KCB

2020

INTEGRATED REPORT & FINANCIAL STATEMENTS

Regulated by the Central Bank of Kenya

2020

INTEGRATED REPORT & FINANCIAL STATEMENTS

About this report

The KCB Group Plc Integrated Report and Financial Statement 2020 is our statutory and regulatory reporting disclosure. It comprises information about activities, strategy, approach to operating responsibly, financial, and non-financial results for the period of January 1, 2020 to December 31, 2020. The aim is to comprehensively report to our existing and prospective investors in an integrated way to reflect how the organisation operates.

Framework

The report has been prepared in compliance with global best practice and prudent accounting frameworks. It is aligned to the provisions of the Companies Act, 2015, Capital Markets Authority (CMA) guidelines, the Nairobi Securities Exchange (NSE) Listings Manual, and Central Bank of Kenya (CBK) Prudential Guidelines. This report is also in compliance with the International Integrated Reporting Council (IIRC) guidelines. The Group's Annual Financial Statements were prepared in accordance with the International Financial Reporting Standards (IFRS). The report is part of our commitment to be transparent and accountable to our stakeholders.

The Group constantly considers whether there are additional reporting frameworks or metrics we could use to enhance our disclosures.

Assurance

The Annual Financial Statements for the Group, KCB Bank Kenya, National Bank of Kenya, KCB Bank Tanzania and KCB Bank South Sudan were audited by PricewaterhouseCoopers. KCB Bank Burundi and KCB Bank Rwanda were audited by KPMG, while KCB Bank Uganda was audited by EY.

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Overview

Who Governs Us

To ensure that we report on issues that matter to our stakeholders please provide any feedback and questions to: investorrelations@kcbgroup.com or visit www.kcbgroup.com

KCB strongly recommends adherence to COVID-19 safety guidelines.
All laid out Government regulations and health precautions were adhered to during the making of this report.

Overview

KCB Group is East Africa's largest financial solutions provider with operations in Kenya, Tanzania, South Sudan, Uganda, Rwanda, Burundi and Ethiopia (representative office). The Group was established in 1896 and is headquartered in Nairobi, Kenya.

For over a century, the Group has been a catalyst for development, enabling growth and economic progress, supporting regional trade, and connecting millions of people across the world to opportunities on the African continent and beyond, whilst making positive social impact in the communities.

KCB Group Plc is a registered non-operating holding company that oversees KCB Bank Kenya and all the regional subsidiaries. It also owns National Bank of Kenya (NBK)— acquired in 2019— KCB Insurance Agency, KCB Capital, KCB Foundation and other associate companies. At the time of publishing this report, the Group was in the process of acquiring additional banking businesses.

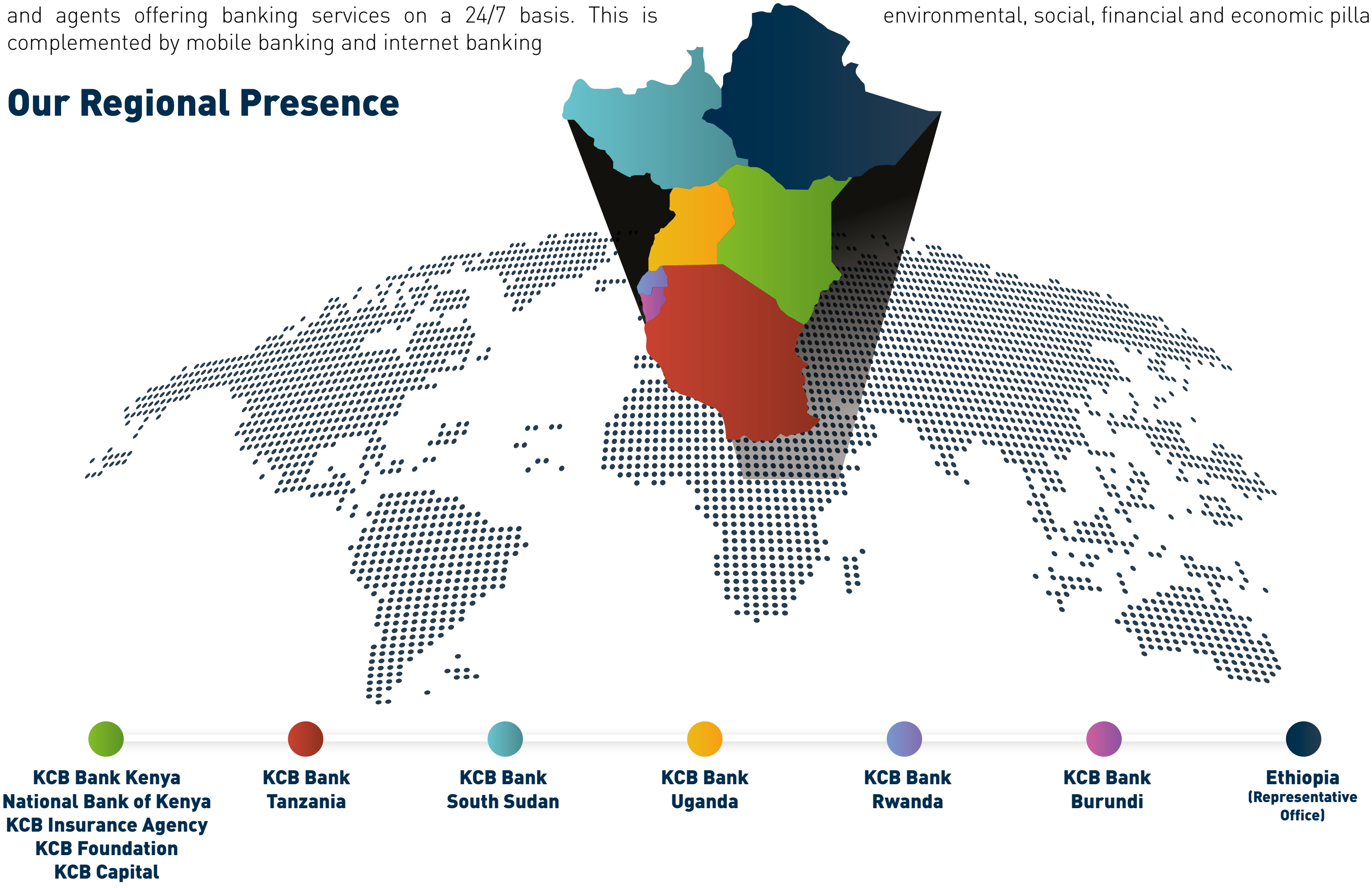
Today, the Group has the largest branch network in the region with 359 branches, 1,104 ATMs, 23,460 point of sale (PoS)/merchants and agents offering banking services on a 24/7 basis. This is complemented by mobile banking and internet banking services with a 24-hour contact center for our 25.2 million customers. The Group also has a wide network of correspondent relationships of over 200 banks across the world, thereby assuring our customers of a seamless facilitation of their international trade requirements wherever they are.

KCB Group shares are quoted at the Nairobi Securities Exchange (NSE), Dar-es-Salaam Stock Exchange (DSE), Uganda Securities Exchange (USE), and Rwanda Stock Exchange (RSE).

Our focus remains on areas where we believe we can make a significant difference in fulfilling customers' ambitions and driving financial inclusion while supporting businesses to grow. We provide a broad range of financial products and services in retail banking, corporate banking, investment banking and insurance. The Bank also offers digital financial services and Shariah-compliant products.

KCB has over the years continually invested in deepening its sustainability agenda that is anchored on building a responsible business for the future with special focus on environmental, social, financial and economic pillars.

Our Regional Presence



359
Branches
1,104 ATMs | 23,460 Agents & POS / Merchants

25.2m
Customers
7,525 Staff

KShs. 142,424,283,000
Total Equity

Group Performance Highlights

Financial

Profit Before Income Tax (KShs. Million)

2020
25,719

2019
36,897

Net Loans and Advances (KShs. Million)

2020
595,255

2019
539,747

Non Performing Loans (KShs. Million)

2020
96,613

2019
66,201

Customer Deposits (KShs. Million)

2020
767,224

2019
686,583

Dividends (KShs. Million)

2020
3,213

2019
11,099

Total debt / Total equity

2020
26.0%

2019
16.6%

Market Capitalization (KShs. Million)

2020
122,433

2019
173,527

Return on Average Equity

2020
14.4%

2019
20.7%

Cost to Income Ratio

2020
45.4%

2019
45.9%

Non-Financial

Net Promoter Score

2020
52

2019
42

Customer Complaints

2020
836,968

2019
980,443

Total Employee Benefits (KShs. M)

2020
20,511

2019
19,459

Reduction in Greenhouse Gas emissions

2020
23%

2019
7%

Reams of paper used

2020
53,557

2019
58,611

Water use

2020
147M litres

2019
142M litres

Electricity Consumption at Kencom Head Office (Million Kw\h)

2020
3.09

2019
3.26

Female/Male Ratio

2020
45:55

2019
44:56

Number of staff health and safety incidences (in the work place)

2020
3

2019
4

Digital Channel Performance

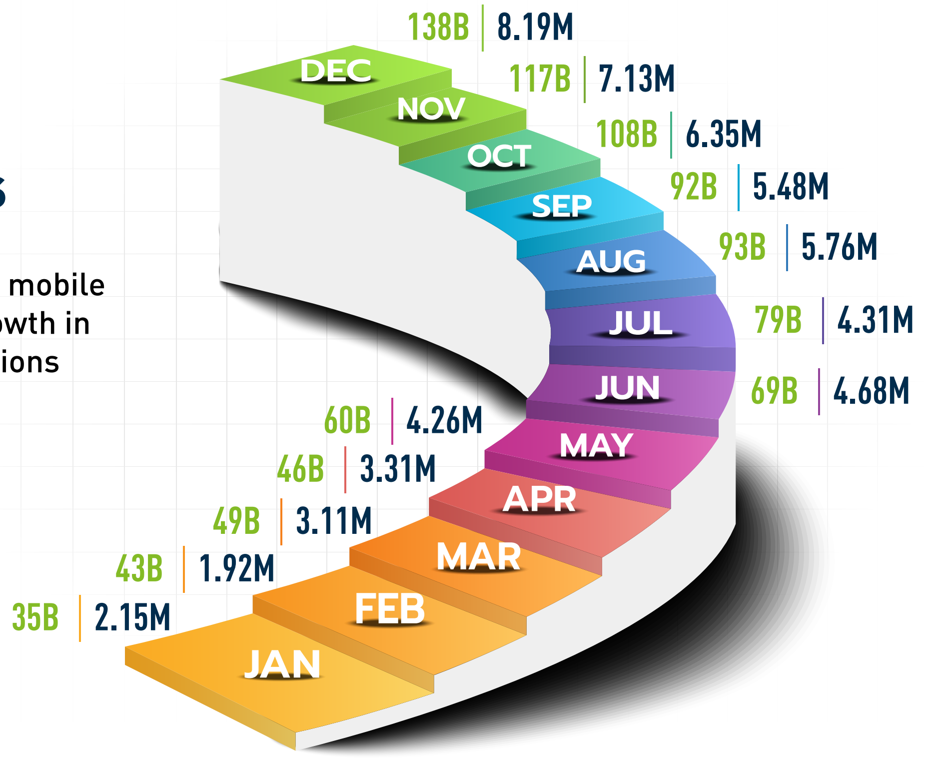
Total Mobile Transactions

KShs. 1.1 Trillion facilitated by KCB via mobile in 2020 underpinning the continued growth in preference for the channel for transactions during the COVID-19 period.

KEY

🟩 Value (KShs.)

■ Number

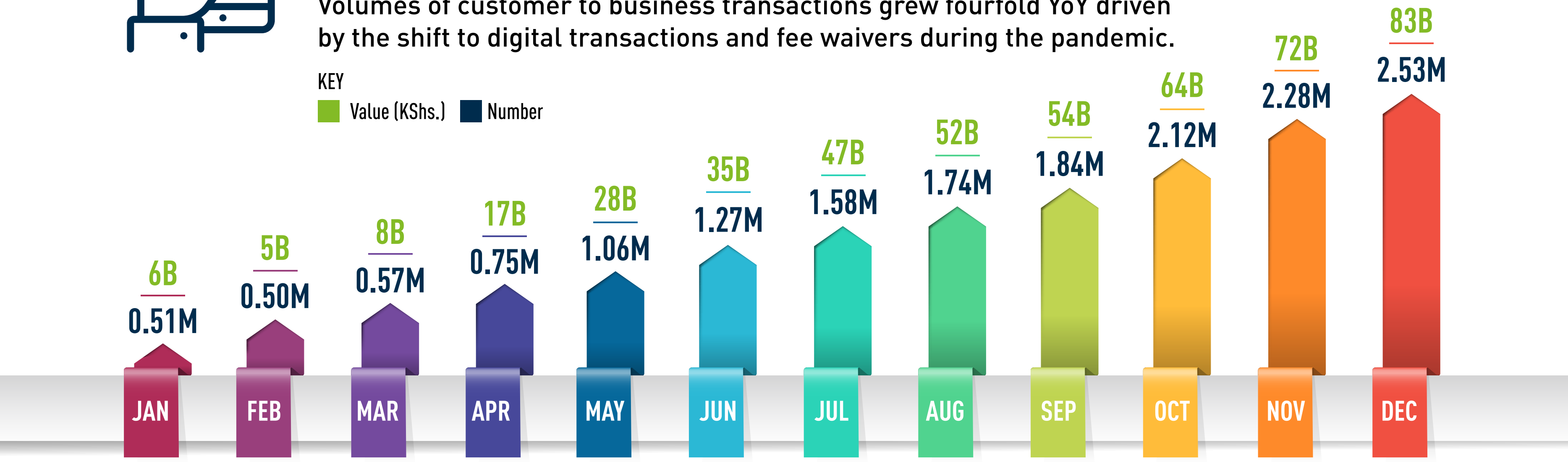


Month-on-Month Evolution of Customer to Business Transactions

Volumes of customer to business transactions grew fourfold YoY driven by the shift to digital transactions and fee waivers during the pandemic.

KEY

🟩 Value (KShs.) ■ Number

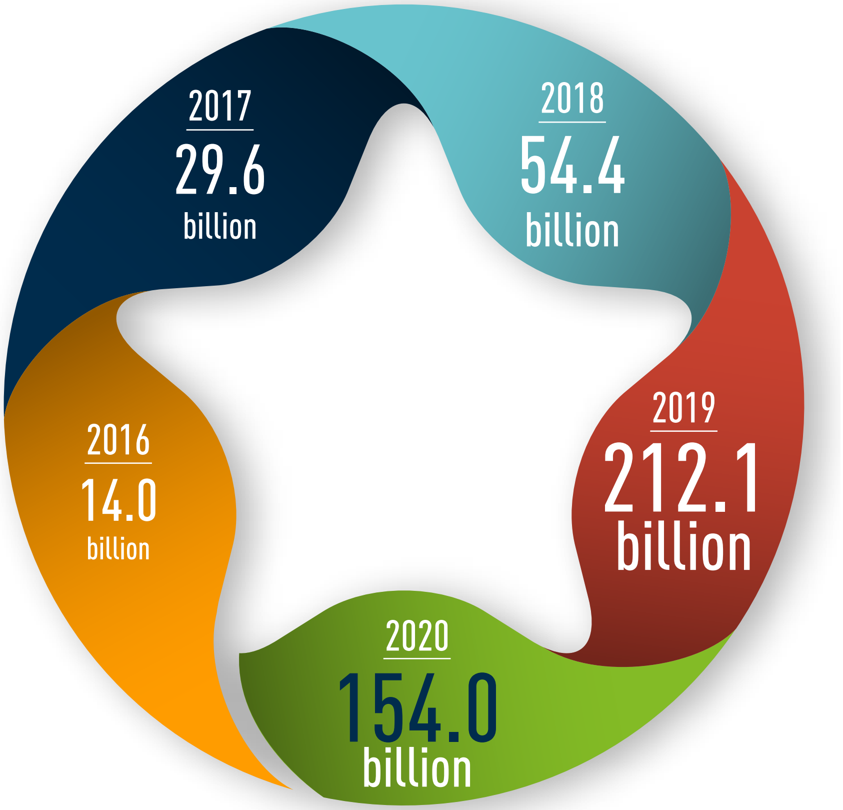


Non-Branch Transactions

2018	2019	2020 ▲
88%	97%	98%

Volume of non-branch transactions surged by **55%** to KShs. **1.8 trillion.**

Mobile Loans Advanced (KShs.)



Number of Channel Transactions (Millions)

	Mobile	Agency	ATMs	Merchants/POS	Branch Teller	Internet
2020	**260.8**	**46.0**	**11.6**	**8.0**	**7.7**	**3.0**
2019	203.7	45.3	14.8	6.7	12.5	1.6
	▲ 28%	▲ 2%	▼ -21%	▲ 18%	▼ -38%	▲ 82%

Our 2020 Milestones

JAN

- KCB Group commenced the implementation of the new Beyond Banking Strategy which seeks to deliver the very best in customer experience while driving a digital future.

FEB

- KCB rolled out a new platform—Business Process Management (BPM)—to automate key business processes, centralize operations and digitize paper-based processes.
- KCB Bank Kenya rolled out recruitment of VOOMA agents and customers.
- KCB Bank Kenya launched a Faith Based Organizations' proposition with tailored loans, payments and accounts products.
- KCB Bank Uganda rolled out the ECRM system to create visibility of customer pain points and timely resolution of customer requests and complaints.
- KCB Bank Rwanda launched Instant ATM Card Issuance and sale of prepaid electricity tokens through the Bank's digital channels.

MAR

- KCB Group completed the compulsory buyout of dissenting minority shareholders of National Bank of Kenya (NBK)
- KCB adopted unprecedented Group-wide measures to contain the spread of coronavirus at the workplace including elaborate working from home arrangements, review of branch operating hours and social distancing measures.
- KCB Bank Uganda rolled out Quick pay file automation for bulk processing of transactions for merchants and enhanced the internet banking platform.
- KCB Bank Rwanda launched a mobile savings and lending product, KCB-Igiboke and rolled out Electronic Customer Relationship Management (ECRM) to track customer queries and resolution.
- KCB Bank Kenya entered into a partnership with NSSF to enable MSMEs make retirement savings through an innovative product dubbed Haba Haba.

APR

- KCB Group announced measures to cushion Customers from the adverse effects of the COVID-19 pandemic including loan restructuring, waiver of mobile banking fees and freeze on listing of defaulters.
- KCB Group contributed over KShs. 200 million to COVID-19 emergency response funds towards interventions across the region.

MAY

- KCB Bank Kenya rolled out Transfast Money Transfer cash pick-up services across all its branches.
- KCB donated masks to Kenya's National Police Service to aid in the fight against COVID-19.
- KCB Bank South Sudan conducted Bank to Customer & Customer to Bank integration with m-GURUSH.

JUN

- KCB Group disbursed KShs. 8 billion in dividends to shareholders bringing the total dividend payout for 2019 to KShs. 11 billion.
- KCB Bank Kenya launched a retailer financing product on VOOMA targeting the retail goods value chain.
- KCB Bank Rwanda partnered with SPF Ikigega to boost agribusiness MSMEs linking 22,685 farmers to inputs and training 6,855.
- KCB Bank Rwanda set up SME managerial digital training on business and financial management.

JUL

- KCB Bank Rwanda advanced working capital facilities to SMEs affected by COVID-19 in the Economy Recovery Fund initiative by the Government of Rwanda.
- KCB Bank Rwanda partnered with Rwanda Social Security Board to provide long term mortgages.
- KCB Bank Tanzania implemented Customer Voice System that enables the Bank to carry out online survey aimed at enhancing customer experience by leveraging on feedback to identify and seal pain points.

AUG

- KCB Bank Kenya launched a Goal Savings Account for businesses and other registered entities.
- KCB Bank Kenya launched an Infrastructure loan product for learning institutions to support schools meet the conditions set for safe reopening of schools.
- KCB Bank Uganda rolled out an online system enabling instant posting of deposits made through other banks in areas where KCB does not have a presence.
- KCB Bank Rwanda rolled out a host-to-host partnership with Rwanda Water and Sanitation Corporation enabling water bill payments on all digital channels.
- KCB availed Agriculture and Livestock financing products under Sahl banking for the SME sector and reviewed the SME unsecured loans process to enhance turnaround time and improve customer satisfaction.
- KCB Bank Rwanda partnered with Development Bank of Rwanda (BRD) to provide long term funding for affordable housing
- KCB Bank Rwanda revamped input finance products for farmers and inputs suppliers

SEP

- KCB Bank Kenya rolled out the women proposition product to all branches.
- KCB Bank South Sudan rolled out internet banking for its customers.
- KCB Bank Rwanda partnered with BRD under Export Growth Fund (EGF) for subsidised loans to exporters.

OCT

- The Banker's Top 1000 ranked KCB 667th globally (up 40 places) and top bank in East Africa.
- KCB Bank Uganda launched a mobile loan product, Mobi Loan.
- KCB Bank Uganda merged four branches into two cutting down on operational expenditures on the back of sustained growth of digital transactions to 65% of total transactions in 2020.
- KCB Bank Tanzania enhanced its internet banking platform to serve customers better by incorporating government payments, bulk and account to wallet transfers.

NOV

- KCB became the first bank in the region to receive Green Climate Fund (GCF) accreditation paving way for lending to medium to large climate resilient assets and projects valued between US$ 50 million - US$ 250 million.
- KCB Group entered into a definitive agreement to acquire banking businesses from Atlas Mara in Rwanda and Tanzania to scale the Group's regional presence.
- KCB Bank Rwanda partnered with SEAD Project to develop financial literacy curriculum for high learning institutions such as TVETs and IPRCs.
- NBK scooped Customer Satisfaction and Happiness Award in the Global Banking and Finance Awards 2020.
- NBK named Best Bank in Customer Service at the International Business Magazine Awards 2020.
- KCB Bank Rwanda through KCB Foundation's igire program supported 100 teen mothers who already own businesses by training them on how to develop their businesses.
- KCB Bank Tanzania deployed direct integration with partner mobile network operators to the mobile banking platform (mobi) to enhance quality of customer service and revenue.

DEC

- KCB Group Plc Board approved a new Group organizational structure in line with the need for the Bank to remain positioned and responsive to sustainability, opportunity and growth.
- KCB Bank Uganda commenced the transformation of the retail branch network through digitization.
- KCB Bank Rwanda partnered with ACELI Africa, Opportunity International and FAGACE for agricultural and SMEs portfolio guarantee schemes.
- KCB Bank Kenya partnered with Laikipia County Government to enable MSMEs and co-operative societies localized within the County to access loans through an interest subsidy and guarantee model.
- KCB Bank Tanzania deployed the Government payment system (GePG) on mobi to enable payment of taxes and other levies on the mobile banking platform.
- KCB received US$ 150 Million from IFC and other co-lenders for tier II capital and SME lending and climate finance.

Our Purpose
Simplifying your world to enable your progress

Our Vision
To be the preferred financial solutions provider in Africa with global reach.

Our Mission
To drive efficiency whilst growing market share in order to be the preferred financial solutions provider in Africa with global reach.

2020 -
STRA

What drives us

Financial
- PBT
- Efficiency
- Shareholder Value

Internal Business Process
- System Reliability
- Sustainability
- Control Environment

Customer Perspective
- Customer Experience
- Market Share
- Shared Value

Learning and Growth
- Staff Productivity
- Staff Development
- Culture Change

Strategy Pillars

Customer first, with leading value propositions

Step change in efficiency and productivity

Digital Leader and Digital to the Core

Scale to achieve regional relevance

- 2023
TEGY

Our Values
- Inspiring
- Simple
- Friendly

Our Behaviour
- I am a leader
- I find solutions
- I drive efficiency
- I simplify work
- I listen and care
- I am positive and committed

Our Promise
Go Ahead

2020 Performance

- Agents & Merchants – 23,460
- Net Promoter Score – 52
- Number of customers – 25.2M
- Brand power – 29%

- Mobile Loans – KShs.154.0B
- Non-Funded Income Ratio – 29.7%

- Net Loans & Advances – KShs. 595.3B
- Customer Deposits – KShs. 767.2B
- Asset Yield – 10.6%

- No. of staff – 7,525
- Staff cost to income ratio – 21.4%
- Revenue per staff – 12.8M
- Social Capital – KShs. 511M

- Dividend per share - KShs. 1.00
- ROE – 14.4%

- Cost-to-Income Ratio – 45.4%
- NPL Ratio – 14.7%

How we achieve it

- Modern IT Architecture, Processes, Capabilities and Talent

- Enhance End-to End (E2E) Credit and Enterprise Risk Management.

- Rigorous Performance Management with Enabling Culture and Organization Structure

Our Value Creation Process

INPUTS

8 DECENT WORK AND ECONOMIC GROWTH

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Financial
- Equity: KShs. 142.4B
- Deposits: KShs. 767.2B
- Borrowings : KShs. 37.0B

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Manufactured
- 98% Out of branch transactions

Intellectual Innovations in 2020:
- Vooma
- Women Proposition

PROCESS

01

Customer first, with leading value propositions

02

Step change in efficiency and productivity

OUTPUTS

Accounts

We enable the progress of our customers through various money management solutions:

- Current
- Transactional
- Mobile
- Savings

Payment Transactions

Enabling Funds transfer through:

- Mobile
- Agents
- Internet
- POS/Merchants
- Branches
- ATMs

Loans

We extend credit, in corporating responsible lending practices servicing:

- Personal
- Corporate
- SME
- Micro

Investments

Generation of yields by way of:

- Fixed Deposit Receipt
- Call
- Custody
- Savings products

Forex

Provision of brokerage services to buy and sell foreign currencies through:

- SWAPS
- Swift
- Futures
- T-Bill/Bonds

People

Career development & advancement opportunities to ensure we attract and retain top talent

1 NO POVERTY

10 REDUCED INEQUALITIES

17 PARTNERSHIPS FOR THE GOALS

Human
- Staff Count: 7,525
- Average Tenure: 11.5 years
- Revenue per staff: KShs. 12.8 million

Social
- 25.2 million Customers
- KShs. 24 billion advanced under women proposition
- Strategic Partnerships

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

11 SUSTAINABLE CITIES AND COMMUNITIES

Natural

Carbon-Neutral operations
- Monitored resource usage (water, fuel,power and paper)
- KCB Green Agenda

03

Digital Leader and Digital to the Core

04

Scale to achieve regional relevance

OUTCOMES

Investors
- Return on Average Equity: 14.4%
- Return on Assets: 2.9%
- Earnings per share: KShs. 6.10
- Dividends per share: KShs. 1.00

Employees
- KShs. 20.4B salaries and benefits paid
- Average tenure: 11.5 years
- 164 promotions in 2020

Regulators
- Continuous streamlining with all required regulations
- Corporation tax expense in 2020: KShs. 6.1B

Customers
- 337.1M Transactions facilitated across all channels
- KShs. 55.5B growth in net loans advanced in 2020
- KShs. 80.6B growth in deposits mobilized in 2020
- KShs. 1.1T transacted on mobile in 2020

Communities
- Average supplier performance of 88% on all deliverables
- KShs. 11.2B distributed to elderly and disabled
- Reduction of resource usage: 18.8%

Our Capitals

01. Financial Capitals

The Group maintains an optimal level of capital to support its business growth strategies, investment opportunities, and to meet regulatory requirements. In 2020, we leveraged on our balanced mix of customer deposits, debt, and equity to run our operations and execute our strategy. Although it was a tumultuous year, the Group maintained a solid capital base and diversified funding sources that enabled us to provide banking solutions competitively across the markets we operate in. On this front, all our banking subsidiaries except NBK—which is set to receive additional capital via tier II debt in 2021—met their core and total capital ratios.

Our investors, both debt and equity, played a big part in the makeup of our financial capital and the operationalization of our strategy. During the year under review, our total equity grew 10% to KShs. 142.4 billion while our total borrowings grew to 37.0 billion from KShs. 21.8 billion in 2019. The Bank tapped into a US$ 150 million facility from IFC and other core lenders to bolster our tier II capital levels while at the same time advancing more lending to SMEs and climate finance. We were able, through our wide distribution networks and solid financial footing, to attract and mobilize a balanced mix of deposits to further support our lending activities across the region. Our customer deposits grew 12% to KShs. 767.2 billion, with the majority being comprised of low cost deposits powering a 10% growth in our loan book to KShs. 595.3 billion.

Additionally, our retained earnings form part of the financial capital used in the execution and growth of our strategic investments. These retained earnings stood at KShs. 116.0 billion at the end of the period under review. Furthermore, despite the onset of the pandemic, the Group managed to pay shareholders dividends to a tune of KShs. 11.1 billion during the year for the 2019 period and a further KShs. 3.2 billion proposed for 2020. Whichever form of funding KCB Group sources, it is accessed at competitive rates, leveraging our financial capacity to efficiently create and maximize shareholder value.

MOODY'S INVESTORS SERVICE

KCB Bank Kenya Credit Rating

B2 (Negative)

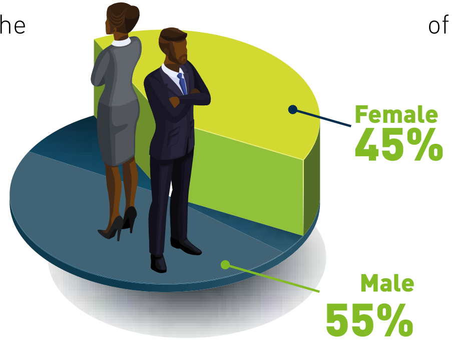
At par with the Sovereign rating supported by

- Reliable profitability metrics
- Efficiency improvements
- Strong domestic franchise
- Stable deposit-based funding structure, and
- Strong capital metrics.

02. Human Capital

Human capital is at the core of the Bank's human resource strategy and for us, it is a key differentiating factor. To deliver on this strategy, we have a team of 7,525 employees serving our customers across the business, drawn from diverse backgrounds and nationalities. We continually invest in human resource development focusing on but not limited to training, staff wellness, staff recognition, competitive remuneration, and career growth.

Talent attraction, retention, motivation, and development continue to drive our transformative agenda including innovation that seeks to provide a fulfilling experience for our customers. Our people remain the critical factor in deriving positive results from all other capitals as they carry the vision of the Group. The Group's ability to attract talent from the market is premised on our reputation in the industry and anchored on excellent performance over time. We continually benchmark our compensation and benefits plans for our employees to ensure that we remain competitive in the market.



Success in the industry is reliant on being agile and the ability to adequately respond to the dynamic demands and needs of its current and future clients. In order to achieve this, the human resources division continues to leverage integrated learning to reach out to all its staff. In addition, the group continuously taps into in-house experts and external industry experts to train and develop our employees on relevant courses.

A strong performance-driven culture is critical for the Bank in order to deliver on our ambition of sustained performance and growth strategy. At the same time, leaders play a vital role in the Bank as they are key in the planning and execution of strategy. To this end, the Bank is continuously investing in leadership training for the leadership across the region to ensure they are well equipped with skills both soft and technical to enable them carry out their duties as expected.

> A strong performance-driven culture is critical for the Bank in order to deliver on our ambition of sustained performance and growth strategy.

Social Media Platform (As of 31 Dec. 2020)

1,185,657 Followers

445,939 Followers

85,042 Followers

39,082 Followers

63,819 Followers

2,830 av. Interactions per day

03. Intellectual Capital

This is a collection of how the brand is perceived, its intellectual property, technical know-how, and the ability to be creative and innovative in provision of its products and deployment of technologies. As an innovative bank, and to give us a stronger competitive edge, we place maximum emphasis on harnessing intellectual capital. Products and services need to be reflective of the ever-evolving industry practices (technological or otherwise) for the continuous adaptability and sustainability of the business. Furthermore, the Group ensures that its reputation credentials remain solid driven by rigorous stakeholder engagement, compliance with regulatory requirements, and a strategic communications approach.

In this regard, the Bank has continued to perform exceptionally well on key parameters around intellectual capital. Every year, the research arm of the Bank undertakes a review of our brand health, identifying top brand drivers and the stress points with specific remedial actions. However, due to the pandemic this survey was not conducted in 2020.

We are constantly challenged to adapt to digital trends with a view to meeting our customers' needs. Whenever there are new technologies that we see will have a positive impact on our business, we gradually incorporate them into our business.

We frequently carry out tests on our systems for cyber risks and security as we aim to always protect our client's information. Data protection and governance are crucial for customers' trust in the banking sector. Our customers entrust us with confidential and personal information that we keep safe and aim to always be in compliance with data protection requirements.

Further adjusting to the market trends and customer needs, KCB has witnessed and become part of the digital disruption that has led to a strong and sustained use of non-branch channels to access banking services.

Continued innovation has resulted in better customer experience, improved system efficiencies, and helped unlock big data potential for product development. We are a bank driven by data; we use data to inform the constant improvement of processes and decision making.

> Continued innovation has resulted in better customer experience, improved system efficiencies, and helped unlock big data potential for product development.

Our Capitals

04. Manufactured /Infrastructural Capital

Our manufactured capital is predominantly in the form of infrastructure and technology, leased or wholly owned and whose value is realized in the delivery of products and services.

Our robust distribution network comprising of the largest branch network in the region as well as innovative digital platforms are an important source of our competitive differentiation. Despite the financial challenges presented by the COVID-19 pandemic, KCB Group was able to leverage on its digital platforms that include mobile, internet, agents and merchants to continue providing service to our clients.

As a result of the continued investment in the digital space, we remained a top-tier financial institution across the region providing innovative solutions, improving ease of access to banking services and ensuring system availability and reliability. In 2020, our core banking system uptime stood at 99.99%.

> We are keen to ensure that we remain a pace setter for progressive modernization of the infrastructural and manufactured capital which will improve efficiency and enhance our multi-channel customer engagement while creating a scalable and resilient infrastructure.

While ensuring that growth is sustainable, KCB Group has expanded its reach in markets such as Rwanda and Tanzania as evidenced by the planned acquisition of up to 100% of Banque Populaire du Rwanda Plc (BPR) and 100% of African Banking Corporation Tanzania (BancABC). The acquisition will see the Group increase not only its regional footprint but the manufactured capital as well.

We are keen to ensure that we remain a pace setter for progressive modernization of the infrastructural and manufactured capital which will improve efficiency and enhance our multi-channel customer engagement while creating a scalable and resilient infrastructure.

Our investments in these areas will deliver a more efficient, scalable, and flexible infrastructure in 2021 and beyond.

05. Social & Relationship Capital

At KCB, it is our firm belief that the Group can only prosper if the communities that have given us the social license to operate, thrive. This is what forms the baseline of the our social and relationship capital. The Group affirmed this belief when it adopted a raft of measures to provide support to our customers and communities at the onset of the COVID-19 pandemic. These measures included fee waivers and loan restructuring to provide the much needed relief to our customers as well as donations to support various COVID-19 response programs across the communities we operate in.

> KCB Foundation continues to champion for sustainable development, reduction of poverty, and enhancement of the wellbeing of the communities KCB operates in.

KCB Foundation continues to champion for sustainable development, reduction of poverty, and enhancement of the wellbeing of the communities KCB operates in. This is achieved through the shared value philosophy that champions for businesses to solve societal challenges, which anchors the foundation programmes. Two of the programmes focus on enterprise development; 2jiajiri – a targeted skills and enterprise training for the youth and Mifugo Ni Mali – livestock value chain support programme.

The third is the high school scholarship progamme, which provides a full scholarship to promising underprivileged students who are not able to afford the cost necessary to attain four-year-long high school education and the supporting requirements i.e. uniforms, books and transport. KCB Foundation customizes these programmes in each of the KCB subsidiaries to ensure that they respond to the essential development priorities with programs targeting skills and enterprise training for the youth in Rwanda, Tanzania and Uganda.

In line with the United Nations Sustainable Development Goal number 17, KCB leverages on the power of partnerships to achieve the desired development goals. The Foundation is cognizant that the progress attained in its programmes has been accelerated by every partner who has played a key role in strengthening the programmes' reach and impact. Over the last 13 years, the Foundation has invested an estimated KShs. 3 billion in community programmes across the region.

06. Natural Capital

KCB Group demonstrated its commitment to the environment by extending social and environmental screening criteria to loans worth KShs. 92 billion in 2020. Internally, the Bank pushed the needle in environmental conservation by installing LED lighting in 40% of its branch network, further reducing its carbon footprint. The Bank also got accreditation from the Green Climate Fund, an important step in enabling investment in projects ranging from US$ 50 million - 250 million, geared towards climate change mitigation and adaptation projects. Furthermore, we ensured awareness and engagement with 6,633 staff taking the sustainability e-learning modules to firmly entrench the sustainability message.

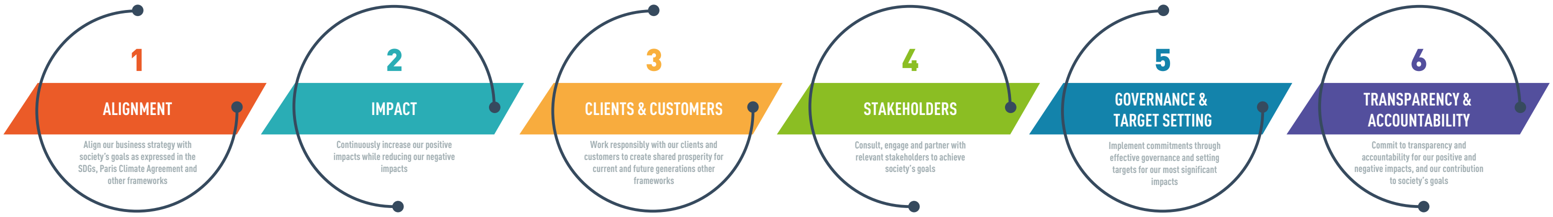
> KCB Group recognizes its responsibility to achieve the global climate goals and is investing in learning and capacity building to ensure systemic change, advancing together so that no one is left behind.

Our achievements in the first year of the UNEP Principles of Responsible Banking included our contribution towards the development of carbon accounting methodology and enhancing our support for climate-sensitive investments for SMEs and corporate clients.

KCB Group recognizes its responsibility to achieve the global climate goals and is investing in learning and capacity building to ensure systemic change, advancing together so that no one is left behind. In order to better comply with this, all related policies were updated in 2020 including the Sustainability and Social and Environmental Management Systems (SEMS) policies in the areas of sustainability reporting and scope to cover all KCB functions.

UNEP FINANCE INITIATIVE | PRINCIPLES FOR RESPONSIBLE BANKING

The six Principles for Responsible Banking



1 ALIGNMENT
Align our business strategy with society's goals as expressed in the SDGs, Paris Climate Agreement and other frameworks

2 IMPACT
Continuously increase our positive impacts while reducing our negative impacts

3 CLIENTS & CUSTOMERS
Work responsibly with our clients and customers to create shared prosperity for current and future generations other frameworks

4 STAKEHOLDERS
Consult, engage and partner with relevant stakeholders to achieve society's goals

5 GOVERNANCE & TARGET SETTING
Implement commitments through effective governance and setting targets for our most significant impacts

6 TRANSPARENCY & ACCOUNTABILITY
Commit to transparency and accountability for our positive and negative impacts, and our contribution to society's goals

COVID-19 Related Initiatives

The global outbreak of COVID-19 poses the largest health and economic crisis in decades. The pandemic has had an adverse impact on economies, households, businesses, and financial institutions around the world.

In response, the government announced various containment measures to limit the spread of the virus. These measures, adopted at various levels across the region, including restriction of movements to limit intra-country and cross-county infections resulted in a slowdown in economic activity, turning the pandemic into an economic and health crisis.

While we could never have predicted the nature or extent of the crisis we continue to face, the Bank was on sound footing operationally and financially going into the crisis. Our efforts to build and maintain strong capital levels gave us the flexibility to serve as an economic shock absorber for our customers and the general economy during these harshest of times.

The Bank adopted various measures to keep the customers and staff safe. It initiated various relief measures for customers including loan restructuring, waiver of mobile banking charges, provision on sanitizers and physical distancing protocols in all our branches. We also contributed to various COVID-19 response initiatives across the region to support our communities during the pandemic.

All these measures were geared towards limiting the spread of the virus and easing the related economic hardships faced by the communities in which KCB operates. Through our various interventions, we demonstrated KCB as the partner that truly cares for those within its community and genuinely interested in enabling progress.

Interventions

1.

COVID-19 Intervention

KShs. 200 million

KCB Group contributed to various COVID-19 response initiatives formed by the governments across the region to support citizens during the pandemic. Our contribution was in form of cash donations, media for public awareness campaigns, personal protective equipment and food donations.

2.

COVID-19 Loans Restructured

KShs. 106.1 billion

Cumulative value of restructured loan facilities by the Group to cushion customers against the effects of the COVID-19 pandemic. The relief accommodation was extended to distressed customers upon request in the form of principal only, interest only or both principal and interest moratorium.

3.

KCB Foundation

KShs. 24 million

The pandemic brought with it a unique opportunity for KCB Foundation to channel additional support to the various programmes already set-up.

INITIATIVES

- KCB Foundation Greenhouse farmers: Funding to meet increased costs of inputs, water and transport.

High School Beneficiaries:

- For nutritional support, issued a monthly stipend of KShs. 1,000 per beneficiary (for 5 months March through July to 1,070 beneficiaries).
- KShs. 2,000 as back to school transport expense for each of the 1,070 beneficiaries when schools re-opened to cater for transport and basic shopping
- Provided Retailer Vouchers to select KCB customers, which include 2jiajiri beneficiaries to purchase basic needs.
- COVID-19 containment interventions to impacted individuals. Distributed water, water containers, soap, masks and sanitizers.
- Mifugo Ni Mali: Extended support for a period of 3 months of KShs. 30,000 for 35 Cooperatives with outstanding loans. This is to meet administrative costs (rent, salaries for key staff, transport and communication)

4.

Waiver of Mobile Banking Charges

KCB waived all charges for balance inquiry and for transfers between mobile money wallets and bank accounts. This waiver resulted in a significant growth in mobile banking volumes to KShs. 900 billion. The Bank also extended KShs. 154 billion in mobile loans to our customers, with many MSMEs using the platform to meet working capital requirements for their businesses.

5.

Temporary freeze of CRB Listing

The Bank temporarily suspended listing of customers who defaulted on their loan obligations with the Credit Reference Bureaus with effect from April 1, 2020, in line with the directive from the regulator in Kenya.

6.

Cash reimbursement benefit

KCB Insurance Agency and UAP Old Mutual partnered to offer KCB residential mortgage customers with a free cash benefit upon hospitalization due to COVID-19. This benefit cover ran from June to November 2020.

7.

Extension of Insurance Premium Finance (IPF) terms for medical insurance.

KCB Insurance Agency extended the installment period for IPF from 4 months, to 6 months for individuals and 8 months for SME's and Corporates for medical insurance.

8.

Initiatives to support staff

Facilitation of staff to work from home through support towards set up of home offices, provision of internet connectivity and a closed user group for voice calls. Deployment of teams to work in shifts at the branches and the provision of reusable face masks, hand sanitizers and infrared thermometers in all workplaces. Health talks and trainings to create awareness and break the stigma about the pandemic were also conducted. The Group availed additional access, through our health care partners, to specialized treatment, ambulance services and counsellors to offer psychological support.

9.

Support provided to Learning institutions

The Bank donated over a million masks and provided financing for water tanks, hand washing points, desks, chairs and all sanitization needs towards complying with health guidelines set by the ministries for Education and Health for safe reopening of schools.

10.

Support provided to SME customers

The Bank restructured SME loans valued at KShs. 7.5 billion thereby providing repayment holidays and moratoriums to over 3,500 SME customers while at the same time offering a wide range of business development skills to entrepreneurs through webinars.

Operating Environment

KENYA

Kenya's gross domestic product (GDP) contracted by 0.5% during the first nine months of 2020 year-on-year, compared to a growth of 5.4% during the nine months of 2019. This was attributed to the contraction during the second and third quarters despite the growth recorded during the first quarter. Real GDP contracted by 5.5% and 1.1% in the second and third quarter of 2020 respectively compared to an expansion of 5.2% in the first quarter of 2020. The IMF estimates a contraction of 0.1% in 2020 and expects the economy to recover and grow by 7.6% in 2021.

The poor performance in the economy was characterized by substantial contraction in accommodation and food services; education; trade; manufacturing; professional service; taxes on products and transportation and storage. Comparatively some sectors such as agriculture, forestry and fishing; financial and insurance; construction; health services; public administration; real estate and mining and quarrying activities posted some growth.

During the year, the country instituted measures aimed at containing the spread of the virus, which included restriction of movement, closure of learning institutions and some businesses especially those dealing in accommodation and food services. This disrupted key foreign exchange earners such as tourism and horticulture. To counter the effects of the pandemic the government rolled out several interventions to cushion citizens and businesses. These measures included income tax exemption for Kenyans earning less than KShs. 24,000; reduction of individual income tax rate from a maximum of 30% to 25%; corporate tax reduction from 30% to 25%; reduction in VAT from 16% to 14%; reduction of turnover tax rate from 3% to 1% for MSMEs with revenues exceeding KShs. 1 million; CBR reduction by 125bps to 7.00%; CRR reduction by 100bps to 4.25%; and the maximum tenor of Repurchase Agreements (REPOs) was extended from 28 to 91 days. The fiscal measures however lapsed at the end of 2020.

Branches	**207**
ATMs	**399**
Agents	**12,724**
Merchant outlets	**8,023**
Staff	**4,901**

> “
>
> The IMF estimates a contraction of 0.1% in 2020 and expects the economy to recover and grow by 7.6% in 2021.

-0.1% ▼

GDP Performance

Our performance

	2019 KShs. Million	2020 KShs. Million
Total income	72,398	**75,449**
Operating expense	(30,494)	**(28,857)**
PAT	22,706	**18,347**
Total assets	674,302	**758,345**

Ratios

	2019	2020
NPL	7.3%	**12.8%**
CIR	42.1%	**38.2%**
ROA	3.7%	**3.3%**
ROE	24.9%	**18.0%**

BOARD OF DIRECTORS

Lawrence Njiru
Chairman

Eng. Stanley Kamau
Alternate to CS Treasury

Tom Ipomai

Simeon Rono

Njeri Onyango

Caroline Rabar-Okongo

Joseph Muigai

Anne Eriksson

Eunice Nyala

Joshua Oigara
Group CEO and MD

Samuel Makome
Chief Commercial Officer

Bonnie Okumu
Company Secretary

BOARD OF DIRECTORS


John Nyerere
Chairman


Eng. Stanley Kamau


Jones Makau Nzomo


Linnet Mirehane


Gen (Rtd) Dr. Julius Waweru Karangi


Dr. Obuya Bagaka


Joshua Oigara


Paul Russo
MD & Group Regional Business Director

> Whereas tourism inflows took a hit during the year, diaspora remittances remained strong posting a 10.6% increase to total US$ 3.1 billion from US$ 2.8 billion received in 2019.

National Bank
A Subsidiary of KCB Group PLC

Branches & Agencies **94**
ATMs **105**
Agents **346**
Staff **1,630**

Overall inflation in 2020 averaged 5.3% compared to 5.2% in the previous year. The increase was majorly due to higher food and transport costs. Whereas in 2019 food inflation was the main driver of overall inflation, in 2020, core inflation went up due to the pressures related to the pandemic that affected most service sectors especially transport, tourism, hotels and restaurants, and education.

The Kenya shilling averaged KShs. 106.45 in 2020 against the US dollar compared to KShs. 101.99 in 2019. The shilling closed the year weak against major international currencies, trading at KShs. 109.17 to the US dollar marking a 7.7% depreciation. The current account deficit narrowed to 4.8% of GDP in 2020, from 5.8% in 2019. This is due to exports of goods strengthening from the disruptions of COVID-19, growing by 3.3% in 2020 due to the resumption of demand in the international markets and the availability of adequate cargo space. Imports of goods also declined by 12.5% in the year mainly reflecting lower costs of oil products driven by a fall in international prices. The deficit is projected at 5.1% in 2021, partly reflecting expected pickup in imports.

CBK's usable foreign exchange reserves remained adequate at US$ 7,750 million (4.76 months of import cover) as at end of December 2020. This continued to provide adequate cover and a buffer against short-term shocks in the foreign exchange market.

Whereas tourism inflows took a hit during the year, diaspora remittances remained strong posting a 10.6% increase to total US$ 3.1 billion from US$ 2.8 billion received in 2019.

CBR averaged 7.2% in 2020 compared to an average of 8.9% in 2019 while the 91-day Treasury bill averaged 6.86% in 2020 same as the year before. The period was characterized by declining yields on treasury bills in the second half of the year attributed to the reduction in CBR. Growth in private sector credit stood at 8.4% in the month of December 2020 supported by recovery in demand with the improved economic activities.

Public debt in Kenya grew by 20.4% year on year to KShs. 7.28 trillion in December 2020 compared to KShs. 6.05 trillion in December 2019. This was driven by 21.3% growth in external debt – which accounts for 52.2% of total debt – while domestic debt grew by 18.6%. At the end of the year, T-bills accounted for 24.53% of the total domestic debt while T-Bonds accounted for 73.42%. Banking institutions held the majority of the government debt at 53.3%, while pension funds held 30.3%. Public debt is set to cross the KShs. 9 trillion ceiling set by Parliament with the IMF push to include KShs. 3.4 trillion parastatal and county loans as part of the country's national debt.

Our performance

	2019 KShs. Million	2020 KShs. Million
Total income	2,711	10,804
Operating expense	(1,430)	(7,194)
PAT	1,200	178
Total assets	112,029	126,842

Operating Environment

TANZANIA

The IMF estimates that Tanzania's GDP expanded by 1.0% in 2020 compared to a growth of 6.8% in 2019. The decrease is due to heavy rainfall which destroyed the transport infrastructure and impact of the COVID-19 pandemic to country's trading partners. The construction sector remained the main driver of this growth with flagship strategic projects such as the upgrade of central railway line to standard gauge (SGR), construction of the 2,115MW Julius Nyerere Hydropower plant, the crude oil pipeline project from Hoima in Uganda to Chongoleani in Tanga Tanzania, and the strengthening of Air Tanzania Company Ltd. The mining and information and telecommunication sectors also registered significant growth. The IMF projects the country's GDP to expand by 2.7% in 2021 and 4.6% in 2022, driven by robust domestic demand and infrastructure development.

Annual average headline inflation decreased to 3.3% in 2020 from 3.4% recorded in 2019. This decrease was mainly attributed to stable exchange rate, lower oil prices in the world market and decrease in annual average inflation rate for non-food items to 2.8% from 4.0% recorded in 2019. However, food items annual average inflation rate increased to 5.0% from 4.3% recorded in 2019. Annual average inflation rate which excludes food and energy decreased to 2.3% in 2020 from 3.0% recorded in 2019. Inflation is forecasted to remain in the range of 3.0% to 5.0% in 2021.

The Tanzanian Shilling (TZS) depreciated by 1.4% against the US dollar closing the year at TZS 2,320 compared to TZS 2,288.30 in December 2019. Average lending rate slipped to 16.6% in December 2020 from 16.9% in the same period in the preceding year. The interbank borrowing rates decreased from an average of 4.8% in the period ending December 2019 to an average of 3.9% in December 2020. The banking industry sustained adequate liquidity levels, supported by accommodative monetary policy conditions, and matured treasury bills as reflected by decline in lending and money market rates.

1.0%

GDP Performance

Branches **14**
ATMs **15**
Agents **220**
Merchant outlets **456**
Staff **270**

The 364 days Treasury bills rates decreased from an average of 8.0% in 2019 to 4.7% in in 2020.

Banks and financial institutions took advantage of the measures effected by the Bank of Tanzania to implement various relief measures to ease the effects of COVID-19 on their customers. The measures by the regulator included the lowering of the discount rate from 7.0% to 5.0%, and the 100 basis points reduction of the Statutory Minimum Reserve (SMR) requirement to 6.0%. The central bank also increased the mobile money daily transfer limit from TZS 3 million to TZS 5 million and increased the maximum mobile wallet balance limit from TZS 5 million to TZS 10 million. Most banks implemented relief packages for their customers especially small and medium enterprises (SMEs) in an effort to offer financial reprieve from the effects of the pandemic. This included payment holidays/moratoriums ranging from 3 – 6 months, and restructuring of loans to extend repayment periods.

> The IMF projects the country's GDP to expand by 2.7% in 2021 and 4.6% in 2022

Our performance

	2019 KShs. Million	2020 KShs. Million
Total income	2,653	**2,771**
Operating expense	(1,483)	**(1,569)**
PAT	683	**216**
Total assets	28,128	**33,634**

BOARD OF DIRECTORS

John Ulanga
Chairman

Fatuma Chillo

Dr. Alex Nguluma

John Nyerere

Georgina Malombe

Santina Benson

Samuel Makome

Cosmas Kimario
Managing Director

Antonia Kilama
Company Secretary

BOARD OF DIRECTORS


Gen (Rtd) Dr. Julius Waweru Karangi Chairman


Yacoub Kenyu Leju


Dr. Obuya Bagaka


Garang Diing Akuong


Anne Eriksson


Lawrence Kimathi


Roba Waqo Jaldesa
Managing Director


Mary Oganga
Company Secretary

SOUTH SUDAN

The IMF estimates that South Sudan's Real GDP contracted by 6.6% in 2020 as a result of economic shocks occasioned by the COVID-19 pandemic and a decline in global oil prices. Before the onset of the pandemic, the country had achieved significant progress due to improved political stability and an uptick in global oil prices. Economic growth had rebounded, inflation declined, and the exchange rate stabilized. However, the pandemic and oil price shock created severe economic disruption, leading to deterioration in the fiscal and external balances, and a sharp decline in growth, reversing the gains that had been registered earlier.

The government of South Sudan is still in the process of implementing the Revitalized Peace Agreement. On this front, the country has since reverted to ten states from the former 32 states and it is in the process of filling key government positions and integrating the military. The continued implementation of this agreement is expected to anchor the resurgence in the economy post the pandemic. Furthermore, big infrastructural projects are currently ongoing and expected to increase as the country restores investor confidence. The government has also stepped up efforts in the collection of non-oil revenue collection to reduce over-dependence on crude oil exports which currently account for 97% of exports and 88% of government budget revenue.

During the year under review, headline inflation continued its downward trajectory having peaked at 831% in October 2016. It eased down to 68% in December 2020 from 69% in December 2019. The consumer price index dropped by 6% year on year to close at SSP 6,223 from SSP 6,642 in 2019.

The South Sudanese Pound (SSP) faced strain during the year leading to an 11% depreciation occasioned by a shortage of foreign currency which further worsened the country's balance of payment deficit. The pound exchanged at SSP 292 against the US dollar at the end of 2020 compared to SSP 259 at the beginning of the year. To address the urgent balance of payments needs, the IMF approved $52.3 million emergency assistance to South Sudan under the Rapid Credit Facility. This is the first lending operation with South Sudan since it joined the Fund in 2012.

