance journey;
- Supporting select women owned outlets as part of our Women in Business (WIB) offering; and
- Capacity-building through SME webinars.

Changes to engagement with supply chain

In 2020, we chose to revamp our engagement with suppliers through the ecosystem banking proposition. This is an enhancement of the Enterprise and Supply Chain Development (ESD) program that we have run since 2015. Ecosystem Banking allows for a more integrated approach to providing services across the Bank and targets the implementation of correct solutions for customers. Currently nine corporate customers have signed onto the platform to enable their vendors to access financial services based on their relationship with the corporate.

Our Ecosystem Banking is not a product but a partnership with core clients to package suitable products and services that flow to or through any point in their ecosystem. This enables investment, increasing returns, growth and competitiveness of the ecosystem. In building and delivering the Ecosystem proposition, we have incorporated input from work done previously. This work will run in parallel with other Bank initiatives (customer experience, culture transition, sustainability) all geared towards growth, transforming and delivery of the best banking experience to our customers.

The process of onboarding customers for the ecosystem banking proposition can be time consuming since we work with each of them, to understand their pain points. We aim to co-create solutions with the customer rather than provide them with generic products or services. The solutions required need to be mutually beneficial to both the customer and the Bank to make this work, thus we focus on a needs driven approach. In some cases, we work with other partners to meet the client's needs. A key benefit of this approach is clients appreciate the value we provide as we support them in enhancing their business operations and performance while engaging their supplier base.

In 2020, as part of this approach we sponsored training of 10 businesses by the Strathmore Business School focusing on Sustainable Business as part of our Ecosystem Banking proposition.

Key partnerships

We have partnered with Safaricom in the Women in Business (WIB) initiative which aims at supporting women businesses to grow. This is done through offering finance, procurement opportunities, training and networking forums. Through the Enterprise supply chain program (ESD) we provide funding to Safaricom's women suppliers/contractors. In 2020 we funded 25 suppliers with cumulative funding of Shs 163 million.

In addition, in the course of the year we joined the Sourcing2Equal Kenya (S2E) private sector peer learning platform. Sourcing2Equal Kenya is a three-year project implemented by IFC with the support of the Women Entrepreneurs Finance Initiative (We-Fi) and the Norwegian Agency for Development Cooperation (NORAD) with the objective to advance gender-inclusive sourcing in Kenya. Gender-inclusive sourcing addresses the gender gap between men and women in access to private procurement contracts. Corporations with procurement operations in Kenya are invited to participate with a commitment to advance gender inclusive sourcing in their supply chain. We are committed to closing gender gaps in sourcing which is good for business, local communities, and economies.

In 2020, Absa Bank Kenya PLC was recognized as the first bank in Kenya to join the Kenya Green Building Society (KGBS) as a champion for initiatives that promote the green economy by reducing pollution and improving people's lives while fostering economic growth. The Bank was also recognised for its efforts in conserving the environment and reducing its carbon footprint through initiatives such as the reduction of water and energy use as well as reusing and recycling of waste. The Bank has invested approximately Shs 34 million in retrofitting all its facilities to become water and energy efficient. This will reduce its carbon footprint while bringing down energy costs by up to 30% or Shs 20 million annually.

In partnership with the United Nations Global Compact, Absa Bank Kenya presented an opportunity for colleagues to advance the Sustainable Development Goals through the Global Compact Young SDG Innovators programme. This programme seeks to activate future business leaders and change makers challenging them to rethink traditional business models and unlock new business opportunities.

Using data to enhance customer experience

Chief Data Office

The Bank set up a Chief Data Office in November 2018 to develop data and analytics capabilities and use data to drive decision making. The office is now fully staffed into four specialty departments encompassing Business Intelligence, Data Governance, Artificial Intelligence and Model Analytics. Key initiatives rolled out by the team include establishment of Data Ownership and Governance structures, use of data science to identify growth opportunities, automation of manual reports and insight tools, capacity building on data exploitation, product rationalization and development of automation portals for KPI measurement. The office has also put in place measures to tighten the control environment and ensure compliance to General Data Protection Regulations, international policies on data management and local data regulations.

In 2019 Q1, the team delivered multilevel training to sensitize staff on the data strategy and raise the enterprise Data IQ. Data management was rolled out in Quarter 2 where specific roles on Data Ownership and Data Stewardship were taken up by leaders across the bank. This ensured that managers could take ownership of domain specific data assets and drive the use of data to deliver customer value. Specialized data experts were then hired into the office and commenced plans to operationalize the long-term data strategy. By Q3-2019 the data science staff had developed new scientific models to drive asset growth and improve customer retention while business intelligence developers completed report automation projects across the enterprise. By end of the year, the team had improved efficiencies in retrieval of data, developed new business opportunities and transformed the way data is used in the organization.

In 2020 the team enhanced partnerships with business units and delivered on numerous report automations, optimized the risk management models and achieved implementation and embedment of Risk Data Aggregation and Risk Reporting handover.

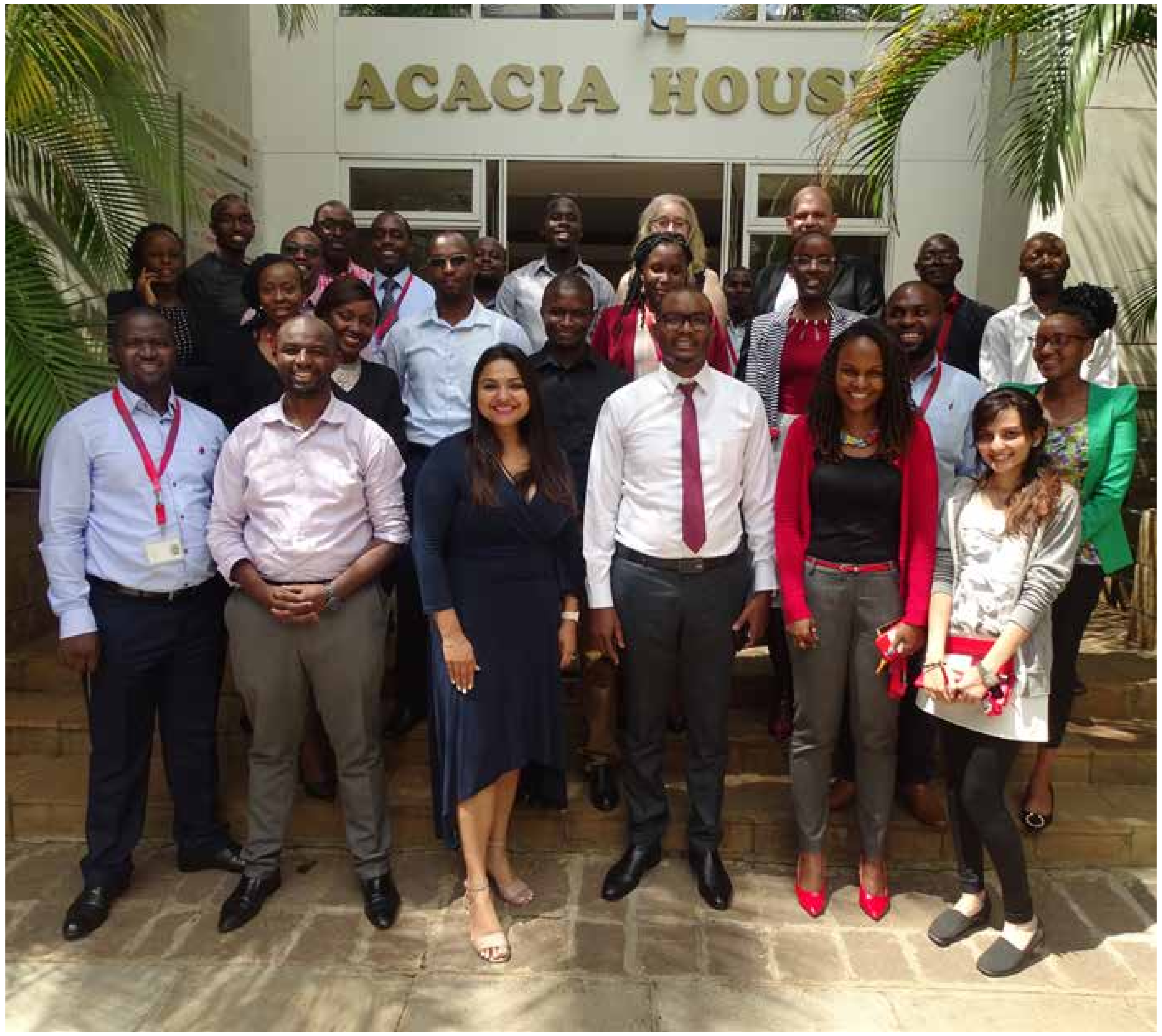
Going forward, the office will roll out new tools and methodologies to transform our ways of serving customers, converting opportunities and managing risk. The focus will be on proper data governance, self-service access, model risk management, effective reporting and visualization.

Speciality Areas

Department	Description	Mandate
Business Intelligence & Analytics	Business Intelligence and Analytics includes the technologies and tools used to analyze and report on different business operations. Business Intelligence uses raw data stored in varying Data Warehouses, Data Marts, Data Lakes, and other storage platforms, and transforms it into actionable information assets and automated self-service solutions.	This team focuses on improving efficiency in the retrieval of data, reports and insights. The team is divided into two; Business Analytics which supports staff with data requests and use cases while Data Engineering develops automation and self-service tools to host business solutions.
Data Governance	Data Governance is a collection of practices and processes which ensure the formal management of data assets within the bank. It encompasses Data Stewardship, Data Quality, security and privacy, integrity, usability, integration, compliance, availability, roles and responsibilities, and overall management of the internal and external data flows within an organization.	Data Governance colleagues ensure that data used on a day to day basis is managed as per the group's policies and procedures. They enforce ownership of data, Stewardship, Data Quality, Issues Remediation, Integrity, Integration and Architecture of data repositories within the bank.
Data Science & Artificial Intelligence	Data science unifies statistics, data analysis, machine learning, artificial intelligence and their related methods in order to understand and analyze actual phenomena with data. It employs techniques and theories drawn from many fields within the context of mathematics, statistics, computer science, and information science.	Data scientists make use of their statistical, math and computer science skills to explain customer behavior, identify leads, test hypothesis, predict data points and prescribe scientific solutions to business challenges. They also run frequent data studies to identify opportunities for growth and transformation in our key business areas.
Model Analytics	Model analytics is responsible for model risk management throughout a model's lifecycle (9 stages governance stages), model development, risk reporting and ad-hoc consultancy. Model risk management and Model Analytics are emerging risk areas as BBK moves towards reliance of more data-driven and machine aided decision making frameworks, it's imperative that the models used for these strategic functions are well governed and adjusted as the environment changes.	The Model analytics team manage all risks and business models through Absa's model risk management framework. They also develop specialized local models, review model effectiveness, validate model output and streamline risk reporting as per the Data Aggregation and Risk Reporting guidelines.

Data maturity assessment

Absa Group Regional Operations (ARO) conducted a Data maturity assessment in early 2020 to understand the effectiveness of our data capabilities and culture. This was an inclusive exercise focused on all business functions and it enabled us to take data to the next level to support the bank as a whole effectively. The results from the workshop were consolidated into an overarching maturity assessment and report, providing insight and recommendations on where to focus improvement efforts.

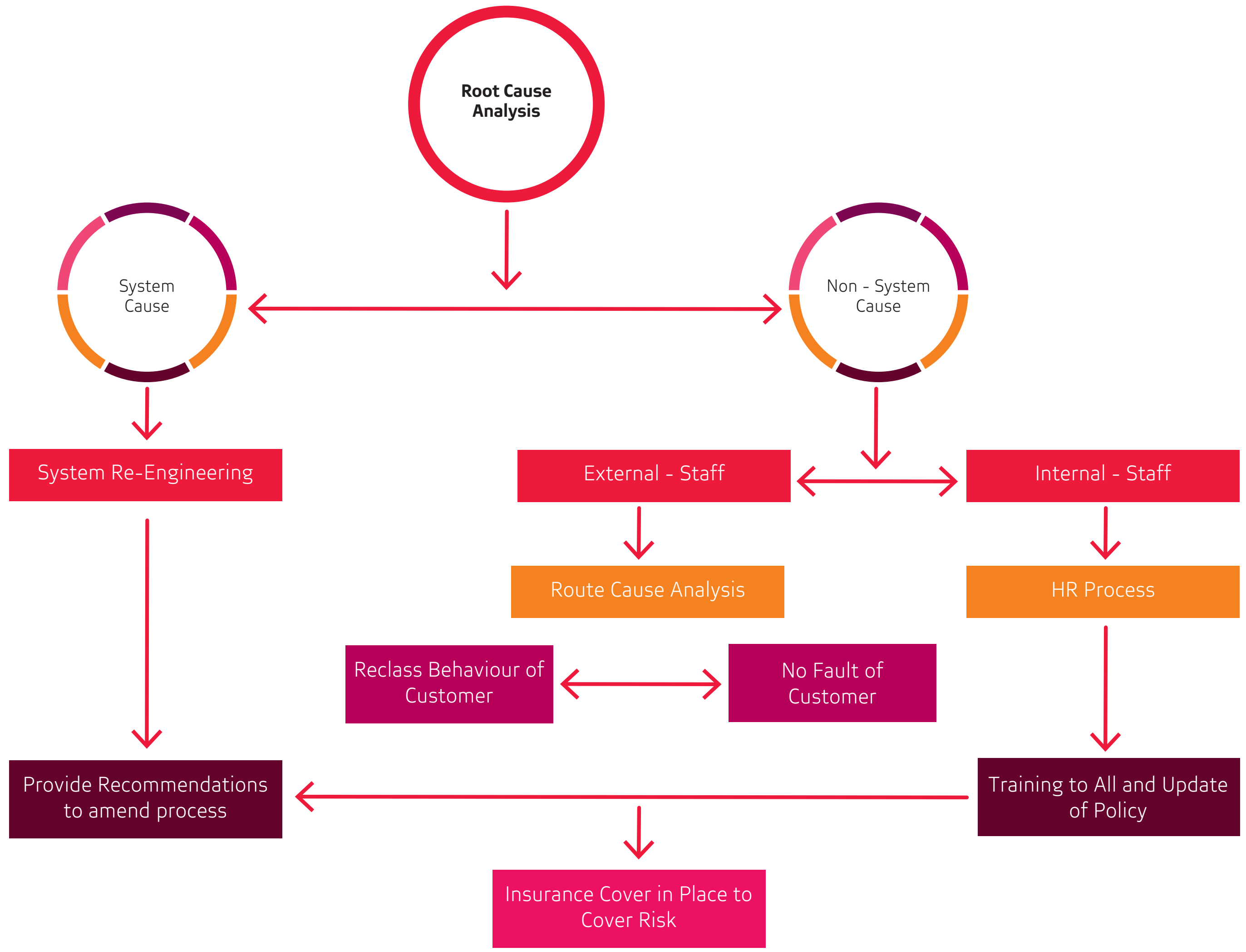


Caroline Carruthers, Chief Executive of data consultancy Carruthers & Jackson visits Chief Data Office Kenya for Data Maturity Assessment

Fraud management

The financial services industry is one of the most fraud-prone sectors of the economy. The 2020 PwC Kenya Global Economic Crime and Fraud Survey report indicates that Kenyan firms lost a combined Shs 5 billion through fraud and corruption between 2018 -2020. Fraud detection and prevention is therefore a key concern for Absa Bank Kenya PLC as we seek to safeguard the resources entrusted to us by customers and our investors.

When fraud is detected, we conduct a root cause analysis to determine the underlying causes of the fraud. This analysis enables us to develop new approaches in addressing fraud and proactively prevent it since this is an everchanging and dynamic area with fraudsters seeking to identify new ways of committing fraud. Detection and prevention trends and learnings are shared across the Bank to ensure that fraud activities in one region are detected and prevented in all geographies where the Bank operates.



Fraud management update for 2020

Opportunistic fraud	Card fraud	Internet & mobile banking fraud	Payment & lending fraud
• Opportunistic fraud due to shifting business and economic trends.	• Card Not Present (CNP) fraud on the increase propelled by shift to E-commerce. • Bank Identification Number (BIN) enumeration/testing attacks.	• Increased cases of Sim-Swaps and social engineering as economy open after COVID-19 containment measures.	• Cases of cheque fraud and over the counter withdrawals. • Fraudulent application of loans and credit cards.
Measures	**Measures**	**Measures**	**Measures**
• A working resilience plan is in place. • Parameter reviews carried out on a regular basis. • Close monitoring of transactions in place. • Use of data science modelling and analytics to revamp preventive, detective and recovery fraud controls.	• 24/7 fraud monitoring & surveillance. • CNP fraud recoveries through chargeback process closed the year at 100%. • 3D secure authentication-Our cards are now enrolled for cardinal . • Continuous system fraud rules refinement and deployment. • Fraud awareness.	• Pin resets/log in controls in place. • 24/7 fraud monitoring & surveillance. • Fraud awareness to both customers & colleagues. • Engagements with MNOs & Group stakeholders to enhance controls on SIM swap related fraud. • Fraud awareness.	• Cheque vetting team in place and thus most of the attempts in this category were frustrated. • 24/7 fraud monitoring & surveillance. • Close monitoring of loans trends. • Fraud awareness.

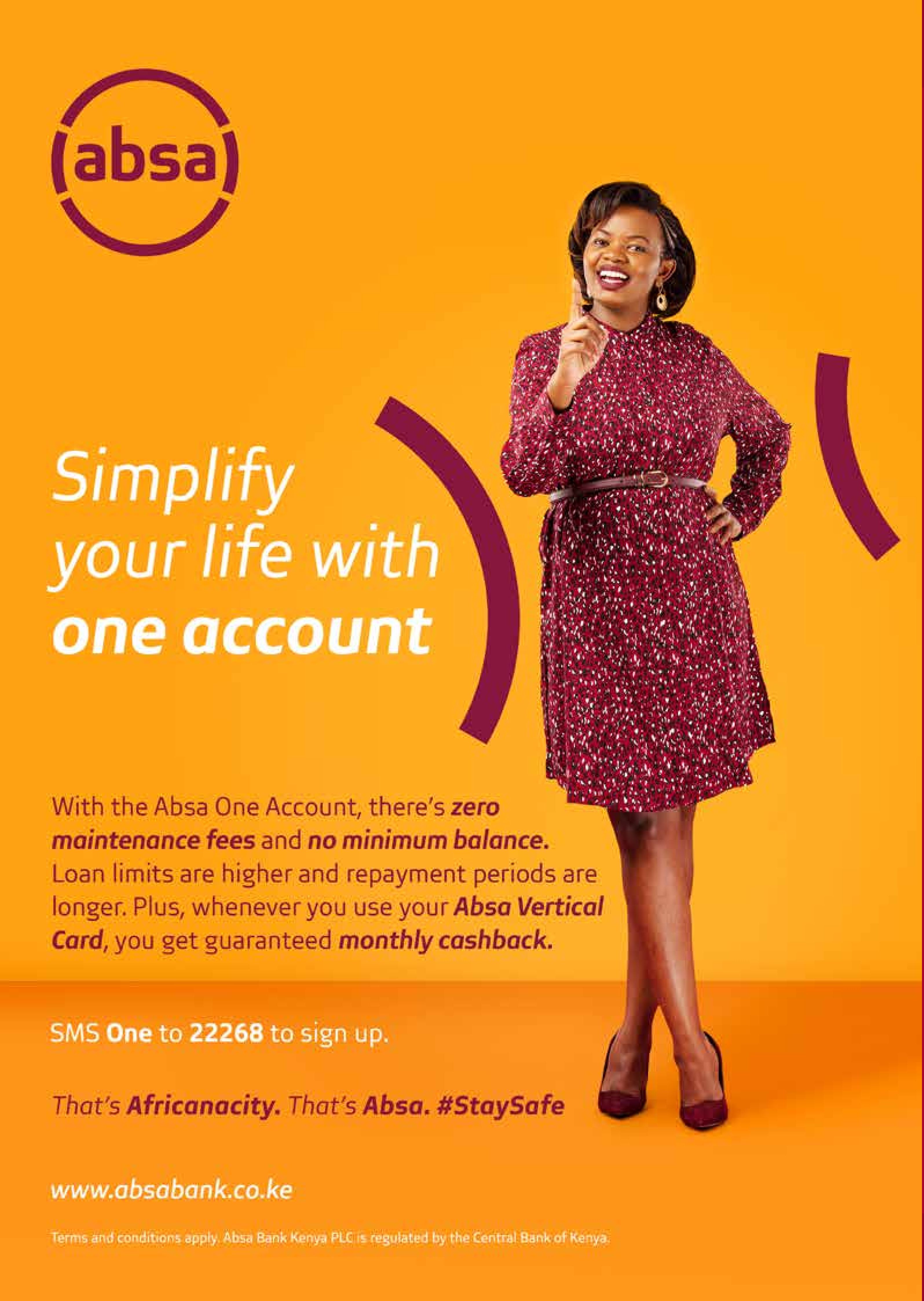
In 2020, there was a shift in fraud vectors as a result of COVID-19 measures by the government and individuals. Firstly, there was a reduction in fraud involving inadvertent disclosure of sensitive information by customers which is usually a key source of breach in customer accounts. On the other hand, there was also an increase in Card Not Present(CNP) fraud driven by corresponding shift to E-commerce by most of cardholders. Card not present transactions is where a cardholder does not present a physical card to a merchant in person but instead purchase goods or services from the seller through internet using card details. In case of CNP fraud, fraudster uses stolen card data to carry out unauthorized transactions even if the legitimate card is never lost or stolen.

There was a decrease in social engineering & fraudulent SIM swap related fraud is attributed to containment and lockdowns measures by the government which reduced movements and economic activities.

In addition to product based fraud controls and monitoring of residual fraud risks, empowering both our customers and staff with anti-fraud knowledge is a key part of our fraud strategy.

Safety tips for the prevention of fraud are sent out regularly to our customers with specific fraud focused campaigns via SMS and social media at least once per quarter. For our staff, in additional to a mandatory online fraud training module, awareness materials are cascaded through internal communications and customized virtual fraud trainings conducted on regular basis depending on fraud trends.

As part of fraud recovery and response, all fraud cases are subjected to thorough forensic investigations. This ensures facts are established and appropriate remedial actions are taken.



Our shifting regulatory framework

Our shifting regulatory framework

Liquidity Requirements	Governments COVID-19 response plan	Data Protection Act	Engagement with the Regulator
Managed liquidity ratios as outlined under the Pandemic	Ensuring alignment and adherence to Directives published	Compliance achieved with Data Protection Act	New licensing requirements, response to reports of noncompliance, implementation of more robust processes and procedures around ethical conduct and management of financial crimes.

2020 saw a shift in the banking regulatory framework in Kenya in part due to the pivotal role the banking sector played in buffering the economy against the COVID-19 pandemic, as well as due to the release of new regulations, such as the Data Protection Act.

An integrated response to these requirements was undertaken across the Absa group, making use of best international practice in certain areas to further enhance local requirements.

Our focus throughout was on ensuring the protection of Our People, Customer, Supply Chain and Shareholder value. Existing processes in place allowed for the seamless application of these additional requirement, further strengthening our ability to grow market share and enhance our customer value proposition.

Liquidity requirements

The banking sector has ensured continuity of operations, provision of credit and relief to borrowers by restructuring loans. These measures have however affected banking institutions financial position. As the duration and extent of the pandemic remains uncertain, measures needed to be put in place to ensure that banks remain resilient to future shocks, thus requiring them to strengthening their balance sheet. This necessitated additional capital provision and adequate liquidity management.

The Internal Capital Adequacy Assessment Process (ICAAP) is the framework utilised by Absa Bank Kenya to assess and maintain capital considered adequate to cover the risks the Bank may be exposed to in the market. Annual reporting against ICAAP to the Central Bank of Kenya (CBK) is required. With the onset of the COVID-19 pandemic, CBK required that the following additional aspects be included in the 2020 annual report:

- the impact the pandemic has had on the institution and measures taken to mitigate these;
- measures taken and proposed to strengthen the balance sheet and maintain adequate capital and liquidity; and
- any proposed distribution of 2020 profits.

To meet the CBK requirements around capital liquidity ratios Absa Bank Kenya PLC needed to source additional capital to support the growth in our loan book. Action was also taken to preserve the capital already held. This led to the review of Absa Kenya's dividends payments, which were subsequently suspended.

Absa Bank Kenya also reviewed the tier 2 capital received from the Group. Further developing a strategy to preserve our capital by reviewing the types of loans being issued to customers. The growth in deposits during this period as customers preferred Tier 1 banks to secure their savings, provided some buffer. Intervention from the regulator also assisted with a reduction in the required cash reserves, reducing the liquidity requirements.

We continue to see the Central Bank revise the reference rate downward during this period to boost economic growth in the country. We opted to reprice our loan book in response allowing these benefits to be passed on to our customer base. This was however not done by all banks in the market and has reduced our margins.

In the course of the year, we introduced the Absa Bank reference rate. This rate reflects the current cost of funds, the current market conditions and allows us to pass on any movement in the interest rates onto our customers.

Adherence to government's COVID-19 response plan

Due to COVID-19, our industry regulators issued a number of regulatory directives aimed at reducing the economic and social burden brought on by the pandemic. A summary of the directives and our response is set out as follows:

Regulator	Directive	Absa response
CBK	**CBK Circular 3 of 2020** Provided requirements on emergency measures to mitigate the adverse impact of the COVID-19 pandemic on loans and advances. The circular further provided guidance on loan classification and provisioning of extended and restructured loans. Key points from the circular included: • relief granted under the emergency measures will only apply to borrowers whose loan repayments were up to date as at March 2, 2020; • Where a determination is made to grant a request for relief on personal loans, the extension should not exceed one year from March 2, 2020; • Banks to meet all the costs related to the extension and restructuring of loans; and • Requirement to report on all restructured loans on a monthly basis	Absa Bank Kenya complied with the CBK directive and extended loans and advances in line with the requirements of Circular 3 of 2020.
CBK	**CBK Circular 4 of 2020** Circular provided guidance on Monetary Policy Committee (MPC) reduction of Cash Reserve Ratio (CRR) to 4.25 percent from 5.25 percent. Released amounts/liquidity to banks was to directly support borrowers that are distressed as a result of the Coronavirus (COVID-19) pandemic.	Absa Bank Kenya successfully applied for the allocated liquidity amounting to Shs 2.37Billion to be utilized to directly support borrowers distressed by COVID-19 pandemic.
CBK	**CBK Circular 5 of 2020** Central Bank of Kenya (CBK) issued the circular and guidance note to provide minimum standards to ensure that institutions have resilient frameworks to effectively address emerging pandemic risks in the banking sector. • Specifically, all commercial banks, microfinance banks and mortgage finance companies were required to : • Formulate pandemic response plans for close monitoring of the implementation of the Business Continuity Plans; • Conduct self-risk assessment of the risks posed by a-pandemic such as COVID-19 to the institution itself; and • Submit the pandemic response plan and Self- Risk Assessment to CBK by April 6, 2020.	Absa Bank Kenya submitted a board approved pandemic response plan and self-risk assessment following assessment of the emergent risks due to COVID-19 pandemic.

Regulator	Directive	Absa response
CBK	**CRB Regulations – Additional Measures on credit information sharing** **The regulations set forth the following requirements:** 1. A minimum threshold of Kshs 1,000 was set for negative credit information that is submitted to CRBs by lenders.; 2. Borrowers that were previously "blacklisted" only for amounts less than Kshs 1,000 will be "delisted." 3. Suspension for a period of six months, the listing of negative credit information for borrowers whose loans were performing previously but have become non-performing from April 1, 2020. Loans that fall in arrears from April 1 to September 30, 2020, will not lead to the "blacklisting" of the borrower on the CRBs.	Absa Bank Kenya ensured compliance to the directive: • Borrower's information regarding nonperforming loans of less than Ksh.1,000 were not submitted to CRBs; • Borrowers who had been previously blacklisted for amounts less than Shs 1,000 were delisted; • Listing of negative credit information for borrowers who were performing prior to April 1 2020 but subsequently went into arrears were suspended for 6 months.
CMA & NSE	**Circular No: CMA/MRT/003/2020-Assessment of the Kenyan Capital Markets and Additional Guidance to the Industry in Light of the Corona Virus** • CMA extended the deadline for the publication of audited annual financial statements due in the months of March and April 2020 by one month • CMA relaxed the disclosure requirement to publish audited financial statements in two newspapers of national circulation. Issuers and intermediaries were required to publish the financials on their website, social media and CMA and NSE websites	Absa Bank Kenya published their financials in 2 newspapers on time and did not rely on the extension
	Circular No: CMA/MRT/005/2020-Requirements for Convening and Conducting Virtual General Meetings by Issuers of Securities to the Public • CMA provided guidelines for conducting virtual AGMs in order to comply with the government ban on gatherings	Absa Bank Kenya complied with the requirements and obtained approval to conduct our first ever virtual AGM
	Joint CMA & NSE Circular No: CMA/NSE/06/2020-Assessment and Disclosure of the Impact of COVID-19 on Listed Companies. CMA & NSE issued a joint circular requesting for the following information for purposes of assessing the impact of COVID-19 on listed companies: • Impact of covid-19 pandemic on the company's business/ operations • The company's response to the impact of COVID-19 • The expectations of the future impact of covid-19 on the company's future operations and financial position	Absa Bank Kenya submitted a response to the Joint CMA/NSE circular detailing: 1. Impact of COVID-19 pandemic on Absa Bank Kenya operations; 2. The response Absa Bank Kenya was to follow in light of the emergent pandemic; and 3. Expectations of the future operations on the bank.

Data Protection Act, 2019

The Data Protection Act was passed in 2019 and is currently in the initial stages of implementation. Absa Bank Kenya has instituted measures in preparation for its implementation. The Bank released guidelines on data protection that were designed for the Group, informed by local Kenyan legislation, the South African POPIA Act, and The EU General Data Protection Regulation (GDPR).

All stakeholders impacted by this new legislation are going through training to ensure the embedding of the principles of the Act. Currently Absa Bank Kenya has implemented more than 75% of the requirements detailed in the Act. The remainder of the implementation process is reliant on the guidelines expected from the appointed Data Commissioner.

Individual departments in the Bank are driving the data privacy agenda. This involves the implementation of new policies and procedures on data privacy. We are conducting training and awareness campaigns to ensure staff are aware of the requirements, feel supported and understand their roles in implementing the new policies and procedures. We initially assessed our policies against the new legislation and determined where they needed adjustment to adhere to the law, for example, providing updated privacy notices were not required previously, this aspect has now been included in the policy. Overall, our policies and procedures are aligned to international best practices and integrated with the Group's approach to managing this aspect.

In terms of customers, we have included new statements in forms filled by clients detailing their rights based on the new legislation. Privacy notices were circulated to customers to inform them about what the data held by the bank will be used for. Most feedback from customers has been positive, indicating acceptance with our approach and assurance that their data is secure. We anticipate that customers have a better appreciation of the objectives of the law, this will become clearer once it is fully implemented and regularized in the market. **Warehousing Receipt System Act, 2019**

Agriculture is a critically important sector in Kenya, providing all or part time income to at least 75% of Kenyans and contributing 33% to overall GDP annually. However, the sector remains fraught with challenges including low commodity prices, limited access to credit, markets and quality farm inputs. In a bid to address some of these challenges, the government has introduced the Warehousing Receipt System Act, 2019. This legislation aims to provide for a legal framework for the development of a vibrant and stable agricultural commodities market, formalizing grain trade in Kenya; improving access to credit for farmers; promoting good post-harvest practices and ensuring proper storage of grains.

Absa Bank Kenya PLC was involved in this process providing oversight and stewardship of stakeholder engagement involving the banking sector and presenting the banking sectors views to government for consideration on the final draft of the legislation. We view this development as important in enhancing benefits to farmers which should result in the growth in farmer income.

Engagement with the Regulator

The year 2020 presented an opportunity to not only test the resilience of the business but also the resilience and adaptability of the Bank's compliance control environment in the areas of regulatory engagement.

Regulatory engagement

In order to support the growth ambitions of the business to be a one stop financial services provider, we obtained approval from the Capital Markets Authority and Retirement Benefits Authority to launch Absa Asset Management Limited (AAML) allowing us to operate as a fund manager. While the launch of AAML translates to increased revenue, this has a direct impact on our compliance control environment due to increased regulatory risk.

Locally, as a multi-service financial institution, Absa Bank Kenya and its subsidiaries are subject to regulatory oversight by the Central Bank of Kenya (CBK), Capital Markets Authority (CMA), Nairobi Securities Exchange (NSE), Insurance Regulatory Authority (IRA), Retirement Benefits Authority (RBA), Financial Reporting Centre (FRC) among others. Internationally, we are subject to oversight from the South Africa Reserve Bank, the Prudential Authority of South Africa as well as oversight by U.S and UK regulators due to the group offices set up in these countries.

In order to effectively manage the increased regulatory risk, we have restructured the compliance department, invested heavily in training and upskilling programmes and deepened our collaboration with Group Compliance.

Regulatory action

On 9 April, 2020, CBK announced the suspension of the Bank's foreign exchange dealer license from 9 to 15 April, 2020. The regulatory action, a first of its kind, came only two months after we unveiled our new brand. In line with our culture of having a constructive relationship with all our regulators, we fully collaborated with CBK and provided evidence in the form of assurances required of us. Consequently, the suspension was lifted effective 15 April 2020 .We rigorously apply internationally benchmarked Anti-Money Laundering/ Counter Terrorist Financing controls across all businesses and remain committed to ensuring compliance with all applicable regulatory requirements.

Regulatory management system

We have developed an IT based system that enables us to report to our regulators in Kenya and South Africa. This system ensures compliance with the reporting requirements of both sets of regulators. Through the system, we have been able to benchmark ourselves against other international banks to ensure adherence with best practice even though these practices may not be required in our local market.

Beyond regulations

Business Conduct and Ethics

A new Conduct Risk Management Framework was approved in 2020. Conduct Risk remained as a principal risk in the revised Enterprise Risk Management Framework (ERMF). Conduct Risk is defined as the risk of detriment to Absa, its customers, clients, market integrity, and effective competition from the inappropriate supply of financial services, including instances of willful/negligent misconduct, unethical behaviour and the failure to manage regulatory relationships.

Key changes introduced by the revised framework are as follows:

Amendment of Conduct Risk definition

The definition of Conduct Risk was amended to include "unethical behaviour and the failure to manage regulatory relationships." The change is to address the recent focus on ethical behaviour and regulatory engagement by Compliance. In order to embed an ethical culture, we rolled out the Group Absa Way Code of Ethics and all colleagues were required to complete a training on the code of ethics. Roll out of the Ethics Programme is expected to be a key focus area in 2021.

Changes to Sub-Risks

- **Sub-Risks Removed**: Reputation Risk, Financial Crime Risk and Environmental Risk were removed as sub-risks under Conduct Risk. Reputation Risk and Financial Crime Risk are now Principal Risks under the ERMF with oversight being provided by Compliance.
- **Sub-Risks Added:** Data Privacy Risk, Market Integrity Risk and Customer Engagement Risk were added as sub-risks. Locally, embedding data privacy controls was a key focus area in 2020 following the enactment of the Data Protection Act (DPA). During the last one year, the bank has been aligning its business operations and processes to the various requirements of the DPA. To this end, a specialist working group was tasked with the responsibility of ensuring the requirements and our business practices converge.
- The bank takes cognizance of the various rights and responsibilities placed on it as a data controller and on its customers as data subjects. The bank has leveraged on various channels and medium to keep our customers informed of these changes including but not limited to our website, social media pages, emails, calls and text messages. We welcome our stakeholders to visit our website for a detailed privacy statement on changes brought on by the new legislation and how the bank shall treat our customer's data accordingly.
- **Sub-Risks Amended:** Culture Risk changed to Ethics Risk in order to narrow the scope from a conduct risk perspective to ethical behaviour rather than broader cultural considerations and Regulatory Risk changed to Regulatory Relations Risk narrowed to only focus on proper engagement and relationships with Regulators, and the approach and conduct towards regulatory compliance.

Being a sustainable business

At Absa Bank Kenya PLC , we strive to be a force for good by making a difference in our communities benefiting both people and the planet. We are privileged to have over 100-year track record of serving our people. Over the years, we have endeavoured on how best to contribute to society through broad based initiatives that uplift all our stakeholders.

Our sustainability aspirations seek to create value for the Bank, our stakeholders as well as the communities where we operate. We have aligned our sustainability practices to ensure that our banking solutions are aligned to or designed in consideration of environmental, social and governance (ESG) concerns. To this end, in October 2019, we marked our debut as signatories to the Principles for Responsible Banking at Group level and the UN Global Compact at country level. We issued our 13 sustainability commitments in the November 2020 focusing on consciously contributing to the achievement of the UN Sustainable Development Goals (SDGs) and creating Shared Value.

The selection of these SDGs is based on the impact we can create in the short, medium and long term. In respect to actualizing our sustainability commitments, have framed our approach to cover three main interlinked facets being Business-led, Internal-led and Society-led. Our business lead approach refers to sustainability actions we undertake in the marketplace ensuring we are an ethical and responsible business that adhere to the highest levels of business conduct. Internal led actions aim at ensuring our operations adhere to sustainable business practices while society-led focuses on our impact on people and communities. All three facets are interlinked ensuring we integrate sustainability in our Bank as a core aspect of the way we operate.

Sustainability Champions

As part of our effort to achieve our sustainability commitments, we have identified sustainability champions within the Bank who will support the integration of sustainability in our business. Colleague growth and development in respect to sustainability is a key strategy to ensure that the Bank inculcates sustainable business practices. In 2020, we undertook an intensive training programme for colleagues in which 76 sustainability champions graduated. These Champions are now a pivotal part of the sustainability resource available within the Bank to support the attainment of our commitments and support colleagues in this endeavour. Further, we launched a sustainability training on our Learning Management System (LMS) for all colleagues with the Champions positioned to support colleagues through their training journey.

Absa Innovates: SDG Challenge

The Absa SDG challenge is a colleague competition that seeks to encourage employees of the Bank to develop Shared Value ideas that create economic opportunities while also advancing social progress. This results in business growth and positively impacts society from an environmental and social perspective. These ideas are also intended to integrate the SDGs into the Banks services enabling the Bank to live out its purpose while achieving business growth.

Young SDG Innovators programme

The UN Young SDG Innovators Programme is an opportunity for participating companies of the UN Global Compact to identify young talent within their organizations to collaborate and accelerate business innovation towards the Sustainable Development Goals (SDGs). This ten-month accelerator programme activates future business leaders and changemakers to develop and drive innovative solutions through new technologies, initiatives, and business models and deliver on their company's sustainability objectives. The Young SDG Innovators Programme is designed to engage a company's brightest and best talent in not only advancing its sustainability efforts but driving innovation and delivering tangible solutions with potential market value for the company.

The programme is open to young high performing employees aged 35 years and younger with an interest in business model innovation, sustainability and disruptive technologies. Through the programme, colleagues will:

- Connect professionals in the country and from around the world to leverage the Sustainable Development Goals as a catalyst for the development of new products and services relevant to our business.
- Collaborate with thought leaders in a series of team exercises and interactive learning opportunities involving real-world challenges, peer feedback and sparring, and mentoring and coaching.
- Build organizational learning skills that will enable them to develop innovative solutions to achieve the Sustainable Development Goals through new technologies, initiatives and business models
- Access high quality, cutting edge and inspirational workshops from thought leaders in the sustainability and disruptive technologies fields.
- Receive opportunities to provide mentorship and leadership in the programme, collaborate with innovative experts and share best practices.
- Access tools, resources and expertise from some of the leading innovative companies
- Gain global recognition for participating in the programme.

Four colleagues from Absa Bank Kenya PLC impressed the panellists with their submissions for this programme and will join other young professionals from around the world in a nine-month long training that commenced in January 2021.

Supply chain sustainability

We launched a supplier training programme on sustainability in partnership with Strathmore Business School. The training commenced in May through to November with a first cohort of 45 suppliers in attendance. This is then followed with webinars on each of the modules. In addition, we have partnered with B-Lab East Africa, who will contribute to a new module covering progress tracking through the SDG Action manager. We have also trained a pool of interns who will be available for secondment to these suppliers having the requisite skills to assist in integrating and tracking sustainability within their businesses.

In the course of the year, we also joined the Sourcing2Equal Kenya (S2E) private sector two-year peer learning platform that aims to increase women's participation in corporate procurement opportunities. This is part of our commitment to closing gender gaps in sourcing which is good for business, local communities, and economies. Sourcing2Equal Kenya is a three-year project implemented by International Finance Corporation (IFC) with the support of the Women Entrepreneurs Finance Initiative (We-Fi) and the Norwegian Agency for Development Cooperation (NORAD) with the objective of advancing gender-inclusive sourcing in Kenya. Gender-inclusive sourcing addresses the gender gap between men and women in access to private procurement contracts. Corporations with procurement operations in Kenya are invited to participate with a commitment to advance gender inclusive sourcing in their supply chain.

Caring for the environment

In September, we became the first bank in Kenya to join the Kenya Green Building Society (KGBS) as a champion for initiatives that promote the green economy by reducing pollution and improving people's lives while fostering economic growth. The Bank was also recognised for efforts in conserving the environment and reducing our carbon footprint through initiatives such as the reduction of water and energy use as well as reusing and recycling of waste. Absa Bank Kenya PLC has invested approximately Shs 34 million in retrofitting all facilities to become water and energy efficient. This will reduce our carbon footprint while bringing down energy costs by up to 30% or Shs 20 million annually.

In addition, we have replaced all our water dispensers with eco-friendly ones, helping us reduce plastic within our working environment and therefore reduce our carbon footprint in relation to plastic use by 56%. During its first phase, the change also contributed positively to the business leading to 26% savings on the cost incurred from the consumption of bottled water. It is estimated that this increased to 37% cost by close of 2020.

In partnership with Kenya Green Building Society, all our buildings – comprising 85 facilities - have been assessed for efficiency in terms of energy, water and building materials, using the IFC Edge assessment tool. Once recommendations from these assessments are completed, we shall create a road map on how to become a net zero organisation-achieving balance in emissions in and out - by 2040.

The Bank is also partnering with select SMEs to recycle rebranding waste including marketing collateral and metallic and plastic waste to produce school bags, film equipment and fencing posts. Additionally, all gently used electronic waste generated from the brand name change will be refurbished and used to set up 66 computer labs in various institutions across the country.

Value creation through good governance

Risk Management

Absa Bank Kenya creates value by engaging in activities that entail risk-taking every day, throughout the business. The sources of risks are internal activities undertaken within the bank and external activities. This requires risk management to be an integral input in the Bank's decision-making process and in balancing between risk and reward.