Furthermore, to address the rapid depreciation of the local currency and inflation, the Bank of South Sudan's Monetary Policy Committee (MPC) in November 2020 resolved to tighten monetary policy to mop up excess liquidity in the market. The MPC raised the Central Bank Rate (CBR) to 15% and the Cash Reserve Ratio (CRR) to 20%. The apex bank had earlier in July 2020 lowered both the CBR and the CRR to 10% from 13% and 15% respectively as part of measures to mitigate against negative effects of the COVID-19 pandemic. The central bank also announced plans to introduce its own bills as a means of liquidity management mechanism as well as step up its supervisory role by continuously monitoring the cash in-vault of commercial banks.

Foreign investment performed sub optimally as a result of shutdown of the economy for the better part of the year occasioned by the roll out of measures to contain the spread of COVID-19.

-6.6% ▼
GDP Performance

Branches	**12**
ATMs	**3**
Agents	**45**
Merchant outlets	**20**
Staff	**118**

Our performance

	2019 KShs. Million	2020 KShs. Million
Total income	545	**1,062**
Operating expense	(362)	**(554)**
PAT	560	**789**
Total assets	14,585	**16,511**

Operating Environment

RWANDA

Branches **13**
ATMs **26**
Agents **480**
Merchant outlets **157**
Staff **244**

Rwanda's economy shrank 3.6% year-on-year in the third quarter of 2020 following a record 12.4% contraction in the previous period as activities gradually recovered from the COVID-19 pandemic shock. The services sector shrank 7.0% driven by a 55.0% and 12.0% contraction in hotels & restaurants and trade & transport respectively. However, information & communication, manufacturing and agricultural activities grew by 43.0%, 6.0% and 2.0% respectively. The IMF projects a full year contraction of 0.2% in 2020 and a rebound to 5.7% in 2021 driven by improvements in the business environment and investment in major growth sectors.

Rwanda's annual inflation rate eased for the fifth straight month to 3.9% in December 2020. The inflation rates remained above 10% from January to September hitting a high of 13.5% in March 2020. Mild pressures on core inflation are expected over the medium term as a result of the continuous real exchange rate depreciation but the headline inflation is projected to drop to 1.3% in 2021. The exchange rate depreciated by 5.4% in the year with the Rwandan Franc (FRW) exchanging at 972 to the US Dollar but reserves remained adequate at 5.8 months of import cover.

Rwanda was the first country in the region to enforce a total lockdown at the onset of the pandemic, a feat that saw a slow growth in the number of infections and deaths in the country. Furthermore, the government initiated a raft of containment measures including enforcing social distancing, mandatory wearing of face masks and provision of medical support. On the monetary front, the National Bank of Rwanda reduced the Central Bank Rate (CBR) to 4.5%; lowered the reserve requirement ratio by 100 basis points to 4.0%; extended a lending facility worth RWF 50 billion that banks facing liquidity challenges could borrow from; allowed banks to restructure loans for impacted borrowers and introduced waivers for mobile money transactions.

The Government of Rwanda further scaled up emergency health spending and support to vulnerable households in the form of regular in-kind transfers of basic food stuffs; introduced tax relief measures including the suspension of down payments on outstanding tax for amicable settlement; softened the enforcement for tax arrears collection; extended the deadline for filing and paying corporation income tax; and fast tracked VAT refunds to SMEs.

The Economic Recovery Fund (ERF) was also established by the government to support the recovery of businesses hardest hit by the pandemic resume operations and safeguard jobs. The fund estimated at US$ 900 million over the two fiscal years 2019/20 and 2020/21, aims to scale up social safety net programs for the most vulnerable, build key infrastructures, and support strategic enterprises, including small- and medium-size enterprises

Rwanda's growth, coupled with a focus on the business environment, is expected to stimulate growth in private investment. Currently, foreign direct investment averages 3.0% of GDP and is expected to gradually increase as the country improves the ease of doing business. The 2020 World Bank Doing Business report ranks Rwanda second in Africa. The country is scheduled host the Commonwealth Heads of Government Meeting (CHOGM) in 2021. The event was postponed from 2020 due to the pandemic. This meeting offers an opportunity for the country to showcase her investment opportunities.

-0.2% ▼

GDP Performance

Our performance

	2019 KShs. Million	2020 KShs. Million
Total income	2.332	**2,277**
Operating expense	(1,267)	**(1,360)**
PAT	763	**446**
Total assets	20,680	**26,125**

BOARD OF DIRECTORS

John Bosco Birungi
Chairman

Molly Rwigamba

Tom Ipomai

Antonia Mutoro

Timothy Kariuki Mwai

Alexis Nsengumuremyi

Joachim Steuerwald

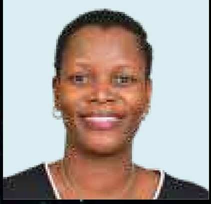
George Odhiambo
Managing Director

Brice Manzi
Company Secretary

BOARD OF DIRECTORS


Constant Othieno Mayende
Chairman


Apollo Obbo


Getrude Karugaba

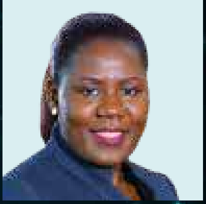

Caroline Rabar-Okongo


Edgar Omoto


Paul Russo


Edgar Byamah
Managing Director


Agnes Namyalo Mayanja
Executive Director


Brenda Magoba
Company Secretary

UGANDA

Branches **13**
ATMs **15**
Agents **425**
Merchant outlets **281**
Staff **236**

Uganda's economy experienced a slowdown in growth due to the impact of the COVID-19 pandemic, locust invasion and flooding caused by heavy rains. The IMF estimates that Uganda's real GDP contracted by 2.1% in 2020 compared to a 6.7% growth in 2019. The economy shrunk by 6.0% in the second quarter of the year due to international trade disruptions and movement restrictions which impacted exports, tourism, remittances, and foreign direct investment. This created significant fiscal pressures and deceleration in economic growth. However, economic activity is expected to pick up with the IMF projecting a growth of 6.3% in 2021.

The balance of risks to inflation forecast are assessed to be on the upside with core inflation expected to rise above the 5.0% target within 12 months. The major upside risks to the inflation outlook include a higher fiscal deficit and a more depreciated exchange rate on account of the weakening external position.

Uganda instituted several monetary, fiscal and public health measures aimed at providing relief to citizens and containing the spread of the corona virus. The monetary policy measures included the lowering of the Central Bank Rate (CBR), provision of liquidity assistance and room for loans restructuring. On the fiscal front, the government enhanced it's funding to health programs, deferred tax payment obligations for the most affected sectors and introduced tax exemptions for items used for medical purposes. Containment measures were also introduced including lockdowns, night curfew and closure of schools, places of worship, bars and restrictions on social gatherings. As the year progressed, these measures were varied severally as the authorities continued to assess their effectiveness.

Bank of Uganda further lowered the CBR to 7.0% in October 2020, having reduced it to 8.0% earlier in the year as part of its measures to curb the impact of the pandemic. This resulted in an average reduction of the 7-day interbank rate to 8.1% from 10.0% recorded in 2019. The 91-day Treasury bill averaged 8.7% in 2020 compared to 9.4% in 2019 with the period characterized by declining yields on the treasury bills with most auctions being oversubscribed across all the three tenures. Private sector credit grew by 9.4%, lower than the average of 11.3% witnessed in the previous year. The growth was mainly observed in manufacturing, transport & communication, real estate, business services and the households.

The economic outlook remains uncertain largely due to the unpredictable intensity and duration of the pandemic. The downside risks to the economic growth projection include the possibility of a widespread and perhaps a more severe second wave of the virus and locust invasion. In addition, increasing non-performing loans and high lending interest rates could delay recovery of the private sector credit extensions to pre-COVID levels. On the upside, economic growth will turn out stronger than projected if the spread of the virus is contained or an effective vaccine is available in the country.

-2.1% ▼

GDP Performance

Our performance

	2019 KShs. Million	2020 KShs. Million
Total income	1,650	**1,667**
Operating expense	(1,363)	**(1,307)**
PAT	(487)	**378**
Total assets	23,256	**18,975**

Operating Environment

BURUNDI

The IMF estimates Burundi's GDP contracted by 1.3% in 2020 mainly due to lower exports, drop in remittance inflows, increase in cost of imports and pressure on financing needs caused by the COVID-19 pandemic. The Fund however, projects a recovery in 2021 with a growth of 2.8% as the country starts to ease out of the pandemic. This recovery will be driven by the resumption of foreign aid, improved coffee exports, slight increase in public investment and growth in food production.

The interbank borrowing rates remained stable at an average of 4.0% in 2020. However, the 91 and 364 days Treasury bills average rates increased to 3.8% and 4.5% in the second half of the year compared to averages of 3.0% and 3.5% during the first half of the year. At the same time, average rates on Treasury bonds dropped by about 200 basis points in the second half of the year.

Although, the average official exchange rate stood at BIF 1,946.4 and 2,392.7 against the US$ and the EURO respectively at the end of 2020, the lack of hard currency on the market and the pressure of import needs caused a further depreciation of the BIF on the parallel market by 50% and 40.0% for the US$ and the Euro respectively.

The government of Burundi is undertaking several projects aimed at developing and spurring the economy. These projects include the creation of cooperatives to support and diversify agricultural inputs, the building of the Jiji- Mulembwe power plants to increase the supply of power, the rehabilitation of the port of Bujumbura to improve access to the country and the strengthening of the transport network to increase regional trade. Moreover, due to the fact that Burundi is the only African country producing rare earth, the country is expected to benefit from American's move to diversify its supply of these minerals, being a major global market for the commodities.

Due to the COVID-19 impact, the IMF under the Catastrophe Containment and Relief Trust (CCRT) approved a grant of US$ 7.63 million to cover Burundi debt services. Depending on fund availability, this grant will potentially increase to US$ 24.97 million thus freeing up resources for the country to contain the pandemic.

Branches	**6**
ATMs	**8**
Agents	**185**
Merchant outlets	**98**
Staff	**125**

Although multi-faceted fragility continues to hinder Burundi's Development, the peaceful election of a new president last year is expected improve relations with multilateral institutions thus potentially increasing the level of foreign aid in external budgetary support, and reducing the pressure on domestic borrowing therefore enabling banks to provide financing to other real sectors of the economy. The expected resumption of relations with Rwanda is further expected to have a positive impact on tourism and regional trade once the pandemic is contained.

In order to improve and support the local production of agro-pastoral products, the government of Burundi enacted a law providing for a 50.0% tax exemption on all interest income, commissions and fees related to the financing of agro-pastoral activities by banks and microfinances with the Central Bank stepping in to provide refinancing facilities for loans advanced to these sectors as and when required to alleviate liquidity challenges that may arise.

-1.3% ▼

GDP Performance

Our performance

	2019 KShs. Million	2020 KShs. Million
Total income	926	1,118
Operating expense	(577)	(598)
PAT	270	531
Total assets	8,374	10,309

BOARD OF DIRECTORS

Joseph Muigai
Chairman

Margaret Kositany

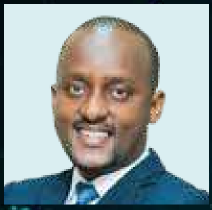
Lawrence Njiru

Yvette Munkurize

Christian Nibasumba

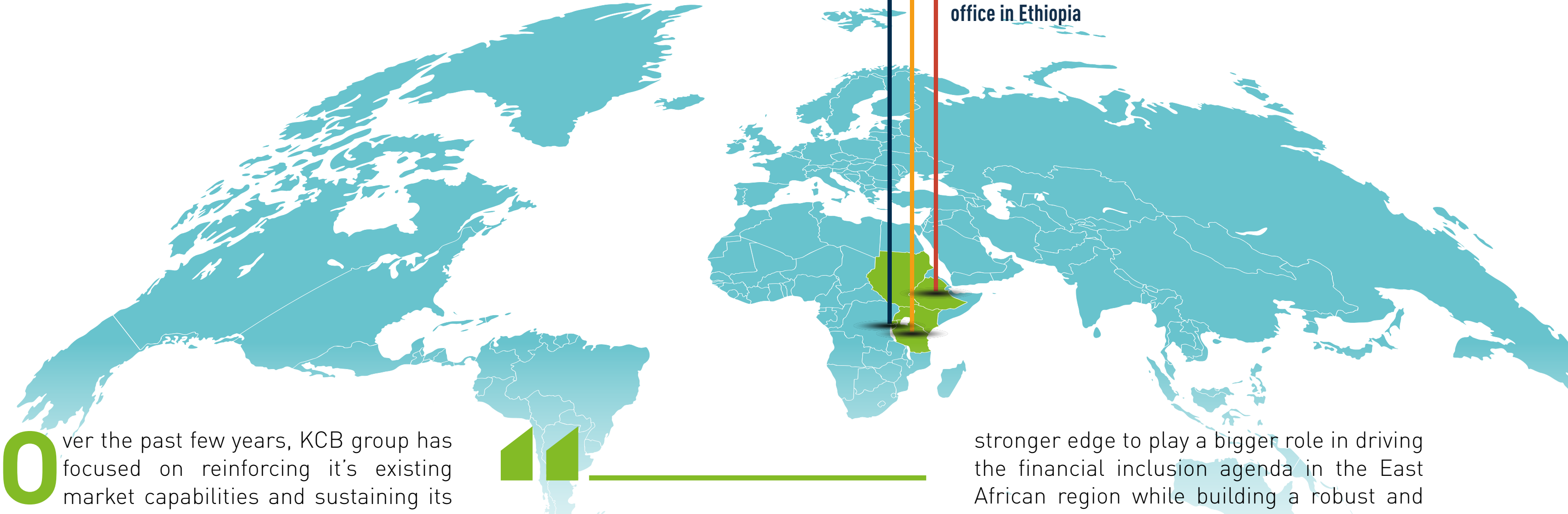
Japheth Achola

Masika Mukule
Managing Director



Herbert Fyiroko
Company Secretary

Reinforcing our market capabilities



100%
stake in **Banque Populaire du Rwanda Plc**

100%
stake in **African Banking Corporation Tanzania Limited (BancABC)**

1st
Kenyan bank in 2015, to set up a **representative office in Ethiopia**

Over the past few years, KCB group has focused on reinforcing it's existing market capabilities and sustaining its position as the leading lender in Eastern Africa.

In 2020, the Group deployed a twin strategy that involved strengthening the domestic subsidiaries in Kenya whilst pursuing an aggressive expansion drive in the existing markets across the region.

The dual acquisitions in Rwanda and Tanzania are set to increase the brand's footprint across the region, while reinforcing existing market capabilities. In November 2020, the Group signed a definitive agreement with Atlas Mara Limited— a sub-Saharan African financial services group— for acquisition of a 62% stake in Banque Populaire du Rwanda Plc and a 100% stake in African Banking Corporation Tanzania Limited (BancABC). The Group has made an offer to the remaining shareholders of BPR for the acquisition of the remaining stock at the same terms as Atlas Mara's to raise its ownership to 100%.

This expansion was driven by the Group's 2020-2023 Beyond Banking Strategy, which seeks to tap into new growth opportunities as part of our efforts to scale our regional relevance. As a result, the Group will leverage on market expansion strategies to increase the existing subsidiaries' market share in order to become a top tier player. Additionally, the Group will seek non-banking opportunities and pursue mergers and acquisitions to scale.

> **In 2020, the Group deployed a twin strategy that involved strengthening the domestic subsidiaries in Kenya whilst pursuing an aggressive expansion drive in the existing markets across the region.**

In Rwanda, upon completion of the acquisition, the KCB Group is expected to double its market share, thereby becoming the second largest bank in the country and solidifying KCB Group's leadership position. In Tanzania, the subsequent merger of BancABC with KCB Bank Tanzania, a subsidiary of KCB Group, will integrate KCB Tanzania's strong retail and corporate banking franchise with BancABC's retail and commercial banking operations. The merged entity is expected to rank as a top ten bank in the industry.

These acquisitions, will buttress the Group's leadership position and give it a stronger edge to play a bigger role in driving the financial inclusion agenda in the East African region while building a robust and financially sustainable organization and profitable for the shareholders.

In 2015, KCB Bank became the first Kenyan bank to set up a representative office in Ethiopia as the Bank sought to strengthen its presence in the East African market.

Today, KCB is the first locally owned bank to have a presence in all six East Africa Community states.

In Kenya, the Group injected KShs. 5 billion into, National Bank of Kenya, the subsidiary the Group acquired in 2019. In 2021, KCB has increased the capital in NBK via tier II debt of approximately KShs. 3 billion to enable the subsidiary meet the capital adequacy requirements and also to bolster its resources.

The Bank has also continued to invest in technology backed platforms— incorporating mobile phone and agency banking— to scale up its presence across the markets. We recently expanded these non-branch touch points, which began in Kenya but have now been introduced in Rwanda, Uganda and South Sudan.

As the focus moves to 2021, the Bank will continue to expand geographically to achieve regional relevance and support for regional customers through digitization to meet the emerging customers' needs.

KCB Group Chairman Statement

Dear Shareholders,

The past 18 months were understandably extra-ordinary due to the COVID-19 pandemic which has caused significant harm to humanity and disrupted life globally. It has been a challenge to all of us, our families and staff, the businesses we run, and economies we operate in. This has fully tested our resilience and drive to keep going.

Mitigating Effects of the pandemic & Safeguarding the Business

For our business, when the crisis hit East Africa, focus immediately shifted to the safety and well-being of our staff, customers, shareholders, families and other stakeholders. We were able to achieve this while maintaining a grip on the business goals which we had for the year by incorporating containment measures as directed by governments and health authorities in all the countries where we operate.

As a significant player in the banking industry, we believe that our responsibility goes beyond banking, and therefore we are committed to enable our staff and customers to continue weathering the challenges across the different markets. Hundreds of our staff and customers were directly affected by the virus. Most of the staff who have been affected have fully recovered over time. Sadly, one of our staff lost their battle with the virus. We have continued to enhance the COVID-19 containment protocols in all our premises to give us a better chance to fight the pandemic.

During this period, the pandemic exposed the reality of the balance between life and livelihoods leading us to adopt various initiatives among them the restructuring of loans. These measures were designed to cushion our customers who bore the brunt of the pandemic-induced economic slowdown. As a universal bank, our clientele spans small businesses to large corporates, drawn from different sectors and industries. The measures were tailored to address specific business and sector related challenges. Across the East African region, sectors such as education, hospitality, tourism and transport suffered the most from effects of the pandemic. Even as we offered safeguards to our customers, we reviewed and increased our provisions to cover the growing credit risks in some of these sectors.

Considering the scale of KCB Group and its role in the region's financial system and economy, it was important that the disruption was managed to ensure delivery of products and services continued seamlessly to customers who required financial services to sustain their families and businesses.

In adopting the detailed public health guidelines to minimize the spread of the virus, we facilitated our staff to switch to working from home and our alternative sites by leveraging on technology. With access to core banking systems using this format, customer experience and relationship management was maintained at high levels, considering the unique circumstances. Our goal was to sustain business operations as close to normal as possible for our stakeholders. As a result of these interventions, our customers were able to access the services and got the much-needed support to navigate the challenges occasioned by the crisis The Board continued to maintain regular contact with senior management, albeit virtually, during this period, to provide leadership, guidance and oversight over the evolving situation across the Group.

Balance Sheet Growth

Despite one of the most challenging financial cycles in our history, KCB Group maintained the balance sheet growth momentum it has built for over the decade. This growth was recorded across all the businesses and translated to all the subsidiaries returning a profit for the year. The

> Even as we stay the course on our core business, we are continuously improving the way we deliver our solutions to remain relevant. As part of our Beyond Banking strategy, we are focusing on strengthening our digital financial services offering.

contribution of subsidiaries outside of KCB Bank Kenya has grown substantially over the last two years, from 9% to the current 14%, with ongoing efforts to further enhance it. We remain committed to delivering value for shareholders of KCB Group, now and into the future.

Our plan towards scaling to achieve regional relevance was advanced through the signing of a definitive agreement with Atlas Mara Limited for acquisition of up to 100% of the issued share capital of Banque Populaire du Rwanda Plc and a 100% stake in African Banking Corporation Tanzania Limited (BancABC). The transactions, which are subject to shareholder approval, will increase the brand's footprint while reinforcing existing market capabilities and take us closer to achieve 20% profit contribution from our regional businesses. It is our intention to integrate these new acquisitions into the Group over the next 12 months.

Beyond Banking

Even as we stay the course on our core business, we are continuously improving the way we deliver our solutions to remain relevant. As part of our Beyond Banking strategy, we are focusing on strengthening our digital financial services offering. In this regard, we created a Digital Financial Services Division, and appointed a substantive head, to reimagine the mode of delivery, content and features of financial products and services. It involves relearning dynamic customer behaviour and delivering solutions for their needs. From this more dedicated engagement, the Bank is positioned to better utilise data and insights to inform our potential product and service improvements. The future of banking and financial services is digital, and we are well prepared to increasingly seize this opportunity as the next growth frontier.

In order to further enhance our efficiency, we are scheduled to roll out a single back-end platform across the Group, centralizing some of our functions under a shared services model. This will facilitate the efficient delivery of services, deliver cost saving benefits, leverage on Group synergies and optimize overall economies of scale across the business. The successful implementation of this model will ultimately facilitate the running of a single core banking platform with the capability of multiple and separate front-ends.

On the retail front, we continue to focus on retooling our staff to upskill them into universal bankers. The intention is to equip staff to sell any bank product and service and address customer issues, concerns, and provide timely and relevant feedback.

Our People

Our staff remain the single most important resource and the Board is passionate about their holistic well-being, provision of a good working environment and availing all the tools necessary for the best possible performance. I would like to thank all our staff for their continued dedication during a difficult and unprecedented period. Nothing says more about our people's commitment than the way our staff have turned up and kept our doors open throughout the period to ensure our customers continue accessing our products and services almost seamlessly despite the modified working conditions.

New Group Management Structure

In line with the Group's ambition to remain positioned and responsive for sustainability, opportunity and growth, the KCB Group Plc Board approved a new Group organisation structure which came into effect from January 1, 2021. This is expected to help consolidate and grow the Group's business, align brand communication, leverage social impact synergies, enhance credit management, enhance service experience, and subsidiaries to support and strengthen our customer value propositions. In this regard and among other changes, the Group appointed Mr Paul Russo as the Group Regional Business Director, to provide oversight and direction on the international businesses and subsidiaries. He is also the Managing Director National Bank of Kenya. The pending senior management changes will be concluded in course of this year and will give the CEO better oversight toward building a business that is truly fit for purpose.

Governance and Oversight

During the year, several Board directors achieved their term limits and subsequently exited various subsidiary boards. The Group Nominations committee vetted and thereafter appointed new directors in our South Sudan, Uganda, Rwanda, and Burundi boards; with no changes effected in Kenya and Tanzania. At the Group board level, we introduced two members; Ahmed Rahime Mohamud and Dr. Obuya Bagaka.

The additions ensure the Board is complete and the members support our ambition to improve and maintain a highly talented, skilled, and experienced board to not only enhance the caliber of the strategic discussions but to provide oversight and direction to the business. We are continually working towards ensuring that the board understands different aspects of the business to effectively play its strategic and fiduciary role.

We reconstituted the Group Board committees, bringing down the number to the following five committees; the Audit & Risk Committee, the Human Resources & Governance Committee, the Strategy and Technology Committee, the Oversight Committee and the Nominations Committee. Further details of the roles and composition of the respective committees are provided within this report.

Future Plans

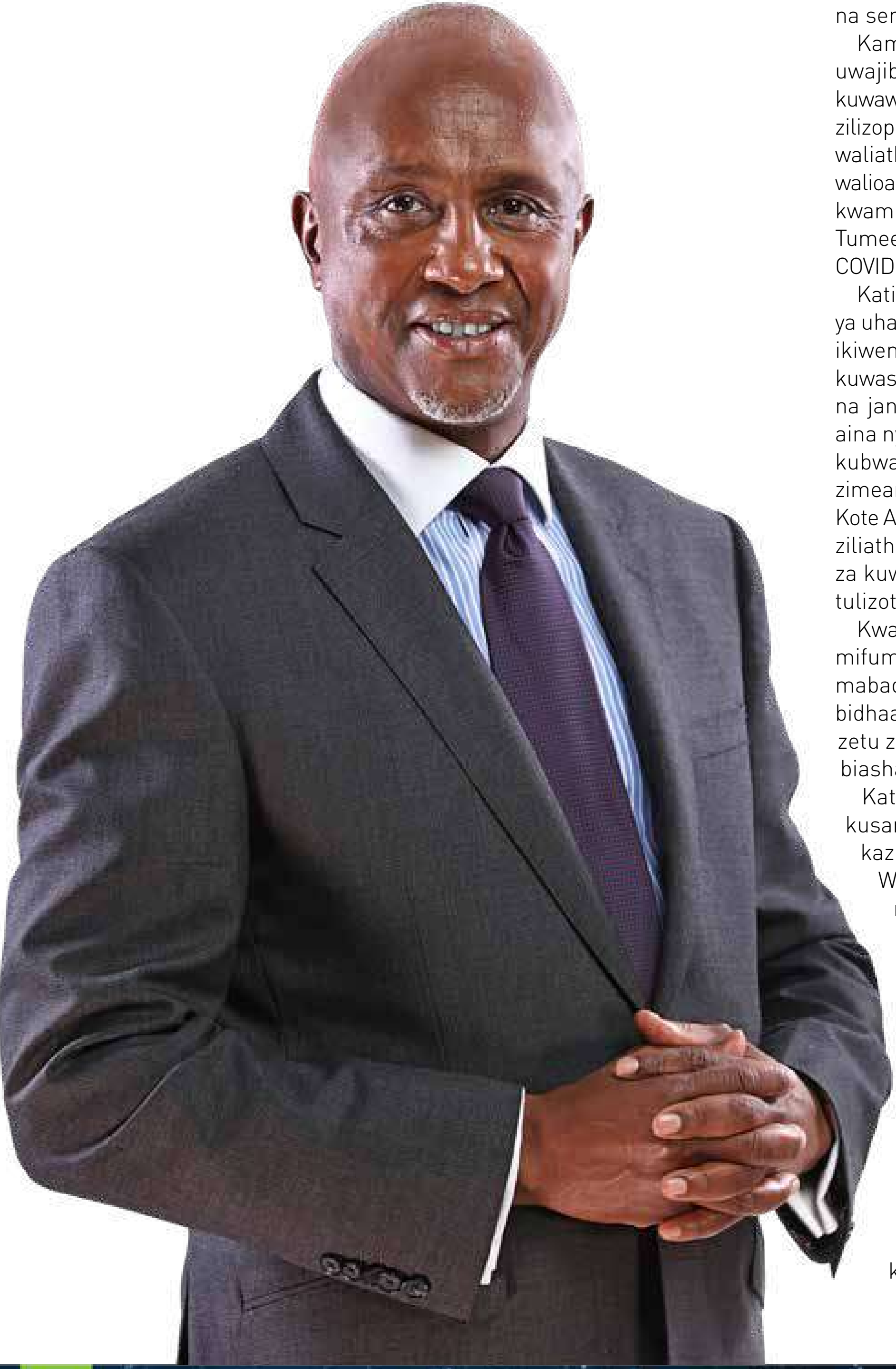
In 2021, we see strong prospects for recovery, innovation, and growth. This includes rolling out new products and services, enhancing the delivery channels across our subsidiaries and the continuous monitoring of efficiency ratios to identify opportunities for cost savings. We are also committed to the back-office integration with the NBK which shall remain a separate legal entity serving its own target market. Upon the attainment of all regulatory and shareholder approvals on the proposed transactions in Rwanda and Tanzania, we shall integrate those businesses to our existing entities within those markets.

Drawing lessons from the challenges of the pandemic, we are reflecting on how to overcome such shocks in the future. We are relooking at various risk factors, business models and procedures to not only confirm their robustness but also their relevance in the dynamic environment which we find ourselves in.

With the effects of the pandemic still with us, I am encouraged by the medical interventions currently ongoing globally and the gradual improvement in economic activity. I look forward to a brighter year for all our stakeholders and project a much better year and future for the Bank.

Andrew W. Kairu
KCB Group Plc Chairman

Taarifa ya Mwenyekiti wa Kundi la KCB



Kwa wenyehisa wapendwa,

Miezi 18 iliyopita ilikuwa ya kipekee kutokana na janga la COVID-19 ambalo limeathiri watu na kuvuruga maisha kote duniani. Imekuwa ni changamoto kwetu sote, kwa jamaa zetu, wafanyakazi, biashara tunazoziendesha na uchumi katika mataifa tunayohudumu. Janga hili limekuwa mtihani mkubwa kwa ukakamavu wetu na azma yetu ya kuendelea mbele.

Kupunguza Athari za Janga na Kuikinga Biashara

Kwa biashara yetu, janga hili lilipofika Afrika Mashariki, mara moja tuliangazia usalama na maslahi ya wafanyakazi wetu, wateja, wenyehisa, jamaa na wadau wengine. Tulifanikiwa kutimiza jukumu letu huku tukiendelea kujizatiti kutimiza malengo yetu ya kibiashara tuliyokuwa nayo kwa mwaka huo kwa kufuata maelekezo na masharti yaliyotolewa na serikali na mamlaka za afya katika mataifa tunayohudumu.

Kama mhusika mkuu katika sekta ya benki, tunaamini kwamba uwajibikaji wetu ni zaidi ya huduma za benki, na hivyo tumejitolea kuwawezesha wafanyakazi na wateja wetu kuendelea kuhimili changamoto zilizopo katika mataifa mbalimbali. Mamia ya wafanyakazi na wateja wetu waliathiriwa moja kwa moja na virusi vya corona. Wengi wa wafanyakazi walioambukizwa baadaye walipata matibabu na kupata nafuu. Tunasikitika kwamba mmoja wa wafanyakazi wetu alifariki kutokana na virusi hivyo. Tumeendelea kuboresha hatua tunazozichukua kuzuia kusambaa kwa COVID-19 katika afisi zetu, ili kutuwezesha kupambana vyema na janga hili.

Katika kipindi hiki, janga hili liliweka wazi uhalisia wa mvutano baina ya uhai na kujipatia mapato. Hili lilitufanya kuchukua hatua mbalimbali ikiwemo kubadilisha masharti ya ulipaji mikopo. Hatua hizi zililenga kuwasaidia wateja wetu walioathiriwa na kudorora kwa uchumi kutokana na janga hili. Kama benki inayotumiwa na wengi, wateja wetu ni wa aina nyingi kuanzia wenye biashara ndogo ndogo hadi kampuni kubwa kubwa, na wanatoka sekta mbalimbali. Hatua tulizozichukua zilikuwa zimeandaliwa kuangazia changamoto za biashara na sekta mbalimbali. Kote Afrika Mashariki, sekta kama vile elimu, mahoteli, utalii na uchukuzi ziliathirika zaidi kutokana na janga hili. Pamoja na kuchukua hatua za kuwafaa wateja wetu, tulibadilisha pia na kuongeza kiasi cha pesa tulizotengea hatari ya mikopo kutolipwa katika baadhi ya sekta hizi.

Kwa kuzingatia ukubwa wa Kundi la KCB, na mchango wake katika mifumo ya kifedha na kiuchumi katika kanda hii, ilikuwa muhimu kwa mabadiliko hayo kupangwa vyema kuhakikisha utoaji wa huduma na bidhaa unaendelea bila matatizo yoyote kwa wateja waliohitaji huduma zetu za kifedha kukidhi mahitaji ya familia zao na kutimiza mahitaji ya biashara zao.

Katika kufuata maelekezo ya afya ya umma kuhusu kupunguza kusambaa kwa virusi hivyo, tuliwawezesha wafanyakazi wetu kufanyia kazi nyumbani na katika maeneo mbadala kwa kutumia teknolojia. Waliweza kufikia mifumo mikuu ya benki kwa kutumia teknolojia, na utoaji huduma kwa wateja na usimamizi wa uhusiano na wateja uliendelea kwa viwango vya juu, ukizingatia hali iliyokuwepo. Lengo letu lilikuwa kuendeleza shughuli za kibiashara kama kawaida. Matokeo ya hatua tulizozichukua ni kwamba wateja wetu waliweza kuendelea kupokea huduma na pia usaidizi muhimu wa kuwasaidia kupitia changamoto zilizotokana na janga hili. Bodi iliendelea kudumisha mawasiliano ya mara kwa mara na wasimamizi wakuu kupitia mtandao katika kipindi hicho na kutoa uongozi, ushauri na uangalizi kuhusu hali iliyokuwa ikibadilika sana kote katika Kundi.

Ukuaji wa Mapato

Licha ya kuwepo moja ya vipindi vyenye changamoto zaidi kifedha katika historia yetu, Kundi la KCB liliendeleza kasi ya ukuaji wa mapato ambayo imekuwepo kwa mwongo uliopita. Ukuaji huu uliandikishwa katika vitengo vyote vya biashara na hili lilisaidia kampuni zote tanzu kupata faida mwaka huo. Mchango wa kampuni nyingine tanzu kando na Benki ya KCB ya Kenya umeongezeka katika miaka miwili iliyopita kutoka 9% hadi kiwango cha sasa cha 14%. Tunaendeleza juhudi za kuboresha hilo. Tumejitolea kuendelea kutoa thamani kwa wenyehisa wa Kundi la KCB, sasa na siku za usoni.

Mpango wetu wa kupanua biashara ili kuwa na uwepo zaidi katika kanda uliendelezwa kupitia kutiwa saini kwa mkataba na Atlas Mara Limited wa ununuzi wa hadi 100% ya hisa zilizotolewa za Banque Populaire du Rwanda Plc na 100% ya umiliki wa African Banking Corporation Tanzania Limited (BancABC). Shughuli hizi mbili, ambazo zinasubiri kuidhinishwa na wenyehisa, zitaongeza uwepo wa nembo yetu na pia kuongeza uwezo wetu katika masoko ambayo tunahudumu. Kadhalika, itatuleta karibu na lengo letu la kutimiza mchango wa 20% kwenye faida kuwa unatoka kwa biashara zetu za kanda. Nia yetu ni kufungamanisha benki hizo mbili kwenye Kundi letu katika kipindi cha miezi 12 ijayo.

Zaidi ya Huduma za Benki

Hata tunapoendelea kutekeleza shughuli yetu kuu, tunazidi kuboresha utoaji huduma wetu ili kuendelea kudumisha mvuto. Kama sehemu ya mkakati wetu wa Zaidi ya Huduma za Benki, tunaangazia kuboresha huduma za kifedha tunazotoa kwa njia ya kidijitali. Kuhusu hili, tumeunda Kitengo cha Huduma za Kifedha za Kidijitali, na tukamteua mtu wa kukiongoza, ili kuboresha jinsi ya utoaji huduma na yaliyomo kwenye huduma na bidhaa zetu za kifedha. Inahusisha kujifunza upya tabia na mitindo ya wateja na kutoa huduma zinazokidhi mahitaji yao. Kupitia njia hii, Benki hii imo katika nafasi nzuri ya kutumia vyema data, takwimu na maelezo ili kuongoza maboresho kwenye bidhaa na huduma zetu. Siku za usoni za huduma za benki na kifedha ni za dijitali, na tumejiandaa kutumia vyema fursa hii ambayo itakuwa ndiyo inayoongoza ukuaji karibuni.

Ili kuboresha zaidi utoaji huduma wetu, tumepanga kuzindua mfumo mmoja mkuu kote kwenye Kundi, na kuweka pamoja baadhi ya majukumu chini ya muundo wa kutumia huduma kwa pamoja. Hii itawezesha utoaji huduma vyema, kupunguza gharama, na kutumia vyema nguvu na rasilimali za Kundi pamoja na faida nyingine kote kwenye biashara yetu. Ufanisi katika utekelezaji wa muundo huu mwishowe utasaidia uendeshaji wa mfumo mmoja mkuu wa huduma za benki wenye uwezo wa kutoa huduma kupitia milango mingi na tofauti.

Katika upande wa rejareja, tunaendelea kuangazia kuwapa mafunzo wafanyakazi wetu na kuwawezesha kufahamu mambo yote kuhusu huduma zetu. Lengo ni kuwawezesha wafanyakazi wetu kuuza huduma na bidhaa yoyote ya benki na pia kujibu na kushughulikia maswali na matatizo ya wateja, na pia kurejesha maoni na mapendekezo kwa wakati.

Watu Wetu

Wafanyakazi wetu ndio rasilimali yetu muhimu zaidi na Bodi ina hamu sana kuhusu hali yao, mazingira mazuri ya kufanyia kazi na kuwapa vifaa vya kazi vifaavyo. Ningependa kuwashukuru wafanyakazi wetu wote kwa kuendelea kujitolea kipindi hiki kigumu na kisichotarajiwa. Walihakikisha milango yetu inasalia wazi kipindi hicho na kuhakikisha wateja wetu wanapata bidhaa na huduma zetu bila matatizo. Walifanya hivyo licha ya mazingira magumu ya kikazi yaliyokuwepo na yaliyokuwa yakibadilika sana. Hii ni ishara thabiti ya kujitolea kwao.

Muundo Mpya wa Usimamizi wa Kundi

Kuambatana na ndoto ya Kundi hili ya kusalia katika nafasi nzuri na kuchukua hatua kuhakikisha uendelevu, kutumia fursa na kuhakikisha ukuaji, Bodi ya Kundi la KCB iliidhinisha muundo mpya wa usimamizi wa shirika ambao ulianza kutekelezwa Januari 1, 2021. Hili linatarajiwa kuimarisha na kukuza biashara ya Kundi na kulainisha mawasiliano kuhusu nembo. Kadhalika, litawezesha kutumia vyema nguvu za pamoja kwenye jamii, kuimarisha usimamizi wa mikopo, kuboresha huduma inayotolewa, na pia kuboresha kampuni zetu tanzu ili kusaidia na kuimarisha huduma tunazotoa kwa wateja. Kuhusu hili na miongoni mwa mabadiliko mengine, Kundi lilimteua Bw Paul Russo kuwa Mkurugenzi wa Biashara wa Kanda wa Kundi, ili kutoa uangalizi na mwelekeo kwa biashara za kimataifa na kampuni tanzu. Atakuwa pia Meneja Mkurugenzi wa Benki ya National ya Kenya. Uteuzi wa wasimamizi wengine wakuu ambao bado haujafanyika utakamilishwa mwaka huu na hilo litampa Afisa Mkuu Mtendaji uangalizi mzuri katika kuunda biashara ambayo iko sawa kutimiza malengo yake.

Utawala na Uangalizi

Katika mwaka huo, wakurugenzi kadha wa Bodi walimaliza mihula inayoruhusiwa na hivyo wakastaafu kutoka kwenye bodi za kampuni tanzu mbalimbali. Tume ya Uteuzi ya Kundi iliwasaili na baadaye kuwateua wakurugenzi wapya kwa bodi za Sudan Kusini, Uganda, Rwanda na Burundi; hakukuwa na mabadiliko yoyote Kenya na Tanzania. Katika ngazi ya bodi ya Kundi, tulipata wanachama wawili wapya; Ahmed Rahime Mohamud na Dkt. Obuya Bagaka.

Uteuzi huo unahakikisha kwamba Bodi sasa iko kamili na wanachama wake wanaunga mkono ndoto yetu ya kuimarisha na kudumisha bodi yenye vipaji, ujuzi na uzoefu. Hili husaidia kuboresha mazungumzo ya kimkakati na pia kutoa uangalizi na mwelekeo kwa biashara. Tunaendelea kutia juhudi kuhakikisha bodi inafahamu na kuelewa viungo mbalimbali vya biashara yetu ili kutekeleza majukumu yao vyema.

Tulifanya mabadiliko kwenye kamati za Bodi ya Kundi, na tukapunguza idadi ya kamati hizo hadi tano. Kamati hizo ni Kamati ya Ukaguzi wa Hesabu na Hatari, Kamati ya Masuala ya Wafanyakazi na Utawala, Kamati ya Mikakati na Teknolojia, Kamati ya Uangalizi na Kamati ya Uteuzi. Maelezo zaidi kuhusu majukumu na wanaohudumu katika kamati husika yametolewa kwenye ripoti hii.

Mipango ya Siku za Baadaye

Mwaka 2021, tunaona dalili nzuri za kujikwamua, ubunifu na ukuaji. Hii inahusu pia uzinduzi wa bidhaa na huduma mpya, kuboresha njia za utoaji huduma katika kampuni zote tanzu na kufuatilia kwa makini ubora wa utoaji huduma ili kutambua fursa za kupunguza gharama. Tumejitolea kuunganisha mfumo mkuu wetu na wa NBK ambayo itasalia kuwa asasi tofauti kisheria ikihudumia soko lake maalum. Baada ya kupata idhini zote za kisheria na za wenyehisa kuhusu shughuli za ununuzi tunazopendekeza Rwanda na Tanzania, tutafungamanisha biashara hizo na asasi zetu zilizopo kwenye masoko hayo.

Kwa kutumia tuliyojifunza kutokana na changamoto zilizoambatana na janga hili, tunadadisi jinsi ya kustahimili matatizo kama hayo siku za usoni. Tunatathmini baadhi ya hatari, miundo ya biashara na taratibu sio tu ili kuthibitisha uimara wake bali pia umuhimu wake katika mazingira mapya ambayo tumejipata katika.

Huku athari za janga hili zikiwa bado zipo, ninatiwa moyo na juhudi za kimatibabu zinazoendelea kuchukuliwa duniani na kuanza kuimarika kwa shughuli za kiuchumi. Natarajia mwaka mwema kwa wadau wetu wote na natazamia mwaka mwema zaidi na mustakabali mwema kwa Benki yetu.

Andrew W. Kairu
Mwenyekiti wa Kundi la KCB

Group
Board of Directors

Eng. Stanley Kamau

Andrew W. Kairu
Group Chairman

Tom Ipomai

Georgina Malombe

WHO GOVERNS US

John Nyerere

Lawrence Njiru

Anne Eriksson

Ahmed Mohamud

Dr. Obuya Bagaka

Joshua Oigara, CBS
Group Chief Executive Officer and
Managing Director

Lawrence Kimathi
Group Chief Finance Officer

Bonnie Okumu
Company Secretary

KCB Group

CEO & MD Letter to Shareholders 2020

> Whichever way you look at it, the past year has been extraordinary. It has dawned on us that the changes brought about by the battle against the COVID-19 virus, the severe business and economic impact it has borne will be with us for a long time.

Dear Shareholders,

I write this in the midst of the global health crisis COVID-19 that has affected all of us in one way or the other. Your bank has to a large extent, stood its ground and remained profitable under these difficult circumstances. Whichever way you look at it, the past year has been extraordinary. It has dawned on us that the changes brought about by the battle against the COVID-19 virus, the severe business and economic impact it has borne will be with us for a long time. Months into the healthcare conundrum, we continue to evolve and remain strong, proof that we are resilient, driven by a desire to do good against all odds.

Since March 2020, our focus has been safeguarding the health and safety of our employees, customers, our shareholders and all our stakeholders to ably navigate through this challenging time. We provided a flexible working environment for staff and continuously engaged them to raise awareness to limit the risk of spread and infection. Our front-line staff members, in their characteristic dedication and commitment, remained out there to ensure our customers continued to get excellent service.

Banking Industry and Economic Impact

Africa has so far been spared from a devastating health crisis that would have caused even greater economic shocks if the number of cases had been as high as earlier feared. However, we must deal with personal tragedies, job losses, mental health challenges, and the pandemic's economic hardships.

The COVID-19 pandemic has brought forth unforeseen circumstances which have significantly altered the business environment, influenced our way of life and changed the way KCB Group physically conducts business.

Maintaining confidence was among our most important priorities. We remained open for business across all channels, including the branch network, to facilitate our customers' day-to-day activities, including loan applications, payments, and cash deposits. I am glad to report that the heavy investment we have made in digital channels over the years came in handy during the pandemic. As the electronic channels have become the primary service channel, their convenience was matched by the confidence in their reliability.

> Maintaining confidence was among our most important priorities. We remained open for business across all channels, including the branch network, to facilitate our customers' day-to-day activities, including loan applications, payments, and cash deposits. I am glad to report that the heavy investment we have made in digital channels over the years came in handy during the pandemic.

We rolled out several initiatives to support our customers last year, collaborating with governments and industry players towards a common goal. Appreciating the varying effects the pandemic continues to have on our stakeholders, we offered extended financial assistance to provide additional relief to our customers to meet their needs and keep them on track towards their ambitions. We believe this will go a long way in helping them navigate through their most urgent and challenging priorities. Your bank restructured facilities worth over KShs.106 billion—nearly 20% of our loan book to cushion customers against the effects of the pandemic. Through the debt-relief measures, customers applied for restructuring their loans, expanding existing credit lines, and extending loan tenures to keep them financially afloat.

We enhanced our support for small and medium enterprises by providing a partial guarantee scheme to allow them room to recover. This KShs. 3 billion facility— in collaboration with the government and six other banks—provided more liquidity to the sector that was especially hard hit by the pandemic. We expect the facility will be enhanced in the coming months to cover more enterprises.

Banking in a Pandemic

We started the year by launching a three-year strategy to entrench our position as the largest bank in the region. However, the pandemic threw even the most carefully laid out plans askew. We have extended the strategy by a year, given the unique challenges brought about by the pandemic.

During the year, we reaped the benefits of implementing a cost efficiency model, improving our effectiveness, improving shared services and reducing operating costs. As a result of our robust network, we onboarded an additional two million customers during the year because they saw in us a digital-ready bank. When we re-launch Vooma—our digital payment, borrowing and savings platform— mid this year, we will further consolidate our digital space's strength and capacity.

> Our technology remains top-notch with a world-class 99.99% system uptime and reliability. Going forward, we want further to improve our Net Promoter Score (NPS) - currently at 52 and be very strong on customer experience.

Our technology remains top-notch with a world-class 99.99% system uptime and reliability. Going forward, we want further to improve our Net Promoter Score (NPS) - currently at 52 and be very strong on customer experience. Even as we seek to improve our NPS, I need to acknowledge that ours is the highest NPS score for any bank in Africa.

The second and third quarters of the year were the most challenging. As events unfolded and the economies started to reopen, we witnessed some sectors bouncing back, and we see this trend continuing in 2021 and beyond. Construction, education, trade, and manufacturing lead the recovery, and we anticipate regularisation of the businesses that were impacted heavily by the pandemic and fell into arrears.

So far, the regulators in the region have been proactive in creating an enabling environment for the changes that needed to be affected

KShs.
106B
Cumulative value of restructured loans to cushion customers against the pandemic effects

KShs.
3B
Amount of SMEs support in collaboration with other banks and the government

52
2020 Net Promoter Score

KShs.
19.6B ▼

2020 PAT down from KShs. 25.2B last year as a result of the pandemic

KShs.
987.8B ▲

Total assets, a 10% jump from the previous year

173,000

Women owned businesses we worked with through our Women in Banking platform

to deal with the unexpected crisis. Central bank rates were adjusted across the region to incentivise customers to borrow at competitive rates, and cash reserve ratios reduced to inject more liquidity into the economies.

Resilient Performance

Looking at our performance, and given the challenges that we faced, we fared better than expected. The Group reported a net profit of KShs. 19.6 billion for the full year. This was a 22% decline from the KShs. 25.2 billion a year earlier as higher provisions for loan losses and subdued economic activity associated with the COVID-19 pandemic hit business performance.

The operating environment caused a significant increase in credit risks, which pushed up the Group's cost of risk, leading to increased loan provisions to KShs. 27.5 billion. This deterioration in the economy also negatively impacted non-performing loans (NPLs), which rose to KShs. 96.6 billion up from KShs. 66.2 billion in 2019, with the NPL ratio rising to 14.7%, mainly due to COVID-19 related downgrades.

The Bank inched closer to crossing the KShs. 1 trillion balance sheet mark, booking KShs. 987.8 billion in assets, a 10% jump from the previous year.

> The Group reported a net profit of KShs. 19.6 billion for the full year. This was a 22% decline from the KShs. 25.2 billion a year earlier as higher provisions for loan losses and subdued economic activity associated with the COVID-19 pandemic hit business performance.

Building a Sustainable Business Amid the Pandemic

The pandemic has challenged the naysayers who may have doubted the value of embedding sustainability in business operations. Businesses – such as ours – that had sustainability as part of their *modus operandi* stood a better chance of surviving the pandemic. Because we had embedded sustainability in our operations, we quickly addressed issues such as financial inclusion and climate change and their impact on environmental and social governance.

KCB Group recorded several milestones within the year, cementing its market leadership position. The United Nations Green Climate Fund (GCF) accredited KCB Bank Kenya as an implementation entity for green climate funds for Kenya, enabling the Bank to access debt financing for green projects within the range of US$ 50 million to US$ 250 million. Getting bankable green projects will remain a significant challenge, but there are many opportunities for customers operating in this space. There is also an urgent need to demystify the loan application process for those customers who wish to apply for green facilities. The green and climate financing align with the Paris Climate Agreement and Sustainable Development Goals (SDGs) number 13, emphasising Climate Action. The mainstreaming, internalisation and execution of Sustainability objectives are on track, and we look forward to building on the success of ambitions so far achieved.

COVID-19 also remains a wake-up call for corporates to rethink their business models and sharpen their priorities. This is a period for creating opportunities for women and the youth, who are often easily overlooked. The youth and women took a massive hit from the pandemic; the more reason sustainability initiatives should place them at the core of business decision making. This is a journey that we have already started. Our 'Women in Banking' platform has, for instance, been a trendsetter, and to date we have worked with over 173,000 women-owned businesses who have over KShs. 24 billion of assets. We continued to support our youth in East Africa

> The United Nations Green Climate Fund (GCF) accredited KCB Bank Kenya as an implementation entity for green climate funds for Kenya, enabling the Bank to access debt financing for green projects within the range of US$ 50 million to US$ 250 million.

US$50M to US$250M

The amount of money KCB is set to recieve to lend to medium to large private sector category. The other accredited entity in Kenya is National Management Authority (NEMA) under public sector category that can access grant up to US$ 10 million.

through the 2jijairi programme and invested KShs. 3 billion towards this noble cause.

Rethinking the Organisation Model

Globally, organisational structures are naturally agile. They change with the prevailing environment.

In line with the Group's ambition to remain positioned and responsive for sustainability, opportunity and growth, the KCB Group Plc Board approved a new Group organisation structure that came into effect from January 1, 2021.

Within the structure, the new appointments comprised the Managing Director NBK & Group Regional Business Director, the Chief Commercial Officer, the Group General Counsel, the Group Shared Services Director and the Acting Group Credit Director. We intend to substantively fill the Group Credit Director and Group Director Marketing, Corporate Affairs & Citizenship within the first half of this year.

> In line with the Group's ambition to remain positioned and responsive for sustainability, opportunity and growth, the KCB Group Plc Board approved a new Group organisation structure that came into effect from January 1, 2021.

50:50

Gender balance target

Together with the Group Chief Finance Officer, the Group Human Resources Director, the Group Chief Technology Officer and the Group Chief Risk Officer, the Executive Committee is complete.

This is expected to consolidate and grow the Group's business, align brand communication, leverage social impact synergies, enhance credit management, enhance service experience, and subsidiaries to support and strengthen our customer value propositions. In the new structure, digital financial services will play a critical role in driving the business further into financial solutions innovation. Over the next four years, it will contribute more than half our revenue. To grow the SME sector, we will engage highly specialised teams to develop and deliver business propositions for this segment to contribute at least 10% of the Group balance sheet. Going forward, the Bank will be keen on improving the inclusivity target at senior management levels to achieve the 50:50 gender balance target.

Outlook

The pandemic is still with us, and therefore we must factor in our recovery modelling. However, early indicators point towards a faster than anticipated recovery of global and regional economies. KCB is well capitalised to support our customers in their plans. We are improving our position in Rwanda and Tanzania through acquisitions that will give us a better foothold in those markets. The purchase of BPR in Rwanda and BancABC in Tanzania will strengthen our presence in the two markets.

Some sectors - such as hospitality and travel - will take more time to recover than others. Our vision is to continue supporting them by extending various accommodation terms to give them room to stabilise. Agriculture is the mainstay of the economies where we operate, and the launch of Vooma and specifically the products tailored to farmers, is expected to ease financial access.

> I would also like to thank my 7,524 colleagues for their commitment and resilience in the face of unprecedented adversity. It is only through our collective effort that we could ringfence our market position and protect our shareholder interests.

Cybercrime remains a burning issue, especially with the increased shift to digital and online platforms. With the increased use of mobile devices for transactions, attempted fraud such as identity theft and sim swapping will continue to go up. We are, however continuously investing in state-of-the-art technology to stay ahead of these digital fraudsters. Coupled with this, we will continue to partner with other players within the industry to create awareness of the customer pin's sanctity.

I would also like to thank my 7,524 colleagues for their commitment and resilience in the face of unprecedented adversity. It is only through our collective effort that we could ringfence our market position and protect our shareholder interests.

Finally, I wish to acknowledge the support and direction that the management and I have received from the Board of Directors as we endeavour to make this Bank stand stronger in the region.

Thank you.

Joshua Oigara, CBS
Group Chief Executive Officer & Managing Director

KShs. 3B

Our cumulative support to our youth in East Africa through the 2jiajiri programme

10%

Targeted contribution of MSMEs to the Group balance sheet

Barua ya
Afisa Mkuu Mtendaji wa Kundi la KCB na Mkurugenzi Mkuu kwa Wenyehisa 2020

> Kwa vyovyote vile unavyotazama mambo haya, mwaka uliopita umekuwa wa kipekee. Ni wazi kwetu kwamba mabadiliko yaliyoletwa na vita hivi dhidi ya virusi vya corona, na madhara makubwa yaliyotokea kwenye biashara na uchumi, vitakuwa nasi kwa kipindi kirefu.

Kwa Wenyehisa wapendwa,

Nawaandikia taarifa hii wakati ulimwengu ukiwa bado unakabiliana na janga la ugonjwa wa COVID 19 ambalo limetuathiri sote kwa njia moja au nyingine. Benki yenu, kwa kiwango kikubwa, imeweza kusalia imara na kuendelea kuandikisha faida licha ya mazingira haya magumu. Kwa vyovyote vile unavyotazama mambo haya, mwaka uliopita umekuwa wa kipekee. Ni wazi kwetu kwamba mabadiliko yaliyoletwa na vita hivi dhidi ya virusi vya corona, na madhara makubwa yaliyotokea kwenye biashara na uchumi, vitakuwa nasi kwa kipindi kirefu. Miezi mingi baada ya kuanza kwa janga hili la kiafya, tunaendelea kubadilika na kusalia kuwa thabiti. Ni ishara tosha kwamba tuko imara, tukiongozwa na hamu ya kutenda mema licha ya changamoto zozote zile zinazotukumba.