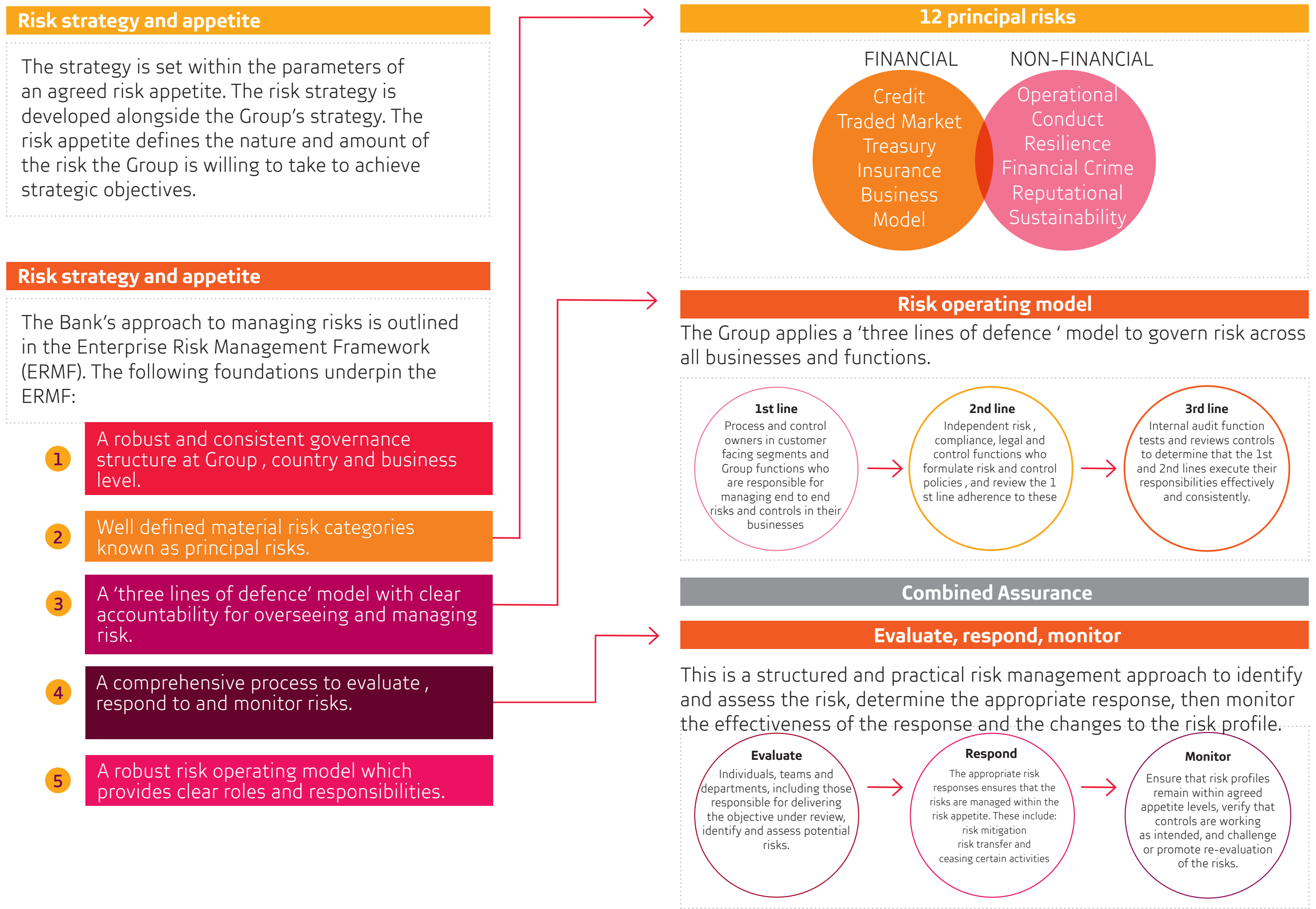
Enterprise Risk Management Framework

The Absa Bank Kenya risk management process is governed by the Enterprise Risk Management Framework (ERMF) that provides a structured and holistic methodology to manage risks across all risk types. The risk types include credit losses in lending, gains and losses from market risk traded positions and treasury risk (including liquidity, leverage and capital loss) in its financial management. Also in day-to-day delivery of services to clients, the Bank is exposed to operational risks caused by failure in the Bank's systems, processes, human factors and external environment disruptions.

On an annual basis, The Board approves the Bank's Enterprise Risk Management Framework (ERMF) while setting risk appetite limits for the principal risks. The framework is the foundation for our risk management awareness, capabilities and responsibilities. The framework aims to set clear standards to protect our customers by embedding a strong risk culture and establishing company-wide risk management practices and requirements in the execution of business strategy.

The framework is underpinned by the following foundations:

Risk management function



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Risk Management

Material existing and emerging risks and how these are managed in Absa Bank Kenya

Material risks are those to which senior management pays particular attention and which could cause the delivery of the Bank's strategy, operating results, financial condition and/or prospects to differ materially from expectations.

Emerging risks are those which have largely unknown components, the impact of which could crystallise over a longer time horizon. These could currently be considered immaterial but over time may individually or cumulatively affect the Bank's strategy and cause the same outcomes as material risks.

Material existing and emerging risks potentially impacting more than one principal risk

1. Regulatory changes including: Repeal of interest rate controls, secondary effects of demonetisation and implementation of the banking charter;
2. Negative macro-economic outlook with heightened country risk;
3. Cyber threats, data management and information protection;
4. Sophistication of financial crimes, where we have developed controls to auto-detect these through data analysis and continuous roll-out of our risk culture;
5. New technologies and emerging non-traditional competitors and;
6. Model risk - The Bank relies on models to support a broad range of business and risk management activities, including: informing business decisions and strategies, measuring and limiting risk, valuing exposures and supporting new business acceptance. These models pose risks when wrongly developed or used.

Outlook and opportunities

The Bank acknowledges that risk management is core in delivering its strategy (Growth, Transformation and Returns), in line with overall Bank's purpose 'to bring your possibility to life'. Effective risk management is central to the achievement of the Bank's strategic and operational objectives.

It is in this perspective that the Bank is rationalising all the processes based on customer obsession priority through Critical Process Assessment (CPA). Critical Processes are those that the Bank has identified as most important to run the business and deliver on its strategy. The Critical Process Assessment approach will help the Bank to identify, assess and manage material risks that could prevent the Bank from achieving its strategic and operating objectives and fulfilling its commitments to stakeholders, including customers, shareholders and regulators. This is expected to transform service and product delivery and amplify customer experience. In addition, the Bank is running a project on automation of manual processes to increase the speed and quality and reduce the cost of service delivery.

Aligned to our planned Brand change, the Bank has elevated Change and Separation Risk Management governance through a dedicated senior management committee and programme director. A robust risk monitoring framework ensures seamless and continuous delivery of services to our customers. Significant investments in people skills, policy frameworks and systems continue to be made to enhance our resilience capability in particular around Technology and Cyber Risk Management.

Cyber risk is an area of focus in 2020 due to the trends that have recently been noted. As at end of 2019, cyber activism was low- level in Kenya; however, it is becoming increasingly regionalised and more sophisticated in East Africa and the continent more broadly. Regional targets can be involved in high-profile campaigns, almost exclusively directed at the financial and government sectors. Organisations in Kenya face the highest threat from malicious insiders, enabling high-impact cybercriminal operations. Absa Kenya has put in place mitigating actions against cybercrime, for instance, a well-defined testing strategy, test cases, regular monitoring and feedback of progress to all stakeholders. Moreover, the country has enhanced its cybersecurity resource capabilities to enable proactive identification and remediation of vulnerabilities. The overall cyber risk exposure for Absa Kenya is stable and in alignment with the overall Management Control Issues (MCI) report covering ARO.

In 2020, the key agenda of our resilience plan was to prevent covid infections and assure business continuity. We revised our existing response plan to address risks to our people and systems. This plan was approved by the Board and rolled out throughout the Bank. We also communicated our approach to managing these identified risks to stakeholders, enabling us to monitor how our initiatives performed.

Prior to COVID-19, the business had a resilience plan in place, which managed system outages and building outages. With COVID-19, we reviewed our systems to align them to this new reality and the associated needs created. We added key aspects to existing Bank protocols and measures to the resilience plan.

Going forward we have instituted ongoing review. Monitoring has taken place, first internally by our internal audit team, as well as by our internal crisis response team. The regulator also reviewed our response plan. The crisis review team regularly reviews our response and where concerns are raised these are directed to the specific line manager or director. Initially the team met daily but as the pandemic settled down this was reduced to twice a week and currently monthly. Our premises were also inspected by the government and found to be fully compliant.

The COVID-19 pandemic presented a new type of risk with multiple risk factors. Our immediate concern was to understand the impact of COVID-19. This meant looking at customer profiles and our ability to support them. We started with a global outlook, then assessed macro-economic trends to determine risk factors. Understanding this, we unpacked specific sector risk factors. This allowed us to understand the real impacts and likelihood that they will occur. We assessed the risks and compiled a table summarising the risks per sector and classified them as high, medium or low risk. This guided the Bank staff on how to restructure facilities on offer and the type of response required with customers. We were prudent in making provisions to address these risks, this included capital provisions and liquidity management.

Operational risk focused on ensuring employees were able to continue working within our premises and also remotely. The resilience team co-ordinated a process within the business to identify and managed risks, effecting changes to processes with minimal interruption to the business.

We moved quickly to protect staff and customers. This meant the setting up of protocols on how to secure our premises. We provided staff with tools and medical access when working from home. This included counselling and medical insurance to assist them to cope with these new challenges.

Capital preservation was at risk during COVID-19, affecting loan repayments thus impairment rates went up. Capital provision was at risk, requiring us to source additional capital to support the growth in our loan book. Actions were taken to preserve the capital we had. This led to the review of our interim dividend payments, which were subsequently suspended. We also reviewed the tier 2 capital received from the Group. We developed a strategy to further preserve our capital by reviewing the types of loans we were issuing. We remain in a strong position to support our clients.

Risk appetite statement

The risk appetite statement was amended to include breach of "regulatory requirements" and "unethical behaviour." This is further confirmation of the increased focus on enhancing our regulatory engagement model and embedding an ethical culture.

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Risk Management

Metrics

A new set of 30 metrics was introduced for purposes of measuring Conduct Risk. A pilot phase of testing the metrics was rolled out in 2020 and Kenya was one of the pilot countries. The new conduct risk framework expected to be deployed in Q1 2021.

Customer Centric Culture
- Our culture places customer interests and ethical decisions at the heart of our strategy, planning, decision making and judgements

Customer Strategy
- Our strategy is to develop long term banking relationships with our customers by providing products and services that meet their needs and do not cause detriment

Fair Treatment
- We do not disadvantage or exploit customers, customer segments, or markets. We do not distort market competition

Proactive Management
- We pre-emptively identify conduct risks where possible and intervene before they crystallise by managing, escalating and mitigating them promptly

Product Design
- Our products, services and distribution channels are designed, monitored and managed to provide value, accessibility, transparency, and to meet the needs of our customers

Sales Practices
- We provide banking products and services that meet our customers' expectations and perform as represented. Our representations are accurate and comprehensible, so our customers understand the products and services they are purchasing

Customer Dissatisfaction
- We address any customer detriment and dissatisfaction in a timely and fair manner

Data Privacy
- We safeguard the privacy of personal data and only use it responsibly, and for the purpose collected

Market Integrity
- We facilitate market integrity and do not wilfully cause distortions and participate in anti-competitive behavior

Constructive Regulatory Engagements
- We engage with regulators constructively, transparently and proactively

Financial Crime

Fighting financial crime and money laundering remains a key focus for all of our regulators. We have proactively engaged with the CBK, FRC and other stakeholders to facilitate strong relationships and understand the expectations that are critical to our business in managing financial crime.

In order to help protect the integrity of the global financial system, we have made, and continue to make, significant investments in our people, systems and processes to improve our ability to detect, deter and prevent financial crime.

To achieve sustained and effective financial crime risk management, all Absa Kenya staff had 100% completion rates in relation to financial crime training. Further, our risk appetite in relation to combating money laundering, corruption and terrorist financing risks has been formally set through development of financial crime typologies, use of data science that use advanced algorithms and machine-learning technology to ensure compliance and assist us play our part in protecting the integrity of the financial system and tackling financial crime.

Corporate Governance Statement

The Board of Directors ("Board") of Absa Bank Kenya PLC (the "Company" or "Bank") take governance as promoting strategic decision making that balances short, medium and long-term outcomes to reconcile interests of the Company as a whole together with its stakeholders and the society in which the Company operates to create sustainable shared value. The Board has ultimate authority over, and oversight of, the Company and considers that corporate governance extends beyond compliance and is a critical element in achieving the Company's objectives.

The Board believes that good corporate governance creates shared value by underpinning responsive thinking and protects shareholder value by ensuring responsible behaviour through effective leadership, enhanced accountability, heightened transparency and robust risk management.

The Board regularly reviews its corporate governance arrangements and practices and ensures that the same reflects the developments in regulation, best market practice and stakeholder expectations. Our corporate governance framework enables the Board to oversee the strategic direction of the organization, financial goals, resource allocation, risk appetite and to hold the executive management accountable for execution.

The Board and management of the Company continue to comply with the Corporate Governance Guidelines as prescribed by the Central Bank of Kenya being the primary regulatory authority of the Company as well as the Capital Markets Authority Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015.

This statement details the key corporate governance arrangements and practices of the Company and its subsidiary companies. This statement sets out the key components of the Company's Corporate Governance Framework, which provides guidance to the Board, management and employees and defines the roles responsibilities and conduct expected of them.

Governance structure

The Company operates within a clearly defined governance framework which provides for delegated authority and clear lines of responsibility without abdicating the responsibility of the Board. Through the framework, the Board sets out the strategic direction of the Company while entrusting the day-to-day running of the organization to the Country Management Committee led by the Managing Director, with their performance against set objectives and policies closely monitored. The Board operates through five committees (four permanent and one ad hoc) mandated to review specific areas and assist the Board undertake its duties effectively and efficiently.

The fundamental relationships between the shareholders, Board, Board committees and Country Management Committee is illustrated below:-

The Board Charter, which has been approved and is regularly reviewed by the Board, provides for a clear definition of the roles and responsibilities of the Chairman, Directors as well as the Company Secretary.

The roles and responsibilities of the Chairman and the Managing Director are separate and distinct with a clear division of responsibility between the running of the Board and the executive responsibility of running the Company's business. The current Board Charter in respect of the Company was reviewed and approved by the Board on November 18, 2020 and is available on the Company website (www.absabank.co.ke)

The Company Secretary

The Company Secretary is appointed by the Board and is responsible for advising the Board and providing practical support for Directors. The Company Secretary is responsible for monitoring compliance with the Board's procedures and implementing the governance framework to give practical effect to the Board's decisions. The Company Secretary is also responsible for facilitating good information flow within the Board and its committees and between the Directors and management as well as the induction of new Directors and the ongoing professional development of Directors. Each member of the Board has direct access to the Company Secretary. The performance of the Company Secretary is assessed by the Board as part of the annual Board performance evaluation process.

The Board

The Company is governed by a Board of Directors ("Directors" or "Director") each of whom is, with the exception of the Managing Director and Chief Finance Officer, elected by the Company's shareholders.

The Company is governed by a Board of Directors ("Directors" or "Director") each of whom is elected by the Company's shareholders.

The Board is accountable to the shareholders for the overall Company performance and is collectively responsible for the long-term success of the Company. The Board achieves such success by setting appropriate business strategy and overseeing delivery against the set strategy. It ensures that the Company manages risks effectively and monitors financial performance and reporting.

Full details of the current Directors, their qualifications, skills and experience are set out on pages 23 - 24 of this report.

How the Board operates

The Chairman is responsible for ensuring that the Board receives accurate, timely and high-quality supporting information about the Company's businesses and operations at appropriate intervals and in an appropriate manner to enable it to carry out its responsibilities and fully discharge its obligations. The Chairman, Managing Director, Chief Financial Officer and the Company Secretary work together to ensure the Directors receive all such information.

The Board usually holds six (6) scheduled Board meetings per year, plus appropriate strategy, training and/or planning sessions, which all Directors are expected to attend, unless there are exceptional circumstances that prevent them from doing so.

A quorum for Board meetings consists of a majority of the members. A quorum may be reached provided the members attend, either in person, by tele or video conference.

The Board is collectively responsible for setting its own agenda. In practice an annual calendar of Board business is developed by the Company Secretary, with the Chairman and all Directors having the opportunity to propose further items. This provides a forward-looking indication of the items to be covered at each meeting including presentations on the Company's business and operations, with flexibility to build in emerging or ad hoc matters, or take deep dives into issues that the board might be concerned about or wishes to get more information about.

Under the provisions of the Company's articles of association, members of the Board are entitled to vote and each member has one vote. The majority of votes decide a matter and in the event of a deadlock the Chairman shall not have a casting vote. In practice though, and in keeping with good corporate governance practice, the Board operates and reaches its decisions by consensus. In case of divergent views that are not resolved at a Board meeting, the Chairman holds further engagements with the Board on the matter and should the matter still remain unresolved, then external advice or other appropriate means are used to enable the Board to reach agreement.

The list of the Board members in office during the year as well as their tenure on the Board is indicated below:

	Director	Independence	Age	Date of Appointment	Tenure (years and months)	Nationality	Gender
1.	Charles Muchene	Independent Non-Executive	63	22 August 2016	4 yrs 4 mths	Kenyan	Male
2.	Ashok Shah	Independent Non-Executive	72	21 July 2011	9 yrs 6 mths	Kenyan	Male
3.	Winnie Ouko	Independent Non-Executive	50	11 August 2014	6 yrs 2 mths	Kenyan	Female
4.	Patricia Ithau	Independent Non-Executive	55	23 February 2016	4 yrs 10 mths	Kenyan	Female
5.	Laila Macharia	Independent Non-Executive	50	11 August 2014	6 yrs 4 mths	Kenyan	Female
6.	Japheth Olende	Independent Non-Executive	67	7 March 2018	3 yrs 10 mths	Kenyan	Male
7.	Louis Otieno	Independent Non-Executive	56	7 March 2018	3 yrs 10 mths	Kenyan	Male
8.	Jeremy Awori	Executive	50	1 February 2013	7 yrs 11 mths	Kenyan	Male
9.	Yusuf Omari	Executive	47	1 June 2009	11 yrs 7 mths	Kenyan	Male
10.	Charles Murito	Independent Non-Executive	44	24 June 2020	7 mths	Kenyan	Male
11.	Fulvio Tonelli	Non-Executive	60	1 October 2020	3 mths	South African	Male

As at 31 December 2020, the Board comprised of 10 Directors. During period from 1 January 2020 to the date of this report, two Directors left the board - Ms. Winnie Ouko, who resigned as a Director on 30 October 2020 and Mr. Ashok Shah, who retired as a Director on 31 December 2020, immediately after the year-end. Also, during the year and after the last Annual General Meeting of shareholders, the Board appointed two Directors to fill casual vacancies - Mr. Charles Murito, who was appointed as a Director on 24 June 2020 and Mr. Fulvio Tonelli was appointed as a Director on 1 October 2020.

Role of the Board

The Board appoints the Managing Director, sets the strategic objectives of the Company with input from management, and oversees management, performance, remuneration and governance frameworks of the Company. In performing this role, the Board:

a) Approves the strategic and financial plans to be implemented by management.
b) Oversees the Risk Management Framework and its operation by management.
c) Sets the Company's risk appetite within which management is expected to operate.
d) Approves capital expenditure for investments and divestments and capital and funding proposals.
e) Reviews succession planning for the management team and makes senior executive appointments, organizational changes and high-level remuneration issues.
f) Provides oversight over performance against targets and objectives.
g) Provides oversight over reporting to shareholders on the direction, governance and performance of the Company as well as other processes that require reporting and disclosure.
h) Provides oversight over the activities of the subsidiaries of the Company.

Authority and delegation

The Board Charter sets out the Board authority and matters reserved for determination and approval by the Board. These include decisions concerning strategy and long-term objectives of the Company, the Company's capital, financial planning and financial budgets, significant contracts and various statutory and regulatory approvals. Matters related to the approval of the remuneration policy, resource management, risk management framework and risk appetite are also Board reserved matters. To assist it in discharging these responsibilities, the Board has established Board committees to give detailed consideration to key issues. Further details of the Board committees including their respective roles, key responsibilities, composition and membership are provided later in page 82-86 of this Statement. The Chairman is responsible for the strategic leadership of the Board and is pivotal in creating conditions for the overall effectiveness of the Board. He promotes an open environment for debate and ensures all Directors are able to speak freely and contribute effectively. The Chairman plays a pivotal role in fostering constructive dialogue between shareholders, the Board and management at the Annual General Meeting and other shareholder meetings.

As set out in the Board Charter, the Board delegates responsibility for the day-to-day management of the business to the Managing Director. The Managing Director in turn delegates aspects of his own authority to members of the Country Executive Committee. The scope of, and limitations to, these delegations are clearly documented and cover areas such as operating expenditure, capital expenditure and investments. These delegations balance effective oversight with appropriate empowerment and accountability of senior executives. To adequately undertake responsibilities in the day-to-day management of the business, in line with the authority delegated by the Board, management committees have been established. The management committees include the Country Executive Management Committee (CMC), the Assets and Liabilities Management Committee (ALCO), the Company Operational Risk and Compliance Committee (CORCCO) and the Management Credit & Risk Committee (MCRC).

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Board meetings

The Board has in place an annual work plan that sets out the Board activities in a year. The Board meets at least once every quarter, and additionally when necessary, to consider all matters relating to the overall control, business performance and strategy of the Company and succession planning.

The Chairman, in conjunction with the Managing Director and the Company Secretary, sets the agenda for each meeting. Typically, the Board works to an annual agenda encompassing periodic reviews of the Company operating business units and site visits, approval of strategy, business plans, budgets and financial statements, review of statutory obligations and other responsibilities identified in the Board Charter.

The notice, agenda and detailed board papers are circulated in advance of the meetings.

Directors are entitled to request for additional information where they consider further information is necessary to support informed decision-making.

During the year ending 31 December 2020, the Board held eight scheduled Board meetings and several other meetings to handle various matters requiring the Board's attention in the course of the year. The number of Board meetings held during the year was higher this year than in previous years primarily due to the onset of the COVID-19 pandemic which required the Board to hold bi-weekly meetings to receive updates from management on steps being taken to mitigate the effects of the pandemic as well as to provide strategic direction to the business. The Board subsequently set up the Crises Response Committee as an ad hoc Committee of the Board to take over this responsibility on its behalf. A strategic planning session was also held in the course of the year in October 2020.

Details of Directors' attendance at Board meetings are set out in the table below:

Director	Main Board
Charles Muchene	8/8
Ashok Shah	7/8
Patricia Ithau	8/8
Laila Macharia	8/8
Winnie Ouko	7/7
Louis Otieno	8/8
Japh Olende	8/8
Charles Murito	4/4
Fulvio Tonelli	1/1
Jeremy Awori	6/8
Yusuf Omari	8/8

Board objectives and achievements in 2020

Key priorities of the Absa Bank Kenya Board:

i. Implementation of the Bank's Strategy with new focus on the following areas: Business Continuity Planning, Innovation and Risk/Compliance assessment.
ii. Developments in Digital: Review and measurement of developments in digital vis-a-vis the Bank's strategy and leading players in the field (both local and international)
iii. New Normal: The need for the business to become 'agile' in terms of its' people, systems and processes, and responses to the market challenges.
iv. Absa Brand Transition: The need to promote our new and existing products and services, with a key focus on managing the Bank's stakeholders and its reputation.
v. Transition from a Banking to a Financial Services Institution (FSI): The need to reposition the Bank as an FSI in order to harness emerging opportunity in the market and to align its strategy, policies, oversight & accountability to this reality while averting exposures in such areas as cyber security and data privacy.
vi. Corporate culture: To promote the right corporate culture
vii. Implementation of the Bank Sustainability Programme: Providing oversight of the Bank's sustainability programme in line with the bank's ambition to remain a sustainable business by managing the various stakeholders effectively and remaining a force for good in society.
viii. Human Resource matters: To review reports on human resource matters such as top talent management, performance evaluation, staff remuneration, among others

Board achievements in 2020

- Successfully supported the Absa Brand Transition.
- Provided leadership and steer in the management of the COVID-19 pandemic including formation of an ad hoc Board Crisis Response Committee.
- Successfully held virtual Board and Committee meetings.
- Successfully held its first virtual Annual General Meeting.
- Formulated the Strategy Committee to effectively oversee the implementation of the Bank's strategic plan.
- On-boarded two new Non-Executive Directors in line with the Board Skills Matrix.
- Approved the Enterprise Risk and Operational Risk Management Frameworks which govern the management of risks in the business.
- Approved the establishment of the Asset Management business (Absa Asset Management Limited) and capital injection of Shs 50mn as a capital buffer above the regulatory minimum.
- Approved the Bank's Internal Capital Adequacy Assessment Process (ICAAP).
- Approved the Bank's Short-Term Plan (STP) and Medium-Term Plan (STP).
- Approved the quarterly and full year Company financial performance.

Board composition, diversity a and performance

Board renewal and re-election of Directors

The Articles of Association of the Company provides that the Board shall comprise of a maximum of fourteen Directors. As at 31 December 2020, the Board comprised of two Executive Directors, seven independent Non-Executive Directors including the Chairman and one Non-Executive Director. The Board determines its size and composition, subject to the Company's Articles of Association, Board Charter and applicable law.

The Board composition is driven by the following principles: -

a) The Board must comprise of a majority of independent Non-Executive Directors.
b) The Board should consist of Directors with a broad range of skills, experience and expertise and be from a diverse range of backgrounds.
c) The Chairman of the Board must be an independent Non-Executive Director.
d) Succession planning is an on-going process, with the Board discussing the same regularly and robustly.
e) The process to appoint a new Director is overseen by the Chairman and the Corporate Governance, Nominations & Remuneration Committee. The Committee is responsible for recommending the procedure for the selection of new Directors, the proposed criteria for the selection of candidates with particular reference to current mix of skills, knowledge and experience. The Committee identifies and nominates a shortlist of candidates and may engage the services of a professional intermediary to provide assistance in identifying and assessing potential candidates. The preferred candidates meet with the members of the Committee before a final decision is made. Prior to confirmation of appointment, all Directors are required to meet the "Fit and Proper" requirements set out in the Prudential Guidelines issued by the Central Bank of Kenya. The key terms and conditions of a Director's appointment are documented in a letter of appointment.

A Director appointed by the Board to fill a casual vacancy must seek election at the next Annual General Meeting (" AGM") after their appointment. As further provided for in the Articles of Association, at every AGM, and as may be applicable, at least one-third of the Non-Executive Directors must retire from the Board and where eligible, stand for re-election.

The Board Charter provides that Non-Executive Directors are normally expected to serve a term not exceeding a total of nine years, subject to re-election by shareholders as required under the Company's Articles of Association, the Board Charter and applicable laws.

Skills, experience & diversity

Having regard to the Company's vision, values and purpose, the individual attributes of each Director are as critical as the skills they bring. There is an expectation that each Director should be able to demonstrate sound business judgment, a strategic view, integrity, preparedness to question, challenge and critique and leadership qualities.

At a collective level, the Company looks for a diversity of skills, knowledge and experience to enable the Board to provide the oversight needed to develop and achieve the overall strategy of the Company.

The Company seeks to have a Board that has the right mix of individuals with relevant attributes skills, knowledge and experience and who jointly have the overall collective competence to deal with current and emerging issues and effectively guide management in ensuring the highest performance for the Company. The Non-Executive Directors are expected to have a clear understanding of the strategy of the Company as well as knowledge of the industry and markets in which the Company operates.

The aggregate mix of skills and experience of the Directors seeks to challenge management, ensure robust and constructive debate and augments and challenges the strategic thinking of the executives thereby adding value to the Company.

The Board regularly reviews the skills, knowledge and experience represented on the Board against the skills and experience needed to deliver the strategy. From the review in 2020, the Board considered the diversity issues and has determined that effort needed to be placed on diversifying the skill set and gender. The Corporate Governance, Nominations & Remuneration Committee (Nominations Committee) has been tasked to take this into consideration in its nominations.

The current skills and industry experience represented on the Board are as follows:

Director	Skills and Industry Experience
Charles Muchene	Risk Management, Strategy, Corporate Governance, Audit, Quality Assurance, Accounting and Financial advisory, Risk Management, Citizenship & Sustainability, Financial Services
Ashok Shah	Insurance, Capital Markets, Financial Services, Risk Management
Patricia Ithau	Retail and Consumer, Strategy, Brand Management, Consumer Goods
Laila Macharia	Investment Banking, Assets and Liabilities, Legal and commercial services and advisory
Winnie Ouko	Audit, Quality Assurance, Financial Accounting, Risk Management
Louis Otieno	Information Technology, Strategy, Marketing
Japh Olende	Insurance, Financial Services, Risk Management, Bancassurance
Charles Murito	Media, Information Technology, Digital Space, Sales
Fulvio Tonelli	Audit, Risk & Quality, Finance, IT, Strategy
Jeremy Awori	Business Management, Financial Accounting, Financial Services, Strategy and Corporate Governance
Yusuf Omari	Financial advisory, Financial Accounting, Business Management, Strategy and Corporate Governance

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Performance evaluation

The Board has in place a formal process of reviewing its performance and that of its committees and individual Directors. Evaluation of the Board performance is carried out annually, with an external facilitator of the process being engaged after every two years. Each Director completes a detailed questionnaire designed to obtain feedback on the Board's performance on the following areas:

a) Strategic objectives.
b) Risk governance.
c) Board composition and skills.
d) Board meetings and preparation.
e) Board interaction and support.
f) Performance of governance functions.
g) Performance of Chairman, respective committees, individual Directors and Company Secretary.

In the years that an external facilitator is not engaged, the Chairman leads the assessment of the Board and each Director.

The review in respect of the 2020 financial year was conducted internally by the Chairman through the coordination of the Company Secretary. The evaluation process was based on a detailed questionnaire which was distributed to the Directors for their consideration. Results were collated confidentially by the Company Secretary and reviewed by the Chairman.

The detailed questionnaire examines the balance of the skills of the Directors, the operation of the Board in practice, including governance issues, and the content of the Board meetings. Feedback from the process is used to identify opportunities to improve the performance of the Board and the Directors. The questionnaire also included a series of questions for each Director to assess their own performance and the performance of each other individual Director to identify development opportunities.

The Board evaluation was conducted in December 2020 and the results presented to the Central Bank of Kenya in March 2021 in line with regulatory requirements.

Legal and compliance audit

Absa Bank Kenya PLC (the Company), a publicly listed entity on the Nairobi Securities Exchange, is regulated under the Capital Markets Act by the Capital Markets Authority. The Company's Board is responsible for establishment of internal procedures and monitoring systems to promote compliance with applicable laws, regulations and standards. The Board is also responsible for ensuring that the compliance strategy is aligned to the operations of the Company. In compliance with the provisions of the Corporate Governance Code for Issuers of Securities to the Public, 2015, an independent legal and compliance audit for the financial years ending 31 December 2019 and 31 December 2020 (the period under review) was undertaken with the objective of ascertaining the Company's state of compliance with applicable laws, regulations and standards.

The independent legal and compliance audit was carried out by Anjarwalla & Khanna LLP, led by Ms. Rosa Nduati-Mutero, an Advocate of the High Court of Kenya in good standing with the Law Society of Kenya. The legal and compliance audit confirmed that during the period under review the Company was generally in compliance with applicable laws and regulations including the Companies Act, 2015, the Banking Act, Cap 488, and the Occupational Safety and Health Act, 2007.

Governance audit

The provisions of the CMA Code require that an independent Governance Audit is conducted annually. The Bank is currently sourcing for an independent Governance Auditor to undertake the 2020 Governance Audit. The Board remains committed to review and implement the outcomes of the final report once the audit is completed.

Capital Markets Authority (CMA) – Corporate Governance Assessment Report for the Year ended 31 December 2019

The Capital Markets Authority assessed the status of implementation of the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public 2015, by Absa Kenya PLC for the year ended 31 December 2019. The assessment was based on a review of the following areas: Commitment to Good Corporate Governance (Leadership rating of 86%); Board Operations and Control (Leadership rating of 83%); Rights of shareholders (Good rating of 70%); Stakeholder Relations (Good rating of 73%); Ethics and Social Responsibility (Good rating of 70%); Accountability, Risk Management and Internal Control (Good rating of 73%); Transparency and Disclosure (Leadership rating of 86%). The overall rating awarded to the Bank was a Leadership Rating of 80% which is a testament to the Board's commitment to sound corporate governance practices.

Director independence

The Board recognizes the importance of independent judgement and constructive debate on all issues under consideration. Directors are expected to bring views and judgement to Board deliberations that are independent of management and free of any business relationship or circumstances that would materially interfere with the exercise of objective judgement, having regard to the best interest of the organization and its stakeholders as a whole. The Board Charter, prepared in line with the Prudential Guidelines issued by the Central Bank of Kenya, provides that a majority of its Directors should be independent.

In accordance with the Board Charter, the Board considers Directors to be independent where they are independent of management and free of any business or other relationship that could materially interfere with, or reasonably be perceived to materially interfere with, the Director's capacity to bring an independent judgement to bear on issues before the Board and to act in the best interest of the Company or the shareholders generally.

Conflict of interest

All Directors of the Company must avoid any situation which might give rise to a conflict between their personal interest and that of the Company. The Directors are each responsible for notifying the Chairman and the Company Secretary of any actual or potential conflict of interest situations as soon as they arise. The Articles of Association permit the Board to authorize the conflict, subject to conditions and limitations as the Board may determine. Any Director who considers that they may have a conflict of interest or a material personal interest in any matter concerning the Company is immediately required to declare the potential conflict of interest for the Board to review. Any Director with a material personal interest in any matter being considered during any Board or committee meeting will not vote on the matter or be present when the matter is being discussed and considered.

As a matter of embedded practice, Directors are required to declare their interests (directorship and shareholding) in other entities on a quarterly basis. Where any conflicts or potential conflicts are identified, these are declared to the Board and the impacted Director will not vote on the particular matter when it is being discussed and considered.

Access to information and independent advice

The Board is entitled to seek any information it requires from any Company employee or from any other source. Procedures are in place, through the Company Board Chairman and the Company Secretary, enabling the Directors to have access, at reasonable times, to all relevant Company information and to senior management, to assist them in the discharge of their duties and responsibilities and to enable them to take informed decisions. The Directors are also entitled to obtain independent legal, accounting or other professional advice at the Company's expense. The Board may conduct or direct any investigation to fulfill its responsibilities and can retain, at the Company's expense, any legal, accounting or other services that it considers necessary from time to time to fulfill its duties. Directors are expected to strictly observe the provisions of the statutes applicable to the use and confidentiality of information.

Director Induction and Continuing Education

All newly appointed Non-Executive Directors participate in an induction program. The induction program includes a series of meetings with other Directors, the Managing Director and senior executives to enable new Directors familiarize themselves with the business. Directors also receive comprehensive guidance from the Company Secretary on Directors' duties and liabilities. During the year 2020, two new Directors participated in the induction program.

All Directors are expected to maintain the skills required to carry out their obligations. The Chairman regularly reviews the professional development needs of each Director. The program of continuing education ensures that the Board is kept up to date with developments in the industry both locally and globally. It includes sessions with local and overseas experts in the areas of general corporate governance and also in the particular fields relevant to the Company's operations.

The Board completed a number of education sessions during the 2020 financial year. Directors gained insights and a deeper knowledge of the business in various areas such as risk management, capital adequacy and liquidity, compliance matters such as Banking Regulations and anti-money laundering; treasury and markets products; Data privacy and ethics. The Board was also sensitized on cyber resilience, block chain technology and cyber security, among others.

Subsidiary Boards

The Company has a number of subsidiary companies. The activities of each subsidiary company are overseen by that company's own Board of Directors. The Board's confidence in the activities of its controlled entities stems from the quality of Directors on those subsidiary boards. At least one member of the Board of the Company sits on each of the subsidiary boards as a member or chairperson.

Board Committees

The Board has delegated authority to various Board Committees to be able to effectively and efficiently undertake its mandate. In deciding committee memberships, the Chairman and the Corporate Governance, Nominations and Remuneration Committee endeavour to make the best use of the range of skills across the Board and to share responsibility. As well, overlapping memberships take into account instances where matters raised in one committee may have implications for another. Membership is reviewed on an annual basis by the Chairman in collaboration with the Corporate Governance, Nominations and Remuneration Committee. The Board receives a report from the Chairman of each committee on significant areas of discussion and key decisions at the following Board meeting.

Each committee has in place terms of reference that sets out the roles and responsibilities and the procedural rules that apply to the committee. Under the procedural rules, each committee must be composed of at least three members, a majority of independent Directors and have an independent Chairman.

The Audit Committee is made up of only independent Non-Executive Directors in line with the provisions of the Prudential Guidelines issued by the Central Bank of Kenya.

During the year 2020, the Board undertook a review of the existing committees and introduced a Strategy Committee tasked to oversee in detail the overall strategy implementation. The introduction of the committee increased the overall number of committees from 4 to 5. The Committees were also reconstituted to fill in any gaps while ensuring that members' skills were matched to the appropriate committees. A summary of the role of the current committees, current members and activities undertaken during the year 2020 are set out below on pages 82-86.

Board Committees activities and achievements during the year

Audit & Risk Committee

One of the key areas of focus for this committee is ensuring the integrity of financial reporting to the market and the effective operation of the underlying control framework. This role includes reviewing and approving the workplans of the internal auditor, considering the adequacy and scope of the external audit, ensuring the effective adoption of a combined assurance approach; and control issues raised by both the internal and the external auditor are remediated.

In addition to overseeing controls and financial reporting, the Committee also oversees the enterprise-wide view of risks and controls and assesses the overall risk appetite and risk profile of the business. It meets quarterly to oversee all matters pertaining to credit, market, operations, legal, environmental, compliance and other risks. The Committee is also responsible for ensuring that the company has a robust Business Continuity Plan that is tested regularly.

In accordance with regulatory requirements, the Committee comprises of only Non-Executive members of the Board who are independent of the day-to-day management of the Company's operations.

Achievements in the year

- Reviewed the integrity of the Bank's financial statements before recommending them to the Board for approval.
- Approved the external audit plan for the year-end audit.
- Approved the revised Audit Charter which guides the internal audit function of the Bank.
- Reviewed and approved the internal audit plan for the year.
- Reviewed and approved the Enterprise Risk Management Framework.
- Reviewed and recommended the approval of various Compliance policies and standards such as Gifts & Entertainment Policy, Cross Border Activities Standard, Data Privacy Incident Management Standard, Customer Engagement Standard, Regulatory Reports Standard, Customer Complaints Standard, Conflicts of Interest Policy, among many others.
- Reviewed the status of various compliance requirements and recommended appropriate actions to ensure continued full compliance in a dynamic environment.
- Received semi-annual reports on the status of the Bank's litigation portfolio.
- Reviewed reports on the management of various risks that the business faces on an ongoing basis, including impairment, operational risk, capital, liquidity, market risk and conduct/reputational risk and approved various recommendations by Management intended to enhance the management of these risks.
- Reviewed the Data Governance structure of the Bank and progress of implementation of the Data Protection Act of 2019.
- Reviewed the proposed Recovery and Resolution Plan.
- Approved the Bank's Risk Appetite Statement.
- Reviewed and approved the Bank's Internal Capital Adequacy Assessment Process (ICAAP).
- Reviewed and approved the report on an independent Anti Money Laundering /Combating Financing of Terrorism risk assessment review conducted across all subsidiaries of the Company for submission to the Central Bank of Kenya.
- Reviewed regular reports on the status of whistleblowing matters in the Company.
- Received reports from the External Auditor, Ernst & Young on Key Audit matters such as on IFRS 16, the retention of fully depreciated assets on the fixed asset register as well as managements actions to resolve the matters.

The Committee also held closed sessions excluding management present with Ernst & Young, the external auditor, to receive the Auditor's independent report and assurance on the financial statements. The Committee continues to confirm the independence of the External Auditors at the end of each audit cycle and is satisfied that the Auditors remain independent.

Members

- Laila Macharia (Chairperson)
- Louis Otieno
- Patricia Ithau
- Fulvio Tonelli

Corporate Governance, Nominations & Remuneration Committee

The Committee has established the following key priorities:

- Corporate Governance Management: to ensure that the Bank and its Subsidiaries adhere to the highest standards of governance;
- Oversight of Board succession planning: development of a board succession pipeline in view of the future needs of the Board and nomination of candidates to fill vacancies on the Board;
- Board development, which enhances Directors' appreciation and understanding of areas identified by the Directors themselves as areas in which they could benefit from interaction with internal or external experts and includes mandatory training required by the Capital Markets Authority (CMA);
- Top talent management and succession planning which entails oversight of the Managing Director and Country Management Committee succession planning;
- Oversight of the remuneration philosophy which involves overseeing the Bank's compensation system's design and operation against the Bank's strategic objectives and desired culture, reviewing the compensation arrangements and incentives against the risks posed to the Bank and
- Oversight of the Sustainability programme of the Bank.

Achievements in the year

- Facilitated Board development in two sessions held in June (one and a half days) and November (half day) that were both internally and externally facilitated. The sessions covered various topics such as risk management, capital adequacy, compliance (such as on Banking Regulations, Anti-Money laundering), data privacy and protection, cybersecurity and block chain technology, among others.
- Conducted annual review of the format for Directors' Declaration of Independence to align with local laws and best practice.
- Conducted the Board effectiveness review for the year 2020 as well as follow up on implementation of remedial actions from the previous Board evaluation.
- Reviewed the Board Skills Matrix as well as the composition of the Board, its Committees and the Boards of the Bank's subsidiaries and ensuring appropriate reporting by the subsidiaries to the Bank's board.
- Revamped the Board Calendar of Events & Work Plan (including the Calendar of Events for the Main Board as well as each Board Committee), to ensure they were fit for purpose.
- Facilitated Board succession planning through continually developing a pipeline of Directors
- Review of strategic HR matters including among others, succession planning for Board and senior management, talent planning, staff engagement and Union matters.
- Developed the Committee's strategic objectives and Key Performance Indicators (KPIs) to enable the Committee narrow down its focus areas for greater effectiveness.
- Review of the Bank's performance evaluation process and Remuneration philosophy.
- The Committee made recommendations to the Board for the appointment of Non-Executive Directors. New Non-Executive Directors were appointed to the Board.

Members

- Patricia Ithau (Chairperson)
- Charles Muchene
- Japheth Olende
- Charles Murito

Credit Committee

The Credit Committee plays a critical role in the formulation and review of lending policies and ensures that such policies are in compliance with regulatory requirements. It assesses the credit quality and risk profile of the Bank's lending book by sector and by product and makes recommendations to the Board on remedial actions or on matters that may enhance the quality of the lending book.

The Committee is the ultimate sanctioning authority in the Bank, whose responsibility is to provide a continuing forum to discuss and review credit policy and strategy at least annually; to ensure that the Bank remains competitive by monitoring, discussing and advising on the Bank's credit risk appetite and tolerances in aggregate by sector and/or product; to ensure compliance with Statutory and Regulatory requirements on lending limits, capital adequacy and statutory ratios; to provide input on political, environmental and socio-economic matters in order to ensure that all relevant non-credit risk issues, are taken into account in making sanctioning decisions; to monitor, advise on and review lending to persons and institutions that may impact on the Bank's reputation and relationship with key stakeholders; to monitor the overall health of the Bank's lending book based on sector, currency, maturity and including impairments, among others.

Achievements in the year

- Reviewed the response plan to the COVID-19 pandemic.
- Approved loan restructures and payment holidays for several individual and corporate customers in distress due to the COVID-19 pandemic.
- Reviewed the Bank's retail lending policies and policy initiatives aimed at ensuring continued growth in the retail lending book taking into account any mitigating relevant risks.
- Continued to monitor the status of the top 20 exposures on the Bank's balance sheet.
- Closely monitored the Bank's Impairment risk which grew significantly as a result of the ongoing pandemic and implemented mitigating strategies.
- Assessed the Bank's risk appetite for significant new business deals.
- Regularly reviewed the Bank's concentration risk by industry and portfolio segments and ensured an appropriate balance was maintained.
- Reviewed and recommended the approval of various Credit policies, including the Retail Credit Risk Standard, Distressed Assets Policy (COVID-19) and Financial Distress Policy.

Members:

- Laila Macharia (Chairperson)
- Japheth Olende
- Charles Murito
- Fulvio Tonelli

Strategy Committee.

The Committee engages management, providing a forum where perspectives from Non-Executive Directors on such significant areas as new markets expansion, new products, significant investments and divestment decisions, talent management and corporate culture are shared for management to take into account in formulating strategy. It also reviews and recommends to the Board for approval the strategy formulated by management, including the implementation plan. The committee is also responsible for overseeing progress in the implementation of the strategy against plan and in following up with management any deviations to ensure that the business remains on its strategic trajectory.

Achievements in the year

- The members reviewed the draft Terms of Reference for the Committee.
- The members received progress and implementation reports on the Action Log from the Board Strategy session held in October 2020.

Members

- Louis Otieno (Chairman)
- Charles Muchene
- Laila Macharia
- Jeremy Awori

Crisis Response Committee (ad hoc)

The Committee is an ad hoc committee to assist the Board in oversight of the Bank's and its subsidiaries' Business Continuity Plans in the event of pandemics, force majeure events or any other significant crisis, as assessed by the board. The mandate of the Committee involves overseeing the identification, management and mitigation of pandemic or crisis risks in a comprehensive and integrated manner, providing strategic leadership and making appropriate recommendations in response to emerging crisis, overseeing the allocation and approval of sufficient resources towards development and testing of the pandemic or crisis management strategy, policy and framework, among others.

Achievements during the year

- Developed work plan and strategy to deal effectively with customer needs amidst a pandemic.
- Oversaw the identification, management and mitigation of COVID-19 pandemic in a comprehensive and integrated manner. Provided strategic leadership and made appropriate recommendations in response to COVID-19.
- Oversaw the implementation of COVID-19 response plan by senior management and the translation of the framework into specific policies, processes, and procedures.
- Oversaw the formulation of Human Resources and Succession Planning Policies relating to pandemic/crisis scenarios. Oversaw stakeholder management plans including stakeholder communication plans.

Members

- Louis Otieno (Chairman)
- Charles Muchene
- Laila Macharia
- Winnie Ouko
- Jeremy Awori

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Becoming obsessed with the customer | Our shifting regulatory framework | **Value creation through good governance** | Financial review | Shareholders information

Corporate Governance Statement

Details of Directors' attendance at Audit & Risk Committee meetings are set out in the table below:

Director	Designation	Changes in 2020	Meeting Attendance
Laila Macharia	Incoming Chair	Appointed chair with effect from 01 November 2020	7/8
Winnie Ouko	Outgoing Chair	Resigned from the Board on 30 October 2020	7/7
Ashok Shah	Member	Retired from the Board on 31 December 2020	8/8
Patricia Ithau	Member	Joined the Committee on 01 October 2020	2/2
Louis Otieno	Member	Nil	8/8
Fulvio Tonelli	Member	Joined the Committee on 01 October 2020	2/2

Details of Directors' attendance at Corporate Governance, Nominations & Remuneration Committee meetings are set out in the table below:

Director	Designation	Changes in 2020	Meeting Attendance
Patricia Ithau	Incoming Chair	Appointed chair with effect from 01 October 2020	4/4
Charles Muchene	Outgoing Chair/Member	Stepped down from Chair position on 01 October 2020	4/4
Louis Otieno	Member	Stepped down from the Committee on 01 October 2020	3/3
Japh Olende	Member	Joined the Committee on 01 October 2020	1/1
Charles Murito	Member	Joined the Committee on 01 October 2020	1/1

Details of Directors' attendance at Credit Committee meetings are set out in the table below:

Director	Designation	Changes in 2020	Meeting Attendance
Laila Macharia	Incoming Chair	Appointed Chair with effect from 1 July 2020	4/4
Ashok Shah	Outgoing Chair	Retired from the Board on 31 December 2020	4/4
Winnie Ouko	Member	Resigned from the Board on 30 October 2020	4/4
Japh Olende	Member	Nil	4/4
Charles Murito	Member	Joined the Board on 1 October 2020	1/1
Jeremy Awori	Member	Nil	4/4

Details of Directors' attendance at Strategy Committee meetings are set out in the table below:

Director	Designation	Changes in 2020	Meeting Attendance
Louis Otieno	Chair	Appointed with effect from 1 October 2020	1/1
Charles Muchene	Member	Appointed with effect from 1 October 2020	1/1
Laila Macharia	Member	Appointed with effect from 1 October 2020	1/1
Jeremy Awori	Member	Appointed with effect from 1 October 2020	1/1

Details of Directors' attendance at Crisis Response Committee meetings are set out in the table below:

Director	Designation	Changes in 2020	Meeting Attendance
Louis Otieno	Chair	Appointed with effect from 16 April 2020	6/6
Charles Muchene	Member	Appointed with effect from 16 April 2020	6/6
Ashok Shah	Member	Stepped down with effect from 1 July 2020	4/4
Laila Macharia	Member	Appointed with effect from 1 July 2020	2/2
Winnie Ouko	Member	Appointed with effect from 16 April 2020	6/6
Jeremy Awori	Member	Appointed with effect from 16 April 2020	6/6

Annual General Meeting (AGM)

The Company recognizes the importance of shareholder participation in meetings. Shareholders are strongly encouraged to attend and participate in the AGM. The AGM provides an opportunity for shareholders to engage with us in person. The Company makes use of the AGM as well as the published annual integrated report as an opportunity to communicate with its shareholders. At the meeting, a reasonable opportunity is allowed for shareholders as a whole to ask questions about or make comments on the management of the Company. For the first time in the history of the Company, the 2020 AGM was held virtually. This was due to the ongoing COVID-19 pandemic and the restriction on physical meetings. The AGM recorded over 2,600 registered shareholders who participated in the meeting. The learnings from that meeting will be incorporated in planning future annual general meetings as the business adapts to new ways of working in the new normal.

Investment community

The Company is committed to engagement with the investment community and consistently shares its story and communicates its strategy. Our investor relations program includes liaising with institutional investors, brokers, analysts and rating agencies including presentations during our announcement of our annual results. The investor relations team is responsible for drafting certain market announcements, providing feedback to management and the Board on market views and perceptions about the Company and coordinates roadshows including half-year and full-year results announcements. The Investor Relations team has the primary responsibility for managing and developing the Company's external relationships with existing and potential institutional equity investors. Supported by the Managing Director and the Chief Finance Officer, they achieve this through a combination of briefings to analysts and institutional investors.

All shareholders queries, application for registration of transfer of shares of the Company, immobilization of shares, dividend queries and dividend cheques are handled by the Company's appointed shares registrar – Custody & Registrars Limited. The registrar can be reached at their offices on the 1st Floor, Tower B, IKM Place, 5th Ngong Avenue, P. O. Box 8484 00100, Nairobi or through their e-mail address info@candrgroup.co.ke and also through their telephone numbers +254 20 869 0360, 0726 971 599, 0737 095 124.

Policies and Code of Conduct

The Company maintains and has in place policies and a code of conduct, The Absa Way, that captures not only our legal obligations, but also the reasonable expectations of our stakeholders, including our customers. These policies apply to all employees and Directors of the Company, and to anyone working on the Company's behalf, including contractors and consultants. The Company adopts zero tolerance to all forms of corruption, bribery and unethical business practices.

Ethical conduct

Our Code of Ethical Conduct covers a range of areas including personal conduct, integrity, honesty, transparency, accountability, fairness and prevention of corruption. It emphasizes the importance of making the right decisions and behaving in a manner that builds respect and trust in the organization. The Code sets out clear behavioural requirements and where these are not met, there are consequences. The Company has in place a suite of policies and practices to promote a culture of compliance, honesty and ethical behaviour including in relation to anti-money laundering and counterterrorism financing, whistle blower protection and conflicts of interest.

Whistle blowing

The Company does not tolerate fraud, corrupt conduct, bribery, unethical behaviour, legal or regulatory non-compliance or questionable accounting or auditing by employees, Directors, customers and contractors. The Company is committed to a culture that encourages all people to speak up about issues or conduct that concerns them. The Company whistle-blowing program encourages the reporting of any wrongdoing in a way that protects and supports whistleblowers. The program provides confidential and anonymous communication channels to raise concerns. The confidential and anonymous communications channels are supported and monitored independently by Deloitte, details of which are provided below:

Telephone Communication: Toll free number: 0800 720 012 (Kenya)
E-mail Communication: protect@tip-offs.com

All people are encouraged to raise any issues involving illegal, unacceptable or inappropriate behaviour or any issue that would have a material impact on the organization's customers, reputation, profitability, governance or regulatory compliance. There is zero tolerance for any actual or threatened act of reprisal against any whistleblower and the Company takes reasonable steps to protect a person who makes disclosure of any inappropriate behaviour including taking disciplinary action potentially resulting in dismissal for any person taking reprisal against a whistle-blower.

Restrictions on insider trading

In line with the approved Absa Group Securities Dealing Code, Directors, employees and contractors (and their associates) are restricted from dealing with any securities and other financial products during closed periods as they possess insider information. They are prohibited from passing on inside information to others who may use the inside information to trade in the company's securities.

The Company has closed periods four times a year prior to the release of the Company's financials during which all related persons, Directors, employees and contractors (and their associates) must not trade in the Company securities.

Engagement with stakeholders

The Board recognizes the importance of maintaining transparency and accountability to our regulators, shareholders and investors and works to ensure that all shareholders are treated equitably, and their rights are protected. The Company is committed to giving our shareholders appropriate information and facilities to enable them to exercise their rights effectively. We are also committed to making sure shareholders and the investment community have appropriate information to make investment decisions. The Company seeks to provide shareholders with information that is timely, of high quality and relevant to their investment, and to listen and respond to shareholder feedback.

Board's oversight role in sustainability

The Board is our highest decision-making body for matters of significant importance to the bank due to their strategic, financial or reputational implications or consequences.

At a Group level, in 2019 we adopted the United Nations Environment Programme Finance Initiative's Principles for Responsible Banking (PRB) as an overarching sustainability framework. Absa became a founding signatory of the PRB in September 2019. In October 2020, the Absa Group Board approved the elevation of sustainability risk (including climate-related risk) to a principal risk-type in the Enterprise Risk Management Framework.

In Absa Kenya, the Board approved a sustainability commitment in November 2020 as a demonstration of our continued commitment towards people, planet and profit. Our sustainability programme aligns with the Sustainable Development Goals and the Paris Climate Agreement, the UN Global Compact Principles among others.

Each committee of the Board has a specific role to play in overseeing the development of the sustainability report and in monitoring the sustainability programme commitments and climate-related risk.

Risk Governance

Risk is an inherent part of the Company's business and the effective management of risk is a fundamental enabler of our strategic plan. The strategy for managing risk is aimed towards customer protection and enabling sustained performance. This is achieved through the Risk Management Framework of the Company. The Company is exposed to both financial and non-financial risks and is committed to having risk management policies, processes and practices that support a high standard of governance. This enables management to undertake prudent risk-taking activities.

The Board oversees the risk management strategy and framework taking into account the risk appetite, prudential capital requirements and strategic and business priorities of the Company. This includes setting and reviewing the risk appetite, monitoring the effectiveness of the risk management framework and making changes to it.

Shareholding

The Company files monthly investor returns to meet the continuing obligations as prescribed by the Capital Markets Authority and the Nairobi Securities Exchange.

Directors' Interests in the Company as at 31 December 2020

Director	Number of Shares in the Company
Jeremy Awori	67,300
Yusuf Omari	100,000
Ashok Shah	748,380

Communication and periodic continuous disclosure

Key stakeholder communication includes the Company's Annual Integrated Report, the Company Sustainability Report and full year, half-yearly and quarterly financial results. The Company additionally posts all material information on its website www.absabank.co.ke. Shareholders are encouraged to visit the website for general information about the Company and to be able to view financial reports, results briefing presentations and documents such as the Whistleblowing Policy, the Conflict of Interest Policy, Code of Ethics among others. The Board plays the key role of reviewing and approving the Company's policies and standards, Annual Integrated Report, Sustainability Report and other publications of the Company prior to circulation to stakeholders, as the custodian of governance in the Bank.

The Company thereafter releases material information to the Capital Markets Authority and the Nairobi Securities Exchange as well as the Central Bank of Kenya in line with all disclosure requirements in the Capital Markets Act, the Banking Act, the Prudential Guidelines as well as all other relevant regulation.

Directors' Remuneration Report

For the year ended 31 December 2020

The Directors' Remuneration Report sets out the policy that the company has applied to remunerate executive and non-executive Directors. The report has been prepared in accordance with the relevant provisions of the CMA Code of Corporate Governance and the requirements of the Kenyan Companies Act, 2015 and the Companies (General) (Amendment) (No.2) Regulations, 2017.

This report covers the remuneration governance arrangements and the 2020 outcomes for the Executive Directors and Non-Executive Directors.

Shareholder engagement

The Directors remuneration report and policy as at 31 December 2019 was subjected to approval by shareholders during the 41st Annual General Meeting held on 19 June 2020. The shareholders unanimously approved the Directors remuneration report.

The 2020 Directors Report will be subjected to the shareholders for approval in the 2021 Annual General Meeting.

Fair and responsible remuneration

Our remuneration principles and practices are designed to deliver remuneration that is competitive and fair, incentivises performance, assists in retaining talent, reflects regulatory requirements and is aligned with risks as well as the conduct expectations of the Group. The Board is acutely aware of the need to deliver value to shareholders and to pay for performance and takes this into account when considering management's remuneration.

Fair remuneration is**:**

- Impartial, free from discrimination, prejudice, favouritism or self-interest;
- Rational (not subject to emotion); and
- Purposeful in addressing unfair remuneration differentials.

Responsible remuneration is:

- Approved within appropriate levels of authority;
- Subject to independent oversight;
- Linked to positive outcomes and value creation; and
- Sustainable.

Achievements in the year

Our reward philosophy underpins our growth strategy, entrepreneurial culture and risk management approach. Its objective is to direct the efforts of our colleagues in delivering our strategy of creating sustainable value for all our stakeholders in a fair and responsible way.

Our reward principles

1. **Attract, retain and engage high calibre individuals** who have the skills, ambition and talent to deliver our strategy.
2. **Support the realisation of our Stakeholder promises,** with specific focus on rewarding our people for the achievement of our strategy within our risk appetite relative to performance and investor returns.
3. **Align the long-term interests of our Executives and Investors,** by ensuring remuneration outcomes are aligned to the value we create in the short and long term and are transparent. Specific emphasis on increasing longer term incentives for senior and executive staff aligned to market practice.
4. **Pay for performance**, by aligning incentive outcomes to performance and value created. Within this, we apply deferrals, and malus and clawback provisions to ensure effective alignment of risk and reward within the context of Group performance outcomes and to discourage inappropriate behaviour.
5. **Drive our culture** of being entrepreneurial, while taking ownership and accountability for responsible, sustainable business growth and success: We aim to do this by:
    - Ensuring that all colleagues share in the company's success, differentiated basis on their contribution, in both the short and long term.
    - Ensuring our people's ethical behaviours, values and adherence to our Risk Management principles are recognised in their performance ratings.
6. **Continuously build confidence and trust** in our reward outcomes through high quality reward governance, disclosure and engagement with our Investors as well as internal transparency and effective communication.
7. **Deliver fair and responsible remuneration,** through annual reviews and disclosure of pay gap metrics, and decisions that influence our most junior employees. Continues emphasis to address differences in reward considering diversity.

Performance Management

Performance management must be fair and have a strong developmental focus. Each colleague agrees to a set of objectives and measures of success against which they are assessed, taking into account both what is delivered and how it is delivered.

This ensures a balance between the achievement of performance objectives and conduct, culture and values. Rating outcomes are subject to a consistency review process to ensure fairness and alignment with overall business performance.

Performance ratings for our Executive directors are subject to oversight by the Group Remuneration Committee. Individual performance ratings are used as a key input to fixed remuneration, short term and long–term incentives.

Where in a full-year individual performance falls below expectations, colleagues are ineligible to receive short-term incentive awards. We aim to continuously improve our colleagues' performance management experience and to build on the success of performance coaching initiatives to assist with colleague development.

2020 elements of remuneration

The Group Remuneration Committee undertook a review of the Group's Remuneration Frameworks in 2020. A key consideration was to make a further progress in regard to pay for performance in support of sustainable business performance, long-term stakeholder value creation and ensuring that Absa's reward practices continue to be market-related.

In considering the 2020 remuneration outcomes from a policy perspective, we maintained an emphasis on variable, performance- based remuneration as a significant proportion of the total remuneration mix potential for the most senior employees.

We deliver on our growth strategy and create shareholder value by ensuring retention and high performance of top quality colleagues. We aim to apply a common remuneration framework and structure across the Bank. While targeting a market median position on total remuneration, we aim to pay above the market median for our top performers and critical skills.

Market positioning is reviewed relative to appropriate market benchmarks, to ensure that outliers, either above or below the overall target market positioning receive attention. This is in line with our commitment to competitive, fair and responsible remuneration and to improve overall consistency in our remuneration practice.

Remuneration that is not aligned to market levels can be addressed over time by, among other actions, above-average increases in fixed remuneration or slowing or stopping fixed pay progression for above market positioning.

Our remuneration mix post regulatory deconsolidation and the removal of role-based pay comprises fixed remuneration (total guaranteed package), short-term incentives (cash and deferred, where deferral applies) and long-term incentives (where applicable) in the form of performance shares.

Long-term incentives

Long-term incentive awards, in the form of performance shares, may be awarded to eligible senior colleagues based on criteria set by the Group Remuneration Committee and in accordance with the Policy from time to time. These awards are subject to Group performance conditions which apply over a minimum performance period of three financial years, and a continued employment condition.

2020 long-term incentives

The following amendments, which are applicable to all eligible participants, apply to these awards:

- Participation will be more concentrated and focused only on those individuals who can directly and significantly influence the delivery of the Group's strategy over the 3 year performance period. This ensures alignment of the interests of these individuals with shareholder interests.
- The long-term incentive targets for 2021-2023 reflect the Group's strategic priorities over the performance period.
- Awards may not be made to individuals within one year of contractual retirement (previously three years). This change is to mitigate the possible development of a short-term focus by senior management and executives as they approach retirement. Awards are prorated on retirement and remain subject to Group performance targets

Directors' Remuneration Report

For the year ended 31 December 2020 (continued)

Implementation of Remuneration Policy for Financial Year 2020

A) Executive Directors' Remuneration

Executive Directors are remunerated in accordance with the company's staff remuneration policy. They receive remuneration appropriate to their scope of responsibility and contribution to operating and financial performance, taking into account industry norms, external market and country benchmarks.

The determination of the pay is based on the established salary scale. The remuneration of Executive Directors consists of fixed and variable components that are designed to ensure a substantial portion of the remuneration package is linked to the achievement of the company's strategic objectives thereby aligning incentives awarded to the creation of sustainable shareholder value.

Executive Directors' Contracts and Termination Arrangements

The Appointment dates for current executive directors are as follows:

Name	Date of Appointment	Type of Contract	Notice period
Jeremy Awori	1 February 2013	Permanent	Six (6) months
Yusuf Omari	1 June 2009	Permanent	Three (3) months

Remuneration

The total Executive Directors' remuneration adjustments in 2020 were, majorly, informed by the overall performance and external market competitiveness.

In the year under review, the executive remuneration for the executive directors was as follows compared to 2019

Jeremy Awori, Managing Director	**2020 Shs**	2019 Shs
Base salary	**35 335 680**	35 120 217
Retirement benefits (pension contribution by employer)	**3 533 568**	3 512 022
Other employee benefits	**26 866 921**	31 296 019
Total fixed remuneration	**65 736 169**	69 928 258
Cash bonus award (non-deferred)	**-**	35 371 116
Deferred bonus/ Cash Value Plan (CVP)	**17 573 200**	5 878 591
Share Incentive Plan deferred award	**9 865 330**	-
Deferred Share Value Plan (SVP) award	**-**	4 347 004
Total variable remuneration	**27 438 530**	45 596 711
Total remuneration (cost to company)	**93 174 699**	115 524 969

Yusuf Omari, Chief Financial Officer	**2020 Shs**	2019 Shs
Base salary	**27 217 737**	25 589 343
Retirement benefits (pension contribution by employer)	**2 721 774**	2 558 934
Other employee benefits	**7 817 349**	7 475 759
Total fixed remuneration	**37 756 860**	35 624 036
Cash bonus award (non-deferred)	**7 000 000**	16 500 000
Deferred bonus/ Cash Value Plan (CVP)	**-**	1 387 531
Share Incentive Plan deferred award	**2 512 554**	-
Deferred Share Value Plan (SVP) award	**-**	1 116 716
Total variable remuneration	**9 512 554**	19 004 247
Total remuneration (cost to company)	**47 269 414**	54 628 283

Share Incentive Plan Performance Award and Long-Term Incentive Plan

The following table details the Long-Term Incentive Plan and restricted share awards made to executive directors in previous year and the Special Incentive Award in 2018:

	Share Incentive Plan Performance Award and Long-Term Incentive Plan	
	2020	**2019**
Jeremy Awori	**23 137 195**	36 948 945
Yusuf Omari	**7 544 076**	13 715 630

B) Non-executive Directors' fees

We consider the following when setting the fees for our non-executive directors:

- Benchmark against the fees paid by our large banking competitors and large listed entities.
- General level of inflationary increase applied to our employee.
- Time commitment expected from our Directors.

Non-executive directors do not have employment contracts with the company and therefore do not participate in any of the company's incentive plans.

The non-executive director's fees are reviewed every two years and revised appropriately. The new fees were effective 1 January 2020 and were approved by the shareholders at the AGM held on 19 June 2020.

The Board Chairman is entitled to an annual retainer of Shs 8 131 800 (2019: Shs 7 392 000) for performing all the duties of the chairman of the board and is not entitled to any additional retainer for his membership of any of the committees of the Company.

Other non-executive directors are entitled to an annual retainer, payable quarterly in arrears, depending on their roles on the board, its committees and on the boards of subsidiary companies, as outlined below.

	2020		2019	
Capacity	**Chairman**	**Member**	Chairman	Member
Board of Directors	**-**	**2 784 320**	-	2 464 000
Audit Committee	**1 084 160**	**542 080**	985 600	492 800
Credit Committee	**813 120**	**406 560**	739 200	369 600
Strategy Committee	**813 120**	**406 560**	-	-
Corporate Governance, Nominations & Remuneration Committee	**813 120**	**406 560**	N/A*	369 600

*The Corporate Governance and Nominations Committee was chaired by the Chairman of the Board in 2019 and in 2020 through to 30 September 2020. There were no additional fees paid to the Board Chairman for this responsibility during that period.

The Corporate Governance, Nominations & Remuneration Committee was re-named and a new Chair appointed effective 1 October 2020. The new Chair is new and is entitled to an annual retainer of Shs 813 120 prorated from the date of appointment.

The Strategy Committee was formed and a Chair appointed effective 1 October 2020.

Directors' Remuneration Report

For the year ended 31 December 2020 (continued)

Non-Executive Directors	Date of Appointment	Total Emoluments 2020	Total Emoluments 2019
		Shs	Shs
Charles Muchene	22 August 2016	**8 131 200**	7 392 000
Ashok Shah	July 2011	**3 566 640**	4 065 600
Winnie Ouko	August 2014	**4 191 184**	3 819 200
Laila Macharia	August 2014	**4 173 400**	3 326 400
Patricia Ithau	23 February 2016	**5 292 540**	4 483 600
Japheth Olende	7 March 2018	**6 122 270**	4 114 000
Louis Otieno	7 March 2018	**5 883 900**	2 956 800
Charles Murito	24 June 2020	**1 595 440**	-
Fulvio Tonelli	1 October 2020	**831 600**	-
Norah Odwesso	August 2014	**-**	1 940 400
Total		**39 788 174**	32 098 000

Statement regarding compliance with remuneration policy

The Board's responsibility under this policy is oversight and through its Corporate Governance and Nominations Committee, has satisfied itself that the remuneration policy as detailed in the 2019 remuneration report was complied with, and there were no substantial deviations from the policy during the year.

Approval of Remuneration Report by the Board of directors

This remuneration report was approved by the Board of Directors on 23 March 2021.

Cmuchene

Charles Muchene
Chairman

Financial review

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 in accordance with Section 22 of the Banking Act and Section 650(1) of the Kenyan Companies Act 2015 which discloses the state of affairs of Absa Bank Kenya PLC (the "Company"/"Bank") and its subsidiaries (together the "Group").

Company registration number C.18208

Country of incorporation and domicile Kenya

Nature of business and principal activities The Company is registered as a bank under the Banking Act. The Group is engaged in the business of banking and the provision of related services.

Directors The directors who served during the year and to date of this report are

C K Muchene	Chairman
JH Awori*	Managing Director
YK Omari*	Chief Financial Officer
AKM Shah	(Retired on 31 December 2020)
WA Ouko	(Resigned on 30 October 2020)
LN Macharia	
PE Ithau	
JO Olende	
LO Otieno	
C N Murito	(Appointed on 24 June 2020)
Fulvio Tonelli	(Appointed on 1 October 2020)

*Executive directors

Registered office
Absa Bank Headquarters
Waiyaki Way
PO Box 30120 - 00100
Nairobi

Parent company Absa Group Limited

Auditors
Ernst and Young LLP
1st Floor, Kenya Re Towers
Upper Hill
P.O. Box 44286 – 00100
Nairobi

Company secretary Loise Gakumo

Dividend No interim dividend was paid during the year and the directors do not recommend the payment of a dividend in respect of the year ended 31 December 2020.

For the year ended 31 December 2019, an interim dividend was paid of Shs 0.20 per share and final dividend of Shs 0.90 per share for a total of Shs 1.10 per share. Total dividend payments for that year amounted to Shs 5 974 million

Report of the Directors (continued)

for the year ended 31 December 2020

Results/Business review

	Group		Bank	
Summary results	**2020 Shs'million**	2019 Shs'million	**2020 Shs'million**	2019 Shs'million
Profit for the year	**4 163**	7 456	**3 745**	7 161
Total comprehensive income	**5 005**	7 139	**4 581**	6 839
Income tax expense	**(1 484)**	(3 296)	**(1 355)**	(3 167)
Dividends declared and paid				
-Interim declared and paid	**-**	(1 086)	**-**	(1 086)
-Final proposed	**-**	(4 888)	**-**	(4 888)
Net assets	**46 505**	45 189	**44 971**	44 079

The financial results of the Group and the Bank are as set out within this document. A summary has been included above. The principle risks and uncertainties facing the Group and Bank as well as the risk management framework are outlined in note 40 of the Consolidated and Bank financial statements.

Authorised and issued share capital There were no changes to the authorised or issued share capital for the year under review. The share capital is disclosed in note 33.

Events after the reporting date The directors are not aware of any other events (as defined per IAS 10 Events after the Reporting Period) after the reporting date of 31 December 2020 and the date of authorization of these consolidated annual financial statements.

Impact of COVID-19 pandemic The COVID-19 pandemic has had a devastating impact on the global economy and has resulted in significant changes to government actions, economic and market drivers as well as consumer behaviour. This in turn has had a significant impact on the risks that the Bank is exposed to.

This high degree of uncertainty has forced the Bank to reassess assumptions, and existing methods of estimation and judgements, used in the preparation of these financial results. There remains a risk that future performance and actual results may differ from the judgements and assumptions used.

The payment relief provided to eligible customers added further complexity. The Bank, provided relief for periods of, in general up to one year, as informed by local regulatory and management actions, instituted these payment relief programmes. The most substantial impact on the Bank relates to credit risk, which has resulted in an increase in the Bank's provision for impairment losses.

Further detail has been provided in note 3.

Auditors The Company's auditors, Ernst and Young LLP, have indicated their willingness to continue in office in accordance with Section 721 (2) of the Kenyan Companies Act, 2015 and Section 24 (1) of the Banking Act.

Going concern The annual financial statements have been prepared based on accounting policies applicable to a going concern.

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

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

Approval of financial statements

The financial statements were approved and authorized for issue by the Board of Directors on 23 March 2021

Company Secretary
Loise Gakumo

Statement of Directors' responsibilities

for the year ended 31 December 2020

The directors are responsible for overseeing the preparation, integrity and objectivity of the annual financial statements that fairly present the state of the affairs of Absa Bank Kenya PLC ("the Bank"/ "the company") and its subsidiaries (together the "Group") at the end of the financial year and the net income and cash flows for the reporting period, and other information contained in this report.

To enable the directors to meet these responsibilities:

- All directors and employees endeavour to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach;
- The board sets standards and management implements systems of internal control and accounting and information systems aimed at providing reasonable assurance that both on and off statement of financial position assets are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties;
- The board and management identify all key areas of risk across the company and endeavour to mitigate or minimise these risks by ensuring that appropriate infrastructure, controls, systems and discipline are applied and managed within predetermined procedures and constraints;
- The internal audit function, which operates unimpeded and independently from operational management, appraises, evaluates and, when necessary, recommends improvements to the systems of internal control and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business; and
- The internal auditors play an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of their knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the year under review.

The Kenyan Companies Act, 2015 requires the directors to prepare the financial statement for each financial year which give a true and fair view of the financial position of the Group at the end of the financial year and its profit or loss for the year then ended. The directors are responsible for ensuring that the Group keeps proper accounting records that are sufficient to show and explain the transactions of the Group; disclose with reasonable accuracy at any time the financial position of the Group; and that enables them to prepare financial statements of the Group and Company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act, 2015. They are also responsible for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Bank consistently adopts appropriate and recognised accounting policies and these are supported by reasonable and prudent judgements and estimates on a consistent basis. The financial statements of the company have been prepared in accordance with the provisions of the Kenyan Companies Act, 2015 and comply with International Financial Reporting Standards (IFRS) and all applicable legislation.

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

They also accept responsibility for:

i. designing, implementing and maintaining internal controls as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

ii. selecting suitable accounting policies and then applying them consistently; and

iii. making judgements and accounting estimates that are reasonable in the circumstances

The directors have no reason to believe that the company will not be a going concern in the reporting period ahead, based on forecasts and available cash resources. These financial statements have accordingly been prepared on this basis.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

The Group and Company financial statements as indicated above were approved and authorised for issue by the board of directors. The report of the directors on pages 98 to 99 and the financial statements of the company which appear on pages 105 to 214 were approved and authorized for issue by the board of directors on 23 March 2021.

Charles Muchene
Chairman

Jeremy Awori
Managing Director

Report of the the Independent Auditor

to the members of Absa Bank Kenya PLC

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Absa Bank Kenya PLC ('the Bank') and its Subsidiaries (together 'the Group') set out on pages 105 to 214, which comprise the consolidated and separate statements of financial position as at 31 December 2020, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and the Bank as at 31 December 2020, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of Kenyan Companies Act, 2015.

Basis for Opinion

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

Key Audit Matters

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

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

Report of the Independent Auditor (continued)

to the members of Absa Bank Kenya PLC

Key Audit Matters (continued)	
Key Audit Matter	**How our audit addressed the key audit matter**
<u>*Expected credit losses on financial assets, including off balance sheet amounts*</u> The expected credit loss (ECL) allowances for loans and advances are significant in the context of the financial statements due to their magnitude and the significant level of judgement required in determining the value of the allowances. We have identified the audit of the ECL allowances as a key audit matter. We focussed on the following areas of significant judgement and estimation: - **Modelled ECL provisions** A significant portion of ECL is calculated on a modelled basis. The development and execution of these models requires significant management judgement, including estimation of the probability of default (PD); exposure at default (EAD) and loss given default (LGD) model parameters. We also considered the completeness and accuracy of data inputs into the models. - **Estimation and application of multiple forward-looking macro-economic scenarios** These scenarios are incorporated into the modelled ECL estimation based on modelled correlations to the ECL model parameters. The scenario forecasts are provided by Absa's group economics unit. - **Post model adjustments** Adjustments are applied to ECL model outputs where the models are unable to fully incorporate factors which impact on the ECL. - **Evaluation of significant increases in credit risk (SICR)** Absa assesses SICR based on the current risk of default of an account relative to its risk of default at origination. This is assessed utilising these key measures: - Relative PD movements - Qualitative indicators of heightened customer default risk - Individual exposure early watch list classifications (wholesale portfolios)	Our audit testing included the following procedures in addressing the key audit matter. We evaluated the IFRS 9 accounting policies, and the appropriateness of the disclosures for credit risk and ECL methodologies applied, and compared these to the requirements of IFRS 9: Financial Instruments. We obtained an understanding of management's process over credit origination, credit monitoring and credit remediation and tested the relevant controls identified within these processes. - **Modelled ECL provisions** With the assistance of our credit risk quantitative specialists, we assessed the design and implementation of the ECL models, including assessing the significant assumptions applied with reference to the requirements of IFRS 9. We assessed the appropriateness of the models through reperformance and testing of management's monitoring and validation controls. We also traced a sample of data inputs back to source. - **Estimation and application of multiple forward-looking macro-economic scenarios** With assistance from our economics specialists, we assessed the appropriateness of the macro-economic forecasts by benchmarking these against external evidence and economic data. Through our model reperformance, we tested the incorporation of the forecasts into the models. We performed sensitivity analyses on the forecasts to assess the reasonability impact of the scenarios on the modelled ECL. - **Post model adjustments** We assessed the data, assumptions and judgements applied by management when estimating the post model adjustments. We recalculated a sample of post-model adjustments.

Report of the Independent Auditor (continued)

to the members of Absa Bank Kenya PLC

Key Audit Matters (continued)	
Key Audit Matter	**How our audit addressed the key audit matter**
<u>*Expected credit losses on financial assets, including off balance sheet amounts (continued)*</u> - **Stage 3 ECL provisions assessed on an individual basis** A significant portion of loans and advances are assessed for recoverability on an individual basis, primarily in the Corporate, Investment Bank and Business Bank portfolios. Significant judgements, estimates and assumptions are applied by management to: o Determine if the financial asset is impaired; o Evaluate the valuation and recoverability of collateral; o Determine the expected future cash flows to be collected; and Estimate the timing of the future cash flows. The disclosure associated with Credit Risk is set out in the financial statements in Note 2.14.4 on expected credit losses on financial assets, Note 3.1critical accounting judgements and key sources of estimation uncertainty, Note 40.2 on credit risk, and Notes 15, 18, 19, 20 and 21 on impairment disclosures.	- **Evaluation of significant increases in credit risk (SICR)** We assessed the appropriateness of Absa's SICR methodologies and calibrations and, with the assistance of our credit risk quantitative specialists, reperformed stage allocations for a sample of portfolios and individual exposures. - **Stage 3 ECL provisions assessed on an individual basis** We tested management's processes and judgements used to determine whether specific exposures are credit impaired, including the completeness and reasonability of these assessments. Our procedures focused on assessing the reasonability of the estimate of the amount and timing of expected future cash flows used in measuring ECL. We performed the following for a sample of stage 3 exposures: - Where exposures are collateralised, we tested Absa's legal right to the collateral, as well as the reasonability of the valuation of the collateral. Where management has utilised specialists, we assessed controls related to their competence and objectivity. - Where future cash flows are estimated based on a valuation of the loan counterparty's underlying business, we tested these valuations with reference to available market information and counterparty specific information. We utilised our valuation specialists for a sample of more complex assessments.

Other Information

The directors are responsible for the other information. The other information comprises Corporate Information, the Report of the Directors as required by the Kenyan Companies Act, 2015 and the Directors' Remuneration Report, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

When we read the contents of the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matters to the directors.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

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

The directors are responsible for overseeing the Group and the Bank's financial reporting processes.

Report of the Independent Auditor (continued)

to the members of Absa Bank Kenya PLC

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

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

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

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

  Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other matters prescribed by the Kenyan Companies Act, 2015

As required by the Kenyan Companies Act, 2015 we report to you, based on our audit, that:

i) in our opinion, the information given in the report of the directors on pages 98 to 99 is consistent with the consolidated financial statements; and,

ii) in our opinion, the auditable part of directors' remuneration report on pages 90 to 94 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Allan Gichuhi practicing certificate number 1899.

Ernst & Young

Nairobi, Kenya

31 March 2021

Building a better working world

Consolidated statement of comprehensive income

for the year ended 31 December 2020

	Notes	2020 Shs'million	2019 Shs'million
Interest and similar income	4	**31 440**	31 024
Interest expense and similar charges	5	**(8 059)**	(7 845)
Net interest income		**23 381**	23 179
Fee and commission income	6	**6 234**	6 885
Fee and commission expense	6	**(716)**	(764)
Net fee and commission income		**5 518**	6 121
Net trading income	7	**5 129**	4 179
Other operating income	8	**53**	289
Total income		**34 081**	33 768
Impairment losses on financial instruments	9	**(8 585)**	(4 201)
Net operating income		**25 496**	29 567
Employee benefits	10	**(11 312)**	(10 679)
Infrastructure costs	11	**(1 361)**	(975)
Administration and general expenses	12	**(5 830)**	(5 698)
Depreciation of property and equipment	24	**(1 022)**	(1 070)
Amortisation of intangible assets	25	**(324)**	(393)
Operating expenses		**(19 849)**	(18 815)
Profit before tax		**5 647**	10 752
Income tax expense	13	**(1 484)**	(3 296)
Profit for the year		**4 163**	7 456
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of defined benefit	27	**59**	(99)
Deferred income tax	28	**(18)**	30
		41	(69)
Items that may be reclassified subsequently to profit or loss:			
Movement in fair value of debt instruments at FVOCI			
Fair value gains/(losses) arising during the reporting period	18	**1 144**	(355)
Deferred income tax	28	**(343)**	107
		801	(248)
Total other comprehensive profit/(loss) for the year, net of tax		**842**	(317)
Total comprehensive income for the year, net of tax		**5 005**	7 139
Earnings per share			
Basic (Shillings per share)	14	**0.77**	1.37

Bank statement of comprehensive income

for the year ended 31 December 2020

	Notes	2020 Shs'million	2019 Shs'million
Interest and similar income	4	**31 394**	30 987
Interest expense and similar charges	5	**(8 113)**	(7 861)
Net interest income		**23 281**	23 126
Fee and commission income	6	**5 245**	6 299
Fee and commission expense	6	**(572)**	(764)
Net fee and commission income		**4 673**	5 535
Net trading income	7	**5 129**	4 179
Other operating income	8	**63**	304
Total income		**33 146**	33 144
Impairment losses on financial instruments	9	**(8 585)**	(4 199)
Net operating income		**24 561**	28 945
Employee benefits	10	**(10 995)**	(10 512)
Infrastructure costs	11	**(1 325)**	(964)
Administration and general expenses	12	**(5 805)**	(5 678)
Depreciation of property and equipment	24	**(1 022)**	(1 070)
Amortisation of intangible assets	25	**(314)**	(393)
Operating expenses		**(19 461)**	(18 617)
Profit before tax		**5 100**	10 328
Income tax expense	13	**(1 355)**	(3 167)
Profit for the year		**3 745**	7 161
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of defined benefit	27	**59**	(99)
Deferred income tax	28	**(18)**	30
		41	(69)
Items that may be reclassified subsequently to profit or loss:			
Movement in fair value of debt instruments at FVOCI			
Fair value gains/(losses) arising during the reporting period	18	**1 136**	(361)
Deferred income tax	28	**(341)**	108
		795	(253)
Total other comprehensive profit/(loss) for the year, net of tax		**836**	(322)
Total comprehensive income for the year, net of tax		**4 581**	6 839
Earnings per share			
Basic (Shillings per share)	14	**0.69**	1.32

Consolidated statement of financial position

for the year ended 31 December 2020

	Notes	2020 Shs'million	2019 Shs'million
Assets			
Cash and balances with Central Bank of Kenya	15	**18 260**	28 808
Loans and advances to banks	19	**5 648**	3 803
Financial assets at fair value through profit or loss	16	**36 375**	43 774
Derivative financial instruments	17	**2 679**	921
Financial assets at fair value through other comprehensive income	18	**89 682**	79 221
Due from group companies	45	**2 676**	8 704
Loans and advances to customers	20	**208 855**	194 895
Other assets and prepaid expenses	21	**7 709**	7 687
Current income tax	36	**993**	425
Non-current assets held for sale	23	**47**	47
Property and equipment	24	**2 809**	2 843
Other intangible assets	25	**414**	618
Prepaid operating lease rentals	26	**34**	35
Deferred income tax	28	**3 188**	3 123
Retirement benefit asset	27	**72**	-
Total assets		**379 441**	374 904
Equity and liabilities			
Liabilities			
Deposits from banks	30	**4 076**	4 083
Derivative financial instruments	17	**1 171**	1 535
Due to group companies	45	**50 029**	64 350
Deposits from customers	31	**253 630**	237 739
Borrowings	32	**8 211**	7 628
Other liabilities and accrued expenses	29	**15 819**	14 380
Total liabilities		**332 936**	329 715
Capital and reserves			
Share capital	33	**2 716**	2 716
Retained earnings	34	**42 524**	37 095
Fair value reserve	34	**1 082**	281
Share-based payment reserve	34	**183**	209
Proposed dividends	46	**-**	4 888
Total equity		**46 505**	45 189
Total equity and liabilities		**379 441**	374 904

The financial statements on pages 105 to 214 were approved and authorised for issue by the Board of Directors on 23 March 2021 and signed on its behalf by:

Chairman: **Charles Muchene**

Managing Director: **Jeremy Awori**

Chief Financial Officer: **Yusuf Omari**

Company Secretary: **Loise Gakumo**

Bank statement of financial position

for the year ended 31 December 2020

	Notes	2020 Shs'million	2019 Shs'million
Assets			
Cash and balances with Central Bank of Kenya	15	**18 260**	28 808
Loans and advances to banks	19	**5 648**	3 803
Financial assets at fair value through profit or loss	16	**36 375**	43 774
Derivative financial instruments	17	**2 679**	921
Financial assets at fair value through other comprehensive income	18	**89 164**	78 785
Due from group companies	45	**2 934**	9 204
Loans and advances to customers	20	**208 855**	194 895
Other assets and prepaid expenses	21	**7 654**	7 614
Investment in subsidiaries	22	**428**	373
Current income tax	36	**773**	292
Non-current assets held for sale	23	**47**	47
Property and equipment	24	**2 809**	2 843
Other intangible assets	25	**343**	539
Prepaid operating lease rentals	26	**34**	35
Deferred income tax	28	**3 141**	3 097
Retirement benefit asset	27	**72**	-
Total assets		**379 216**	375 030
Equity and liabilities			
Liabilities			
Deposits from banks	30	**4 076**	4 083
Derivative financial instruments	17	**1 171**	1 535
Due to group companies	45	**50 066**	65 061
Deposits from customers	31	**254 909**	238 291
Borrowings	32	**8 211**	7 628
Other liabilities and accrued expenses	29	**15 812**	14 353
Total liabilities		**334 245**	330 951
Capital and reserves			
Share capital	33	**2 716**	2 716
Retained earnings	34	**41 001**	35 990
Fair value reserve	34	**1 071**	276
Share-based payment reserve	34	**183**	209
Proposed dividends	46	**-**	4 888
Total equity		**44 971**	44 079
Total equity and liabilities		**379 216**	375 030

The financial statements on pages 105 to 214 were approved and authorised for issue by the Board of Directors on 23 March 2021 and signed on its behalf by:

Chairman: **Charles Muchene**

Managing Director: **Jeremy Awori**

Chief Financial Officer: **Yusuf Omari**

Company Secretary: **Loise Gakumo**

Consolidated statement of changes in equity

for the year ended 31 December 2020

	Share capital Shs'million	Fair value reserve Shs'million	Share-based payment reserve Shs'million	Retained profit Shs'million	Proposed dividends Shs'million	Total equity Shs'million
Balance at 1 January 2019	2 716	529	188	35 885	4 888	44 206
Impact of adopting IFRS 16, net of tax	-	-	-	(200)	-	(200)
Restated opening balance under IFRS 16	2 716	529	188	35 685	4 888	44 006
Profit for the year	-	-	-	7 456	-	7 456
Other comprehensive loss for the year	-	(248)	-	(69)	-	(317)
Total comprehensive income for the year	-	(248)	-	7 387	-	7 139
Recognition of share-based payments	-	-	21	-	-	21
Final dividend for 2018 paid	-	-	-	-	(4 888)	(4 888)
Interim dividend 2019 paid	-	-	-	(1 086)	-	(1 086)
Proposed final dividend for 2019	-	-	-	(4 888)	4 888	-
Prior year adjustment	-	-	-	(3)	-	(3)
Balance at 31 December 2019	2 716	281	209	37 095	4 888	45 189
Balance at 1 January 2020	**2 716**	**281**	**209**	**37 095**	**4 888**	**45 189**
Profit for the year	**-**	**-**	**-**	**4 163**	**-**	**4 163**
Other comprehensive loss for the year	**-**	**801**	**-**	**41**	**-**	**842**
Total comprehensive income for the year	**-**	**801**	**-**	**4 204**	**-**	**5 005**
Derecognition of share-based payments	**-**	**-**	**(26)**	**-**	**-**	**(26)**
Final dividend for 2019 paid	**-**	**-**	**-**	**-**	**(3 663)**	**(3 663)**
Dividend waived	**-**	**-**	**-**	**1 225**	**(1 225)**	**-**
Balance at 31 December 2020	**2 716**	**1 082**	**183**	**42 524**	**-**	**46 505**

Bank statement of changes in equity

for the year ended 31 December 2020

	Share capital Shs'million	Fair value reserve Shs'million	Share-based payment reserve Shs'million	Retained profit Shs'million	Proposed dividends Shs'million	Total equity Shs'million
Balance at 1 January 2019	2 716	529	188	35 072	4 888	43 393
Impact of adopting IFRS 16, net of tax	-	-	-	(200)	-	(200)
Restated opening balance under IFRS 16	2 716	529	188	34 872	4 888	43 193
Profit for the year	-	-	-	7 161	-	7 161
Other comprehensive loss for the year	-	(253)	-	(69)	-	(322)
Total comprehensive income for the year	-	(253)	-	7 092	-	6 839
Recognition of share-based payments	-	-	21	-	-	21
Final dividend for 2018 paid	-	-	-	-	(4 888)	(4 888)
Interim dividend 2019 paid	-	-	-	(1 086)	-	(1 086)
Proposed final dividend for 2019	-	-	-	(4 888)	4 888	-
Balance at 31 December 2019	2 716	276	209	35 990	4 888	44 079
Balance at 1 January 2020	**2 716**	**276**	**209**	**35 990**	**4 888**	**44 079**
Profit for the year	**-**	**-**	**-**	**3 745**	**-**	**3 745**
Other comprehensive loss for the year	**-**	**795**	**-**	**41**	**-**	**836**
Total comprehensive income for the year	**-**	**795**	**-**	**3 786**	**-**	**4 581**
Derecognition of share-based payments	**-**	**-**	**(26)**	**-**	**-**	**(26)**
Final dividend for 2019 paid	**-**	**-**	**-**	**-**	**(3 663)**	**(3 663)**
Dividend waived	**-**	**-**	**-**	**1 225**	**(1 225)**	**-**
Balance at 31 December 2020	**2 716**	**1 071**	**183**	**41 001**	**-**	**44 971**

Consolidated statement of cash flows

for the year ended 31 December 2020

	Notes	2020 Shs'million	2019 Shs'million
Cash flows from operating activities			
Cash used in operations	35	**(23 156)**	(11 072)
Interest received		**31 440**	28 466
Interest paid		**(8 059)**	(6 400)
Income taxes paid	36	**(2 478)**	(4 471)
Net cash generated from operating activities		**(2 253)**	6 523
Cash flows from investing activities			
Payments for property and equipment	24	**(555)**	(1 711)
Proceeds from disposal of property and equipment		**-**	130
Payments for intangible assets	25	**(120)**	(136)
Net cash used in investing activities		**(675)**	(1 717)
Cash flows from financing activities			
Proceeds from borrowings		-	2 532
Repayment of principal portion of lease liabilities		**(412)**	(447)
Dividends paid to owners of the company	37	**(3 663)**	(5 974)
Net cash used in financing activities		**(4 075)**	(3 889)
Net increase in cash and cash equivalents		**(7 003)**	917
Cash and cash equivalents at the beginning of the year		**20 132**	19 215
Cash and cash equivalents at the end of the year	38	**13 129**	20 132

Bank statement of cash flows

for the year ended 31 December 2020

	Notes	2020 Shs'million	2019 Shs'million
Cash flows from operating activities			
Cash used in operations	35	**(23 267)**	(11 279)
Interest received		**31 394**	28 430
Interest paid		**(8 113)**	(6 400)
Income taxes paid	36	**(2 239)**	(4 273)
Net cash generated from operating activities		**(2 225)**	6 478
Cash flows from investing activities			
Payments for property and equipment	24	**(555)**	(1 711)
Proceeds from disposal of property and equipment		**-**	130
Payments for intangible assets	25	**(118)**	(104)
Net cash used in investing activities		**(673)**	(1 685)
Cash flows from financing activities			
Investment in subsidiary		**(55)**	-
Proceeds from borrowings		**-**	2 532
Repayment of principal portion of lease liabilities		**(412)**	(447)
Dividends paid to owners of the company	37	**(3 663)**	(5 974)
Net cash used in financing activities		**(4 130)**	(3 889)
Net increase in cash and cash equivalents		**(7 028)**	904
Cash and cash equivalents at the beginning of the year		**20 102**	19 198
Cash and cash equivalents at the end of the year	38	**13 074**	20 102

Summary of Accounting Policies

for the year ended 31 December 2020

1 General information and statement of compliance

Absa Bank Kenya PLC (the "Bank"/"the Group") is a public limited company, incorporated and domiciled in Kenya. Its shares are listed on the Nairobi Securities Exchange. The address of its registered office is:

Absa Bank Headquarters
Waiyaki Way
PO Box 30120-00100
Nairobi

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (IFRIC) and the requirements of the Kenyan Companies Act, 2015, as amended.