Tangu mwezi wa Machi 2020, tumeangazia sana kulinda afya na usalama wa wafanyakazi wetu, wateja, wenyehisa na wadau wetu wote kupitia kipindi hiki kigumu. Tulitoa mazingira mapya na mazuri ya kutendea kazi kwa wafanyakazi wetu na kuendelea kuwashirikisha katika kutoa uhamasisho ili kupunguza hatari ya kuenea kwa maambukizi. Wafanyakazi wetu wanaohudumia wateja moja kwa moja, kama kawaida yao walikuwepo kila wakati kuhakikisha wateja wanaendelea kupata huduma bora zaidi za benki pale walipo.

Sekta ya Benki na Athari za Kiuchumi

Afrika kufikia sasa, kwa kiwango kikubwa, imenusurika na haijaathirika sana na janga hili la kiafya ambalo lingesababisha hata misukosuko mibaya zaidi ya kiuchumi iwapo viwango vya maambukizi vingekuwa vya juu moja kama ilivyohofiwa awali. Hata hivyo, ni lazima tukabiliane na mikasa ya kibinafsi, watu kupoteza kazi, changamoto za afya ya kiakili, na hali ngumu ya kiuchumi iliyotokana na janga hili.

Janga hili la COVID-19 limeleta hali ambayo haikutarajiwa na ambayo imebadilisha sana mazingira ya kibiashara, ikabadilisha mtindo wetu wa maisha na pia ikabadilisha jinsi Kundi la KCB linavyoendesha shughuli zake za kutoa huduma kwa wateja wake.

Kudumisha imani ni moja ya mambo tuliyoyapa kipaumbele sana. Tuliendelea kuendesha shughuli katika biashara zetu zote na huduma, ikiwa ni pamoja na matawi yetu. Tulifanikisha shughuli za kila siku za wateja, ikiwa ni pamoja na maombi ya mikopo, malipo na kuwekwa kwa pesa kwenye benki.

> Kudumisha imani ni moja ya mambo tuliyoyapa kipaumbele sana. Tuliendelea kuendesha shughuli katika biashara zetu zote na huduma, ikiwa ni pamoja na matawi yetu. Tulifanikisha shughuli za kila siku za wateja, ikiwa ni pamoja na maombi ya mikopo, malipo na kuwekwa kwa pesa kwenye benki.

Nina furaha kuwajulisha kwamba uwekezaji mkubwa tulioufanya katika mifumo ya kidijitali awali ulitufaa sana wakati wa janga hili. Kwa kuwa mifumo ya kielektroniki imeibuka kuwa mfumo mkuu wa utoaji huduma, urahisi wake uliendana na imani katika kutegemewa kwake wakati huu wa janga la COVID 19.

Tulianzisha mikakati kadhaa ya kuwasaidia wateja wetu mwaka uliopita, tukishirikiana na serikali na wadau wengine katika sekta hii kufikia lengo la pamoja. Kwa kuzingatia athari mbalimbali ambazo janga hili limeendelea kuwa nazo kwa wadau wetu, tulitoa msaada wa kifedha ili kuwapa nafuu zaidi wateja kuwawezesha kutimiza mahitaji yao na kutimiza malengo yao ya kibiashara. Tunaamini hili litachangia sana katika kuwasaidia kupitia kipindi hiki na kutimiza mahitaji yao ya dharura zaidi katika siku za baadaye. Benki yako ilibadilisha mpango wa malipo wa mikopo ya zaidi ya KShs.106 bilioni—karibu 20% ya jumla ya mikopo yetu ili kuwakinga wateja dhidi ya athari za janga hili. Kupitia nafuu hii kwenye mikopo, wateja waliwasilisha maombi ya kubadilisha ulipaji wa mikopo yao, wengine wakaongeza muda wa kulipa mikopo yao ili kuendelea kuwa imara kifedha.

Tuliimarisha usaidizi wetu kwa biashara ndogo ndogo na za wastani kwa kuweka mpango wa kutoa sehemu ya udhamini ili kuwapa muda wa kuimarisha tena biashara zao. Mpango huu wa KShs. 3 bilioni— kwa ushirikiano na serikali na benki nyingine sita – uliwezesha upatikanaji wa pesa kwenye sekta hii ambayo ilikuwa imeathirika pakubwa na janga hili. Tunatarajia kwamba mpango huu utaimarishwa zaidi miezi michache ijayo kufaidi biashara zaidi ndogo ndogo na za wastani.

Huduma za Benki wakati wa janga

Tulianza mwaka kwa kuzindua mkakati wetu wa miaka mitatu kuimarisha nafasi yetu kama benki kubwa zaidi katika kanda hii. Hata hivyo, janga hili lilivuruga kila kitu. Tumeongeza muda wa mkakati huo kwa mwaka mwingine mmoja, kutokana na changamoto za kipekee zilizoletwa na janga hili la COVID 19.

> Teknolojia yetu ni ya kiwango cha juu sana, na kiwango chake cha kufanya kazi na kutegemewa ni 99.99%. Tukisonga mbele, tunataka kuboresha zaidi kiwango cha uwezekano wa wateja kutupendekeza kwa wengine (NPS) – ambacho kwa sasa ni 52 na kuwa bora sana katika kuwaridhisha wateja.

Katika mwaka huo, tulivuna matunda ya kutekeleza mfumo wa kibiashara wa kupunguza gharama, kwa kuboresha utoaji huduma wetu na uendeshaji shughuli, kuimarisha huduma zinazotolewa kwa pamoja na kupunguza gharama ya uendeshaji shughuli. Kutokana na mtandao wetu pana, tuliongeza wateja wengine milioni mbili katika mwaka huo kwa sababu watu walituona sisi kama benki iliyojiandaa kidijitali. Tutakapozindua upya Vooma—huduma yetu ya kufanikisha malipo, kukopa na kuweka akiba kidijitali—mwaka huu, tutaongeza zaidi dhamana yetu katika huduma za dijitali.

Teknolojia yetu ni ya kiwango cha juu sana, na kiwango chake cha kufanya kazi na kutegemewa ni 99.99%. Tukisonga mbele, tunataka kuboresha zaidi kiwango cha uwezekano wa wateja kutupendekeza kwa wengine (NPS) – ambacho kwa sasa ni 52 na kuwa bora sana katika kuwaridhisha wateja. Lakini hata tunapojaribu kuimarisha NPS, ni muhimu kutambua kwamba kipimo chetu cha NPS ndicho cha juu zaidi miongoni mwa benki zote Afrika mwaka uliopita.

Robo za pili na tatu za mwaka huu ndizo zilizokuwa na changamoto zaidi. Siku zilivyosonga na mataifa yakaanza kufungua

KShs.
106B
Thamani ya mikopo iliyobadilishwa masharti kusaidia wateja dhidi ya athari za janga la corona

KShs.
3B
Thamani ya usaidizi wetu kwa SMEs kwa ushirikiano na benki nyingine na serikali

52
Kiwango cha 2020 cha wezekano wa wateja kutupendekeza kwa wengine

KShs.
19.6B ▼

Faida baada ya kutozwa ushuru, chini kutoka KShs. 25.2B mwaka uliotangulia kutokana na janga

KShs.
987.8B ▲

Mali ongezeko la 10% kutoka mwaka uliotangulia

173,000

Biashara zinazomilikiwa na wanawake tulizofanya kazi nazo kupitia mradi Wetu wa Wanawake katika Benki

uchumi tena, tulishuhudia baadhi ya sekta zikiimarika tena na tunatarajia mtindo huu utaendelea mwaka huu wa 2021 na baadaye. Ujenzi, elimu, biashara na viwanda ndizo sekta zinazoongoza katika kuimarika tena, na tunatarajia biashara nyingine zilizoathirika sana na janga hili kuanza kurejelea hali ya kawaida kwa muda usiokuwa mrefu.

Kufikia sasa, mamlaka katika kanda hii zimekuwa zikichukua hatua kujenga mazingira mahsusi ya mabadiliko yaliyohitajika kutekelezwa ili kukabiliana na janga hili. Viwango vya riba vya Benki Kuu vilipunguzwa kote katika kanda hii ili kuwachochea wateja kukopa pesa kwa viwango nafuu vya riba. Viwango vya pesa za akiba zinazohitajika kwenye benki vilipunguzwa pia ili kuhakikisha pesa zaidi zinasambaa katika uchumi.

Kundi la KCB liliandikisha faida ya KShs. 19.6 bilioni baada ya kutozwa ushuru kwa mwaka huo. Hii ilikuwa ni kushuka kwa 22% ukilinganisha na KShs. 25.2 bilioni mwaka uliotangulia kutokana na kutenga pesa zaidi za kufidia hatari na hasara kutokana na mikopo na kudumaa kwa shughuli za kiuchumi kulikotokana na athari za janga la COVID-19 kwenye biashara.

Matokeo ya kuridhisha

Ukitathmini matokeo yetu, ukizingatia changamoto tulizokumbana nazo, tulifanya vyema kuliko ilivyotarajiwa. Kundi la KCB liliandikisha faida ya KShs. 19.6 bilioni baada ya kutozwa ushuru kwa mwaka huo. Hii ilikuwa ni kushuka kwa 22% ukilinganisha na KShs. 25.2 bilioni mwaka uliotangulia kutokana na kutenga pesa zaidi za kufidia hatari na hasara kutokana na mikopo na kudumaa kwa shughuli za kiuchumi kulikotokana na athari za janga la COVID-19 kwenye biashara.

Mazingira ya uendeshaji shughuli yalichangia ongezeko kubwa la hatari kwenye mikopo, lililopandisha hatari ya jumla ya Kundi. Fedha zilizotengewa hatari na hasara kutokana na mikopo ziliongezeka hadi KShs. 27.5 bilioni. Kudorora huku kwa uchumi pia kuliathiri mikopo ambayo hailipwi (NPLs), ambayo iliongezeka hadi KShs. 96.6 bilioni kutoka KShs. 66.2 bilioni mwaka 2019, nacho kiwango cha NPL ukilinganisha na mikopo mingine kikaongezeka hadi 14.7%, sana kutokana na athari za COVID-19.

Benki hii ilikaribia kuvuka hatua ya kuwa na thamani ya KShs. 1 trilioni, thamani ya mali yake ikifikia KShs. 987.8 bilioni, ambalo ni ongezeko la 10% kutoka kwa mwaka uliotangulia.

Kujenga Biashara Endelevu Wakati wa Janga

Janga hili la ugonjwa limetoa changamoto kwa wale waliokuwa wakitilia shaka thamani ya kuhakikisha uendelevu katika kila shughuli kwenye kibiashara. Biashara – kama hii yetu – zilizokuwa na uendelevu kama sehemu ya mtindo wao wa kuendesha shughuli, zilikuwa na nafasi nzuri zaidi ya kunusurika kutokana na janga hili. Kwa kuwa tulifungamanisha uendelevu kwenye shughuli zetu, tuliweza kushughulikia kwa haraka masuala kama vile kuwashirikisha watu zaidi kwenye mfumo wa kifedha na mabadiliko ya tabia nchi na athari zake kwa mazingira na utawala katika jamii.

Kundi la KCB liliandikisha mafanikio kadha makubwa katika mwaka huo, na kuimarisha zaidi nafasi yake kama kiongozi katika sekta hii. Hazina ya Umoja wa Mataifa kuhusu tabia nchi, kwa Kiingereza Green Climate Fund (GCF) iliidhinisha Benki ya KCB ya Kenya kama taasisi inayohusika katika utekelezaji wa miradi ya hazina hiyo Kenya. Hilo linaiwezesha benki hiyo kupokea ufadhili wa mikopo kwa ajili ya miradi ya kukabiliana na mabadiliko ya tabia nchi ya thamani ya kati ya US$ 50 milioni hadi US$ 250 milioni. Kupata miradi ya kukabiliana na athari za tabia nchi ya kufadhili kupitia mikopo kutasalia kuwa changamoto, lakini zipo fursa nyingi kwa wateja wanaohudumu katika fani hiyo. Kuna pia haja ya dharura ya kuweka wazi na kuondoa baadhi ya dhana potovu kuhusu utaratibu wa kupata mikopo hiyo kwa wateja wanaohitaji. Ufadhili huu wa miradi ya kimazingira na tabia nchi unaendana na Mkataba wa Paris na Malengo ya Maendeleo Endelevu (SDGs) nambari 13, katika kusisitiza hatua kuhusu mabadiliko ya tabia nchi. Juhudi za kufanya malengo ya Uendelevu kuwa kawaida, kuyaweka kwenye mifumo na kuyatekeleza zinaendelea na tunatarajia kuongeza ufanisi zaidi juu ya mafanikio ambayo tumeyapata kufikia sasa.

COVID-19 imesalia kuwa changamoto kwa kampuni mbalimbali kufikiria upya muundo wao wa biashara na kulainisha malengo na vipaumbele. Hiki ni kipindi cha kuunda nafasi zaidi za kuwafaa wanawake na vijana, ambao mara nyingi husahaulika. Vijana na wanawake

US$50M hadi US$250M

Kiasi cha pesa ambazo KCB itapokea kukopesha biashara za viwango vya wastani hadi kubwa katika sekta ya kibinafsi. Asasi nyingine iliyoidhinishwa Kenya ni Mamlaka ya Usimamizi wa Mazingira (NEMA) kwenye kitengo cha sekta ya umma ambayo inaweza kupokea hadi US$ 10 milioni.

> Hazina ya Umoja wa Mataifa kuhusu tabia nchi, kwa Kiingereza Green Climate Fund (GCF) iliidhinisha Benki ya KCB ya Kenya kama taasisi inayohusika katika utekelezaji wa miradi ya hazina hiyo Kenya. Hilo linaiwezesha benki hiyo kupokea ufadhili wa mikopo kwa ajili ya miradi ya kukabiliana na mabadiliko ya tabia nchi ya thamani ya kati ya US$ 50 milioni hadi US$ 250 milioni.

waliathirika pakubwa na janga hili la ugonjwa; na ni sababu zaidi kwamba mikakati ya uendelevu inafaa kuwaweka mbele wakati wa kufanya maamuzi ya kibiashara. Hii ni safari ambayo tayari tumeianzisha. Mpango wetu wa 'Wanawake katika Benki', kwa mfano, umekuwa mfano wa kuigwa na kufikia sasa tumefanya kazi na biashara zaidi ya 173,000 zinazomilikiwa na wanawake na ambazo kwa pamoja zina mali ya thamani ya zaidi ya KShs. 24 bilioni. Tuliendelea kuwasaidia vijana Afrika Mashariki kupitia mpango wa 2jijairi ambapo tuliwekeza KShs. 3 bilioni katika mpango huo.

KShs. 3B

Kiasi ambazo zimetolewa kusaidia vijana Afrika Mashariki kupitia mpango wa 2jiajiri

10%

Ukuaji unaotazamiwa kwenye SMEs

50:50

Lengo la usawa wa kijinsia

Kufikiria Upya Muundo wa Shirika

Kote duniani, miundo ya usimamizi wa shirika huwa si ya kudumu. Hubadilika kadiri mazingira yanavyobadilika.

Kuambatana na lengo la Kundi la kujiweka sawa na kuchukua hatua kwa ajili ya uendelevu, kutumia fursa na kufanikisha ukuaji, Bodi ya Kundi la KCB iliidhinisha muundo mpya wa usimamizi wa Kundi ambao ulianza kutekelezwa Januari 1, 2021.

Katika muundo huu, watu wapya walioteuliwa ni pamoja na Meneja Mkurugenzi wa NBK & Mkurugenzi wa Biashara wa Kanda wa Kundi, Afisa Mkuu wa Kibiashara, Mshauri Mkuu wa Kundi, Mkurugenzi wa Huduma za Pamoja wa Kundi na Kaimu Mkurugenzi wa Mikopo wa Kundi. Tunakusudia kujaza kikamilifu nafasi za Mkurugenzi wa Mikopo wa Kundi na Mkurugenzi wa Mauzo, Mawasiliano & Uraia wa Kundi katika nusu ya kwanza ya mwaka huu. Pamoja na Afisa Mkuu wa Kifedha wa Kundi, Mkurugenzi wa Wafanyakazi wa Kundi, Afisa Mkuu wa Teknolojia wa Kundi na Afisa Mkuu wa Hatari wa Kundi, Kamati Tendaji itakuwa imekamilika.

Hili linatarajiwa kuimarisha na kukuza biashara ya Kundi, kulainisha mawasiliano kuhusu nembo, kutumia vyema nguvu za pamoja kwenye jamii, kuimarisha usimamizi wa mikopo, kuboresha huduma inayotolewa, na pia kampuni zetu tanzu ili kusaidia na kuimarisha huduma tunazotoa kwa wateja. Katika muundo huu mpya, huduma za kifedha za kidijitali zitatekeleza mchango muhimu katika kuelekeza zaidi kampuni hii katika uvumbuzi kwenye huduma za kifedha. Katika miaka minne ijayo, itachangia zaidi ya nusu ya mapato yetu. Ili kukuza sekta ya SME, tutatumia kundi la wataalamu kuandaa na kutekeleza mapendekezo ya kulenga sehemu hii kwa lengo la kuchangia angalau 10% ya mapato ya Kundi. Tukisonga mbele, benki hii itakuwa makini kuboresha lengo lake la kujumuisha watu wa asili mbalimbali katika ngazi ya wasimamizi wakuu kwa lengo la kufikia lengo la usawa wa jinsia la 50:50.

Mustakabali

Janga hili bado lipo, na kwa hivyo ni lazima tuzingatie hilo katika makadirio yetu kuhusu kufufua biashara. Hata hivyo, dalili za awali zinaonyesha kwamba uchumi wa dunia na katika kanda utaimarika kwa kasi zaidi kuliko ilivyotarajiwa. KCB ina mtaji wa kutosha kuwasaidia wateja wetu katika mipango yao. Tunaimarisha nafasi yetu nchini Rwanda na Tanzania kupitia kununua biashara nyingine jambo ambalo litaimarisha udhibiti wetu katika masoko hayo. Ununuzi wa BPR nchini Rwanda na BancABC nchini Tanzania utaimarisha uwepo wetu katika masoko hayo mawili.

Baadhi ya sekta – kama vile mahoteli na utalii – zitachukua muda kujikwamua kuliko sekta nyingine. Azma yetu ni kuendelea kuwasaidia kupitia kuongeza muda wa baadhi ya masharti nafuu ili kuwapa muda wa kujiweka sawa. Kilimo ndio tegemeo kuu katika mataifa mengi ambayo tunahudumu, na uzinduzi wa Vooma na sana sana huduma ambazo zimeundwa kwa ajili ya wakulima, unatarajiwa kurahisisha upatikanaji wa huduma za kifedha.

Uhalifu wa kimitandao umesalia kuwa changamoto, hasa kutokana na ongezeko la watu wanaohamia kwenye mifumo ya kidijitali na mtandao. Kutokana na ongezeko la shughuli za kibiashara zinazofanywa kwa kutumia simu, visa vya majaribio ya ulaghai kwa mfano visa vya wizi wa maelezo kumhusu mtu au kubadilishwa kwa laini za simu vitaendelea kuongezeka. Hata hivyo, tunaendelea kuwekeza katika teknolojia za kisasa zaidi kuhakikisha tunawazidi ujanja walaghai. Pamoja na hili, tutaendelea kushirikiana na wadau wengine katika sekta hii kuhamasisha wateja kuhusu kulinda nambari ya siri yaani pin.

Ningependa kuwashukuru wafanya kazi wenzangu 7,524 wa KCB kwa kujitolea kwao na ukakamavu wao kipindi hiki kigumu. Ni kupitia juhudi zetu za pamoja ambapo tuliweza kulinda nafasi yetu kwenye soko na kulinda maslahi ya wanahisa wetu.

Mwisho kabisa, ningependa kutambua usaidizi na uelekezi ambao mimi na wasimamizi tumepokea kutoka kwa Bodi ya Wakurugenzi tunapoendelea kujizatiti kuhakikisha benki hii inaimarika zaidi katika kanda hii ya Afrika.

Asanteni.

Joshua Oigara, CBS
Afisa Mkuu Mtendaji wa Kundi na Mkurugenzi Mkuu

Executive Committee

Lawrence Kimathi
Group Chief
Finance Officer

Joshua Oigara, CBS
Group Chief Executive Officer
& Managing Director

Samuel Makome
Chief Commercial Officer

Paul Russo
MD NBK & Group Regional
Business Director

Japheth Achola
Group Human Resources
Director

Joachim Steuerwald
Group Chief
Technology Officer

Bonnie Okumu
Group General Counsel

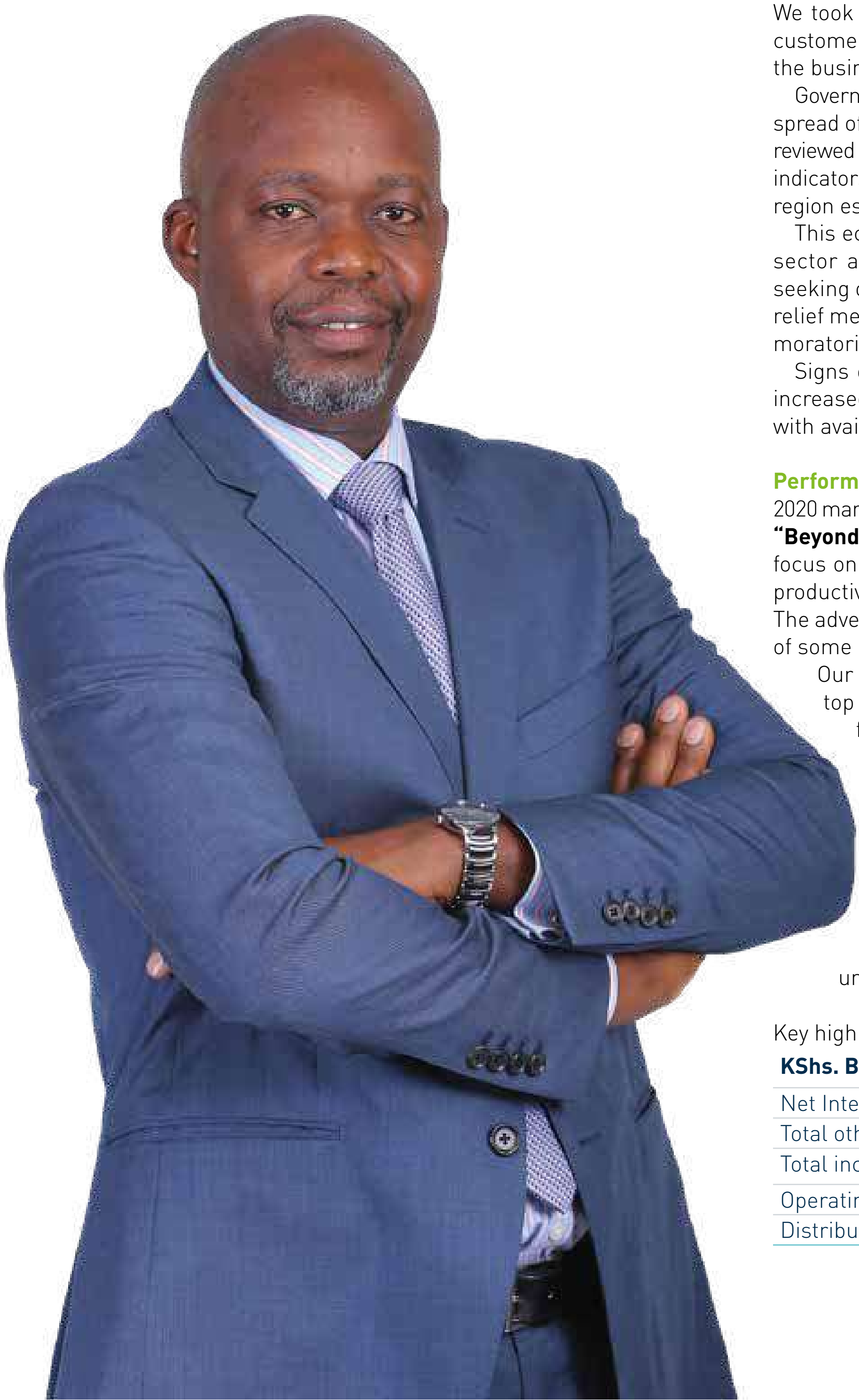
John Mukulu
Group Chief
Risk Officer

Dr. Leonard Mwithiga
Group Shared Services
Director

Wanyi Mwaura
Ag. Group Director, Marketing,
Corporate Affairs & Citizenship

Bernard Okello
Ag. Group Director Credit

Report from the Group Chief Finance Officer



Operating environment

The pandemic significantly affected our business across the markets we operate in, with most of them going into some degree of lockdown. We took swift action to safeguard the health and safety of our staff, customers, and other stakeholders while at the same time ring-fencing the business for future growth.

Governments and regulators globally instituted measures to contain the spread of the virus. In Eastern Africa, fiscal and monetary policies were reviewed to cushion the economic impact nonetheless key macroeconomic indicators were stretched leading to an overall contraction of GDP in the region especially in the two middle quarters of the year.

This economic slowdown had a direct impact on the wider financial sector and notably in the banking industry with many customers seeking our support to navigate the tough operating environment. The relief measures extended to customers were in the form of repayment moratoriums, fee waivers and other loan restructuring.

Signs of recovery were evident in the last quarter of the year with increased business activity, and we believe this momentum coupled with availability of vaccines will carry into 2021.

Performance overview

2020 marked the first reporting year under our 2020-2023 strategy dubbed **"Beyond banking"**. This strategy is premised on four key thrusts that focus on putting our customer first, step changing our efficiency and productivity, being a digital leader and scaling our regional operations. The advent of the pandemic necessitated a rethink and reprioritisation of some of the initiatives and a review of the plan duration.

Our profit after tax declined by 22% compared to 2019 despite our top line revenue growing by 14% in the same period. Main driver for the decline in PAT was a significant increase in loan loss provisions which stood at KShs. 27.5 billion up from KShs. 8.9 billion in 2019. Pre-provision profit for KCB was up 16% representing the underlying strength of the Bank to generate revenues.

The Board has recommended a first and final dividend to shareholders of KShs. 1.00 per share signifying continued confidence in the business' ability to generate earnings in the future whilst conserving capital during the enduring uncertainty within the operating environment.

Key highlights for the year 2020 are summarised below:

KShs. Billion	**2019**	**2020**	**Change**
Net Interest Income	61.4	72.1	17%
Total other operating income	22.9	23.9	4%
Total income	84.3	96.0	14%
Operating expenses (excl provisions)	38.5	43.1	12%
Distributable profits	25.2	19.6	(22%)

Total Income

Our total income grew to KShs. 96 billion driven by a 17% growth in interest income largely because of interest from Government securities which increased to KShs. 23.2 billion, a 65% growth compared to 2019. Whilst overall asset yield declined year on year as a result of repricing caused by reduction in CBR rate, this was fully offset by volume growth in loans and Government securities.

KShs. Billion	2019	2020	Change
Interest income	79.6	93.0	17%
Interest expense	(18.2)	(20.8)	14%
Fees and commissions from loans	3.9	3.3	(15%)
Other fees and commissions	10.7	10.2	(5%)
FX income	4.5	5.4	20%
Other income	3.8	4.9	29%
Total Operating income	84.3	96.0	14%

Interest expense grew by 14% due to increase in customer deposits, however we were able to manage the cost of deposits and bring down our overall cost of funds to 2.7% from 2.8% in 2019.

Fees and commissions from loans were 15% down driven by reduced lending appetite on our mobile lending product resulting from a general decline in business transactions.

Income from foreign exchange and other income performed well in 2020 on the back of increased activity, spread and higher trading in Government securities.

Kshs.
96.0 B
In total revenues. Top among banks in the region.

Operating expenses and loan loss provision

As part of our strategy to ring fence the business against severe effects of the pandemic, we instituted a rigorous cost saving plan that delivered KShs. 5.3 billion in the year.

KShs. Billion	2019	2020	Change
Operating expenses	38.5	43.2	12%
Loan loss provision	(8.9)	(27.5)	209%
Operating expenses excl NBK	36.8	36.0	(2%)

To support our customers, we restructured 8,251 loans valued at KShs. 106.1 billion. This was mainly in the real estate, tourism, restaurant and hotels, personal and trade sectors. While a large amount of these loans have since gone back to normal performance, some sectors will take longer to recover and as such necessitated an increase in provisions. This coupled with downgrades in the year and collateral value reviews led to the sharp increase in provisions to KShs. 27.5 billion.

Subsidiary business performance

Our subsidiaries were not spared by the adverse impact of the pandemic. However, they all returned a profit as presented below:

KShs. Million	2019	2020
National Bank of Kenya	1,281	313
KCB Bank Tanzania	999	493
KCB Bank South Sudan	415	541
KCB Bank Uganda	(79)	547
KCB Bank Rwanda	976	633
KCB Bank Burundi	275	512
KCB Insurance Agency	129	435

This performance represents a significant improvement to 14.0% contribution to the Group profit in 2020 and places these businesses on a good trajectory to achieve the targeted 20% contribution over the short term.

Key Balance sheet lines

Total assets increased by 10% to KShs. 987.8 billion, as shown on the table belew.

KShs. Billion	2019	2020	Change
Total Assets	898.6	987.8	10%
Customer deposits	686.6	767.2	12%
Net loans and advances	539.7	595.3	10%
External borrowing	21.8	37.0	70%
Total shareholder funds	129.7	142.4	10%

Customer deposit portfolio grew by KShs. 80 billion representing a 12% increase. The deposit mix remained skewed towards current and transaction account category which comprised 67% of total deposits.

Kshs.
987.8 B
in total assets.

The deposit growth was applied in funding loans and advances which saw a 10% increase to close at KShs. 595.3 billion and Government securities which grew by 23% in 2020. To optimize the Group's Capital structure, we increased external borrowing by 70% which also bolstered the Group's capital position.

Asset Quality

Non-performing loans (NPLs) rose to KShs. 96.6 billion up from KShs. 66.2 billion in 2019 leading to an increase in the non-performing ratio to 14.7%. The macroeconomic operating environment in 2020 beset the loan book leading to deterioration of the asset quality. This decline was as a result of various account downgrades due to customer inability to meet their repayment obligations especially in the real estate, hospitality, education and trade sectors.

Consequently, expected credit loss provisions for the year also increased closing at KShs. 64.9 billion, of which 74% was within Stage 3 loans. Corporate banking customers comprised the bulk of the stage 3 allowances majority of which were booked in the second and third quarters of the year.

The expectation going into 2021 is the gradual improvement of the economic environment and the overall reduction of the customers and values within this category. The impact on tourism, restaurant and hotels sectors is however expected to last longer due to the slow demand for services.

Capital levels

The Group continues to maintain healthy buffers on its capital ratios over the minimum regulatory requirement. During the year, KCB Bank Kenya obtained US$150 million as tier II capital to shore up the total capital position and support the growth of the Bank's sustainable climate finance portfolio and lending to micro, small and medium enterprises including women-owned businesses.

The Group core capital to risk weighted assets ratio closed at 18.2% while total capital to risk weighted assets ratio was 21.6% from the total capital of KShs. 170.3 billion.

Total capital to risk weighted assets ratios

Subsidiary	2020	Minimum requirement	2019
KCB Bank Kenya	19.4%	14.5%	17.5%
National Bank of Kenya	10.3%	14.5%	11.5%
KCB Bank Tanzania	16.1%	12.0%	17.3%
KCB Bank South Sudan	135.0%	12.0%	102.0%
KCB Bank Uganda	17.9%	12.0%	13.7%
KCB Bank Rwanda	16.3%	12.0%	15.2%
KCB Bank Burundi	31.7%	12.0%	23.2%

KCB will increase the capital in NBK via tier II debt of approximately KShs. 3 billion in 2021, which together with recoveries from the non-performing book, will alleviate capital constraints experienced in the past and position the subsidiary for growth into the future.

Ongoing transactions

In line with the strategic thrust of scaling to achieve regional relevance, KCB Group initiated the acquisition of up to 100% of the issued share capital of Banque Populaire du Rwanda Plc and 100% of the issued share capital of African Banking Corporation Tanzania Limited.

Key benefits of the transaction include expanded regional footprint; increased stakeholder value; operational and financial synergies as well as enhancement of financial inclusivity, sustainability and effective competition.

We are at an advanced stage in obtaining the approvals necessary to conclude the transaction, part of which will be approval from the shareholders of KCB. Once approved, the aggregate completion consideration that would be payable by KCB for acquisition of the combined assets is estimated at current values and exchange rates to be US$ 56.9 million.

Further details of the transaction are available within the circular to shareholders, distributed together with this integrated report

Outlook

The global roll out of COVID-19 vaccines is expected to have a positive impact on key macroeconomic indicators especially in the second half of 2021. We remain cautiously optimistic that the operating environment will improve as the year progresses.

Key focus will be channelled towards execution of the new strategy with particular attention centred on enhancing our channels, products and services to deliver business performance. We also aim to complete and derive maximum value from our acquisitions and continue to closely monitor our asset quality, capital adequacy and liquidity ratios.

We shall continue to play our role in the regional economic recovery agenda and we remain well-positioned to support our customers.

Lawrence Kimathi
Group Chief Finance Officer

Value Added Statement

	2016	2017	2018	2019	2020
VALUE ADDED	**KShs. Million**	**KShs. Million**	**KShs. Million**	**KShs. Million**	**KShs. Million**
Interest Income,Fees,Commission and Other Revenues	85,256	86,673	89,253	102,522	116,803
Interest Paid to Depositors and Cost of Other Services	(34,454)	(33,205)	(32,916)	(39,345)	(62,191)
Interest paid on borrowings	(1,298)	(2,126)	(1,986)	(1,954)	(1,953)
Wealth Created	**49,504**	**51,342**	**54,351**	**61,224**	**52,660**

Distribution of Wealth	2016		2017		2018		2019		2020	
Employees-Salaries, Wages and Other Benefits	17,719	35.8%	19,146	37.3%	17,007	31.3%	19,459	31.8%	20,511	38.9%
Government-Tax	9,369	18.9%	9,410	18.3%	9,864	18.1%	11,732	19.2%	6,115	11.6%
Shareholder's Dividends	9,198	18.6%	9,198	17.9%	10,731	19.7%	11,099	18.1%	3,213	6.1%
Retention to support future Business Growth:										
-Retained Earnings	10,525	21.3%	10,506	20.5%	13,264	24.4%	14,066	23.0%	16,391	31.1%
-Depreciation and Amortization	2,428	4.9%	2,791	5.4%	3,146	5.8%	4,387	7.2%	5,919	11.2%
Social Capital-KCB Foundation	265	0.5%	291	0.6%	339	0.7%	481	0.8%	511	1.0%
Wealth Distributed	**49,504**	**100.0%**	**51,342**	**100%**	**54,351**	**100%**	**61,224**	**100%**	**52,660**	**100%**

Five Year Review

Consolidated statement of financial position

	31 Dec 16	31 Dec 17	31 Dec 18	31 Dec 19	31 Dec 20
	KShs. Million	KShs. Million	KShs. Million	KShs. Million	KShs. Million
Assets					
Government and other securities	102,470	109,737	120,070	164,866	210,784
Loans and advances to customers (net)	385,745	422,685	455,880	539,747	595,255
Property and equipment	9,373	10,454	11,007	13,132	14,629
Other assets	97,652	103,792	127,356	180,827	167,142
Total Assets	**595,240**	**646,668**	**714,313**	**898,572**	**987,810**
Liabilities					
Customer Deposits	448,174	499,549	537,460	686,583	767,224
Lines of Credit	36,105	25,934	42,552	42,184	56,700
Other Liabilities	14,395	15,220	20,640	40,064	21,463
Total Liabilities	**498,674**	**540,703**	**600,652**	**768,831**	**845,387**
Total Equity	**96,566**	**105,965**	**113,661**	**129,741**	**142,423**
TOTAL LIABILITIES AND EQUITY	**595,240**	**646,668**	**714,313**	**898,572**	**987,810**

Consolidated statement of profit and loss

	31 Dec 16	31 Dec 17	31 Dec 18	31 Dec 19	31 Dec 20
	KShs. Million	KShs. Million	KShs. Million	KShs. Million	KShs. Million
Interest Income	62,806	63,673	66,280	79,644	92,951
Interest Expense	(15,779)	(15,288)	(17,450)	(18,220)	(20,807)
Net Interest Income	**47,027**	**48,385**	**48,830**	**61,424**	**72,144**
Non-Interest Income	22,449	23,000	22,973	22,877	23,852
Operating Income	**69,476**	**71,385**	**71,803**	**84,301**	**95,996**
Operating Expenses	(33,104)	(34,996)	(34,698)	(38,679)	(43,291)
Impairment on Loans and Advances	(3,823)	(5,914)	(2,944)	(8,889)	(27,509)
Total Expenses	(36,927)	(40,910)	(37,642)	(47,568)	(70,800)
Profit Before Tax and Loss on Monetary Position	**32,549**	**30,475**	**34,161**	**36,733**	**25,196**
Gain/Loss on Monetary Position	(3,458)	(1,361)	(302)	164	130
Profit Before Income Tax	**29,091**	**29,114**	**33,859**	**36,897**	**25,719**
Income Tax Expense	(9,368)	(9,410)	(9,864)	(11,732)	6,115
Profit for the Year	**19,723**	**19,704**	**23,995**	**25,165**	**19,604**

A Review of Our Strategic Themes

2020 marked the first year of the Group's 3-year Strategic Plan dubbed Beyond Banking which is anchored on delivering exceptional customer experience and driving a digital future. As a result of the effects of the pandemic in 2020, this beyond banking plan was extended to 2023 to enable the Bank actualize the initiatives. The strategy maintains the customer at the center of all that we do. This will boost our growth through new revenue lines while deepening our relationship with the existing customers.

Our beyond banking strategy is embodied by four key strategic thrusts — putting the customer first, with leading value propositions; driving a step change in efficiency and productivity; Being the digital leader and digital to the core; and building scale to achieve regional relevance. These are underpinned by three key strategic enablers including modern IT architecture, processes and capabilities, enhanced end-to-end credit and risk management, and rigorous performance management engine with enabling organizational structure.

Below is a detailed review of our performance on all the four thrusts, detailing our progress over the period.

01 Customer first, with leading customer value proposition

The COVID-19 pandemic has been the biggest challenge to many businesses around the world. The pandemic presented a dual challenge for us; maintaining a safe working environment for our staff members and ensuring business continuity. We also needed to ensure that our services continued uninterrupted.

Even with the pandemic, we maintained focus on our key initiatives, including: the revision and launch of the Group customer service charter, deployment of customer insights tool, driving service ownership through cross-functional engagement, virtual customer experience compliance checks and getting international businesses on to the Enterprise Customer Relationship Management System (ECRM) for ease of customer management.

52 ▲

KCB's 2020 NPS, well above the banking industry average of 27

> This expansion fueled a 129% increase in the number of women and women-led businesses using the product to over 173,000.

Women proposition

The past year saw the Bank roll out a women value proposition product in all the Kenyan branches to support women entrepreneurs. This expansion fueled a 129% increase in the number of women and women-led businesses using the product to over 173,000. The Bank also increased lending to this vital segment by 124% to the tune of KShs. 24 billion and mobilized deposits of KShs. 15 billion, a 70% growth. The product continues to have a lasting impact on the market by availing working capital and non-financial training needs to support business growth. We noted improved customer satisfaction and low delinquency rates with an NPL of 3.2%.

MSME support

We also deepened our support to micro, small and medium size enterprises. The Bank grew the loan book by 9% to KShs. 49 billion while the number of customers under this segment closed at nearly one million, holding deposits worth KShs. 90 billion. We have plans in place to further grow the book this year by among other things adopting cash flow lending to complement the financial management reports in assessment of loan applications. We also signed up to the government of Kenya's credit guarantee scheme as well as other lending agreements with various County Governments targeting MSMEs.

We further strengthened our non-financial support to MSMEs by providing sector specific business development skills to assist them run their businesses professionally. To support enterprises which were struggling due to the pandemic, we restructured over 3,800 MSMEs facilities worth KShs. 7.5 billion, and offered temporary overdrafts to businesses to manage their immediate needs such as payment of salaries and working capital.

Improving the customer experience

In line with our efforts to map our customer journey, we posted positive growth in the Bank's Net Promoter Score (NPS), from 42 in 2019 to 52 in 2020, way above the industry average of 27 while the Customer Effort Score (CES) also improved to 18% from 23% in January 2020. The Bank scored the highest NPS in the third quarter of the financial year, with customers appreciating good customer service, friendly rates, availability of agents, efficient digital banking services, money security, great products, easy access to loans and low interest rates.

The increase in NPS was also attributable to the change in the engagement methodology, from manual survey to automated real time post-transaction surveys, which ensured that customers' ratings were based on immediate rather than remembered experiences.

We also conducted regular engagements with key stakeholders to address customer issues and understand the root cause of customer pain points in our various units with an aim of addressing them. This saw our turn-around-time for resolving complex issues that require escalation reduce from 6.9 days in January 2020 to 1.7 days in December 2020 and repeat call issues reduced from 23% to 19%.

In the coming year, we aim to continue focusing on improving customer experience which will be reflected in higher NPS, better CES and proactive identification and resolution of service failures.

We sustained regular communication with our customers in line with the government containment measures which included encouraging our customers to go cash lite to reduce exposure to the virus. This was by tapping our robust mobile banking proposition. As a result our investments in digital financial services, more customers now have the confidence to conduct their business online. Today, 98% of transactions take place outside of bricks and mortar branches.

Cognizant of the direction that customers are taking in terms of increased usage of self-serve channels, we aim to improve this service and migrate more customers. This will be implemented along with the simplification and automation of service level agreements and processes.

Islamic banking

During the year under review, we further enhanced our value propositions to attract and retain customers with superior product offerings across various segments. The period marked the sixth year of operation for our Islamic finance offering — Sahl Banking — which has posted impressive growth and performance. This is a clear indication of the increasing uptake of Shariah compliant products and growing customer confidence.

Our Shariah Advisory Council has continued to play a pivotal role in ensuring that best practices are followed so that the products and services meet Shariah compliance requirements. A number of initiatives are planned for 2021, including opening of new Sahl centers as well as rolling out more products such as credit cards and agribusiness financing. We also look forward to working with our subsidiaries in the region to see how to provide solutions for customers who want to but are not able to get shariah compliant products in their markets.

Tapping into technology

In a bid to better understand the use of our social media assets, we carried out a survey on the Social Devotion Rate and the Social Media Response Rate. Social Devotion Rate is a measure of a company's ability to start conversations openly, involve customers and to respond to inquiries as close to real-time as possible. Against a target of 90%, we achieved a score of 86%. Social Media Response Rate measures the frequency of responses to customers' specific inquiries, which feeds into the Social Devotion Rate. We met our target for this metric, with a score of 96%.

Using the customer insights tool, we saw a four-fold increase in interactions received via the WhatsApp channel, from the 128,614 received in 2019 to 479,222 in 2020. This gradual shift from the other channels to WhatsApp was a clear indication that customer touchpoints are continuously changing and as a Bank, we should continue investing in tools that help us better understand our customers. There was also a significant decrease in voice calls, which reduced by 7.5% compared to the same period in 2019 as a result of increased usage of other channels, such as WhatsApp.

At the same time, our social media channels continued to receive a significant share of customer requests at 24% of all requests for the period under review.

Sahl Banking Growth

Net Income (KShs. Million)

2020	2019	
667	576	▲

Customer Deposits (KShs. Billion)

2020	2019	
8.2	7.6	▲

Loan Book (KShs. Billion)

2020	2019	
5.7	5.0	▲

Sahl Customer Accounts

2020	2019	
53,179	40,006	▲

16% ▲

Growth in Sahl Banking Net Income in 2020

Awards

1. KCB ranked 667th Globally by The Banker's Top 1000 World Banks ranking
2. Best Bank in Kenya by the Global Finance's Best Bank Awards
3. Best Digital Bank by Asian Banker
4. Best Practise in Sustainable Finance by DuPont Sustainable Solutions
5. Safest Bank in Kenya by Global Finance World Safest Banks
6. Best in Customer Satisfaction and Happiness by Global Banking and Finance Awards 2020
7. Top tier 2 bank (NBK) for delivering exceptional digital customer experience by Kenya Bankers Association
8. Financial Reporting Awards – Best overall, Best in Kenya, Best among banks and listed companies, first runners up in Corporate Governance and 2nd runners up in Integrated Reporting

02

A step change in efficiency and productivity

The journey towards building a resilient and sustainable bank of the future, which KCB Group has embarked on, calls for constant enhancement of efficiency and productivity. This agility enables us to meaningfully contribute to the socio-economic well-being of our customers.

We have transformed our branch network through the Branch Excellence initiative in order to facilitate transactions that need physical presence of customers at our premises by enhancing branches' layout and operations model, while at the same time encouraging a shift of transactions to self-serve channels on mobile and the internet. Through our automation processes close to 70% of teller operations have been migrated to the digital platform to enable self-service by all customers leading to a reduction of daily teller transactions by half in just five years.

This initiative is currently being rolled out to refresh operations and enhance excellence in service delivery and management of teams. The model looks at data which informs resource allocation to meet the customers' need for service delivery. This was piloted in 10 small-sized branches before being rolled out to all the branches in the country by November 2020. Realignment and engagement are ongoing with the large size branches.

So far, the fruits of this focus on efficiency and productivity have been demonstrated through improved customer experience. In 2020, customers' average wait times dropped from 23 minutes in January to under 14 minutes in December. We have also streamlined our credit underwriting process across segments for faster turnaround times.

Collaboration between KCB and NBK teams led to consolidation of contracts, enabling cost saving and efficiency synergies. IT solutions were reviewed, services and operations merged for economies of scale, and premises rationalized.

Automation

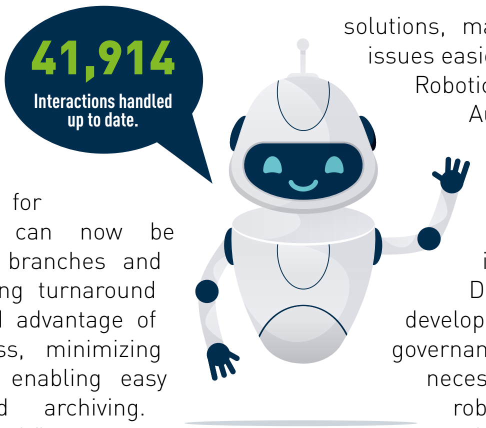
The drive to maximize efficiency and productivity has been supported by sustained investment in cutting edge technology, architecture, processes, capabilities and talent to automate functions and processes.

The Bank acquired Business Process Management (BPM) and Electronic Document Management System (EDMS) solutions to aid workflow automation. Personal accounts' opening process was the first automation initiative rolled out, and can now be conducted offsite before transmission to a central point for finalization. Documents can now be moved digitally between branches and the head office, shortening turnaround time. This has the added advantage of standardizing the process, minimizing loss of documents and enabling easy tracking, retrieval and archiving. Accessibility of process workflow eases performance measurement on metrics such as turnaround times, besides effective application of standard operating procedures by making it difficult to avoid or miss an activity.

So far, digital movement of documents has been effected for: account maintenance; merchant and agents onboarding; centralization of amendments of mobile banking details; standing orders; prepaid card application; salary processing and motor insurance. Work is ongoing to digitize movement of documents, customer data remediation, custody documents tracking, inward swift messages, fixed deposits and outward payments.

The platform is capable of accommodating multiple processes, thus enabling cross-selling and better process efficiency. The integration of systems now provides a single point of customer contact for different solutions, making resolution of issues easier and faster.

> Robotic Process Automation (RPA) was also effected for high volume, repetitive rule-based and labour-intensive tasks. During the year, we developed the requisite governance structure necessary for deploying robots in our credit administration and digital financial services operations.



Robotic Process Automation (RPA) was also effected for high volume, repetitive rule-based and labour-intensive tasks. During the year, we developed the requisite governance structure necessary for deploying robots in our credit administration and digital financial services operations. The shift to RPA has drastically cut down turnaround times from days to within an hour, eliminated losses on reversal process, reduced need for manpower leading to operational efficiencies and timely compliance with regulatory requirements. We also launched Kaycee, our internet banking chatbot that answers customer queries in real-time and has to date handled 41,914 interactions.

We also optimized our Quickpay bulk processing engine in order to provide 24/7 services to enable self-service to our customers. This platform is also attracting non KCB customers keen to have their bulk files processed which points to confidence in the system.

To anchor our ability to provide uninterrupted service to our customers, we enhanced our IT systems and processes with the completion of an operational excellence project, aimed at raising our service availability to world class standards and improving the observability of service level compliance in order to better serve our customers. At year end we had matched global standards of service availability and can offer our customers the same service levels they would expect from leading cloud hyper-scalers.

It's against this backdrop that the Bank achieved an uptime of 99.99% on our core banking system, which is a significant improvement over prior years. We are looking to improve further on this, not just on the core banking system, but on all our customer facing touch points through improvements across multiple layers in our data center, core infrastructure, networks, middleware and architecture, to avoid any single point of failure in any service.

Throughout 2020, KCB Group invested significantly to further improve cyber security and secure customers' information and assets against a rapidly increasing number of external threats. We further tightened

36% management roles in KCB are held by women.

our operating procedures and processes to minimize the potential of insider threats and this will remain an area of focus in the future. Due to our vigilance, there was no single successful cyber-attack on KCB systems during the year. However, as with many large organizations we record thousands of attempts and threats that are being handled by our perimeter security systems.

In 2021, we will continue our journey of operational excellence, infinite scalability, improved customer experience and solid cyber security through co-locating our data centers, modernizing a large part of our infrastructure estate and accelerating the adoption of containerized architectures to ensure continued system reliability.

People

People are at the core of all our operations. To unlock further value, the Bank has been conducting rigorous performance management, inculcating an enabling culture and establishing a relevant organizational structure. Insights from a group-wide Organization Health Index in 2019 informed this direction.

Due to the pandemic, a delicate balance had to be struck between staff safety and business continuity, amidst resource constraints. The remote working arrangements split teams, doubled individual effort and made it difficult to closely motivate and support teams to maintain good performance. We developed tools to track individuals' work, maintain contact and minimize exposure to the virus. We also provided counselling services to affected staff, in order to reduce stigma and manage stress to enable them resume normalcy.

For staff who were required to work from their offices, we created a safe working environment by providing PPEs, sanitisers and adopted physical distancing measures. We also enabled working from home through provision of support for staff to set up home offices, connectivity and equipment as well as availed testing and medical support services.

To ensure business continuity in light of the restrictions on physical gatherings, the Bank invested in virtual platforms to facilitate staff engagements, this included virtual meetings and online trainings to enhance staff skillsets. Within the year, 164 members of staff were promoted after demonstrating capacity to handle greater roles during the year, 42% being women. In addition to the women in leadership program where 250 ladies were mentored, we launched the KCB Aspire program for female managers. The program facilitated by heads of department teaches managers key skills they need to develop their careers as well as providing mentorship and sponsorship linkages to senior managers for female managers at various levels. A total of 555 managers went through the program, and today 36% management roles in KCB are held by women.

> In the coming years, remaining manual processes will be automated to improve customer service, reduce costs on paper, staff and equipment.

Audit

To enhance efficiency in our internal audit process, we implemented the use of a continuous audit tool Alessa. The automated tool assists in the identification of lapses in controls within the branch network for resolution. The Bank further rolled out Idea – a data analytics tool for sharper and more focused controls on specific areas. These systems coupled with improved efficiency drove the closure rate of the audit issues from 96% in 2019 to 97% in 2020. Major improvements were noted in AML, reconciliation and closure of technology issues.

The Bank also rolled out the use of Team Mate to our new subsidiary, NBK to align all documentation and tracking of Group wide issues on one platform. The Information system audit team in NBK was also reconstituted to assist in the audit of the subsidiary and selected information system audits of other subsidiaries within the Group.

Going forward

In the coming years, the remaining manual processes will be automated to improve customer service, reduce costs on paper, staff and equipment. Implementation of the BPM system will be extended to: initiation of loans on mobile, CDSC account opening and amendment, letters of credit and guarantees. The roll out of the BPM system will be extended to cover all subsidiaries. Our focus will be on automation excellence and expansion, cost saving, robust supplier performance management, support to special interest groups and further KCB Kenya-NBK integration of shared functions. We will also onboard our insurance agency services to the internet banking platform and our mobile app.

Human Capital

2020	2019
Total Staff	
7,525	7,584
Average number of leave days taken	
37	29
Average number of sick-off days taken	
5	4
Total number of interns	
160	365

2020	2019
Total number of new hires	
132	216
Total number of exits	
303	387
Staff cost-to-income ratio	
21.4%	23.1%
Employee distribution by gender M:F	
55:45	56:44

2020	2019
Revenue per staff (KShs. Million)	
12.8	11.1
Cost per staff (KShs. Million)	
2.7	2.6

03

3. Digital leader & digital to the core

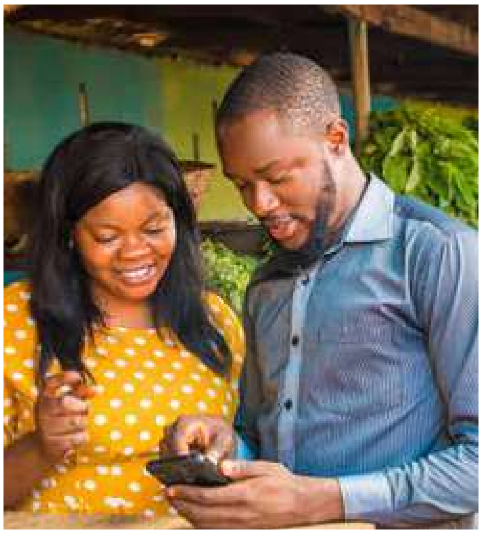
The accelerating pace of technological change was the most creative force in the financial ecosystem in 2020. Due to the COVID-19 containment measures including shelter-in-place policies adopted to protect public health, digital finance witnessed a significant uptake world-wide.

Even though fintech was already growing at a steady pace before the pandemic, the landscape changed significantly during the year. Buoyed by the growth of e-commerce and the shunning of paper money to lower the risk of spreading the virus, the banking sector proactively encouraged the drive to a cash lite economy through various initiatives. These included waiver of charges for balance inquiries, transfers between mobile money wallets and bank accounts, as well as the enhancement of mobile banking transactions limits.

Having made tremendous strides in deepening the digital offering, KCB rejigged and launched various digital based products to drive adoption of cashless payment means. The Bank focused on encouraging customers to use mobile banking, which led to a four-fold YoY growth in mobile banking volumes during the year. At the same time to support customers in financial distress, we enhanced mobile loan limits for qualifying customers and extended repayment periods for distressed borrowers. These steps saw the value of non-branch transactions surge by 55% to over KShs. 1.8 trillion.