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

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the Group operates) which is the Kenya Shilling.

The consolidated and separate financial statements are presented in millions of Kenya Shilling (Shs'million), the presentation currency of the Group.

2. Significant accounting policies

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

2.1 Adoption of new and revised accounting standards

During the current year, the Group has adopted all of the new and revised standards and interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2020. For details of the new and revised accounting policies refer to note 49.

2.2 Basis of preparation

The consolidated and separate financial statements have been prepared under the historical cost convention modified to include the fair valuation of particular financial instruments to the extent required or permitted under IFRS as set out in the relevant accounting policies.

The annual financial statements have been prepared based on accounting policies applicable to a going concern.

The Group presents its statement of financial position in order of liquidity based on the Group's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in note 41.

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position except when IFRS netting criteria has been met.

2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (together the "Group"). Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

- 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 liquation rights

Whether the Bank is exposed or has rights, to variable returns from its involvement with the investee and has power to affect the variability of such returns.

The Bank will only consider potential voting rights that are substantive when assessing whether it controls another entity. In order for the right to be substantive, the holder must have the practical ability to exercise that right.

Subsidiaries (including controlled structured entities) are fully consolidated from the date on which control is transferred to the Bank. A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Bank loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, NCI and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

Summary of Accounting Policies (continued)

for the year ended 31 December 2020

2. Significant accounting policies (continued)

2.3 Basis of consolidation (continued)

Income and expenses of subsidiaries acquired or disposed during the year are included in the statement of profit or loss from the effective date of acquisition and up to the effective date of loss of control, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction.

2.4 Non-current assets held for sale

Non-current assets (or disposal group's comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale and an active programme to locate a buyer and complete the plan must have been initiated. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification. Immediately before classification as held for sale, the assets (or components of a disposal group) are re-measured in accordance with the Group's accounting policies. Thereafter the assets (or disposal group) are measured at the lower of their carrying amount or fair value, less cost to sell. Any impairment loss on a disposal group is first allocated to reduce goodwill and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets, investment properties, insurance assets and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies.

Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss until finally sold. Property, equipment and intangible assets, once classified as held for sale, are not depreciated or amortised.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

2.5 Revenue recognition

Net interest income

Interest revenue and interest charges which are calculated using the effective interest method are separately presented in the statement of comprehensive income. Effective interest on loans and advances at amortised cost and debt instruments at fair value through other comprehensive income, as well as the interest expense on financial liabilities held at amortised cost, are calculated using the effective interest rate method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset. The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. This results in the allocation of interest, and direct and incremental fees and costs, over the expected lives of the assets and liabilities.

The effective interest rate method requires the Group to estimate future cash flows, in some cases based on its experience of customers' behaviour, considering all contractual terms of the financial instrument, as well as the expected lives of the assets and liabilities. Due to the large number of products and types (both assets and liabilities), there are no individual estimates that are material to the results or financial position.

The Group also presents as part of net interest income, albeit separate from effective interest income and effective interest expense, other interest income and other interest charges, which are not calculated on the effective interest method.

Interest income/expense on all trading financial assets/liabilities is recognised as part of the fair value change in net trading income.

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

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

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the financial asset. The credit-adjusted EIR is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI financial asset.

Summary of Accounting Policies (continued)

for the year ended 31 December 2020

2. Significant accounting policies (continued)

2.5 Revenue recognition (continued)

Net trading income

Trading positions are held at fair value and the resulting gains and losses are included in profit or loss, together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

Income arises from both the sale and purchase of trading positions, margins which are achieved through market-making and customer business and from changes in fair value caused by movements in interest and exchange rates, equity prices and other market variables.

Gains or losses on assets or liabilities reported in the trading portfolio are included in profit or loss under net trading income together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

Net fee and commission income

Net fee and commission income is calculated by subtracting fee and commission charges from fee and commission income. Fee and commission income relates to revenue earned for the rendering of services and is recognised net of any trade discounts, volume rebates and amounts received on behalf of third parties, such as value added taxes. When the Bank is acting as an agent, amounts collected on behalf of the principal are not income. Only the net commission retained by the Bank is, in this case, recognised as income.

Under IFRS 15 Revenue from Contracts with Customers, entities are required to recognise revenue in a manner which depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Fees and commission income earned in respect of services rendered are recognised on an accrual basis when the service is rendered. Fees earned on the execution of a significant act are recognised when the significant act has been completed.

Fee and commission expenses are expenses which are connected to the generation of fee and commission income. Operating expenses that happen to take the form of a fee payment are recognised within 'Operating expenditure', or other appropriate line item based on the nature of the cost.

2.6 Foreign currencies

In preparing the consolidated annual financial statements, transactions in currencies other than the functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, 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 the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recognised in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

2.7 Employee benefits

Staff costs

Short-term employee benefits, including salaries, accrued performance costs, salary deductions and taxes are recognised over the reporting period in which the employees provide the services to which the payments relate. Performance costs are recognised to the extent that the Group has a present obligation to its employees that can be measured reliably and are recognised on an undiscounted basis over the period of service that employees are required to work to qualify for the services.

Defined benefit scheme

The Group recognises its obligation (determined using the projected unit credit method) to members of the scheme at the reporting date, less the fair value of the scheme assets. Scheme assets are stated at fair value as at the reporting date. Costs arising from regular pension cost, interest on net defined benefit liability or asset, past service cost settlements or contributions to the plan are recognised in profit or loss.

All actuarial gains and losses are recognised immediately through OCI in order for the net defined benefit scheme asset or liability recognised in the statement of financial position to reflect the full value of the plan surplus or deficit, taking into account the asset ceiling.

Re-measurements comprise experience adjustments (differences between previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions.

Interest is calculated by applying the discount rate to the opening net defined liability or asset, taking into account any changes in the net defined liability or asset during the period as a result of contribution and benefit payments.

Summary of Accounting Policies (continued)

for the year ended 31 December 2020

2. Significant accounting policies (continued)

2.7 Employee benefits (continued)

Defined benefit scheme (continued)

Gains and losses on curtailments are recognised when the curtailment occurs, which may be when a demonstrable commitment to a reduction in benefits, or reduction in eligible employees, occurs. The gain or loss comprises any change in the present value of the obligation and the fair value of the assets. Where a scheme's assets exceed its obligation, an asset is recognised to the extent that it does not exceed the present value of future contribution holidays or refunds of contributions.

The Group operates a defined contribution scheme for majority of its employees. The assets of the scheme are held in a separate trustee administered fund that is funded by contribution from both the Group and employees. The Group and its employees also contribute to the National Social Security Fund as determined by local statutes.

The Group recognises contributions due in respect of the reporting period in profit or loss. Any contributions unpaid at the reporting date are included as a liability.

2.8 Share-based payments

The Group operates equity-settled and cash-settled share-based payment plans.

Employee services settled in equity instruments

The cost of the employee services received in respect of the shares or share options granted is recognised in profit or loss, with a corresponding increase in equity, over the period that employees provide services, generally the period in which the award is granted or notified and the vesting date of the shares or options. The overall cost of the award is calculated using the number of shares and options expected to vest and the fair value of the shares or options at the date of grant.

The number of shares and options expected to vest takes into account the likelihood that performance and service conditions included in the terms of the awards will be met. Failure to meet non-vesting condition is treated as a cancellation, resulting in an acceleration of recognition of the cost of the employee services.

The fair value of shares is the market price ruling on the grant date, in some cases adjusted to reflect restrictions on transferability. The fair value of options granted is determined using option pricing models to estimate the numbers of shares likely to vest. These take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors. Market conditions that must be met in order for the award to vest are also reflected in the fair value of the award, as are any other non-vesting conditions.

Employee services settled in cash

The fair value of the amount payable to employees in terms of a cash-settled share-based payment is recognised as an expense, with a corresponding increase in liabilities, over the vesting period. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff costs in profit or loss. No amount is recognised for services received if the awards granted do not vest because of a failure to satisfy a vesting condition.

2.9 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current taxation

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

Income tax payable on taxable profits ("current taxation") is recognised as an expense in the reporting period in which the profits arise.

Income tax recoverable on tax allowable losses is recognised as a current tax asset only to the extent that it is regarded as recoverable by offset against taxable profits arising in the current or prior reporting period. Current tax is measured using tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred taxation

Deferred income tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred income tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred income tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Summary of Accounting Policies (continued)

for the year ended 31 December 2020

2. Significant accounting policies (continued)

2.9 Taxation (continued)

Deferred taxation (continued)

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

Deferred income tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred income tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax

Current and deferred tax movements are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Value added tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT, except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the asset or expense; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Levies and similar charges

The Group recognises the liability arising from levies and similar charges when it becomes legally enforceable (i.e., when the obligating event arises) which is on 31 December each year.

2.10 Property and equipment

Property, plant and equipment is stated at cost, which includes direct and incremental acquisition costs less accumulated depreciation and provisions for impairment, if required. Subsequent costs are capitalised if these result in an enhancement to the asset. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Land and buildings comprise mainly of branches and offices. Freehold land is not depreciated.

Useful lives of property and equipment	Useful lives Years
Property and equipment	
Buildings;	
Leases over 50 years	50
Leases under 50 years	Over the remaining life
Rented premises	6
Freehold buildings	50
Leasehold improvements	Over the remaining lease period
Fixtures, fittings and equipment	5
Motor vehicles	5

Summary of Accounting Policies (continued)

for the year ended 31 December 2020

2. Significant accounting policies (continued)

2.11 Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets	
Flexcube (Core banking application)	10
Other	5

De-recognition 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 de-recognition 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.

2.12 Impairment of tangible and intangible assets (excluding goodwill)

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an 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 for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.13 Provisions, contingent liabilities and undrawn commitments

Provisions

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events, and present obligations where the transfer of economic resources is uncertain or cannot be reliably measured. Contingent liabilities are not recognised on the statement of financial position but are disclosed unless the outflow of economic resources is remote.

Undrawn commitments

Under IFRS 9, the ECL calculated on financial guarantees and letters of credit are presented as provisions on the statement of financial position. In the case of undrawn loan commitments, the inherent credit risk is managed and monitored by the Bank together with the drawn component as a single exposure. The EAD on the entire facility is therefore used to calculate the cumulative ECL. As a result, the total ECL is recognised in the ECL allowance in respect of the financial asset unless the total allowance exceeds the gross carrying amount of the financial asset. If this is the case, the excess ECL is recognised as a provision on the face of the statement of financial position.

2.14 Financial instruments

2.14.1 Initial recognition of financial assets and financial liabilities

The Group recognises financial assets and liabilities when it becomes party to the terms of the contract, which is the trade date or the settlement date. All financial instruments are measured initially at fair value plus/minus transaction costs, except in the case of financial assets and liabilities recorded at fair value through profit or loss, where transaction costs are expensed upfront.

Summary of Accounting Policies (continued)

for the year ended 31 December 2020

2. Significant accounting policies (continued)

2.14 Financial instruments (continued)

2.14.2 Day one profits or losses

On initial recognition, it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary. The best evidence of an instrument's fair value on initial recognition is typically the transaction price. However, if fair value can be evidenced by comparison with other observable current market transactions in the same instrument, or is based on a valuation technique whose inputs include only data from observable markets then the instrument should be recognised at the fair value derived from such observable market data. 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 Group recognises the difference between the transaction price and fair value in net trading income.

For valuations that have made use of significant unobservable inputs, the difference between the model valuation and the initial transaction price (Day one profit) is recognised in profit or loss either on a straight-line basis over the term of the transaction, or over the reporting period until all model inputs will become observable where appropriate, or released in full when previously unobservable inputs become observable.

2.14.3 Classification and measurement of financial instruments

On initial recognition, the Group classifies its financial assets into the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income; or
- Fair value through profit or loss;

The classification and subsequent measurement of financial assets depends on:

- The business model within which the financial assets are managed; and
- The contractual cash flow characteristics of the asset (that is, whether the cash flows represent solely payments of principal and interest).

Business model assessment:

The business model reflects how the Group manages the financial assets in order to generate cash flows and returns. The Group assesses the objective of a business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The factors considered in determining the business model include (i) how the financial assets' performance is evaluated and reported to management, (ii) how the risks within the portfolio are assessed and managed and (iii) the frequency, volume, timing for past sales, sales expectations in future periods, and the reasons for such sales. The Group reclassifies debt instruments when, and only when, the business model for managing those assets changes. Such changes are highly unlikely and therefore expected to be very infrequent.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI):

In assessing whether the contractual cash flows have SPPI characteristics, the Group considers whether the cash flows are consistent with a basic lending arrangement. That is, the contractual cash flows recovered must represent solely the payment of principal and interest. Principal is the fair value of the financial asset on initial recognition. Interest typically includes only consideration for the time value of money and credit risk but may also include consideration for other basic lending risks and costs, such as liquidity risk and administrative costs, together with a profit margin. Where the contractual terms include exposure to risk or volatility that is inconsistent with a basic lending arrangement, the cash flows would not be considered SPPI and the assets would be mandatorily measured at fair value through profit or loss, as described below. In making the assessment, the Group considers, inter alia, contingent events that would change the amount and timing of cash flows, prepayment and extension terms, leverage features, terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements), and features that modify consideration of the time value of money (e.g. tenor mismatch). Contractual cash flows are assessed against the SPPI test in the currency in which the financial asset is denominated.

2.14.3.1 Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds. The Group classifies its debt instruments as follows:

- Amortised cost - Financial assets are classified within this measurement category if they are held within a portfolio whose primary objective is the collection of contractual cash flows, where the contractual cash flows on the instrument are SPPI, and that are not designated at fair value through profit or loss. These financial assets are subsequently measured at amortised cost where interest is recognised as effective interest within interest and similar income using the effective interest rate method. The carrying amount is adjusted by the cumulative expected credit losses recognised.
- Fair value through other comprehensive income - This classification applies to financial assets which meet the SPPI test, and are held within a portfolio whose objectives include both the collection of contractual cash flows and the selling of financial assets. These financial assets are subsequently measured at fair value with movements in the fair value recognised in other comprehensive income, with the exception of interest income, expected credit losses and foreign exchange gains and losses that are recognised within profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to Net trading income in profit or loss. Interest income from these financial assets is included as effective interest within Interest and similar income using the effective interest rate method.

Summary of Accounting Policies (continued)

for the year ended 31 December 2020

2. Significant accounting policies (continued)

2.14 Financial instruments (continued)

2.14.3 Classification and measurement of financial instruments (continued)

2.14.3.1 Debt Instruments (continued)

Fair value through profit or loss - Financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are mandatorily measured at fair value through profit or loss. Gains and losses on these instruments are recognised in gains and losses from banking and trading activities in profit or loss. The Group may also irrevocably designate financial assets that would otherwise meet the requirements to be measured at amortised cost or at fair value through other comprehensive income, as at fair value through profit or loss, if doing so would eliminate or significantly reduce an accounting mismatch that would otherwise arise. These will be subsequently measured at fair value through profit or loss with gains and losses recognised as gains and losses from banking and trading activities or gains and losses from investment activities in profit or loss.

2.14.3.2 Financial liabilities

Most financial liabilities are held at amortised cost. That is, the initial fair value (which is normally the amount borrowed) is adjusted for premiums, discounts, repayments and the amortisation of coupon, fees and expenses to represent the effective interest rate of the liability. Most financial liabilities are held at amortised cost, in accordance with the effective interest rate method.

Financial liabilities classified as held for trading are subsequently measured at fair value through profit or loss, with changes in fair value being recognised in profit or loss.

A financial liability may be designated at fair value through profit or loss if (i) measuring the instrument at fair value eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (ii) if the instrument belongs to a group of financial assets or financial liabilities that are managed on a fair value basis, in accordance with a documented risk management or investment strategy. Own credit gains or losses arising from the valuation of financial liabilities designated at fair value through profit or loss are recognised in other comprehensive income and are not subsequently recognised in profit or loss.

2.14.3.3 Derivatives

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect the Bank's net interest income, net trading income, and derivative assets and liabilities.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Summary of Accounting Policies (continued)

for the year ended 31 December 2020

2. Significant accounting policies (continued)

2.14 Financial instruments (continued)

2.14.3 Classification and measurement of financial instruments (continued)

The Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

Category (as defined by IFRS 9)		Class (as determined by the Group)		Sub classes
Financial assets	Fair value through profit or loss (FVPL)	Financial assets held for trading	Investment in debt securities	
			Derivative assets	
	Amortised cost	Loans and advances to banks		
		Due from group companies		
		Loans and advances to customers	Loans to individuals	Overdrafts
				Credit cards
				Term loans
				Mortgages
			Loans to corporate entities	Large corporate customers
				SMEs
				Others
		Items in course of collection		
		Cash and balances with Central Bank of Kenya		
	Fair value through other comprehensive income (FVOCI)	Investment in debt securities		
Financial liabilities	Financial liabilities at amortised cost	Deposits from banks		
		Deposits from customers	Retail customers	-
			Large corporate customers	-
			SMEs	-
		Items in course of collection		
		Borrowings		
		Due to group companies		
		Other liabilities		
Off-balance sheet financial instruments	Loan commitments			
	Guarantees, acceptances and other financial liabilities			

2.14.4 Expected credit losses on financial assets

The Group recognises ECL based on unbiased forward-looking information. ECL is recognised on all financial assets measured at amortised cost, lease receivables, debt instruments measured at fair value through other comprehensive income, loan commitments not measured at fair value and financial guarantee contracts not measured at fair value.

The Group uses a mixed approach to impairment where parameters are modelled at an individual financial instrument level or on a portfolio basis when they are only evident at this higher level. A collective approach will only be carried out when financial instruments share similar risk characteristics, which could include factors such as instrument type, collateral type, industry, geography and credit risk ratings. Credit losses are the present value of the difference between:

- all contractual cash flows that are due to an entity in accordance with the contract; and
- all the cash flows that the entity expects to receive.

Summary of Accounting Policies (continued)

for the year ended 31 December 2020

2. Significant accounting policies (continued)

2.14 Financial instruments (continued)

2.14.4 Expected credit losses on financial assets (continued)

Three-stage approach to ECL

IFRS 9 requires entities to recognise ECL based on a stage allocation methodology, with such categorisation informing the level of provisioning required. The ECL allowance calculated on stage 1 assets reflects the lifetime losses associated with events of default that are expected to occur within 12 months of the reporting date (hereafter referred to as 12-month ECL). Assets classified within stage 2 and stage 3 carry an ECL allowance calculated based on the lifetime losses associated with defaults that are expected to occur over the lifetime of the exposure (hereafter referred to as lifetime ECL). In determining the forecast credit losses over the duration of an exposure, recoveries expected to be received post the designated point of write-off are excluded.

Interest is calculated on stage 1 and stage 2 assets based on the gross carrying amount of the asset, whilst interest income on stage 3 assets is calculated based on the net carrying value (that is, net of the credit allowance). The stage allocation is required to be performed as follows:

Stage 1	This stage comprises exposures which are performing in line with the Group's credit expectations as at the date of origination. That is to say, the credit exposures which are assigned to stage 1 have not experienced a significant increase in credit risk since the date of initial recognition. Financial assets that are not purchased or originated with a credit impaired status are required to be classified on initial recognition within stage 1. Exposures which were previously classified within stage 2 or stage 3, may also cure back to stage 1 in line with the Group's credit risk management cure criteria. Whilst the standard does permit an accounting policy election to classify low credit risk assets within stage 1, such election has not been made by the Group.
Stage 2	Exposures are required to be classified within stage 2 when a significant increase in credit risk is observed, although the exposure is not yet credit impaired. The assessment of whether an exposure should be transferred from stage 1 to stage 2, is a relative measure, where the credit risk at the reporting date is compared to the risk that existed at initial recognition. The factors which trigger a reclassification from stage 1 to stage 2 have been defined so as to meet the specific requirements of IFRS 9, and in order to align with the Group's credit risk management practices. These factors have been set out in note 40.2. Stage 2 assets are considered to be cured (i.e. reclassified back into stage 1), when there is no longer evidence of a significant increase in credit risk, and in accordance with the Group's credit risk management cure criteria. The definition of high risk is, from a credit management perspective, central to controlling the flow of exposures back to stage 1 and gives effect to any cure periods deemed necessary. For these exposures lifetime expected credit losses should be recognised (i.e. credit losses from default events that are possible over the life of the instrument). The Group will assess whether a significant increase in credit risk has occurred based on (i) qualitative drivers including being marked as high risk or reflected on management's watch list; and (ii) quantitative drivers such as the change in the asset's cumulative weighted average lifetime probability of default (PD). Any exposure that is more than 30 days past due will also be included in this stage.
Stage 3	Credit exposures are classified within stage 3 when they are credit impaired, which is defined in alignment to the regulatory definition of default which includes unlikeliness to pay indicators as well as any assets that are more than 90 days past due. An instrument is credit impaired when there is objective evidence of impairment at the reporting date. Purchased or originated credit impaired lending facilities are classified on origination within stage 3. Defaulted assets are considered to be cured once the original event triggering default no longer applies, and the defined probation period (that is, the required consecutive months of performance) has been met.

Summary of Accounting Policies (continued)

for the year ended 31 December 2020

2. Significant accounting policies (continued)

2.14 Financial instruments (continued)

2.14.4 Expected credit losses on financial assets (continued)

Expected credit loss calculation

The measurement of expected credit losses must reflect:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money (represented by the effective interest rate); and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions

Expected credit losses comprise the unbiased probability weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. Expected credit losses are calculated (for both 12 month-ECL and lifetime losses) as a function of the exposure at default (EAD); PD and loss given default (LGD). These terms are interpreted as follows per the requirements of IFRS 9:

- EAD is the estimated amount at risk in the event of a default (before any recoveries) including behavioural expectation of limit usage by customers in the various stages of credit risk.
- PD is the probability of default at a particular point in time, which may be calculated, based on the defaults that are possible to occur within the next 12 months; or over the remaining life; depending on the stage allocation of the exposure.
- LGD is the difference between the contractual cash flows due and the cash flows expected to be received, discounted to the reporting date at the effective interest rate. The expectation of cash flows take into account cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. The estimate reflects the amount and timing of cash flows expected from the enforcement of collateral less the costs of obtaining and selling the collateral. The collection of any cash flows expected beyond the contractual maturity of the contract is also included.

Lifetime of financial instruments

For exposures in stage 2 and stage 3, the maximum lifetime over which expected credit losses should be measured, is the maximum contractual period over which the Group is exposed to credit risk. The Group estimates cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. In rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the Group use the remaining contractual term of the financial instrument.

Certain credit exposures include both a drawn and an undrawn component and the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to the contractual notice period. In this case, expected credit losses are measured over the period that the Group is exposed to credit risk, even if that period extends beyond the maximum contractual period. Within the Group, this applies to overdrafts, credit cards and other revolving products.

These contracts are cancellable at very short notice and they have no fixed term but credit may continue to be extended for a longer period and may only be withdrawn after the credit risk of the borrower increases, which could be too late to prevent losses. For these types of products the expected life is based on the behavioural life, i.e. the period over which there is exposure to credit risk which is not expected to be mitigated by credit actions (e.g. limit decreases) even though the contract permits immediate limit decrease.

Forward looking information

Forward-looking information is factored into the measurement of expected losses through the use of multiple expected macro-economic scenarios that are either reflected in estimates of PD and LGD for material portfolios; or adjusted through expert credit judgement where the effects could not be statistically modelled.

Summary of Accounting Policies (continued)

for the year ended 31 December 2020

2. Significant accounting policies (continued)

2.14 Financial instruments (continued)

2.14.4 Expected credit losses on financial assets (continued)

Write -off

The gross carrying amount of a financial asset shall be directly reduced (that is, written off)) when the entity has no reasonable expectations of recovering it in its entirety, or a portion thereof. A write-off constitutes a de-recognition event for accounting purposes. Depending on the nature of the account, balances are written off when:

- There has been less than one qualifying payment received within the last 12 months; or
- It is no longer economically viable to keep the debt on the statement of financial position.

A qualifying payment, for use in the write-off assessment, is defined as the minimum monthly contractual payment due.

Indicators which suggest that an account is not economically viable to retain on the statement of financial position are as follows (but do not represent an exhaustive list):

- The exposure is unsecured, i.e. there is no tangible security the Group can claim against (excluding suretyships);
- The debt has prescribed;
- The exposure would attract reputational risk should the Group pursue further legal action due to the valuation/exposure ratio, for example where the exposure is low and the valuation is very high in relation to the low exposure; and
- Where the cost to recover is high in relation to the valuation of the asset, for example legal, realisation and safe-guarding cost and rates and taxes.

Under IFRS 9, the Group applies the write-off assumptions consistently at both an individual account level and on a collective modelling basis. This means that the Group's LGD model includes only the present value of forecast recoveries on a pool of loans up until the designated point of write-off. Recoveries of amounts previously written off are recognised as an ECL gain in the statement of comprehensive income as and when the cash is received.

2.14.5 De-recognition of financial instruments

De-recognition of financial assets

In the course of its normal banking activities, the Group makes transfers of financial assets, either legally (where legal rights to the cash flows from the asset are passed to the counterparty) or beneficially (where the Group retains the rights to the cash flows but assumes a responsibility to transfer them to the counterparty). Depending on the nature of the transaction, this may result in derecognition of the assets in their entirety, partial derecognition or no derecognition of the assets subject to the transfer.

Full derecognition only occurs when the rights to receive cash flows from the asset have been discharged, cancelled or have expired, or the Group transfers both its contractual right to receive cash flows from the financial assets (or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment) and substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk. When an asset is transferred, in some circumstances, the Group may retain an interest in it (continuing involvement) requiring the Group to repurchase it in certain circumstances for other than its fair value on that date.

De-recognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified (taking into account both quantitative and qualitative factors), such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss. Where the terms of an existing liability are not substantially modified, the liability is not derecognised. Costs incurred on such transactions are treated as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

On derecognition of a financial instrument, any difference between the carrying amount thereof and the consideration received is recognised in profit or loss.

Summary of Accounting Policies (continued)

for the year ended 31 December 2020

2. Significant accounting policies (continued)

2.14 Financial instruments (continued)

2.14.6 Modification of financial assets and financial liabilities

Modification of financial assets

With the implementation of IFRS 9 there are new disclosure requirements for modifications. The assessment of whether a modification to a financial asset results in derecognition or not, is relevant as it impacts the assessment of the initial credit risk of a financial asset against which any subsequent significant deterioration in credit risk would be assessed. The Group assesses modifications to financial assets in the following manner:

A loan modification is a permanent change to one or more of the terms of the loan. Enforcing or adopting terms that were present in the original terms of the facility is not a modification. The treatment of a renegotiation or modification of the contractual cash flows of a financial asset depend on whether the modification is done for commercial reasons or because of financial difficulty of the borrower.

Contractual modifications on commercial terms are treated as a new transaction resulting in derecognition of the original financial asset and the recognition of a 'new' financial asset. Any difference between the carrying amount of the derecognised asset and the fair value of the new asset is recognised in profit or loss.

When the Group modifies the contractual conditions due to financial difficulties of the borrower, the asset is not derecognised unless the terms of the contract are substantively changed (such as the inclusion of an equity participation or a substantial change in counterparty). If the asset is not substantially modified, then the gross carrying amount of the financial asset is recalculated to be the present value of the modified cash flows discounted at the original EIR and any gain or loss is recognised in profit or loss as part of the total impairment loss.

Modification of financial liabilities

Where an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified (taking into account both quantitative and qualitative factors), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Where the terms of an existing liability are not substantially modified, the liability is not derecognised. Costs incurred on such transactions are treated as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

2.14.7 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contracts are initially recognised in the financial statements at fair value at the date that the guarantee was given.

Other than where the fair value option is applied subsequent to initial recognition, the entity's liabilities under such contracts are measured at the higher of the initial measurement, less amortisation calculated to recognise in profit or loss any fee income earned over the reporting period, and the amount of the loss allowance expected from the guarantee at the reporting date. Any increase in the liability relating to guarantees is recognised in profit or loss. For financial guarantee contracts the cash shortfalls are future payments to reimburse the holder for a credit loss that it incurs less any amounts that the entity would expect to receive from the holder, the debtor or any other party.

2.14.8 Loan commitments

The Group enters into commitments to lend to its customers subject to certain conditions. Such loan commitments are made either for a fixed period, or are cancellable by the Group subject to notice conditions.

Loan commitments are measured with reference to the quantum of ECL required to be recognised. In the case of undrawn loan commitments, the inherent credit risk is managed and monitored by the Bank together with the drawn component as a single exposure. The EAD on the entire facility is therefore used to calculate the cumulative ECL. As a result, the total ECL is recognised in the ECL allowance in respect of the financial asset unless the total allowance exceeds the gross carrying amount of the financial asset. If this is the case, the excess ECL is recognised as a provision on the face of the statement of financial position.

Summary of Accounting Policies (continued)

for the year ended 31 December 2020

2. Significant accounting policies (continued)

2.14 Financial instruments (continued)

2.14.9 Credit enhancement: 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, receivables, other non-financial assets and credit enhancements such as netting agreements.

Cash flows expected from credit enhancements which are not required to be recognised separately by IFRS standards and which are considered integral to the contractual terms of a debt instrument which is subject to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL. Collateral is generally assessed, at a minimum, at inception and re-assessed on a regular basis.

To the extent possible, the Bank uses active market data for valuing both financial and non-financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral are valued based on data provided by third parties and other independent sources.

2.15 Letters of credit acceptances

Letters of credit acceptances arise in two ways:

(i) Issuing bank

At initial recognition where the Group is the issuing bank it recognises a contingent liability for the amount that it may be required to pay out to the confirming bank or beneficiary should the terms and conditions of the underlying contract be met.

On the date that all terms and conditions underlying the contract are met, the Group recognises a financial asset (at fair value) on the statement of financial position as part of loans and advances for the contractual right to receive cash from the applicant. Concurrently, the Group recognises a financial liability (at fair value) on the statement of financial position as part of liabilities for the contractual obligation to pay the beneficiary or the confirming bank, depending on the structure of the arrangement.

(ii) Confirming bank

On the date that all terms and conditions underlying the contract are met the Group recognises a financial asset (at fair value) on the statement of financial position as part of loans and advances for the contractual right to receive cash from the issuing bank and concurrently recognises a financial liability (at fair value) on the statement of financial position as part of liabilities for the contractual obligation to pay the beneficiary.

2.16 Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date under current market conditions.

When a price for an identical asset or liability is not observable, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at measurement date.

For financial instruments, where the fair value of the financial instrument differs from the transaction price, the difference is commonly referred to as day one profit or loss. Day one profit or loss is recognised in profit or loss immediately where the fair value of the financial instrument is either evidenced by comparison with other observable current market transactions in the same instrument, or is determined using valuation models with only observable market data as inputs.

Day one profit or loss is deferred where the fair value of the financial instrument is not able to be evidenced by comparison with other observable current market transactions in the same instrument, or determined using valuation models that utilise non-observable market data as inputs. The timing of the recognition of deferred day one profit or loss is determined individually depending on the nature of the instrument and availability of market observable inputs. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Subsequent to initial recognition, fair value is measured based on quoted market prices or dealer price quotations for the assets and liabilities that are traded in active markets and where those quoted prices represent fair value at the measurement date.

If the market for an asset or liability is not active or the instrument is unlisted, the fair value is determined using other applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants.

Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and a market related discount rate at the reporting date for an asset or liability with similar terms and conditions.

If an asset or a liability measured at fair value has both a bid and an ask price, the price within the bid-ask spread that is most representative of fair value is used to measure fair value.

Summary of Accounting Policies (continued)

for the year ended 31 December 2020

2. Significant accounting policies (continued)

2.16 Fair value (continued)

The Group has elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities. This exception permits a group of financial assets and financial liabilities to be measured at fair value on a net basis. This election is applied where the Group:

- manages the group of financial assets and financial liabilities on the basis of the Group's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the Group's documented risk management or investment strategy;
- provides information on that basis about the group of financial assets and financial liabilities to the Group's key management personnel; and
- is required to or has elected to measure those financial assets and financial liabilities at fair value at the end of each reporting period

Fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement.

2.17 Repossessed properties

Repossessed properties acquired in exchange for loans as part of an orderly realisation are reported in 'other assets' as inventory as it is held for sale in the ordinary course of business. The repossessed properties are recognised when the risks and rewards of the properties have been transferred to the Bank. The corresponding loans are derecognised when the Bank becomes the holder of the title deed.

The properties acquired are initially recorded at cost, which is the lower of their fair value less costs to sell and the carrying amount of the loan (net of impairment allowance) at the date of exchange. They are subsequently measured at the lower of the carrying amount or net realisable value. No depreciation is charged in respect of these properties. Any subsequent write-down of the acquired properties to net realisable value is recognised in the statement of comprehensive income, in 'Other impairments'. Any subsequent increase in net realisable value, to the extent that it does not exceed the cumulative write-down, is also recognised in 'Other impairments'.

Gains or losses on disposal of repossessed properties are reported in 'Other operating income' or 'Operating expenses', as the case may be.

2.18 Ordinary share capital

Proceeds are included in equity, net of transaction costs. Dividends and other returns to equity holders are recognised when declared by the board.

2.19 Offsetting

In accordance with IAS 32 Financial Instruments: Presentation, the Group reports financial assets and financial liabilities on a net basis on the statement of financial position only if there is a current legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.20 Cash and cash equivalents

For the purposes of the statement of cash flows, cash comprises balances with maturities of less than 90 days and include cash on hand, balances with Central Bank of Kenya (excluding restricted balances – cash reserve ratio), items in the course of collection and deposits and deposits and balances due from and due to banking institutions. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less. Cash and cash equivalents are measured at amortised cost.

2.21 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the Group and the number of basic weighted average number of ordinary shares excluding treasury shares held in employee benefit trusts or held for trading. When calculating the diluted earnings per share, the weighted average number of shares in issue is adjusted for the effects of all dilutive potential ordinary shares held.

2.22 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker who is responsible for allocating resources and assessing the performance of the operating segments has been identified as the Country Management Committee that makes strategic decisions.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance. In accordance with IFRS 8, the Group has the following business segments: Consumer banking and Corporate banking.

Summary of Accounting Policies (continued)

for the year ended 31 December 2020

2. Significant accounting policies (continued)

2.23 Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared, in accordance with the Kenyan Companies Act, 2015.

2.24 Leases

The Group 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.

(a) The Group is the lessee

Where the Group is a lessee, a right-of-use asset and corresponding lease liability are recognised at the lease commencement date. The right-of-use asset is initially and subsequently measured at cost with depreciation recognised on a straight-line basis over the lease term. The right of use asset is included within "property and equipment" in the statement of financial position.

The lease liability is initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease , if readily determinable, or the lessee's incremental borrowing rate. After the commencement date, a lessee shall measure the lease liability by increasing the carrying amount to reflect interest on the lease liability determined and reducing the carrying amount to reflect the lease payments made.

Any revisions to in-substance fixed lease payments, reassessment or lease modifications will be reflected by re-measuring the carrying amount. Interest is recognised within net interest income and

the lease liability is included within "other liabilities" in the statement of financial position.

The lease payments in relation to short term leases (leases with a lease term of 12 months or less at commencement date) and leases in which the underlying asset is of low value are recognised as an expense on a straight line basis over the lease term.

(b) The Group is the lessor

Finance lease

A finance lease is a lease which confers substantially all the risks and rewards of the leased assets on the lessee. Where the Group is the lessor, the leased asset is not held on the statement of financial position; instead a finance lease receivable is recognised representing the minimum lease payments receivable under the terms of the lease, discounted at the rate of interest implicit in the lease. Finance income on the receivable is allocated over the lease term on a systematic basis so as to reflect a constant periodic rate of return on the lessor's net investment in the finance lease.

Operating leases

An operating lease is a lease in which substantially all of the risks and rewards of the leased assets remain with the lessor. Where the Group is the lessor, lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate. The Group recognises leased assets on the statement of financial position within property and equipment.

2.25 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. The Group did not have any qualifying assets during the year.

Summary of Accounting Policies (continued)

for the year ended 31 December 2020

3. Judgements and estimates

In the preparation of the annual financial statements, management is required to make judgements, estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates, which may be material to the financial statements within the next financial period.

Impact of COVID-19

The coronavirus pandemic has had a devastating impact on the global economy and has resulted in significant changes to government actions, economic and market drivers as well as consumer behaviour.

Impact on the use of estimates, judgements and assumptions.

The pandemic has had a significant impact on the risks that the Bank is exposed to, in particular credit risk, and has forced the Bank to reassess assumptions, and existing methods of estimation and judgements, used in the preparation of these financial statements. There remains a risk that future performance and actual results may differ from the judgements and assumptions used.

As the outbreak continues to progress and evolve, it is challenging to predict the full extent and duration of its business and economic impact. Management adjustments (which have been subjected through greater governance across the Bank) were therefore also required, in addition to the model outputs, to provide a more appropriate assessment of credit risk.

Other areas of estimates, judgements and assumptions that have been affected by the COVID-19 pandemic include determination of fair values, impairments of non-financial assets and valuation of post-retirement benefits. Further detail on the application of judgements and estimates is included below.

COVID-19 customer payment relief

The Bank implemented a payment relief programme across segments from March 2020 for eligible customers, allowing customers requiring short-term financial relief, to reduce or defer their monthly instalments to assist with cash flow needs. For consumer banking customers, the payment relief programmes provides relief for periods of, in general up to one year as informed by local regulatory and management actions. The corporate banking customers received tailored solutions specific to their individual circumstances, including interest and/or capital moratoriums, covenant concessions and extensions of maturity dates on expiring facilities.

The Bank's existing credit policies continued to apply to customers not meeting the payment relief eligibility criteria.

The gross carrying value of loans and advances to customers that were granted payment relief as at 31 December 2020 and customers who successfully returned to payment after payment relief is as follows:

	2020						
	Payment relief Total gross carrying amount	**Total gross carrying amount**	**Percentage of portfolio %**	**Up-to date %**	**Overdue %**	**1–90 days %**	**More than 90 days %**
Consumer banking	**39 629**	**110 205**	**36%**	**90.2%**	**9.8%**	**7.5%**	**2.3%**
Corporate banking	**19 520**	**119 472**	**16%**	**99.0%**	**1.0%**	**0.8%**	**0.2%**
	59 149	**229 677**					

Summary of Accounting Policies (continued)

for the year ended 31 December 2020

3. Judgements and estimates (continued)

Judgements made by management that could have a significant effect on the amounts recognised in the financial statements include:

3.1 Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Group, or national or local economic conditions that correlate with defaults on assets in the Group. The directors use estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Refer to:

- Note 2.14, and Note 39: classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.
- Note 40: establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

3.2 Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The fair value hierarchy for these financial instruments is shown in Note 42.

The IVC independently verifies the results of trading and investment operations and all significant fair value measurements. They source independent data from independent external parties, as well as internal risk areas when performing independent price verification for all financial instruments held at fair value. They also assess and document the inputs obtained from independent external sources to measure the fair value which supports conclusions that valuations are performed in accordance with IFRS and internal valuation policies.

Judgmental inputs on valuation of principal instruments.

The following summary sets out the principal instruments whose valuation may involve judgemental inputs:

a) Debt securities and treasury and other eligible bills

These instruments are valued based on quoted market prices from an exchange, dealer, broker, industry group or pricing service, where available. Where unavailable, fair value is determined with reference to quoted market prices for similar instruments or, in the case of certain instruments, valuation techniques using inputs derived from observable market data, and, where relevant, assumptions in respect of unobservable inputs.

b) Derivatives

Derivative contracts can be exchange-traded or traded Over The Counter (OTC). OTC derivative contracts include forward, swap and option contracts related to interest rates and foreign currencies. Fair values of derivatives are obtained from quoted market prices, dealer price quotations, discounted cash flow and pricing models.

c Loans and advances

The fair value of loans and advances to banks and customers is determined by discounting contractual cash flows. Discount factors are determined using the relevant forward base rates (as at valuation date) plus the originally priced spread. Where a significant change in credit risk has occurred, an updated spread is used to reflect valuation date pricing. Behavioural cash flow profiles, instead of contractual cash flow profiles, are used to determine expected cash flows where contractual cash flow profiles would provide an inaccurate fair value.

d) Deposits, debt securities in issue and borrowed funds

Deposits, debt securities in issue and borrowed funds are valued using discounted cash flow models, applying rates currently offered for issuances with similar characteristics.

Summary of Accounting Policies (continued)

for the year ended 31 December 2020

3. Judgements and estimates (continued)

3.2 Fair value of financial instruments (continued)

The fair value of amortised cost deposits repayable on demand is considered equal to their carrying value. For other financial liabilities at amortised cost, the disclosed fair value approximates the carrying value because the instruments are short-term in nature or have interest rates that reprice frequently.

3.3 Going concern

The Group's management has assessed its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

3.4 Effective interest rate

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 behavioural 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 behaviour and life-cycle of the instruments, as well expected changes to the base rate and other fee income/expense that are integral parts of the instrument.

3.5 Provisions

In terms of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, a provision is recognised when the Group has a present obligation as a result of a past event and it is probable that a transfer of economic benefits will be required to settle the obligation. Further, a reliable estimate of the amount of the obligation is required to be made. Various assumptions are therefore required in order to determine if a provision is required to be recognised, and further, the carrying amount thereof. With regards to the assessment of matters of a significant nature, including potential litigation and claims, management relies on the advice of the Group's legal counsel.

3.6 Share-based payments

The initial fair value of awards is determined at grant date, and is measured after taking into account all terms and conditions of the share incentive scheme, excluding non-market vesting conditions. In the case of certain schemes, options are granted to employees with a zero strike price. In this case the Group may consider the share price on the grant date to be the best indication of the grant date fair value. Where management determines this valuation approach to be less appropriate, based on the specific terms and conditions, then a Black Scholes option pricing model is applied. Significant inputs into this pricing model include the risk-free discount rate, share price volatility, as well as an expectation of future dividends.

The cumulative expense recognised at each reporting date will reflect the extent to which the vesting period has expired as well as the Group's best estimate of the number of equity instruments that will ultimately vest. A key assumption applied is staff turnover and expected forfeitures. Management calibrates this assumption based on historical data.

In the case of cash-settled share-based payment schemes, where fair value is required to be determined at each reporting date, a consistent fair value methodology is applied. The fair value of the awards at each reporting date will impact the expense recognised over each reporting period.

Note 34 includes details of the Group's share awards. Refer to note 34.3 for the carrying amount of liabilities arising from cash-settled arrangements.

3.7 Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made. Refer to the disclosure on contingent tax liabilities in Note 46.

Significant judgement has also been exercised in determining the likelihood of liability crystallising in respect of disputes with the tax authority. Management make their judgements based on the expected outflows to be made by the Group.

3.8 Retirement benefits

The valuations of and contributions towards defined benefit pension plans are determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. The year-end balances of subsidiaries' post-retirement benefit obligations are also affected by the closing foreign currency exchange rates.

Summary of Accounting Policies (continued)

for the year ended 31 December 2020

3. Judgements and estimates (continued)

3.8 Retirement benefits (continued)

Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Exposure to actuarial risks

The defined benefit funds expose the Group to the risk that the benefits promised in the various funds cost more than the accumulated assets set aside to meet such benefits, and ultimately will require additional funding from the Bank (or its subsidiaries).

This risk can be categorised into a number of actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

Investment risk

The actuarial funding valuations make assumptions about the returns that may be available on invested assets. If the return on pension plan assets is below this rate, it may lead to a strain on the fund, which over time, may result in a pension plan deficit. Typically the funds have a relatively balanced investment in equity securities, debt securities, cash and real estate to mitigate any concentration risk. Due to the long-term nature of the pension plan liabilities, the boards of the pension funds consider it appropriate that a reasonable portion of the plan assets should be invested in equity securities and in real estate to improve the return generated by the fund. This may in turn result in improved discretionary benefits to members or reduced costs for the sponsoring entity.

Inflation/pension increase risk

Benefits in these plans are to some extent tied to inflation, so increased inflation levels represent a risk that could increase the costs of paying the funds' promised benefits. However, the risk is mitigated by ceilings on mandatory benefit increases in most cases and subject to affordability in cases where the mandatory ceiling does not apply.

Longevity risk

If pensioners live longer than expected then that will, all else equal, increase the funds' liabilities as benefits are paid for a longer term.

Salary risk

An increase in the salary of the plan participants will increase the plan's liability. This risk has been limited with the closure of a number of the defined benefit plans and the introduction of defined contribution plans. There are now a limited number of active defined benefit members.

Although the Absa Pension Fund has in its entirety been disclosed as a defined benefit plan, the defined contribution portion thereof does not retain salary risk.

Measurement risk

The IAS 19 Employee Benefits (IAS 19) liabilities are determined using various assumptions about future experience.

One of the most important assumptions is the discount rate derived from prevailing bond yields where these are available (where these are not available, the inflation rate plus a reasonable risk-free real return is used as a proxy). A decrease in the discount rate will, with all else equal, increase the plan liability; this may be partially offset by an increase in the value of assets, to the extent that the funds' investments are matched against its liabilities.

Other important assumptions are the inflation assumption, pension increase assumption and the longevity assumption and changes in those could affect the measured value of liabilities significantly. Changes in other assumptions used could also affect the measured liabilities.

Regulatory risk

The funds' benefits are governed by the rules of those funds, operating within the regulatory framework in Kenya. To the extent that governments can change that regulatory framework, the Group is exposed to a risk. In particular, regulations introducing issues like minimum benefits or minimum pension increases may result in higher benefits to members and a higher associated cost.

Refer to note 27 for the specific assumptions used and carrying amounts of retirement benefits.

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Summary of Accounting Policies (continued)

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3. Judgements and estimates (continued)

3.9 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired.

If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount is reduced to its recoverable amount. This reduction is the impairment loss. An impairment loss is recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case the impairment loss is recognised in OCI up to the amount of any previous revaluation.

4. Interest and similar income	**Group**		**Bank**	
	2020 Shs'million	2019 Shs'million	**2020 Shs'million**	2019 Shs'million
Financial assets held at fair value through OCI	**8 971**	8 101	**8 925**	8 064
Loans and advances to banks and group companies	**166**	378	**166**	378
Loans and advances to customers	**22 303**	22 545	**22 303**	22 545
Total interest and similar income	**31 440**	31 024	**31 394**	30 987
5. Interest expense and similar charges				
Deposits from banks and group companies	**(1 595)**	(963)	**(1 595)**	(966)
Customer accounts	**(5 984)**	(6 454)	**(6 038)**	(6 467)
Subordinated debt	**(298)**	(289)	**(298)**	(289)
Interest expense on lease liabilities	**(182)**	(139)	**(182)**	(139)
Total interest and similar expense	**(8 059)**	(7 845)	**(8 113)**	(7 861)

Summary of Accounting Policies (continued)

for the year ended 31 December 2020

6. **Net fee and commission income**

Group	2020 Corporate Banking Shs'million	2020 Consumer Banking Shs'million	2020 Total Shs'million	2019 Corporate Banking Shs'million	2019 Consumer Banking Shs'million	2019 Total Shs'million
Fee and commission income						
Service fees	486	3 776	4 262	599	4 307	4 906
Credit related fee and commissions	507	751	1 258	546	865	1 411
Insurance agency commissions	7	707	714	-	568	568
Fee and commission income	1 000	5 234	6 234	1 145	5 740	6 885
Fee and commission expense						
Fee and commission expense	(81)	(635)	(716)	(185)	(579)	(764)
Net fee and commission income	919	4 599	5 518	960	5 161	6 121
Bank						
Fee and commission income						
Service fees	438	3 549	3 987	581	4 307	4 888
Credit related fee and commissions	507	751	1 258	546	865	1 411
Fee and commission income	945	4 300	5 245	1 127	5 172	6 299
Fee and commission expense						
Fee and commission expense	(81)	(491)	(572)	(185)	(579)	(764)
Net fee and commission income	864	3 809	4 673	942	4 593	5 535

	Group and Bank 2020 Shs'million	Group and Bank 2019 Shs'million
7. Net trading income		
Debt securities	681	538
Foreign exchange	4 448	3 641
Net trading income	5 129	4 179

Debt securities income includes the results of buying and selling and changes in the fair value of debt securities and debt securities sold short as well as the related interest income and expense.

Foreign exchange income includes gains and losses from spot and forward contracts and other currency derivatives. Other foreign exchange differences arising on non–trading activities are taken to other operating income/expense in the income statement.

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	Group 2020 Shs'million	Group 2019 Shs'million	Bank 2020 Shs'million	Bank 2019 Shs'million
8. Other operating income				
Gain on disposal of property and equipment	-	107	-	107
Rental income	16	12	16	12
Sundry income	37	170	47	185
Total other operating income	53	289	63	304

The sundry income relates to income not earned in the normal course of business.

9. **Impairment losses on financial instruments**

Group	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
Total impairment loss	(393)	(894)	(7 298)	(8 585)
		Collectively assessed		
2020				
Loans and advances to customers	(192)	(579)	(5 654)	(6 425)
Recoveries of loans and advances	-	-	445	445
Total impairment loss	(192)	(579)	(5 209)	(5 980)
		Individually assessed		
Loans and advances to banks	(1)	-	-	(1)
Loans and advances to customers	(116)	(365)	(2 101)	(2 582)
Debt instruments measured at FVOCI	(50)	-	-	(50)
Financial guarantees & letters of credit	(30)	(32)	1	(61)
Other undrawn commitments	(4)	82	-	78
	(201)	(315)	(2 100)	(2 616)
Recoveries of loans and advances	-	-	11	11
Total impairment loss	(201)	(315)	(2 089)	(2 605)

Summary of Accounting Policies (continued)

for the year ended 31 December 2020

9. Impairment losses on financial instruments (continued)

Group	**Stage 1 Shs'million**	**Stage 2 Shs'million**	**Stage 3 Shs'million**	**Total Shs'million**
2019				
Total impairment loss	(414)	(459)	(3 328)	(4 201)
		Collectively assessed		
Loans and advances to customers	(295)	(207)	(2 827)	(3 329)
Trade receivables	(2)	-	-	(2)
	(297)	(207)	(2 827)	(3 331)
Recoveries of loans and advances	-	-	518	518
Total impairment loss	(297)	(207)	(2 309)	(2 813)
		Individually assessed		
Loans and advances to banks	(1)	-	-	(1)
Loans and advances to customers	(1)	(242)	(1 035)	(1 278)
Debt instruments measured at FVOCI	(3)	-	-	(3)
Financial guarantees & letters of credit	(1)	98	(10)	87
Other undrawn commitments	(111)	(108)	-	(219)
	(117)	(252)	(1 045)	(1 414)
Recoveries of loans and advances	-	-	26	26
Total impairment loss	(117)	(252)	(1 019)	(1 388)

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9. Impairment losses on financial instruments (continued)

Bank **2020**	**Stage 1 Shs'million**	**Stage 2 Shs'million**	**Stage 3 Shs'million**	**Total Shs'million**
Total impairment loss	**(393)**	**(894)**	**(7 298)**	**(8 585)**
		Collectively assessed		
Loans and advances to customers	**(192)**	**(579)**	**(5 654)**	**(6 425)**
Recoveries of loans and advances	**-**	**-**	**445**	**445**
Total impairment loss	**(192)**	**(579)**	**(5 209)**	**(5 980)**
		Individually assessed		
Loans and advances to banks	**(1)**	**-**	**-**	**(1)**
Loans and advances to customers	**(116)**	**(365)**	**(2 101)**	**(2 582)**
Debt instruments measured at FVOCI	**(50)**	**-**	**-**	**(50)**
Financial guarantees & letters of credit	**(30)**	**(32)**	**1**	**(61)**
Other undrawn commitments	**(4)**	**82**	**-**	**78**
	(201)	**(315)**	**(2 100)**	**(2 616)**
Recoveries of loans and advances	**-**	**-**	**11**	**11**
Total impairment loss	**(201)**	**(315)**	**(2 089)**	**(2 605)**
2019				
Total impairment loss	(412)	(459)	(3 328)	(4 199)
		Collectively assessed		
Loans and advances to customers	(295)	(207)	(2 827)	(3 329)
Recoveries of loans and advances	-	-	518	518
Total impairment loss	(295)	(207)	(2 309)	(2 811)
		Individually assessed		
Loans and advances to banks	(1)	-	-	(1)
Loans and advances to customers	(1)	(242)	(1 035)	(1 278)
Debt instruments measured at FVOCI	(3)	-	-	(3)
Financial guarantees & letters of credit	(1)	98	(10)	87
Other undrawn commitments	(111)	(108)	-	(219)
	(117)	(252)	(1 045)	(1 414)
Recoveries of loans and advances	-	-	26	26
Total impairment loss	(117)	(252)	(1 019)	(1 388)

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for the year ended 31 December 2020

		Group		Bank	
		2020 Shs'million	2019 Shs'million	2020 Shs'million	2019 Shs'million
10.	**Employee benefits**				
	Salaries and allowances	**(9 466)**	(8 625)	**(9 303)**	(8 524)
	Share-based payments (Note 10.1)	**(75)**	(56)	**(75)**	(56)
	Training costs	**(50)**	(119)	**(49)**	(118)
	Staff medical costs	**(548)**	(569)	**(542)**	(564)
	Post-employment benefits:				
	Defined contribution benefits scheme	**(744)**	(713)	**(730)**	(706)
	Defined benefit plan	**(23)**	(24)	**(23)**	(24)
	Social security cost	**(6)**	(7)	**(6)**	(7)
	Other	**(400)**	(566)	**(267)**	(513)
	Total employee benefits	**(11 312)**	(10 679)	**(10 995)**	(10 512)

Other includes temporary staff salaries and fringe benefit tax

	Group 2020	Group 2019	Bank 2020	Bank 2019
Average number of employees during the year	**1 991**	2 152	**1 991**	2 140
Average number of direct sales during the year	**526**	654	**526**	654

		Group and Bank	
10.1	**Deferred cash and share-based payments**	2020 Shs'million	2019 Shs'million
	The statement of comprehensive income charge for share-based payments comprises the following:		
	Equity-settled arrangements	**(60)**	(40)
	Cash-settled arrangements:		
	Deferred cash		
	Absa Group Limited Cash Value Plan ("CVP")	**(15)**	(16)
	Total deferred cash and share-based payments	**(75)**	(56)

Cash-settled share-based payment schemes are measured with reference to the statement of financial position date and the Absa Group Limited share price.

		Group		Bank	
		2020 Shs'million	2019 Shs'million	2020 Shs'million	2019 Shs'million
11.	**Infrastructure costs**				
	Property cost	**(1 234)**	(881)	**(1 198)**	(871)
	Other infrastructure costs	**(127)**	(94)	**(127)**	(93)
		(1 361)	(975)	**(1 325)**	(964)

Notes to the annual financial statements (continued)

for the year ended 31 December 2020

		Group		Bank	
		2020 Shs'million	2019 Shs'million	2020 Shs'million	2019 Shs'million
12.	**Administrative and general expenses**				
	Auditors' remuneration:				
	Local statutory audit	**(23)**	(21)	**(23)**	(21)
	Information systems technology audit	**(9)**	(9)	**(9)**	(9)
		(32)	(30)	**(32)**	(30)
	Consultancy, legal and professional fees	**(268)**	(289)	**(266)**	(289)
	Subscription, publications, stationary and communications	**(664)**	(831)	**(662)**	(829)
	Marketing, advertising and sponsorship	**(1 058)**	(731)	**(1 058)**	(730)
	Travel and accommodation	**(73)**	(194)	**(70)**	(191)
		(2 063)	(2 045)	**(2 056)**	(2 039)
	Other administrative and general expenses	**(3 735)**	(3 623)	**(3 717)**	(3 609)
	Total administrative and general expenses	**(5 830)**	(5 698)	**(5 805)**	(5 678)

Other administrative and general expenses mainly consists of group recharges, security costs, cash in transit expenses, insurance costs, motor vehicle expenses and separation costs.

		Group		Bank	
		2020 Shs'million	2019 Shs'million	2020 Shs'million	2019 Shs'million
13.	**Income taxes**				
13.1	**Income tax recognised in profit or loss**				
	Current income tax	**(1 925)**	(4 021)	**(1 765)**	(3 885)
	Current income tax - prior year adjustments	**15**	-	**7**	-
		(1 910)	(4 021)	**(1 758)**	(3 885)
	Deferred income tax (Note 28)				
	Current year credit	**426**	725	**403**	718
	Total income tax expense for the year	**(1 484)**	(3 296)	**(1 355)**	(3 167)

The effective tax rate for the year ended 31 December 2020 is 26.6% (2019: 30.7%)

	Group 2020	Group 2019	Bank 2020	Bank 2019
Profit for the year	**5 647**	10 752	**5 100**	10 328
Income tax expense calculated at 25% (2019: 30%)	**1 412**	3 226	**1 275**	3 098
Effect of income that is exempt from taxation	**(166)**	(204)	**(166)**	(204)
Effect of expenses that are not deductible in determining taxable profit	**238**	274	**246**	273
Income tax expense recognised in profit or loss	**1 484**	3 296	**1 355**	3 167

Deferred income tax on fair value gains or losses on fair value through other comprehensive income (FVOCI) financial assets has been recorded in other comprehensive income.

Notes to the annual financial statements (continued)

for the year ended 31 December 2020

		Group		Bank	
		2020 Shs'million	2019 Shs'million	**2020 Shs'million**	2019 Shs'million
14.	**Earnings per share**				
	Net profit attributable to shareholders	**4 163**	7 456	**3 745**	7 161
	Number of ordinary shares in issue	**5 432**	5 432	**5 432**	5 432
	Basic earnings per share	**0.77**	1.37	**0.69**	1.32

There were no potentially dilutive shares outstanding as at 31 December 2020 or 2019. Diluted earnings per share are therefore the same as basic earnings per share.

		Group and Bank	
		2020 Shs'million	2019 Shs'million
15.	**Cash and balances at central banks**		
	Cash in hand	**5 829**	7 091
	Balances with Central Bank of Kenya (CBK)	**12 435**	21 719
	Impairment charge	**(4)**	(2)
		18 260	28 808

In accordance with Section 38 of the Central Bank of Kenya Act, the Bank is required to maintain minimum cash balances on deposit as reserves against its deposits and other liabilities.

In 2020, the Cash Reserve Ratio (CRR) was set at 4.25 percent of the total of the bank's domestic and foreign currency deposit liabilities. The CRR is maintained based on a daily average level from the fifteenth of the previous month to the fourteenth of the current month and not to fall below a CRR of 3 percent on any day.

Cash in hand and balances with Central Bank of Kenya are non-interest bearing.

		Group and Bank	
		2020 Shs'million	2019 Shs'million
16.	**Financial assets at fair value through profit or loss**		
	Debt securities : Government treasury bills and bonds	**36 375**	43 774

All financial assets at fair value through profit or loss are current.

Notes to the annual financial statements (continued)

for the year ended 31 December 2020

17. Derivative financial instruments

Derivative financial instruments are entered into in the normal course of business to manage various financial risks. The derivative instrument contract value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps and forward rate agreements.

At the reporting date, the Bank did not have any compound financial instruments with multiple embedded derivatives in issue. The Bank only trades the following derivative instrument:

Foreign exchange derivatives

The Bank's principal exchange rate-related contracts are forward foreign exchange contracts, options and currency swaps. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate. A currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period.

The Bank trades foreign exchange forwards and swaps (forward contracts). These are binding contracts locking in the exchange rate for the purchase or sale of a currency on a future date. The Bank's forward book is marked to market on a daily basis.

17.1 Notional amount

The gross notional amount is the sum of the absolute value of all contracts. The notional amount will not generally reflect the amount receivable or payable under a derivative contract. The notional amount should be viewed only as a means of assessing the Bank's participation in derivative contracts and not the market risk position nor the credit exposure arising on such contracts.

The absolute value of all contracts is also not indicative of the Bank's net exposure to, or position in any of the markets that the Bank trades in.

The Bank's total derivative asset and liability position as reported on the statement of financial position is as follows:

	Group and Bank		
	Notional Contract Amount Shs'million	**Carrying value assets Shs'million**	**Carrying value liabilities Shs'million**
2020			
Foreign exchange derivatives			
Forward foreign exchange	**(22 658)**	**436**	**(243)**
Currency swap	**(60 948)**	**1 989**	**(674)**
Options	**(9 774)**	**254**	**(254)**
Total derivatives	**(93 380)**	**2 679**	**(1 171)**
2019			
Foreign exchange derivatives			
Forward foreign exchange	(24 178)	87	(508)
Currency swap	(77 531)	790	(981)
Options	(1 937)	44	(46)
Total derivatives	(103 646)	921	(1 535)

Notes to the annual financial statements (continued)

for the year ended 31 December 2020

		Group		Bank	
		2020 Shs'million	2019 Shs'million	2020 Shs'million	2019 Shs'million
18.	**Financial assets at fair value through other comprehensive income**				
	Debt: Government treasury bills and bonds				
	Maturing within 90 days	**13 305**	13 501	**13 305**	13 501
	Maturing after 90 days	**76 494**	65 780	**75 975**	65 343
	Allowance for ECL	**(117)**	(60)	**(116)**	(59)
		89 682	79 221	**89 164**	78 785

Treasury bills are debt securities issued by the Government of Kenya and are classified as fair value through other comprehensive income. The weighted average effective interest rate on the Government securities at 31 December 2020 was 10% (2019 10.2%).

Included as part of FVOCI is Shs 1 250 million pledged as security for the Intra-Day Liquidity Facility (ILF). Refer to Note 46.2.

Group

In 2020, a fair value gain of Shs 801 million (Gross: Shs 1 144 million loss less deferred income tax of Shs 343 million) has been recognised in other comprehensive income.

In 2019, a fair value loss of Shs 248 million (Gross: Shs 355 million loss less deferred income tax of Shs 107 million) has been recognised in other comprehensive income.

Bank

In 2020, a fair value gain of Shs 795 million (Gross: Shs 1 136 million loss less deferred income tax of Shs 341 million) has been recognised in other comprehensive income.

In 2019, a fair value loss of Shs 253 million (Gross: Shs 361 million loss less deferred income tax of Shs 108 million) has been recognised in other comprehensive income.

		Group and Bank	
		2020 Shs'million	2019 Shs'million
19.	**Loans and advances to banks**		
	Loans and advances to banks	**5 648**	3 804
	Allowance for ECL	**–**	(1)
		5 648	3 803

The weighted average effective interest rate on deposits and balances due from banking institutions at 31 December 2020 was 3.6% (2019: 6.2%). Loans and advances to banks are current.

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		Group and Bank	
		2020 Shs'million	2019 Shs'million
20.	**Loans and advances to customers**		
	Commercial loans	**170 546**	153 438
	Bills discounted	**27 578**	21 477
	Post acceptance letters of credit	**3 301**	3 646
	Instalment credit agreements	**11 307**	11 555
	Unearned finance charges	**(520)**	(403)
	Gross instalment credit agreements	**11 827**	11 958
	Overdrafts	**12 562**	15 799
	Gross loans and advances to customers	**225 294**	205 915
	Impairment losses raised during the reporting period		
	Stage 1 expected credit losses	**(2 418)**	(2 413)
	Stage 2 expected credit losses	**(3 819)**	(2 242)
	Stage 3 expected credit losses	**(13 201)**	(9 750)
	Amounts written off during the year as uncollectible	**2 999**	3 385
	Impairment losses	**(16 439)**	(11 020)
	Net loans and advances to customers	**208 855**	194 895

		Group and Bank	
		2020 Shs'million	2019 Shs'million
20.1	**Instalment credit arrangements**		
	Less than one year	**6 112**	6 004
	Between one and five years	**5 190**	5 003
	More than five years	**5**	548
		11 307	11 555

The Group enters into instalment credit arrangements in respect of motor vehicles and equipment. Under the terms of the lease agreements, no contingent rentals are payable.

		Group		Bank	
		2020 Shs'million	2019 Shs'million	2020 Shs'million	2019 Shs'million
21.	**Other assets and prepaid expenses**				
	Prepaid expenses	**448**	459	**448**	459
	Items in course of collection from banks	**959**	918	**959**	918
	Staff loan marked to market	**486**	1 549	**486**	1 549
	Electronic banking	**2 943**	2 237	**2 943**	2 237
	Other	**2 873**	2 526	**2 818**	2 453
	Gross other assets and prepaid expenses	**7 709**	7 689	**7 654**	7 616
	Impairment losses	**–**	(2)	**–**	(2)
	Net other assets and prepaid expenses	**7 709**	7 687	**7 654**	7 614

Other assets mainly consist of suspense accounts. All other assets are current.

Notes to the annual financial statements (continued)

for the year ended 31 December 2020

		Proportion of ownership interest and voting power held		Carrying Amount Shs'million	Shs'million
22.	**Investment in subsidiaries**				
	Name of subsidiary	**2020**	2019	**2020**	2019
	Absa Securities Limited	**100%**	100%	**363**	363
	Absa Kenya Nominees Limited	**100%**	100%	**-**	-
	Absa Asset Management Limited	**100%**	100%	**60**	10
	Absa Bank Insurance Agency Limited	**100%**	100%	**5**	-
	Absa Pension Services Limited	**100%**	100%	**-**	-
				428	373

Absa Kenya Nominees Limited and Absa Pension Services Limited are dormant companies. Absa Securities Limited, Absa Asset Management Limited and Absa Bank Insurance Agency Limited operate in the business of brokerage services, wealth management and insurance agency respectively.

The subsidiaries, all of which are unlisted, are incorporated in Kenya and have the same year end as the Bank.

23. **Non-current assets held for sale**

As at 31 December 2020, the Group continued to recognise in its financial statements items of property and equipment from its closed branches (Maragua and Mombasa Road). A sale of the items had not been completed for all the items at the balance sheet date but the Bank expects a sale to be completed in the following year, 2021.

	Group and Bank 2020 Shs'million	2019 Shs'million
Property and equipment	**47**	65
Disposal	**-**	(18)
	47	47

The carrying value is based on the net book value of the assets at the point of recognition as held for sale. There is no impairment or reversal recorded against the non-current assets held for sale. As at 31 December 2020, the properties had a fair value of Shs 178 million (2019: Shs 178 million).

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	Group and Bank	Freehold buildings Shs'million	Right of use assets Shs'million	Leasehold improvements Shs'million	Fixtures fittings and equipment Shs'million	Motor vehicles Shs'million	Work in progress Shs'million	Total Shs'million
24.	**Property and equipment**							
	Cost or valuation – 2020							
	Balance at beginning of the year	134	1 493	3 594	8 417	21	–	13 659
	Additions	–	–	9	542	–	4	555
	Adjustments	–	471	–	–	–	–	471
	Derecognition	–	–	(636)	(79)	(2)	–	(717)
	Reclassification from prepaid lease	1	–	(1)	–	–	–	-
	Balance at end of the year	135	1 964	2 966	8 880	19	4	13 968
	Accumulated depreciation – 2020							
	Balance at beginning of the year	(83)	(408)	(2 711)	(7 594)	(20)	–	(10 816)
	Depreciation	(1)	(414)	(148)	(459)	–	–	(1 022)
	Derecognition	–	–	635	42	2	–	679
	Balance at end of the year	(84)	(822)	(2 224)	(8 011)	(18)	–	(11 159)
	Net book value at end of year	51	1 142	742	869	1	4	2 809
	Cost or valuation – 2019							
	Balance at beginning of the year	134	-	3 616	8 569	34	-	12 353
	Additions	-	1 493	49	169	-	-	1 711
	Disposals	-	-	(80)	(321)	(13)	-	(414)
	Reclassification from prepaid lease	-	-	9	-	-	-	9
	Balance at end of the year	134	1 493	3 594	8 417	21	-	13 659
	Accumulated depreciation – 2019							
	Balance at beginning of the year	(82)	-	(2 628)	(7 346)	(25)	-	(10 081)
	Depreciation	(1)	(408)	(163)	(494)	(4)	-	(1 070)
	Disposals	-	-	80	246	9	-	335
	Balance at end of the year	(83)	(408)	(2 711)	(7 594)	(20)	-	(10 816)
	Net book value at end of year	51	1 085	883	823	1	-	2 843

Included in property and equipment at 31 December 2020 are assets with a gross value of Shs 8 159 million (2019: Shs 8 159 million) which are fully depreciated but still in use. The notional depreciation charge on these assets for the year would have been Shs 1 632 million (2019: Shs 1 632 million).

The Group has not pledged any item of property and equipment as security as at December 2020 (December 2019: Nil)

Notes to the annual financial statements (continued)

for the year ended 31 December 2020

		Computer software Shs'million	WIP Shs'million	Total Shs'million
25.	**Intangible assets**			
	Group			
	Cost - 2020			
	At start of year	**5 757**	**110**	**5 867**
	Acquisitions	**8**	**112**	**120**
	Transfer from WIP	**147**	**(147)**	**-**
	Derecognition	**(490)**	**–**	**(490)**
	Balance at end of the year	**5 422**	**75**	**5 497**
	Amortisation and impairment losses – 2020			
	At start of year	**(5 249)**	**–**	**(5 249)**
	Amortisation	**(324)**	**–**	**(324)**
	Derecognition	**490**	**–**	**490**
	Balance at end of the year	**(5 083)**	**–**	**(5 083)**
	Net book value at end of year	**339**	**75**	**414**
	Cost - 2019			
	At start of year	5 659	87	5 746
	Acquisitions	39	97	136
	Transfer from WIP	74	(74)	-
	Write off	(15)	-	(15)
	Balance at end of the year	5 757	110	5 867
	Amortisation and impairment losses - 2019			
	At start of year	(4 868)	-	(4 868)
	Amortisation	(393)	-	(393)
	Write off	12	-	12
	Balance at end of the year	(5 249)	-	(5 249)
	Net book value at end of year	508	110	618

Included in intangible assets at 31 December 2020 are assets with a gross value of Shs 4 776 million (2019: Shs 2 099 million) which are fully depreciated but still in use. The notional depreciation charge on these assets for the year would have been Shs 646 million (2019: Shs 420 million).

The Group has not pledged any item of intangible assets as security as at December 2020 (December 2019: Nil).

Notes to the annual financial statements (continued)

for the year ended 31 December 2020

		Computer software Shs'million	WIP Shs'million	Total Shs'million
25.	**Intangible assets (continued)**			
	Bank			
	Cost - 2020			
	At start of year	**5 677**	**110**	**5 787**
	Acquisitions	**6**	**112**	**118**
	Transfer from WIP	**147**	**(147)**	**-**
	Write off	**(490)**	**–**	**(490)**
	Balance at end of the year	**5 340**	**75**	**5 415**
	Amortisation and impairment losses – 2020			
	At start of year	**(5 248)**	**–**	**(5 248)**
	Amortisation	**(314)**	**–**	**(314)**
	Write off	**490**	**–**	**490**
	Balance at end of the year	**(5 072)**	**–**	**(5 072)**
	Net book value at end of year	**268**	**75**	**343**
	Cost - 2019			
	At start of year	5 634	64	5 698
	Acquisitions	7	97	104
	Transfer from WIP	51	(51)	-
	Write off	(15)	-	(15)
	Balance at end of the year	5 677	110	5 787
	Amortisation and impairment losses - 2019			
	At start of year	(4 867)	-	(4 867)
	Amortisation	(393)	-	(393)
	Write off	12	-	12
	Balance at end of the year	(5 248)	-	(5 248)
	Net book value at end of year	429	110	539

Included in intangible assets at 31 December 2020 are assets with a gross value of Shs 4 776 million (2019: Shs 2 099 million) which are fully depreciated but still in use. The notional depreciation charge on these assets for the year would have been Shs 646 million (2019: Shs 420 million).

The Bank has not pledged any item of intangible assets as security as at December 2020 (December 2019: Nil).

26. Leasehold land

Leasehold land is carried at cost less amortisation over the period of the lease.

	Group and Bank	
	2020 Shs'million	2019 Shs'million
At start of year	**35**	45
Amortisation charge for the year	**(1)**	(1)
Reclassification to leasehold improvements	**–**	(9)
At end of year	**34**	35

Prepaid operating leases relate to land purchased on 99 year lease.

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27. Retirement benefit (liability)/asset

The Barclays Bank of Kenya Limited Staff Pension Fund ("the Fund") is a defined benefit pension fund. Prior to 1 January 2010 the Fund consisted of both a Defined Benefit ("DB") and a Defined Contribution ("DC") component. On 1 January 2010, the Fund was split into two separate legal entities, with the liabilities of the DB section remaining in the Fund, and the DC liabilities being transferred to the Barclays Bank of Kenya Limited Staff Retirement Benefits (Defined Contribution) Scheme 2009 ("the DC Fund").

The operation of the Fund is regulated by the Retirement Benefits Authority ("RBA") and subject to the provisions of the Retirement Benefits Act, 1997. The Fund is governed by the Trust Deed and Rules set out in the Fourteenth Deed of Amendment dated 12 February 2010 ("Rules").

Membership data

The membership data used for the valuation is summarised in the table below:

Category	2020 Number	2020 Annual Salary / Pension Shs'million	2019 Number	2019 Annual Salary / Pension Shs'million
Defined benefit				
Active members	3	16	3	15
Deferred pensioners	812	71	832	72
Pensioners	1 469	520	1 481	525

Summary of benefit and contribution structure

Eligibility	Existing Members who opt to remain Members of the Fund on the terms applying to DB Members.
Final Pensionable Salary	(i) If the Member has been in service for 20 years or more, the annual pensionable salary at the date of leaving. (ii) If the Member has been in service for less than 20 years, the average annual salary paid to the member during the last five years of service.
Normal Retirement Age	Males 60 Females 55 (60 for some females)
Service	Continuous service with Bank or with Barclays Bank DCO or Barclays Bank International Limited, immediately prior to the establishment of Barclays Bank of Kenya Limited. For those employees who joined the Fund aged 17 or less, service will count from the member's 17th birthday.
Normal Retirement and Late Retirement Pension	If service is 20 years or more then 1/720 of Final Pensionable Salary for each month of service to 31 December 2009. Thereafter, benefits accrue at a rate of 1/960 per month. If service is lower than 20 years 1/960 of Final Pensionable Salary for each month of service. This pension is reduced by an amount in respect of the social security pensions as described below and cannot exceed 2/3 of his or her pensionable salary at the date of retirement.
Ill-health retirement*	Pension based on potential service to Normal Retirement Age and Final Pensionable Salary at the date of ill-health retirement. This pension will be paid only if service is 5 years or more.
Retirement due to unsatisfactory service	Deferred pension payable from the later of the date the Member attains age 50 or retires from Service.
Commutation	Up to ¼ of pension (calculated on the advice of the Actuary).
Death in service	Lump sum equal to three year's annual pensionable salary, if the member has been in service for more than five years, otherwise ¼ of the member's rate of Pensionable Salary at the date of death.
Death in deferment	Lump sum equal to five times deferred pension amount.

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27. Retirement benefit (liability)/asset (continued)

Summary of benefit and contribution structure

Death after retirement	Lump sum equal to the remaining pension payable within 5 years of retirement age.
Withdrawal	Deferred Pension payable at Normal Retirement Age calculated as follows:

Service	Fraction of Pensionable Salary for each month of service to 31 December 2009
Less than 20 years	**1/960**
20 to 30 years	**1/840**
30 years and over	**1/720**

Benefits accrue at a rate of 1/960 per month for service post 1 January 2010.

In no case shall a deferred pension exceed the amount which could have been paid to the Member if he or she had stayed in service until Normal Retirement Age.

This pension is reduced by an amount in respect of the social security pensions as described below and cannot exceed 2/3 of his or her pensionable salary at the date of retirement.

A cash lump sum** equal to 1/3 of the deferred pension may be taken prior to normal retirement age, with a reduced pension being payable from normal retirement age.

Pension Increases	The Scheme Trustees may, with the consent of the Principal Employer, review pensions in payment and subject to there being sufficient funds for the purpose or the Employers paying a special additional contribution as determined by the Actuary, may increase such pensions.
Contributions	Members are not required to contribute to the Fund, although they can elect to pay voluntary contributions. The Bank contributes to the Fund, the balance of the cost of providing the benefits.
Government Pensions	If a member has completed 40 years' service a deduction is made equal to ½ of any government pension payable to a single person (for members with less than 40 years' service a percentage of this pension is deducted). In addition, a deduction equal to the pension equivalent of any sum paid by the Bank to a DB member under any statutory enactment, order, directive, or under any agreement with a trade union or similar body.

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27.1 Defined benefit plan

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	Valuation at 2020	2019
Discount rate	**12.90%**	12.80%
Expected rate of salary increase	**9.00%**	9.00%
Inflation	**7.00%**	7.00%
Mortality rate	**PA (90)**	PA (90)
Change in pensions	**4.00%**	4.00%

	Shs'million	Shs'million
Amounts recognised in profit or loss in respect of these defined benefit plans are as follows:		
Current service cost	**23**	24
Net interest income on defined benefit plan	**(2)**	(2)
	21	22

	2020 Shs'million	2019 Shs'million
Amounts recognised in other comprehensive income in respect of these defined benefit plans are as follows:		
Actuarial gain - financial assumptions	**24**	79
Actuarial gain - experience adjustment	**161**	123
Return on plan assets	**393**	(254)
Adjustments for restrictions on the defined benefit asset	**(519)**	(47)
	59	(99)

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the end of the reporting period. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

The amount included in the statement of financial position arising from the Bank's obligation in respect of its defined benefit plans is as follows:

	2020 Shs'million	2019 Shs'million
Present value of funded defined benefit obligation	**(4 231)**	(4 412)
Fair value of plan assets	**5 206**	4 753
Surplus	**975**	341
Restrictions on asset recognised	**(903)**	(341)
Net asset arising from defined benefit obligation	**72**	-

Movements in the present value of the defined benefit obligation in the current year were as follows:

	2020 Shs'million	2019 Shs'million
Opening defined benefit obligation	**(4 412)**	(4 633)
Current service cost	**(23)**	(24)
Interest expense	**(526)**	(540)
Actuarial gains - experience	**161**	123
Actuarial gains - financial assumption	**24**	79
Benefits paid	**545**	583
Closing defined benefit obligation	**(4 231)**	(4 412)

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27. Retirement benefit plans (continued)

27.1 Defined benefit plan (continued)

Movements in the present value of the plan assets in the current year were as follows:	2020 Shs'million	2019 Shs'million
Opening fair value of plan assets	**4 753**	4 894
Benefits paid	**(545)**	(583)
Contributions from the employer	**32**	121
Interest income	**571**	575
Actuarial gain/(loss) OCI	**393**	(254)
Closing fair value of plan assets	**5 204**	4 753

Movements in asset restriction in the current year were as follows:		
Opening value	**(341)**	(261)
Net interest cost	**(44)**	(33)
(Increase)/decrease in asset restriction	**(518)**	(47)
Closing value	**(903)**	(341)

Cash-flows

The cash-flows in the current and expected in the next valuation period are shown below:

	2021 Shs'million	2020 Shs'million
	Next valuation (expected)	**Current Valuation (estimated)**
Company contributions – normal	**2**	2
Company contributions - expenses	**31**	31
Pension payments	**583**	589
Other benefit payments	**-**	11
Expense payments	**18**	18

Nature of the pension fund assets

2020

	Fair value of plan assets			
	Debt instruments Shs' million	Equity instruments Shs' million	Other instruments Shs' million	Total Shs'million
Quoted fair value	**1 802**	**460**	**650**	**2 912**
Unquoted fair value	**-**	**3**	**-**	**3**
Cash and cash equivalents	**-**	**-**	**9**	**9**
Investments in real estate	**-**	**-**	**2 280**	**2 280**
	1 802	**463**	**2 939**	**5 204**
2019				
Quoted fair value	1 118	705	-	1 823
Unquoted fair value	-	-	364	364
Cash and cash equivalents	-	-	311	311
Investments in real estate	-	-	2 255	2 255
	1 118	705	2 930	4 753

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27. Retirement benefit asset (continued)

27.1 Defined benefit plan (continued)

Sensitivity analysis (continued)

The effect of certain changes to the financial and demographic assumptions is analysed below:

2020	**Base Shs'million**	**Discount rate -1.00% Shs'million**	**Discount rate +0.50% Shs'million**	**Inflation +0.50% Shs'million**	**PA(90) - 1 year Shs'million**
Active members	**60**	**67**	**57**	**64**	**62**
Deferred members	**511**	**552**	**492**	**533**	**520**
Pensions in payment	**3 660**	**3 865**	**3 565**	**3 777**	**3 764**
Total liability	**4 231**	**4 484**	**4 114**	**4 374**	**4 346**
Gross service cost (excluding interest)	**24**	**24**	**24**	**24**	**24**

2019	Base Shs'million	Discount rate -1.00% Shs'million	Discount rate +0.50% Shs'million	Inflation 0.50% Shs'million	PA(90) - 1 year Shs'million
Active members	67	75	63	71	68
Deferred members	517	560	497	541	526
Pensions in payment	3 828	4 050	3 727	3 955	3 933
Total liability	4 412	4 685	4 287	4 567	4 527
Gross service cost (excluding interest)	24	24	24	24	24

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the retirement benefit obligation to significant actuarial assumptions the same method (present value of the obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The weighted average duration of the defined benefit obligation is 50 years. The figure is not very sensitive to the precise time horizon given the high net discount rate.

28. Deferred income tax

Deferred tax balances

The analysis of the deferred tax assets and deferred tax liabilities is as follows:

	Group		**Bank**	
	2020 Shs'million	2019 Shs'million	**2020 Shs'million**	2019 Shs'million
Deferred tax assets	**4 148**	**3 214**	**4 092**	3 187
Deferred tax liabilities	**(960)**	**(91)**	**(951)**	(90)
Net deferred tax asset at the end of the year	**3 188**	3 123	**3 141**	3 097

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

The deferred income tax assets and liabilities positions shown above relate to the bank and its subsidiaries and amalgamate assets and liabilities, and thus are not specific to any particular entity. There is a net liability position relating to one of the entities that is not material.