To further grow our digital channels, we connected 96% of our eligible total customer base to our internet banking (iBank) platform leading to an 82% growth in number of transactions processed. We also rolled out a pilot to test an iBank solution on a mobile app, with the goal to rollout to customers in the coming year. At the same time, we availed new products on iBank including requisition for cheque books, setting up standing orders, processing government payments and fixing term deposits. We will continue to enhance our iBank offering with the addition of more services to the platform including the ability to apply for loans as well as open and manage accounts.

We enhanced our agency offering with the introduction of new transaction types into the agent POS machines such as the purchase of float for mobile money agents and government payments. These additions led to a 50% growth in agency banking volumes with the agents mobilizing KShs. 302 billion deposits, underpinning the important role these channels play in sourcing cheap deposits. The same growth was replicated across our ATM network with the channel becoming a net deposit mobilizer for the first time, collecting KShs. 127 billion worth of deposits which represents 52% of the value of all ATM transactions.



Vooma

In March, the Bank rolled out KCB Vooma — a robust, exciting and dynamic new mobile wallet that allows customers to pay for goods and services, get loans and save money via their phone on any network. The platform, with a capacity of over 2,000 transactions per second against an industry average of 100, will house all mobile lending and payment products for KCB.

> In March, the Bank rolled out KCB Vooma — a robust, exciting and dynamic new mobile wallet that allows customers to pay for goods and services, get loans and save money via their phone on any network.

vooma

2000 Transactions per second against an industry average of 100 transactions per second.

The platform has since gained traction in the market with recruitment of customers and the expansion of its agency and merchants network in the retail space through various partnerships, to provide a wide payment ecosystem. We also opened up standardized Application Programming Interface (API) to third parties to ease integration between merchants and businesses to the KCB ecosystem for bulk digital disbursements and payments.

We launched a retailer financing product on the platform to support customers with cashflow-based weekly loans for purchasing new inventory and day-to-day operations at the height of the pandemic. We worked with various distributors, leveraging on their historical data to score their customers for eligibility for financing. This product enabled these businesses to stay afloat and also to grow their businesses in a harsh environment.

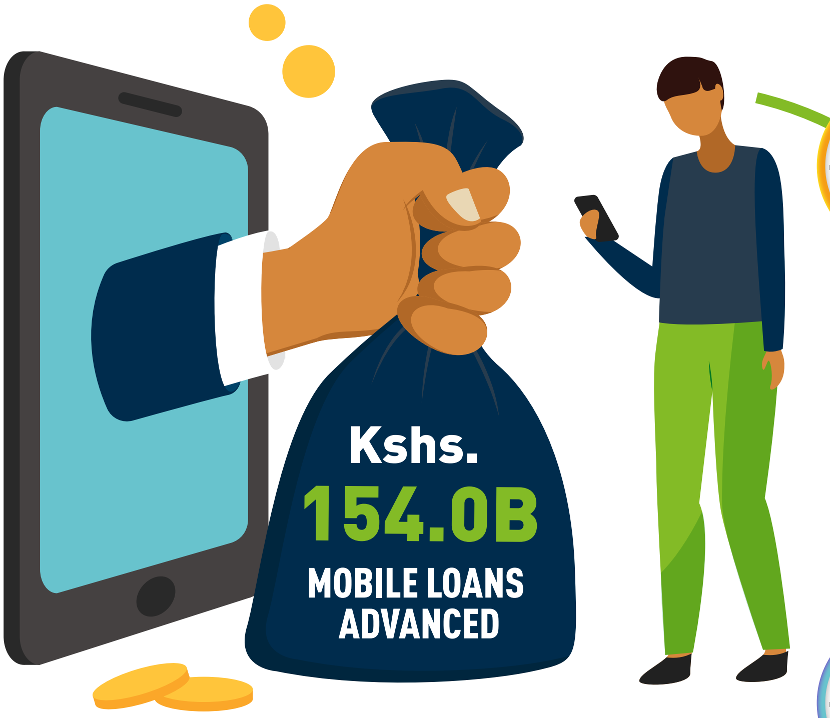
The year, however, proved to be challenging for some of our clients who were unable to repay their mobile loans. This significantly impacted digital lending across the industry as non-performing loans surged, coupled with the concessions that banks could not list defaulters on CRBs which usually serves as a good deterrent.

Focus areas in 2021

We will focus on onboarding more distributors to the Vooma platform to enable the Bank lend to their retail ecosystem, including those who do not bank with us. Our plan is to ramp up the payment infrastructure especially for business-to-business payments with a focus on the entire value chain.

The electronic money-transfer industry has witnessed the growth of a cash lite economy as a consumer-driven trend and we expect it to continue as the region adapts to living with the pandemic. Globally digital banking is on the cusp of transformation from a niche service for the technologically elite to a mass-market service utilized by all customer segments. As a Bank we remain alive to this transformation.

Mobile Loans Advanced



Kshs.
154.0B
MOBILE LOANS ADVANCED

Every 24 hours	Kshs. 421,831,553
Every hour	Kshs. 17,576,315
Every minute	Kshs. 292,939
Every second	Kshs. 4,882

Average loan on mobile excluding Fuliza (KCB MPESA and KCB Mobiloan): **Kshs. 9,870**
Average loan on mobile including Fuliza: **Kshs. 1,010**

Agency Banking Transactions

38.0% Cash Deposit

15.0% Cash Withdrawal

10.6% School Fees

36.4% *Others

* Others: Account opening, Balance enquiry, Mini statement, Bill payment, Load cards and funds transfer

KCB App downloads

2017 - **763,084**
2018 - **1,184,023**
2019 - **1,770,754**
2020 - **2,129,378**

Number of Mobile loans

In 2020 - **152,515,994**
Per day - **417,852**
Per hour - **17,410**
Per min - **290**
Per Sec - **5**

04 Scale to achieve regional relevance

Deepening regional integration has seen cross-border banking pick up considerably across Africa in the last decade. KCB Group, with a presence in all the East Africa Community states and a representative office in Ethiopia is the largest bank in the region.

Over the years, we have pursued leads and ventured into new markets whilst enhancing our market capabilities in the existing ones. Under the 2020-2023 strategy, the Group has been keen to tap into new growth opportunities as part of its efforts to scale its regional relevance. As a result, the Group continues to leverage on strategic acquisitions to increase market share while also growing the businesses organically.

As a result, in 2020, the Group initiated a twin acquisition drive in Rwanda and Tanzania as part of our efforts to enhance the brand's footprint in those markets with the signing of a definitive agreement with Atlas Mara Limited — a sub-Saharan Africa financial services group — for the acquisition of a 100% stake in Banque Populaire du Rwanda Plc and a 100% stake in African Banking Corporation Tanzania Limited (BancABC).

Our international businesses also continued to grow organically with all regional subsidiaries posting profits in the year despite the difficult operating environment. This has had a positive effect on the Group's bottom-line with the subsidiaries outside of KCB Bank Kenya contributing 14% of our profits before tax in 2020. The continued enhancement of our operations in the region coupled with a recovery in economic conditions in the markets places the subsidiaries in a good footing to achieve the targeted 20% contribution to our bottom-line by 2023.

However, due to a slowdown in the economic activity across the East African region, challenges to regional trade remain, and the speed of recovery of economic activity will be mixed across the region. In response to these challenges, the Group has outlined country-specific measures to support our customers and ensure continuity of our business across the region such as loan restructuring which will be extended further for the most impacted areas.

During the year, we also saw key regulatory developments and changes that impacted our operations during the year under review. Several of these developments were regulatory interventions on COVID-19 and our regional subsidiaries adapted and capitalized on the opportunities that arose to support our customers and drive business growth. These include lowering of benchmark lending rates, cash reserve ratios and waiver of mobile banking charges

Brand Value

In 2020, the Group continued to make targeted investments to boost brand value through sponsorships, stakeholder engagements and thought leadership despite the particularly challenging operating space. As a responsible corporate citizen, the Group supported various emergency COVID-19 response initiatives across all the markets we operate in.

The Bank also continued to support the teams it sponsors throughout the year to develop and nurture a critical mass of talent to compete in local, regional and international competitions across various disciplines—football, golf, rugby, volleyball, chess, motorsports and athletics. At the same time, our Tanzania subsidiary sponsored the local premier league further deepening our support to development of sports across the region.

The pandemic adversely impacted various activities and programs leading to cancellation of major events in 2020 key among them being the World Rally Championship which was set to return to Kenya through the sponsorship of the Bank. This has now been confirmed for June 2021.

Other initiatives aimed at enhancing brand value such as the business show Lions' Den were also impacted with the suspension of production of the fifth season. However, we were able to avail re-runs of the first two seasons on the online entertainment streaming service, Netflix. In 2021, we intend to air the progress of entrepreneurs who participated on the previous editions, and shall also revamp the show and air specials of both lions and entrepreneurs best and worst moments.

During the year, KCB rolled out a thematic campaign dubbed Go Ahead to demonstrate the role the Bank plays in the region by simplifying our stakeholders' world to enable their progress. The campaign affirmed our promise to support our customers to seek every opportunity to adapt and rise. This led to a retention of a strong brand equity by maintaining our brand power score at 29 points. This is line with our recognition that in order to achieve sustainable business growth, there is need to build a strong brand that is anchored on trust, believability, favorability, advocacy, awareness and familiarity.

Our Sustainability Update:

COVID-19 Pandemic Redefines Focus on People, Profits and Planet.

Globally, the COVID-19 pandemic has presented a defining moment for the sustainability agenda, as organisations grappled with the impact of the crisis to their businesses while juggling the focus on people, profits, and the planet.

At KCB Group, we have maintained our focus on pursuing our sustainability goals and objectives which are anchored on doing good amidst the harsh economic environment. At the advent of the pandemic, we shifted focus to not only ring-fencing the business but also supporting our stakeholders, navigate the unprecedented crisis, sustaining our push for minimal harm to the environment and offering a boost to the economy.

As such, the sustainability targets we had set for ourselves in the year under review remained on track. KCB continued with its execution of Social and Environmental Management System (SEMS) into its lending processes. However the business teams were not able to incorporate client site visits because of the COVID-19 pandemic as well as customers having to close down their business because of country lock down measures. While the COVID-19 containment measures made the exercise rather challenging, the Bank managed to screen 87 customers with loans valued at KShs. 91.8 billion. In addition, we undertook a periodic review and update of our policies to align them to the changes in the operating environment as well as the Sustainability scope.

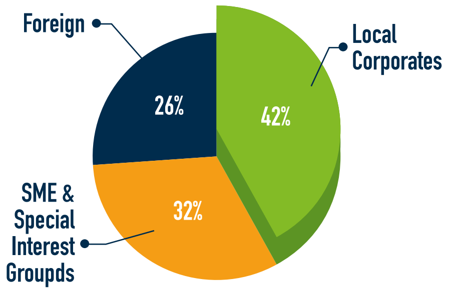
The 2020 experience was instrumental in creating awareness for the public and private sector to prioritize Sustainable Development Goals (SDGs) action plans if we are to realize these goals by the year 2030. Therefore, the global call for *Decade of Action* resonates well with our SDGs Action Plan that we adopted in 2017 and mainstreamed in 2018 into our operations as well as the new strategic

> At KCB Group, we have maintained our focus on pursuing our sustainability goals and objectives which are anchored on doing good amidst the harsh economic environment.

KShs.
91.8B
Value of loans that underwent social and environmental assessment

Distribution of work to the top 100 suppliers

2020

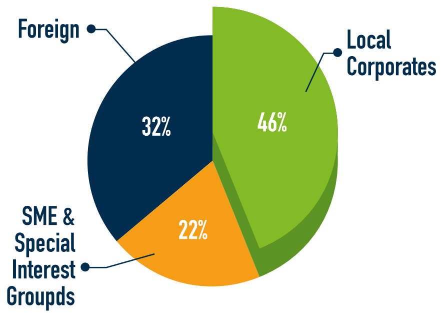


2019

Local Corporates	39%
SME & Special Interest Groups	35%
Foreign	26%

Distribution of value of work

2020



2019

Local Corporates	40%
SME & Special Interest Groups	20%
Foreign	40%

objectives for KCB Group on *Beyond Banking*. This alignment of our business strategic objectives with the nine SDGs adopted will enable us track progress of our contribution towards inclusion, people and the planet through our shared value practice.

We have also made tremendous strides with regards to environmental stewardship. Over the past few years, we have focused on initiatives to ensure energy efficiency at all our branches and offices, with reduction targets related to energy, water, paper and fuel consumption adopted and tracked monthly. Our strategic focus on digital services has enabled an acceleration in meeting this mandate. Concurrently, our unprecedented working from home arrangements played a part in expediting the reduction. At Group level, we attained an impressive overall resource consumption reduction of 18.80% which surpassed the annual target of 5%, enabling us to meet our objective two years earlier than scheduled. Fuel consumption reduced the most by 23.49%, followed closely by power consumption at 21.96% and overall paper use by 9%. Over the last year, we installed LED lighting in 30 additional branches bringing the total to 40% of our network. We remain focused on further entrenching this transformation to further reduce our carbon footprint as a business through innovation and adoption of renewable technologies in the coming decade.

At the end of 2020, following a two-year process to adapt to international best practices, KCB Bank Kenya received the Green Climate Fund (GCF) accreditation. KCB became the first bank and private entity in Kenya to be accredited thus opening climate finance and green economy for the region. This accreditation allows us access funds for on-lending from US$ 50 million up to US$ 250 million under the 'Medium' category for adaptation and mitigation projects in Kenya. This opportunity gives local enterprises, whose business models are environmentally focused, unprecedented access to our green lending support. In 2021, we will focus on setting the framework for rollout and disbursement of funds to qualifying customers. In 2020, the Bank's green loans grew at 4% to KShs. 23.6 billion across the corporate and SME portfolio, due to the impact of the pandemic with companies in the portfolio delaying most investments. The Bank projects to grow this by 5% in the year 2021.

The Group has zero tolerance policy to all forms of corruption, bribery and unethical business practice at the workplace. We ensure that all our staff and service providers adhere to the Group Code of Ethical Conduct. We also have in place a policy to ensure equitable distribution of work to our suppliers. This policy places emphasis on MSMEs as well as special interest enterprises such as those owned by women, youth and differently abled persons. In 2020, 34 special interest enterprises were awarded procurement contracts up from 16 in 2019. The value of these contracts also more than doubled to KShs 363 million from KShs 141 million a year earlier. We also have in place a supplier performance framework to evaluate performance of our suppliers annually. In 2020 this evaluation was conducted for 102 key vendors, returning an average performance rating of 88% against a minimum of 85% on all deliverables.

Throughout the year, we experienced, first-hand, how our business and ongoing sustainability commitments are intrinsically linked to the health of the region's economy. The crisis forced us to navigate the difficult waters and led us to consider the catalytic impact that we can make to support local businesses in making the right decisions. In the coming year, we shall transition into Sustainable Development Goals (SDGs) progress reporting as we phase out the 10 Point Action Plan that has completed its six-year phase in 2020. We are optimistic that as we look ahead into the year, KCB is resilient to withstand any challenges in the market having anchored its objectives on a sustainable business with a long-term view lens.

For more details, the 2020 KCB Group Sustainability Report is available on www.kcbgroup.com/sustainability

KShs.
363M
Value of procurement contracts awarded to special interest groups up from KShs. 141M in 2019

> “ The Group has zero tolerance policy to all forms of corruption, bribery and unethical business practice at the workplace

18.8%
Overall reduction in resource consumption

Our Sustainability Agenda

KCB Group 10-point action plan

KCB Group tracks and measures the performance of the company's progress in achieving goals in the strategy through the 10-point action plan. Below are the key indicators and how we have performed over the past year.

Social Stability

CUSTOMERS
▲ **24,881**
Number of Insurance Policies

DIGITAL FUTURE
▲ **17.29 Million**
Number of registered Mobile Banking users

CUSTOMERS
Kshs. **106.1 Billion**
Cumulative value of restructured loans

Portfolio reimagining

Economic Stability

PARTNERSHIP
▼ **6,370***
Number of youth upskilled under 2Jiajiri (Niko Waks Program)

PARTNERSHIP
▲ **68%**
Local Procurement Spend

Added-value partnership

Economic Stability

CUSTOMERS
▲ Kshs. **448.4 Billion**
Value of transactions done by agents

CUSTOMERS
▲ **8,697**
Number of loans disbursed under women value proposition

CUSTOMERS
▲ **24.3 Billion**
Value of Loans Disbursed under Women value Proposition

Financial Inclusion

Environmental Stability

ENVIRONMENTAL RESPONSIBILITY
▲ **23%**
Carbon Emission reduction against a target of 15%

ENVIRONMENTAL RESPONSIBILITY
▲ **18%**
Aggregate resource reduction against a target of 5%

Environmental footprint

Financial Stability

DIGITAL FUTURE
▲ **7,488**
Staff trained in cyber security through e-learning and webinars

GOVERNANCE & INTEGRITY
▲ **98%**
Staff trained in anti-fraud awareness

Cyber security awareness & fortification

Pillars of Sustainability

Social Stability	Financial Stability	Environmental Stability	Economic Stability
Our commitment to develop equitable, inclusive products and to support our youth and communities to prosper and thrive, enables us to create shared value.	Transformative partnerships help us provide access to financial products and services that leads to inclusive progress.	We support responsible finance and consumption, green finance and lowering our Carbon Footprint to protect and enhance the environment on which we depend.	Regulatory compliance, innovative and robust systems, security and ethics are critical components that form the foundation of a stable and prosperous economy in which we operate.

Talent management and diversity

EMPLOYEE

▲ **11**
Average training days per employee

EMPLOYEE

▲ **250**
Number of woman trained under the women in leadership programme in 2020

Social Stability

Empowering youth and community

PARTNERSHIP

▲ **599,007**
The value of beneficiaries served through Inua jamii program

PARTNERSHIP/DIGITAL FUTURE

▲ **290**
Number of beneficiaries in the scholarship program

Social Stability

Product development & innovation

DIGITAL FUTURE

▲ **260.8 Million**
Number of mobile banking transactions

DIGITAL FUTURE

▲ **13**
Number of new products developed

Economic Stability

Responsible lending

ENVIRONMENTAL RESPONSIBILITY

▼ **Kshs. 91.80* Billion**
Value of facilities that have undergone social-environmental assessment

ENVIRONMENTAL RESPONSIBILITY

▼ **87***
Number of loans screened through ESDD (New and Refinancing)

ENVIRONMENTAL RESPONSIBILITY

▲ **6,633**
Number of staff trained on environmental and risk assessments

Environmental Stability

Ethics & integrity

GOVERNANCE & INTEGRITY

▲ **41%**
Percentage composition of woman on the KCB Board (Group Board and Country Boards)

GOVERNANCE & INTEGRITY

▲ **3,624**
Number of cyber attacks prevented

Financial Stability

*** The decline was due to the restrictions occasioned by the COVID-19 pandemic.**

KCB Foundation

The influx of the COVID-19 pandemic in East Africa in 2020 presented challenges in most of the countries in which the KCB Foundation has programmes as it exacerbated the unemployment that we seek to end.

For the Foundation, the pandemic meant that there needed to be a balance between maintaining focus on the programmes that were already up and running and interventions to assist those affected by the pandemic.

We saw it fit to extend support to our beneficiaries under the different programmes and for this, we set aside KShs. 25 million under the **Save Life Initiative**. This initiative was used to extend support towards several interventions: safety and sanitation support, food items and office administrative support.

Beneficiaries who own greenhouses in Juja and Rungiri in the outskirts of Nairobi were provided with three months' support at KShs. 1.4 million monthly to enable them meet the increased costs of inputs, water and transport. The Foundation spent KShs. 4.8 million on this support, which enabled the beneficiaries to attend to their farms during the difficult period.

To help mitigate against nutritional shortages, 1,070 of the High School Scholarship beneficiaries were issued a monthly stipend of KShs. 1,000 each from March through to July. They were also given KShs. 2,000 each to cater for their transport back to school and were also provided with face masks. The Foundation ensured that their mentorship continued through the one on one sessions and the procurement of a virtual online mentorship provider to cater to their emerging physical, psychological and material needs.

The Foundation also dedicated KShs. 3 million to bridge the supply and demand gap by providing retailer vouchers to individuals to purchase basic needs. This was done through disbursements directly to Inua Jamii beneficiaries, a social support programme with Sokowatch, and stipends for Persons with Disabilities.

We also distributed COVID-19 containment interventions worth KShs. 6.5 million to beneficiaries affected by the pandemic. These included water, water containers, soap, masks and sanitisers.

To support livestock groups with outstanding loans, the Foundation extended support worth

KShs. 25M

Amount set aside under the Save Life Initiative

> Despite the nationwide curfews and lockdown of major metropolitan areas, we recorded significant progress in our flagship programmes.

KShs. 6.5M

Value of COVID-19 interventions distributed to beneficiaries affected by the pandemic

> The Foundation's successful pilot of the franchising model continued to bear fruits at the two Ashleys Mtaani outlets on Kiambu Road and Karen.

more than KShs. 3 million to 35 groups under Mifugo Ni Mali. The funds went into paying for administrative support, such as rent, salaries for key staff, transport and communication, for three months.

Under the partnership between *2jiajiri* and GIZ's E4D/SOGA, we distributed 301 toolkits, safety gear, and sanitation consumable to the youth thanks to a grant of KShs. 11 million from GIZ.

Despite the nationwide curfews and lockdown of major metropolitan areas, we recorded significant progress in our flagship programmes.

Under the *Young Africa Works* project, 6,370 beneficiaries were trained and 9,398 new jobs created. There was also significant progress in *2jiajiri* Phase 2, where we had 3,206 beneficiaries in incubation, there were 423 new going concerns, 653 businesses registered, 667 business plans created and KShs. 6.1 million disbursed in loans to graduates of the programme. We restructured 44 *2jiajiri* loans worth KShs. 14.8 million to cushion beneficiaries from the effects of the pandemic.

The Foundation's successful pilot of the franchising model continued to bear fruits at the two Ashleys Mtaani outlets on Kiambu Road and Karen. Additionally, we trained 100 beneficiaries in partnership with Ashleys. The franchising model has been extended to *2jiajiri* graduates who own laundromats, kitchen and carwash businesses along Jogoo Road in Nairobi. The Foundation also rolled out three pilot franchise carwashes under a pilot with Extreme Clean Carwash, at KCB Towers, Shell Lavington and Shell Mountain View, all in Nairobi.

Additionally, we supported Branch CSR initiatives including purchase of water tanks in schools and humanitarian aid to mudslide and flood victims in West Pokot and Budalangi respectively.

In the subsidiaries, focus was on the recruitment of 100 beneficiaries in each of the two countries where the Foundation is active – Rwanda and Tanzania. The Foundation also focused on the recruitment of the trio of Business Development Support (BDS) officers – marketing, accounting and legal - to support in the programme activities.

For Mifugo Ni Mali, some pre-scheduled activities could not go ahead but there were still some gains made in 2020. We managed capacity building for 73 livestock groups to help with production and record management, training of 219 leaders of livestock groups on governance and training of 1,095 farmers on productivity and records management. We also helped in the establishment of 12 demonstration farms to support livestock productivity, supported livestock tagging in Laikipia and Taita Taveta counties and linked 15 livestock groups to off takers.

> In the subsidiaries, focus was on the recruitment of 100 beneficiaries in each of the two countries where the Foundation is active – Rwanda and Tanzania.

Phase 2 in Kenya

3,206
Beneficiaries

423
New going concerns

653
Business registered

667
Business plans

Kshs. 6.1M
Disbursed in loans to graduates of the programme

Kshs. 14.8M
44 *2jiajiri* loans restructured to cushion beneficiaries from the pandemic

Mifugo Ni Mali

73
Livestock groups trained on production and record management

219
Leaders of livestock groups trained on governance and planning

1,095
Farmers trained on productivity and records management

12
Demonstration farms to support livestock productivity, supported livestock tagging in Laikipia and Taveta counties

2jiajiri Case Study

Pandemic couldn't put down this hairdresser

As the Kenyan government implemented measures to limit the spread of COVID-19, Loise Kamau could see the shadow looming over her business.

Her salon in Nakuru was her sole source of income and as the government ordered the shutdown of barbershops and salons for a month, she worried about the fate of her three children.

"In my line of work, I am assured of earning some money on a daily basis. So when I woke up one day and found I could not open the salon, I was devastated because it plainly meant my children would sleep hungry," she recalls.

In desperation, she came up with a system where she would call her customers and offer to do their hair behind closed doors.

Fortunately, Loise had a shoulder to lean on in the form of the KCB Foundation. It was the Foundation that had funded her training in hair care and provided the capital to set up shop.

Things getting worse by the day and Loise reached out to Julia Kamau, the KCB Foundation officer assigned to her. They worked out a system where she would be visiting her customers in their homes. For her safety and that of her customers, she was provided with sanitizers and face masks.

Unlike other businesses that remained closed for long periods, hairdressers got a reprieve after one month when the government allowed them to resume operations as long as they adhere to the strict health protocols.

"All this time, KCB Foundation was closely following my struggles during the shutdown. When we were allowed to resume business, they provided me with hand washing tank, sanitizers and more masks. With my lost income, there was no way I would have complied with the health protocols," she says.

Loise is a beneficiary of KCB Foundation 2jiajiri programme that provides scholarships to equip youths with vocational skills geared towards self-employment.

After completing her secondary school education at Ol Kalao Girls in 2004, Loise could not proceed to college due to financial constraints at home.

"I had always wanted to be a hairdresser so when it was clear I was not going to further my education, I moved to Nakuru where I got a job at a salon as a trainee hairdresser," she recalls.

Loise trained for two years and got a job at another hair salon. After working for another two years, she decided to venture out on her own. She opened her own salon in Nakuru town at a location which she says was not ideal for her business.

Loise Kamau at her salon in Nakuru.

> All this time, KCB Foundation was closely following my struggles during the shutdown. When we were allowed to resume business, they provided me with hand washing tank, sanitizers and more masks.

"As a trainee, I had made friends with some of our customers who liked my work. While some were ready to offer me work, others found my new place inconvenient for them," she says.

She adds that she also had challenges in equipping her salon with the necessary equipment as she was solely dependent on savings she had made during her employment.

Sometime in 2018, her former employer informed her that KCB Foundation was looking for people interested professional training in hairdressing through the 2jiajiri programme.

Loise visited KCB branch in Nakuru and filled some forms. She was later invited for an interview and qualified for placement for training with Vera Beauty College.

"The six months training opened my eyes to new techniques. I was trained in business management, with particular emphasis on proper record keeping and control of finances," she says.

After her training, Loise was offered KShs. 130,000 by KCB Foundation. With the money, she was able to move to a better location in Nakuru's Central Business District.

Besides buying furniture and necessary machines, Loise was able to put aside some money for a beauty products' shelf within the salon.

Loise went ahead to register her business under the name of Gralynn African Beauty Care.

Her business continues to grow and she currently has three employees working for her. She has also been able to move her family to a better house. All this, she says, has been possible due to the training and capital she got from KCB Foundation.

Plumbing his way to success

When Francis Manyaro sat for the Kenya Certificate of Secondary Education examination at Chepkigen High School, he found that his options for life after basic education were limited.

His parents, whose only source of income was subsistence farming, lacked the resources to send him to college or vocational training.

His career of choice was motor vehicle mechanics and he figured the only way he could learn the trade was working as an apprentice at a garage where he would help out for free while learning on the job.

After traversing various towns in Uasin Gishu County, he found a garage at Lottery Market that was willing to take him in as a trainee in fabrication and motor vehicle mechanics.

"After training for one year, I had acquired enough skills to secure me employment at the garage starting off at KShs. 300 per day. My pay was later increased to KShs. 500 a day," Manyora recalls.

His earning depended on work carried out and this in turn depended on availability of clients. On a slow day, he would go without pay.

After buying food and paying rent, any little money he could spare went to support his parents and brothers at home. It slowly dawned on him that under the circumstances, he was never going to make a reasonable living.

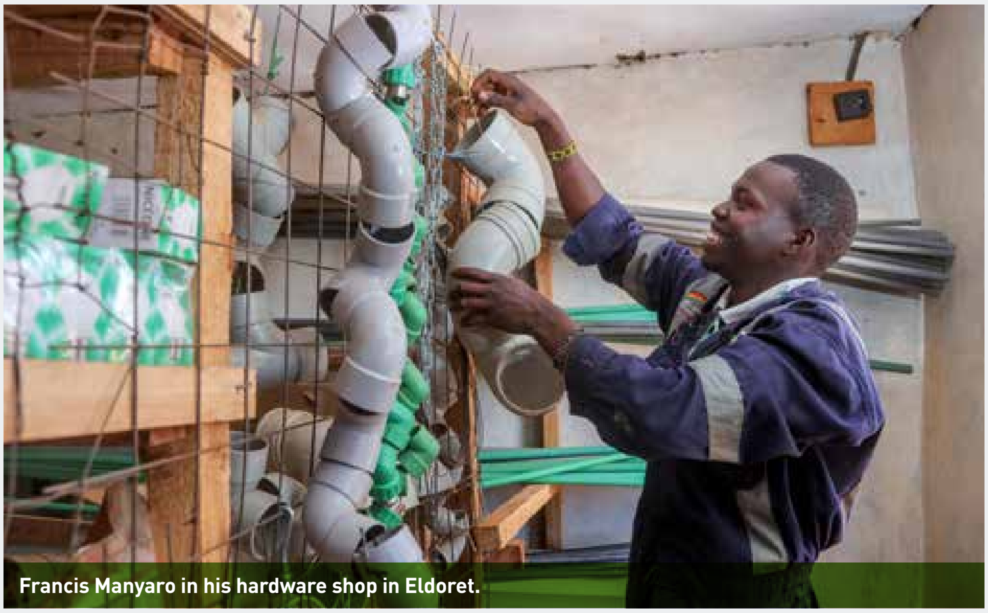
"In 2018, I returned home and hang around the garages around there. Sometimes I could get odd jobs fixing cars and earn a little money. At least I did not have the pressure of paying rent," he says.

It was around this time that somebody told him that KCB Foundation was offering scholarship to youths willing to take up vocational training.

At first, he was skeptical about going for vocational training after his experiences in open-air garages. His mother however persuaded him to try his luck, telling to seek training other than the motor vehicle mechanics in which he had experience.

"I travelled to Eldoret and visited the KCB branch. There were many courses on offer and in my application I opted for training in plumbing. In due course, I was invited for an interview which I passed and qualified to join Eldoret National Polytechnic in May 2018," he says.

> I drew up a business plan for opening a shop to supply plumbing materials. This time my application was successful and I was given KShs. 173,000 with which I paid rent and bought materials for sale



Francis Manyaro in his hardware shop in Eldoret.

His training took six months and a further three months' internship with Eldoret Water Company. At the end of his training, he was a proud holder of a certificate in plumbing.

To ensure he was ready for the job market, KCB Foundation provided him with a tool kit with all the necessary tools for plumbing. The tool kit also contained safety gear including face shield, overalls and safety boots.

As an intern, his work was exemplary and in January the following year, the water company offered him casual employment at KShs. 500 per day.

"I continued working hard and after two months, my pay was increased to KShs. 600 per day. I worked for another two months and the company offered me full time employment as a plumber," he says.

Around this time, KCB Foundation was offering interest-free loans to beneficiaries of the 2jiajiri scholarships, with the aim being to enable them become self- employed.

Manyaro wanted to take up farming on the side so he applied for a loan to set up a greenhouse. His application was turned down, as the Foundation preferred that he take a loan to set up a business along the lines of his training and he was informed that he could only take a loan to set up a business in line with the skills he had acquired during his training.

"I drew up a business plan for opening a shop to supply plumbing materials. This time my application was successful and I was given KShs. 173,000 with which I paid rent and bought materials for sale," he says.

Since he wanted to continue working for the water company where he had a regular income, he hired someone to run the shop.

His training had included recording keeping and calculating loss and profits. By the end of December 2020, his shop was turning a profit of KShs. 16,000 monthly after settling all expenses.

In the meantime, he continues getting contracts for plumbing jobs by individuals and smallscale businesses around Eldoret that help in growing his income. On a good weekend, he sometimes earns as much a KShs. 8,000 from these jobs.

When the COVID-19 pandemic hit the country, KCB Foundation provided Manyaro with hand washing stand, sanitiser and masks.

Today, Manyaro is confident that his company, F.O Plumbing Services, will grow to be one the biggest employers in the region and he will forever be grateful to KCB Foundation for bringing stability and focus into his life.

Corporate Governance Statement

The Board of Directors ("Board") of KCB Group Plc ("Company") see governance as promoting strategic decision making that balances short, medium and long-term outcomes to reconcile interests of the KCB Group as a whole together with its stakeholders and the society in which we operate to create sustainable shared value.

Directors have a statutory duty to promote the success of the Company for the benefit of its stakeholders. In promoting the success of the Company, Directors must have due regard to the long-term consequences of their decisions, the legitimate interests of employees, the need to foster effective business relationships with suppliers, customers and various stakeholders, the impact of the Company's operations on the community and the environment, and the desire to maintain a reputation for high standards of business conduct.

The Board is committed to ensuring that the Company complies with the laws, regulations and standards applicable to it. The Board ensures that high standards and practices in Corporate Governance and more specifically the principles, practices and recommendations set out under the *Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015* ("the CMA Code"), the Corporate Governance Guidelines as prescribed by the Central Bank of Kenya being the primary regulatory authority of the Group and KCB Bank Kenya Limited as well as the Companies Act, 2015 ("the Act") are adhered to.

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 a 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.

This statement details the key corporate governance arrangements and practices of KCB Group Plc and its affiliate companies (collectively, the "Group"). The statement sets out the key components of KCB Group Plc'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

Governance framework

KCB Group 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 Group while entrusting the day-to-day running of the organization to the executive management led by the Group Chief Executive Officer & Managing Director, with their performance against set objectives and policies closely monitored. The Board operates through five committees 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 executive management is illustrated below:

The Board Charter is regularly reviewed by the Board and provides for a clear definition of the roles and responsibilities of the Group Chairman, directors as well as the Company Secretary. The roles and responsibilities of the Group Chairman and the Group Chief Executive Officer & Managing Director are separate and distinct with a clear division of responsibility between the running of the Board and the executive responsibility of running KCB Group's business.

The current KCB Group Board Charter is available on the company website (www.kcbgroup.com)

THE BOARD

KCB Group Plc is governed by a Board of Directors ("Directors" or "Director") each of whom is, except for the Group Chief Executive Officer & Managing Director and Group Chief Finance Officer, elected by the Company's shareholders.

The Board is accountable to the shareholders for the overall Group performance and is collectively responsible for the long-term success of the Group. The Board achieves such success by setting appropriate business strategy and overseeing delivery against the set strategy.

Separation of roles and responsibilities

The role of Chairman is separate from that of the Group Chief Executive. There is a clear division of responsibilities. Care is taken to ensure that no single director has unfettered powers in the decision-making process.

Chairman

- Responsible for leading the Board, its effectiveness and governance
- Setting the agenda to take full account of the issues and concerns of the Directors and ensuring links between the shareholders, Board and management are strong

Group Chief Executive

- Responsible for day-to-day leadership, management and control of the Group.
- Recommending the Group strategy to the Board and ensuring that the strategy and decisions of the Board are implemented via the Executive Committee

Independent Non-Executive Directors

- Ensure that the Group has in place proper internal controls as well as a robust system of risk management.
- Constructively challenge the Directors and monitor the delivery of the Group Strategy within the risk and control environment set by the Board.

Company Secretary

- Supports the chairman and Group Chief Executive and is available to all Directors for advice and support.
- Informs the Board and committees on governance matters and responsible for the development of corporate governance policies.

It ensures that the Group manages risks effectively and monitors financial performance and reporting.

Role of the Board

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

i. Approves the strategic and financial plans to be implemented by management.
ii. Oversees the Risk Management Framework and its operation by management.
iii. Sets the Group's risk appetite within which management is expected to operate.
iv. Approves capital expenditure for investments and divestments and capital and funding proposals.
v. Reviews succession planning for the management team and makes senior executive appointments, organizational changes and high level remuneration issues.
vi. Provides oversight over performance against targets and objectives.
vii. Provides oversight over reporting to shareholders on the direction, governance and performance of the Group as well as other processes that require reporting and disclosure.
viii. Provides oversight over the activities of the subsidiaries of the Group.

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 Group, the Group'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 reserve 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 on page 67 of this report.

The Group 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 Group Chairman plays a pivotal role in fostering constructive dialogue between shareholders, the

Board and management at the Annual General Meeting and other shareholder meetings.

The Board, in the Board Charter, delegates responsibility for the day-to-day management of the business to the Group Chief Executive Officer & Managing Director. The Group Chief Executive Officer & Managing Director in turn delegates aspects of his own authority to members of the Executive Committee. The scope of, and limitations to, these delegations are clearly documented in various policies 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 Executive Management Committee (EXCO), the General Management Committee (GMC), the Assets and Liabilities Management Committee (ALCO), the Group Operational Risk and Compliance Committee (GORCCO) and the Management Credit Risk Committee (MCRC).

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 only 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.

Board nomination, appointment and re-election of Directors

The Articles of Association of the company provides that the Board shall comprise of a maximum of eleven Directors. The current Board structure comprises of two executive Directors, one non-executive Director and eight independent non-executive Directors including the Group Chairman. 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:

- The Board must comprise of a majority of independent non-executive directors.
- The Board should consist of directors with a broad range of skills, experience and expertise and be from a diverse range of backgrounds.
- The Chairman of the Board must be an independent non-executive director.

Succession planning is an on-going process, with the Board discussing the same regularly and robustly. The process to appoint a new director is overseen by the Nominations committee. The committee is responsible for recommending the procedure for the selection of new directors, the proposed criteria for the selection of candidates with 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 assist in identifying and assessing potential candidates. The preferred candidates meet with the members of the Nominations 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 eight years. In accordance with the Board Charter, the Group Chairman serves for a maximum term of five years in that capacity.

Board induction and training

All newly appointed non-executive Directors participate in an induction program. The induction program includes a series of meetings with other Directors, the Group Chief Executive Officer & Managing Director and senior executives to enable new Directors familiarise themselves with the business. Directors also receive comprehensive guidance from the Group Company Secretary on Directors' duties and liabilities.

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 global experts in the areas of general corporate governance and also in the particular fields relevant to the Group's operations.

The impact of the COVID-19 pandemic saw certain planned education sessions being put on hold. The Board however embraced online formats and completed targeted education sessions during the 2020 financial year touching on risk management, anti money laundering/ know your customer and financing of terrorism.

As at 31 December 2020, the Board comprised of 11 Directors.

Having served his full tenure of 8 years in line with the Board Charter, **Adil Khawaja** retired as a Director on 14 June 2020.

Mr. Ahmed Mohamed was appointed as a Director on 12 August 2020.

Dr. Obuya Bagaka was appointed as a Director on 28 August 2020.

BOARD COMPOSITION

KCB Group 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 Group. The non-executive Directors are expected to have a clear understanding of the strategy of the Group as well as knowledge of the industry and markets in which the Group operates.

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

The Board, through the Nominations committee regularly reviews the skills, knowledge, experience and diversity represented on the Board against the skills and experience needed to deliver the strategy and continues to make efforts on diversifying the skill set and gender.

Having regard to the Group'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 Group 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 Group.

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 Group and succession planning.

The Group Chairman, in conjunction with the Group Company Secretary work closely with the Group Chief Executive Officer & Managing Director to come up with the annual work plan and to set the agenda for each meeting. 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 thirteen Board meetings. The number of Board meetings held during the year was high due to review and discussion of the acquisition of Banque Populaire Du Rwanda Plc (BPR) and African Banking Corporation Tanzania Limited (BancABC) which required special meetings to be held by the Board. A strategic planning session was held in conjunction with the Board meeting held in November 2020.

Details of Directors' attendance at Board and Committee meetings are set out on page 66 of this report.

BOARD COMMITTEES

The Board has delegated authority to various Board committees to be able to undertake its mandate effectively and efficiently. In deciding committee memberships, the Group Chairman endeavours to make the best use of the range of skills across the Board and share responsibility. Overlapping memberships considers instances where matters raised in one committee may have implications for another. Membership is reviewed periodically by the Group Chairman in collaboration with the Nominations committee.

The Board receives a report from the

The current Board composition is as follows:

NAME	AREAS OF EXPERTISE	GENDER	NON-EXECUTIVE/ EXECUTIVE	INDEPENDENCE
Andrew W. Kairu	Business management, corporate governance.	Male	Non-executive Chairman	Independent
Ukur Yatani (Alternate - Eng. Stanley Kamau)	Financial services, public sector.	Male	Non-executive	Non-independent
Tom Ipomai	Corporate finance, computer science, information technology, audit and accounting.	Male	Non-executive	Independent
John Nyerere	Business management, strategy development and economics.	Male	Non-executive	Independent
Georgina Malombe	Audit quality assurance, auditing, accounting, finance and financial reporting.	Female	Non-executive	Independent
Lawrence Njiru	Business strategy, finance, audit and accounting.	Male	Non-executive	Independent
Anne Eriksson	Audit, quality assurance, financial reporting, internal controls and risk management.	Female	Non-executive	Independent
Ahmed Mohamed	Corporate and commercial law, financing transactions and Islamic finance.	Male	Non-executive	Independent
Dr. Obuya Bagaka	Public Administration, Public Finance and Budgeting, Governance, Policy development	Male	Non-executive	Independent
Joshua Oigara	Business advisory and management, strategy development, financial accounting and financial advisory.	Male	Group Chief Executive Officer & Managing Director	Non-independent
Lawrence Kimathi	Financial advisory, financial accounting, business management	Male	Group Chief Finance Officer	Non-independent

Chairman of each committee on significant areas of discussion and key decisions at the subsequent Board meeting.

Each committee has in place terms of reference that set 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 & Risk 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 and reorganization of the existing committees through the consolidation of the Audit & Risk Committees, the Finance & Strategy and the IT & Innovations Committees and further introduced an Oversight Committee tasked to ensure sufficient oversight is in place in respect of the activities of the KCB Group subsidiaries. The re-organisation reduced the overall number of committees from 6 to 5.

PERFORMANCE EVALUATION

The Board reviews its performance and that of the Board committees and individual directors every year. Every third year, the review is facilitated by an external consultant. On the years the consultant is not engaged, the Chairman leads the assessment of the Board and each Director.

In 2020, an external consultant was engaged to undertake an evaluation in respect of the 2019 financial year. Implementation of the recommendations arising out of the feedback from the Board evaluation touching on areas of board composition, board development and board induction is ongoing.

The review in respect of the 2020 financial year was conducted internally by the Group Chairman through the coordination of the Group 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 Group Company Secretary and reviewed by the Group 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 other individual Directors to identify development opportunities.

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

GOVERNANCE AUDIT

The CMA Code provides that issuers of securities to the public are required to undertake periodic governance audits. Following extensive stakeholder consultation to consider the frequency, cycle, cost and scope of governance audits, the Capital Markets Authority (CMA) advised all issuers of a revision in the cycle of governance audits to at least once every two years with the option of CMA increasing or decreasing this frequency on a risk-based approach.

In line with the CMA Code, a governance audit was conducted on the Company in December 2019. During the period under review, the Company has continued to implement the recommendations of the 2019 governance audit. The next governance audit is therefore scheduled to commence in 2021.

The Company undertakes an annual self-assessment of its level of compliance with the CMA Code and presents the self-assessment to CMA for its review and feedback. The Company continues to implement the recommendations

	Board	Audit	Risk Management	Audit & Risk (4)	Finance & Strategy	IT & Innovation	Strategy & IT (5)	Oversight (6)	Human Resources	Nominations
Number of meetings	**13**	**5**	**5**	**4**	**7**	**3**	**2**	**1**	**11**	**7**
Andrew W. Kairu	13									7
C.S. National Treasury (Alternate – Eng. Stanley Kamau)	13		5		7	3	2	1		
Adil Khawaja (1)	6				3				3	4
Tom Ipomai	12		5	4					11	7
Georgina Malombe	13		5	4		3		1		
John Nyerere	12	5			7		2		8	3
Lawrence Njiru	12	5						1	11	7
Anne Eriksson	12	5		4	7		2			
Ahmed Mohamed (2)	5			1			2		6	
Dr. Obuya Bagaka (3)	3			2			1	1		
Joshua Oigara	9				7		2	1	10	5
Lawrence Kimathi	11		4			3				

(1) Retired from the board on 14 June 2020.
(2) Appointed to the board on 12 August 2020.
(3) Appointed to the board on 28 August 2020.
(4) Combination of Audit committee and Risk Management committee with effect from Q4 2020
(5) Combination of Finance & Strategy committee and IT & Innovation committee with effect from Q4 2020
(6) New committee with effect from Q4 2020

Board Committees

A summary of the role of the current committees, current members and key activities undertaken during the year 2020:

Group Board

Audit & Risk

The purpose of the committee is to provide a structured, systematic oversight of the institution's governance, risk management, and internal control practices. The committee assists the board and management by providing advice and guidance on the adequacy of the institution's initiatives for: • Values and ethics • Governance structure • Risk management • Internal control framework • Oversight of the internal audit activity, external auditors, and other providers of assurance • Financial statements and public accountability reporting

2020 activities

The committee oversaw the transition of responsibilities to the new external auditor PricewaterhouseCoopers LLP.

In line with its mandate, the committee reviewed the unaudited and audited financial statements for the full year 2020 and ensured that the same was ultimately approved by the Board. The committee further reviewed the internal audit reports presented by the Internal Auditor for audits undertaken during the year in line with the approved audit plan. The committee received a report on the external quality assurance review on the internal audit function giving the internal audit function a clean bill of health. The committee held sessions with PwC, the external auditor, to receive the auditor's independent report and assurance on the financial statements.

During the year, the committee reviewed and approved various policies. The committee further received and considered reports from the CRO on the level of compliance with AML/CFT regulatory requirements, whistle blowing reports and other risk management updates. The committee further reviewed ICAAP for the entire Group before submission to CBK. This process ensured all business risks were identified and the Group had sufficient capital to cover the identified risks.

Members

Anne Eriksson (Chairman)
Tom Ipomai | Georgina Malombe | Dr. Obuya Bagaka

Human Resources & Governance

This Committee reviews human resource policies and makes suitable recommendations to the Board on senior management appointments. This Committee also oversees the nomination functions and senior management performance reviews.

2020 activities

During the year, the committee, jointly with the Strategy & IT committee, reviewed the overall organization structure reporting to the Group Chief Executive Officer & Managing Director and made recommendations to the Board for the adoption of the same. The joint committee further undertook the interview process for the various senior management roles arising out from the reorganization.

During the year, due to the impact of the COVID-19 pandemic, the committee received and considered the overall management response to the pandemic and the support provided to staff during the pandemic.

In line with its mandate, the Committee reviewed the senior management performance for the year.

Members

John Nyerere (Chairman)
Tom Ipomai | Lawrence Njiru | Joshua Oigara

Nominations

The Committee keeps under review the structure, size and composition of the Board as well as succession planning for Directors. It leads the process for identifying, nominating for approval by the Board, candidates to fill Board vacancies.

2020 activities

During the year, the committee reviewed the Board succession plans for the Group as well as the skills matrix for the Board and its subsidiaries.

The committee identified and nominated two directors for approval by the Board to fill in casual vacancies.

Members

Andrew W. Kairu (Chairman)
Tom Ipomai | John Nyerere | Lawrence Njiru | Joshua Oigara

Strategy & IT

The purpose of the committee is to assist the Board in meeting its responsibilities by ensuring the adequacy and effectiveness of the Group's strategic plans, significant investment decisions, strategic development plans and financial budgets. Ensuring also that Group's IT governance supports effective and efficient management of IT risks and resources to facilitate the achievement of the Group's strategic objectives and compliance with regulatory requirements.

2020 activities

The Committee reviewed the performance of the Group against the set strategy. The Committee further reviewed the proposed 2021 strategic initiatives, financial plans and budgets proposed by management.

The committee considered and recommended to the board the acquisition of Banque Populaire Du Rwanda Plc (BPR) and African Banking Corporation Tanzania Limited (BancABC)

The committee received and considered reports on the performance of the Groups Information Technology systems and the progress in improved uptime and availability.

Members

Eng. Stanley Kamau (Chairman)
John Nyerere | Anne Eriksson | Ahmed Mohamed
Dr. Obuya Bagaka | Joshua Oigara

Oversight

The purpose of the Committee is to ensure that the KCB Group Board has total and complete oversight of the subsidiaries.

2020 activities

The committee reviewed large advances for amounts above KShs. 1 billion by the subsidiaries of the Group as well as procurement by subsidiaries where the expenditure exceeded KShs. 100 million.

Members

Lawrence Njiru (Chairman)
Eng. Stanley Kamau | Georgina Malombe | Dr. Obuya Bagaka | Joshua Oigara

received from the CMA to improve its level of implementation of the recommendations under the CMA Code.

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 Group. The Directors are each responsible to notify the Group Chairman and the Group Company Secretary of any actual or potential conflict of interest situations as soon as they arise. The Articles of Association permit the Board to authorise 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 Group 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.

During the year 2020, except for the directorship held by the Cabinet Secretary, National Treasury, all other non-executive directors of the company were considered independent. No incidences of material conflict of interest were identified for any of the non-executive Directors.

ACCESS TO INFORMATION AND INDEPENDENT ADVICE

The Board is entitled to seek any information it requires from any Group employee or from any other source. Procedures are in place, through the Group Board Chairman and the Group 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.

RISK MANAGEMENT GOVERNANCE

Risk is an inherent part of the KCB Group'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 Group 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 Group. This includes setting and reviewing the risk appetite, monitoring the effectiveness of the risk management framework and making changes to it.

The following Board committees assist the Board in the oversight of risk:

Audit and Risk Committee:
In relation to risk appetite, risk management strategy, financial reporting and taxation risk.

Human Resources and Governance Committee:
In relation to remuneration risk.

At the banking subsidiary level, the Credit Committee reviews issues relating to credit risk appetite and credit risk management strategy

The following management committees also assist in relation to risk management:

- Executive Committee
- Operational Risk Committee
- Assets and Liabilities Committee
- Management Credit Risk Committee

Risk Management Framework

The Group's risk management function has designed and oversees a Risk Management Framework to allow the Group identify, measure and manage risks within a Board-approved risk appetite.

The Group's risk management is based on the 'three line of defense' model. The overarching principle of the model is that risk management capability must be embedded within the business to be effective. These act as the foundation for effective risk management across the Group.

The Risk Management Framework covers all systems, structures, policies, processes and people that identify, measure, evaluate, monitor, report and control or mitigate both internal and external sources of material risk. The Risk Management Framework is regularly reviewed in light of emerging risks arising from the changing business environment, better practice approaches and regulatory expectations.

Additional information and details of the Risk Management Governance of the Company is contained in a separate section of this integrated report.

A. Risk Management

Sound risk management is at the centre of our day-to-day operations and benefits our business and stakeholders by ensuring a balanced and responsible growth. KCB Group has in place a forward-looking risk management strategy complimented by a sound control environment. This has enabled the Group to appropriately manage risks around the dynamic socio-economic, operational, and regulatory environments and geographies in which it operates in.

1. Risk assessment and management

The Group performs a comprehensive examination to assess the risks to which it is exposed and to determine the materiality of such risks. Within the Internal Capital Adequacy Assessment Process (ICAAP), the Group defined the following risks as material risks: credit risk, concentration risk, market risk, operational risk (including IT risk and cyber risk), counterparty risk, interest-rate risk in the banking book, liquidity risk, reputational risk, strategic risk, regulatory risk, and compliance risk. Other risks to which the Group is exposed to are handled directly as part of the management of its business include legal risk, economic risk, and environmental risk.

The risk-management strategy of the Group is designed to support the achievement of the strategic objectives of the Group as a whole, while identifying and quantifying risks, establishing risk ownership, and maximizing business value, taking into consideration costs in terms of risk, by every responsible function at all levels of the organization. Risk management at the Group is based on a uniform methodology, from a comprehensive perspective, adapted to regulatory requirements, with the aim of supporting informed risk-taking in order to maximize the Group's profitability at a risk level aligned with its risk appetite.

The Group actively takes risks, to the extent permitted by its risk appetite and risk tolerance. Risks are taken while examining the adequacy of the benefit in business terms. Various banking activities also require the acceptance of a certain degree of risk, even if they are not necessarily profitable in themselves. Unacceptable risks are risks at a level that exceeds the maximum risk tolerance, as defined by the Group Board of Directors, or risks that may impair the strategic position of the Group to the extent of disruption of the successful continuation of its core activities.

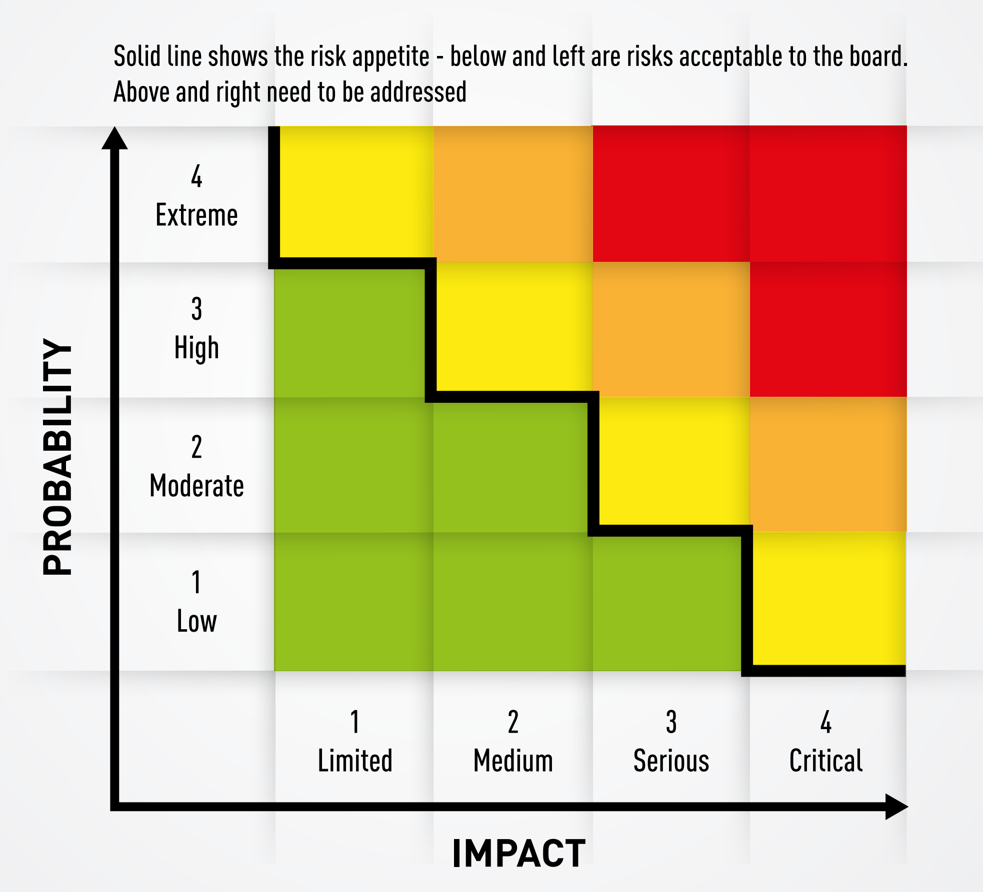
In quantifying risk, the Group generally endeavours to aggregate risks at the level of the Group as a whole. Accordingly, risk quantification and measurement are performed consistently at all operating entities in the Group, to the extent possible. Risk quantification is based on appropriate, accepted methods and models. To the extent possible, a range of tools or measurement methods are used, including expert assessments to examine exposure from different perspectives.

2. Risk Appetite

Risk appetite at the Group constitutes an effective framework for risk management and a key tool linking the organization's strategy, capital allocation, and risk management. The risk-appetite document declares the risk appetite of the Group. The Board of Directors establishes the risk-appetite framework, taking into consideration the recommendations of senior management. The risk appetite is translated into targets and limits for the business lines. The risk-appetite document also establishes the roles and responsibilities of the Board of Directors and senior management in formulating the risk-appetite statement. The risk-appetite framework includes policies, processes, controls, and systems used to implement, communicate, and supervise risk appetite.

The risk-appetite framework includes a statement of risk appetite and risk capacity, risk limits, and descriptions of the roles and responsibilities of those charged with the implementation and control of the risk-appetite framework. The risk-appetite framework refers to the material risks to the Group and establishes the risk profile in alignment with the Group's business strategy and risk capacity. An effective risk-appetite framework provides a shared structure and means for senior management and the Board of Directors to communicate, understand, and evaluate the level of risk that they are willing to accept. The framework explicitly defines the boundaries within which management is expected to operate to realize the business strategy of the Group.

> The Group actively takes risks, to the extent permitted by its risk appetite and risk tolerance.


Solid line shows the risk appetite - below and left are risks acceptable to the board. Above and right need to be addressed

The framework includes the following main components:

- Risk-appetite statement: Written formulation of the extent and types of aggregate risk that the Group is interested in bearing in order to achieve its business objectives, including qualitative reports as well as quantitative metrics of profits, capital, risk indicators, liquidity, and other relevant means, as necessary, including:
- Risk capacity: The maximum level of risk that the Group is able to sustain without violating capital limits relevant to stress tests, including from the perspective of shareholders and customers. Compliance with the risk capacity shall be examined, among other matters, by applying stress tests designed to estimate the impact on the Group's profit and capital adequacy as a result of the materialization of a stress scenario.
- Risk appetite: The maximum total aggregate risk that the Group is willing to bear, within its defined risk capacity, in order to achieve its business objectives in accordance with the strategic plan, under various constraints (such as sources of capital and liquidity, regulatory requirements, risk/return characteristics, etc.).
- Risk limits: Quantitative indicators that give practical expression to the aggregate risk-appetite statement of the Group

3. Risk Management Culture

The Group develops and maintains a risk-management culture that aids awareness of risk and appropriate behaviour and judgment in connection with risk taking in the context of corporate governance, supports effective risk management, promotes appropriate risk taking, and ensures that emerging risks or risk-taking activities are identified, assessed, escalated, and addressed in a timely manner.

The risk-management culture instilled at the Group emphasizes the importance of:

Direct responsibility of department heads and managers for risks that they take within their authority, that is:

- Achieving a proper balance between risk and reward, subject to the risk appetite.
- An effective system of controls congruent with the size and complexity of the Group.

- The ability to challenge the quality of risk models, the level of accuracy of the data,
- The ability of the available tools to measure risks correctly, and the justifications for taking risks.
- Monitoring violation of limits and divergence from established policies and applying proportional disciplinary proceedings, as necessary.
- Cultivating integrity, with a focus on fair service to customers.

The material principles of the Group's risk-management culture are also expressed in the implementation of the following guidelines:

- Effective communication and criticism: The risk-management culture of the Group promotes an environment of open communication and effective criticism, and encourages an atmosphere of open, constructive involvement.
- An orderly system of internal regulations of the Group, including limits, authorizations, and escalation processes supporting risk management. Appropriate procedures exist for anonymous reports of suspicions, in order to support effective compliance with the risk-management framework.
- The code of ethics and conduct of the Group encompasses standards, morals, colleague relationships, relationships with customers and suppliers, contribution to the community, and social and environmental responsibility. The code clarifies the ways in which these commitments and values are reflected on the behavioural level during the Group's routine work, so that alongside its aspiration to leadership and a thriving business, the Group's actions are grounded in a commitment to morals and values. The code is updated from time to time, and related issues are formalized in designated guidelines.
- The risk management policy documents establish, among other matters, corporate governance, including the duties and responsibilities of the Board of Directors, the Group Chief Risk Officer, and the risk-management function, and the status, resources, authority, and independence of the risk management and their reports to the committees and to the Board of Directors.

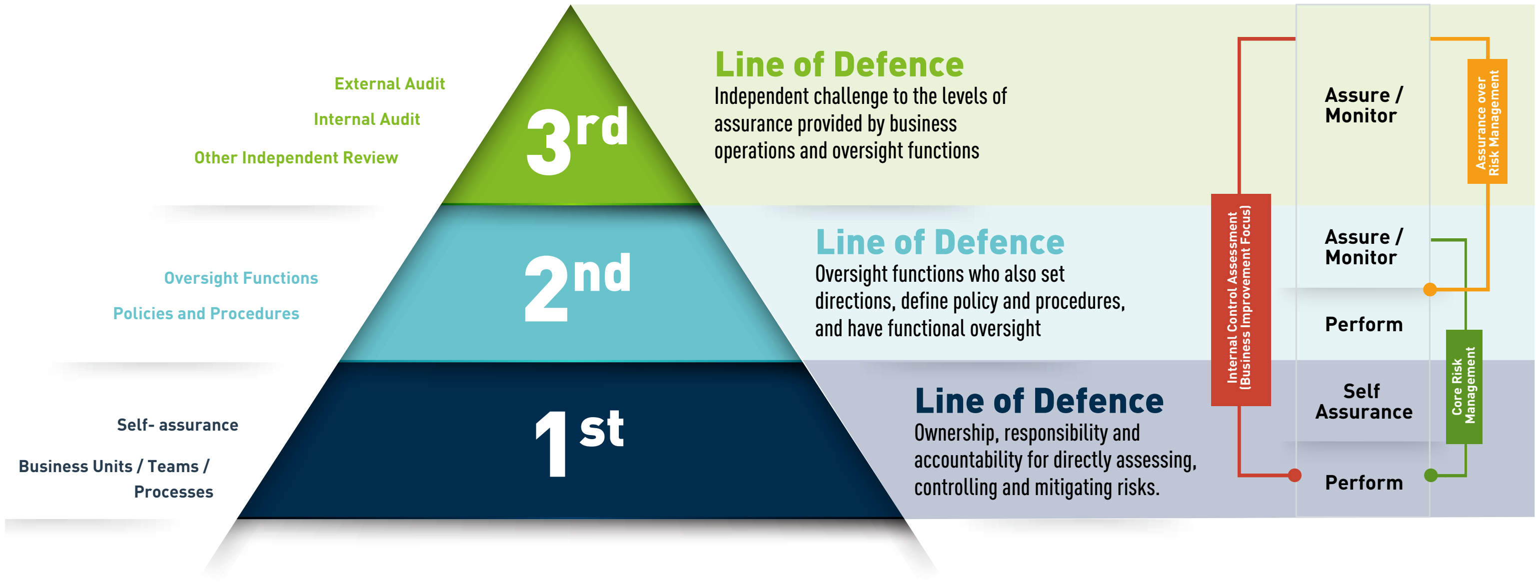
Risk management structure

Risk management is performed based on a global view of the Group's activity, with due attention to the activity of subsidiaries with exposure significant for the Group. The subsidiaries are guided to manage risks based on the strategy and policy of the Group, with adjustments according to the circumstances, which are reported to the parent company. Risks are managed separately by each subsidiary in the Group, according to policy formulated by each subsidiary's board of directors. The Group manages the various risks while hedging some risks.

The approach taken regarding control of all financial and operational risks at the Group involves identification and assessment of the risks, and control of compliance with risk-appetite limits and with additional limits stipulated in the various internal regulations, through three lines of defense model:

1. The **first line** of defense includes the business units within the divisions, including supporting and operational divisions, that create or take risks, as well as the internal control units within the divisions that provide internal control over the risk creators and risk takers. The management of the business lines bears the initial responsibility for routine risk management, aimed at managing risks while striving to achieve strategic goals and business objectives, within the established risk appetite and in accordance with the internal risk regulations and regulatory directives. Controls in the first line of defense are formalized in working procedures.
2. The **second line** of defense consists of the control units at the Risk Management Division, which is independent of the business divisions. This line is responsible for presenting an overview of risks; formulating methodologies for risk assessment; independent risk assessment; analyzing the exposures from products and activities against the risk appetite and risk capacity limits established by the Board of Directors; and validation of models.
3. The **third line** of defense consists of Internal Audit, which operates independently and objectively. Its goals include assisting the organization in achieving its goals through supervision and ensuring that the instructions of the Board of Directors and senior management are implemented and making recommendations for the reduction of risks through improved controls.

Our Three Lines of Defence



The Board of Directors of the Group is responsible for delineating the overall risk-management strategy and supervising the risk-management framework of the Group, directly or through the Risk Committee. Main duties of the Board of Directors around risk management are:

- Establishing the risk appetite and risk capacity framework of the Group.
- Approving a risk-management policy consistent with the risk-appetite framework, including the establishment of risk limits in the various areas of activity and main risk areas.
- Providing clear guidance to senior management with regard to risk management, based on the recommendations of the executive committee, headed by the CEO, and ensuring that senior management takes the necessary actions in order to identify, measure, monitor, and control risks.
- Approving methodologies for risk assessment and control, and for the allocation of capital in respect of risks.
- Supervising and monitoring the implementation of the established risk-management policy; examining the actual risk profile, including at the level of the Group; and examining the processes and actions that the Group must apply to comply with all regulatory directives concerning risk management.

The Risk Division also operates several committees:

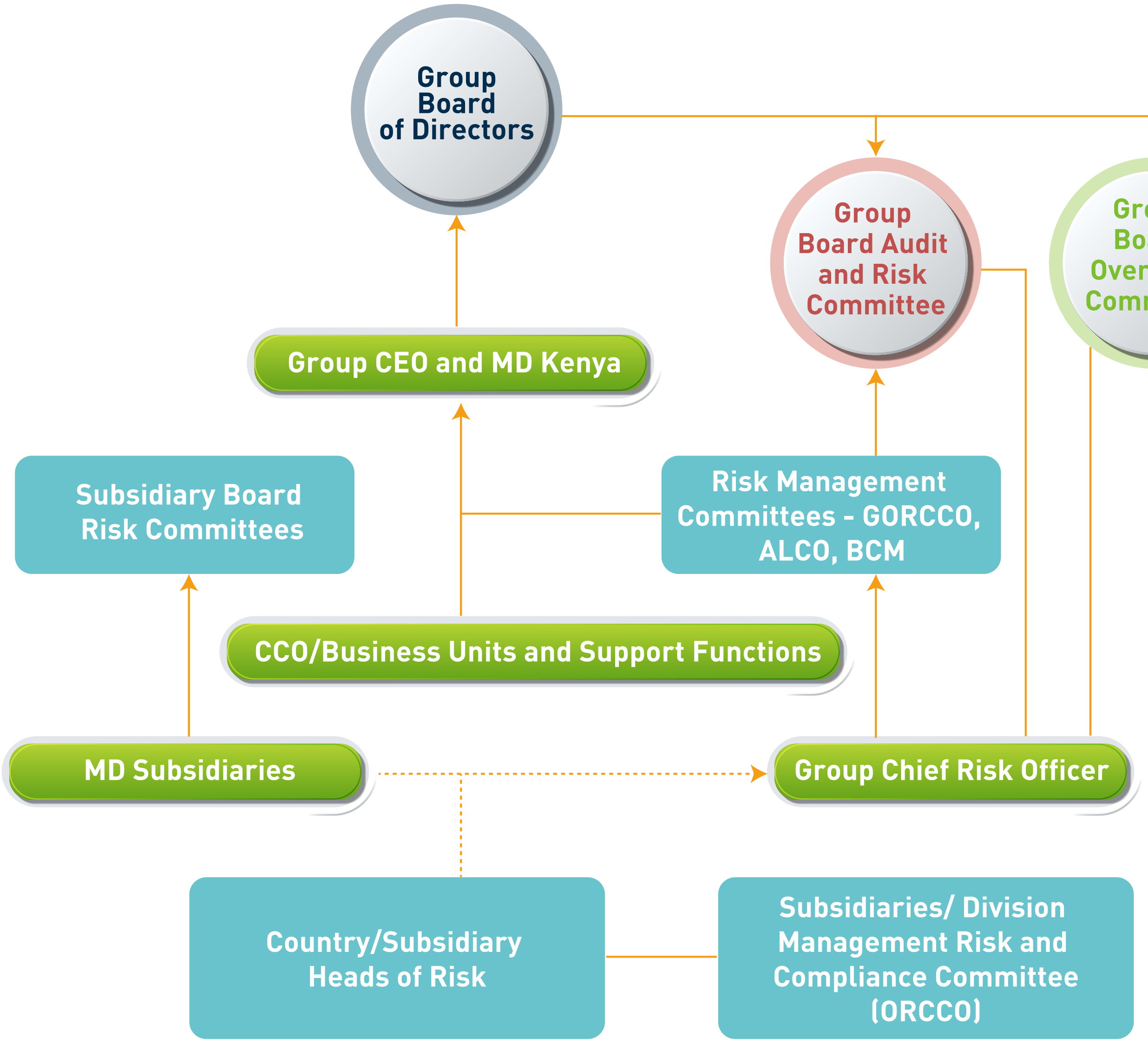
Group Operation Risk and Compliance Committee (GORCCO) – responsible for reviewing risk and compliance issues to ensure all material risks inherent in the activities of the Group are identified and managed in accordance with the risk appetite.

Group Assets and Liabilities Committee (ALCO) – reviews pricing of assets and liabilities to ensure loan mix and yields are optimized, funding costs minimized, while keeping a balance sheet structure consistent with the current asset-liability strategy of the Group.

Group Business Continuity Management Committee – is a cross-functional team of key stakeholders which includes the Senior Managers with key support roles and the appropriate Business owners of critical functions, who together have the responsibility for the overall management of the business continuity function on a day-to day basis.

Group Risk Management Organizational structure

The below diagram depicts the Group Risk management structure.



> **Our business performance is closely linked to the performance of the regional economies, which in turn are impacted by events in the global economy.**

4. Stress scenarios

In order to understand the possible consequences of various shocks on the financial robustness of the Group, both given the existing balance sheet and upon the materialization of work plans and other business intentions, a process of stress testing is carried out.

Against the backdrop of the COVID-19 event and its implications for the economic activity, the Group ran in March, June and September 2020 scenarios for the COVID-19. The KCB Group also implements a set of internal stress tests, updated on a regular basis, with the aim of assessing key risk focal points, taking into account various developments in the Bank's environment.

Three types of scenarios are examined at the Group for this purpose: general systemic scenarios applied to the entire Group; reverse scenarios; and single-factor scenarios applied at the level of the sector, transaction, borrower, or portfolio, in certain cases, according to predefined thresholds.

Goals of analysis of stress scenarios:

- Identification of risk concentrations and potential weaknesses in the Bank's portfolio.
- Examination of the effect of strategic decisions of the Group.
- Integration in the planning process and examination of the effects of the business plan on potential exposures.
- Examination of the financial robustness of the Bank and evaluation of the potential damage that may be caused by extreme events of various types.
- Analysis of the sensitivity of the Group to shocks or exceptional but possible events.
- Assessment of the materiality of the various risks.
- Examination of the Group's compliance with its risk appetite and risk capacity.
- Support for the business divisions in understanding the risk map of the various areas of activity and sectors.
- Support for the ICAAP and for the formulation of contingency plans in order to minimize the damage of extreme events.

The impact of the most severe stress tests is also examined with respect to the Group's capital planning, in order to ensure the Group's compliance with all of the regulatory and internal restrictions set for the realization of the various scenarios.

5. Our current risk priorities

This section describes the specific risks within our material risk types where the Board and the Executive committee are focusing their efforts. It includes a mix of existing and emerging risks that could materially impact our ability to serve our customers or deliver our strategy.

Macroeconomic environment

Our business performance is closely linked to the performance of the regional economies, which in turn are impacted by events in the global economy. The COVID-19 pandemic has resulted in prolonged closures of businesses, predominantly in service industries. We expect challenging economic conditions to persist in 2021. In the longer term we anticipate increased credit losses from business insolvencies, and higher consumer defaults due to unemployment. Credit growth has slowed, and house prices may decline due to increasing unemployment. Uncertainty exists regarding the duration and severity of COVID-19 impacts and the associated disruption to the local and global economy. Geopolitical tensions and trade disputes are creating uncertainty for businesses, which could further exacerbate economic conditions.

Key actions we are taking:

- **The Group has the backing of a strong balance sheet with strong deposit funding, significant liquidity, and strong capital ratios.**
- **We undertake regular stress tests to understand how our business performs and to prepare alternative action plans for a range of economic scenarios.**
- **We will continue to support our customers whilst adhering to, and if necessary, revising credit policies, procedures and tools to support responsible credit decisions in this new environment.**
- **We have increased our loan loss provisions in anticipation of the potential impact of COVID-19 on our customers, and continue to monitor our lending portfolios closely, with detailed stress testing forming the basis for ongoing re-assessments of provisioning levels.**

Cyber security and data management

The Group manages a large volume of sensitive data. The regulatory landscape is increasingly focused on the privacy, integrity, and appropriate management of data throughout its lifecycle. Data governance tools, standards, and procedures to meet these expectations are currently not consistently embedded across the Group. Information security risks for the Group have increased in recent years due to the evolution and development of new technologies, the Group's increasing use of digital channels, and the increased sophistication and broadened activities of cyber criminals. Cyber-attacks have the potential to cause financial system instability. A successful cyber-attack could result in a serious disruption to customer banking services or compromise customer data privacy.

There has been a global increase in cybercrime during COVID-19 as cyber criminals seek to gain financially from people's vulnerability, or exploit potential weaknesses introduced through rapid operational changes implemented by businesses. Through our cyber security program, we continue to enhance the Group's cyber defenses and have focused on educating staff and customers on the dangers of cybercrime activities.

Key actions we are taking:

- **A cyber security program is in place to enhance the Group's cyber defenses against a continually increasing threat environment. This includes focus on enhanced detection and monitoring infrastructure, as well as security configuration and vulnerability management capabilities.**
- **We also collaborate with a range of government, community, and industry bodies to strengthen system-level resilience and to reduce the possibility of cyber-attacks and the impact of fraud and scams on the community.**
- **We are developing a data management program focused on strengthening our Data Management Framework across the Group. This involves enhancing our methodology, architecture, tools, standards, and procedures across all business areas, to ensure the quality and integrity of data throughout its lifecycle. As part of this work, we are prioritizing the data management practices for the most critical data elements across the Group.**

Business resilience

The continuity and resilience of our operations are crucial for serving our customers, upholding community trust, and maintaining our reputation. The risk of potential disruption to parts of our operations is currently elevated due to: the possibility that COVID-19 clusters could impact the safety of employees, disrupt operations and reduce productivity; uncertainty over the stability of global supply chains and the impact on third-party suppliers; and natural disasters such as bushfires and floods.

Key actions we are taking:

- The safety and welfare of our employees is of paramount importance. To manage risks from COVID-19, physical distancing measures have been implemented at branches to protect staff and customers, and we have implemented a range of measures to provide our non-branch team members with the necessary tools and skills to maximize productivity in a remote working environment.
- We monitor the health of our systems and perform contingency planning for disruptions to critical systems and processes.
- We are driving greater agility and alignment in our supplier partnerships to ensure we effectively mitigate risks across the supply chain.
- Our supplier initiatives are driving greater consistency and rigor over supplier governance and performance monitoring, especially over partners supporting critical systems, or the infrastructure on which those systems rely.

Regulatory compliance risk environment

There has been an increased supervisory and regulatory focus on AML/CFT, consumer protection and resilience of banks to economic shocks. Banks have had to make significant efforts to respond to these increasing demands so as to mitigate against regulatory actions for noncompliance. To this regard, the Group upholds regulatory requirements in its undertakings and has no appetite for breaches in laws and regulations.

Key actions we are taking:

- We closely monitor regulatory developments to ensure new regulatory requirements, laws or regulations are implemented in a timely way.
- We scan our local, regional, and global environment to keep abreast of emerging regulatory agenda to ensure adequate preparedness for appropriate response.
- We continue to invest significant resources to improve our compliance systems and controls and enhance capabilities of continually comply with new requirements.
- We continue to embed a strong compliance culture and desired behaviors through training and awareness to both internal and external stakeholders as appropriate.
- Regular compliance programs with remedial actions where any gaps are noted.
- We continue to ensure that regulatory ratios and limits are adhered to.

6. Effect of the crisis of the spread of the COVID-19 pandemic

The corona virus began to spread rapidly around the world during the first quarter of 2020; in response, governments, including in Kenya, took defensive measures such as restriction of international travel, quarantines, reduction of congregation and movement, lockdowns, restrictions of the activity of private businesses and of government and county services, and more. Since then, lockdowns and restrictions have been applied intermittently with gradual reopening of the economy in Kenya, according to the pace of the spread of the virus. The development of vaccines, on the one hand, and the emergence of mutations and limited global availability of the vaccines, on the other hand, create uncertainty regarding the future of the health crisis and economic situation.

The spread of the corona virus and the defensive measures to combat it caused material damage to regular economic activity, as well as high volatility in financial asset prices, in globally. The support of the policies of the Treasury and the Central Bank of Kenya for the economy and the markets has mitigated the damage in the short term; however, the long-term impact is less clear.

The crisis of the spread of the corona virus has caused material worsening of economic activity in the region, to which the activity of the Bank is exposed, and it has and is expected to have impacts on the business of the Bank, including due to an increase in credit risk and in liquidity problems of borrowers, in both the corporate and private sectors, and due to the deceleration of economic activity.

It is not possible to estimate the scope of the future spread of the virus, or the responses of governments and central banks, in terms of the restrictions to be imposed on the economy as well as the measures to support and stimulate economic activity, or the reaction of the economies and the markets. It is also not possible to estimate or quantify the duration and extent of the crisis, or the future impact of the crisis and of the expansionary policies of banks and governments on the global economy, the Kenyan economy, the customers of the Bank, and the Bank itself.

> “We have been committed to supporting our customers during this time, while still focusing on maintaining responsible credit risk decisions.

The COVID-19 pandemic rapidly introduced an array of new and elevated risks to the safety of our staff, the resilience of our operations, the strength of our balance sheet and the financial security of our customers and the community. Action has been required to address these risks, particularly in the following areas:

Employee health and safety

The increased risk to the safety and welfare of our workforce has been of paramount concern during the COVID-19 pandemic. The measures introduced to support and protect our staff, and to ensure they are equipped with the information and resources they needed include:

- Provision of work tools (laptops, VPN, Internet) to facilitate staff to work from home or remotely.
- Provision of protective gear such as gloves, masks, sanitizers, and temperature screening.
- Regular Counselling sessions with staff across the Group and communication on prevention and coping with COVID-19 Pandemic.
- Regular disinfection of workstations and workspaces to minimize chances of infections.

Customer welfare

The long-term prosperity of the Bank ultimately depends on the financial wellbeing of our customers. The prolonged closure of businesses, particularly in the service industry, combined with the impact of restrictions on regional and international travel, has threatened the livelihoods of millions of East Africans. We have been committed to supporting our customers during this time, while still focusing on maintaining responsible credit risk decisions.

Operational resilience

During the initial stages of COVID-19, the Bank had to respond quickly to changing circumstances. This increased the risk of introducing operational vulnerabilities into our processes and created general uncertainty over the stability of global supply chains and the potential impact on third-party suppliers. The shift to remote working also added a level of disruption to our operations, and increased our cyber, privacy and conduct risk profiles.

During this time, our focus was on protecting the stability of the Bank's critical operations and supporting our customers. To ensure there was no disruption of services to customers, we implemented infrastructure changes to increase the reliability and speed of remote working operations for critical functions and increased our oversight of critical suppliers.

Financial strength

Notwithstanding the range of relief measures made available to businesses and individuals, the depth and severity of COVID-19 related impacts on the economy are uncertain. In anticipation of the potential impact on our customers and in 2020, we increased our forward-looking loan loss provisions. We continue to monitor our lending portfolios closely, with stress testing forming the basis for ongoing re-assessments of provisioning levels as the situation evolve.

Ongoing monitoring

The COVID-19 situation continues to evolve both locally and globally and will likely present new challenges and risks in the short to medium term. The Board and management continue to actively monitor the situation and adapt our response as required to maintain our financial strength and ensure our customers and the community are supported through these challenging times.

B. Capital.

Planning and management of capital by the Group

Capital planning is an annual process with a rolling planning horizon of three years. Capital management is performed routinely, as an integral part of the Group's strategic and financial plan. Capital planning at the Group is based on the workplan of the Group and on regulatory directives, which are translated into risk-adjusted assets and changes in the various tiers of capital, while maintaining safety margins. Various sensitivity tests are applied within the planning of capital and capital ratios. The Group also routinely monitors actual results as compared to planning, and the gaps between result and planning, and, as necessary, examines the actions needed in order to maintain the established capital targets.

The policy of the Group is to maintain capital adequacy at a level higher than the minimum ratio required by the Regulator, and not lower than the level of capital adequacy required to cover the risks, as assessed in the Internal Capital Adequacy Assessment Process (ICAAP). Within the ICAAP, the Group also examines the effect of stress scenarios on capital-adequacy ratios; accordingly, a plan is in place for a return to regulatory capital adequacy in the case of such a stress event.

> **A detailed framework for stress testing risks indicate that the Group's position remains moderate under scenarios of low and medium stress conditions.**

C. Credit risk

Credit risk is the risk that a borrower or debtor may default on obligations to the Bank under a credit agreement. The credit portfolio is a major component of the asset portfolio of the Group; therefore, deterioration in the stability of the various borrowers may have an adverse effect on the Group's assets value and profitability.

Activities that create credit risk include:

- **Balance sheet exposures** – Present liabilities to the Bank, such as credit and mortgages to the public, credit to banks and deposits with banks, credit to governments, investment in bonds (corporate and other), and the balance sheet part (market value) of derivatives and financial instruments.
- **Off-balance sheet exposures** – Potential (unrealized) liabilities to the Bank, such as guarantees, unutilized commitments to grant credit and unutilized credit facilities.

Another risk arising from the portfolio of credit exposures is concentration risk. Concentration risk arises from non-optimal diversification of specific risks in the credit portfolio, such that the credit portfolio is insufficiently diversified across the various risk factors; for example, when the credit portfolio is composed of a small number of borrowers (name concentration) or has a high degree of exposure to a particular economic sector (sector concentration).

Risk Type		Assessment Approach	Capital Impact
Pillar 1			
1	Credit Risk	Standardized Approach	Yes
2	Market Risk	Standardized Approach	Yes
3	Operational Risk	Basic Indicator Approach	Yes
Pillar 2			
4	Concentration Risk	HHI Methodology and Excess over Limits	Yes
6	Liquidity Risk	Ratio Analysis & Cash Flow Gap Analysis	No
7	IRRBB Risk	Repricing Gap Statement, EVE	Yes
8	Strategic Risk	Scorecard, ROE deviations, Strategic plan objectives risk analysis	No
9	Reputational Risk	Reputation Events, Social Media management	No
10	Compliance Risk	Internal and Regulatory compliance monitoring and validation	No
11	Information Communication and Technology Risk	Incident monitoring	No
12	Country Risk	Limit breaches	No
13	Pension Risk	Fund deficit/ surplus analysis	No

Management of credit risks

The goal of credit risk management is to ensure the Group operates within the risk appetite defined in accordance with the policies and strategic objectives in the area of credit, from a single transaction to credit portfolio level.

The Bank's credit risk management framework and policy is based on diversification of the credit portfolio and controlled management of risks. Risk diversification is reflected by the distribution of the Bank's credit portfolio across different sectors of the economy, a large number of borrowers, different linkage segments, and different geographical regions.

The policy and practice of distributing risks among economic sectors is based on an evaluation of anticipated developments in the different sectors. For this purpose, the Group conducts industry-level economic feasibility studies to evaluate the risk and business potential related to activity in the various economic sectors. The Group's business objectives are determined in accordance with these studies.

Credit review processes identify, monitor, mitigate and report to the responsible manager/function on negative signs related to borrowers.

Credit risk management is based on the following principles:

- Independence – This ensures proper corporate governance, prevent conflicts of interest, and create a system of checks and balances. The goal of this principle is to ensure that the information regarding risks reported to management functions, and in particular to senior management and the Board of Directors, is objective and is not influenced by other considerations, in particular considerations of business success and remuneration for such success.
- Hierarchy of authority – The Group has a hierarchy of authority that outlines a sequence of credit authorizations according to the level of debt of the borrower or group, the risk rating and problematic debt classifications allowing control over the process of approving new credit transactions. The hierarchy of authority provides a definition of individual credit approval thresholds and thresholds for transfer to approval committee.
- Credit policies and procedures – The Board of Directors of the Group approves the credit policies, which are examined and updated regularly, according to changes in the financial markets and in the economy. The policies and procedures include various limits on the credit portfolio in accordance with the risk appetite of the Group, including exposure limits by economic sector, country, financial institution or as a function of the risk level assessed by the Group. Limits are also imposed on the maximum exposure to a single borrower or a group of borrowers according to the credit rating assigned to the borrower, which reflects the borrower's risk level.
- Controls and risk identification – The process of reviewing and identifying credit risks is conducted by the three lines of defense. In the first and second lines of defense, controls are applied from an individual credit item to the portfolio level according to materiality thresholds. The Credit and Risk Divisions coordinate reports to the Senior Management and Board of Directors regarding trends and changes in the credit portfolio, including the level of credit risk in the portfolio, compliance with limits, special events, analysis of concentration, stress scenarios, and presentation of general risk indicators.

> The goal of credit risk management is to ensure the Group operates within the risk appetite defined in accordance with the policies and strategic objectives in the area of credit, from a single transaction to credit portfolio level.

The identification of credit risk in existing products is based on risk management, measurement, and control processes at the various lines of defense, on the other hand, the identification of risk in new credit products is guided by the new products and initiatives risk assessment policy which specifies the processes to be followed for each new product at the Bank to identify all risks inherent in the product, assess the extent and materiality of such risk, and provide solutions for the measurement, control, and hedging of the risk.

Problematic debts and borrowers in distress

The policy for debt classifications and allowances includes indicators for the identification of customers who, according to the Bank's assessment, may default on their obligations to the Bank. The credit, retail and corporate banking departments determine, in the opinions they prepare regarding the various borrowers, whether the specific customer should be included in the Bank's watch list, whether the customer's rating requires re-classification, and whether an allowance for credit losses is necessary. Customers identified for close monitoring and existing watch list customers are discussed quarterly in the Management Credit Risk Committee. These borrowers are supervised and monitored more closely, and the Bank works to reduce its exposure to them by redeeming credit from the borrowers' resources. In certain cases, customers are transferred to a division specializing in monitoring and restructuring of customers' debt, or to the debt collection unit.

Impact of the COVID-19

The COVID-19 is a significant ongoing event which is disrupting business and economic activity and is accompanied by substantial uncertainty in terms of duration and extent of impact. The ramifications of the crisis for the global and domestic economies are substantial, with significant decrease in the gross world product in 2020 and 2021; as a result, the Bank's business may also be materially affected.

Due to the high morbidity rates, the virus is handled by adherence to social distancing rules, including lockdowns, which continues to disrupt orderly economic activity. If the vaccination process in our region continues successfully, achieving inoculation and natural vaccination of the majority of the population, the ability to continue opening various activities in the economy will grow, going back to normal relatively quickly and creating market demand as a result of improvement in households' financial position. In the absence of control over morbidity, the economic and medical ramifications of the COVID-19 may continue for a long time.

Taking into account the unique characteristics of the crisis, its adverse effects are not uniform and are more pronounced in industries directly affected by the restrictions, primarily public gathering and social distancing. The industries which sustained the most significant harm include tourism, hotels and restaurants, schools, transport as well as significant indirect impacts on a wide range of industries in the fields of trade, manufacturing, and real estate.

The government programs supported sectors adversely affected by the COVID-19. However, the implications of the restrictive measures and lockdowns burden the labor market and state of employment.

Due to the continuous nature of the crisis, it is too early to assess the extent of its effect on the Bank's loans portfolio. The Bank is assessing its ability to withstand adverse developments using systemic stress scenarios.

In addition, due to the increased risk levels, emphases in credit granting during the crisis period were pinpointed, and risk focal points and market developments are being monitored on a regular basis in order to prepare in advance and adapt the activity, as needed.

In addition, the Bank is exploring ways to extend assistance to customers who encounter a temporary crisis and whom the Bank believes will overcome the crisis. In this context, the effects of the crisis are taken into account and customers are scrutinized in depth.

D. Market Risk

Market Risk is the risk of loss arising from potential adverse changes in the value of the Bank's assets and liabilities due to fluctuations in market risk factors such as interest rate risk (IRR) and foreign exchange rates (FX risk).

Liquidity Risk is the risk that the Bank is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets.

Market Risk exposures arising from the trading book are managed by the Treasury department whilst those arising from the non-trading activities are managed through the Assets and Liabilities Management (ALM) and ICAAP processes. Oversight of market and liquidity risk is provided by the Assets and Liabilities Committee (ALCO).

Market and Liquidity Risk measurement, limit setting, reporting and oversight is conducted by the Market Risk department under the Group Chief Risk Officer.

The Market Risk Framework defines the policies that govern KCB's strategy and objectives for Market, Liquidity and Country Risk management and the approach and processes by which KCB achieves those objectives. It establishes Risk Management Processes that result in the identification, assessment, measurement, monitoring and control / mitigation of market, liquidity, and country risks in a consistent manner across KCB Group. It also outlines the risk governance structure and relevant roles and responsibilities, with the ALCO providing key oversight at the management level.

KCB expresses its acceptable level of market, liquidity and country risk through risk appetite statements and setting of the respective risk limits. The Group monitors risk through the various limits including, but not limited to exposure risk and stop loss limits. The Group has a limit approval matrix that allows the Business units to take risk in a controlled manner. The respective limits are monitored on a daily /weekly / monthly / quarterly basis, keeping a record for all breaches as well as the breach authorization.

Liquidity risk is monitored through the Liquidity and Loan to Deposit Ratio limits as well as the review of the funding analysis looking at inter bank borrowing and deposit concentration. There is also a Contingency Funding Plan in place.

E. Operational risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, human factors, systems or from external events. It includes legal risk covering, but not limited to exposures from fines, penalties, or punitive damages resulting from supervisory actions as well as private settlements. It does not include reputational and strategic risks.

To anticipate, mitigate and control operational risk, KCB has established policies and procedures for assessing, monitoring, and communicating operational risks and the overall operating effectiveness of the internal control environment across. As part of this framework, KCB has defined its operational risk appetite and has established a Risk and control assessment process to help units to self-assess on significant operational risks and controls, identify and address any gaps in the design and/or operating effectiveness of internal controls that mitigate significant operational risks.

The Group Operational Risk Management Process outlines the sequence of activities and decisions involved to manage Operational Risk. Operational Risk Management process in KCB consists of following components:

- Identification.
- Assessment.
- Monitoring.
- Reporting.
- Controlling / Mitigating of Operational risks
- Training and Awareness

> Operational risk management strategy is aimed at supporting the achievement of the Group's strategic objectives and maximizing business value, while taking into consideration the costs in terms of risk, by all responsible parties at all levels of the organization.

Operational risk management strategy is aimed at supporting the achievement of the Group's strategic objectives and maximizing business value, while taking into consideration the costs in terms of risk, by all responsible parties at all levels of the organization. The managerial process is oriented towards execution based on the designation of risk ownership. The goal is for communication and rational treatment of operational risks to contribute to managerial decision making, based on considerations of business value versus cost in terms of risk, both at the level of the management of the organization and at the level of the various units.

The goals of operational risk management are:

- To ensure effective supervision and management of operational risks in all units of the Group, including risk ownership and decision making based on cost-benefit considerations.
- To ensure effective identification and communication of operational risks in all substantial business operations with the aim of establishing operational risk appetite congruent with the approved strategic objectives of each unit in the Group.
- To establish an internal control structure promoting appropriate values of a culture of awareness, transparency, and efficiency with respect to operational risks within the Group.
- To optimally manage and allocate regulatory capital for operational risks.

Responsibility for routine management of operational risk and for activities aimed at mitigating the risk lies with the functional managers and the Managing Directors of subsidiaries in the Group. These activities are overseen by the Operational Risk Department within Risk Division. Operational risk management activity is supervised and directed by three forums:

- The Board Risk Management Committee.
- The Management Committee – Group Operational Risk and Compliance Committee, headed by the Group CEO.
- The Divisional/ Subsidiary Operational Risk Management and Compliance Committee.

The Group has an operational risk management policy that serves as a framework

Operational Risk

People
Employeee fraud, Rogue trading, Employment law, Workforce disruption, Loss or lack of key personnel

Process
Payment/ Settlement/ Delivery, Documentation or Contract, Valuation/ Pricing, Internal/ External Reporting, Compliance/ Project risk / Change Management, Selling

External
Legal/public liability, criminal activities, outsourcing / supplier risk, Insourcing, Disaster and Infrastructure utilities failures, Regulatory, Political/ government

Systems
Technology investment, Systems development and implementation, Systems capacity, systems failures, Systems security breach

for operational risk management within the Group, in accordance with uniform principles and reporting duties aimed at complying with the Basel standards on Sound Practices. The Group allocates capital in respect of operational risk, based on a standardized model defined by the Group. Reports on compliance with risk appetite limits are submitted on a quarterly basis, within the consolidated risk document.

Routine procedures are performed to identify, map, and assess operational risks and controls at the units of the Group, including mapping of the risk of embezzlement and fraud. This activity is conducted based on a uniform methodology in line with the requirements of the Basel Committee and the directives of the regulators. A comprehensive mapping process of operational risks in all units of the Group is performed regularly.

The goal of this activity is to identify material risk areas, define risk ownership, assess risks (average and extreme), assess the existing controls, and differentiate low risks from material risks that require additional examination and action, based on cost-benefit considerations, according to the following main ways of coping with risks:

- Minimization of the risk through the application of additional controls.
- Transfer of the risk to a third party (e.g., insurance, outsourcing).
- Absorption of the risk, with quantification thereof.
- Reduction of the activity that creates the risk.

Additional related activities:

- An operational risk management system has been implemented in all units of the Group. The system operates in the areas of collection of information regarding operational risk events, loss data management, mapping and assessment of risks and controls, collection of KRIs (key risk indicators), action items, lessons learned, and reporting.
- A comprehensive framework of principles and standards has been formulated for the implementation of a uniform control concept within the Group. Within this framework, committees convene, and a periodic process is conducted to evaluate the effectiveness of controls.
- Launches of new products or initiatives are accompanied by assessment of the relevant operational risks involved in the product or activity in accordance with the defined policy for the launch of new products or initiatives in the Group.

Emergency Preparedness

The Bank maintains and implements a continuous plan for emergency preparedness and business continuity management plan. The Bank's preparedness is based on detailed action plans, working procedures, periodic tests, and drills, defined in a system of emergency procedures. As part of its emergency preparedness, the Bank regularly conducts a review of Business Continuity Management Framework, define reference scenarios, map and analyze critical processes and the resources required for the recovery of such processes during an emergency through the Business Impact analysis, and updates its action plans based on the prevalent methodologies globally.

KCB upheld its operational and business resilience during the COVID-19 outbreak in 2020, a period in which it saw increased demand on our teams and systems, coupled with the need to help our customers through flexible facility payment terms and additional measures deployed by the regulators across the countries of operation.

The Group enhanced its existing approach to risk management with additional tools and practices helping to mitigate and manage the emerging risks brought about by the pandemic. Initiatives included migrating customers to the digital channels to reduce social contact at the branches, work from home arrangements for staff to ensure decongestion of work sites, adoption of collaborative working tools and split of critical teams to work from different sites to ensure business continuity.

F. Information Technology Risk

The Group is dependent upon IT systems and infrastructures for its various activities and as an enabler in achieving its objectives. ICT risk arises from inadequate information technology/ systems, inadequate ICT policy and strategy or inadequate use of the Group's information and communication technology.

The Information Technology Risk Policy governs the protection of the Group's information assets from all threats, whether internal or external, deliberate, or accidental, to ensure business continuity, minimize business damage and maximize return on investments and business opportunities. The objective of the policy is to protect the Group, its staff, customers and other third parties from information risks where the likelihood of occurrence and the consequences are significant. The policy also provides a consistent risk management framework in which information risks are identified, considered, and addressed. In addition, the Information Security policy governs the management and security of data and the information systems that handle these data. KCB understands that Information is an important business asset and to be suitably protected from a growing variety of threats and vulnerabilities to ensure business continuity, minimize business risk, and maximize return on investments and business opportunities.

The Group's information assets are protected against current and emerging sources of threats including but not limited to:

- Cybercrime,
- Computer-assisted fraud,
- Espionage, sabotage, and vandalism,
- Natural disaster, fire etc.
- Malicious software, computer hacking, and denial of service attack.

Cyber Risk

Cyber risk is the risk of damage, including disruption, disturbance, shut down of operations, theft of information assets, collection of intelligence, or damage to reputation or the confidence of the public as a result of a cyber event. The sophistication and severity of cyber-attacks on the global financial sector have grown in recent years. The technological developments and the expansion of digital services, on one hand, and the advanced tools available to attackers, on the other hand, have led to higher exposure to cyber risks.

The Group invests extensive resources (both human and technological) in strengthening its information security and cyber defense system, to cope with the development of these threats. The Group's defense framework consists of layers of protection using advanced technologies. The Group operates cyber defense processes to minimize the risk of system penetration, unauthorized access to information systems, and materialization of attacks, and to ensure the correctness, availability, and confidentiality of data. The Group continually works to identify threats, risks, and enhance the effectiveness of defensive framework accordingly.

Cyber risk is the risk of damage, including disruption, disturbance, shut down of operations, theft of information assets, collection of intelligence, or damage to reputation or the confidence of the public as a result of a cyber event.

The Group has in place a Cybersecurity Incident Response Plan that ensures it is prepared to manage cyber incidents in an effective and efficient manner. The Plan establishes incident handling, response, and recovery capabilities. It determines the appropriate response for cybersecurity incidents that arise, and is applicable to all staff, management and third parties such as consultants, contractors, and service providers. The plan also covers all supporting applications, processes and systems and any other cyber facing assets and information as well as establishing a team and methodology to handle such incidents. The Group continues to enhance cyber security capabilities across its entities and continually evaluate potential exposures from prevalent attack types to ensure that controls are strengthened to minimize the likelihood and impact of such attacks.

G. Compliance Risk

KCB Group minimizes compliance uncertainty by ensuring that the activities of the Group and its staff are conducted in accordance with all laws, regulations, codes of conduct and standards of good practice applicable in all the jurisdictions it operates in, as well as conforming to internal policies and standards of operation, and with the highest ethical standard. This is achieved through a compliance and ethics framework that supports a robust compliance culture which is based on the highest standards of ethical business practice. The compliance framework defines the compliance universe and has deployed various tools and processes for assessing key compliance risks, and the necessary mitigation.

The Compliance Function reports to the Group Chief Risk Officer. The Compliance Office provides Group Shared Services support on policies and fit-for-purpose functional maintenance of the systems used. Heads of Risk and Compliance in KCB Banking Subsidiaries oversight Compliance and Ethics in each Subsidiary.

Across Branches, Managers Service Quality and Compliance provide the necessary Compliance assurance, while individual Business units deploy Compliance Managers discharging compliance obligations. KCB holds up business areas as the first line of defense on compliance matters, with the central Compliance actively promoting awareness, guidance, and monitoring for Compliance assurance.

H. AML /CFT Compliance

The Group remains committed to strictly upholding and complying with all rules and standards as well as any other provisions which apply to the Group with regard to Anti-Money

The key objectives of the plan include: -

- Determining the potential threats and vulnerabilities emanating from the Bank's cybersecurity ecosystem.
- Ensuring decisions to handle cybersecurity incidents in a more effective and appropriate manner are made as fast as possible.
- Eliminate cyber security threats in a secure and timely manner.
- Coordinating dissemination of relevant information to relevant stakeholders through appropriate channels.
- Foster leadership and collaboration in relation to initiatives that would safeguard the banking information systems.

Laundering (AML) and Combating the Financing of terrorism (CFT). The Group through its AML, KYC and Sanctions policies has implemented a robust AML and CFT compliance program aligned to international best-practice which applies to its branches and subsidiaries. Each Subsidiary maintains an independent Money Laundering Reporting Officer (MLRO).

The Group's AML/CFT Program is benchmarked to international best practice, while maintaining compliance with the Regulatory requirements in the countries of operation.

All employees are required to adhere to the AML/CFT policies and program, which provide that no customer relationship is worth compromising the Groups commitment to AML/CFT. The Group has put in place robust IT systems, processes and procedures to prevent persons engaged in money laundering, terror financing, fraud, tax offences, or other financial crimes, from exploiting the Group's network, products and/or services.

I. Strategic Risk

Strategic risk is material present or future risk to profits, capital, reputation, or status that may be caused by changes in the business environment; faulty business decisions; improper implementation of strategy or business decisions; or failure to respond to changes in the industry (e.g., competitors' actions), the economy, or technology. Strategic risk is a function of the congruence of the organization's strategic objectives with its environment, adaptation of the business plans that it develops to achieve these objectives, resource allocation, and quality of implementation.

> “
>
> **The Group remains committed to strictly upholding and complying with all rules and standards as well as any other provisions which apply to the Group with regard to Anti-Money Laundering (AML) and Combating the Financing of terrorism (CFT).**

The strategic plan of the Group is a three-year plan approved by the Board of Directors, and examined and adjusted annually to the prevailing changes in the business environment in the region and globally, changes in the Bank's competitive environment, and changes in the Bank's objectives.

The process of formulating the strategic plan encompasses an examination of the Bank's business, the relevant strategic risks, and a comprehensive planning process. The annual strategic planning process consists of three main stages, each of which addresses a different aspect of strategic risk management and assessment:

Stage 1

Identification of the strategic risks to the Bank in its competitive environment - examination of the factors influencing the Bank's competitive ability and future growth potential, including an examination of global and local trends and the current situation at the Bank.

Stage 2

Formulation of objectives and high-level work plan, adapted to the business environment and to the strategic trajectory.

Stage 3

Construction of detailed plans for all Areas, examination of scenarios, and establishment of risk indicators. This stage involves determination of themes, strategic focus areas of the Bank, and strategic maps for the realization of each theme. In addition, strategic maps are created for the Areas, in congruence with the themes, and strategic risk indicators are established. Goals and metrics are established for each map (at the process level and at the level of business results), derived from the strategy. This allows strategy to be translated into measurable steps for the various units, making it possible to identify the extent of the Bank's exposure to strategic risk.

2021 Outlook

The Group proactively manages risk and continually identifies emerging issues that could pose an impact to its businesses in the future. We proactively assess the internal and external environment as well as review the themes identified in the regions we operate in and the global environment. The Risk Map below shows the key risk drivers that could affect the Group in 2021 along the dimensions of probability and impact. The risk drivers are not to be seen in isolation as they may trigger or reinforce each other.

INTERGRITY OF FINANCIAL REPORTING

The Group develops and maintains a risk management culture that aids in the creation of risk awareness and promotes appropriate behaviour and judgement in connection with risk taking. In the context of corporate governance, the Board supports in ensuring effective risk management, promoting appropriate risk taking and ensures that emerging risks and risk taking activities are identified, assessed, escalated and addressed in a timely manner.

The risk management culture instilled at the Group emphasizes the importance of:

- Risk reward to ensure compensating returns to the organisation for any risk taken;
- Effective system controls;
- Monitoring violation of risk appetite limits; and
- Cultivating integrity.

Financial Reporting

The integrity of financial reporting to Shareholders is protected through the following elements.

- Board oversight and responsibility
- Oversight from the Group Audit and Risk Committee
- External Auditor

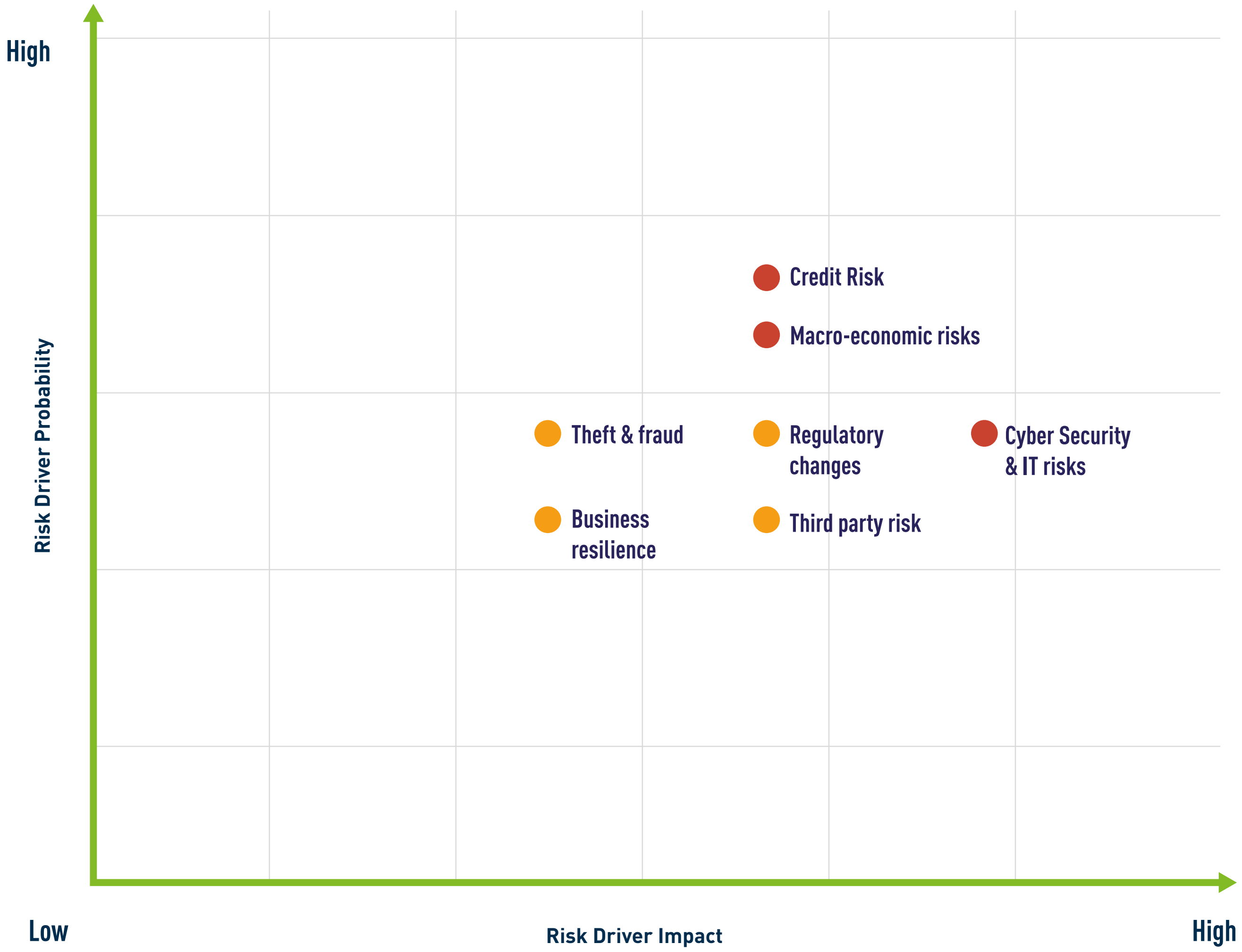
The Group has put in place frameworks to ensure that any activities or incidents that may result in legal risk are identified, assessed, monitored, and addressed effectively and in a timely manner.

Board

The Directors are responsible for assessing whether the financial statements and notes are in accordance with the Companies Act, 2015, comply with accounting standards and give a true and fair view of the financial position and performance of the Group. A Directors' declaration to this effect is included in the annual financial report

The Board has delegated to the Group Audit and Risk Committee (GARC) its responsibility for reviewing the effectiveness of the Group's internal controls. During the year, the Board merged the individual Audit and Risk Committees at Group level into the Group Audit and Risk Committee (GARC) to ensure an efficient enterprise-wide risk management process.

The Group Board has the overall responsibility for the Group's system of internal control, which includes all material controls including financial, operational and compliance controls and related risk management, and reviewing its effectiveness. The system of internal control is designed to identify, evaluate and



manage significant risks associated with the achievement of the Group's objectives. It is designed to manage risk rather than eliminate risk altogether.

Group Audit and Risk Committee (GARC)

The GARC assists the Board by providing oversight of the Group's financial reporting responsibilities including external audit independence and performance. The Audit Committee responsibilities include the following:

- Reviewing the half-year and full-year statutory financial reports for recommendation to the Board.
- Reviewing significant accounting estimates and judgments used for the preparation of the financial reports.
- Reviewing and approving any new or proposed changes in Group accounting policies.
- Monitoring developments in statutory reporting and accounting and disclosure requirements.

The 12 months rolling audit plan approved by the GARC, ensures that internal controls over all of the operations are all reviewed annually. The risk categories set out in the risk matrix were used as the basis for the process of reviewing the effectiveness of the system of internal controls.

The day-to-day responsibility for managing risk and the maintenance of the Group's system of internal control is collectively assumed by the Executive Committee.

The Executive Committee is supported in this task by the Internal Audit function. The Executive Committee tracks the remediation of outstanding audit issues monthly across the Group and ensures the auditor's recommendations have been satisfactorily implemented to address the identified risks. Further, on a quarterly basis, the GARC monitors the progress of resolution of identified audit issues and provides guidance.

The Group has in place internal controls and risk management systems in relation to the Group's financial reporting process and the Group's process for preparing consolidated accounts. These systems include policies and procedures to ensure the adequate accounting records are maintained and transactions are recorded accurately and fairly to permit the preparation of financial statements in accordance with IFRS.