Notes to the annual financial statements (continued)

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28. Deferred income tax (continued)

Deferred tax balances (continued)

Consolidated deferred income tax assets and liabilities are attributable to the following:

Group

	Balance at 1 January Shs'million	**Recognised in profit or loss Shs'million**	**Recognised in other comprehensive income Shs'million**	**Recognised in retained earnings Shs'million**	**Balance at 31 December Shs'million**
2020					
Property and equipment	**284**	**120**	**-**	**-**	**404**
Financial assets at FVOCI	**(121)**	**-**	**(343)**	**-**	**(464)**
Unrealised gains and losses	**(56)**	**(11)**	**-**	**-**	**(67)**
Impairment losses on financial instruments	**2 026**	**744**	**-**	**-**	**2 770**
Tax losses	**31**	**23**	**-**	**-**	**54**
Derivatives	**234**	**(663)**	**-**	**-**	**(429)**
Share based payment transactions	**90**	**23**	**-**	**-**	**113**
Provisions	**395**	**195**	**-**	**-**	**590**
Re-measurement of defined benefit liability/(asset)	**154**	**-**	**(18)**	**-**	**136**
Right of use assets	**86**	**(5)**	**-**	**-**	**81**
	3 123	**426**	**(361)**	**-**	**3 188**
2019					
Property and equipment	127	157	-	-	284
Financial assets at FVOCI	(228)	-	107	-	(121)
Unrealised gains and losses	(53)	(3)	-	-	(56)
Impairment losses on financial instruments	1 697	329	-	-	2 026
Tax losses	21	10	-	-	31
Derivatives	164	70	-	-	234
Share based payment transactions	73	17	-	-	90
Provisions	250	145	-	-	395
Re-measurement of defined benefit liability/(asset)	124	-	30	-	154
Right of use assets	-	-	-	86	86
	2 175	725	137	86	3 123

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28. Deferred tax (continued)

Deferred tax balances (continued)

Bank

	Balance at 1 January Shs'million	Recognised in profit or loss Shs'million	Recognised in other comprehensive income Shs'million	Recognised in retained earnings Shs'million	Balance at 31 December Shs'million
2020					
Property and equipment	**282**	**120**	**–**	**–**	**402**
Financial assets at FVOCI	**(118)**	**–**	**(341)**	**–**	**(459)**
Unrealised gains and losses	**(52)**	**(11)**	**–**	**–**	**(63)**
Impairment losses on financial instruments	**2 026**	**744**	**–**	**–**	**2 770**
Derivatives	**234**	**(663)**	**–**	**–**	**(429)**
Share based payment transactions	**90**	**23**	**–**	**–**	**113**
Provisions	**395**	**195**	**–**	**–**	**590**
Re-measurement of defined benefit liability/(asset)	**154**		**(18)**	**–**	**136**
Right of use assets	**86**	**(5)**	**–**	**–**	**81**
	3 097	**403**	**(359)**	**–**	**3 141**
2019					
Property and equipment	122	160	-	-	282
Financial assets at FVOCI	(226)	-	108	-	(118)
Unrealised gains and losses	(49)	(3)	-	-	(52)
Impairment losses on financial instruments	1 697	329	-	-	2 026
Derivatives	164	70	-	-	234
Share based payment transactions	73	17	-	-	90
Provisions	250	145	-	-	395
Re-measurement of defined benefit liability/(asset)	124	-	30	-	154
Right of use assets	-	-	-	86	86
	2 155	718	138	86	3 097

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	Group 2020 Shs'million	Group 2019 Shs'million	Bank 2020 Shs'million	Bank 2019 Shs'million
29. Other liabilities and accrued expenses				
Accrued expenses	**709**	628	**709**	628
Items in the course of collection due to other banks	**1 823**	2 012	**1 823**	2 012
Outstanding bankers cheques	**108**	168	**108**	168
Trade finance margins	**708**	408	**708**	408
Card settlements	**502**	242	**502**	242
Impairment losses on off-balance sheet financial instruments	**229**	152	**229**	152
Other payables	**7 006**	5 790	**6 999**	5 763
Lease liability	**1 409**	1 334	**1 409**	1 334
Post acceptance letters of credit	**3 325**	3 646	**3 325**	3 646
	15 819	14 380	**15 812**	14 353

Other payables include items relating to excise duties payable, provision for litigation, interchange payable, uncleared payments and trade payables.

Other liabilities and accrued expenses are current.

29.1 Financial guarantees, letters of credit and other undrawn commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other commitments to lend. Even though these obligations may not be recognised on the statement of financial position, they contain credit risk and, therefore, form part of the overall risk of the Bank.

Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

An analysis of changes in the outstanding exposures and the corresponding allowance for impairment losses in relation to guarantees and other commitments is set out below:

	Stage 1 Outstanding exposure Shs'million	Stage 2 Outstanding exposure Shs'million	Stage 3 Outstanding exposure Shs'million	Total Outstanding exposure Shs'million
Gross carrying amount at 1 January 2020	**94 680**	**5 929**	**57**	**100 666**
Transfer to Stage 1	**1 851**	**(1 851)**	**–**	**–**
Transfer to Stage 2	**(5 100)**	**5 102**	**(2)**	**–**
Transfer to Stage 3	**(2)**	**(1)**	**3**	**–**
Exposures that have been derecognised	**(44 130)**	**(4 068)**	**–**	**(48 198)**
New exposures	**24 351**	**21 191**	**–**	**45 542**
Gross carrying amount at 31 December 2020	**71 650**	**26 302**	**58**	**98 010**
Gross carrying amount at 1 January 2019	68 735	9 611	28	78 374
Transfer to Stage 1	15	(15)	-	-
Transfer to Stage 2	(249)	249	-	-
Transfer to Stage 3	-	(29)	29	-
Exposures that have been derecognised	(13 875)	(6 215)	-	(20 090)
New exposures	40 054	2 328	-	42 382
Gross carrying amount at 31 December 2019	94 680	5 929	57	100 666

Notes to the annual financial statements (continued)

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29 Other liabilities and accrued expenses (continued)

29.1 Financial guarantees, letters of credit and other undrawn commitments (continued)

	Stage 1 12 month ECL Shs'million	Stage 2 Lifetime ECL Shs'million	Stage 3 Lifetime ECL Shs'million	Total Shs'million
Loss allowance at 1 January 2020	**59**	**79**	**14**	**152**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**(12)**	**14**	**(2)**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Exposures that have been derecognised	**(17)**	**(48)**	**-**	**(65)**
New exposures	**67**	**74**	**1**	**142**
Loss allowance at 31 December 2020	**97**	**119**	**13**	**229**
Loss allowance at 1 January 2019	58	178	3	239
Transfer to Stage 1	1	(1)	-	-
Transfer to Stage 2	(3)	3	-	-
Transfer to Stage 3	-	(1)	1	-
Exposures that have been derecognised	(12)	(6)	-	(18)
New exposures	15	(94)	10	(69)
Loss allowance at 31 December 2019	59	79	14	152

29.2 Lease liability

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

	Group and Bank	
	2020	2019
As at 1 January	**1 334**	-
Day 1 adjustment	**-**	1 361
Additions	**128**	196
Reclassifications and adjustments	**359**	217
Payments	**(594)**	(586)
Interest	**182**	139
At 31 December	**1 409**	1 334

Maturity analysis of lease liabilities has been disclosed in Note 41.

30. Deposits from banks

	Group and Bank	
	2020	2019
Due to local banks	**3 845**	3 754
Due to foreign banks	**231**	329
	4 076	4 083

The weighted average effective interest rate on deposits and balances due to banking institutions at 31 December 2020 was 3.4% (2019: 4.6%).

Deposits and balances due to banking institutions are current.

Notes to the annual financial statements (continued)

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31. Deposits from customers

	Group		Bank	
	2020 Shs'million	2019 Shs'million	**2020 Shs'million**	2019 Shs'million
Call deposits	**12 829**	5 999	**12 829**	5 999
Savings and transmission accounts	**185 892**	176 030	**185 905**	176 030
Fixed deposits	**54 909**	55 710	**56 175**	56 262
Customer accounts	**253 630**	237 739	**254 909**	238 291

The weighted average effective interest rate on customer deposits at 31 December 2020 was 2.4% (2019: 2.8%).

The carrying value of customer deposits approximates their fair value.

Deposits of Shs 1 014 million (2019: Shs 512 million) held as collateral for loans and advances were included in deposits from customers.

	Group and Bank	
	2020 Shs'million	2019 Shs'million
32. Borrowings		
Opening balance	**7 628**	5 096
Cash flow items:		
Issuance – USD 25 Million subordinated loan	**-**	2 534
Non – cash flow items:		
Foreign currency translation	**566**	(25)
Movement in accrued interest	**17**	23
	8 211	7 628

The US$50million subordinated loan from Absa Group Limited was obtained on 26 March 2015 and has a maturity date of 26 March 2025. Interest is paid quarterly in arrears at a rate of 270bps above USD Libor which re-sets every three months.

The US$25million subordinated loan from Absa Group Limited was obtained on 16 October 2019 and has a maturity date of 16 October 2029. Interest is paid quarterly in arrears at a rate of 270bps above USD Libor which re-sets every three months.

No collateral is held against the borrowings.

The carrying value of borrowings approximates their fair value.

During the year, the effective interest on the borrowing recorded an interest expense was Shs 298 million (2019: Shs 289 million). The actual interest paid during the year was Shs 304 million (2019: Shs 262 million).

The Group did not have any defaults of principal or interest or other breaches with respect to its subordinated liabilities during the years ended 31 December 2020 and 2019.

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33. Share capital

The authorised share capital of Absa Bank Kenya PLC is Shs 2,716 million comprising 5,432 million ordinary shares with a par value of Shs 0.50 per share. The issued share capital comprises 5,432 million ordinary shares fully paid with a par value of Shs 0.50 each.

	Group and Bank	
	2020 Shs'million	2019 Shs'million
5 432 (2019: 5 432) shares of stated capital.	**2 716**	2 716
	2 716	2 716

34. Reserves

34.1 Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of financial assets classified at fair value through other comprehensive income until the instrument is derecognised or impaired; in which case the cumulative amount recognised in other comprehensive income is released to profit or loss.

34.2 Retained earnings

This reserve includes accumulated profits over the years. The retained earnings are distributable to shareholders.

34.3 Share-based payment reserve

The Bank's senior management participate in the following Absa Group share based payment arrangement:

(a) Absa Group Limited Long-Term Incentive Plan

The Long-Term Incentive Plan (LTIP) is an equity-settled share-based payment arrangement. Qualifying participants are entitled to Absa Group Limited ordinary shares either by way of a share award or a cash award that must be used to purchase Absa Group Limited ordinary shares. The award will be issued by the employing entity or subsidiary in the Group. In order for the participant to be entitled to these awards, the participant needs to render three years of service and meet requisite performance conditions.

(b) Absa Group Limited Joiners Share Value Plan

The Joiners Share Value Plan (JSVP) enables the Group to attract and motivate new employees by buying out the "in the money" portion of a participant's shares or options under their previous employers' share scheme by offering the employees Absa Group Limited awards. There is no consideration payable for the grant of an award and the vesting of the award is not subject to performance conditions. Dividends accumulate and are reinvested over the vesting period, which can be over one to five years.

(c) Absa Group Limited Share Value Plan

The Share Value Plan (SVP) awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest in equal tranches after one, two and three years, with each tranche subject to its own independent non-market-related performance condition on vesting. The amount that is paid to the cash-settled participants is equal to the market value of a number of Absa Group Limited ordinary shares, as determined on the vesting date, to the extent that the non-market-related conditions attached to the awards are met. If the Group fails to meet the minimum performance criteria, the awards made in that tranche are forfeited in total. Dividends accumulate and are reinvested over the period.

(d) Absa Group Limited Retention Share Value Plan

The Share Value Retention Plan (SVP Cliff) awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest after three years, subject to their own independent non-market related performance condition on vesting. The amount that is paid to the cash-settled participants is equal to the market value of a number of Absa Group Limited's ordinary shares, as determined on the vesting date, to the extent that the non-market related conditions attached to the awards are met. On vesting, equity-settled participants are awarded Absa Group Limited ordinary shares in settlement of their awards. If the Group fails to meet the minimum performance criteria, the awards made in that tranche are forfeited in total. Dividends accumulate and are reinvested over the vesting period.

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34 Reserves (continued)

34.3 Share-based payment reserve (continued)

(e) Deferred cash

Cash Value Plan

The Cash Value Plan ("CVP") is a deferred cash settled payment arrangement. The award will vest in three equal tranches over a period of three years, subject to the rules which includes a ten percent service credit for the third anniversary of the CVP award date. The service credit for awards granted in 2020 is 10% (2019: 10%) of the initial value of the award that vests.

Options series	Number	Exercise price	Total fair value at grant date (Shs' million)
LTIP	437 773	-	51
SVP	79 296	-	55
Share appreciation rights series	**Number**	**Exercise price**	**Total fair value at grant date (Shs' million)**
JSVP	5 559	-	5

Movements during the period

The following reconciles the share options outstanding at the beginning and end of the period:

	2020					2019				
	Opening balance	**Granted/ transferred**	**Forfeited**	**Exercised**	**Closing balance**	Opening balance	Granted/ transferred	Forfeited	Exercised	Closing balance
Equity settled:										
LTIP	**346 621**	**215 315**	**(61 639)**	**(62 524)**	**437 773**	123 846	222 775	-	-	346 621
JSVP	**-**	**-**	**-**	**-**	**-**	1 987	-	-	(1 987)	-
SVP	**28 586**	**66 489**	**(1 155)**	**(14 624)**	**79 296**	34 380	11 715	(761)	(16 748)	28 586
SIA	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
SVP Cliff	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
Cash settled										
JSVP	**5 493**	**2 342**	**-**	**(2 276)**	**5 559**	7 291	-	-	(1 798)	5 493
SVP	**88**	**-**	**-**	**(88)**	**-**	541	(176)	176	(453)	88

	Weighted average share price at exercise date during the reporting period (Shs)		Weighted average contractual life of awards outstanding (years)		Weighted average fair value of options granted during the period (Shs)	
	2020	2019	**2020**	2019	**2020**	2019
Equity settled:						
LTIP	**1 078**	-	**2**	2	**559**	1 113
JSVP	**-**	1 222	**-**	1	**-**	-
SVP	**1 316**	1 165	**1**	1	**559**	1 207
SVP Cliff	**-**	-	**-**	-	**-**	-
SIA	**-**	-	**-**	-	**-**	
Cash settled						
JSVP	**891**	1 148	**1**	1	**624**	-
SVP	**891**	1 148	**-**	1	**-**	-

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34. Reserves (continued)

Share-based payment reserve (continued)

	Group		Bank	
	2020 Shs'million	2019 Shs'million	**2020 Shs'million**	2019 Shs'million
35. Cash used in operations				
Profit before tax for the year	**5 647**	10 752	**5 100**	10 328
Adjustments for:				
Interest paid	**8 059**	6 400	**8 113**	6 400
Interest received	**(31 440)**	(28 466)	**(31 394)**	(28 430)
Gain on disposal of property and equipment	**-**	(107)	**-**	(107)
Impairment loss recognised (Note 9)	**8 585**	4 201	**8 585**	4 199
Depreciation (Note 24)	**1 022**	1 070	**1 022**	1 070
Net foreign exchange differences	**(493)**	55	**(492)**	55
Amortisation – intangible assets (Note 25)	**324**	393	**314**	393
Amortisation – leasehold land (Note 26)	**1**	1	**1**	1
Share based payments (Note 10)	**75**	56	**75**	56
Pension asset (Note 27)	**21**	21	**21**	21
Cash used in operations before working capital changes	**(8 199)**	(5 624)	**(8 655)**	(6 014)
Changes in working capital				
Increase in derivative assets	**(1 758)**	(448)	**(1 758)**	(448)
(Increase)/decrease in other assets	**(21)**	2 192	**(40)**	2 192
Increase in derivative liabilities	**(364)**	516	**(364)**	516
Increase in other liabilities	**1 774**	4 515	**1 794**	4 493
Increase in loans and advances to customers	**(21 922)**	(21 178)	**(21 922)**	(21 178)
Increase in FVOCI securities	**(9 377)**	(17 327)	**(9 303)**	(17 016)
Decrease/ (increase) in CBK cash reserve requirement	**1 702**	(1 592)	**1 677**	(1 605)
Decrease/(increase) in amounts due from group companies	**6 028**	422	**6 270**	337
Increase in amounts due to group companies	**(14 321)**	12 412	**(14 995)**	12 170
Increase in financial assets at FVTPL	**7 418**	(14 066)	**7 418**	(14 066)
(Decrease)/increase in deposits from banks	**(7)**	(1 225)	**(7)**	(1 225)
Increase in customer deposits	**15 891**	30 331	**16 618**	30 565
Total changes in working capital	**(14 957)**	(5 448)	**(14 612)**	(5 265)
Cash used in operations	**(23 156)**	(11 072)	**(23 267)**	(11 279)
36. Taxation paid				
Tax receivable (payable) at start of year	**425**	(25)	**292**	(96)
Current income tax expense (Note 13.1)	**(1 925)**	(4 021)	**(1 765)**	(3 885)
Prior year adjustment	**15**	-	**7**	-
Tax receivable at the end of the year	**(993)**	(425)	**(773)**	(292)
Total income taxes paid	**(2 478)**	(4 471)	**(2 239)**	(4 273)

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	Group and Bank	
	2020 Shs'million	2019 Shs'million
37. Dividends paid		
Dividends payable at start of the year (2019 final proposed)	**4 888**	4 888
Interim dividend paid	**-**	1 086
Dividend waiver	**(1 225)**	-
Total dividends paid	**3 663**	5 974

38. Cash and cash equivalents

For the purposes of the statement of cash flow, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition as follows:

	Group		Bank	
	2020 Shs'million	2019 Shs'million	**2020 Shs'million**	2019 Shs'million
Cash in hand (Note 15)	**5 829**	7 091	**5 829**	7 091
Non-cash reserve ratio balances with CBK	**1 652**	9 238	**1 597**	9 208
Loans and advances to banks (Note 19)	**5 648**	3 803	**5 648**	3 803
	13 129	20 132	**13 074**	20 102

Banks are required to maintain a prescribed minimum cash balance with the Central Bank of Kenya that is not available to finance the Bank's day-to-day activities.

The amount is determined as percentage of the average outstanding customer deposits over a cash reserve cycle period of one month. At the end of year, the cash reserve ratio was 4.25% (2019: 5.25%). The Bank held Shs 10 779 million as the cash reserve (2019: Shs 12 481 million).

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	Fair Value through Profit/ Loss Shs'million	Fair Value through OCI - Debt instruments Shs'million	Amortised Cost - Debt instruments Shs'million	Amortised cost financial liabilities Shs'million	Total Assets and Liabilities Shs'million
39. Financial instruments					
39.1. Categories of financial instruments					
Group					
Assets as per Statement of Financial Position - 2020					
Cash and balances with Central Bank of Kenya	–	–	18 260	–	18 260
Derivative financial assets	2 679	–	–	–	2 679
Loans and advances to customers	–	–	208 855	–	208 855
Debt instruments	36 375	89 682	–	–	126 057
Loans and advances to banks	–	–	5 648	–	5 648
Due from group companies	–	–	2 676	–	2 676
Other assets	–	–	7 261	–	7 261
	39 054	89 682	242 700	–	371 436
Liabilities as per Statement of Financial Position - 2020					
Derivative financial liabilities	1 171	–	–	–	1 171
Borrowings	–	–	–	8 211	8 211
Deposits from banks	–	–	–	4 076	4 076
Deposits from customers	–	–	–	253 630	253 630
Due to group companies	–	–	–	50 029	50 029
Other liabilities	–	–	–	15 819	15 819
	1 171	–	–	331 765	332 936
Interest income	681	8 971	22 469	–	32 121
Interest expense	–	–	–	(8 059)	(8 059)
	681	8 971	22 469	(8 059)	24 062

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39. Financial instruments (continued)

39.1. Categories of financial instruments (continued)

	Fair Value through Profit/ Loss – Held for trading Shs'million	Fair Value through OC- Debt instruments Shs'million	Amortised Cost - Debt instruments Shs'million	Amortised cost financial liabilities Shs'million	Total Assets and Liabilities Shs'million
Group					
Assets as per Statement of Financial Position - 2019					
Cash and balances with Central Bank of Kenya	-	-	21 717	-	21 717
Derivative financial instruments	921	-	-	-	921
Loans and advances to customers	-	-	194 895	-	194 895
Debt instruments	43 774	79 221	-	-	122 995
Loans and advances to banks	-	-	3 803	-	3 803
Due from group companies	-	-	8 704	-	8 704
Other assets	-	-	4 585	-	4 585
	44 695	79 221	233 704	-	357 620
Liabilities as per Statement of Financial Position - 2019					
Derivative financial instruments	1 535	-	-	-	1 535
Borrowings	-	-	-	7 628	7 628
Deposits from banks	-	-	-	4 083	4 083
Deposits from customers	-	-	-	237 739	237 739
Due to group companies	-	-	-	64 350	64 350
Other liabilities	-	-	-	6 257	6 257
	1 535	-	-	320 057	321 592
Interest income	538	8 101	22 923	-	31 562
Interest expense	-	-	-	(7 845)	(7 845)
	538	8 101	22 923	(7 845)	23 717

Notes to the annual financial statements (continued)

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39. Financial instruments (continued)

39.1 Categories of financial instruments (continued)

	Fair Value through Profit/ Loss Shs'million	Fair Value through OCI – Debt instruments Shs'million	Amortised Cost – Debt instruments Shs'million	Amortised cost financial liabilities Shs'million	Total Assets and Liabilities Shs'million
Bank					
Assets as per Statement of Financial Position – 2020					
Cash and balances with Central Bank of Kenya	–	–	18 260	–	18 260
Derivative financial assets	2 679	–	–	–	2 679
Loans and advances to customers	–	–	208 855	–	208 855
Debt instruments	36 375	89 164	–	–	125 539
Loans and advances to banks	–	–	5 648	–	5 648
Due from group companies	–	–	2 934	–	2 934
Other assets	–	–	7 206	–	7 206
	39 054	89 164	242 903	–	371 121
Liabilities as per Statement of Financial Position – 2020					
Derivative financial liabilities	1 171	–	–	–	1 171
Borrowings	–	–	–	8 211	8 211
Deposits from banks	–	–	–	4 076	4 076
Deposits from customers	–	–	–	254 909	254 909
Due to group companies	–	–	–	50 066	50 066
Other liabilities	–	–	–	15 812	15 813
	1 171	–	–	333 074	334 245
Interest income	681	8 924	22 469	–	32 074
Interest expense	–	–	–	(8 113)	(8 113)
	681	8 924	22 469	(8 113)	23 961

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39. Financial instruments (continued)

39.1. Categories of financial instruments (continued)

	Fair Value through Profit/ Loss – Held for trading Shs'million	Fair value through OCI – Debt instruments Shs'million	Amortised Cost – Debt instruments Shs'million	Amortised cost financial liabilities Shs'million	Total Assets and Liabilities Shs'million
Bank					
Assets as per Statement of Financial Position – 2019					
Cash and balances with Central Bank of Kenya	-	-	21 717	-	21 717
Derivative financial instruments	921	-	-	-	921
Loans and advances to customers	-	-	194 895	-	194 895
Debt instruments	43 774	78 785	-	-	122 559
Loans and advances to banks	-	-	3 803	-	3 803
Due from group companies	-	-	9 204	-	9 204
Other assets	-	-	4 585	-	4 585
	44 695	78 785	234 204	-	357 684
Liabilities as per Statement of Financial Position – 2019					
Derivative financial instruments	1 535	-	-	-	1 535
Borrowings	-	-	-	7 628	7 628
Deposits from banks	-	-	-	4 083	4 083
Deposits from customers	-	-	-	238 291	238 291
Due to group companies	-	-	-	65 061	65 061
Other liabilities	-	-	-	6 257	6 257
	1 535	-	-	321 320	322 855
Interest income	538	8 064	22 923	-	31 525
Interest expense	-	-	-	(7 861)	(7 861)
	538	8 064	22 923	(7 861)	23 664

Notes to the annual financial statements (continued)

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40. Risk management

40.1 Financial risk management objectives

Effective risk management and control are essential for sustainable and profitable growth

The role of risk management is to evaluate, respond to and monitor risks (the ERM process) that arise in the execution of the strategy 'to bring possibility to life'. It is essential that business growth plans are properly supported by an effective risk management infrastructure. Risk culture is closely aligned to that of the business, whilst retaining independence in analysis and objective decision-making. The Group's business involves taking on risks in a targeted manner and managing them professionally.

The core functions of the Group's risk management are to identify all key risks for the Group, measure these risks, manage the risk positions and determine capital allocations. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The main sources of financial risk that the Group faces arise from financial instruments, which are fundamental to the Group's business, and constitute the core of its operations.

Financial instruments create, modify or reduce the liquidity, credit, market and operational risks of the Group's statement of financial position and constitute the most significant sources of risk. Consequently, the Group devotes considerable resources to maintain effective controls to manage, measure and mitigate each of these risks and regularly reviews its risk management procedures and systems to ensure that they continue to meet the needs of business. This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk.

The Group has clear risk management objectives and a well-established strategy to deliver them, through core risk management processes. At a strategic level, the Group's risk management objectives are to:

- Identify the Group's significant risks;
- Formulate the Group's risk appetite and ensure that business profile and plans are consistent with it;
- Optimise risk/return decisions by taking them as closely as possible to the business, while establishing strong and independent review and challenge structures;
- Ensure that business growth plans are properly supported by effective risk infrastructure;
- Manage risk profile to ensure that specific financial deliverables remain possible under a range of adverse business conditions; and
- Help executives improve the control and co-ordination of risk taking across the business.

The Group's approach is to provide direction on:

- understanding the principal risks to achieving Group strategy;
- establishing risk appetite; and
- establishing and communicating the risk management framework.

Notes to the annual financial statements (continued)

for the year ended 31 December 2020

40. Risk management

40.1 Financial risk management objectives

Effective risk management and control are essential for sustainable and profitable growth (continued)

The process is then broken down into five steps: identify, assess, control, report and manage/challenge. Each of these steps is broken down further, to establish end-to-end activities within the risk management process and the infrastructure needed to support it (see panel below). The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance. The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

Steps	Activity
Identify	- Establish the process for identifying and understanding business-level risks
Assess	- Agree and implement measurement and reporting standards and methodologies.
Control	- Establish key control processes and practices, including limit structures, impairment allowance criteria and reporting requirements - Monitor the operation of the controls and adherence to risk direction and limits - Provide early warning of control or appetite breaches - Ensure that risk management practices and conditions are appropriate for the business environment
Report	- Interpret and report on risk exposures, concentrations and risk-taking outcomes - Interpret and report on sensitivities and key risk indicators - Communicate with external parties
Manage and challenge	- Review and challenge all aspects of the Bank's risk profile - Assess new risk-return opportunities - Advise on optimising the Bank's risk profile - Review and challenge risk management practices

Risk responsibilities

The Group achieves its risk management objectives by keeping risk management at the centre of the executive agenda and building a culture that combines risk management with everyday business decision-making. The risks arising from financial instruments to which the Bank is exposed are:

Financial risks

(a) Credit risk;
(b) Liquidity risk;
(c) Market risk

On a day-to-day basis risks are managed through a number of management committees. Through this process the Bank monitors compliance within the overall risk policy framework and ensures that the framework is kept up to date.

The Board approves risk appetite and the Board Audit and Risk Committee (BARC) monitors the Bank's risk profile against this appetite. In more detail:

- The BARC has responsibility for ensuring effective risk management and control.
- Business Heads are responsible for the identification and management of risk in their businesses.
- Business risk teams are responsible for assisting Business Heads in the identification and management of their business risk profiles for implementing appropriate controls.
- Internal Audit is responsible for the independent review of risk management and the control environment.
- The Asset and Liability Committee (ALCO) is tasked with managing financial risk, specifically liquidity, interest rates, market risk, capital management and balance sheet structure.

Notes to the annual financial statements (continued)

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40. Risk management (continued)

40.1 Financial risk management objectives (continued)

Risk responsibilities (continued)

The Committee meets at least once a month and is instrumental in ensuring that sustainable and stable returns are obtained from the deployment of the Bank's assets within a framework of financial risks and controls. ALCO is chaired by the Managing Director and its membership comprises the Chief Financial Officer, Country Treasurer, Head of Corporate Banking, Head of Consumer Banking, the Chief Operating Officer and the Chief Risk Officer.

40.2 Credit risk

Credit risk is the risk of suffering financial loss should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. The credit risk that the Group faces arises mainly from wholesale and retail loans and advances together with the counterparty credit risk arising from derivative contracts entered into with clients. Other sources of credit risk arise from trading activities, including debt securities; settlement balances with market counterparties, fair value through other comprehensive income (FVOCI) assets and reverse repurchase loans. Credit risk furthermore arises from the granting of financial guarantees or making loan commitments.

Credit risk management objectives are to:

- establish a framework of controls to ensure credit risk-taking is based on sound credit risk management principles;
- identify, assess and measure credit risk clearly and accurately across the Group and within each separate business, from the level of individual facilities up to the total portfolio;
- control and plan credit risk-taking in line with external stakeholder expectations and avoiding undesirable concentrations;
- monitor credit risk and adherence to agreed controls; and
- ensure that risk-reward objectives are met.

The Group manages credit risk by:

- Defining clear risk appetite thresholds and triggers, using applicable stress test measures.
- Ensuring maximum exposure guidelines are in place relating to the exposures to any individual customer or counterparty.
- Controlling concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups of borrowers, countries, and to industry segments.
- Clearly understanding the target market.
- Establishing risk acceptance criteria.
- Undertaking sound credit origination, monitoring and account management.
- Ensuring appropriate risk infrastructure and controls.

The Group has an established framework, and related processes, which govern its approach to credit risk management and any resultant impairment of loans and advances. The governance process includes the existence of the Credit Risk Technical Forum, Executive Risk Committee (ERC), Retail Impairment Review Committee, Scheme Loans Review Committee, Corporate and Investment Bank Models Forum, and AVAF portfolio quality Review Committee whose remit includes:

- the development, implementation and evaluation of risk and impairment models;
- periodic assessment (at least annually) of the accuracy of the models against actual results; and
- approval of new models or changes to models, in line with the model validation framework.

The aforementioned committees also approve post model adjustments applied to models. Retail impairment allowances are subject to quarterly impairment adequacy reviews and approval by the Retail Impairment Adequacy Forum. Wholesale impairment allowances are subject to monthly impairment adequacy reviews and approval by the Wholesale Impairment Governance Forum.

The consideration of credit risk is a fundamental process for the Group as it ultimately determines the impairment losses recognised from an accounting perspective. This section describes the processes and assumptions applied in estimating impairment.

Notes to the annual financial statements (continued)

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40. Risk management (continued)

40.2 Credit risk (continued)

Approach to credit modelling/internal ratings

The principal objective of credit measurement is to produce the most accurate possible quantitative assessment of credit risk to which the Group is exposed from the level of individual facilities up to the total portfolio level. Integral to this is the calculation of internal credit parameters which are used for credit risk management purposes and in the calculation of regulatory capital, economic capital and impairment requirements.

The key credit parameters used in this process are:

- probability of default (PD): the likelihood of a customer defaulting on its obligations within the appropriate outcome period;
- exposure at default (EAD): an estimate of the level of credit exposure should the customer default during the appropriate outcome period; and
- loss given default (LGD): an estimate of the percentage of EAD that will not be recovered on a particular credit facility should the customer default during the outcome period. LGD recognises credit risk mitigation, such as collateral or credit derivatives.

Internal and vendor-supplied credit models are used to estimate the key credit parameters of PD, LGD and EAD. The Group uses different modelling methodologies, ranging from pure statistical models and cash flow models to expert-based models, taking into account quantitative and qualitative risk drivers. PD, LGD and EAD estimates can be calculated to represent different views of the credit cycle, which are used in different applications. For example, PD estimates can be calculated on a through-the-cycle (TTC) basis, reflecting the predicted default frequency in an average 12-month period across the credit cycle, or on a point-in-time (PIT) basis, reflecting the predicted default frequency in the next 12 months for a particular period in the credit cycle. EAD and LGD estimates can be calculated as downturn measures, reflecting behaviour observed under stressed economic conditions, or as business-as-usual measures, reflecting behaviour under normal conditions.

These parameters are used for the following credit risk management purposes:

- Credit approval: PD models are used in the approval process in both retail and wholesale portfolios. In high-volume retail portfolios, application and behaviour scorecards are frequently used as decision-making tools. In wholesale and certain retail portfolios, PD models are used to direct applications to an appropriate credit sanctioning level.
- Risk-reward and pricing: PD, EAD and LGD metrics are used to assess the profitability of deals and portfolios and to allow for risk-adjusted pricing and strategy decisions.
- Risk appetite: Regulatory capital, economic capital and earnings volatility measures are used in the Group's risk appetite framework.
- Economic Capital calculations: Credit economic capital calculations use PD, LGD and EAD inputs.
- Risk profile reporting: Credit risk reports for senior management make use of model outputs to describe the Group's credit risk profile.

Validation of models

Models undergo independent validation when new models have been developed (initial validation) and on an annual basis (on-going validation). Models are approved by the respective Chief Risk Officers supported by either the Relationship Banking Models Forum or the Corporate and Institutional Banking (CIB) Credit Models Forum. The most material models require approval by the AGL Models Committee (MC). The forum outputs are subject to oversight and ratification /approval by the Board Audit and Risk and Board credit committees with technical support and expertise from AGL

Default grades

The Group uses two types of PDs, namely:

- The through-the-cycle (TTC) PD, which reflects the Group's assessment of the borrower's long-run average propensity to default in the next year; and
- The point-in-time (PIT) PD, which calculated factoring the current economic, industry and borrower circumstances.

Both types of PDs are used extensively in the Group's decision-making processes. For communication and comparison purposes, the Group's 21 default grades (DGs), were mapped to external agency rating equivalents. DG grading represents a TTC view of the distribution of the book at a specific point in time. The indicative mapping of the DG buckets to the equivalent international rating agency and regulatory PD bands are described below:

- DG 1 – 9: assets falling within these DG buckets are regarded as 'investment grade' and, when converted to a rating agency equivalent, correspond to a BBB- rating or better.
- DG 10 – 19: financial assets in these grades typically require more detailed management attention where clear evidence of financial deterioration or weakness exists. Assets in this category, although currently protected, are potentially weaker credits. These assets contain some credit deficiencies. When converted to a rating agency equivalent, these ratings correspond to a BB+ to B- rating.

Notes to the annual financial statements (continued)

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40. Risk management (continued)

40.2 Credit risk (continued)

- DG 20 – 21: the PD of financial assets in these grades have deteriorated to such an extent that they are included for regular review. Assets so classified must have well defined weaknesses that exacerbate the PD. These assets are characterised by the distinct possibility that the borrower will default, and should the collateral pledged be insufficient to cover the asset, the Group will sustain some loss when default occurs.
- Default: assets classified as in default are characterised by the distinct possibility that the borrower will default, and should the collateral pledged be insufficient to cover the asset, the Bank will sustain some loss when default occurs.

Approach to impairment of credit exposures

The measurement of ECL involves a significant level of complexity and judgement, including estimation of probabilities of default, loss given default, a range of unbiased future economic scenarios, estimation of expected lives, and estimation of exposures at default and assessing significant increases in credit risk.

The calculation of ECL incorporates the probability that a credit loss will occur, as well as the probability that no credit loss occurs, even if the most likely outcome is no credit loss. The estimate reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. In some cases, relatively simple modelling is considered to be sufficient, without the need to consider the outcome under different scenarios. For example, the average credit losses of a large group of financial instruments with shared risk characteristics may be a reasonable estimate of the probability-weighted amount. In other situations, the identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes will be needed.

Under IFRS 9, the Group recognises ECL based on a stage allocation methodology, with such categorisation informing the level of provisioning required. The ECL allowance calculated on stage 1 assets reflects the lifetime losses associated with events of default that are expected to occur within 12 months of the reporting date (12 month ECL). Assets classified within stage 2 and stage 3 carry an ECL allowance calculated based on the lifetime losses associated with defaults that are expected to occur over the lifetime of the exposure (lifetime ECL). The assessment of whether an exposure should be transferred from stage 1 to stage 2, is based on whether there has been a significant deterioration in credit risk. This is a relative measure, where the credit risk at the reporting date is compared to the risk that existed upon initial recognition of the instrument. Exposures are classified within stage 3 if they are credit impaired.

For the purposes of credit modelling under IFRS 9, the PD is calculated on a Point-in-time (PIT) basis and reflects the likelihood of default assessed on the prevailing economic conditions at the reporting date, adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default. PIT PDs do not equate to a long run average. This is a key distinction between the IFRS 9 ECL models and the Group's Basel III models. Under Basel III, the PD is the average of default within the next 12 months, calculated based on the long-run historical average over the full economic cycle (that is, TTC). For IFRS 9 purposes, two distinct PD estimates are required:

Approach to impairment of credit exposures (continued)

- Lifetime PD: the likelihood of accounts entering default during the remaining life of the asset.
- 12 month PD: the likelihood of accounts entering default within 12 months of the reporting date.

The general approach to the IFRS 9 LGD models has been to leverage the Basel LGD models with bespoke IFRS 9 adjustments to ensure unbiased estimates. In calculating LGD, losses are discounted to the reporting date using the effective interest rate (EIR) determined at initial recognition or an approximation thereof. For debt instruments, such as loans and advances, the discount rate applied is the EIR calculated on origination or acquisition date. For financial guarantee contracts or loan commitments for which the EIR cannot be determined, losses are discounted using a rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows (to the extent that such risks have not already been taken into account by adjusting the cash shortfalls).

The EAD model estimates the exposure that an account is likely to have at any point of default in future. This incorporates both the amortising profile of a term loan, as well as behavioural patterns such as the propensity of the client to draw down on unutilised facilities in the lead up to a default event.

Expert credit judgement may, in certain instances be applied to account for situations where known or expected risk factors have not been considered in the ECL assessment or modelling process, or where uncertain future events have not been incorporated into the modelled approach. Adjustments are intended to be short term measures and will not be used to incorporate any continuous risk factors. The Group has a robust policy framework which is applied in the estimation and approval of management adjustments.

Notes to the annual financial statements (continued)

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40. Risk management (continued)

40.2 Credit risk (continued)

Retail portfolio

Ratings assigned across each retail portfolio are based on automated application and behavioural scoring systems. The underlying rating is calculated at point of application and updated monthly thereafter. The rating is used in decisions concerning underwriting and account management, and is used to calculate RC, EC and IFRS 9 ECL.

The methodology and data employed in the risk estimation and the rating processes can be summarised as follows:

(i) Internal risk estimates of PD, EAD and LGD are grounded in historical experience and are reliant on historical data.

(ii) PDs are assigned at account level, and consist of three elements namely:

- a term structure, capturing typical default behaviour by the months since observation;
- a behavioural model which incorporates client level risk characteristics; and
- a macro-economic model that incorporates forward looking macro-economic scenarios.

(iii) EADs are assigned at an account level and are based on the EAD pool to which the account has been assigned. EAD estimates incorporate all relevant data and information including account balances as well as utilised and unutilised limits, if present.

(iv) LGDs are assigned at account level and are based on the LGD pool to which the account has been assigned. Relevant historical data used in LGD estimates include observed exposure at the point of default, recovery strategies, re-defaults, cure and write-off rates. The models make use of risk drivers such as loan-to-value (LTV) and attributes that describe the underlying asset.

Wholesale portfolio

The wholesale rating process relies both on internally developed PD, EAD and LGD rating models and vendor provided solutions. The wholesale rating process relies on quantitative and qualitative assessments that could be manual or automated. Wholesale PDs and LGDs are modelled using the parameters from regulatory models as starting point. Parameters are adjusted for differences between requirements under Basel III and IFRS 9.

PD ratings are assigned on a customer level. Information used in the calculation of customer PD ratings includes financial statements, projected cash flows, equity price information, behavioural information; and qualitative assessments on strength of support, management, operating environment, industry, etc. In converting Basel III compliant PDs to PDs appropriate for the purposes of IFRS 9, the main adjustments effected comprise:

- a macroeconomic adjustment that changes the paradigm from a long-run average default rate to a PD that reflects the prevailing macroeconomic conditions, thereby adjusting the PD from a seven year historical average to a PD reflective of the macroeconomic environment at the reporting date; and
- an adjustment to the regulatory PD to convert it from a PD over 12 months, to a PD over the lifetime of an exposure, to be able to assess significant increases in credit risk and estimate lifetime provisions for stage 2.

LGD estimates depend on the key drivers of recovery such as collateral value, seniority and costs involved as part of the recovery process. LGD models are based on internal and external loss data and the judgement of credit experts. EAD models aim to replicate the expected utilisation of a customer's facility should a default occur. EADs are assigned for each facility using models incorporating internal and external default data as well as the experience of credit experts in relation to particular products or customer groups.

The main adjustments to LGD comprise a macroeconomic adjustment that changes the long-run LGD to reflect a given macroeconomic scenario. Lifetime projections of LGD take into account the expected balance outstanding on a loan at the time of default, as well as the value of associated collateral at that point in time.

Definition of a significant increase in credit risk:

The Group uses various quantitative, qualitative and back stop measures as indicators of a significant increase in credit risk. The thresholds applied for each portfolio will be reviewed on a regular basis to ensure they remain appropriate. Where evidence of a significant increase in credit risk is not yet available at an individual instrument level, instruments that share similar risk characteristics are assessed on a collective basis.

Key drivers of a significant increase in credit risk include:

- Where the weighted average probability of default (PD) for an individual exposure or group of exposures as at the reporting date evidences a material deterioration in credit quality, relative to that determined on initial recognition;
- Adverse changes in payment status and where accounts are more than 30 days in arrears at reporting date. In certain portfolios a more conservative arrears rule is applied where this is found to be indicative of increased credit risk (e.g. 1 day in arrears);
- Accounts in the Retail portfolio which meet the portfolio's impairment high risk criteria; and
- The Group's watch list framework applied to the Wholesale portfolio, which is used to identify customers facing financial difficulties or where there are grounds for concern regarding their financial health.

Notes to the annual financial statements (continued)

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40. Risk management (continued)

40.2 Credit risk (continued)

Wholesale portfolio (continued)

Definition of credit impaired

Assets classified within stage 3 are considered to be credit impaired and applies when an exposure is in default. Important to the Group's definition of default, is the treatment of exposures which are classified as within forbearance. Forbearance is a concession granted to counterparty for reasons of financial difficulty that would not otherwise be considered by the Group. The definition of forbearance is not limited to measures that give rise to an economic loss (that is, a reduction in the counterparty's financial obligation).

Default within Wholesale and Retail is aligned with the regulatory definition, and therefore assets are classified as defaulted when either:

- The Group considers that the obligor is unlikely to pay its credit obligations without recourse by the Group to actions such as realising security. Elements to be taken as indications of unlikeliness to pay include the following:
- The Group consents to a distressed restructuring / forbearance of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness of principal, interest or fees;
- The customer is under debt review, business rescue or similar protection; or,
- Advice is received of customer insolvency or death.
- The obligor is past due 90 days or more on any credit obligation to the Group.

In addition, within the Retail portfolios:

- All forms of forbearance are treated as in default, regardless of whether the restructure has led to a diminished financial obligation or not; and
- The Group requires an exposure to reflect at least 12 consecutive months of performance, in order to be considered to have been cured from stage 3. This probation period applies to all exposures, including those that may have been classified as defaulted for reasons other than forbearance and debt review (e.g. owing to the fact that they become more than 90 days past due).

Determination of the lifetime of a credit exposure:

The determination of initial recognition and asset duration (lifetime) are critical judgements in determining quantum of lifetime losses that apply. The date of initial recognition reflects the date that a transaction (or account) was first recognised on the statement of financial position. The PD recorded at this time provides the baseline used for subsequent determination of a significant increase in credit risk.

When determining the period over which the entity is expected to be exposed to credit risk, but for which the ECL would not be mitigated by the entity's normal credit risk management actions, the Group considers factors such as historical information and experience about:

- the period over which the entity was exposed to credit risk on similar financial instruments;
- the length of time for related defaults to occur on similar financial instruments following a significant increase in credit risk; and
- the credit risk management actions that an entity expects to take once the credit risk on the financial instrument has increased, such as the reduction or removal of undrawn limits.

For asset duration, the approaches which are applied (in line with IFRS 9 requirements) are:

- Term lending: the contractual maturity date, reduced for behavioural trends where appropriate (such as, expected settlement and amortisation); and
- Revolving facilities: for Retail portfolios, asset duration is based on behavioural life and this is normally greater than contractual life. For Wholesale portfolios, a sufficiently long period to cover expected life modelled and an attrition rate is applied to cater for early settlement.

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40. Risk management (continued)

40.2 Credit risk (continued)

Wholesale portfolio (continued)

Macroeconomic scenarios

ECL estimation must reflect an unbiased and probability-weighted estimate of future losses determined by evaluating a range of possible macroeconomic outcomes. While economic activity has started to recover due to the easing of lockdown restrictions, economic concerns remain due to higher levels of unemployment and the risk of a possible resurgence of the virus. Such risks have been incorporated in the scenarios used to calculate the Group's ECL charge at 31 December 2020.

The Group considers several factors in the development of its macroeconomic scenarios including economic growth/contraction and expected recovery, expected inflation, sector specific impacts, business confidence, property prices, household spending, exchange rate fluctuations, unemployment rates, key fiscal responses initiated by governments and regulatory actions.

A 40% probability weighting was applied to the baseline scenario; with a 30% probability weighting applied to both the upside and downside scenarios. In the normal course of events, Group Economics refresh the macroeconomic scenarios used to calculate the Group's ECL charge semi-annually. Primary forecasts are updated more regularly. Unexpected large changes in primary forecasts may warrant a revision of the macroeconomic scenarios.

The following table shows the key forecast assumptions for the three economic scenarios as at 31 December 2020:

	Baseline					Downside					Upside				
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
Real GDP (%)	1.6	3.9	5.0	5.4	5.5	(0.4)	3.5	3.3	2.8	2.7	2.7	5.1	5.9	6.0	6.1
CPI (%)	5.2	5.1	5.3	4.5	5.4	7.3	6.1	5.2	5.0	3.0	4.1	2.9	5.2	5.1	5.3
Average policy rate (%)	7.0	7.00	7.5	7.5	7.0	9.0	8.5	8.0	6.8	6.5	7.0	7.0	7.0	7.0	7.5

The following table shows the key forecast assumptions for the three economic scenarios as at 31 December 2019:

	Baseline					Downside					Upside				
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
Real GDP (%)	5.5	6.2	6.3	6.4	6.5	6.2	7.1	7.1	7.3	6.6	3.9	4.1	4.0	5.4	6.7
CPI (%)	5.2	5.7	5.0	4.9	4.9	4.8	4.3	4.2	5.0	5.1	6.0	7.5	5.6	4.8	4.8
Average policy rate (%)	8.7	8.9	9.0	9.2	9.3	7.5	7.3	8.0	9.1	9.3	11.2	11.4	9.8	9.2	9.3

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.

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40. Risk management (continued)

40.2 Credit risk (continued)

Wholesale portfolio (continued)

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.

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.

Sensitivity of expected credit losses

Given the level of uncertainty required in the determination of ECL, the Group has conducted a sensitivity analysis in order to indicate the impact on the ECL when assigning a probability weighting of 100% to each macroeconomic variable scenario. The analysis only reflects the impact of changing the probability assigned to each scenario to a 100% and does not include management adjustments required to provide a more appropriate assessment of risk.

	Shs' million
ECL allowance	
Baseline	5 482
Downside	10 313

Macro Impacts Decision Framework Overview

Below is an overview of the decision framework structure required to assess the macro impacts, determine the respective Management Adjustments (MA)

Step 1 – Assess the existing Macro-economic (MEV) model

Step 2 – Analyse the impacts from using

i. Current MEV models used as the primary basis for the MA's

ii. MEV model + Judgement used as a base with specific MA's to address model shortfalls.

iii.Expert Judgement - Rebuild model with fewer / alternative variables ,Replace model scalars with more representative scalars based on assessments as an Alternative approach to incorporating MEV

Step 3 – Sense check on outputs

Step 4 – Approval of adjustments through appropriate governance

Step 5 – Management Adjustments monitoring

The above framework is to provide a consistent approach to determine Management Adjustments and follow an auditable process with clear governance throughout the process in line with the Banks policy.

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40. Risk management (continued)

40.2 Credit risk (continued)

Log-normal Judgmental Benchmarks – This non-model approach was used based on historical PD

- Modify base PDs to average 6 spot PDs
- Adjust historical PD for idiosyncratic stress
- Establish the equivalent 1/x under new lognormal benchmarks. PD benchmark stresses calculated relative to the actual PDs and not an assumed 1/5 PD as the stresses will be applied to the actual PDs in practice
- A robust rationale must be provided final choice of 1/x supported by the H2 macro outlook and other portfolio dynamics.
- A 1/x severity stress should be consistent across all portfolios in a market as the variations in portfolio performance in a 1/x should reflect in the underlying PDs.

Macro-economic Forward Looking Provisions YTD 2020

The nature of the economic stress under COVID-19 is unique, and historic correlations between macro-economic variables and credit risk may no longer hold. New SICR (Significant Increase In Credit Risk) criteria that is representative of the current environment was informed in H1 2020 and extended in H2 2020 to consider stock taken over and above the model for Stage 2a, 2b and 3; previously only 2a.

Additional forward-looking provisions of Shs 1,139m taken - Macroeconomic overlay (Shs 850m) and SICR Expedient (Shs 289m).

Risk limit control and mitigation policies

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

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

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

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

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

Collateral

The Group routinely obtains collateral and security to mitigate credit risk. The Group ensures that any collateral held is sufficiently liquid, legally effective, enforceable and regularly reassessed.

Before attaching value to collateral, business holding approved collateral must ensure that they are legally perfected devoid of any encumbrances. Security structures and legal covenants are subject to regular review, at least annually, to ensure that they remain fit for purpose and remain consistent with accepted local market practice.

The principal collateral types held by the Group for loans and advances are:

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

Valuation of collateral taken will be within agreed parameters and will be conservative in value. The valuation is performed only on origination or in the course of enforcement actions. Within the corporate sectors, collateral for impaired loans including guarantees and insurance is reviewed regularly and at least annually to ensure that it is still enforceable and that the impairment allowance remains appropriate given the current valuation.

The Group will consider all relevant factors, including local market conditions and practices, before any collateral is realized.

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40. Risk management (continued)

40.2 Credit risk (continued)

40.2.1 Maximum credit risk exposure

		12 months expected credit losses – stage 1			Lifetime expected credit losses – stage 2			Credit impaired – stage 3
	Gross Maximum Exposure Shs'million	DG1-9 Shs'million	DG 10-19 Shs'million	DG 20-21 Shs'million	DG1-9 Shs'million	DG 10-19 Shs'million	DG 20-21 Shs'million	DG 20 – 22 Shs'million
2020								
Balances with Central Bank of Kenya	12 435	11 030	1 405	–	–	–	–	–
Financial assets at FVTPL	36 375	–	–	–	–	–	–	–
Derivative financial assets	2 679	–	–	–	–	–	–	–
Investment securities designated at FVOCI	89 799	89 799	–	–	–	–	–	–
Loans and advances to banks	5 648	–	5 648	–	–	–	–	–
Balances due from group companies	2 676	2 676	–	–	–	–	–	–
Other assets	5 816	5 816	–	–	–	–	–	–
Loans and advances to customers	225 294	14 484	164 417	755	–	19 266	9 815	16 557
Total gross maximum exposure to credit risk	380 722	123 805	171 470	755	–	19 266	9 815	16 557
Expected credit losses	(16 439)	(35)	(2 804)	(22)	–	(598)	(4 170)	(8 810)
Total financial assets per the statement of financial position	364 283	123 770	168 666	733	–	18 668	5 645	7 747
Off balance sheet exposure	98 033	10 873	68 758	–	–	17 080	1 257	65

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40. Risk management (continued)

40.2 Credit risk (continued)

40.2.1 Maximum credit risk exposure (continued)

		12 months expected credit losses - stage 1			Lifetime expected credit losses - stage 2			Credit impaired - stage 3
	Gross Maximum Exposure Shs'million	DG1-9 Shs'million	DG10-19 Shs'million	DG20-21 Shs'million	DG1-9 Shs'million	DG10-19 Shs'million	DG 20 – 21 Shs'million	DG 20 – 22 Shs'million
2019								
Balances with Central Bank of Kenya	21 719	11 950	9 769	-	-	-	-	-
Financial assets at FVTPL	43 774	-	-	-	-	-	-	-
Derivative financial assets	921	-	-	-	-	-	-	-
Investment securities designated at FVOCI	79 281	79 281	-	-	-	-	-	-
Loans and advances to banks	3 803	1 217	2 586	-	-	-	-	-
Balances due from group companies	8 704	8 704	-	-	-	-	-	-
Other assets	4 585	4 585	-	-	-	-	-	-
Loans and advances to customers	205 915	1 959	170 851	1 543	3 000	9 153	8 620	10 789
Total gross maximum exposure to credit risk	368 702	107 696	183 206	1 543	3 000	9 153	8 620	10 789
Expected credit losses	(11 084)	(66)	(2 227)	(182)	(20)	(458)	(1 656)	(6 475)
Total financial assets per the statement of financial position	357 618	107 630	180 979	1 361	2 980	8 695	6 964	4 314
Off balance sheet exposure	100 666	7 465	73 880	1	8 880	8 577	1 803	60

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40. Risk management (continued)

40.2 Credit risk (continued)

40.2.2 Analysis of credit risk mitigation and collateral

		Collateral – credit impaired financial assets					Collateral – All other financial assets					
	Exposure relating to on SOFP	Guarantees credit insurance and credit derivatives	Physical collateral	Cash collateral	Other	Unsecured	Guarantees credit insurance and credit derivatives	Physical collateral	Cash collateral	Other	Unsecured	Net exposure
2020	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**
Balances with Central Bank of Kenya	**12 435**	–	–	–	–	–	–	–	–	–	–	**12 435**
Financial assets at fair value through other comprehensive income	**89 799**	–	–	–	–	–	–	–	–	–	–	**89 799**
Derivative financial assets	**2 679**	–	–	**2 679**	–	–	–	–	–	–	–	**-**
Financial assets at fair value through profit or loss	**36 375**	–	–	–	–	–	–	–	–	–	–	**36 375**
Loans and advances to banks	**5 648**	–	–	–	–	–	–	–	–	–	–	**5 648**
Other assets	**5 816**	–	–	–	–	–	–	–	–	–	–	**5 816**
Loans and advances to customers	**234 753**	**250**	**5 248**	**1**	**2 188**	**8 880**	**13 422**	**82 753**	**846**	**2 132**	**119 033**	**-**
Credit exposures relating to off-balance sheet items	**98 033**	–	**42**	–	**2**	**12**	**349**	**3 894**	**133**	**511**	**14 880**	**78 210**
Balances due from group companies	**2 676**	–	–	–	–	–	–	–	–	–	–	**2 676**
	488 214	**250**	**5 290**	**2 680**	**2 190**	**8 892**	**13 771**	**86 647**	**979**	**2 643**	**133 913**	**230 959**

		Collateral – credit impaired financial assets					Collateral – All other financial assets					
	Exposure relating to on SOFP	Guarantees credit insurance and credit derivatives	Physical collateral	Cash collateral	Other	Unsecured	Guarantees credit insurance and credit derivatives	Physical collateral	Cash collateral	Other	Unsecured	Net exposure
2019	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**	**Shs' million**
Balances with Central Bank of Kenya	21 719	-	-	-	-	-	-	-	-	-	-	21 719
Financial assets at fair value through other comprehensive income	79 281	-	-	-	-	-	-	-	-	-	-	79 281
Derivative financial assets	921	-	-	921	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	43 774	-	-	-	-	-	-	-	-	-	-	43 774
Loans and advances to banks	3 803	-	-	-	-	-	-	-	-	-	-	3 803
Other assets	4 585	-	-	-	-	-	-	-	-	-	-	4 585
Loans and advances to customers	194 895	48	491	264	141	840	1 320	12 502	132	940	18 346	159 871
Credit exposures relating to off-balance sheet items	100 666	-	2	-	2	4	266	2 445	193	206	9 135	88 413
Balances due from group companies	8 704	-	-	-	-		-	-	-	-	-	8 704
	458 348	48	493	1 185	143	844	1 586	14 947	325	1 146	27 481	410 150

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40. Risk management (continued)

40.2 Credit risk (continued)

40.2.3 Industry analysis

Group and Bank 2020	**Financial services Shs' million**	**Government Shs' million**	**Manufacturing Shs' million**	**Wholesale and retail trade Shs' million**	**Transportation and communication Shs' million**	**Agricultural Shs' million**	**Private individuals Shs' million**	**Other Shs' million**	**Total Shs' million**
Financial assets									
Cash and balances with Central Bank of Kenya	**-**	**18 260**	**-**	**-**	**-**	**-**	**-**	**-**	**18 260**
Loans and advances to banks	**5 648**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5 648**
Derivative financial instruments	**1 432**	**-**	**62**	**-**	**9**	**865**	**-**	**308**	**2 676**
Financial assets at FVTPL	**-**	**36 375**	**-**	**-**	**-**	**-**	**-**	**-**	**36 375**
Financial assets at FVOCI	**-**	**89 682**	**-**	**-**	**-**	**-**	**-**	**-**	**89 682**
Loans and advances to customers	**1 395**	**-**	**37 833**	**29 184**	**8 626**	**11 437**	**99 439**	**20 941**	**208 855**
	8 475	**144 317**	**37 895**	**29 184**	**8 635**	**12 302**	**99 439**	**21 249**	**361 496**
2019									
Cash and balances with Central Bank of Kenya	-	28 808	-	-	-	-	-	-	28 808
Loans and advances to banks	3 803	-	-	-	-	-	-	-	3 803
Derivative financial instruments	550	-	204	-	-	161	-	6	921
Financial assets at FVTPL	-	43 774	-	-	-	-	-	-	43 774
Financial assets at FVOCI	-	79 221	-	-	-	-	-	-	79 221
Loans and advances to customers	-	-	36 537	33 052	5 168	8 436	89 217	22 485	194 895
	4 353	151 803	36 741	33 052	5 168	8 597	89 217	22 491	351 422

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40. **Risk management (continued)**

40.2 **Credit risk (continued)**

40.2.4 **Loans and advances to customers**

The total impairment provision for loans and advances represents both individually impaired loans and loans assessed on a portfolio basis.

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

	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
Gross carrying amount at 1 January 2020	**184 102**	**11 047**	**10 766**	**205 915**
Transfer to Stage 1	**932**	**(828)**	**(104)**	**-**
Transfer to Stage 2	**(11 784)**	**11 846**	**(62)**	**-**
Transfer to Stage 3	**(1 787)**	**(1 641)**	**3 428**	**-**
Financial assets that have been derecognised	**(93 273)**	**(4 794)**	**(4 365)**	**(102 432)**
Write-offs	**-**	**-**	**(2 999)**	**(2,999)**
New financial assets originated	**101 237**	**13 768**	**9 805**	**124 810**
Gross carrying amount at 31 December 2020	**179 427**	**29 398**	**16 469**	**225 294**
Gross carrying amount at 1 January 2019	167 969	9 314	10 297	187 580
Transfer to Stage 1	(3 395)	1 425	1 970	-
Transfer to Stage 2	(4 054)	2 457	1 597	-
Transfer to Stage 3	(498)	(557)	1 055	-
Financial assets that have been derecognised	(84 750)	(9 794)	(1 337)	(95 881)
Write-offs	-	-	(3 386)	(3 386)
New financial assets originated	108 830	8 202	570	117 602
Gross carrying amount at 31 December 2019	184 102	11 047	10 766	205 915

The weighted average effective interest rate on loans and advances at 31 December 2020 was 10.7% (2019: 11.3%).

Collectively assessed

	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
Loss allowance at 1 January 2020	**1 448**	**1 450**	**4 490**	**7 388**
Transfer to Stage 1	**544**	**(445)**	**(99)**	**-**
Transfer to Stage 2	**(52)**	**100**	**(48)**	**-**
Transfer to Stage 3	**(32)**	**(634)**	**666**	**-**
Financial assets that have been derecognised	**(493)**	**(1 164)**	**(556)**	**(2 213)**
Write-offs	**-**	**-**	**(2 999)**	**(2 999)**
New financial assets originated	**1 440**	**2 717**	**4 366**	**8 523**
Loss allowance at 31 December 2020	**2 855**	**2 024**	**5 820**	**10 699**
Loss allowance at 1 January 2019	1 330	1 547	4 552	7 429
Transfer to Stage 1	373	(232)	(141)	-
Transfer to Stage 2	(18)	42	(24)	-
Transfer to Stage 3	(30)	(879)	909	-
Financial assets that have been derecognised	(115)	(2 163)	(834)	(3 112)
Write-offs			(2 736)	(2 736)
New financial assets originated	558	997	4 252	5 807
Loss allowance at 31 December 2019	2 098	(688)	5 978	7 388

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40. **Risk management (continued)**

40.2 **Credit risk (continued)**

40.2.4 **Loans and advances to customers (continued)**

Individually assessed

	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
Loss allowance at 1 January 2020	**963**	**684**	**1 985**	**3 632**
Transfer to Stage 1	**(48)**	**48**	**-**	**-**
Transfer to Stage 2	**70**	**(72)**	**2**	**-**
Transfer to Stage 3	**3**	**30**	**(33)**	**-**
Financial assets that have been derecognised	**(291)**	**(405)**	**-**	**(696)**
Write-offs	**-**	**-**	**-**	**-**
New financial assets originated	**229**	**501**	**2,075**	**2,805**
Loss allowance at 31 December 2020	**926**	**786**	**4 029**	**5 741**
Loss allowance at 1 January 2019	676	137	1 984	2 797
Transfer to Stage 1	(21)	20	1	-
Transfer to Stage 2	56	(55)	(1)	-
Transfer to Stage 3	18	21	(39)	-
Financial assets that have been derecognised	(978)	(1 062)	(682)	(2 722)
Write-offs	-	-	(650)	(650)
New financial assets originated	1 212	1 623	1 372	4 207
Loss allowance at 31 December 2019	963	684	1 985	3 632

40.2.5 **Cash and balances with Central Bank of Kenya**

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 1 January 2020	**21 719**	**-**	**-**	**21 719**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**-**	**-**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Financial assets that have been derecognised	**(9 284)**	**-**	**-**	**(9 284)**
Write-offs	**-**	**-**	**-**	**-**
New financial assets originated	**-**	**-**	**-**	**-**
Gross carrying amount at 31 December 2020	**12 435**	**-**	**-**	**12 435**
Gross carrying amount at 1 January 2019	17 718	-	-	17 718
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated	4 001	-	-	4 001
Gross carrying amount at 31 December 2019	21 719	-	-	21 719

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40. Risk management (continued)

40.2 Credit risk (continued)

40.2.5 Cash and balances with Central Bank of Kenya (continued)

	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
Loss allowance at 1 January 2020	2	-	-	2
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated	2	-	-	2
Loss allowance at 31 December 2020	**4**	**-**	**-**	**4**
Loss allowance at 1 January 2019	2	-	-	2
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated	-	-	-	-
Loss allowance at 31 December 2019	2	-	-	2

40.2.6 Loans and advances to Bank

Gross carrying amount at 1 January 2020	**3 803**	**3 803**
Transfer to Stage 1	-	-
Transfer to Stage 2	-	-
Transfer to Stage 3	-	-
Financial assets that have been derecognised	-	-
Write-offs	-	-
New financial assets originated	**1 845**	**1 845**
Gross carrying amount at 31 December 2020	**5 648**	**5 648**
Gross carrying amount at 1 January 2019	6 572	6 572
Transfer to Stage 1	-	-
Transfer to Stage 2	-	-
Transfer to Stage 3	-	-
Financial assets that have been derecognised	(2 769)	(2 769)
Write-offs	-	-
New financial assets originated	-	-
Gross carrying amount at 31 December 2019	3 803	3 803

Notes to the annual financial statements (continued)

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40. Risk management (continued)

40.2 Credit risk (continued)

40.2.5 Cash and balances with Central Bank of Kenya (continued)

	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Stage 4 Shs'million
Loss allowance at 1 January 2020	1	-	-	1
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated	(1)	-	-	(1)
Loss allowance at 31 December 2020	**-**	**-**	**-**	**-**
Loss allowance at 1 January 2019	1	-	-	1
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated	-	-	-	-
Loss allowance at 31 December 2019	1	-	-	1

40.2.7 Financial assets at FVOCI

Gross carrying amount at 1 January 2020	**79 281**	-	-	**79 281**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated	**10 518**	-	-	**10 518**
Gross carrying amount at 31 December 2020	**89 799**	**-**	**-**	**89 799**
Gross carrying amount at 1 January 2019	63 289	-	-	63 289
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	(8 305)	-	-	(8 305)
Write-offs	-	-	-	-
New financial assets originated	24 297	-	-	24 297
Gross carrying amount at 31 December 2019	79 281	-	-	79 281

Notes to the annual financial statements (continued)

for the year ended 31 December 2020

40. Risk management (continued)

40.2 Credit risk (continued)

	Stage 1 Shs'million	Stage 2 Shs'million	Stage 3 Shs'million	Total Shs'million
40.2.7 Financial assets at FVOCI (continued)				
Loss allowance at 1 January 2020	**60**	**-**	**-**	**60**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**-**	**-**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Financial assets that have been derecognised	**-**	**-**	**-**	**-**
New financial assets originated	**57**	**-**	**-**	**57**
Loss allowance at 31 December 2020	**117**	**-**	**-**	**117**
Loss allowance at 1 January 2019	58	-	-	58
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	(2)	-	-	(2)
New financial assets originated	4	-	-	4
Loss allowance at 31 December 2019	60	-	-	60

40.2.8 Credit exposures relating to off-balance sheet position items

For financial guarantees, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

	Group and Bank	
	2020 Shs'million	2019 Shs'million
Financial guarantee contracts	**19 800**	18 365
Irrevocable debt facilities	**56 814**	77 458
Letters of credit	**21 396**	4 843
	98 010	100 666

40.3 Market risk

Market risk is the risk that the Group's earnings, capital or business objectives will be adversely impacted by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads and comprises: -

Traded market risk

The risk of the Group being impacted by changes in the level or volatility of positions in its trading books, primarily in the Investment Bank.

The risk arises primarily as a result of client facilitation in wholesale markets. This involves market making, risk management solutions and execution of syndications. Mismatches between client transactions and hedges result in market risk. Trading risk is measured for the trading book, as defined for regulatory purposes and certain banking books. Interest rate risk in the banking book is subjected to the same rigorous measurement and control standards as in the trading book, but the associated sensitivities are reported separately as "interest rate risk in the banking book".

Notes to the annual financial statements (continued)

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40. Risk management (continued)

40.3 Market risk (continued)

Non-traded market risk:

The risk of the Group being exposed to interest rate risk arising from loans, deposits and similar instruments held for longer term strategic purposes rather than for the purpose of profiting from changes in interest rates. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's fair value through profit or loss and FVOCI financial assets.

Market risk measurement techniques

The objective of market risk measurement is to manage and control market risk exposures within acceptable limits while optimising the return on risk. The Bank Treasury is responsible for the development of detailed risk management policies and for day-to-day implementation of those policies.

Furthermore it includes the protection and enhancement of the statement of financial position and statement of comprehensive income and facilitating business growth within a controlled and transparent risk management framework.

VAR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Bank might lose, but only to a certain level of confidence (95%). There is therefore a specified statistical probability (5%) that actual loss could be greater than the VAR estimate. The VAR model assumes a certain 'holding period' until positions can be closed (1 day). It also assumes that market moves occurring over this holding period will follow a similar pattern to those that have occurred over 1-day periods in the past. The Bank's assessment of past movements is based on data for the past five years. The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As VAR constitutes an integral part of the Bank's market risk control regime, VAR limits are established by the Board annually for all trading portfolio operations and allocated to business units. Actual exposure against limits is reviewed daily by the Bank's trading desk. The daily VAR for the Bank closed the year at Shs 31.8 million (2019: Shs 17.6 million).

(b) Stress tests

The Bank applies a 'Stress test' methodology to its non-trading book. Interest rate risk in the non-trading book is measured through the use of interest rate repricing gap analysis. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The results of the stress tests are reviewed by heads of business unit and by the Board of Directors. The stress testing is tailored to the business and typically uses scenario analysis.

40.4 Foreign currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign exchange risk at 31 December. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency (all amounts expressed in millions of Kenyan Shillings):

	Group and Bank	
	Assets Shs'million	**Liabilities Shs'million**
The carrying amounts of the Bank's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:		
2020		
USD	**133 695**	**(135 846)**
GBP	**5 746**	**(5 743)**
Euro	**47 885**	**(47 905)**
JPY	**1 617**	**(1 615)**
CHF	**206**	**(206)**
ZAR	**154**	**(155)**
Other	**1 104**	**(1 050)**
	190 407	**(192 520)**

Notes to the annual financial statements (continued)

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40. Risk management (continued)

40.4 Foreign currency risk (continued)

	Group and Bank Assets Shs'million	Group and Bank Liabilities Shs'million
2019		
USD	123 939	(124 813)
GBP	8 285	(8 290)
Euro	45 284	(45 277)
JPY	3 343	(3 351)
CHF	211	(192)
ZAR	1 535	(1 524)
Other	378	(373)
	182 975	(183 820)

Foreign currency sensitivity analysis

The following table details the Bank's sensitivity to a 10% increase and decrease in the Kenyan Shilling against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end of a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the Shilling strengthens 10% against the relevant currency. For a 10% weakening of the Shilling against the relevant currency, there would be a comparable impact on the profit and other equity, and the balance below would be negative.

	2020 Profit or loss Shs' million	2019 Profit of loss Shs' million
Assets		
USD	**13 369**	12 394
GBP	**575**	829
Euro	**4 789**	4 528
JPY	**162**	334
CHF	**21**	21
ZAR	**15**	154
Other	**110**	38
Liabilities		
USD	**(13 585)**	(12 481)
GBP	**(574)**	(829)
Euro	**(4 791)**	(4 528)
JPY	**(162)**	(335)
CHF	**(21)**	(19)
ZAR	**(15)**	(152)
Other	**(105)**	(37)
	(212)	(83)
Income tax effect at 30%	64	25
After tax (loss)/profit effect	(148)	(58)

As at 31 December 2020 if the Shilling had weakened / strengthened by 10% against the major trading currencies listed above, with all other variables remaining constant, the after tax loss would have been Shs 148 million (2019: Shs 58 million) lower / higher net of tax.

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40. Risk management (continued)

40.5 Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The responsibility of managing risk lies with the Assets and Liabilities Committee ("ALCO"). Through this process the Group monitors compliance within the overall risk policy framework and ensures that the framework is kept up to date. Risk management information is provided on a regular basis to the Country Management Committee (CMC) and the Board.

Interest rate risk arises due to re-pricing differences between assets, liabilities and equity, originating from the provision of retail and wholesale banking products and services (considered core banking activities), together with certain rate insensitive exposures within the balance sheet. This risk impacts both the earnings and economic value of the Bank.

Interest rate sensitivity analysis

Group 2020	Up to 1 month Shs'million	1 - 3 months Shs'million	4 - 12 months Shs'million	Over 1 year Shs'million	Non-interest bearing Shs'million	Total Shs'million
Assets						
Cash and balances with Central Bank of Kenya	**-**	**-**	**-**	**-**	**18 260**	**18 260**
Financial assets at fair value through profit or loss	**8 285**	**2 979**	**9 294**	**15 817**	**-**	**36 375**
Financial assets at fair value through other comprehensive income	**10 567**	**2 047**	**23 415**	**53 653**	**-**	**89 682**
Deposits and balances due from banking institutions	**5 648**	**-**	**-**	**-**	**-**	**5 648**
Due from group companies	**2 676**	**-**	**-**	**-**	**-**	**2 676**
Loans and advances to customers	**195 191**	**1 000**	**4 389**	**8 275**	**-**	**208 855**
Total assets	**222 367**	**6 026**	**37 098**	**77 745**	**18 260**	**361 496**
Liabilities						
Deposits and balances due to banking institutions	**4 076**	**-**	**-**	**-**	**-**	**4 076**
Due to group companies	**6 382**	**17 014**	**25 447**	**-**	**-**	**48 843**
Customer deposits	**74 782**	**18 593**	**26 433**	**13 487**	**120 335**	**253 630**
Borrowings	**2 731**	**5 462**	**-**	**-**	**-**	**8 193**
Total liabilities and equity	**87 971**	**41 069**	**51 880**	**13 487**	**120 335**	**314 742**
Interest rate sensitivity gap	**134 396**	**(35 043)**	**(14 782)**	**64 258**	**(102 075)**	**46 754**

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40. Risk management (continued)

40.5 Interest rate risk (continued)

2019	Up to 1 month Shs'million	1 - 3 months Shs'million	4 - 12 months Shs'million	Over 1 year Shs'million	Non-interest bearing Shs'million	Total Shs'million
Interest rate sensitivity analysis (continued)						
Group						
Assets						
Cash and balances with Central Bank of Kenya	-	-	-	-	28 808	28 808
Financial assets at fair value through profit or loss	12 475	3 469	25 888	1 942	-	43 774
Financial assets at fair value through other comprehensive income	5 595	9 496	25 487	38 643	-	79 221
Deposits and balances due from banking institutions	2 000	-	-	1 803	-	3 803
Due from group companies	6 648	-	-	1 470	-	8 118
Loans and advances to customers	139 060	18 031	29 099	8 705	-	194 895
Total assets	165 778	30 996	80 474	52 563	28 808	358 619
Liabilities						
Deposits and balances due to banking institutions	4 083	-	-	-	-	4 083
Due to group companies	3 613	14 105	34 703	11 929	-	64 350
Customer deposits	72 392	17 014	20 373	5 534	122 426	237 739
Borrowings	-	7 601	-	-	-	7 601
Total liabilities and equity	80 088	38 720	55 076	17 463	122 426	313 773
Interest rate sensitivity gap	85 690	(7 724)	25 398	35 100	(93 618)	44 846

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40. Risk management (continued)

40.5 Interest rate risk (continued)

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Group	1% Increase in interest rate 2020 Shs'million	1% Decrease in interest rates 2020 Shs'million	1% Increase in interest rate 2019 Shs'million	1% Decrease in interest rates 2019 Shs'million
Changes in interest				
Increase/(decrease) in interest received	**2 155**	**(1 624)**	2 045	(1 828)
Increase/(decrease) in interest paid	**(1 448)**	**372**	(1 438)	662
Increase/(decrease) in profit before taxation	**707**	**(1 252)**	607	(1 166)
(Decrease)/increase in income tax	**(212)**	**376**	(182)	350
Increase/(decrease) in profit after tax	**495**	**(877)**	425	(816)

As at 31 December 2020 if interest rates were to increase / decrease by 1%, with all other variables remaining constant, the after tax profit would have been Shs 495 million (2019: Shs 425 million) higher / Shs 877 million (2019: Shs 816 million) lower with other components of equity remaining the same.

40.6 Liquidity risk

Confidence in an organization, and hence liquidity, can be affected by a range of institution specific and market-wide events including, amongst others, market rumours, credit events, payment system disruptions, systemic shocks, and even natural disasters.

The definition of liquidity risk is the risk that the Bank is unable to meet its obligations as they fall due as a result of a sudden, and potentially protracted, increase in net cash outflows. Such outflows would deplete available cash resources for client lending, trading activities and investments. These outflows could be principally through customer withdrawals, wholesale counterparties removing financing, collateral posting requirements or loan draw-downs. This risk is inherent in all banking operations and can be affected by a range of Bank-specific and market-wide events which can result in: – an inability to support normal business activity; and – a failure to meet liquidity regulatory requirements.

During periods of market dislocation, the Group's ability to manage liquidity requirements may be impacted by a reduction in the availability of wholesale term funding as well as an increase in the cost of raising wholesale funds. Asset sales, balance sheet reductions and the increasing costs of raising funding will affect the earnings of the Bank. In illiquid markets, the Bank may decide to hold assets rather than securitising, syndicating or disposing of them. This could affect the Bank's ability to originate new loans or support other customer transactions as both capital and liquidity are consumed by existing or legacy assets.

The efficient management of liquidity is essential to the Bank in retaining the confidence of the financial markets and ensuring that the business is sustainable. Liquidity risk is managed through the Liquidity Risk Framework, which is designed to meet the following objectives:

- To maintain liquidity resources that are sufficient in amount and quality and a funding profile that is appropriate to meet the liquidity risk framework as expressed by the Board;
- To maintain market confidence in the Bank's name;
- To set limits to control liquidity risk within and across lines of business;
- To accurately price liquidity costs, benefits and risks and incorporate those into product pricing and performance measurement;
- To set early warning indicators to identify immediately the emergence of increased liquidity risk or vulnerabilities including events that would impair access to liquidity resources;
- To project fully over an appropriate set of time horizons cash flows arising from assets, liabilities and off-balance sheet items; and
- To maintain a contingency funding plan ("CFP") that is comprehensive and proportionate to the nature, scale and complexity of the business and that is regularly tested to ensure that it is operationally robust.

Notes to the annual financial statements (continued)

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40. Risk management (continued)

40.6 Liquidity risk (continued)

The Bank's liquidity management process, as carried out within the Bank and monitored by a separate team in Bank Treasury, includes:

- Liquidity stress testing;
- Liquidity planning (funding plans, contingency funding plans, recovery and resolution planning);
- Reporting and behavioural balance sheet analysis;
- Funds transfer pricing; and – Defined management actions to mitigate risk.

Stress and scenario testing:

Under the Liquidity Risk Framework, the Group has established the Liquidity Risk Appetite ("LRA"), which is the level of liquidity risk the Group chooses to take in pursuit of its business objectives and in meeting its regulatory obligations.

It is measured with reference to anticipated stressed net contractual and contingent outflows for a variety of stress scenarios and is used to size the liquidity pool. Stress testing is undertaken to assess and plan for the impact of various scenarios which may put the Group's liquidity at risk. Stress tests consider both institution-specific and market-wide scenarios separately and on a combined basis. Treasury develops and monitors stress tests on the Group's projected cash flows.

These stress scenarios include the Group's specific scenarios such as unexpected operational problems and external sources such as country crises, payment system disruption and macroeconomic shocks. Stress testing also allows the Group to identify appropriate responses to crises, setting liquidity limits, sources of stress funding and liquidity buffers as well as formulating a funding strategy designed to minimise liquidity risk. The results of the stress tests are therefore used to develop the CFP (Contingency Funding Plan) and are taken into account when setting limits for the management of liquidity risk and the business planning process.

The Group maintains a range of early warning indicators ("EWIs"). These assist in informing management on deciding whether the CFP should be invoked. Each operation must adopt and conform to the Company CFP and establish local processes and procedures for managing local liquidity stresses that are consistent with the Group's level plan. The CFPs set out the specific requirements to be undertaken locally in a crisis situation. This could include monetising the liquidity pool, slowing the extension of credit, increasing the tenor of funding and securitising or selling assets.

The Group CFP is regularly tested and updated so as to ensure that it is operationally robust. Diversification Sources of liquidity are regularly reviewed by a separate team within Treasury to maintain a wide diversification by provider, product and term. In addition, to avoid reliance on a particular group of customers or market sectors the distribution of sources and the maturity profile of deposits are also carefully managed. Important factors in assuring liquidity are strength of relationships and the maintenance of depositors' confidence. Such confidence is based on the Group's reputation and relationship with those clients, the strength of earnings and the Group's financial position.

Assets held for managing liquidity risk

The Group maintains a portfolio of highly marketable assets, which includes a diverse portfolio of cash and high quality liquid securities to support payment obligations and contingent funding in a stressed market environment. The Group's assets that may be held for managing liquidity risk may comprise cash deposits with the Central bank/monetary authority and/or holdings of high quality eligible liquid assets, such as, for example, government bonds or other securities that would be readily acceptable in repurchase agreements.

Funds transfer pricing:

Liquidity costs, benefits and risk should be clearly and transparently attributed to business lines and understood by business line management. The Group Treasury and ALCO are responsible for implementing a "funds transfer pricing" mechanism as a means of communicating and disseminating the cost of liquidity risk.

Group deploys liquidity risk funds transfer pricing processes as a means of controlling the behavioural profile of the Group's balance sheet. Funds transfer pricing incentivises business units to manage assets and liabilities in accordance with the Group liquidity risk appetite.

Structural liquidity:

An important source of structural liquidity is provided by core deposits; mainly current accounts and savings accounts. Although current accounts are repayable on demand and savings accounts on short notice, the Group's broad base of customers numerically and by depositor type helps to protect against unexpected fluctuations. Such accounts form a stable funding base for the Group's operations and liquidity needs.

Notes to the annual financial statements (continued)

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40. Risk management (continued)

40.6 Liquidity risk (continued)

Sources of liquidity risk

Group has material liquidity risk exposure arising from the following sources:

- Wholesale secured and unsecured funding risk

  Wholesale funding providers are a key source of liquidity funding for the Group operations. A disruption to wholesale markets could impact the Group's ability to effectively fund certain business activities.

- Retail funding risk

  Most retail loans and advances are funded by customer deposits. A material loss of retail deposit funding could arise through a lack of confidence in the Group name or credit worthiness; and could impact the Group's ability to effectively fund retail banking operations.

- Contingent liquidity risks

  The Group could experience material cash outflows arising from contingent events such as rating downgrade triggers, off balance sheet transactions, drawdowns of unused credit facilities and the early termination of derivative transactions.

- Concentration risk

  Concentrations in the sources of funding utilized by the Group can give rise to liquidity risk if access to any of these sources is disrupted. Other funding source represent risk to the Group when these sources are subject to material counterparties, markets, currencies, tenors or instrument types. The table below represents the undiscounted cash flows payable by the Bank under non – derivative financial liabilities by remaining contractual liabilities at the balance sheet date.

Notes to the annual financial statements (continued)

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40. Risk management (continued)

40.6 Liquidity risk (continued)

Group and Bank	Undiscounted maturity On demand Shs'million	Within 1 year Shs'million	1 – 5 years Shs'million	More than 5 years Shs'million	Total Shs'million	Discounted maturity Total Shs'million
2020						
Non-derivative financial assets						
Cash and balances with Central Bank of Kenya	18 260	–	–	–	18 260	18 260
Financial assets at fair value through profit or loss	–	22 924	22 578	–	45 502	36 375
Financial assets at fair value through other comprehensive income	–	39 694	55 654	77 406	172 754	89 682
Deposits and balances due from banking institutions	5 648	–	–	–	5 648	5 648
Due from group companies	747	1 898	315	–	2 960	2 676
Loans and advances to customers	11 703	54 103	173 221	141 848	380 875	208 855
Total non-derivative financial assets	**36 358**	**118 619**	**251 768**	**219 254**	**625 999**	**361 496**
Non-derivative financial liabilities						
Amounts owing to related parties	1 490	43 572	10 728	9 248	65 038	50 029
Deposits from customers	193 041	65 912	1 731	–	260 684	253 630
Deposits and balances due to banking institutions	4 076	–	–	–	4 076	4 076
Borrowings	–	–	11 792	–	11 792	8 211
Other liabilities and accrued expenses	1 823	15 537	–	–	17 360	15 819
Total non-derivative financial liabilities	**200 430**	**125 021**	**24 251**	**9 248**	**358 950**	**331 765**
Liquidity gap	**(164 072)**	**(6 402)**	**227 517**	**210 006**	**267 049**	**29 731**

Notes to the annual financial statements (continued)

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40. Risk management (continued)

40.6 Liquidity risk (continued)

Group	Undiscounted maturity On demand Shs'million	Within 1 year Shs'million	1 – 5 years Shs'million	More than 5 years Shs'million	Total Shs'million	Discounted maturity Total Shs'million
2019						
Non-derivative financial assets						
Cash and balances with Central Bank of Kenya	28 808	-	-	-	28 808	28 808
Financial assets at fair value through profit or loss	109	46 306	2 142	2 318	50 875	43 774
Financial assets at fair value through other comprehensive income	2 529	42 210	45 472	38 787	128 998	79 821
Deposits and balances due from banking institutions	3 803	-	-	-	3 803	3 803
Due from group companies	8 704	-	-	-	8 704	8 704
Loans and advances to customers	17 748	42 567	165 853	119 740	345 908	194 895
Total non-derivative financial assets	61 701	131 083	213 467	160 845	567 096	359 805
Non-derivative financial liabilities						
Amounts owing to related parties	235	53 108	8 994	51 058	113 395	64 350
Deposits from customers	171 165	67 300	8 530	-	246 995	237 739
Deposits and balances due to banking institutions	4 083	-	-	-	4 083	4 083
Borrowings	-	-	6 943	4 515	11 458	7 628
Other liabilities and accrued expenses	2 012	13 957	-	-	15 969	14 380
Total non-derivative financial liabilities	177 495	134 365	24 467	55 573	391 900	328 180
Liquidity gap	**(115 794)**	**(3 282)**	**189 000**	**105 272**	**175 196**	**31 625**

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40. Risk management (continued)

40.6 Liquidity risk (continued)

The Group's expected cash flows on some financial assets and financial liabilities vary significantly from the contractual cash flows. The principal differences are as follows:

- demand deposits from customers are expected to remain stable or increase;
- unrecognised loan commitments are not all expected to be drawn down immediately

As part of the management of liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents, and other financial securities, which can be readily sold to meet liquidity requirements.

Group	On demand Shs'million	Within 1 year Shs'million	1 – 5 years Shs'million	Total Shs'million
2020				
Cash and balances with Central Bank of Kenya	**18 260**	**–**	**–**	**18 260**
Financial assets at fair value through other comprehensive income	**–**	**35 763**	**53 919**	**89 682**
Assets held for managing liquidity	**18 260**	**35 763**	**53 919**	**107 942**
2019				
Cash and balances with Central Bank of Kenya	28 808	-	-	28 808
Financial assets at fair value through other comprehensive income	-	44 001	35 220	79 221
Assets held for managing liquidity	28 808	44 001	35 220	108 029

Derivative liabilities

The table below analyses the Bank's derivative financial instruments that are settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Contractual maturities are assessed to be essential for an understanding of the timing of the cash flows on all derivatives. The amounts disclosed in the table are the contractual undiscounted cash flows.

31 December 2020	Notional amount	On demand	Within 1 year	More than 5 years
Derivative liabilities held for trading	**(93 380)**	**–**	**–**	**–**
Outflow	**–**	**(93 380)**	**–**	**–**
	(93 380)	**(93 380)**	**–**	**–**
31 December 2019				
Derivative liabilities held for trading	(103 646)	-	-	-
Outflow	-	(103 646)	-	-
	(103 646)	(103 646)	-	-

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40. Risk management (continued)

40.7 Capital risk management

The risk weighted assets are measured using the Risk weights prescribed under the Central Bank prudential guidelines.

Capital risk is the risk that the Bank is unable to maintain adequate levels of capital which could lead to an inability to:

(i) support business activity;
(ii) a failure to meet regulatory requirements;
(iii) changes to credit ratings, which could also result in increased costs or reduced capacity to raise funding.