Group Internal Audit is a centralised independent assurance function though in line with country specific regulations, each of the regional subsidiaries have put in their own internal audit functions reporting to their respective Board Audit Committees. The Group Internal Audit function provides general oversight of regional audit functions and provides technical support in the review of specific risks as identified in the annual audit plan.

> **The Group has in place internal controls and risk management systems in relation to the Group's financial reporting process and the Group's process for preparing consolidated accounts.**

During the year, the Group Internal Audit function implemented a Continuous Auditing (CA) System and rolled-out a Computer Assisted Audit Tool (CAAT) across the regional subsidiaries. This was driven by the constant growth of non-branch transactions processed via digital channels such as mobile, ATM, POS and Internet Banking which required the audit team to adapt and provide continuous assurance of the transactions processed and automated controls through data analytics.

External Auditor

The audit or review by the external auditor provides a further level of protection of the integrity of the financial statements. The GARC oversees the external audit function. This includes reviewing and approving the external audit plan and engagement, and assessing the performance of the external auditor.

Whereas the directors are responsible for preparing the accounts and for presenting a balanced and fair view of the financial position of the Company, the external auditor examines and gives their opinion on the reasonableness of the financial statements. Independence of the external auditor is important to the integrity of the audit function. The external auditor is invited to meetings with the GARC from time to time without management or others being present. The external auditor reports independently and directly to the Board at the end year Board meetings.

SUBSIDIARY BOARDS

In line with the provisions of the Prudential Guidelines issued by the Central Bank of Kenya, KCB Group PLC, being the parent company of several subsidiary companies within the Group, has the overall responsibility for the Group and to ensure adequate corporate governance is in place across the Group. 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 policies put in place that are adopted across the subsidiary companies as well as the quality of directors on those subsidiary boards. At least one member of the KCB Group PLC Board sits on each of the subsidiary boards as a member.

ENGAGEMENT WITH SHAREHOLDERS

The Board recognizes the importance of maintaining transparency and accountability to our shareholders and investors and works to ensure that all shareholders are treated equitably, and their rights are protected.

The Company employs diverse channels and mechanisms to communicate and disseminate information to its various stakeholders, including shareholders. These channels and mechanisms include collection of investor feedback and communication via the investor relations function, financial information on the Company made available on the Company's website and latest results being provided on a quarterly basis in national and regional publications.

KCB Group 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.

Communication and Periodic Continuous Disclosure

Key shareholder communication include the Group's Annual Integrated Report, the Group Sustainability Report and full year, half-yearly and quarterly financial results. The Group additionally posts all material information on its website www.kcbgroup.com. Shareholders are encouraged to visit the website for general information about the Group and to be able to view financial reports and results briefing presentations.

The Group additionally 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. Being cross listed in the region, material information is also released to the securities exchanges in Tanzania, Uganda and Rwanda.

Annual General Meetings

The Group 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 Group 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 Group.

Investment Community

KCB Group is committed to engagement with the investment community to consistently share our story and communicate our 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 Group and coordinates roadshows including half-year and full-year results announcements.

The investor relations team has the primary responsibility for managing and developing the Group's external relationships with existing and potential institutional investors. Supported by the Group Chief Executive Officer & Managing Director and the Group 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 and dividend queries as well as the collection of share certificates and dividend cheques are handled by the company's appointed shares registrar – Image Registrars Limited. The registrar can be reached at their offices on the **5th Floor, Barclays Plaza, Loita Street, P. O. Box 9287-00100, Nairobi** or through their e-mail address kcbshares@image.co.ke and also through their telephone numbers **0709 170 000, 0724 699 667, 0735 565 666.**

POLICIES AND CODES OF CONDUCT

KCB Group maintains and has in place policies and codes of conduct that capture 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 KCB Group, and to anyone working on the Group's behalf, including contractors and consultants. The Group 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 consequences where these are not met.

The Group 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 counter-terrorism financing, whistle blower protection and conflicts of interest.

WHISTLE BLOWING

KCB Group 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. KCB Group is committed to a culture that encourages all people to speak up about issues or conduct that concerns them.

The KCB Group whistle-blower program encourages the reporting of any wrong doing in a way that protects and supports whistle-blowers. 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 720 990 (Kenya)
0800 110 025 (Tanzania)
International calls:
+27 315 715 795
(Uganda, South Sudan,
Rwanda and Burundi)
E-mail Communication:
kcb@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 organizations' customers, reputation, profitability, governance or regulatory compliance through any of these channels.

There is zero tolerance for any actual or threatened act of reprisal against any whistle-blower and the Group 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.

Our Code of Ethical Conduct covers a range of areas including personal conduct, integrity, honesty, transparency, accountability, fairness and prevention of corruption.

RESTRICTIONS ON INSIDER TRADING

In line with the approved KCB Group Insider Dealing Policy, directors, employees and contractors (and their associates) are prohibited from dealing with any securities and other financial products as they possess inside information. They are also prohibited from passing on inside information to others who may use the inside information to trade in the company's securities.

KCB Group has closed periods each quarter prior to the release of the Group's financials during which all related persons, Directors, employees and contractors (and their associates) must not trade in KCB Group Plc securities.

DIRECTORS REMUNERATION

The Human Resources Committee of the Board is responsible for setting and administering the non-executive Directors remuneration policy.

The aggregate amount of emoluments paid to Directors for services rendered during the year 2020 is disclosed in Note 40 of the Financial Statements.

Neither at the end of the financial year, nor at any time during the year, did there exist any arrangement to which the Company is a party, under which Directors acquired benefits by means of acquisition of the Company's shares.

Additional details are provided in the Directors' Remuneration Report at page 94 to 98 of this Integrated Report

SHAREHOLDING

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

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 AS AT 31 DECEMBER, 2020

Name of Director	Number of Shares	% Shareholding
Cabinet Secretary to the Treasury of Kenya	635,001,947	19.76
Mr. Joshua Oigara	35,157	0.001
Mr. Andrew W. Kairu	30,700	0.001
Mr. John Nyerere	28,040	0.001
Mr. Lawrence Kimathi	18,800	0.001
Ms. Georgina Malombe	2,600	0
Mr. Tom Ipomai	0	0
Mr. Lawrence Njiru	0	0
Mrs. Anne Eriksson	0	0
Mr. Ahmed Mohamed	0	0
Dr. Obuya Bagaka	0	0

Shareholders' Profile as at 31 December, 2020	Number of Sharesholders	Number of Shares Held	% Shareholding
Kenyan Individual Investors	186,616	849,577,512	26.44
Kenyan Institutional Investors	6,563	1,765,743,744	54.95
East African Individual Investors	234	2,849,928	0.09
East African Institutional Investors	67	164,298,568	5.11
Foreign Individual Investors	607	70,152,646	2.18
Foreign Institutional Investors	103	360,840,417	11.23
	194,190	**3,213,462,815**	**100.00**

Summary of Totals

Shares Range	Shareholders	Number of Shares	% Shareholding
1 to 5,000	165,490	203,624,112	6.34
5,001 to 50,000	26,642	280,177,342	8.72
50,001 to 100,000	806	56,040,977	1.74
100,001 to 1,000,000	935	282,711,875	8.80
1,000,001 to 10,000,000	280	861,308,312	26.80
10,000,001 & above	37	1,529,600,197	47.60
	194,190	**3,213,462,815**	**100.00**

Major Shareholders

	Number of Shares Held	% Shareholding
Cabinet Secretary to the Treasury of Kenya	635,001,947	19.76
National Social Security Fund	256,903,709	7.99
Stanbic Nominees Ltd A/C NR3530153-1	108,907,800	3.39
Investment & Mortgages Nominees Ltd A/C 002983	45,800,000	1.43
Standard Chartered Nominees A/C 9688	45,778,323	1.42
Standard Chartered Nominees A/C 9687	31,680,986	0.99
Standard Chartered Kenya Nominees Ltd A/C KE002596	29,568,800	0.92
Sandip Kana Sinh Babla & Alka Sandip Babla	29,294,100	0.91
Sandip Kana Sinh Babla Karsandas Babla	25,942,500	0.81
Standard Chartered Nominees Ltd A/C KE004667	25,303,787	0.79
	1,234,181,952	**38.41**

Board of Directors' Profiles

NAME:
ANDREW W. KAIRU
(62 YEARS)

DESIGNATION:
GROUP CHAIRMAN

DATE OF APPOINTMENT TO DESIGNATION:
APPOINTED GROUP CHAIRMAN IN OCTOBER 2018

DATE OF APPOINTMENT TO BOARD:
JUNE 2018

EDUCATION AND PROFESSIONAL BACKGROUND:

Andrew holds a Bachelor of Commerce degree from University of Nairobi. He has also attended executive programs in executive development at the Wharton School, University of Pennsylvania and in corporate governance at Harvard Business School, Harvard University. His banking career spans over 30 years and includes stints at Commercial Bank of Africa, Standard Chartered Bank and Citibank N.A culminating in his posting to London to head Citibank's Emerging Markets Financial Institution Business. In 2004, he joined Ghana International Bank PLC London as the Chief Operating Officer and Executive Director, a position he held for over 10 years. Andrew has previously served as a member of the audit committee of the Commonwealth Secretariat, London and was also previously a Trustee of the Citizens Advice Bureau of Caterham and Warlingham, United Kingdom. Prior to his appointment as Group Chairman, he served as a Non- Executive Director of KCB Bank Kenya from November 2016.

CURRENT KCB GROUP BOARD APPOINTMENTS:

Andrew is the chairman of the Nominations committee of the board.

EDUCATION AND PROFESSIONAL BACKGROUND:

Eng. Kamau is currently the Director General, Public Investments and Portfolio Management Directorate. Prior to his current role, Eng. Kamau was the Director for Public Investment Management at the National Treasury & Planning. Before that he was the Director of Public Private Partnership (PPP) Unit, at the National Treasury & Planning where he established the current legal and regulatory framework for PPPs in Kenya. Eng Kamau has also served as an Alternate Director/Board Member in several state corporations. Eng. Kamau holds a Bachelor of Science Degree in Civil Engineering from the University of Nairobi and is a registered engineer with Engineers Registration Board of Kenya.

CURRENT KCB GROUP BOARD APPOINTMENTS:

Eng. Stanley is the chairman of the Strategy & IT committee and is a member of the Oversight committee. He is a member of the boards of KCB Bank Kenya Limited, National Bank of Kenya Limited and KCB Capital Limited.

NAME:
ENG. STANLEY KAMAU
(62 YEARS)

DESIGNATION:
ALTERNATE DIRECTOR TO C.S – NATIONAL TREASURY

DATE OF APPOINTMENT TO BOARD:
AUGUST 2019

NAME: **TOM IPOMAI**
(48 YEARS)

DESIGNATION:
DIRECTOR

DATE OF APPOINTMENT TO BOARD:
JULY 2013

EDUCATION AND PROFESSIONAL BACKGROUND:

Tom is a corporate finance specialist. He holds a degree in Computer Science from the University of Nairobi (1st Class Honours) and a Master of Philosophy (MPhil) in Management Studies from the University of Cambridge (Jesus College). He is a Certified Chartered Accountant (ACCA). Previously, Tom worked for the Central Bank of Kenya, Barclays Bank in the UK, Kenya and Zambia and with Deloitte in its Corporate Finance Advisory division. Tom runs a boutique consulting firm.

CURRENT KCB GROUP BOARD APPOINTMENTS:

Tom is a member of the Audit & Risk, the HR & Governance and the Nominations committees. He serves as a member of the boards of KCB Bank Kenya Limited and KCB Bank Rwanda Limited.

EDUCATION AND PROFESSIONAL BACKGROUND:

Georgina is an audit professional. She holds a Bachelors degree in Agribusiness Management from Egerton University and a Master of Business Administration, Finance Option from the University of Nairobi. She is a Certified Public Accountant (CPA (K)) and a member of Professional Trainers Association of Kenya (PTAK) and the Institute of Internal Auditors. She also holds a Certificate in Arbitration. Her key technical competencies include Audit Quality Assurance, Auditing, Accounting, Finance and Financial Reporting. Previously, she worked for The Registration of Accountants Board as the Executive Officer, The Institute of Certified Public Accountants of Kenya (ICPAK) as Manager, Public Policy and Governance as well as the Head of Compliance and Regulatory Affairs. Georgina currently serves in the Board of the Association of Women Accountants of Kenya (AWAK) as the Chairperson. She is the Managing Partner of audit firm, Gemal and Company.

CURRENT KCB GROUP BOARD APPOINTMENTS:

Georgina is a member of the Audit & Risk and the Oversight committees. She is a member of the board of KCB Bank Tanzania Limited and a Trustee of the KCB Foundation.

NAME:
GEORGINA MALOMBE
(45 YEARS)

DESIGNATION:
DIRECTOR

DATE OF APPOINTMENT
TO BOARD:
JUNE 2014

NAME:
JOHN NYERERE
(59 YEARS)

DESIGNATION:
DIRECTOR

DATE OF APPOINTMENT
TO BOARD:
JUNE 2014

EDUCATION AND PROFESSIONAL BACKGROUND:

John is a HHH (Fulbright) fellow and holds an MBA, Bachelor of Arts (Hons.) Economics, MBA General Management and Bachelor of Arts Economics and Sociology. He lectures on business management at the United States International University. He has experience in corporate planning, operations management and transformation leadership and his key technical competencies include strategy development and economics.

CURRENT KCB GROUP BOARD APPOINTMENTS:

John is the chairman of the HR & Governance committee and is a member of the Strategy & IT and Nominations committees. He is the chairman of National Bank of Kenya Limited and also serves as a member on the board of KCB Bank Tanzania Limited.

EDUCATION AND PROFESSIONAL BACKGROUND:

Lawrence holds a Bachelor of Commerce (Accounting) degree from Kenyatta University and is a member of the Institute of Certified Public Accountants of Kenya (CPA-K). He has over 20 year's senior management experience in business strategy, finance, commercial, audit and accounting. He worked at Standard Media Group Kenya Limited as Assistant Group Commercial Director and also served as Group Financial Controller in the same Group. Prior to this, he worked as a senior auditor at KPMG East Africa. Lawrence previously served as a non-executive director of Kenya Seed Company Limited where he chaired the Audit committee and also previously served as the Chairman of Simlaw Seeds Company Limited.

CURRENT KCB GROUP BOARD APPOINTMENTS:

Lawrence is the chairman of the Oversight committee and is a member of the HR & Governance and the Nominations committee. Lawrence is the Chairman of KCB Bank Kenya Limited and is also sits on the board of KCB Bank Burundi Limited

NAME:
LAWRENCE NJIRU
(49 YEARS)

DESIGNATION:
DIRECTOR

DATE OF APPOINTMENT
TO BOARD:
AUGUST 2018

Board of Directors' Profiles

NAME:
ANNE ERIKSSON
(62 YEARS)

DESIGNATION:
DIRECTOR

DATE OF APPOINTMENT TO BOARD:
DECEMBER 2019

EDUCATION AND PROFESSIONAL BACKGROUND:

Anne has an MBA (Distinction) from the University of Warwick, is a Fellow of the Association of Certified & Chartered Accountants (FCCA) and a Fellow of the Institute of Certified Public Accountants of Kenya (FCPA). She has led the provision of audit and advisory services to a wide range of regional and local organizations in various sectors. She retired from PricewaterhouseCoopers (PwC) after 40 years where her last role was Regional Senior Partner for Eastern Africa and Country Senior Partner Kenya, overseeing firm wide activities in six countries with over 1,500 staff. In her role as Regional Senior Partner, she was a member of the PwC Africa leadership team. Her previous roles included heading the assurance practice of PwC in Eastern and Western Africa, including Nigeria, Ghana, Angola, Zambia and Mauritius. She is widely recognized as one of Africa's leading professionals in the industry. She has advised audit committees and boards on financial reporting, internal control matters, including risk and readiness assessment prior to implementation of major systems and processes. She serves in non-executive director positions on various boards, provides financial advice at a strategic level and mentors entrepreneurs. Anne is a non-executive director of Africa Asset Finance Inc (US), Ethio Lease (Ethiopia) and Mpesa Foundation (Kenya).

CURRENT KCB GROUP BOARD APPOINTMENTS:

Anne is the chairman of the Audit & Risk committee and a member of the Strategy & IT Committee. Anne also sits on the boards of KCB Bank Kenya Limited and KCB Bank South Sudan Limited.

EDUCATION AND PROFESSIONAL BACKGROUND:

Ahmed is an advocate of the High Court of Kenya and an experienced commercial lawyer specializing in financing agreements and Islamic finance, corporate law, and transactions agreements. He holds a Masters Degree in Law (LLM) and Bachelors of Law Degree (LLB) from the University of Liverpool in the United Kingdom and a Post Graduate Diploma in Law from the College of Law, London, England.

CURRENT KCB GROUP BOARD APPOINTMENTS:

Ahmed is a member of the Audit & Risk and the Strategy & IT committees.

NAME:
AHMED MOHAMED
(45 YEARS)

DESIGNATION:
DIRECTOR

DATE OF APPOINTMENT TO BOARD:
AUGUST 2020

NAME:
DR. OBUYA BAGAKA
(45 YEARS)

DESIGNATION:
DIRECTOR

DATE OF APPOINTMENT TO BOARD:
AUGUST 2020

EDUCATION AND PROFESSIONAL BACKGROUND:

Dr. Bagaka has extensive experience and expertise in Public Administration, Policy and Strategy. He has over 12 years' experience in Public Finance and Budgeting, Governance, Capacity building, Research and Policy Development in both the public and private sectors. Currently, Bagaka provides advisory and consultancy services to public and private organization. Previously, Dr. Bagaka worked as the technical lead on governance and institutional strengthening for a DFID-funded program: The Sustainable Urban Economic Development (SUED).

He has a PhD in Public Administration (from Northern Illinois University, USA); M.A. Public Administration (Minnesota State University-USA); B.A. Political Science & Philosophy (University of Nairobi). He is also a Member of the Commonwealth Association of Public Administration and Management.

CURRENT KCB GROUP BOARD APPOINTMENTS:

Dr. Bagaka is a member of the Strategy & IT and the Oversight Committees and serves as a member of the boards of National Bank of Kenya Limited and KCB South Sudan Limited.

NAME:
JOSHUA OIGARA (46 YEARS)

DESIGNATION:
CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR

DATE OF APPOINTMENT TO BOARD:
JANUARY 2013

EDUCATION AND PROFESSIONAL BACKGROUND:

Joshua holds a Masters in Business Administration with a distinction in International Business Management from Edith Cowan University, Australia, a Bachelor of Commerce Degree, Accounting Option, from the University of Nairobi and is an Advanced Management Program Graduate from INSEAD, Fontainebleau, France. He is a graduate of the Program for Management Development (JuMP), Fuqua School of Business, Duke University, North Carolina, USA as well as a Certified Public Accountant of Kenya, CPA (K), having studied at the School of Accountancy, Strathmore University, Kenya. Joshua serves as the Chairman of the Kenya Bankers Association Governing Council. He is a member of the Vision 2030 Board.

CURRENT KCB GROUP BOARD APPOINTMENTS:

Joshua is a member of the HR & Governance, Strategy & IT, Oversight and the Nominations committees and serves as a member of the board of KCB Bank Kenya Limited, National Bank of Kenya Limited and is a trustee of the KCB Foundation.

NAME:
LAWRENCE KIMATHI (50 YEARS)

DESIGNATION:
GROUP CHIEF FINANCE OFFICER

DATE OF APPOINTMENT TO BOARD:
MAY 2015

EDUCATION AND PROFESSIONAL BACKGROUND:

Lawrence holds a Masters in Business Administration (MBA) with merit from Warwick Business School UK, a Bachelor of Science degree majoring in accounting from United States International University – Africa (USIU) and is a Certified Public Accountant of Kenya, CPA (K). He is a member of the Institute of Certified Public Accountants of Kenya and Institute of Directors. His senior leadership experience spans over 25 years having worked as Finance Director/CFO in several multinational organizations which include Cadbury East and Central Africa, AIG, East Africa Breweries Limited, BAT Sub Sahara Africa and BAT PLC in London. Lawrence serves as a member of the Central Depository and Settlement Corporation Limited (CDSC) Board.

CURRENT KCB GROUP BOARD APPOINTMENTS:

Lawrence is a member of the KCB Bank South Sudan Limited Board and serves as a trustee of the KCB Staff Pension Fund (Defined Benefit Scheme).

NAME:
BONNIE OKUMU (42 YEARS)

DESIGNATION:
COMPANY SECRETARY

DATE OF APPOINTMENT TO BOARD:
MARCH 2021

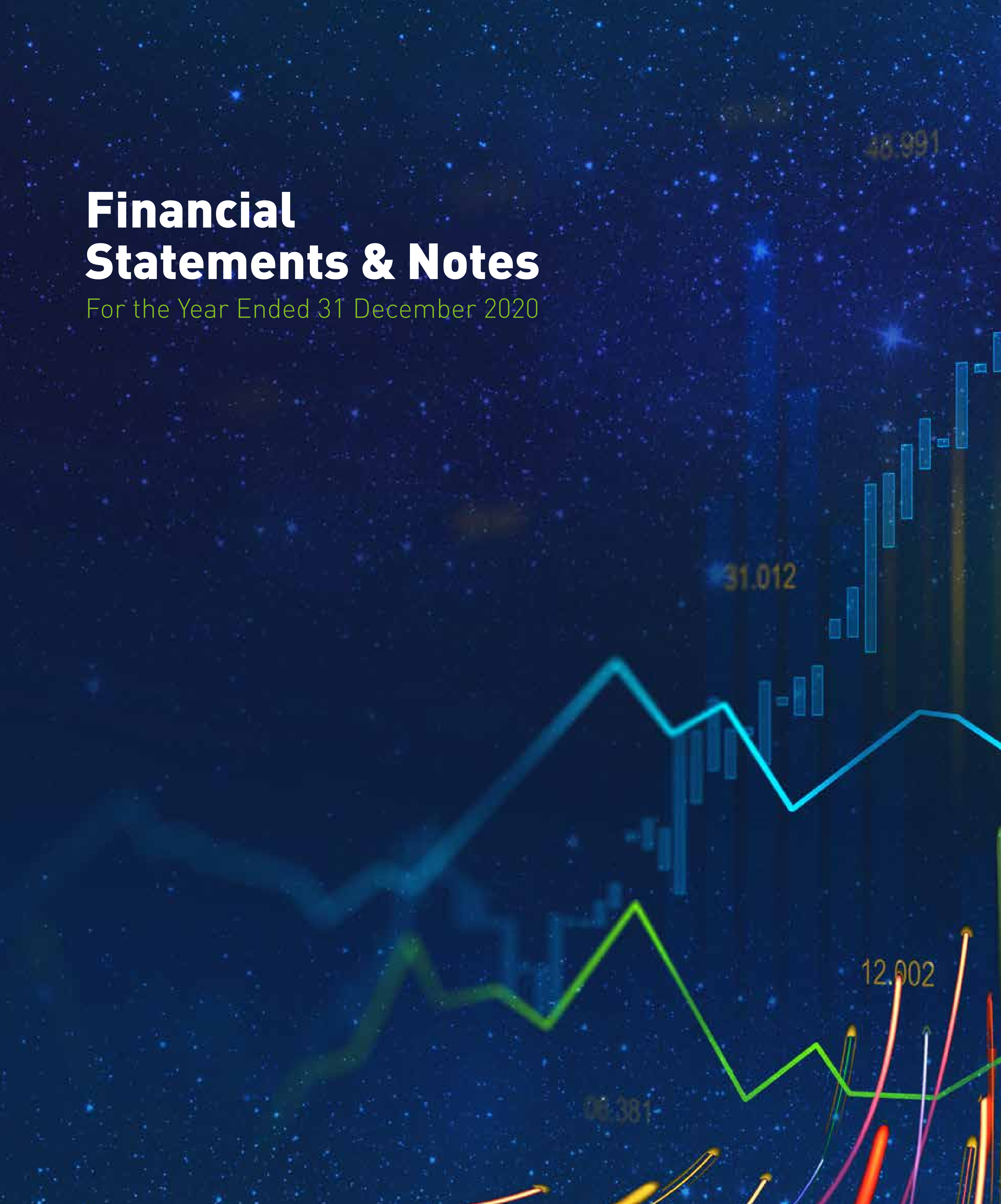
EDUCATION AND PROFESSIONAL BACKGROUND:

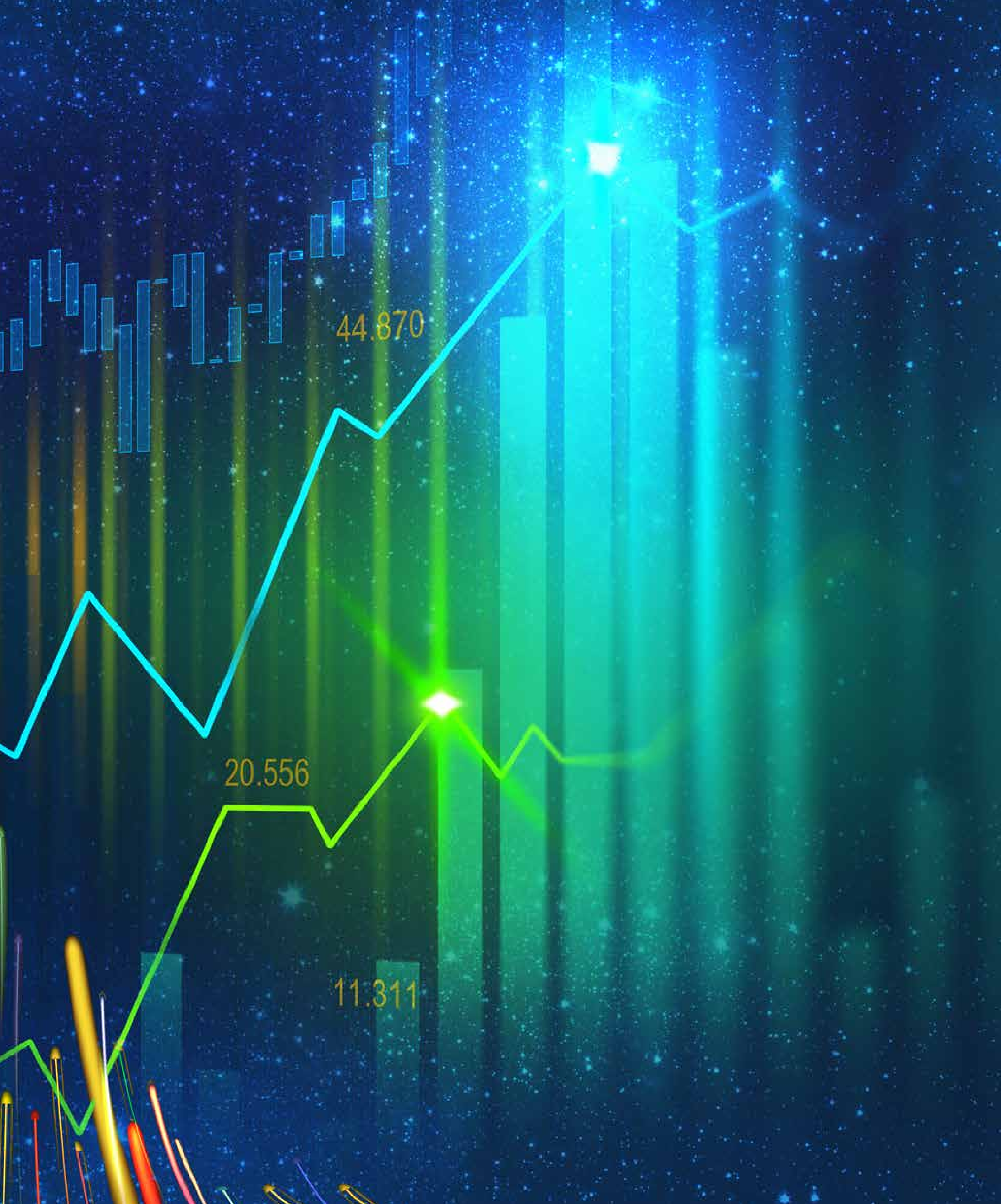
Bonnie was appointed as Company Secretary in March 2021. She was appointed as the Group General Counsel with effect from 1 January 2021, prior to which she was the Director, Legal Services having been appointed as such in July 2018 prior to which she served as the Head, Legal Services since January 2014. She has served as Company Secretary for KCB Bank Kenya since January 2016.

Before joining KCB, she was the Chief Legal and Regulatory Affairs Officer and Company Secretary at Telkom Kenya Limited. Prior to this she was the General Counsel & Company Secretary at Unilever Kenya Limited where she oversaw the legal and company secretarial functions for 9 operating companies in 7 countries in East and Southern Africa. Until she joined Unilever, she was the Regional Legal Manager for Nestle where she set up the legal department and led a team of lawyers in providing legal and tax advisory services to 14 operating entities in 20 countries in the Equatorial African Region. Earlier in her career, she was an associate at Dentons, Hamilton Harrison & Mathews and an audit assistant at Deloitte & Touché. She holds an LL.B from the University of Nairobi, is an advocate of the High Court of Kenya as well as a Certified Secretary (CS).

Financial Statements & Notes

For the Year Ended 31 December 2020




44.870
20.556
11.311

Contents

KCB GROUP PLC CORPORATE INFORMATION
FOR THE YEAR ENDED 31 DECEMBER

DIRECTORS
Mr. Andrew W. Kairu - Chairman
Mr. Joshua Oigara - Group Chief Executive Officer & Managing Director
Mr. Ukur Yatani (CS National Treasury) - Alternate Eng. Stanley Kamau
Mr. Adil Khawaja - Retired 14 June 2020
Mr. Tom Ipomai
Mr. John Nyerere
Ms. Georgina Malombe
Mr. Lawrence Njiru
Mrs. Anne Eriksson
Mr. Ahmed Mohamed - Appointed 12 August 2020
Dr. Obuya Bagaka - Appointed 28 August 2020
Mr. Lawrence Kimathi - Group Chief Finance Officer

COMPANY SECRETARY
Bonnie Okumu
PO Box 48400 – 00100
Nairobi, Kenya

AUDITOR
PricewaterhouseCoopers LLP
PwC Tower
Waiyaki Way / Chiromo Road
PO Box 43963 – 00100
Nairobi, Kenya

REGISTERED OFFICES AND PRINCIPAL PLACES OF BUSINESS
KCB Group PLC
Kencom House
Moi Avenue
PO Box 48400 – 00100
Nairobi, Kenya

KCB Bank South Sudan Limited
KCB Plaza
Ministry Road
PO Box 47
Juba, South Sudan

KCB Bank Rwanda Limited
Avenue de la Paix
PO Box 5620
Kigali, Rwanda

KCB Bank Kenya Limited
Kencom House
Moi Avenue
PO Box 48400 – 00100
Nairobi, Kenya

National Bank of Kenya Limited
National Bank Building
18 Harambee Avenue
PO Box 72866 – 00200
Nairobi, Kenya

KCB Bank Tanzania Limited
Harambee Plaza
Ali Hassan Mwinyi Road/Kaunda Road Junction
PO Box 804
Dar es Salaam, Tanzania

KCB Bank Uganda Limited
Commercial Plaza
7 Kampala Road
PO Box 7399
Kampala, Uganda

KCB Bank Burundi Limited
Boulevard Patrice Lumumba
PO Box 6119
Bujumbura, Burundi

KCB Bank Kenya Limited (Ethiopia Representative Office)
Morning Star Mall 4th floor
Bole Medhanialem
Addis Ababa, Ethiopia.

KCB GROUP PLC CORPORATE INFORMATION
FOR THE YEAR ENDED 31 DECEMBER (CONTINUED)

PRINCIPAL LAWYERS
Iseme Kamau & Maema, Advocates
P.O Box 11866-00400
Nairobi

Oraro & Company, Advocates
P.O Box 51236-00100
Nairobi

MMC Asafo LLP
P.O Box 75362-00200
Nairobi

TripleOKLaw Advocates
P.O Box 11866-00400
Nairobi

The full list of the Group lawyers is available at the Kencom House, the principal place of business of the Group.

KCB GROUP PLC REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER

1. Principal activities

The company is licensed as a non-operating holding company under the Banking Act (Cap 488).

The principal activities of its main subsidiaries is provision of corporate, investment and retail banking services.

2. Results

The results of the Group and the Company are set out on pages 105 to 106 and 108 respectively.

3. Dividend

The Directors recommend a final dividend of KShs. 3,213 million (2019 – KShs. 11,099 million).

4. Directors

The Directors who served during the year and up to the date of this report are set out on page 91.

All the Directors are non-executive other than the Group Chief Executive Officer & Managing Director and the Group Chief Finance Officer.

5. Business review and financial performance

The Group Consolidation includes the results of the entities owned by 'KCB Group PLC'. The entities operate in Kenya, Tanzania, South Sudan, Rwanda, Uganda and Burundi mainly undertaking retail and corporate banking business in the domicile countries.

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 year has been a particularly challenging period for the Group, our customers, and the economy at large due to the COVID-19 pandemic. The Group's performance has remained resilient amidst reduced non-funded income from waiver of digital fees and increase in loan loss provisions due to significant increase in credit risk.

The Interest income recorded 17% increase from KShs. 80 billion to KShs. 93 billion. This is mainly due to the growth in interest income from government securities and interest income on loans and advances. This compounded with an increase in government securities from 169 billion to 211 billion and increase in loans and advances to customers from 540 billion to 595 billion, respectively.

The net fees and commission income decreased by 7% from KShs. 14.6 billion to KShs. 13.6 billion due to the government directive to waive fees on digital transactions to cushion our customers from the impact of the pandemic.

The Group's credit impairment losses increased by 209% to KShs. 27.5 billion (2019: KShs. 8.9 billion) mainly due to significant increase in credit risk due to the COVID-19 pandemic. The profit for the year recorded a 22% decline from KShs. 25.2 billion to KShs. 19.6 billion mainly driven by significant increase in loan loss provisions.

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, market risks and operational risks. The Group's overall risk management framework focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group. This is entrenched in the Group's governance structure, the Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Board of Directors of the Group has established various committees including Audit & Risk, Human Resources & Governance, Strategy & IT, Nominations & Oversight committees which are tasked with developing and continuous monitoring of the Group risk management policies in their specified areas. The detailed description and analysis of the key risks is set out on note 4 of the financial statements.

Employees' Welfare

Our leadership believes in creating an environment where high performing individuals care about each other and work towards achieving the success of the organization. Our leaders passionately drive clarity and directions allowing our employees to connect to each other as they are bound by a common mission and vision.

The Group's management focuses on building the right culture as a strategic human resource priority by ensuring that the Group's culture is embedded across all levels and the same is driven across the entire workforce. Having the right culture is an essential element for the Group's future development as we transform towards creating the digital era banking. Amongst the key components in this development is ensuring that our leaders are charged by the major roles of fostering strong leadership capabilities, talent management, enhancing employee relationship and development.

Environmental Footprint

At KCB Group, we believe that taking care of the ecological environment is a solemn responsibility for every human being. As a corporate citizen we have embraced a culture of responsible living, with the ultimate intention of building a sustainable work environment that has minimal or nil adverse effects on the environment.

6. Statement as to disclosure to the Company's auditor

The directors confirm that with respect to each director at the time of approval of this report:

(a) there was, as far as each director is aware, no relevant audit information of which the company's auditor is unaware; and

(b) each director had taken all steps that ought to have been 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.

7. Terms of appointment of the auditor

PricewaterhouseCoopers LLP were appointed as the auditors of the Company in accordance with the company's Articles of Association and Section 721 of the Companies Act, 2015 and subject to Section 24(1) of the Banking Act (Cap 488)

The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

8. Events after the reporting period

There have been no events after the reporting date that require adjustment or disclosure to these financial statements.

By Order of the Board

Bonnie Okumu
Company Secretary
Nairobi
17 March 2021

KCB GROUP PLC DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER

INFORMATION NOT SUBJECT TO AUDIT

The KCB Group Plc approach towards reward and recognition is to ensure that individuals are adequately compensated and recognized for their role towards the overall success of the Group's business.

KCB Group Plc. presents the Directors' Remuneration report for the year ended 31 December, 2020 in line with The Capital Markets Authority *Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015* which provides guidelines on Director's remuneration and in line with the provisions of The Companies Act, 2015.

During the year ended 31 December, 2020, the Board of Directors consisted of:

(a) Two Executive Directors:
  (i) Joshua Oigara – Group Chief Executive Officer & Managing Director
  (ii) Lawrence Kimathi – Group Chief Finance Officer
(b) One Non-Executive Director:
  (i) Ukur Yatani (Cabinet Secretary - National Treasury) (Alternate: Eng. Stanley Kamau)
(c) Maximum of eight independent Non-Executive Directors:
  (i) Andrew W. Kairu (Chairman)
  (ii) Tom Ipomai
  (iii) Georgina Malombe
  (iv) John Nyerere
  (v) Lawrence Njiru
  (vi) Anne Eriksson
  (vii) Ahmed Mohamed (appointed 12 August 2020)
  (viii) Dr.Obuya Bagaka (appointed 28 August 2020)

1. Directors emoluments

For the financial year ended 31 December, 2020, the total Non-executive Directors remuneration was KShs. 119 million (2019 - KShs. 65 million).

The total amount of emoluments paid to Directors for services rendered during the Year 2020 is disclosed in Note 18 and 40 to the Financial Statements.

Neither at the end of the financial year, nor at any time during the year, did there exist any arrangement to which the Company is a party, under which Directors acquired benefits by means of acquisition of the Company's shares.

2. Non-Executive Directors Remuneration and privileges policy

The Group has put in place a policy that adequately defines the remuneration and related privileges received by the Non-Executive Directors of the Company.

All the remuneration and privileges accorded to the Non-executive Directors and enumerated under the policy are competitive and reviewed according to the prevailing market trends for companies of a similar size and complexity of the Company.

The Board has in place a formal process of reviewing its performance and that of its committees and individual directors. Evaluation of the board is externally facilitated after every two years. Each director completes a detailed questionnaire designed to obtain feedback on the board's performance on the following areas:

— Strategic objectives.
— Risk governance.
— Board composition and skills.
— Board meetings and preparation.
— Board interaction and support.
— Performance of governance functions.
— Performance of Chairman, respective committees and individual directors.

Each Non-Executive Director serves for a total non-renewable period of 8 years from the date of appointment. However, in accordance with the Articles of Association of the Company, one-third of the Non-executive Directors are required to resign and may offer themselves for re-election to continue serving on the Board. No Director is entitled to any compensation upon the termination or end of their tenure as a member of the board.

The tenure of the current Non-executive Directors is as follows:

Name	Appointment Date	Retirement Date
Mr. Andrew W. Kairu (Chairman)	4 June, 2018	3 June, 2026
Mr. Ukur Yatani (Alt. Eng. Stanley Kamau)	24 September, 2014	-
Mr. Tom Ipomai	8 July, 2013	8 July, 2021
Ms. Georgina Malombe	16 June, 2014	16 June, 2022
Mr. John Nyerere	13 June, 2014	13 June, 2022
Mr. Lawrence Njiru	7 August, 2018	6 August, 2026
Mrs. Anne Eriksson	18 December, 2019	17 December, 2027
Mr. Ahmed Mohamed	12 August 2020	11 August 2028
Dr. Obuya Bagaka	28 August 2020	27 August 2028

The Human Resources & Nominations Committee of the Board is responsible for setting and administering the Non-executive Directors remuneration policy.

The impact of the adjustment to directors entitlements under the Remuneration Policy following a benchmarking exercise undertaken by an external consultant undertaken in the last quarter of 2019 is recognized fully in the full year 2020 financial statements.

The Human Resources & Nominations Committee continuously reviews the entitlements under the policy to ensure these are aligned to the market.

The following benefits are provided to the Non-executive Directors:

Monthly fees

These are paid to the Non-Executive Directors taking into account their responsibility as a Director of the Company.

Sitting allowance

A sitting allowance is paid to each Non-Executive Directors for attending a duly convened and constituted meeting of the Board or of any of the Committees.

Duty day allowance

An allowance paid to a Non-Executive Director for any day away his regular station in order to attend to duties of the Company.

Telephone allowance

Non-Executive Directors are entitled to a telephone allowance paid monthly.

Club membership

Non-Executive Directors are entitled to membership fees to a social or fitness club.

KCB GROUP PLC DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER (CONTINUED)

Medical insurance cover
All Non-Executive Directors are provided individual medical cover both out-patient and in-patient requirements.

Professional Indemnity Cover
This is provided in line with best market practice to provide protection for the Non-Executive Directors in undertaking their duties in such capacity.

3. Executive Directors Remuneration
The remuneration for Executive Directors is based on negotiated employment contracts. Each Executive Director is employed on a fixed term basis. The fixed term contracts run for a period not exceeding 5 years. The contracts are renewable.

The details of the contracts for the Executive Directors are as follows:

Name	Commencement Date	Duration	Unexpired term*	Termination Notice
Joshua Oigara	1 January, 2018	5 years	2 years	3 months
Lawrence Kimathi	1 January, 2021	5 years	5 years	3 months

***** As at 31 December, 2020

Executive Directors performance is measured based on a Balanced Score Card. Annual business performance targets are derived from the Group three year strategic plan. The key initiatives under the strategic plan include:
- Building a customer centric organisation.
- Exponential growth in digital financial services.
- Excellence in operational efficiency.
- Business growth.
- Effective talent management.
- Driving shareholder value.

Key performance measures under the Balanced Score Card include:
- Financial performance.
- Customer and stakeholder satisfaction.
- Human capital, culture, learning and growth.
- Efficiency in internal business processes.

Executive Directors are entitled to the following remuneration:

Consolidated Basic Pay
This is the consolidated base salary paid to the Executive Director that includes an element of housing.

Bonus
Executive Directors are entitled to a performance-based bonus pay. Each year, 25% of the bonus is retained with the payment of the retained portion being deferred to be paid over a period of the 3 subsequent years.

Allowances
Allowances paid include a house allowance, a car allowance, a telephone allowance and an allowance related to loan benefit adjustment.

Gratuity
This is paid to Executive Directors at the rate of 30% of the annual consolidated basic salary. The total gratuity earned is paid at the end of the contract term.

Club Membership
Executive Directors are entitled to paid membership to a social or fitness club.

Medical Insurance Cover
As provided to all employees, Executive Directors are entitled to medical insurance cover for their individual and family medical requirements covering both outpatient and in-patient requirements.

Professional Indemnity Cover
This is provided in line with best market practice to provide protection for the Executive Directors in undertaking their duties in such capacity.

During the year 2020, there was a 6% adjustment to the basic pay of the two Executive Directors sitting on the board with effect from 1 January 2020.

KCB GROUP PLC DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER (CONTINUED)

INFORMATION SUBJECT TO AUDIT

i. NON-EXECUTIVE DIRECTORS FEES, ALLOWANCES AND OTHER BENEFITS FOR THE YEAR ENDED 31 DECEMBER 2020

DIRECTOR'S NAME	DIRECTORS FEES	SITTING ALLOWANCE	OTHER ALLOWANCES [1]	NON-CASH BENEFIT [2]	TOTAL
	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000
Mr. Andrew W. Kairu	8,923	6,075	776	354	**16,128**
CS National Treasury	2,520	-	-	-	**2,520**
Eng. Stanley Kamau	-	10,301	472	904	**11,677**
Mr. Adil Khawaja [3]	4,043	2,784	185	1,144	**8,156**
Mr. Tom Ipomai	4,682	11,160	320	214	**16,376**
Ms. Georgina Malombe	6,905	5,679	464	84	**13,131**
Mr. John Nyerere	5,465	5,681	653	142	**11,941**
Mr. Lawrence Njiru	6,883	9,825	308	84	**17,100**
Mrs. Anne Eriksson	3,687	9,532	584	84	**13,886**
Mr. Ahmed Mahmoud [4]	747	1,651	83	35	**2,515**
Dr. Obuya Bagaka [5]	2,004	3,469	367	35	**5,875**
GRAND TOTAL [6]					**119,307**

Notes:

[1] Other allowances include the telephone allowance, a meal allowance and the duty day allowance.

[2] Non-cash benefits include medical insurance cover cost and entitlement, club membership and professional indemnity cover cost.

[3] Retired 14 June 2020.

[4] Appointed 12 August 2020.

[5] Appointed 28 August 2020.

[6] The amount includes fees, allowances, and other benefits in respect of KCB Bank Kenya Limited, National Bank of Kenya Limited, KCB Bank Tanzania Limited, KCB Bank South Sudan Limited, KCB Bank Uganda Limited, KCB Bank Rwanda Limited, KCB Bank Burundi Limited, KCB Capital Limited, KCB Insurance Agency Limited and KCB Foundation. The Group Board nominates at least 2 of its members to sit on each subsidiary board.

KCB GROUP PLC DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER (CONTINUED)

INFORMATION SUBJECT TO AUDIT (CONTINUED)

ii. NON-EXECUTIVE DIRECTORS FEES, ALLOWANCES AND OTHER BENEFITS FOR THE YEAR ENDED 31 DECEMBER 2019

DIRECTOR'S NAME	DIRECTORS FEES	SITTING ALLOWANCE	OTHER ALLOWANCES[1]	NON-CASH BENEFIT[2]	TOTAL
	KShs. '000	KShs. '000	KShs. '000	KShs. '000	KShs. '000
Mr. Andrew W. Kairu	7,108	3,880	2,223	1,200	**14,411**
CS National Treasury	3,076	-	-	-	**3,076**
Mr. Julius Mutua (Alt. to CS)[3]	-	2,560	328	49	**2,937**
Eng. Stanley Kamau[4]	-	2,156	278	35	**2,469**
Mr. Ngeny Biwott[5]	715	715	118	84	**1,632**
Mr. Adil Khawaja	4,689	3,088	528	84	**8,388**
Mr. Tom Ipomai	4,516	5,437	1,283	84	**11,320**
Ms. Georgina Malombe	3,025	3,465	1,079	84	**7,653**
Mr. John Nyerere	3,025	3,104	1,066	84	**7,279**
Mr. Lawrence Njiru	1,650	3,437	534	84	**5,704**
Mrs. Anne Eriksson [6]	61	-	7	-	**68**
GRAND TOTAL[7]					**64,936**

Notes:

[1] Other allowances include the telephone allowance, a meal allowance and the duty travel-day and duty day allowance.

[2] Non-cash benefits include medical insurance cover cost, club membership and professional indemnity cover cost.

[3] Ceased to be the Alternate to the C. S. National Treasury with effect from 6 August 2019.

[4] Appointed as the Alternate to the C. S. National Treasury with effect from 7 August 2019.

[5] Retired 15 June 2019.

[6] Appointed 18 December 2019.

[7] The amount includes fees, allowances, and other benefits in respect of KCB Bank Kenya Limited, National Bank of Kenya Limited, KCB Bank Tanzania Limited, KCB Bank South Sudan Limited, KCB Bank Uganda Limited, KCB Bank Rwanda Limited, KCB Bank Burundi Limited, KCB Capital Limited, KCB Insurance Agency Limited and KCB Foundation. The Group Board nominates at least 2 of its members to sit on each subsidiary board.

KCB GROUP PLC DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER (CONTINUED)

INFORMATION SUBJECT TO AUDIT (CONTINUED)

iii. EXECUTIVE DIRECTORS REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2020

Director's Name	Salary KShs. Million	Bonus		Allowances KShs. Million	Gratuity KShs. Million	Noncash benefit [1] KShs. Million	Total KShs. Million
		Cash KShs. Million	Deferred KShs. Million				
Mr. Joshua Oigara	76.4	-	-	16.6	22.9	0.3	**116.2**
Mr. Lawrence Kimathi	43.2	-	-	4.4	13.0	0.1	**60.7**

Note:

[1] Non-cash benefits include medical insurance cover, club membership and professional indemnity cover.

iv. EXECUTIVE DIRECTORS REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2019

Director's Name	Salary KShs. Million	Bonus		Allowances KShs. Million	Gratuity KShs. Million	Noncash benefit [1] KShs. Million	Total KShs. Million
		Cash KShs. Million	Deferred KShs. Million				
Mr. Joshua Oigara	72.0	145.3	48.4	11.5	21.6	0.3	**299.1**
Mr. Lawrence Kimathi	40.8	29.4	9.8	-	12.2	0.1	**92.3**

Note:

[1] Non-cash benefits include medical insurance cover, club membership and professional indemnity cover.

BY ORDER OF THE BOARD

John Nyerere
Chairman, Human Resources & Governance Committee
Date: 17 March 2021

KCB GROUP PLC STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group as at the end of the financial year and of their profit or loss for that year. The directors are responsible for ensuring that the Group keep 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 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 directors accept responsibility for the preparation and presentation of these 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 control 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 apply them consistently; and
iii. Making judgements and accounting estimates that are reasonable in the circumstances

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

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

Approved by the board of directors on 17 March 2021 and signed on its behalf by:

Andrew W. Kairu
Chairman

Joshua Oigara, CBS
Chief Executive Officer and Managing Director

Anne Eriksson
Director

Bonnie Okumu
Secretary

Date: 17 March 2021

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Independent auditor's report to the shareholders of KCB Group Plc

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of KCB Group Plc (the Company) and its subsidiaries (together, the Group) set out on pages 105 to 225, which comprise the consolidated statement of financial position at 31 December 2020 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the Company statement of financial position at 31 December 2020, and the Company statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements of KCB Group Plc give a true and fair view of the financial position of the Group and the Company at 31 December 2020 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with 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 financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Independent auditor’s report to the shareholders of KCB Group Plc (Continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Credit risk assessment and determination of expected credit losses on loans and advances at amortised cost	
As explained in Note 2 and 4 of the financial statements, determining expected credit losses on loans and advances is complex, judgmental and involves significant estimation uncertainty. IFRS 9, Financial Instruments, requires the Directors to measure expected credit losses on a forward-looking basis reflecting a range of future economic conditions. The standard adopts a 3-stage model approach where the loans and advances are categorised in stage 1, 2 and 3 depending on whether the facilities are performing, have a experienced significant increase in credit risk or are in default. Changes to the assumptions and estimates used by management could generate significant fluctuations in the Group’s financial results and materially impact the valuation of the portfolio of loans and advances. In addition, the evolving economic impact of the COVID-19 pandemic has heightened the general risk of credit default and significant increase in credit risk, increasing the uncertainty around the management judgements and estimation process. The calculation of the expected credit losses involves complex mathematical models that are prone to data integrity or configuration errors, or mathematical formulaic errors. Our audit procedures focused on the following areas that have a significant impact on the calculation of the expected credit losses: • the judgments made to determine the categorisation (staging) of individual loan and advances accounts in line with IFRS 9. In particular, the identification of Significant Increase in Credit Risk (“SICR”) and Default requires consideration of quantitative and qualitative criteria. This is a key area of judgement as this determines whether a 12-month or lifetime PD is used; • the assumptions applied in deriving the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD) for the various segments of loans and advances, including any adjustments in relation to COVID-19 overlays; and • the appropriateness of forward-looking information used in the models; and • the conceptual logic, soundness and accuracy of the expected credit losses models used by the entities in the Group	Reviewed the Group’s methodology for determining expected credit losses, including enhancements in the year, and evaluated this against the requirements of IFRS 9, Financial Instruments. Tested the individual entities applied the system extracts of ‘days past due (DPD)’ report in categorising the loan book into the three stages required by IFRS 9. For a sample of loans, we recalculated the DPD applied in the model and agreed these to the DPD reports from the IT systems and the respective customer files. Reviewing judgments applied in the staging of loans and advances; Tested the completeness of restructured loans listing and, on a sample basis, assessed the rationale for the restructures and the appropriateness of their subsequent measurement in accordance with IFRS 9 requirements. Obtained an understanding of the basis used to determine the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD), including the post write-off recovery rates for unsecured facilities and the COVID-19 impact overlays. We tested the completeness and accuracy of the historical data used in derivation of PDs, LGDs and EADs, and re-calculated the outcomes on a sample basis. For LGD, we tested the assumptions on the timing of the cash flows based on historical empirical evidence. In addition, for secured facilities, we agreed the collateral values used in the ECL model to external valuer reports. On a sample basis, we tested the reasonableness of EADs for both on and off-balance sheet exposures, including the applied cash conversion factors. We corroborated the assumptions used for determination of forward-looking information (FLI) in the models using publicly available information. We reviewed and assessed adequacy of the disclosures in the financial statements on the key judgements and assumptions in accordance with the requirement of IFRS 9.

Independent auditor's report to the shareholders of KCB Group Plc (Continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Information Technology systems and controls over financial reporting	
The Group's financial accounting and reporting processes are dependent on complex information technology systems and applications. Specifically, the calculation, recording and financial reporting of financial transactions and balances are significantly dependent on automated processes. Weaknesses in the design and operating effectiveness of the automated accounting procedures and related IT dependent manual controls could result in material errors in the financial information. Our audit focus on information technology systems and applications and controls over financial reporting included the following areas: • management of logical access to critical systems including privileged access and developer access to production environment; • controls over changes of programs and systems developments; • automated application controls relating to processing of transactions, accounting and financial reporting; and • interfaces between the core financial reporting systems to banking systems and applications, including any manual adjustments to financial information.	We assessed and tested the design and operating effectiveness of the controls over the integrity of information technology (IT) systems and applications that are relevant for financial accounting and reporting. We tested controls over programs development and changes, access to programs and data and IT operations including compensating controls where necessary. We also tested certain aspects of the security of the IT systems including logical access management and segregation of duties. Where, either design or operating effectiveness control deficiencies were identified, we altered our audit approach to test the compensating controls or increased the level of our tests of detail. These additional procedures mitigated the deficiencies or provided the additional audit comfort. We validated any manual adjustments to information generated by the IT systems and applications and assessed the appropriateness of the adjustments.

Other information

The other information comprises Corporate information, Report of the directors, Directors' remuneration report and Statement of directors' responsibilities which we obtained prior to the date of this auditor's report, and the rest of the other information in the Integrated Report and Financial Statements which are expected to be made available to us after that date but does not include the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information we have received 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 rest of the other information in the Integrated Report and Financial Statements and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Independent auditor's report to the shareholders of KCB Group Plc (Continued)

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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's ability to continue as a going concern.If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable actions taken to eliminate threats or safeguards applied.

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

Independent auditor's report to the shareholders of KCB Group Plc (Continued)

Report on other matters prescribed by the Companies Act, 2015

Report of the directors
In our opinion the information given in the report of the directors on page 93 is consistent with the financial statements.

Directors' remuneration report
In our opinion the auditable part of the directors' remuneration report on pages 94 to 98 has been properly prepared in accordance with the Companies Act, 2015

PricewaterhouseCoopers LLP.

Certified Public Accountants
Nairobi

17 March 2021

FCPA Michael Mugasa Practicing certificate No. 1478
Signing partner responsible for the independent audit

KCB GROUP PLC CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER

	Note	2020 KShs. Million	2019 KShs. Million
Interest income	8	92,951	79,644
Interest expense	8	(20,807)	(18,220)
Net interest income		**72,144**	**61,424**
Fees and commission income	9	14,736	15,485
Fees and commission expense	9	(1,163)	(928)
Net fees and commission income		**13,573**	**14,557**
Net trading income	10	5,390	4,497
Other operating income	11	4,889	3,823
Total income		**95,996**	**84,301**
Credit Impairment losses	12	(27,509)	(8,889)
Net fair value gain on financial assets at fair value through profit or loss	13	393	-
Net operating income		**68,880**	**75,412**
Employee benefits	14	(20,511)	(19,459)
Depreciation and amortisation	15	(5,919)	(4,795)
Interest expense on lease liabilities	16	(667)	(464)
Other operating expenses	17	(16,194)	(13,961)
Loss on monetary position	19	130	164
Profit before income tax		**25,719**	**36,897**
Income tax expense	20	(6,115)	(11,732)
Profit for the year		**19,604**	**25,165**
Earnings per share (KShs.)			
Basic earnings per share	21	**6.10**	**7.83**
Diluted earnings per share	21	**6.10**	**7.83**

KCB GROUP PLC CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER

	Note	2020 KShs. Million	2019 KShs. Million
Profit for the year		**19,604**	**25,165**
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of post-employment benefit obligation	48	(167)	(719)
Income tax expense thereon	35	50	216
		(117)	**(503)**
Items that may be reclassified subsequently to profit or loss			
Hyperinflation translation		(1,539)	443
Currency translation differences on foreign operations		584	(780)
Financial assets at fair value through other comprehensive income			
- gain/(loss) from fair value re-measurement		3,119	(4,361)
Income tax expense thereon	35	(936)	1,308
		1,228	**(3,390)**
Other comprehensive income for the year, net of income tax		**1,111**	**(3,893)**
Total comprehensive income for the year		**20,715**	**21,272**

KCB GROUP PLC CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER

	Note	2020 KShs.Million	2019 KShs.Million
ASSETS			
Cash and balances with Central Banks	22	64,608	83,235
Loans and advances to banks	23	23,706	25,174
Financial assets at fair value through other comprehensive income	24	94,284	66,238
Investment in equity	25	600	600
Other assets and prepayments	26	43,162	39,142
Loans and advances to customers (Net)	27	595,255	539,747
Financial assets at amortised cost	28	111,357	96,977
Current income tax	20	426	552
Financial assets at fair value through profit or loss	29	5,143	1,651
Property and equipment	30	14,629	13,132
Investment property	31	6,035	5,642
Right of-use-asset	32	5,459	7,284
Intangible assets	33	5,499	6,337
Deferred income tax asset	35	17,647	12,861
TOTAL ASSETS		**987,810**	**898,572**
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks	36	19,668	20,371
Deposits from customers	37	767,224	686,583
Lease liabilities	39	6,858	6,108
Payables and accrued expenses	38	14,428	33,956
Retirement benefits obligation	48	177	-
Borrowings	41	37,032	21,813
Total liabilities		**845,387**	**768,831**
Equity			
Share capital	42	3,213	3,213
Share premium	43	27,690	27,690
Statutory credit risk reserve	43	2,155	5,915
Other reserves	43	(6,668)	(8,429)
Retained earnings	43	116,033	101,352
Total equity		**142,423**	**129,741**
TOTAL LIABILITIES AND EQUITY		**987,810**	**898,572**

The financial statements set out on pages 105 to 225 were approved and authorised for issue by the Board of Directors on 17 March 2021.

Andrew W. Kairu
Chairman

Joshua Oigara, CBS
Chief Executive Officer & Managing Director

Anne Eriksson
Director

Bonnie Okumu
Secretary

KCB GROUP PLC COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

	Note	2020 KShs. Million	2019 KShs. Million
Dividend Income	11	170	16,551
Interest income	8	31	-
Net foreign exchange gain/(loss)	10	38	(4)
Other income	11	507	415
Total income		**746**	**16,962**
Employee benefits	14	(653)	(326)
Depreciation and amortisation	15	(14)	(9)
Other operating expenses	17	(1,432)	(599)
(Loss)/profit before income tax	18	**(1,353)**	**16,028**
Income tax expense	20	(18)	(142)
(Loss)/profit for the year		**(1,371)**	**15,886**
Other comprehensive income, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Net loss on financial assets at fair value through other comprehensive income	24	-	(13)
Income tax expense thereon	35	-	4
		-	(9)
Other comprehensive income for the year, net of income tax		**-**	**(9)**
Total comprehensive income for the year		**(1,371)**	**15,877**
Earnings per share (KShs.)			
Basic	21	**(0.43)**	**4.94**
Diluted	21	**(0.43)**	**4.94**

KCB GROUP PLC COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER

	Note	2020 KShs. Million	2019 KShs. Million
ASSETS			
Cash and bank balances	22	1,147	1,178
Financial assets at fair value through other comprehensive income	24	-	25
Other assets and prepayments	26	33	37
Investment in subsidiary undertakings	34	79,662	79,227
Due from related parties	40	213	6,336
Property and equipment	30	616	607
Intangible assets	33	7	10
Current income tax	20	25	27
Deferred income tax	35	-	2
TOTAL ASSETS		**81,703**	**87,449**
LIABILITIES AND EQUITY			
Liabilities			
Payables and accrued expenses	38	52	5
Deferred income tax	35	10	-
Due to related parties	40	3,553	-
Total liabilities		**3,615**	**5**
Equity			
Share capital	42	3,213	3,213
Share premium		27,690	27,690
Other reserves	43	-	(52)
Retained earnings		47,184	56,593
Total equity		**78,087**	**87,444**
TOTAL LIABILITIES AND EQUITY		**81,703**	**87,449**

The financial statements set out on pages 105 to 225 were approved and authorised for issue by the Board of Directors on 17 March 2021.

Andrew W. Kairu
Chairman

Joshua Oigara, CBS
Chief Executive Officer & Managing Director

Anne Eriksson
Director

Bonnie Okumu
Secretary

KCB GROUP PLC CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER

	Note	Share capital KShs. Million	Share premium KShs. Million	Statutory credit risk reserve KShs. Million	Other reserves KShs. Million	Retained earnings KShs. Million	Total KShs. Million
At 1 January 2020		3,213	27,690	5,915	(8,429)	101,352	129,741
Profit for the year		-	-	-	-	19,604	19,604
Other comprehensive income (net of taxes)							
Foreign currency translation differences for foreign operations		-	-	-	584	-	584
Net gain on fair value of financial assets at fair value through other comprehensive income (net of tax)		-	-	-	2,183	-	2,183
Transfer from statutory credit risk reserve		-	-	(3,760)	-	3,760	-
Hyperinflationary impact		-	-	-	(889)	(650)	(1,539)
Re-measurement of post-employment benefit obligation (net of taxes)	48	-	-	-	(117)	-	(117)
Total comprehensive income		**-**	**-**	**(3,760)**	**1,761**	**22,714**	**20,715**
Transactions with owners recorded directly in equity							
Dividend paid in 2020	44	-	-	-	-	(8,033)	(8,033)
Total contributions and distributions		**-**	**-**	**-**	**-**	**(8,033)**	**(8,033)**
At 31 December 2020		**3,213**	**27,690**	**2,155**	**(6,668)**	**116,033**	**142,423**

KCB GROUP PLC CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER

	Note	Share capital	Share premium	Statutory credit risk reserve	Other reserves	Retained earnings	Total
		KShs. Million	KShs. Million	KShs. Million	KShs. Million	KShs. Million	KShs. Million
At 1 January 2019		3,066	21,647	1,222	(4,995)	92,721	113,661
Adjustment of initial application of IFRS 16, net of taxes		-	-	-	-	(651)	(651)
Profit for the year		-	-	-	-	25,165	25,165
Other comprehensive income (net of taxes)							
Foreign currency translation differences for foreign operations		-	-	-	(780)	-	(780)
Net change on fair value of financial assets at fair value through other comprehensive income (net of tax)		-	-	-	(3,053)	-	(3,053)
Transfers in reserves		-	-	4,693	459	(5,152)	-
Re-measurement of post-employment benefit obligation (net of taxes)	48	-	-	-	(503)	-	(503)
Hyperinflationary impact		-	-	-	443	-	443
Total comprehensive income		**-**	**-**	**4,693**	**(3,434)**	**19,362**	**20,621**
Transactions with owners recorded directly in equity							
Scrip shares		147	6,043	-	-	-	6,190
Final dividend paid – 2019		-	-		-	(7,665)	(7,665)
Interim dividend paid – 2019	44	-	-	-	-	(3,066)	(3,066)
Total contributions and distributions		**147**	**6,043**	**-**	**-**	**(10,731)**	**(4,541)**
At 31 December 2019		**3,213**	**27,690**	**5,915**	**(8,429)**	**101,352**	**129,741**

KCB GROUP PLC COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER

	Note	Share capital	Share premium	Statutory credit risk reserve	Other reserves	Retained earnings	Total
		KShs. Million	KShs. Million	KShs. Million	KShs. Million	KShs. Million	KShs. Million
At 1 January 2020		3,213	27,690	-	(52)	56,594	87,445
Loss for the year		-	-	-	-	(1,371)	(1,371)
Other comprehensive income (net of taxes)					-		-
Net gain on fair value of financial assets at fair value through other comprehensive income (net of tax)		-	-	-	52	-	52
Total comprehensive income		**-**	**-**	**-**	**52**	**(1,371)**	**(1,319)**
Transactions with owners recorded directly in equity							-
Dividend paid in 2020	44	-	-	-	-	(8,033)	(8,033)
Total contributions and distributions		**-**	**-**	**-**	**-**	**(8,033)**	**(8,033)**
At 31 December 2020		**3,213**	**27,690**	**-**	**-**	**47,190**	**78,093**

KCB GROUP PLC COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER

	Note	Share capital KShs. Million	Share premium KShs. Million	Other reserves KShs. Million	Retained earnings KShs. Million	Total KShs. Million
At 1 January 2019		3,066	21,647	(43)	51,438	76,108
Profit for the year		-	-	-	15,886	15,886
Other comprehensive income (net of taxes)						
Change in fair value of Fair value through other comprehensive income increments (net of taxes)		-	-	(9)	-	(9)
Total comprehensive income		**-**	**-**	**(9)**	**15,886**	**15,877**
Transactions with owners recorded directly in equity						
Scrip shares		147	6,043	-	-	6,190
Dividend paid – 2019	44	-	-	-	(7,665)	(7,665)
Interim 2019		-	-	-	(3,066)	(3,066)
Total contributions and distributions		**147**	**6,043**	**-**	**(10,731)**	**(4,541)**
At 31 December 2019		**3,213**	**27,690**	**(52)**	**56,593**	**87,444**

KCB GROUP PLC CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

	Note	2020 KShs. Million	2019 KShs. Million
Net cash flows from operating activities	45	**2,167**	**40,362**
Investing activities			
Proceeds from disposal of property and equipment		54	113
Purchase of intangible assets	33	(1,281)	(2,669)
Purchase of property and equipment	30	(3,424)	(2,986)
Acquisition of subsidiary		-	(9,384)
Net cash flows used in investing activities		**(4,651)**	**(14,926)**
Financing activities			
Proceeds from borrowings	41	16,376	-
Payment of principal portion of borrowings	41	(2,787)	(1,050)
Payment of principal portion of lease liabilities		(1,100)	(1,082)
Dividends paid	44	(8,033)	(10,731)
Net cash flows used in financing activities		**4,456**	**(12,863)**
Increase in cash and cash equivalents		1,972	12,573
Cash and cash equivalents at start of the year		63,202	50,629
Cash and cash equivalents at the end of year	45	**65,174**	**63,202**

KCB GROUP PLC COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER

	Note	2020 KShs. Million	2019 KShs. Million
Net cash flows from operating activities	45	**8,458**	**16,062**
Investing activities			
Purchase of property and equipment	30	(21)	(52)
Investment in subsidiaries	34	(435)	(5,000)
Net cash flows from investing activities		(456)	(5,052)
Financing activities			
Dividends paid	44	(8,033)	(10,731)
Net cash flows from financing activities	44	**(8,033)**	**(10,731)**
(Decrease)/increase in cash and cash equivalents		(31)	279
Cash and cash equivalents at start of the year		1,178	899
Cash and cash equivalents at the end of year	45	**1,147**	**1,178**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

1. REPORTING ENTITY

KCB Group Plc is incorporated in Kenya under the Kenyan Companies Act, 2015 and has subsidiaries in Kenya, South Sudan, Tanzania, Uganda, Rwanda and Burundi. The consolidated financial statements of the Company as at and for the year ended 31 December 2020 comprise the Group and its subsidiaries (together referred to as the "Group" and individually referred to as the "Company") and the Group's interest in associates. The address of its registered office is as follows:

Kencom House
Moi Avenue
PO Box 48400 - 00100
Nairobi, Kenya

The Company has a 100% ownership in KCB Bank Kenya Limited, Kenya Commercial Finance Company Limited, Savings & Loan Kenya Limited, Kenya Commercial Bank Nominees Limited, Kencom House Limited, KCB Bank Tanzania Limited, KCB Bank South Sudan Limited, KCB Bank Rwanda Limited, KCB Bank Uganda Limited, KCB Bank Burundi Limited, KCB Insurance Agency Limited, KCB Capital Limited, National Bank of Kenya, 20% ownership in Kenya Mortgage Refinance Company(KMRC) and a 45% ownership in United Finance Limited.

The shares of the Company are listed on the Nairobi Securities Exchange, Uganda Securities Exchange, Dar-es-Salaam Stock Exchange and Rwanda Stock Exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Compliance with IFRS

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS and the Companies Act, 2015. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

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

(b) Basis of preparation

The financial statements have been prepared on the historical cost basis except for the following:

- Financial assets at fair value through profit or loss are measured at fair value;
- Financial assets at fair value through other comprehensive income are measured at fair value; and
- The liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains less unrecognised past service cost and unrecognised actuarial losses.

(c) Changes in accounting policies and disclosures

The accounting policies set out below have been applied consistently to all years presented on these financial statements and have been applied consistently by the Group.

(i) New standards, amendments and interpretations effective and adopted during the year

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

- Definition of Material – amendments to IAS 1 and IAS 8
- Definition of a Business – amendments to IFRS 3
- Interest Rate Benchmark Reform – amendments to IFRS 9, IAS 39 and IFRS 7
- Revised Conceptual Framework for Financial Reporting

The Group also elected to adopt the following amendments early:

- Annual Improvements to IFRS Standards 2018-2020 Cycle.

IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities. This change did not have an impact on the Group's financial statements.

IFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives. This change did not have an impact on the Group's financial statements.

- COVID-19-Related Rent Concessions – amendments to IFRS 16

As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. The concessions at the Group took the form of rebates on the payments. The Group has assessed the payment rebates and treated these concessions as variable lease payments. The rent concessions applied to only 13 contracts and the rebates ranged from 10% to 50% of the rental payments for a duration of 3 months to 1 year. The amount recognised in profit or loss was KShs. 9.3 million.

- Interest Rate Benchmark Reform – amendments to IFRS 9, IAS 39 and IFRS 7. This did not have an impact on the Group's financial statements as the Group does not have hedging contracts.

(ii) New standards, amendments and interpretations issued not yet effective

The below new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

Title	Key requirements	Effective Date *
IFRS 17 *Insurance Contracts*	IFRS 17 was issued in May 2017 as replacement for IFRS 4 *Insurance Contracts*. It requires a current measurement model where estimates are re-measured in each reporting period. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.	Originally 1 January 2021, but extended to 1 January 2023 by the IASB in March 2020
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	The narrow-scope amendments to IAS 1 *Presentation of Financial Statements* clarify that liabilities are classified as either current or non- current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g., the receipt of a waver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*	1 January 2022 [deferred to 1 January 2023]
Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16	The amendment to IAS 16 *Property, Plant and Equipment* (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.	1 January 2022
Reference to the Conceptual Framework – Amendments to IFRS 3	Minor amendments were made to IFRS 3 *Business Combinations* to update the references to the *Conceptual Framework for Financial Reporting* and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and Interpretation 21 *Levies.* The amendments also confirm that contingent assets should not be recognised at the acquisition date.	1 January 2022
Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37	The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.	1 January 2022
Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28	The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures. The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non- monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations). Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively. ** In December 2015, the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.	n/a **

These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Basis of consolidation

(i) Business Combinations
The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identified net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

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

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

(ii) Subsidiaries
Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The subsidiaries are shown in Note 34.

(iii) Non-controlling interest (NCI)
NCI are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.
Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iv) Loss of control
When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(v) Interests in equity-accounted investees
The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

(vi) Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(e) Functional and presentation currency
The financial statements are presented in Kenya Shillings (KShs.), except as otherwise indicated, financial information presentation in Kenya shillings has been rounded to the nearest thousand (KShs. '000). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

(f) Use of estimates and judgement
In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.
The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

(g) Foreign currency translation

(i) Transactions and balances
Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized as profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

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

Changes in the fair value of monetary securities denominated in foreign currency classified as fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Transactions and balances - continued

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

Translation differences on non-monetary financial assets, such as equities classified as fair value through other comprehensive income, are included in other comprehensive income.

(ii) Group Companies

The results and financial position of all the group entities (one of which has the currency of a hyper-inflationary economy as at 31 December 2020) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities of foreign subsidiaries are translated into Kenya Shillings at the rate of exchange ruling at the reporting date;
(ii) income and expenses for each statement of comprehensive income are translated at the weighted average exchange rates for the period; and
(iii) exchange differences arising on translation are recognised in other comprehensive income and accumulated in equity in the translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

The financial statements for KCB Bank South Sudan Limited have been presented in line with IAS 29 for hyperinflationary economies. Judgment has been used in the various assumptions used such as the consumer price indices for the various years due to limitation of data available. Refer to Note 49.

(h) Recognition of income and expenses

(i) Interest income and expenses

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

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

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

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate.

Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

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

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

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

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

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

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

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at fair value through other comprehensive income

Interest expense presented in the statement of profit or loss and other comprehensive income includes financial liabilities measured at amortised cost.

Interest income and expense on other financial assets and financial liabilities at fair value through profit or loss (FVTPL) are presented in net income from other financial instruments at FVTPL.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Recognition of income and expenses (continued)

(ii) Dividend income
Dividend income is recognised when the Group's right to receive payment is established.

(iii) Risk premium
Risk premium fees are charged on unsecured loans issued to customers and members of staff and is meant to mitigate against risk of default arising from permanent death or disability. The net fees, minus any claims or other costs incurred, are recognised upfront as a liability and are armotised into the profit or loss over the tenure of the loan.

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

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period

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

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

(v) Rental income
Rental income in respect of operating leases is accounted for on a straight-line basis over the lease terms on ongoing leases.

(vi) Net trading income
Net trading income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

(i) Income tax expense
Current income tax expense comprises current income tax and change in deferred income tax. Income tax expense is recognized in profit or loss except to the extent that it related to items recognized directly in equity or other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years. The amount of tax payable or recoverable if the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

Deferred income tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities in a transaction that is not a business combination, and which affects neither accounting nor taxable profit. It is also not recognised for temporary differences related to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future and the investor is able to control the timing of the reversal of the temporary difference.

Deferred income tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred income tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis, or their tax assets and liabilities will be realized simultaneously.

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

(j) Financial assets and liabilities

(i) Recognition and measurement
Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Group will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets and liabilities (continued)

(ii) Classification and subsequent measurement of financial instruments

is recognised in profit or loss on initial recognition (i.e., day 1 profit or loss);

- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e., day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL.

Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss. For all financial assets, the amount presented on the statement of financial position represent all amounts receivable including interest accruals.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

IFRS 9 specifically requires:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at Fair Value Through Other Comprehensive Income (FVTOCI);
- However, the Group may make the following irrevocable election / designation at initial recognition of a financial asset on an asset-by-asset basis:
- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income; and
- the Group may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Debt instruments at amortised cost or at FVTOCI

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are SPPI.

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g., if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset.

The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument; therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Group has more than one business model for managing its financial instruments which reflect how the Group manages its financial assets in order to generate cash flows. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Group considers all relevant information available when making the business model assessment. However, this assessment is not performed on the basis of scenarios that the Group does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios.

The Group considers all relevant evidence available such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (e.g., whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets and liabilities (continued)

ii. Classification and subsequent measurement of financial instruments (continued)

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Group has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

Non-recourse loans

Non-recourse loan is a type of loan secured by collateral, which is usually property. If the borrower defaults, the Group can seize the collateral but cannot seek out the borrower for any further compensation, even if the collateral does not cover the full value of the defaulted amount.

In some cases, loans made by the Group that are secured by collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The Group applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Group typically considers the following information when making this judgement:

— whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
— the fair value of the collateral relative to the amount of the secured financial asset;
— the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
— whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
— the Group's risk of loss on the asset relative to a full-recourse loan;
— the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
— whether the Group will benefit from any upside from the underlying assets.

The guidelines/procedures on dealing with non-recourse loans as detailed in the Non-Performing Debts Management manual which summarily states that:

a) It is not the Group's policy to "nurse" or warehouse properties until the market picks up but to dispose them into the market quickly and at the best price. Disposal methods should be reviewed continuously to ensure the most effective method is being used.
b) While assets are awaiting disposal, the Group should make sure that proper administration is undertaken on these assets to protect their value.
c) Asset disposal should start immediately when the asset becomes ready for sale. This is specifically defined as the time when:
    i. The client surrenders voluntarily the asset or has agreed for the Group to sell the property.
    ii. The Group is awarded possession of the property by legal or other means. As the case may be, titles and ownership documents have been transferred to the Group's name and registered with the appropriate Land Registry.

Repossessed Collateral

The Group makes arrangement to dispose repossessed collateral to the market quickly and at the best price. Disposal processes commences immediately when the asset becomes ready for sale. While assets are not being disposed of, the Group endeavors to keep costs relative to the upkeep and maintenance of the assets to a minimum. Possessed moveable assets are stored at reputable storage yards approved by the Group or within Group premises.

Converting/Liquidating the assets in the Group's possession now is still better than holding the assets for a projected upturn in market price in the future which often do not materialize.

The Group is not in asset and property trading/management, and thus does not take positions on the market trends.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; or/and
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 5- Fair value of financial instruments.

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Reclassifications

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets and liabilities (continued)

Impairment of financial assets
The Group recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

ai. Classification and subsequent measurement of financial instruments (continued)

Impairment of financial assets (continued)

- loans and advances to banks;
- loans and advances to customers;
- debt investment securities;
- lease receivables;
- loan commitments issued; and
- financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

With the exception of Purchased Originated Credit Impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).
- A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided in note 3.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

More information on measurement of ECLs is provided in note 4, including details on how instruments are ranked when they are assessed on a collective basis.

Credit-impaired financial assets
A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a back- stop if amounts are overdue for 90 days or more.

Purchased or originated credit-impaired (POCI) financial assets
POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Definition of default
Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD)

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets and liabilities (continued)

which affects both the measurement of ECLs and the identification of a significant increase in credit risk (see note 3).

The Group considers the following as constituting an event of default:

(i) Financial assets and liabilities (continued)

(ii) Classification and subsequent measurement of financial instruments (continued)

Financial assets (continued)

- the borrower is past due more than 90 days on any material credit obligation to The Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

This definition of default is used by the Group for accounting purposes as well as for internal credit risk management purposes and is broadly aligned to the regulatory definition of default. The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.
When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending.

Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources. More details are provided in note 3. As noted in the definition of credit impaired financial assets above, default is evidence that an asset is credit impaired. Therefore, credit impaired assets will include defaulted assets, but will also include other non-defaulted given the definition of credit impaired is broader than the definition of default.

Significant increase in credit risk

The Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk The Group will measure the loss allowance based on lifetime rather than 12-month ECL. The Group's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, The Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, The Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on The Group's historical experience and expert credit assessment including forward-looking information. See note 3 for more details about forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

For corporate lending, forward-looking information includes the future prospects of the industries in which The Group's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think- tanks and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, lending forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behaviour.

The Group allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- the remaining lifetime PD at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward-looking and the Group uses the same methodologies and data used to measure the loss allowance for ECL (please refer to note 4).

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending the Group considers the expectation of forbearance and payment holidays, credit scores and events such as unemployment, bankruptcy, divorce or death.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant increase in credit risk (continued)
be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

As a back-stop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL. In addition, loans that are individually assessed and are included on a watch list are in stage 2 of the impairment model. As noted, if there is evidence of credit-impairment the assets are at stage 3 of the impairment model.

More information about significant increase in credit risk is provided in note 4.

Modification and derecognition of financial assets
A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Group renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Group has an established forbearance policy which applies for corporate and retail lending.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or when rights to cash flows between the original counterparties expire because a new debtor replaces the original debtor (unless both debtors are under common control), the extent of change in interest rates, and maturity. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10% the Group deems the arrangement is substantially different leading to derecognition. When performing a quantitative assessment of a modification or renegotiation of a credit-impaired financial asset or a purchased or originated credit-impaired financial asset that was subject to a write-off, the Group considers the expected (rather than the contractual) cash flows before modification or renegotiation and compares those with the contractual cash flows after modification or renegotiation.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition.

The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated- credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par-amount because there remains a high risk of default which has not been reduced by the modification. The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

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

For financial assets modified as part of the Group's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL.

If a forborne loan is credit impaired due to the existence of evidence of credit impairment (see above), the Group performs an ongoing assessment to ascertain if the problems of the exposure are cured, to determine if the loan is no longer credit impaired. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Group calculates the modification loss by comparing the gross carrying amount before

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Modification and derecognition of financial assets (continued)
and after the modification (excluding the ECL allowance). Modification losses for financial assets are included in the profit or loss account in 'Losses on modification of financial assets'. Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss.

A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

Write-off
Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains, which will be presented in 'net impairment loss on financial assets' in the statement of profit or loss.

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

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investment's revaluation reserve;
- for loan commitments and financial guarantee contracts: as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Financial liabilities
Fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. For all financial liabilities, the amount presented on the statement of financial position represent all amounts payable including interest accruals.

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL. A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (continued)

a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the ranking is provided internally on that basis; or
- it forms part of a hybrid (combined) contract, containing one or more embedded derivatives that significantly modifies the cash flows of the contract, or it is clear with little or no analysis that separation of the embedded derivative is not prohibited.

Financial liabilities at fair value through profit and loss (FVTPL) are stated at fair value, with any gains/losses arising on remeasurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains, and losses are recognised in profit or loss.

Fair value is determined in the manner described in note 5.

Other financial liabilities

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For details on EIR see the "interest income and expenses section" above.

Modification and derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. To determine if the modified terms of a liability are substantially different to the original terms a similar process with modification of financial assets is followed. The modification is assessed at first on a qualitative basis, factors such as a change in currency or the introduction of a non-closely related embedded derivative that significantly modifies the cash flows are regarded as substantially different. If it is not clear from the qualitative assessment that a modification has resulted in a substantial change in a financial liability, a quantitative assessment is applied. It is assumed that the terms of the financial liability are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification is not substantial, the Group recalculates the amortised cost of the modified financial liability by discounting the modified contractual cash flows using the original effective interest rate. The Group recognises any adjustment to the amortised cost of the financial liability in profit or loss as income or expense at the date of the modification. The financial liability modification gain/loss is not significant for the Group. Modification gains are presented in 'other income' and modification losses are presented in 'other expenses' in the profit or loss account.

Offsetting financial assets and liabilities

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

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

(k) Property and equipment

(i) Recognition and measurement

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

Costs include expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Property and equipment (continued)

(i) Recognition and measurement (continued)

the related equipment is capitalized as part of that equipment.
Right of use assets are recognized at the commencement of the lease contract and is measured at cost less accumulated depreciation and accumulated impairment

Property and equipment are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset or at the expiration of a lease contract for right of use assets. Gains and losses arising on disposal of an item of property and equipment are determined by comparing the net proceeds from disposal with the carrying amount of the item and are recognised net within 'other operating income' in profit or loss.

(ii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of property and equipment. The annual depreciation rates in use are:

Freehold land	Nil
Leasehold improvements	Rates based on the shorter of the lease term or estimated useful lives
Motor vehicles	25%
Furniture and fittings	10%
Office equipment	20%
Computers	20%

The residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date. Changes in the expected useful life, residual values or methods of depreciation are accounted for as changes in accounting estimates.

(iii) Subsequent costs

Subsequent expenditure is capitalized only when it is probable that future economic benefits of the expenditure will flow to the Group. Recurrence repairs and maintenance are expensed as incurred.

(l) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are measured at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortized on a straight-line basis in profit or loss over their estimated useful economic lives, from the date that they are available for use.
The amortization method, useful life and the residual value are reviewed at each reporting date and adjusted if appropriate. Changes in the expected useful life, residual value or amortization method are accounted for as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

The useful lives of intangible assets are assessed to be either finite or indefinite. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. However, expenditure that enhances or extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortized using the straight-line method over a period of five years.

There are no intangible assets with indefinite useful lives.

(m) Leases

The Group has adopted COVID-19-Related Rent Concessions – Amendment to IFRS 16 issued on 28 May 2020. The amendment introduces an optional practical expedient for leases in which the Group is a lessee – i.e., for leases to which the Group applies the practical expedient, the Group is not required to assess whether eligible rent concessions that are a direct consequence of the COVID-19 COVID-19 pandemic are lease modifications. The Group has applied the amendment retrospectively. The amendment has no impact on retained earnings at 1 January 2020.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

The Group leases several retail network premises (Branches) and vehicles. The branch leases typically run for a period of 6 years, with an option to renew the lease after that date. Lease payments are renegotiated after the expiry of the lease to reflect market rental values. Some leases provide for additional rent payments that are based on changes in local price indices. Leases for the vehicles typically run for a period of two years with no renewal options.

i. As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Practical expedients applied

In applying IFRS 16, the Bank has used the following practical expedients permitted by the standard

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Leases (continued)

i. As a lessee (continued)

- accounting for operating leases with a remaining lease term of less than 12 months as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and

- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

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

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

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

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

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

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

i. As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices. When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

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

The Group applies the derecognition and impairment requirements in IFRS 16 to the net investment in the lease (see Note 28). The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

(n) Impairment of non-financial assets

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

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised in profit or loss in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Employee benefits

The Group operates both a defined contribution plan and defined benefit plan.

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as staff costs in profit or loss in the periods during which related services are rendered. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The Group also contributes to the statutory defined contribution in the various countries in which it operates. The Group's contribution to these schemes is charged to the income statement.

(ii) Retirement benefit obligations

The Group's net obligation in respect of defined benefit plan is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The calculation of defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of the economic benefits available in the form of any refunds from the plan or deductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which compromise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest) are recognised immediately in other comprehensive income.

The Group determines the net interest (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during a period as a result of contributions and benefit payments.

Net interest expense and other expenses related to the defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that employees have earned in return for their service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on settlement of a defined benefit plan when the settlement occurs.

(iii) Other post – employment obligations

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

(iv) Short-term benefits

Short-term benefits consist of salaries, bonuses and any non-monetary benefits such as medical aid contributions and free services. They exclude equity-based benefits and termination benefits.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(v) Termination benefits

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

(p) Fiduciary assets

When the Group acts in a fiduciary capacity such as a nominee or agent, assets and income arising thereon with related undertakings to return such assets to customers are excluded from these financial statements.

(q) Contingent liabilities and loan commitments

Letters of credit, acceptances, guarantees and performance bonds are disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date that the financial statements are approved for issue by the Directors.

Loan commitments are firm commitments to provide credit under pre-specific terms and conditions.

(r) Earnings per share

Basic and diluted earnings per share (EPS) data for ordinary shares are presented in the financial statements. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any. Refer to note 21.

(s) Dividends

Dividends are recognised as a liability in the period in which they are declared and approved.

(t) Sale and repurchase agreements

Securities sold under sale and repurchased agreements (Repos) are retained in the financial statements with the counterparty liability included in amounts due to banking institutions. Securities purchased from the Central Bank of Kenya under agreement to resell (reverse Repos), are disclosed as treasury bills as they are held to maturity after which they are

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Sale and repurchase agreements (continued)
repurchased and are not negotiable or discounted during the tenure.

The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

(u) Related parties
This relates to transactions entered into between groups entities at arms-length.

(v) Segment Reporting
An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group's Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

(w) Share capital and reserve
Ordinary shares are classified as share capital in equity. Any premium received over and above the par value of the shares is classified as share premium.

(x) Provisions
A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

(y) Fair value measurements
IFRS 13, *Fair Value Measurement*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). That definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement.

When measuring fair value, an entity uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk.

As a result, an entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value. The standard explains that a fair value measurement requires an entity to determine the following:

- the particular asset or liability being measured;
- for a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis;
- the market in which an orderly transaction would take place for the asset or liability; and
- the appropriate valuation technique(s) to use when measuring fair value. The valuation technique(s) used should maximise the use of relevant observable inputs and minimise unobservable inputs. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability.

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

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

(aa) Investment property
Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss. The gain or loss on disposal of investment property is recognised in profit or loss.

The fair value of investment property is determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

(ab) Comparatives
Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and the underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Critical judgements in applying the Group's accounting policies

(a) Judgments
The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Critical judgements in applying the Group's accounting policies (continued)

(please see financial assets and liabilities sections of note 1). The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance is measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk: As explained in note 1, ECL is measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL

(a) Judgements (continued)

for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information. Refer to note 4(a) for more details.

Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are ranked on the basis of shared risk characteristics. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used: The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 1 and note 4 for more details on ECL and note 7 for more details on fair value measurement.

In the context of COVID-19, management judgmental adjustments at both the customer and portfolio levels have been adopted in order to account for model deficiencies and expert credit judgement applied following management review and challenge. Internal governance and controls were put in place in order to monitor the post-model adjustments based on the economic performance in the midst of the pandemic.

Hyperinflation accounting: The directors evaluated and determined the economy of South Sudan to be hyperinflationary. Significant judgments to be made considering guidelines provided in IAS 29. The financial statements and corresponding figures for previous periods have been restated for the changes in the general purchasing power of the functional currency, and as a result are stated in terms of the measuring unit current at the end of the reporting period.

Factors considered in determining and concluding that the South Sudan economy was hyperinflationary have been included under note 49.

(b) Assumptions and estimation uncertainties

The information relating to assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment in the financial statements are set out below.

(i) Impairment losses on loans and advances

The estimation of potential credit losses is inherently uncertain and depends upon many factors, including general economic conditions, changes in individual customers' circumstances, structural changes within industries that alter competitive positions and other external factors such as legal and regulatory requirements.

Impairment is measured for all accounts that are identified as non-performing. All relevant considerations that have a bearing on the expected future cash flows are taken into account which include but not limited to future business prospects for the customer, realizable value of securities, the Group's position relative to other claimants and the existence of any court injunctions placed by the borrower. Subjective judgments are made in this process of cash flow determination both in value and timing and may vary from one person to another and team to team. Judgments may also change with time as new information becomes available.

The Group reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognized in profit or loss. In particular, judgment by the Directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

The Group also makes a collective impairment measurement for exposures which, although not specifically identified as non-performing, have an inherent risk of default. The portfolio constitutes a large number of loan and advances account cutting across various industries. Assets with similar risk characteristics are ranked together for the purpose of determining the collective impairment in the Group.

The following are key estimations that the directors have used in the

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Assumptions and estimation uncertainties (continued)

(i) Impairment losses on loans and advances (continued)

process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

a) Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward-looking information relevant to each scenario:

a) When measuring ECL the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to note 3 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward-looking information.

b) Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. See note 3 for more details, including analysis of the sensitivity of the reported ECL

c) Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. See note 3 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD resulting from changes in economic drivers.

d) Fair value measurement and valuation process: In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Group uses valuation models to determine the fair value of its financial instruments. Refer to note 5 for more details on fair value measurement.

COVID-19 impact on impairment losses on loans and advances

The COVID-19 pandemic has resulted in a significant impact on the risks that the Group is exposed to and the output of financial models, most specifically those used to determine credit risk exposures. This high degree of uncertainty has forced the Group 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 most substantial impact on the Group relates to credit risk due to increased allowances for credit losses in the year. The increased credit risk is majorly because of:

- Declining performance in certain sectors of the economy e.g., hospitality and education sectors hence increased possibility of default.
- Downward changes in credit ratings (both internal and external)
- Increased time to realization of collateral for some portfolios and sectors as well as reassessment of the quality of collateral
- Increased days past due for loans issued
- Macroeconomic factors that have impacted the forward-looking estimates
- Increased modification losses because of the restructurings.
- Increased write offs of the loans that the Group is unlikely to recover.

The estimation of impairment losses on loans and advances includes an unbiased and probability-weighted estimate of future losses determined by evaluating a range of possible macroeconomic outcomes. IFRS 9 models have used the following three parameters in ECL allowance calculations: probability of default (PD), loss given defaults (LGD) and exposure at default (EAD).

Given the deteriorating macroeconomic environment, specific increases in PDs and LGDs were made to appropriately capture the COVID-19 environment.

As the outbreak continues to progress, it is challenging to predict the full extent and duration of its business and economic impact. Management adjustments were therefore required, in addition to the model outputs, to provide a more appropriate assessment of risk.

(ii) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in orderly transaction between market participants at the measurement date.

All financial instruments are initially recognized at fair value, which is normally the transaction price. Subsequent to initial recognition, some of the Group's financial instruments are carried at fair value. The fair values of quoted financial instruments in active markets are based on current prices with no subjective judgments. If the market for a financial instrument does not exist or is not active including for unlisted securities, the Group establishes fair value by using valuation techniques.

These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data.

The fair value for the majority of the Group's financial instruments is based on observable market prices or derived from observable market parameters. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(ii) Retirement benefits

The cost of the defined benefit pension plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty and a change in any of the assumptions will alter the carrying amount of pension obligations.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(ii) Retirement benefits (continued)

The assumptions used in determining the net cost (income) for pensions include the discount rate. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations.

In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions. Refer to note 43 for more information

(iii) Property and equipment

Property and equipment are depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programs are taken into account which involves extensive subjective judgment. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

(b) Assumptions and estimation uncertainties (continued)

(iv) 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 income tax balances and deferred tax provisions in the period in which such determination is made.

(v) Leases

The right of use is depreciated over the lease term considering the renewal option.

The Group will renew the lease when it is reasonably certain that the lease location is still economically viable to conduct business.

The Group will bear restoration costs upon relocation or end of lease where such is stipulated in the lease agreement.

COVID-19 impact on leases

On the onset of the COVID-19 pandemic, some of the Group's lessors advanced rent concessions which management has opted not to treat as a modification of contract as well as adjust the lease liability due to the amounts being insignificant.

COVID-19-related rent concessions

The Group has applied COVID-19-Related Rent Concessions – Amendment to IFRS 16. The Group applies the practical expedient allowing it not to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. The Group applies the practical expedient consistently to contracts with similar characteristics and in similar circumstances. For rent concessions in leases to which the Group chooses not to apply the practical expedient, or that do not qualify for the practical expedient, the Group assesses whether there is a lease modification.

The Group negotiated rent concessions with its landlords for the majority of its premises as a result of the severe impact of the COVID-19 pandemic during the year. The Group applied the practical expedient for COVID-19-related rent concessions consistently to eligible rent concessions relating to its leases. The Group continues to account for rent concessions relating to its leases under other applicable guidance in IFRS 16. The amount recognised in profit or loss for the reporting period to reflect changes in lease payments arising from rent concessions to which the Group has applied the practical expedient for COVID-19-related rent concessions is KShs. 9.3 Million (2019: nil).

4. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, market risks and operational risks. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors of the Group has established the Credit, Audit, Risk, Human Resources and Procurement and Information Technology committees, which are responsible for developing and monitoring the Group risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Risk Committee is responsible for monitoring compliance with the Group's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Committee is assisted in these functions by a Risk and Compliance department which undertake reviews of risk management controls and procedures, the results of which are reported to the Risk Committee.

(a) Credit risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's main income generating activity is lending to customers and

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities), investments in debt securities and derivatives that are an asset position. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

The Board of Directors has delegated responsibility for the management of credit risk to the Executive Credit Committee, which is responsible for oversight of the Group's credit risk, including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit credit officers. Larger facilities require approval by the Management Credit Committee or the Board Credit Committee as appropriate.

- *Reviewing and assessing credit risk.* The Credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).

- *Developing and maintaining the Group's risk gradings* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by the Board Credit Committee.

- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the credit department on the credit quality of local portfolios and appropriate corrective action is taken.
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Group in the management of credit risk

Significant increase in credit risk

The Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

Internal credit risk ratings

In order to minimise credit risk, the Group has tasked its credit management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The Group's credit risk grading framework comprises five categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure. The following data are typically used to monitor the Group's exposures:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of Bank bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed. The table below provides a mapping of the Group's internal credit risk grades.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Internal credit risk ratings - continued
The table below provides a mapping of the Group's internal credit risk grades.

Group's credit risk grades	Description	IFRS 9 Classification
10	Normal risk	Stage 1
20	Watch risk	Stage 2
30	Substandard risk	Stage 3
40	Doubtful risk	
50	Loss	

The Group analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as GDP growth, unemployment, benchmark interest rates and house prices. The Group generates a 'base case' scenario of the future direction of relevant economic variables for each region as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative. The table below summarizes per type of asset the range above which an increase in lifetime PD is determined to be significant, as well as some indicative qualitative indicators assessed.

Corporate exposures	Retail exposures	All exposures
• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes. • Data from credit reference agencies, press articles, changes in external credit ratings. • Quoted bond and credit default swap (CDS) prices for the borrower where available. • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.	• Internally collected data on customer behaviour – e.g. utilisation of credit card facilities. • Affordability metrics. • External data from credit reference agencies, including industry-standard credit scores.	• Payment record – this includes overdue status as well as a range of variables about payment ratios. • Utilisation of the granted limit. • Requests for and granting of forbearance. • Existing and forecast changes in business, financial and economic conditions.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Internal credit risk ratings - continued

The table below provides an indicative mapping of how the Group's internal credit risk grades relate to PD and, for the wholesale portfolio, to external credit ratings of Moody's and S&P. The risk ratings are composed of a combination of the risk factors below. Each Risk factor has parameters which are assessed and the total score in each is mapped onto a rating

Risk Factor	Description	Weight
Financial Risk	Is the assessment of entity's assets & liabilities structure (i.e. the mix of long- and short-term debt, maturity structure, interest rates, collateralization and other elements), cash flows and P&L in the light of current financing conditions.	50%
Company	Is the assessment of the size and scope of the rated entity, which often drives its diversification in terms of products, customers and geography	10%
Management	Is the assessment of the quality and experience of the management team as well as its strategic objectives in light of the sector specifics.	10%
Banking Relationship	Is the assessment of the current and historical behaviour of the entity's with bank products	20%
Industry	Is the assessment of entity's future market, regulatory environment and industry environment with insights into competition, entry barriers and trends .	10%

Corporate

The corporate portfolio of the Group is comprised of loans and advances to banks, public sector entities, sovereigns, corporates and other businesses.

Staging	12-month weighted-average PD	Internal risk rating
Grade 10	0.05%	AAA to A
Grade 20	12.611%	B- to C
Grade 30 – Grade 50	100%	Default

Retail & mortgage

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

Staging	12-month weighted-average PD	12-month weighted-average PD
	Personal loans	Mortgage loans
Grade 10	5%	9%
Grade 20	57%	43%
Grade 30 – Grade 50	100%	100%

Loan commitments are assessed along with the category of loan the Group is committed to provide, i.e. commitments to provide mortgages are assessed using similar criteria to mortgage loans, while commitments to provide a corporate loan are assessed using similar criteria to corporate loans.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Internal credit risk ratings (continued)
Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due. The Group performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

Relationship between the Group's internal credit ratings and external ratings
The Group's rating method comprises 2 rating levels for instruments not in default (Stage 1 & 2) and one default class (stage 3). The rating methods are subject to an annual validation and recalibration so that they reflect the latest projections in the light of observed default trends. The Group's quantitative credit quality grading as compared to Central Bank of Kenya's prudential guidelines grading is summarised in the table below;

Staging	CBK grading	Days past due	Credit quality
Stage 1	Normal	Up to date within contractual terms or has less than 30 days arrears	Performing
Stage 2	Watch	31 to 90 days	Performing-SICR
	Substandard	91 to 180 days	
Stage 3	Doubtful	181 to 360 days	In Default
	Loss	above 360 days	

In addition to the standard credit ratings above, the Group also utilises other qualitative information relating to counterparties to determine their internal credit grading.

Incorporation of forward-looking information
The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Group employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Group has not made changes in the estimation techniques or significant assumptions made during the reporting period.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Group has not made changes in the estimation techniques or significant assumptions made during the reporting period.

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31 December 2020 for the years 2020 to 2024, for Kenya, Tanzania, Uganda, Rwanda, South Sudan and Burundi which are the countries where the Group operates and therefore is the country that has a material impact in ECLs.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Incorporation of forward-looking information (continued)

	2021	2022	2023	2024	2025
Inflation					
- Base scenario	0.80	0.80	0.80	0.80	0.80
- Range of upside scenarios	0.05	0.05	0.05	0.05	0.05
- Range of downside scenarios	0.15	0.15	0.15	0.15	0.15
Exchange rates					
- Base scenario	0.80	0.80	0.80	0.80	0.80
- Range of upside scenarios	0.10	0.10	0.10	0.10	0.10
- Range of downside scenarios	0.10	0.10	0.10	0.10	0.10
Benchmark interest rates					
- Base scenario	0.80	0.80	0.80	0.80	0.80
- Range of upside scenarios	0.05	0.05	0.05	0.05	0.05
- Range of downside scenarios	0.15	0.15	0.15	0.15	0.15
Reserves					
- Base scenario	0.80	0.80	0.80	0.80	0.80
- Range of upside scenarios	0.15	0.15	0.15	0.15	0.15
- Range of downside scenarios	0.05	0.05	0.05	0.05	0.05

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

Measurement of ECL

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

- A financial instrument that is not credit-impaired on initial recognition is classified and has its credit risk continuously monitored by the Group. If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired (POCI) financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The key judgements and assumptions adopted by the Group in computing expected loss in line with IFRS 9 are as follows:

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Significant increase in credit risk (SICR)

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

- Significant dip in operating results of the borrowers
- Credit distress necessitated extension to the terms granted
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Significant change in collateral value which is expected to increase risk of default
- Early signs of cashflow/liquidity problems such as delay in servicing of trade creditors/loans

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

(b) Definition of default and credit-impaired assets

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

Quantitative criteria :The borrower is more than 90 days past due on the contractual payments.

Qualitative criteria: The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenant(s)
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty
- Increase in probability that the borrower will enter bankruptcy
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

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

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months is aligned to Central Bank of Kenya's prudential guidelines.

(c) Measuring ECL – Inputs, assumptions and estimation techniques

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

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime (Lifetime EAD). For a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur, using a determined credit conversion factor.
- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment and multiplied together which effectively calculates an ECL.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis. Where sufficient data is not available to estimate the 12 month PD transition into lifetime PDs, the Group interpolates its internal 12-month PD to external rating agencies long term proxies to estimate the lifetime PDs.

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

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Group's recent default data.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

Measurement of ECL (continued)
The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on expected recovery from collateral force sale values, adjusted for time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically derived from past recoveries from past defaults of unsecured products or the residual unsecured portions of partly secured exposures.

(d) Forward looking information factor
The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact are adjusted to the ECL. The forward looking economic variables have been adjusted by a management multiplier.

Sensitivity analysis
The most significant assumption affecting the ECL allowance is interest rates given its impact on borrowers' ability to meet their contractual repayments. Other forward looking consideration not otherwise incorporated within the calculation of ECL, such as inflation, GDP and exchange rates, have been considered but do not have a material impact therefore no adjustment has been to ECL for such factors. This is reviewed and monitored periodically.

Set out below are the changes to the ECL as at 31 December 2020 that would result from reasonably possible changes in this parameter from actual assumptions used in the Group's economic variable assumptions;

	Interest rates	
	-5%	+5%
	KShs. '000	KShs. '000
Corporate portfolio	79	(79)
Retail portfolio	135	(135)

(e) Impaired financial assets
Impaired financial assets are those which the Group determines it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are classified under stage 3 in the Group's internal credit risk grading system and graded as grade 3 to 5 as required by the regulator. According to the Central Bank of Kenya prudential guidelines, loans and advances overdue by over 90 days are considered non-performing.

(f) Past due but not impaired financial assets
Financial assets where contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group. Loans under this category are no more than 90 days overdue.

(g) Loans and advances that are neither past due nor impaired
The Group classifies loans and advances under this category for those exposures that are up to date and in line with contractual agreements. Such loans would have demonstrated financial conditions, risk factors and capacity to repay that are acceptable. These exposures will normally be maintained largely within approved product programs and with no signs of impairment or distress.

(h) Management judgemental adjustments
In the context of COVID-19, various management judgmental estimates were considered at both the customer level and the portfolio level in order to account for the pandemic, model deficiencies and expert credit judgement.

The impact of the COVID-19 scenarios and weighting adjustments has resulted in a KShs. 5,178 million increase in ECL from the pre-COVID scenarios as shown on table below;

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(h) Management judgemental adjustments (continued)

Driver of Impairment charge	Base ECL allowance 31-Dec-20 KShs. Million	Covid 19 Impairment 31-Dec-20 KShs. Million	Total ECL allowance 31-Dec-20 KShs. Million
Retail	23,817	2,177	25,994
Mortgages	2,784	331	3,115
Corporate	33,138	2,670	35,808
Total	**59,739**	**5,178**	**64,917**

Management judgmental adjustments were used to reflect the unpredictable and unstable economic conditions brought about by the COVID-19 pandemic. The modelled ECL outputs that were based on historical relationships generated overly sensitive ECL outcomes in conditions outside the range of historical experience. In addition, modelled relationships did not reflect the effect of government support measures aimed at providing the much-needed relief to customers.

In the corporate and wholesale portfolio, the management judgmental adjustments led to an ECL increase of KShs. 2.6 billion primarily from additional ECL to reflect the expected impact on the IRR as a result of the sectoral deterioration during the pandemic.

In the retail portfolio, management judgemental adjustments were an ECL increase of KShs. 2,177 million due to:
- Increased risk in university schemes
- Expected deterioration of the PD thus applying a management overlay.

In the mortgage portfolio, management judgemental adjustments were an ECL increase of KShs. 331 million due to increased time to realisation of collateral. The real estate sector was not impacted significantly but there was evidence to suggest properties staying for longer periods of time in the market.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Rankings based on shared risks characteristics

When ECL are measured on a collective basis, the financial instruments are ranked on the basis of shared risk characteristics, such as:

- instrument type;
- credit risk grade;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- the value of collateral relative to the financial asset if it has an impact on the probability of a default occurring (loan-to-value (LTV) ratios).

The rankings are reviewed on a regular basis to ensure that each Group is comprised of homogenous exposures.

The Group uses external benchmark information for portfolios with limited historical data. The table below depicts the portfolios for which external benchmark information represents a significant input into measurement of ECL. No collateral is held for these exposures.

	Exposure (KShs. Million)	External benchmark PD	External benchmark LGD
Cash and balances with CBK	64,608	Sovereign	S& P ratings
Financial assets held through FVOCI	94,284	Sovereign	S& P ratings
Financial assets held through FVTPL	5,143	Sovereign	S& P ratings
Financial assets held at amortized costs	111,357	Sovereign	S& P ratings
Loans and advances to banks	23,706	Corporate	S& P ratings
Other assets and prepayments	43,944	Corporate	S& P ratings
Off balance sheet	92,992	Corporate	S& P ratings

* Financial guarantees only

Credit quality

The Group monitors credit risk per class of financial instrument. The table below outlines the classes identified, as well as the financial statement line item and the note that provides an analysis of the items included in the financial statement line for each class of financial instrument.

Class of financial instrument	Financial statement line	Note
Loans and advances to banks at amortised cost	Loans and advances to banks	Note 23
Loans and advances to customers at amortised cost	Loans and advances to customers	Note 27
Debt investment securities at amortised cost	Financial assets at amortise costs	Note 28
Debt investment securities at FVTOCI	Financial assets at FVOCI	Note 24
Loan commitments and financial guarantee contracts	None	Note 4
Other financial assets	Other financial assets	Note 4

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (continued)

An analysis of the Group's credit risk concentrations per class of financial asset is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Loans and advances at amortised cost	Kenya	Tanzania	Uganda	Rwanda	South Sudan	Burundi	Total
	KShs. Million	KShs. Million	KShs. Million	KShs. Million	KShs. Million	KShs. Million	KShs. Million
31-Dec-20	611,226	19,674	7,846	17,453	939	3,034	**660,172**
31-Dec-19	542,076	18,276	6,879	14,793	1,000	3,149	**586,173**

	2020	2019
Sectorial breakdown	KShs. Million	KShs. Million
Personal/household	237,501	216,343
Real Estate	114,388	98,117
Manufacturing	85,865	64,433
Building and construction	49,295	44,247
Trade	66,739	56,212
Financial services	9,519	20,726
Transport and communication	36,578	32,193
Tourism, restaurants and hotels	30,152	23,287
Energy and water	11,855	13,707
Agriculture	17,820	15,529
Mining and quarrying	460	1,379
	660,172	**586,173**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (continued)

An analysis of the Group's credit risk exposure per class of financial asset, internal rating and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively

GROSS LOANS

2020 Loans and advances to customers	Corporate KShs. Million	Mortgages KShs. Million	Retail KShs. Million	Total KShs. Million
Gross loans and advances to customers	**333,498**	**78,729**	**247,945**	**660,172**
Of which stage 1 and 2	251,974	71,991	228,277	552,242
Of which stage 3	81,524	6,738	19,668	107,930
Expected credit loss provisions	**36,337**	**2,678**	**25,903**	**64,917**
Of which stage 1 and 2	3,589	759	12,254	16,602
Of which stage 3	32,748	1,919	13,649	48,316
Net loans and advances to customers	**297,161**	**76,051**	**222,043**	**595,255**
Of which stage 1 and 2	248,385	71,232	216,023	535,640
Of which stage 3	48,776	4,819	6,019	59,614
2019				
Gross loans and advances to customers	**266,118**	**89,656**	**230,399**	**586,173**
Of which stage 1 and 2	221,619	77,208	203,906	502,733
Of which stage 3	44,499	12,448	26,493	83,440
Expected credit loss provisions	**31,842**	**3,340**	**10,505**	**46,426**
Of which stage 1 and 2	26,875	492	5,934	33,301
Of which stage 3	5,706	2,848	4,571	13,125
Net loans and advances to customers	**233,537**	**86,316**	**219,894**	**539,747**
Of which stage 1 and 2	194,744	76,716	197,972	469,432
Of which stage 3	38,793	9,600	21,922	70,315

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

The table below analyses the movement of the gross loans during the year.