Our objectives are achieved through well embedded capital management practices:

Primary objectives and core practices:

- Provide a viable and sustainable business offering by maintaining adequate capital to cover the Bank's current and forecast business needs and associated risks
- Monitor internal targets for capital demand and ratios
- Meet minimum regulatory requirements
- Ensure the Group maintains adequate capital to withstand the impact of the risks that may arise under the stressed conditions
- Perform internal and regulatory stress tests
- Maintain capital buffers over regulatory minimum
- Develop contingency plans for severe (stress management actions) Support the Bank's growth and strategic options
- Maintain a capital plan on a short-term and medium term basis aligned with strategic objectives

We adopt a forward-looking, risk based approach to Capital Risk Management. Capital demand and supply is actively managed taking into account the regulatory, economic and commercial environment in which Absa operates.

Capital planning

Capital forecasts are managed through both Short Term (Year 1 monthly) and Medium Term (3 year) financial planning cycles. The capital plan is developed with the objective of maintaining capital that is adequate in quantity and quality to support our risk profile and business needs. Local management ensures compliance with an entity's minimum regulatory capital requirements by reporting to Asset and Liability Committee (ALCO).

Regulatory Capital

The Bank maintains a ratio of total regulatory capital to its risk-weighted above a minimum level prescribed by the Central Bank of Kenya. The Bank's regulatory capital is managed by its Treasury and comprises two tiers:

(i) Tier 1 capital:

- Share capital,
- Retained earnings, excluding unrealised gains arising on the fair valuation of fair value through other comprehensive income investments; and

(ii) Tier 2 capital:

- Statutory reserve;
- Medium term note; and
- Subordinated loan capital

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40. Risk management (continued)

40.7 Capital risk management (continued)

Regulatory Capital (continued)

Bank	**Regulatory minimum**	**As at 31 Dec 2020 Shs'million**	As at 31 Dec 2019 Shs'million
Tier 1	10.5%	**14.7%**	13.9%
Total capital	14.5%	**17.5%**	16.6%
Tier 1 Capital	**1 000**	**43 736**	38 706
Ordinary share capital		**2 716**	2 716
Retained earnings		**41 020**	35 990
Tier 2 Capital		**8 193**	7 628
Subordinated debt		8 193	7 628
Total regulatory capital	**1 000**	**51 929**	46 334
Total risk weighted assets		**297 314**	277 813
Total shareholders' equity/capital resources		**44 990**	44 079
Core capital/total deposit liabilities	**8.0%**	**17.3%**	16.3%
Liquidity ratio	**20.0%**	**38.7%**	39.8%

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41. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. Trading assets and liabilities including derivatives have been classified to mature and/or be repaid within 12 months, regardless of the actual contractual maturities of the products. With regard to loans and advances to customers, the Bank uses the same basis of expected repayment behavior that was used for estimating the EIR. Issued debt reflects the contractual coupon amortization.

As at 31 December 2020	**Within 12 months Shs'million**	**After 12 months Shs'million**	**Total Shs'million**
Assets			
Cash and balances with Central Bank of Kenya	**18 260**	**–**	**18 260**
Loans and advances to banks	**5 648**	**–**	**5 648**
Financial assets at fair value through profit or loss	**20 654**	**15 721**	**36 375**
Derivative financial instruments	**2 679**	**–**	**2 679**
Financial assets at FVOCI	**35 763**	**53 919**	**89 682**
Due from group companies	**2 676**	**–**	**2 676**
Loans and advances to customers	**60 448**	**148 407**	**208 855**
Other assets and prepaid expenses	**7 709**	**–**	**7 709**
Current income tax	**993**	**–**	**993**
Non-current assets held for sale	**47**	**–**	**47**
Property and equipment	**–**	**2 809**	**2 809**
Other intangible assets	**–**	**414**	**414**
Leasehold land	**–**	**34**	**34**
Deferred income tax	**–**	**3 188**	**3 188**
Retirement benefit asset	**–**	**72**	**72**
Total assets	**154 877**	**224 564**	**379 441**
Liabilities			
Deposits from banks	**4 076**	**–**	**4 076**
Derivative financial instruments	**1 171**	**–**	**1 171**
Due to group companies	**50 029**	**–**	**50 029**
Deposits from customers	**252 425**	**1 205**	**253 630**
Borrowings	**–**	**8 211**	**8 211**
Other liabilities and accrued expenses	**15 819**	**–**	**15 819**
	323 520	**9 416**	**332 936**
Net	**(168 643)**	**215 148**	**46 505**

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41 Maturity analysis of assets and liabilities (continued)

As at 31 December 2019	Within 12 months Shs'million	After 12 months Shs'million	Total Shs'million
Assets			
Cash and balances with Central Bank of Kenya	28 808	-	28 808
Loans and advances to banks	3 803	-	3 803
Financial assets at fair value through profit or loss	41 844	1 930	43 774
Derivative financial instruments	921	-	921
Financial assets at fair value through other comprehensive income	44 001	35 220	79 221
Due from group companies	8 704	-	8 704
Loans and advances to customers	56 099	138 796	194 895
Other assets and prepaid expenses	7 687	-	7 687
Current income tax	425	-	425
Non-current assets held for sale	47	-	47
Property and equipment	-	2 843	2 843
Other intangible assets	-	618	618
Leasehold land	-	35	35
Deferred income tax	-	3 123	3 123
Total assets	192 339	182 565	374 904
Liabilities			
Deposits from banks			
Derivative financial instruments	4 083	-	4 083
Due to group companies	1 535	-	1 535
Deposits from customers	64 350	-	64 350
Borrowings	184 398	53 341	237 739
Current tax	-	7 628	7 628
Other liabilities and accrued expenses	14 380	-	14 380
Total liabilities	268 746	60 969	329 715
Net	(76 407)	121 596	45 189

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42. Fair value hierarchy of assets and liabilities held at fair value

42.1 Fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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 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).

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

Process of determination and use of estimates, assumptions and judgements

Loans and advances

The fair value of loans and advances to banks and customers is determined by discounting contractual cash flows. Discount factors are determined using the relevant forward base rates (as at valuation date) plus the originally priced spread. Where a significant change in credit risk has occurred, an updated spread is used to reflect valuation date pricing. Behavioural cash flow profiles, instead of contractual cash flow profiles, are used to determine expected cash flows where contractual cash flow profiles would provide an inaccurate fair value.

Deposits, debt securities in issue and borrowed funds

Deposits, debt securities in issue and borrowed funds are valued using discounted cash flow models, applying rates currently offered for issuances with similar characteristics. Where these instruments include embedded derivatives, the embedded derivative component is valued using the methodology for derivatives.

The fair value adjustments on amortised cost financial liabilities held in a fair value hedging relationship are taken through profit and loss in the statement of comprehensive income.

The fair value of amortised cost deposits repayable on demand is considered to be equal to their carrying value. For other financial liabilities at amortised cost the disclosed fair value approximates the carrying value because the instruments are short-term in nature or have interest rates that re-price frequently.

Notes to the annual financial statements (continued)

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42. Fair value hierarchy of assets and liabilities held at fair value (continued)

42.1 Fair value hierarchy (continued)

Group 2020 Recurring fair value measurements	Level 1 Shs'million	Level 2 Shs'million	Level 3 Shs'million	Total Shs'million
Financial assets				
Fair value through profit or loss:				
Trading securities	–	36 375	–	36 375
Derivatives financial assets	–	2 679	–	2 679
Financial liabilities				
Fair value through profit or loss:				
Derivatives financial liabilities	–	(1 171)	–	(1 171)
		37 883	–	37 883
Financial assets				
Fair value through OCI:				
Government securities	–	89 682	–	89 682
	–	89 682	–	89 682
Group				
2019				
Financial assets				
Fair value through profit or loss				
Trading securities	-	43 774	-	43 774
Derivatives financial assets	-	921	-	921
Financial liabilities				
Fair value through profit and loss				
Derivatives financial liabilities	-	(1 535)	-	(1 535)
	-	43 160	-	43 160
Financial assets				
Fair value through OCI:				
Government securities	-	79 221	-	79 221
	-	79 221	-	79 221

Notes to the annual financial statements (continued)

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42. Fair value hierarchy of assets and liabilities held at fair value (continued)

42.2 Assets and liabilities carried at amortised cost

The following table summarises the carrying amounts and fair value of those assets and liabilities not held at fair value.

The carrying amount of assets and liabilities held at amortised costs is considered to approximate the fair value of the assets and liabilities.

2020 Group	Carrying amount Shs'million	Fair value Shs'million	Level 1 Shs'million	Level 2 Shs'million	Level 3 Shs'million
Assets at amortised cost					
Cash and cash equivalents	18 260	18 260	–	18 260	–
Loans and advances to banks	5 648	5 648	–	–	5 648
Due from group companies	2 676	2 676	–	–	2 676
Loans and advances to customers	208 855	208 855	–	–	208 855
Total	235 439	235 439	–	18 260	217 179
Liabilities at amortised cost					
Deposits from banks	4 076	4 076	–	–	4 076
Due to group companies	50 029	50 029	–	–	50 029
Deposits from customers	253 630	253 630	–	–	253 630
Borrowings	8 211	8 211	–	–	8 211
Total	315 946	315 946	–	–	315 946
2019					
Assets at amortised cost					
Cash and cash equivalents	28 808	28 808	-	28 808	-
Loans and advances to banks	3 803	3 803	-	-	3 803
Due from group companies	8 704	8 704	-	-	8 704
Loans and advances to customers	194 895	194 895	-	-	194 895
Total	236 210	236 210	-	28 808	207 402
Liabilities at amortised cost					
Deposits from banks	4 083	4 083	-	-	4 083
Due to group companies	64 350	64 350	-	-	64 350
Customer deposits	237 739	237 739	-	-	237 739
Borrowings	7 628	7 628	-	-	7 628
Total	313 800	313 800	-	-	313 800

Notes to the annual financial statements (continued)

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42. Fair value hierarchy of assets and liabilities held at fair value (continued)

42.3 Valuation techniques for the level 2 fair value measurement of assets and liabilities held at fair value

The table below sets out information about the valuation techniques applied at the end of the reporting period in measuring assets and liabilities whose fair value is categorised as Level 2 in the fair value hierarchy. A description of the nature of the techniques used to calculate valuations based on observable inputs and valuations is set out in the table below:

Category of asset/liability	Valuation technique applied	Significant observable inputs
Government debt instruments	Discounted cash flow valuation technique	Quoted yields and 15 bps bid offer adjustment that management has estimated as the reasonable basis for applying the adjustment
Foreign exchange derivatives	Discounted cash flow valuation technique	Spot price, interest rate and/ or volatility

42.4 Valuation techniques for the levels 1, 2 or 3 fair value measurement of assets and liabilities held at amortised cost

For assets or liabilities held at amortised cost and disclosed in levels 1, 2 or 3 of the fair value hierarchy, the discounted cash flow valuation technique is used. Interest rates and money market curves are considered unobservable inputs for items which mature after five years. However, if the items mature in less than five years, these inputs are considered observable.

43. Segmental reporting

43.1. Statement of financial position

The Group has two main business segments:

- Consumer banking – incorporating private customer current accounts, savings, deposits, credit and debit cards, consumer loans and mortgages; and
- Corporate banking –the business model centres on delivering specialist investment banking, financing, risk management and advisory solutions across asset classes to corporates, financial institutions and government clients.

Given the majority of the Group revenues are derived from interest and dealing activities and the Country Management Committee (CMC) relies primarily on net interest revenue and dealing income to assess the performance of the segments, the total interest income and expense for all reportable segments is presented on a net basis. There were no changes in the reportable segments during the year. The revenue from external parties reported to the CMC is measured in a manner consistent with that in the consolidated statement of profit or loss. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Revenue-sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

The Group's management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses. The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information, which are regularly reviewed by the CMC. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the consolidated statement of financial position, but exclude items such as taxation, property and equipment.

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43. Segmental reporting (continued)	Corporate Banking Shs'million	Consumer Banking Shs'million	Total Shs'million
43.2. Statement of comprehensive income			
2020			
Net interest income	**4 701**	**18 680**	**23 381**
Non-interest income	**5 016**	**5 684**	**10 700**
Total income	**9 717**	**24 364**	**34 081**
Impairment losses on financial instruments	**(1 918)**	**(6 667)**	**(8 585)**
Net operating income	**7 799**	**17 697**	**25 496**
Operating expenses			
Depreciation and amortisation	**-**	**(1 346)**	**(1 346)**
Other operating expenses	**(3 700)**	**(14 803)**	**(18 503)**
Total operating expenses	**(3 700)**	**(16 149)**	**(19 849)**
Profit before tax	**4 099**	**1 548**	**5 647**
Taxation	**(1 076)**	**(408)**	**(1 484)**
Profit for the year	**3 023**	**1 140**	**4 163**
2019			
Net interest income	5 545	17 634	23 179
Non-interest income	4 104	6 485	10 589
Total income	9 649	24 119	33 768
Impairment losses on financial instruments	(941)	(3 260)	(4 201)
Net operating income	8 708	20 859	29 567
Operating expenses			
Depreciation and amortisation	(207)	(1 256)	(1 463)
Other operating expenses	(1 764)	(15 588)	(17 352)
Total operating expenses	(1 971)	(16 844)	(18 815)
Profit before tax	6 737	4 015	10 752
Taxation	(1 587)	(1 709)	(3 296)
Profit for the year	5 150	2 306	7 456

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		Corporate Banking	Consumer Banking	Total
43.	**Segmental reporting (continued)**			
43.3	**Statement of financial position**			
	2020			
	Loans and advances to customers	**77 649**	**131 206**	**208 855**
	Loans and advances to banks	**–**	**5 648**	**5 648**
	Other assets	**77 641**	**87 297**	**164 938**
		155 290	**224 151**	**379 441**
	Liabilities			
	Deposits from customers	**46 878**	**206 752**	**253 630**
	Trade and other payables	**66 674**	**12 632**	**79 306**
		113 552	**219 384**	**332 936**
	2019			
	Assets			
	Loans and advances to customers	75 158	119 737	194 895
	Loans and advances to banks	3 803	-	3 803
	Other assets	94 519	81 687	176 206
		173 480	201 424	374 904
	Liabilities			
	Deposits from customers	51 500	186 239	237 739
	Trade and other payables	76 814	15 162	91 976
		128 314	201 401	329 715

44. Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position (SOFP) where the Bank has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Bank has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 31 December 2020 and 31 December 2019. The column 'net amount 'shows the impact on the Bank's statement of financial position if all set-off rights were exercised. There were no gross amounts set off in the statement of financial position at 31 December 2020 (2019: Nil).

Group and Bank	Effects of offsetting in the SOFP	Related amounts not offset		
2020	**Amounts presented in the SOFP Shs'million**	**Amounts subject to master netting agreement Shs'million**	**Financial instrument collateral Shs'million**	**Net amount Shs'million**
Financial assets				
Loans and advances to customers	**208 855**	**–**	**(1 014)**	**207 841**
	208 855	**–**	**(1 014)**	**207 841**
Liabilities				
Deposits from customers	**253 630**	**–**	**(1 014)**	**252 616**
	253 630	**–**	**(1 014)**	**252 616**

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44. Offsetting financial assets and financial liabilities (continued)

Group and Bank	Effects of offsetting in the SOFP	Related amounts not offset		
2019	**Amounts presented in the SOFP Shs'million**	**Amounts subject to master netting agreement Shs'million**	**Financial instrument collateral Shs'million**	**Net amount Shs'million**
Financial assets				
Loans and advances to customers	194 895	-	(512)	194 383
	194 895	-	(512)	194 383
Liabilities				
Deposits from customers	237 739	-	(512)	237 227
	237 739	-	(512)	237 227

Master netting arrangements

Under the terms of these arrangements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Bank does not presently have a legally enforceable right of set-off, these amounts have not been offset in the statement of financial position, but have been presented separately in the table above.

45. Related parties

Absa Bank Kenya PLC is a subsidiary of Absa Group Limited, which is listed on the Johannesburg Stock Exchange. The ultimate parent of the Group is Absa Group Limited. There are other companies which are related to Absa Bank Kenya PLC through common shareholdings or common directorships.

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

A number of banking transactions are entered into with related parties' i.e. key management staff, Directors, their associates and companies associated with Directors in the normal course of business, under terms that are no more favourable than those arranged with other employees. These include loans, deposits and foreign currency transactions. The outstanding balances at the reporting date with related parties and related-party transactions conducted during the reporting period are as follows:

a) Key management personnel compensation

	2020 Shs' million	2019 Shs' million
Executive directors		
Deferred cash payments	**-**	17
Non-deferred cash payments	**92**	217
Post-employment benefit contributions	**35**	35
Salaries and other short-term benefits	**440**	447
Share-based payments	**122**	171
	689	887

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45. Related parties (continued)

a) Key management personnel compensation(continued)

	2020 Shs' million	2019 Shs' million
The compensation paid to directors was in respect of:		
Services rendered as directors of the Bank	**39**	32
	39	32

b) Statement of comprehensive income

	Relationship	Interest received Shs'million	Interest paid Shs'million	Recharges Shs'million
2020				
Absa Group Limited	Parent	**6**	**739**	**1 509**
		6	**739**	**1 509**
2019				
Absa Group Limited	Parent	15	1 452	1 845
Absa Bank Mauritius	Sister	-	168	-
		15	1 620	1 845

In the normal course of business, placings of foreign currencies are made with the parent company and other companies at interest rates in line with the market.

The weighted average effective interest rate at 31 December 2020 on amounts due from group companies was 0.2% (2019:0.2%) and on amounts due to group companies was 3.0% (2019: 3.0%).

Group companies provide support services from time to time for which they recharge the costs incurred at the country of origin.

The value of the services provided has been debited to the profit or loss and is included in total expenditure of the Group.

Barclays Bank of Kenya Limited Staff Pension Fund and Barclays Bank of Kenya Limited Staff Retirement Benefits (DC) Scheme 2009 (the "Funds") are sponsored by Absa Bank Kenya PLC. The Funds' foreign investments are managed by Barclays Private Banking & Trust Limited, which is a related entity to the Fund by virtue of shareholding.

c) Due from Group companies

	Relationship	Group 2020 Shs'million	Group 2019 Shs'million	Bank 2020 Shs'million	Bank 2019 Shs'million
Absa Group Limited	Parent	**2 071**	8 364	**2 071**	8 364
Absa Bank Ghana	Sister	**2**	2	**2**	2
Absa Bank Uganda	Sister	**483**	33	**483**	33
Absa Bank Tanzania	Sister	**50**	44	**50**	45
Absa Life Assurance Kenya	Sister	**37**	76	**37**	76
First Assurance Kenya	Sister	**33**	185	**33**	185
Absa Bank Insurance Agency	Subsidiary	**-**	-	**41**	313
Absa Securities Limited	Subsidiary	**-**	-	**149**	186
Absa Asset Management Limited	Subsidiary	**-**	-	**68**	-
		2 676	8 704	**2 934**	9 204

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d) Due to Group companies

	Relationship	Group 2020 Shs'million	Group 2019 Shs'million	Bank 2020 Shs'million	Bank 2019 Shs'million
Absa Group Limited	Parent	**(50 009)**	(64 274)	**(50 009)**	(64 274)
Absa Bank Mauritius	Sister	**(1)**	(2)	**(1)**	(2)
Absa Bank Ghana	Sister	**-**	(14)	**-**	(14)
Absa Bank Zambia	Sister	**(6)**	(6)	**(6)**	(6)
Absa Bank Uganda	Sister	**(13)**	(53)	**(13)**	(53)
Absa Bank Tanzania	Sister	**-**	(1)	**-**	(1)
Absa Bank Insurance Agency	Subsidiary	**-**	-	**(37)**	(711)
		(50 029)	(64 350)	**(50 066)**	(65 061)

c) Due from Group companies (continued)

At 31 December 2020 advances to directors or companies controlled by directors or their families amounted to Shs 35 million (2019: Shs 39 million). Interest income earned amounted to Shs 5 million (2019: 5 million). All loans to Directors, (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other persons and (c) did not involve more than a normal risk of collectability or present other unfavourable features. No allowances for impairment were recognised in respect of loans to Directors. (2019: Nil).

During the year the directors maintained various deposit accounts with the Bank which included current, savings and fixed deposit accounts. At 31 December 2020, balances relating to directors deposits amounted to Shs 101 million (2019: Shs 146 million).

e) Guarantee

In the year ending 31 December 2020, there was no guarantee given or received to/from any related party (2019: NIL).

46. Commitments and contingencies

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The bank may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer. Undelivered spot transactions represent commitment either to buy or sell foreign currency and are recognised at cost on the trade date.

		Group and Bank 2020 Shs'million	Group and Bank 2019 Shs'million
46.1	**Commitments**		
	Undrawn overdraft facilities	**18 436**	15 857
		18 436	15 857
46.2	**Contingent liabilities**		
	Letters of credit	**21 397**	4 843
	Guarantee and performance bonds	**19 800**	18 365
	Unutilised lines of credit	**38 377**	61 601
		79 574	84 809

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46. Commitments and contingencies (continued)

46.2 Contingent liabilities (continued)

Pledged assets amounted to Shs 1 250 million (2019: Shs 1,250 million). The class of asset pledged in both years was a bond issue. The purpose of the pledge was to create an ILF (Intra-Day Liquidity Facility) with the Central Bank of Kenya. The ILF provides collateralized lending of funds to commercial bank to facilitate their daily intra-day payment obligations in the Kenya Electronic Payment and Settlement System (KEPSS). Under this facility, commercial banks identify and set aside pre-determined amounts of Government securities from their portfolio holdings for securing intra-day borrowings based on their anticipated average daily liquidity requirements.

In the event of failure to settle by the Bank, the ILF shall convert to an overnight facility. The underlying pledged securities shall therefore become encumbered.

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

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

Guarantees and assets pledged as security are generally written by a bank to support the performance of a customer to third parties. The group will only be required to meet these obligations in the event of the customers' default. At year end, the bank has obtained undertakings from Absa Group Limited in respect of bonds, guarantees and indemnities facility and letters of credit of Shs 12 170 million (2019: Shs 12 170 million).

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The Bank may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer. Undelivered spot transactions represent commitment either to buy or sell foreign currency and are recognised at cost on the trade date.

46.3 Contingent tax liabilities

The bank has transactions and calculations for which the ultimate tax treatment involves a degree of estimation and judgement. The tax treatment adopted by the Kenya Revenue Authority may differ from the treatment applied by the Bank thus requiring determination by the courts. Management estimates are informed by a number of factors including inter alia, tax consultant's advice, the advice of expert legal counsel and the precedents established by past judgements of the High Court of Kenya. The Directors are of the opinion that no significant impact will arise from such transactions and calculations.

46.4 Leases – Bank as lessor

The Bank acts as lessor of rental space. These leases have an average life of between three and five years with renewal options included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. Rental income recognised by the Bank during the year is Shs 16 million (2019: Shs 12 million).

Future minimum lease payments under non–cancellable leases as at 31 December were, as follows:

	2020 Shs million	2019 Shs million
Within one year	**16**	12
After one year but not more than five years	**46**	62
	62	74

46.5 Dividends per share

The Directors do not recommend a dividend in respect of the year ended 31 December 2020 (2019: Shs 0.90). An interim dividend of Shs Nil (2019: Shs 0.20). This will bring the total dividend for the year to Shs Nil (2019: Shs 1.10) per share amounting to Shs Nil million (2019: Shs 5,974 million).

Payment of dividends is subject to withholding tax at a rate of 5% for residents and 10% for non-residents.

Notes to the annual financial statements (continued)

for the year ended 31 December 2020

47. Separation from Barclays PLC

Barclays PLC (UK), announced on 1 March 2016 that it would reduce its ownership of Absa Group Limited (SA) from 62.3% to a minority shareholding, over time. Barclays PLC now holds 14.9% of the shareholding in Absa Group Limited. The sell down resulted in the deconsolidation of Absa Group Limited, for accounting purposes, from Barclays PLC as of 1 June 2017. The UK's Prudential Regulatory Authority and Financial Conduct Authority approved Barclays' full regulatory deconsolidation of Absa Group, with effect from 30 June 2018.

This program involved investment and implementation of projects to eliminate service dependency on Barclays PLC. This program also involved migration to new platforms including migration of the core banking applications and digital channels from the United Kingdom to South Africa, as well as rebranding from Barclays to Absa. It also involved changes in outsourcing arrangements and agreements with third parties. In addition, the separation from Barclays PLC resulted in significant costs being incurred.

48. Subsequent events

The estimates and judgements applied to determine the financial position at 31 December 2020, most specifically as they relate to the calculation of impairment of loans and advances, were based on a range of forecast economic conditions as at that date. The outbreak of coronavirus has resulted in disruption to business activity globally and recent market volatility, since mid-January 2020. The impact of coronavirus will continue to be closely monitored and assessed for its impact on the business.

The directors are not aware of any other events (as defined per IAS 10 Events after the Reporting Period) after the reporting date of 31 December 2020 and the date of authorization of these consolidated annual financial statements.

49. New accounting pronouncements

Adoption of new and revised Standards

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The following new standards and amendments became effective as at 1 January 2020:

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group but may impact future periods should the Group enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no significant impact on the consolidated financial statements of the Group.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the

concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

Notes to the annual financial statements (continued)

for the year ended 31 December 2020

49. New accounting pronouncements (continued)

Amendments to IFRS 16 COVID-19 Related Rent Concessions

On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases

The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Group.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group consolidated and separate financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for

insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement.
- That a right to defer must exist at the end of the reporting period .
- That classification is unaffected by the likelihood that an entity will exercise its deferral right.
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

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for the year ended 31 December 2020

49. New accounting pronouncements (continued)

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

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. The expected impact is not significant.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

IAS 41 Agriculture – Taxation in fair value measurements

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted.

The amendments are not expected to have any impact on the Group.

Notes to the annual financial statements (continued)

for the year ended 31 December 2020

49. New accounting pronouncements (continued)

Interest Rate Benchmark Reform ("IBOR reform") phase 2

On 27 August 2020 the International Accounting Standards Board (IASB or the Board) published 'Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2). IBOR reform Phase 2 provides temporary reliefs to address the accounting issues which arise upon the replacement of an InterBank Offered Rate (an IBOR) with an alternative nearly risk-free interest rate (an RFR). Publication of IBOR reform Phase 2 concludes the IASB's work to respond to the effects of IBOR reform on financial reporting.

The effective date of the IBOR reform Phase 2 amendments is for annual periods beginning on or after 1 January 2021, with early application permitted. The requirements must be applied retrospectively. Any hedging relationships that were discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when the Phase 2 amendments are applied, must be reinstated upon initial application. The IBOR reform Phase 2 amendments are expected to be endorsed by the EU in time for 2020 December year-end reporting.

IBOR Reform program

The Group has established an IBOR transition steering committee which comprises a series of business and function workstreams, with oversight and coordination provided by a central project team, the key objectives of these workstreams include identifying all contracts in scope of benchmark reform, identifying and communicating to customers with whom repricing and/or re-papering interest rate benchmark referenced contracts is required and executing the necessary modifications to legal contracts. Workstreams actively participate in industry-wide working groups to remain informed of the latest developments and to ensure consistency with the approaches of other market participants.

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Notice of the annual general meeting

Absa Bank Kenya PLC

Due to the ongoing COVID-19 pandemic and the Government of Kenya directives restricting public gatherings, shareholders will not be able to attend the Annual General Meeting in person but will be able to register for the Annual General Meeting, access information pertaining to the Integrated Report and the Audited Financial Statements of Absa Bank Kenya Plc for the year ending December 31, 2020, vote electronically in person or by proxy and follow the meeting in the manner detailed below.

Notice of the 42nd Annual General Meeting

Notice is hereby given that the Forty–Second (42nd) Annual General Meeting of the Shareholders of Absa Bank Kenya Plc will be held via electronic means on Thursday May 27, 2021 at 10:00 a.m. to transact the following business: -

Agenda:

1. Constitution of the Meeting

The Secretary to read the notice convening the meeting and determine if a quorum is present

2. Ordinary Business

i. Annual Report, Financial Statements, Directors' and Auditors' reports for the year ended December 31, 2020:

To receive, consider and if thought fit, adopt the Audited Annual Report and Financial Statements for the year ended December 31, 2020 together with the reports of the Directors, the Board Chairman, the Managing Director and the Auditor.

ii. Dividend

To note that the Directors do not recommend the payment of dividends for the year ended December 31, 2020.

iii. Election of Directors

a) Directors retiring by rotation

In accordance with Articles 94, 95 and 96 of the Company's Articles of Association, the following Directors retire by rotation and being eligible, offer themselves for re-election:

i. Mr. Louis Onyango Otieno

ii. Mr. Japheth Olende

b) Directors appointed to fill casual vacancies on the Board

In accordance with Article 101 of the Company's Articles of Association, the following Directors appointed to fill casual vacancies, retire from office, and being eligible, offer themselves for re-election:

i. Mr. Charles Njenga Murito

ii. Mr. Fulvio Tonelli

c) Board Audit and Risk Committee members

In accordance with the provisions of Section 769 of the Companies Act, 2015, the following Directors, being members of the Board Audit & Risk Committee be elected to continue to serve as members of the Board Audit and Risk Committee:

i. Laila Macharia (Chair)

ii. Louis Onyango Otieno

iii. Patricia Ithau

iv. Fulvio Tonelli

iv. Remuneration of Directors

To receive, consider and if thought fit approve the Directors' Remuneration Report and to authorize the Board to fix the remuneration of the Directors.

v. Appointment and Remuneration of Auditors

To consider and if thought fit, re-appoint Messrs. Ernst & Young Kenya (EY Kenya), Certified Public Accountants, as the Auditors of the Company, having expressed their willingness to continue in office in accordance with section 719 (2) of the Companies Act No.17 of 2015, and to authorize the Directors to fix their remuneration.

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Notice of the annual general meeting

3. Special Business

To consider and, if thought fit, pass the following resolution as a Special Resolution:

THAT Articles 123, 124 and 125 of the Articles of Association be amended to read as follows:

Managing Director And Executive Directors

123. The Board may, from time to time, (subject to any regulatory approval required and, as long as Absa Group Limited holds the majority of the issued shares in the Company, to the prior approval of Absa Group Limited) appoint one or more persons to the offices of Managing Director and other Executive Director for such period and upon such terms as it thinks fit and, subject to the provisions of any agreement entered into in any particular case, may revoke such appointment. Any person so appointed shall not, whilst holding that office, be subject to retirement by rotation or be taken into account in determining the retirement of Directors by rotation but his/her membership on the Board shall automatically terminate if he/she ceases from any cause to hold such executive position.

124. A Managing Director and other Executive Director shall receive such remuneration, whether by way of salary, commission, participation in profits or otherwise, as the Board may determine and either in addition to or in lieu of his/her remuneration as a Director.

125. The Board may entrust to and confer upon a Managing Director and other Executive Director or Manager any of the powers exercisable by it, other than the powers to allot shares, borrow money, charge the property and assets of the Company and pay dividends, upon such terms and conditions and with such restrictions as it thinks fit and either collaterally with or to the exclusion of its own powers and may from time to time, subject to the terms of any agreement entered into in any particular case, revoke, withdraw, alter or vary all or any of such powers always subject, as long as Absa Group Limited holds the majority of the issued shares in the Company, to the prior approval and confirmation of Absa Group Limited.

4. Any Other Business

To transact any other business of the Company for which due notice has been received.

By order of the Board

Loise W. Gakumo

Company Secretary

May 5, 2021

Notes:

1. Absa will be holding a virtual AGM as permitted by Article 66A of its Articles of Association replicated below:

   66A. The Members may, if they think fit, confer by radio, telephone, closed circuit television, video conferencing or other electronic means of audio or audio/visual communication ("Conference"). Notwithstanding that the Members are not present together in one place at the time of the Conference, a resolution passed by the Members constituting a quorum at such a Conference shall be deemed to have been passed at a General Meeting held on the day on which and at the time at which the Conference was held. The provisions of these relating to proceedings of Members apply insofar as they are capable of application mutatis mutandis to such Conference.

   Shareholders wishing to participate in the meeting should register for the AGM by visiting the online portal https://digital.candrgroup.co.ke or dialling *384*067# and following the various prompts regarding the registration process. Shareholders will not incur any cost for such registration. In order to complete the registration process, shareholders will need to have their ID/Passport numbers which were used to purchase their shares and their Shares Account or CDSC Account Number at hand. For assistance shareholders should dial the following helpline numbers (020) 760 8216 from 9:00am to 3:00pm from Monday to Friday. Any shareholder outside Kenya should dial the helpline numbers or email digital@candrgroup.co.ke to be assisted to register.

2. Shareholders who had already registered in the online portal can log in using their existing login credentials and click on the button "Already Registered View this AGM" to confirm their registration for the current AGM and to ask questions or vote on the portal. Shareholders who had already registered on the USSD platform will be provided with an sms link to confirm their registration for the current AGM.

3. Registration for the AGM opens on Thursday May 19, 2021 at 8:00am and will close on Wednesday May 26, 2021 at 12:00pm. Shareholders will not be able to register after Wednesday May 26, 2021.

   In accordance with Section 283 (3) of the Companies Act, 2015, the following documents may be viewed on the Company's website www.absabank.co.ke i) a copy of this Notice and the proxy form; ii) the Company's Integrated Report together with the audited financial statements for the year 2020.

4. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so by:

   Accessing https://digital.candrgroup.co.ke; selecting "Attend Event", "ABSA AGM", "Q&A" tab and submitting their questions; or

   Dialling the USSD code *384*067# and following the menu prompts to the "Ask Questions" menu option and entering their question as a text message

   (i) sending their written questions by email to digital@candrgroup.co.ke; or

   (ii) to the extent possible, physically delivering their written questions with a return postal address or email address to the registered office of the Company at Absa Headquarters, Waiyaki Way, Nairobi or to Custody and Registrars Services offices at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue; or

   (iii) sending their written questions with a return postal address or email address by registered post to the Company's address at P.O. Box 30120-00100 Nairobi

   Shareholders must provide their full details (full names, ID/Passport Number, Shares CDSC Account Number) when submitting their questions and clarifications by email, post or delivery. All written questions and clarifications must reach the Company on or before Monday May 24, 2021 at 10:00am. Shareholders will be able to ask questions on the virtual AGM platform using the online portal or the USSD code up to and during the AGM. A limited opportunity will be provided for some live questions during the AGM.

   Following receipt of the questions and clarifications, the directors of the Company shall provide written responses to the questions received to the return postal address or email address provided by the shareholder, no later than 12 hours before the start of the general meeting. A full list of questions received, and the answers thereto will be published on the Company's website no later than 12 hours before the start of the general meeting.

   Shareholders are encouraged to vote for the Resolutions in advance of the meeting by accessing the online portal https://digital.candrgroup.co.ke or dialling *384*067# and following the various prompts regarding the voting process. The voting period shall be closed on Thursday May 27, 2021 at 4.00pm for purposes of tallying the votes.

   In accordance with Section 298(1) of the Companies Act, shareholders entitled to attend and vote at the AGM are entitled to appoint a proxy to vote on their behalf. A proxy need not be a member of the Company but if not the Chairman of the AGM, the appointed proxy will need access to a mobile telephone. A proxy form is available on the Company's website www.absabank.co.ke. Physical copies of the proxy form are also available at the following address: Custody and Registrars Services offices, IKM Place, Tower B, 1st Floor, 5th Ngong Avenue. To be valid, the proxy form must be duly completed by the shareholder or his attorney duly authorized in writing. If the shareholder is a body corporate, the instrument appointing the proxy shall be give under its common seal (if any) or under the hand of an officer or duly authorized attorney of such body corporate. A completed form of proxy should be emailed to proxy@candrgroup.co.ke in pdf format or delivered to Custody and Registrars Services, IKM Place, Tower B, 1st Floor, 5th Ngong Avenue Nairobi or be posted to Custody and Registrars Services, P. O. Box 8484-00100 Nairobi, so as to reach the Registrar not later than 10.00 a.m. on Tuesday May 25, 2021. Duly completed form must be supported by a copy of ID/ valid Passport of the member and include the ID/Passport, email or telephone number of the proxy to facilitate registration. Any proxy registration that is rejected will be communicated to the shareholder concerned no later than Wednesday May 26, 2021 to allow time to address any issues.

5. The AGM will be accessible to shareholders who will have registered to participate in the general meeting. Duly registered shareholders and proxies will receive a short message service (SMS) or an email prompt on their registered mobile number/email address, shall be sent one (1) day before the AGM, reminding duly registered shareholders and proxies that the AGM will be the following day. A second sms/email prompt will be sent to duly registered shareholders on the day of the AGM with a link to access the Virtual AGM broadcast, the voting and Q&A tabs, and the virtual meeting room link.

   Duly registered shareholders and proxies can also access the Virtual AGM using their log in credentials via https://digital.candrgroup.co.ke. Shareholders without internet access can access the Virtual AGM voting menu using their log in credentials via USSD *384*067#.

6. Results of the AGM shall be published within 48 hours following conclusion of the AGM on the Company's website: www.absabank.co.ke.

   All present and former shareholders of the Company are hereby notified that pursuant to the provisions of the Unclaimed Financial Assets Act No 40 of 2011 Parts II and III, dividends and shares which have not been claimed for a period of three (3) years or more will require to be delivered to the Unclaimed Financial Assets Authority ('the Authority) as abandoned assets on the appointed date.

   Therefore, all present and former shareholders with unpaid dividends are requested to urgently contact the Share Registrar, Custody & Registrars Services Limited at the address indicated below to claim any unpaid dividends to avert the risk of the dividends being forwarded to the Authority.

Custody & Registrars Services Ltd (C&R Group)
IKM Place, Tower B, 1st Floor
5th Ngong Avenue, Nairobi
Tel + 254 20 760 8216
Email: infor@candrgroup.co.ke

Shareholders are encouraged to continuously monitor the Company's website www.absabank.co.ke for updates relating to the AGM due to the continuous evolving situation with COVID-19 and the Government directives being subject to change. We appreciate the understanding of our shareholders as we navigate the changing business conditions posed by COVID-19.

Proxy form

Custody and Registrars Services Limited
IKM House, Tower B, 1st Floor, 5th Ngong Avenue
P. O Box 8484-00100, Nairobi

*I/We ____

______________________________________ of ______________________

______________________________________ being *a member/members of Absa Bank Kenya PLC, hereby appoint:

____

____

of (address, email and telephone number)

____

____

____

____

or failing *him/her ____

____

of (address, email and telephone number)

____

____

____

____

and failing *him/her the Chairman of the meeting as *my/our proxy to vote for *me/us on *my/our behalf at the Forty-First Annual General Meeting of the Company to be held on **Thursday May 27, 2021** and at any adjournment thereof.

As witness *I/we affix *my/our *hand/hands this__________________ day of ______________2021.

Signature(s) ____

Unless otherwise instructed, the proxy will vote as *he/she thinks fit.

Delete whichever is not applicable.

1. Shareholders wishing to participate in the meeting should register for the AGM by visiting the online portal https://digital.candrgroup.co.ke or dialling ***384*067#** and following the various prompts regarding the registration process. Shareholders will not incur any cost for such registration. In order to complete the registration process, shareholders will need to have their ID/Passport numbers which were used to purchase their shares and their Shares Account or CDSC Account Number at hand. For assistance shareholders should dial the following **helpline numbers (020) 760 8216** from 9:00am to 3:00pm from Monday to Friday. Any shareholder outside Kenya should dial the helpline numbers or email digital@candrgroup.co.ke to be assisted to register.
2. Shareholders who had already registered in the online portal can log in using their existing login credentials and click on the button "Already Registered View this AGM" to confirm their registration for the current AGM and to ask questions or vote on the portal. Shareholders who had already registered on the USSD platform will be provided with an sms link to confirm their registration for the current AGM.
3. Registration for the AGM opens on **Thursday May 19, 2021** at **8:00am** and will close on **Wednesday May 26, 2021** at **12:00pm**. Shareholders will not be able to register after Wednesday May 26, 2021.
4. In accordance with Section 283 (3) of the Companies Act, 2015, the following documents may be viewed on the Company's website www.absabank.co.ke i) a copy of this Notice and the proxy form; ii) the Company's Integrated Report together with the audited financial statements for the year 2020.
5. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so by:
   (i) Accessing https://digital.candrgroup.co.ke; selecting "Attend Event", "ABSA AGM", "Q&A" tab and submitting their questions; or
   (ii) Dialling the USSD code *384*067# and following the menu prompts to the "Ask Questions" menu option and entering their question as a text message
   (iii) sending their written questions by email to digital@candrgroup.co.ke; or
   (iv) to the extent possible, physically delivering their written questions with a return postal address or email address to the registered office of the Company at Absa Headquarters, Waiyaki Way, Nairobi or to Custody and Registrars Services offices at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue; or
   (v) sending their written questions with a return postal address or email address by registered post to the Company's address at P.O. Box 30120-00100 Nairobi

   Shareholders must provide their full details (full names, ID/Passport Number, Shares CDSC Account Number) when submitting their questions and clarifications by email, post or delivery. All written questions and clarifications must reach the Company on or before Monday May 24, 2021 at 10:00am. Shareholders will be able to ask questions on the virtual AGM platform using the online portal or the USSD code up to and during the AGM. A limited opportunity will be provided for some live questions during the AGM.

   Following receipt of the questions and clarifications, the directors of the Company shall provide written responses to the questions received to the return postal address or email address provided by the shareholder, no later than 12 hours before the start of the general meeting. A full list of questions received, and the answers thereto will be published on the Company's website no later than 12 hours before the start of the general meeting.
6. Shareholders are encouraged to vote for the Resolutions in advance of the meeting by accessing the online portal https://digital.candrgroup.co.ke or dialling ***384*067#** and following the various prompts regarding the voting process. **The voting period shall be closed on Thursday May 27, 2021 at 4.00pm for purposes of tallying the votes.**
7. In accordance with Section 298(1) of the Companies Act, shareholders entitled to attend and vote at the AGM are entitled to appoint a proxy to vote on their behalf. A proxy need not be a member of the Company but if not the Chairman of the AGM, the appointed proxy will need access to a mobile telephone. A proxy form is available on the Company's website www.absabank.co.ke. Physical copies of the proxy form are also available at the following address: Custody and Registrars Services offices, IKM Place, Tower B, 1st Floor, 5th Ngong Avenue. To be valid, the proxy form must be duly completed by the shareholder or his attorney duly authorized in writing. If the shareholder is a body corporate, the instrument appointing the proxy shall be give under its common seal (if any) or under the hand of an officer or duly authorized attorney of such body corporate. A completed form of proxy should be emailed to proxy@candrgroup.co.ke in pdf format or delivered to Custody and Registrars Services, IKM Place, Tower B, 1st Floor, 5th Ngong Avenue Nairobi or be posted to Custody and Registrars Services, P. O. Box 8484-00100 Nairobi, so as to reach the Registrar not later than **10.00 a.m**. on **Tuesday May 25, 2021**. Duly completed form must be supported by a copy of ID/ valid Passport of the member and include the ID/Passport, email or telephone number of the proxy to facilitate registration. Any proxy registration that is rejected will be communicated to the shareholder concerned no later than Wednesday May 26, 2021 to allow time to address any issues.
8. The AGM will be accessible to shareholders who will have registered to participate in the general meeting. Duly registered shareholders and proxies will receive a short message service (SMS) or an email prompt on their registered mobile number/email address, shall be sent one (1) day before the AGM, reminding duly registered shareholders and proxies that the AGM will be the following day. A second sms/email prompt will be sent to duly registered shareholders on the day of the AGM with a link to access the Virtual AGM broadcast, the voting and Q&A tabs, and the virtual meeting room link.
9. Duly registered shareholders and proxies can also access the Virtual AGM using their log in credentials via https://digital.candrgroup.co.ke. Shareholders without internet access can access the Virtual AGM voting menu using their log in credentials via USSD *384*067#.
10. Results of the AGM shall be published within 48 hours following conclusion of the AGM on the Company's website: www.absabank.co.ke.

Notes

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www.absabank.co.ke