TOTAL GROUP	Stage 1 KShs. Million	Stage 2 KShs. Million	Stage 3 KShs. Million	Total KShs. Million
Loans and advances as at 1 January 2020	**454,248**	**63,519**	**63,291**	**581,058**
Changes in the loss allowance				
– Transfer to stage 1	10,356	(7,362)	(2,994)	**-**
– Transfer to stage 2	(20,166)	21,870	(1,704)	**-**
– Transfer to stage 3	(3,006)	(22,811)	25,817	**-**
Net remeasurement of Loss allowance	(18,631)	2,665	16,438	**472**
New financial assets originated or purchased	220,850	10,092	14,342	**245,284**
Financial assets that have been derecognised	(145,914)	(13,468)	(7,260)	**(166,642)**
Loans and Advances as at 31 December 2020	**497,737**	**54,505**	**107,930**	**660,172**

TOTAL GROUP				
Loans and advances as at 1 January 2019	**384,500**	**32,709**	**59,320**	**476,529**
Changes in the loss allowance				
– Transfer to stage 1	9,987	(8,287)	(1,700)	**-**
– Transfer to stage 2	(16,514)	17,175	(661)	**-**
– Transfer to stage 3	(3,782)	(12,289)	16,071	**-**
Net remeasurement of Loss allowance	(13,664)	2,072	(2,905)	**(14,497)**
New financial assets originated or purchased	98,560	45,684	(1,444)	**145,688**
Financial assets that have been derecognised	(4,839)	(13,545)	(3,163)	**(21,547)**
Loans and Advances as at 31 December 2019	**454,248**	**63,519**	**68,406**	**586,173**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

The tables below analyses the movement of the gross loans during the year per class of assets in 2020

CORPORATE-MORTGAGE	Stage 1 KShs. Million	Stage 2 KShs. Million	Stage 3 KShs. Million	Total KShs. Million
Loans and advances as at 1 January 2020	**12,558**	**2,454**	**1,779**	**16,791**
Changes in the loss allowance				
– Transfer to stage 1	1,860	(1,175)	(685)	-
– Transfer to stage 2	(1,790)	1,790	-	-
– Transfer to stage 3	(125)	(449)	574	-
Net remeasurement of Loss allowance	(962)	(53)	98	**(917)**
New financial assets originated or purchased	8,980	1,405	-	**10,385**
Financial assets that have been derecognised	(1,978)	(893)	(47)	**(2,918)**
Loans and Advances as at 31 December 2020	**18,543**	**3,079**	**1,719**	**23,341**

CORPORATE-OVERDRAFTS				
Loans and advances as at 1 January 2020	**7,564**	**287**	**657**	**8,508**
Changes in the loss allowance				
– Transfer to stage 1	243	(214)	(29)	**-**
– Transfer to stage 2	(835)	900	(65)	**-**
– Transfer to stage 3	(656)	(25)	681	**-**
Net remeasurement of Loss allowance	5,738	882	93	**6,713**
New financial assets originated or purchased	6,611	500	-	**7,111**
Financial assets that have been derecognised	(3,118)	(222)	(382)	**(3,722)**
Loans and Advances as at 31 December 2020	**15,547**	**2,108**	**955**	**18,610**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

CORPORATE-TERM LOANS	Stage 1 KShs. Million	Stage 2 KShs. Million	Stage 3 KShs. Million	Total KShs. Million
Loans and advances as at 1 January 2020	**254,732**	**37,757**	**29,279**	**321,768**
Changes in the loss allowance				
– Transfer to stage 1	6,034	(4,548)	(1,486)	**-**
– Transfer to stage 2	(15,842)	17,282	(1,440)	**-**
– Transfer to stage 3	(1,464)	(21,751)	23,215	**-**
Net remeasurement of Loss allowance	4,498	1,887	12,267	**18,652**
New financial assets originated or purchased	(14,535)	17,751	23,042	**26,258**
Financial assets that have been derecognised	(35,776)	(11,706)	(4,507)	**(51,989)**
Loans and Advances as at 31 December 2020	**197,647**	**36,672**	**80,370**	**314,689**

RETAIL-MORTGAGE				
Loans and advances as at 1 January 2020	**40,965**	**2,262**	**3,148**	**46,375**
Changes in the loss allowance				
– Transfer to stage 1	1,812	(1,318)	(494)	**-**
– Transfer to stage 2	(1,605)	1,751	(144)	**-**
– Transfer to stage 3	(594)	(459)	1,053	**-**
Net remeasurement of Loss allowance	(3,779)	(111)	134	**(3,756)**
New financial assets originated or purchased	13,755	1,460	1,012	**16,227**
Financial assets that have been derecognised	(3,558)	(211)	(224)	**(3,993)**
Loans and Advances as at 31 December 2020	**46,996**	**3,374**	**4,485**	**54,855**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

RETAIL-OVERDRAFTS	Stage 1 KShs. Million	Stage 2 KShs. Million	Stage 3 KShs. Million	Total KShs. Million
Loans and advances as at 1 January 2020	**19,101**	**524**	**780**	**20,405**
Changes in the loss allowance				
– Transfer to stage 1	26	(7)	(19)	**-**
– Transfer to stage 2	(34)	37	(3)	**-**
– Transfer to stage 3	(112)	(61)	173	**-**
Net remeasurement of Loss allowance	(43)	14	(2)	**(31)**
New financial assets originated or purchased	15,934	1,057	10,597	**27,588**
Financial assets that have been derecognised	(22,145)	(334)	(634)	**(23,113)**
Loans and Advances as at 31 December 2020	**12,727**	**1,230**	**10,892**	**24,849**

RETAIL-TERM LOANS				
Loans and advances as at 1 January 2020	**148,555**	**5,596**	**13,060**	**167,211**
Changes in the loss allowance				
– Transfer to stage 1	379	(99)	(280)	**-**
– Transfer to stage 2	(60)	111	(51)	**-**
– Transfer to stage 3	(55)	(64)	119	**-**
Net remeasurement of Loss allowance	(24,083)	45	3,848	**(20,190)**
New financial assets originated or purchased	75,516	2,556	-	**78,072**
Financial assets that have been derecognised	(4,337)	(102)	(1,469)	**(5,908)**
Loans and Advances as at 31 December 2020	**195,915**	**8,043**	**15,227**	**219,185**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

CORPORATE-MORTGAGE	Stage 1 KShs. Million	Stage 2 KShs. Million	Stage 3 KShs. Million	Total KShs. Million
Loans and advances as at 1 January 2019	**11,060**	**2,332**	**2,037**	**15,429**
Changes in the loss allowance				
– Transfer to stage 1	1,260	(721)	(539)	**-**
– Transfer to stage 2	(1,212)	1,424	(212)	**-**
– Transfer to stage 3	(93)	(359)	452	**-**
Net remeasurement of Loss allowance	(652)	(43)	78	**(617)**
New financial assets originated or purchased	3,535	536	-	**4,071**
Financial assets that have been derecognised	(1,340)	(715)	(37)	**(2,092)**
Loans and Advances as at 31 December 2019	**12,558**	**2,454**	**1,779**	**16,791**

CORPORATE-OVERDRAFTS				
Loans and advances as at 1 January 2019	**4,782**	**75**	**225**	**5,082**
Changes in the loss allowance				
– Transfer to stage 1	119	(105)	(14)	**-**
– Transfer to stage 2	(406)	146	260	**-**
– Transfer to stage 3	(319)	(3)	322	**-**
Net remeasurement of Loss allowance	2,792	143	44	**2,979**
New financial assets originated or purchased	2,115	67	-	**2,182**
Financial assets that have been derecognised	(1,519)	(36)	(180)	**(1,735)**
Loans and Advances as at 31 December 2019	**7,564**	**287**	**657**	**8,508**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

CORPORATE-TERM LOANS	Stage 1 KShs. Million	Stage 2 KShs. Million	Stage 3 KShs. Million	Total KShs. Million
Loans and advances as at 1 January 2019	**133,810**	**47,509**	**17,736**	**199,055**
Changes in the loss allowance				
– Transfer to stage 1	5,435	(4,847)	(588)	-
– Transfer to stage 2	(11,527)	12,097	(570)	-
– Transfer to stage 3	(1,065)	(13,403)	14,468	-
Net remeasurement of Loss allowance	3,273	2,012	(5,632)	**(347)**
New financial assets originated or purchased	150,837	6,867	5,649	**163,335**
Financial assets that have been derecognised	(26,031)	(12,478)	(1,784)	**(40,293)**
Loans and Advances as at 31 December 2019	**254,732**	**37,757**	**29,279**	**321,768**

RETAIL-MORTGAGE				
Loans and advances as at 1 January 2019	**46,405**	**1,906**	**2,871**	**51,182**
Changes in the loss allowance				
– Transfer to stage 1	1,580	(1,233)	(347)	-
– Transfer to stage 2	(1,401)	1,502	(101)	-
– Transfer to stage 3	(518)	(221)	739	-
Net remeasurement of Loss allowance	(3,294)	(74)	94	**(3,274)**
New financial assets originated or purchased	1,294	523	49	**1,866**
Financial assets that have been derecognised	(3,101)	(141)	(157)	**(3,399)**
Loans and Advances as at 31 December 2019	**40,965**	**2,262**	**3,148**	**46,375**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

RETAIL-OVERDRAFTS	Stage 1 KShs. Million	Stage 2 KShs. Million	Stage 3 KShs. Million	Total KShs. Million
Loans and advances as at 1 January 2019	**37,253**	**133**	**78**	**37,465**
Changes in the loss allowance				
– Transfer to stage 1	39	(10)	(29)	**-**
– Transfer to stage 2	(51)	56	(5)	**-**
– Transfer to stage 3	(168)	155	13	**-**
Net remeasurement of Loss allowance	(65)	4	-	**(61)**
New financial assets originated or purchased	15,328	295	770	**16,393**
Financial assets that have been derecognised	(33,235)	(109)	(47)	**(33,391)**
Loans and Advances as at 31 December 2019	**19,101**	**524**	**780**	**20,405**

RETAIL-TERM LOANS				
Loans and advances as at 1 January 2019	**160,536**	**2,936**	**4,844**	**168,316**
Changes in the loss allowance				
– Transfer to stage 1	1,554	(1,371)	(183)	**-**
– Transfer to stage 2	(1,918)	1,951	(33)	**-**
– Transfer to stage 3	(1,620)	1,542	78	**-**
Net remeasurement of Loss allowance	(15,718)	30	2,511	**(13,177)**
New financial assets originated or purchased	57,502	575	6,802	**64,879**
Financial assets that have been derecognised	(51,781)	(67)	(959)	**(52,807)**
Loans and Advances as at 31 December 2019	**148,555**	**5,596**	**13,060**	**167,211**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

The tables below analyses the movement of the gross loans during the year.

TOTAL GROUP	Stage 1 KShs. Million	Stage 2 KShs. Million	Stage 3 KShs. Million	Total KShs. Million
Loans and advances as at 1 January 2020	**18,509**	**7,783**	**19,395**	**45,687**
Changes in the loss allowance				
– Transfer to stage 1	1,641	(598)	(1,043)	**-**
– Transfer to stage 2	(196)	425	(229)	**-**
– Transfer to stage 3	(94)	(4,022)	4,116	**-**
Net remeasurement of Loss allowance	67	1,281	15,430	**16,778**
New financial assets originated or purchased	6,780	2,265	13,332	**22,377**
Financial assets that have been derecognised	(12,279)	(2,092)	(5,554)	**(19,925)**
Loans and Advances as at 31 December 2020	**14,428**	**5,042**	**45,447**	**64,917**

TOTAL GROUP				
Loans and advances as at 1 January 2019	**7,396**	**3,191**	**10,062**	**20,649**
Changes in the loss allowance				
– Transfer to stage 1	742	(270)	(472)	**-**
– Transfer to stage 2	(89)	192	(103)	**-**
– Transfer to stage 3	(43)	(1,818)	1,861	**-**
Net remeasurement of Loss allowance	(176)	579	9,685	**10,088**
New financial assets originated or purchased	16,229	6,855	871	**23,955**
Financial assets that have been derecognised	(5,550)	(946)	(2,509)	**(9,005)**
Loans and Advances as at 31 December 2019	**18,509**	**7,783**	**19,395**	**45,681**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

The tables below analyses the movement of the loss allowance during the year per class of assets in 2020

CORPORATE-MORTGAGE	Stage 1 KShs. Million	Stage 2 KShs. Million	Stage 3 KShs. Million	Total KShs. Million
Loans and advances as at 1 January 2020	**107**	**61**	**346**	**514**
Changes in the loss allowance				
– Transfer to stage 1	74	(74)	-	**-**
– Transfer to stage 2	(9)	9	-	**-**
– Transfer to stage 3	(3)	(9)	12	**-**
Net remeasurement of Loss allowance	8	37	408	**413**
New financial assets originated or purchased	71	113	-	**184**
Financial assets that have been derecognised	(11)	(2)	-	**(13)**
Loans and Advances as at 31 December 2020	**237**	**135**	**766**	**1,138**

CORPORATE-OVERDRAFTS				
Loans and advances as at 1 January 2020	**4**	**6**	**105**	**115**
Changes in the loss allowance				
– Transfer to stage 1	132	(1)	(131)	**-**
– Transfer to stage 2	(3)	19	(16)	**-**
– Transfer to stage 3	-	-	-	**-**
Net remeasurement of Loss allowance	(69)	(13)	477	**395**
New financial assets originated or purchased	6	3	-	**9**
Financial assets that have been derecognised	(60)	-	(205)	**(265)**
Loans and Advances as at 31 December 2020	**10**	**14**	**230**	**254**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

CORPORATE-TERM LOANS	Stage 1 KShs. Million	Stage 2 KShs. Million	Stage 3 KShs. Million	Total KShs. Million
Loans and advances as at 1 January 2020	**8,378**	**1,193**	**13,790**	**23,361**
Changes in the loss allowance				-
– Transfer to stage 1	850	(381)	(469)	**-**
– Transfer to stage 2	(96)	224	(128)	**-**
– Transfer to stage 3	(4)	(3,923)	3,927	**-**
Net remeasurement of Loss allowance	(8,250)	6,513	10,323	**8,586**
New financial assets originated or purchased	89	973	8,205	**9,267**
Financial assets that have been derecognised	(40)	(1,959)	(3,131)	**(5,130)**
Loans and Advances as at 31 December 2020	**927**	**2,639**	**32,517**	**36,084**

RETAIL-MORTGAGE				
Loans and advances as at 1 January 2020	**129**	**45**	**521**	**695**
Changes in the loss allowance				
– Transfer to stage 1	84	(15)	(69)	**-**
– Transfer to stage 2	(6)	25	(19)	**-**
– Transfer to stage 3	(3)	(8)	11	**-**
Net remeasurement of Loss allowance	7	47	729	**783**
New financial assets originated or purchased	89	8	-	**97**
Financial assets that have been derecognised	(12)	(1)	(22)	**(35)**
Loans and Advances as at 31 December 2020	**288**	**101**	**1,151**	**1,540**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

RETAIL-OVERDRAFTS	Stage 1 KShs. Million	Stage 2 KShs. Million	Stage 3 KShs. Million	Total KShs. Million
Loans and advances as at 1 January 2020	**549**	**359**	**511**	**1,419**
Changes in the loss allowance				
– Transfer to stage 1	16	-	(16)	**-**
– Transfer to stage 2	(6)	9	(3)	**-**
– Transfer to stage 3	(14)	-	14	**-**
Net remeasurement of Loss allowance	403	26	338	**767**
New financial assets originated or purchased	510	43	607	**1,160**
Financial assets that have been derecognised	(241)	-	(320)	**(561)**
Loans and Advances as at 31 December 2020	**1,217**	**437**	**1,131**	**2,785**

RETAIL-TERM LOANS				
Loans and advances as at 1 January 2020	**9,342**	**6,119**	**4,122**	**19,583**
Changes in the loss allowance				
– Transfer to stage 1	484	(127)	(357)	**-**
– Transfer to stage 2	(76)	141	(65)	**-**
– Transfer to stage 3	(70)	(82)	152	**-**
Net remeasurement of Loss allowance	198	58	4,915	**5,171**
New financial assets originated or purchased	11,641	(4,628)	5,628	**12,641**
Financial assets that have been derecognised	(11,914)	(130)	(1,876)	**(13,920)**
Loans and Advances as at 31 December 2020	**9,605**	**1,351**	**12,519**	**23,475**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

CORPORATE-MORTGAGE	Stage 1 KShs. Million	Stage 2 KShs. Million	Stage 3 KShs. Million	Total KShs. Million
Loans and advances as at 1 January 2019	**43**	**38**	**168**	**251**
Changes in the loss allowance				
– Transfer to stage 1	33	(33)	-	**-**
– Transfer to stage 2	(4)	4	-	**-**
– Transfer to stage 3	(1)	(4)	5	**-**
Net remeasurement of Loss allowance	7	6	173	**186**
New financial assets originated or purchased	34	51	-	**85**
Financial assets that have been derecognised	(5)	(1)	-	**(6)**
Loans and Advances as at 31 December 2019	**107**	**61**	**346**	**514**

CORPORATE-OVERDRAFTS				
Loans and advances as at 1 January 2019	**57**	**1**	**159**	**217**
Changes in the loss allowance				
– Transfer to stage 1	60	(1)	(59)	**-**
– Transfer to stage 2	(2)	8	(6)	**-**
– Transfer to stage 3	-	-	-	**-**
Net remeasurement of Loss allowance	(87)	(3)	104	**14**
New financial assets originated or purchased	3	1	-	**4**
Financial assets that have been derecognised	(27)	-	(93)	**(120)**
Loans and Advances as at 31 December 2019	**4**	**6**	**105**	**115**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

CORPORATE-TERM LOANS	Stage 1 KShs. Million	Stage 2 KShs. Million	Stage 3 KShs. Million	Total KShs. Million
Loans and advances as at 1 January 2019	**151**	**2,970**	**6,712**	**9,833**
Changes in the loss allowance				
– Transfer to stage 1	384	(172)	(212)	**-**
– Transfer to stage 2	(44)	101	(57)	**-**
– Transfer to stage 3	(2)	(1,773)	1,775	**-**
Net remeasurement of Loss allowance	(299)	512	6,898	**7,111**
New financial assets originated or purchased	8,207	440	828	**9,475**
Financial assets that have been derecognised	(19)	(885)	(1,415)	**(2,319)**
Loans and Advances as at 31 December 2019	**8,378**	**1,193**	**14,529**	**24,100**

RETAIL-MORTGAGE				
Loans and advances as at 1 January 2019	**72**	**16**	**388**	**476**
Changes in the loss allowance				
– Transfer to stage 1	38	(7)	(31)	**-**
– Transfer to stage 2	(3)	11	(8)	**-**
– Transfer to stage 3	(1)	(4)	5	**-**
Net remeasurement of Loss allowance	(11)	26	177	**192**
New financial assets originated or purchased	40	4	-	**44**
Financial assets that have been derecognised	(6)	(1)	(10)	**(17)**
Loans and Advances as at 31 December 2019	**129**	**45**	**521**	**695**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

RETAIL-OVERDRAFTS	Stage 1 KShs. Million	Stage 2 KShs. Million	Stage 3 KShs. Million	Total KShs. Million
Loans and advances as at 1 January 2019	**307**	**-**	**272**	**579**
Changes in the loss allowance				
– Transfer to stage 1	7	-	(7)	**-**
– Transfer to stage 2	(3)	4	(1)	**-**
– Transfer to stage 3	(6)	-	6	**-**
Net remeasurement of Loss allowance	123	12	112	**247**
New financial assets originated or purchased	230	343	274	**847**
Financial assets that have been derecognised	(109)	-	(145)	**(254)**
Loans and Advances as at 31 December 2019	**549**	**359**	**511**	**1,419**

RETAIL-TERM LOANS				
Loans and advances as at 1 January 2019	**6,765**	**166**	**2,364**	**9,295**
Changes in the loss allowance				
– Transfer to stage 1	219	(57)	(162)	**-**
– Transfer to stage 2	(34)	64	(30)	**-**
– Transfer to stage 3	(32)	(37)	69	**-**
Net remeasurement of Loss allowance	90	26	2,221	**2,337**
New financial assets originated or purchased	7,719	6,016	508	**14,243**
Financial assets that have been derecognised	(5,385)	(59)	(848)	**(6,292)**
Loans and Advances as at 31 December 2019	**9,342**	**6,119**	**4,122**	**19,583**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Other Financial Assets and cash

	Cash & Central Bank Balances	Loans to Banks	Financial assets FVTOCI	Financial assets FVTPL	Financial assets Armotized cost	Total
Other Financial Assets	KShs. Million	KShs. Million	KShs. Million	KShs. million	KShs. Million	KShs. Million
Gross carrying amount as at 1 January 2020	83,235	25,174	70,614	1,651	96,977	**277,651**
Changes in the loss allowance	-	-	-	-	-	**-**
– Transfer to stage 1	-	-	-	-	-	**-**
– Transfer to stage 2	-	-	-	-	-	**-**
– Transfer to stage 3	-	-	-	-	-	**-**
– Write-offs	-	-	-	-	-	**-**
New financial assets originated or purchased	5,420	3,461	23,670	3,492	17,432	53,475
Financial assets that have been derecognised	(24,047)	(4,929)	-	-	(3,052)	(32,028)
Other changes	-	-	-	-	-	**-**
Gross carrying amount as at 31 December 2020	**64,608**	**23,706**	**94,284**	**5,143**	**111,357**	**299,098**
Gross carrying amount as at 1 January 2019	50,101	32,108	80,421	3,384	37,174	**203,188**
Changes in the loss allowance						**-**
– Transfer to stage 1	-	-	-	-	-	**-**
– Transfer to stage 2	-	-	-	-	-	**-**
– Transfer to stage 3	-	-	-	-	-	**-**
– Write-offs	-	-	-	-	-	**-**
New financial assets originated or purchased	33,256	(2,931)	13,594	4,476	60,204	108,599
Financial assets that have been derecognised	(122)	(4,003)	(23,401)	(6,209)	(401)	(34,136)
Other changes	-	-	-	-	-	**-**
Gross carrying amount as at 31 December 2019	**83,235**	**25,174**	**70,614**	**1,651**	**96,977**	**277,651**

No loss allowance is recognised in the statement of financial position for debt instruments measured at FVTOCI as the carrying amount is at fair value

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Credit quality – continued

No loss allowance is recognised in the statement of financial position for debt instruments measured at FVTOCI as the carrying amount is at fair value (see note 1 Presentation of allowance for ECL).

The Group does not hold any lease receivables.

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is KShs. 8,279m at 31 December 2020 (8,367m- 2019)As discussed above in the significant increase in credit risk section, under the Group's monitoring procedures a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due. This is the case mainly for loans and advances to customers and more specifically for retail lending exposures because for corporate lending and other exposures there is more borrower specific information available which is used to identify significant increase in credit risk. The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

	Year ended 2020		Year ended 2019	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
Loans and advances to customers	KShs. Million	KShs. Million	KShs. Million	KShs. Million
0-29 days	475,620	12,089	411,699	8,050
30-59 days	28,603	1,926	92,229	2,635
60-89 days	2,963	9	13,734	8,213
90-180 days	26,099	8,325	16,844	7,023
More than 181 days	126,887	42,568	51,667	20,505
Total	**660,172**	**64,917**	**586,173**	**46,426**

Modified financial assets

As a result of the Group's forbearance activities financial assets might be modified. The following tables refer to modified financial assets where modification does not result in derecognition.

Financial assets (with loss allowance based on lifetime ECL) modified during the period	Year ended 2020 KShs. Million	Year ended 2019 KShs. Million
Gross carrying amount before modification	96,461	43,159
Loss allowance before modification	(2,751)	(1,230)
Net amortised cost before modification	93,710	41,929
Net modification gain/(loss)	-	-
Net amortised cost after modification	93,710	41,929

Financial assets modified since initial recognition at a time when loss allowance was based on lifetime ECL	Year ended 2020 KShs. Million	Year ended 2019 KShs. Million
Gross carrying amount of financial assets for which loss allowance has changed in the period from lifetime to 12-month ECL basis after modification	53	201

Collateral held as security and other credit enhancements

The Group holds collateral or other credit enhancements to mitigate credit risk associated with financial assets. The collateral presented relates to instruments that are measured at FVTOCI, amortised cost and at FVTPL.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Credit quality – continued

Collateral held as security and other credit enhancements - continued
The Group also holds other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available.

The Group did not hold any financial instrument for which no loss allowance is recognised because of collateral at 31 December 2020. There was no change in the Group's collateral policy during the year.

Derivatives and loans and advances to banks (reverse sale and repurchase agreements and securities borrowing)

The Group does not hold any derivatives.

Mortgage lending
The Group holds residential properties as collateral for the mortgage loans it grants to its customers. The Group monitors its exposure to retail mortgage lending using the LTV ratio, which is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is typically based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals. The tables below show the exposures from mortgage loans by ranges of LTV.

	Year ended 2020		Year ended 2019	
Mortgage lending loan to value ratio	Gross carrying amount KShs. Million	Loss allowance KShs. Million	Gross carrying KShs. Million	Loss allowance KShs. Million
Less than 50%	51,729	854	16,498	267
51-70%	7,098	107	24,930	129
71-90%	7,928	807	10,442	251
91-100%	1,900	59	10,099	416
More than 100%	13,772	1,435	23,529	1,574
Total	**82,427**	**3,262**	**85,498**	**2,637**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Credit quality – continued

Mortgage lending - continued

	Year ended 2020		Year ended 2019	
	Gross carrying	Loss allowance	Gross carrying	Loss allowance
Credit impaired – mortgage lending LTV ratio	KShs. Million	KShs. Million	KShs. Million	KShs. Million
Less than 50%	2,844	419	11,876	553
51-70%	1,670	411	11,771	4,210
71-90%	7,550	3,413	16,565	2,382
91-100%	145	56	1,782	248
More than 100%	17,542	1,139	4,875	1,318
Total	**29,751**	**5,438**	**46,869**	**8,711**

Personal lending
The Group's personal lending portfolio consists of unsecured loans and credit cards.

Corporate lending
The Group requests collateral and guarantees for corporate lending. The most relevant indicator of corporate customers' creditworthiness is an analysis of their financial performance and their liquidity, leverage, management effectiveness and growth ratios. For this reason the valuation of collateral held against corporate lending is not routinely updated. The valuation of such collateral is updated if the loan is put on "watch-list" and is therefore monitored more closely.

For credit-impaired loans the Group obtains appraisals of collateral to inform its credit risk management actions. At 31 December 2020 the net carrying amount of loans and advances to corporate customers was KShs. 303m (2019 – KShs. 251m) and the value of the respective collateral was KShs. 2,522m (2019 – KShs. 2,189m).

Investment securities
The Group holds investment securities measured at amortised cost with a carrying amount of KShs. 96,977 m and at FVTOCI with a carrying amount of KShs. 72,265 m. The investment securities held by the Group are sovereign bonds and corporate bonds, which are not collateralised, as well as asset backed securities, which are secured by financial assets.

Lease receivables
The Group does not have any lease receivables.

Assets obtained by taking possession of collateral
The Group obtained financial assets during the year by taking possession of collateral held as security against loans and advances. The Group's policy is to realise collateral on a timely basis. The Group does not use non-cash collateral for its operations.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Credit quality – continued

Assets obtained by taking possession of collateral - continued

(i) Past due but not impaired loans and advances

Past due but not impaired loans and advances are those for which contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of stage of collection of amounts owed to the Group. As at 31 December, the ageing analysis of past due but not impaired loans and advances was as follows:

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs. Million	KShs. Million	KShs. Million	KShs. Million
Less than 60 days	61,228	31,812	-	-
Between 60 and 120 days	7,839	18,584	-	-
Greater than 120 days	22,938	11,188	-	-
	92,005	**61,584**	**-**	**-**

Credit related commitment risk

The Group makes available to its customers guarantees which may require the Group to make payments on their behalf and enters into commitments to extend lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

(ii) Write-off policy

The Group writes off a loan balance as and when the Credit Committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure.

(iii) Collateral on loans and advances

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property and other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired.

(iv) Concentration of credit risk

The Group focuses on the diversification of its lending portfolio by setting industry sector limits based on forecasts spanning a one-year horizon to ensure that its performance is not negatively impacted by a large sectoral exposure default. Additionally, regular stress tests are performed on the portfolio to ensure that the Group holds sufficient capital to withstand any loss arising from significant exposure to a sector, single customer and group of closely related customers.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Credit quality – continued

(v) Concentration of credit risk - continued

Overall, it is the policy of the Group to limit credit risk exposures and concentrations within the constraints of its capital base. An analysis of concentrations of credit risk at the reporting date is shown below:

	Group		Company	
	2020	2019	2020	2019
	KShs. Million	KShs. Million	KShs. Million	KShs. Million
Agriculture	17,820	15,529	-	-
Manufacturing	85,865	64,433	-	-
Building and construction	49,295	44,247	-	-
Mining and quarrying	460	1,379	-	-
Energy and water	11,855	13,707	-	-
Trade	66,739	56,212	-	-
Tourism, restaurants and hotels	30,152	23,287	-	-
Transport and communication	36,578	32,193	-	-
Real Estate	114,388	98,117	-	-
Financial services	9,519	20,726	-	-
Personal/household	237,501	216,343	-	-
	660,172	**586,173**	-	-

(v) Fair value of collateral held

The Group holds collateral against loans and advances to customers in the form of cash, residential, commercial and industrial property; fixed assets such as plant and machinery; marketable securities; bank guarantees and letters of credit.

The Group also enters into collateralised reverse purchase agreements. Risk mitigation policies control the approval of collateral types. Collateral is valued in accordance with the Group's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral. Collateral held against impaired loans is maintained at fair value. The valuation of collateral is monitored regularly and is back tested at least annually.

Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse purchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held as at 31 December 2020 and 2019. An estimate of fair values of collaterals held against loans and advances to customers at the end of the year was as follows:

	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
Impaired loans	53,641	43,060	-	-
Performing loans	2,468,594	2,146,237	-	-
	2,522,235	**2,189,297**	**-**	**-**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group, though solvent either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due or can secure them only at excessive costs.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's treasury maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers.

To address any liquidity risk negative gaps, the group has an Assets & Liabilities Committee that directs mobilization of deposits and where needed supports big tickets through aggressive pricing, halts or significantly curtails asset growth. The Group uses the interbank borrowing or disposes government securities to address short -term negative gaps.

Details of the reported Group's ratio of net liquid assets to deposits from customers at the reporting date and during the reporting year were as follows:

	2020	2019
At end the year	36.1%	37.1%
Average for the year	38.6%	35.9%
Maximum for the year	40.1%	37.1%
Minimum for the year	36.1%	34.9%

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (continued)

The tables below summarize the Group' and Company's liquidity risk as at 31 December 2020 and 31 December 2019, categorized into relevant maturity groupings based on the earlier of the remaining contractual maturities.

As at 31 December 2020	Up to 1 month KShs. Million	1 - 3 months KShs. Million	3 - 12 months KShs. Million	1 - 5 years KShs. Million	Over 5 years KShs. Million	Total KShs. Million
Cash and bank balances	50,937	952	1,330	11,101	288	64,608
Loans and advances to Banks	21,655	651	895	-	561	23,763
Financial assets at fair value through profit or loss	3,124	2,056	-	-	-	5,180
Financial assets fair value through other comprehensive income	4,308	14,608	16,077	12,068	87,736	134,797
Investment in equity	-	-	-	-	600	600
Financial assets held at armotised cost	237	381	1,514	30,102	147,393	179,626
Loans and advances to customers	55,419	86,763	53,867	250,531	343,923	790,503
Investment property	-	-	-	-	6,035	6,035
Other assets and prepayments	38,288	33	562	115	4,164	43,162
Total financial assets	**173,968**	**105,445**	**74,245**	**303,916**	**590,700**	**1,248,273**
Deposits from banks	15,818	3,880	-	-	-	19,698
Deposits from customers	645,964	64,572	54,766	3,285	-	768,588
Payables and accrued expenses	2,620	1,004	5,948	820	4,036	14,428
Lease liability	29	57	311	2,394	4,067	6,858
Retirement benefits obligation	-	-	-	-	177	177
Borrowings	-	514	702	21,393	19,850	42,460
Total financial liabilities	**664,431**	**70,028**	**61,727**	**27,893**	**28,130**	**852,209**
Net statement of financial exposure	**(490,463)**	**35,417**	**12,518**	**276,023**	**562,570**	**396,065**
Off-Balance sheet assets & Capital commitments	**22,891**	**40,921**	**89,413**	**27,305**	**5,031**	**185,561**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (continued)

Company As at 31 December 2020	Up to 1 month KShs. Million	1 - 3 months KShs. Million	3 - 12 months KShs. Million	1 - 5 years KShs. Million	Over 5 years KShs. Million	Total KShs. Million
Cash and bank balances	1,147	-	-	-	-	1,147
Loans and advances to Banks	-	-	-	-	-	-
Financial assets fair value through other comprehensive income	-	-	-	-	-	-
Financial Assets held at armotised cost	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-
Due from related parties	212	-	-	-	-	212
Other assets and prepayments	33	-	-	-	-	33
Total financial assets	**1,392**	**-**	**-**	**-**	**-**	**1,392**
Deposits from banks	-	-	-	-	-	-
Deposits from customers	-	-	-	-	-	-
Bills payable	-	-	-	-	-	-
Lease liability	-	-	-	-	-	-
Due to related parties	3,553	-	-	-	-	3,553
Payables and accrued expenses	47	-	-	-	-	47
Total financial liabilities	**3,600**	**-**	**-**	**-**	**-**	**3,600**
	(2,208)	**-**	**-**	**-**	**-**	**(2,208)**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (continued)

Group As at 31 December 2019	**Up to 1 month KShs. Million**	**1 - 3 months KShs. Million**	**3 - 12 months KShs. Million**	**1 - 5 years KShs. Million**	**Over 5 years KShs. Million**	**Total KShs. Million**
Cash and bank balances	83,235	-	-	-	-	83,235
Loans and advances to Banks	17,671	3,239	1,880	1,254	1,130	25,174
Financial assets at fair value through profit or loss	-	1,651	-	-	-	1,651
Financial assets fair value through other comprehensive income	-	7,730	23,718	9,997	24,793	66,238
Investment in equity	-	-	-	-	600	600
Financial assets held at armotised cost	289	398	6,639	24,563	65,088	96,977
Loans and advances to customers	54,007	24,833	43,042	244,711	173,154	539,747
Investment property	-	-	-	-	5,642	5,642
Other assets and prepayments	33,064	6,078	-	-	-	39,142
Total financial assets	**188,266**	**43,929**	**75,279**	**280,525**	**270,407**	**858,406**
Deposits from banks	11,032	5,252	1,880	3,207	-	21,371
Deposits from customers	570,144	56,479	48,263	11,697	-	686,583
Lease liability	-	-	-	-	6,108	6,108
Borrowings	896	178	918	7,919	11,902	21,813
Payables and accrued expenses	33,613	343	-	-	-	33,956
Total financial liabilities	**615,685**	**62,252**	**51,061**	**22,823**	**18,010**	**769,831**
Net statement of financial exposure	**(427,419)**	**(18,323)**	**24,218**	**257,702**	**252,397**	**88,575**
Off-Balance sheet assets & Capital commitments	**10,677**	**38,494**	**78,583**	**36,575**	**2,721**	**167,051**

The amounts in the tables above have been compiled based on undiscounted cash flows, which include estimated interest payments.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (continued)

Company As at 31 December 2019	Up to 1 month KShs. Million	1 - 3 months KShs. Million	3 - 12 months KShs. Million	1 - 5 years KShs. Million	Over 5 years KShs. Million	Total KShs. Million
Cash and bank balances	1,178	-	-	-	-	1,178
Loans and advances to Banks	-	-	-	-	-	-
Financial assets fair value through other comprehensive income	25	-	-	-	-	25
Financial Assets held at armotised cost	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-
Due from related parties	6,336	-	-	-	-	6,336
Other assets and prepayments	37	-	-	-	-	37
Total financial assets	**7,576**	**-**	**-**	**-**	**-**	**7,576**
Deposits from banks	-	-	-	-	-	-
Deposits from customers	-	-	-	-	-	-
Bills payable	-	-	-	-	-	-
Lease liability	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-
Due and accrued expenses	4	-	-	-	-	4
Total financial liabilities	**4**	**-**	**-**	**-**	**-**	**4**
	7,572	**-**	**-**	**-**	**-**	**7,572**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk

(i) Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions which are monitored daily and hedging strategies used to ensure that positions are maintained within the established limits. Foreign exchange risk arises from our non-trading asset and liability positions, denominated in currencies other than the functional currency of the respective entity.

Transactions in foreign currency are recorded at the rate in effect at the date of the transaction. The Group translates monetary assets and liabilities denominated in foreign currencies at the rate of exchange in effect at the reporting date. The Group records all gains or losses on changes in currency exchange rates in profit or loss.

The table below summarizes the foreign currency exposure as at 31 December 2020 and 31 December 2019:

	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
Assets in foreign currencies	181,299	366,934	-	-
Liabilities in foreign currencies	(165,245)	(369,700)	-	-
Net foreign currency exposure at the end of the year	**16,054**	**(2,766)**	**-**	**-**

31 December 2020	USD KShs. Million	GBP KShs. Million	Euro KShs. Million	Other KShs. Million	Total KShs. Million
ASSETS					
Cash and bank balances	25,295	576	3,778	804	30,453
Placements with Banks	5,761	271	785	70	6,887
Loans and advances to customers	122,134	14	1,631	-	123,779
Other assets and prepayments	19,899	17	101	163	20,180
At 31 December 2020	**173,089**	**878**	**6,295**	**1,037**	**181,299**
LIABILITIES					
Deposits from banks	1,920	18	101	1	2,040
Deposits from customers	103,970	815	5,481	329	110,595
Payables and accrued expenses	52,288	33	101	188	52,610
At 31 December 2020	**158,178**	**866**	**5,683**	**518**	**165,245**
Net statement of financial position exposure	**14,911**	**12**	**612**	**519**	**16,054**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (continued)

(i) Currency risk – continued

31 December 2019	USD KShs. Million	GBP KShs. Million	Euro KShs. Million	Other KShs. Million	Total KShs. Million
ASSETS					
Cash and balances with Central Banks	30,225	927	2,291	1,702	35,145
Placements with Banks	5,382	151	900	1,559	7,992
Loans and advances to customers	104,307	66	1,377	3,689	109,439
Other assets and prepayments	201,997	171	7,661	4,529	214,358
At 31 December 2019	**341,911**	**1,315**	**12,229**	**11,479**	**366,934**
LIABILITIES					
Deposits from banks	10,845	166	363	576	11,950
Deposits from customers	97,335	1,075	3,092	8,557	110,059
Payables and accrued expenses	234,137	176	8,185	5,193	247,691
At 31 December 2019	**342,317**	**1,417**	**11,640**	**14,326**	**369,700**
Net statement of financial position exposure	**(406)**	**(102)**	**589**	**(2,847)**	**(2,766)**

The following table demonstrates the sensitivity to a reasonably possible change in the below mentioned exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

The group manages the currency risk through cross currency swaps, deposit mobilization and also long term borrowings and onward lending to customers to mitigate any gaps. The Group also uses the interbank borrowings or lending to manage the currency gap position.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (continued)

(i) Currency risk – continued

GROUP	At 31 December 2020			]At 31 December 2019		
KShs. Million	Currency Carrying Amount	10% Depreciation	10% Appreciation	Currency Carrying Amount	10% Depreciation	10% Appreciation
Assets						
USD	173,089	(17,309)	17,309	341,911	(34,191)	34,191
GBP	878	(88)	88	1,315	(132)	132
Euro	6,295	(630)	630	12,229	(1,223)	1,223
Other	1,037	(104)	104	11,479	(1,148)	1,148
		(18,131)	**18,130**		**(36,693)**	**36,693**
Liabilities						
USD	158,178	15,818	(15,818)	342,317	34,232	(34,232)
GBP	866	87	(87)	1,417	142	(142)
Euro	5,683	568	(568)	11,640	1,164	(1,164)
Others	518	52	(52)	14,326	1,433	(1,433)
		16,525	**(16,525)**		**36,970**	**(36,970)**
Total (decrease)/increase		**(1,606)**	**1,606**		**277**	**(277)**
Tax charge at 30%		(482)	482		83	(83)
Effect on net profit		(1,124)	1,124		194	(194)
Percentage of net profit		-5.73%	5.73%		0.77%	-0.77%

At 31 December 2020 if the shilling had weakened/strengthened by 10% against the major trading currencies, with all other variables held constant, net profit would have been KShs. 1,124 million (2019: KShs. 195 million) lower/higher.

(ii) Interest rate risk

Interest rate is the risk that the future cash flows of financial instruments will fluctuate because of changes in the market interest rates. Interest margin may decrease as a result of such changes but may increase losses in the event that unexpected movement arises.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk - continued

The Group closely monitors interest rate movements and seeks to limit its exposure by managing the interest rate and maturity structure of assets and liabilities carried on the statement of financial position. Assets and Liabilities Committee monitors compliance with the set interest rate gaps.

To manage interest rate risk the group has a robust Assets and Liabilities Committee which reviews daily cash management, monitors daily liquidity limits of loan to deposit ratio and interbank borrowing. The Group also stress testing of liquid assets and has a contingency funding plan to ensure severe liquidity gaps are adequately managed. The table below shows interest rate sensitivity position of the Group at 31 December based on the earlier of maturity or re-pricing dates. Items not recognized on the statement of financial position do not pose any significant interest rate risk to the Group.

GROUP	Weighted interest rates	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2020		KShs. Million	KShs. Million	KShs. Million	KShs. Million	KShs. Million	KShs. Million	KShs. Million
Cash and bank balances	-	50,937	952	1,330	11,101	288	-	64,608
Loans and advances to banks	1.70%	21,655	649	886	-	516	-	23,706
Financial assets at fair value through profit or loss	11.30%	3,124	2,019	-	-	-	-	5,143
Financial assets at fair value through other comprehensive income	11.30%	4,308	14,345	15,028	9,234	51,369	-	94,284
Investment in equity	-	-	-	-	-	-	600	600
Loans and advances to customers	10.50%	55,419	85,303	50,583	195,189	208,761	-	595,255
Financial assets held at armotised cost	11.30%	237	374	1,415	23,033	86,298	-	111,357
Investment property	-	-	-	-	-	-	6,035	6,035
Other assets & prepayments	-	-	-	-	-	-	43,162	43,162
Total assets		**135,680**	**103,642**	**69,242**	**238,557**	**347,232**	**49,797**	**944,150**
Deposits from banks	4.70%	15,818	3,850	-	-	-	-	19,668
Deposits from customers	2.60%	645,964	64,291	53,888	3,081	-	-	767,224
Payables and accrued expenses	-	-	-	-	-	-	14,428	14,428
Borrowings	3.90%	-	511	685	19,442	16,394	-	37,032
Lease liabilities	-	-	8	490	1,599	2,960	1,801	6,858
Retirement benefits obligation	-	-	-	-	-	-	177	177
Total liabilities and equity		**661,782**	**68,660**	**55,063**	**24,122**	**19,354**	**16,406**	**845,387**
Interest rate sensitivity gap		**(526,102)**	**34,982**	**14,179**	**214,435**	**327,878**	**33,391**	**98,763**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk - continued

Company As at 31 December 2020	Weighted interest rates	Up to 1 month KShs. Million	1 - 3 months KShs. Million	3 - 12 months KShs. Million	1 - 5 years KShs. Million	Over 5 years KShs. Million	Non-interest bearing KShs. Million	Total KShs. Million
Cash and bank balances	-	-	-	-	-	-	1,147	1,147
Loans and advances to banks	-	-	-	-	-	-	-	-
Financial assets at FVTOCI	-	-	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-	-	-
Receivable from related parties	-	-	-	-	-	-	212	212
Other assets and prepayments	-	-	-	-	-	-	33	33
Total assets		**-**	**-**	**-**	**-**	**-**	**1,392**	**1,392**
Deposits from banks	-	-	-	-	-	-	-	-
Deposits from customers	-	-	-	-	-	-	-	-
Bills payable	-	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-	-
Payable to related parties	-	-	-	-	-	-	3,553	3,553
Payables and accrued expenses	-	-	-	-	-	-	47	47
Total liabilities and equity		**-**	**-**	**-**	**-**	**-**	**3,600**	**3,600**
Interest rate sensitivity gap		**-**	**-**	**-**	**-**	**-**	**(2,208)**	**(2,208)**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk - continued

GROUP As at 31 December 2019	Weighted interest rates	Up to 1 month KShs. Million	1 - 3 months KShs. Million	3 - 12 months KShs. Million	1 - 5 years KShs. Million	Over 5 years KShs. Million	Non-interest bearing KShs. Million	Total KShs. Million
Cash and bank balances	-	-	-	-	-	-	83,235	83,235
Loans and advances to banks	7.80%	17,671	3,198	1,793	1,039	1,473	-	25,174
Financial assets at fair value through profit or loss	10.60%	767	884	-	-	-		1,651
Financial assets at fair value through other comprehensive income	10.60%	-	7,599	22,259	7,771	32,985	-	70,614
Investment in equity	-	-	-	-	-	-	600	600
Loans and advances to customers	10.60%	54,007	24,411	40,395	190,224	226,334	-	535,371
Financial assets held at armotised cost	-	1,056	1,275	6,231	19,094	69,321	-	96,977
Investment property							5,642	5,642
Other assets & prepayments	-	-	-	-	-	-	39,142	39,142
Total assets	**-**	**73,501**	**37,367**	**70,678**	**218,128**	**330,113**	**128,619**	**858,406**
Deposits from banks	8.20%	11,032	5,182	1,789	2,368	-	-	20,371
Deposits from customers	7.40%	570,144	55,798	50,856	9,785	-	-	686,583
Borrowings	6.50%	896	176	882	11,172	8,687	-	21,813
Lease liabilities	-	-	-	-	2,924	3,184	-	6,108
Payables and accrued expenses	2.50%	16,824	1,367	664	1,168	13,797	-	33,820
Total liabilities and equity		**598,896**	**62,523**	**54,191**	**27,417**	**25,668**	**-**	**768,695**
Interest rate sensitivity gap		**(525,395)**	**(25,156)**	**16,487**	**190,711**	**304,445**	**128,619**	**89,711**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk - continued

Company As at 31 December 2019	Weighted interest rates	Up to 1 month KShs. Million	1 - 3 months KShs. Million	3 - 12 months KShs. Million	1 - 5 years KShs. Million	Over 5 years KShs. Million	Non-interest bearing KShs. Million	Total KShs. Million
Cash and bank balances	-	-	-	-	-	-	1,178	1,178
Loans and advances to banks	-	-	-	-	-	-	-	-
Financial assets fair value through other comprehensive income	-	-	-	-	-	-	25	25
Loans and advances to customers	-	-	-	-	-	-	-	-
Receivable from related parties	-	-	-	-	-	-	6,336	6,336
Other assets and prepayments	-	-	-	-	-	-	37	37
Total assets		**-**	**-**	**-**	**-**	**-**	**7,576**	**7,576**
Deposits from banks	-	-	-	-	-	-	-	-
Deposits from customers	-	-	-	-	-	-	-	-
Bills payable	-	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-	-
Payable to related parties	-	-	-	-	-	-	-	-
Payables and accrued expenses	-	-	-	-	-	-	4	4
Total liabilities and equity		**-**	**-**	**-**	**-**	**-**	**4**	**4**
Interest rate sensitivity gap		**-**	**-**	**-**	**-**	**-**	**7,572**	**7,572**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (continued)

(ii) Interest rate risk - continued

An analysis of the Group's sensitivity to an increase or decrease in market interest rates assuming no asymmetrical movement in yield curves and a constant financial position is as follows on profit or loss (balances in KShs. Million):

GROUP	2020			2019		
	Carrying amount	1% Increase	1% Decrease	Carrying amount	1% Increase	1% Decrease
Cash and bank balances	64,608	(646)	646	83,235	(832)	832
Loans and advances to banks	23,706	(237)	237	25,174	(252)	252
Financial assets held for trading	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	94,284	(943)	943	70,614	(706)	706
Other assets and prepayments	650	(6)	6	39,867	(399)	399
Investment property	6,035	(60)	60	5,642	(56)	56
Loans and advances to customers (Net)	595,255	(5,952)	5,952	535,370	(5,354)	5,354
Financial assets held at armotised cost	111,357	(1,114)	1,114	96,977	(970)	970
	895,634			**856,879**		
LIABILITIES & EQUITY						
Deposits from banks	19,668	197	(197)	20,371	204	(204)
Deposits from customers	767,224	7,672	(7,672)	686,583	6,866	(6,866)
Other liabilities and accrued expenses	9,765	98	(98)	40,280	403	(403)
Retirement benefits obligation	177	2	(2)	-	-	-
Borrowings	37,032	370	(370)	21,485	215	(215)
	833,866			**768,720**		
Net interest income (decrease)/increase		**(619)**	**619**	(881)	**881**	**464**
Tax Charge @ 30%		186	(186)		264	(264)
Impact on profit after tax		**(433)**	**433**		**(617)**	**617**

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.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(iii) Price risk

The Group is exposed to equity securities price risk because of investments in Kenya Mortgage Refinance Company shares. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity and debt securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with limits set by the Directors.

a) Value at risk

The Group applies a 'value at risk' (VAR) methodology to its trading and non-trading portfolios to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board sets limits on the value of risk that may be accepted for the Group, which are monitored daily by Group Treasury. Interest rate risk in the non-trading book is measured using interest rate repricing gap analysis

VAR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Group might lose, but only to a certain level of confidence (98%). There is therefore a specified statistical probability (2%) that actual loss could be greater than the VAR estimate.

The VAR model assumes a certain 'holding period' until positions can be closed (10 days). It also assumes that market moves occurring over this holding period will follow a similar pattern to those that have occurred over 10-day periods in the past. The Group's assessment of past movements is based on data for the past five years. The Group applies these historical changes in rates, prices, indices, etc. directly to its current positions – a method known as historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VAR calculation.

The use of this approach does not prevent losses outside of these limits in the event of more significant market movements. The VaR is calculated as per the below standard parameters. Kindly indicate it on the VaR Disclosure.

- Confidence level - 99%
- Holding Period – 10 Days

As VAR constitutes an integral part of the Group'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, together with a Group-wide VAR, is reviewed daily by Group Treasury. Average daily VAR for the Group was KShs 2,862 in 2020. The quality of the VAR model is continuously monitored by back-testing the VAR results for trading books. All back-testing exceptions and any exceptional revenues on the profit side of the VAR distribution are investigated, and all back-testing results are reported to the Board of Directors.

12 months to 31 Dec 2020

KShs. Million	Average	High	Low
Interest rate risk	2,899	3,929	1,676
Foreign exchange risk	5	15	1
Total VaR	2,862	3,930	1,450

Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Group Treasury include: risk factor stress testing, where stress movements are applied to each risk category; emerging market stress testing, where emerging market portfolios are subject to stress movements; and ad hoc stress testing, which includes applying possible stress events to specific positions or regions – for example, the stress outcome to a region following a currency peg break.

The results of the stress tests are reviewed by senior management in each business unit and by the Board of Directors. The stress testing is tailored to the business and typically uses scenario analysis.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Off balance sheet items

i. Loan commitments
The dates of the contractual amounts of the Group's off-balance sheet financial instruments that it commits to extend credit to customers and other facilities (Note 41) are summarised in the table below.

ii. Off balance sheet financial instruments
Off balance sheet letters of credit and guarantees (Note 42) are also included in the table below, based on the earliest contractual maturity date.

iii. Operating lease commitments
Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases.

iv. Capital commitments
Capital commitments for the acquisition of buildings and equipment (Note 41) are summarised in the table below

At 31 December 2020	No later than 1 year KShs. Million	1-5 years KShs. Million	Over 5 years KShs. Million	Total KShs. Million
Loan commitments	46,012	-	-	46,012
Off balance sheet financial instruments	157,445	28,058	58	185,561
Operating lease commitments	1,830	10,476	3,021	15,327
Capital commitments	3,149	-	-	3,149
Total	**208,436**	**38,534**	**3,079**	**250,049**
At 31 December 2019				
Loan commitments	93,449	-	-	93,449
Off balance sheet financial instruments	129,843	37,173	35	167,051
Operating lease commitments	1,848	6,656	-	8,504
Capital commitments	2,731	-	-	2,731
Total	**227,871**	**43,829**	**35**	**271,735**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Accounting classification and fair values

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount				Fair value			
2020 - Group	**FVTOCI**	**FVTPL**	**At amortised cost**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
	KShs. Million	**KShs. Million**	**KShs. Million**	**KShs. Million**	**KShs. Million**	**KShs. Million**	**KShs. Million**	**KShs. Million**
Assets								
Financial assets								
Cash and bank balances	-	-	64,608	64,608	-	64,608	-	64,608
Loans and advances to Banks	-	-	23,706	23,706	-	23,706	-	23,706
Financial assets held at armotised cost	-	-	111,357	111,357	-	111,357	-	111,357
Financial assets fair value	94,284	5,143	-	99,427	99,427	-	-	99,427
Loans and advances to customers	-	3,396	591,859	595,255	-	595,255	-	595,255
Investment in equity	-	-	600	600	-	600	-	600
Investment property	-	6,035	-	6,035	-	-	6,035	6,035
Other assets and prepayments	-	-	43,162	43,162	-	43,162	-	43,162
Total financial assets	**94,284**	**14,574**	**835,292**	**944,150**	**99,427**	**838,688**	**6,035**	**944,150**
Liabilities								
Due to other banks	-	-	19,668	19,668	-	19,668	-	19,668
Deposits from customers	-	-	767,224	767,224	-	767,224	-	767,224
Payables and accrued expenses	-	-	14,428	14,428	-	14,428	-	14,428
Long term debt	-	-	37,032	37,032	-	37,032	-	37,032
Total financial liabilities	**-**	**-**	**838,352**	**838,352**	**-**	**838,352**	**-**	**838,352**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(a) Accounting classification and fair values (continued)

2019- Group	Carrying amount				Fair value			
	FVTOCI KShs. Million	FVTPL KShs. Million	At amortised cost KShs. Million	Total KShs. Million	Level 1 KShs. Million	Level 2 KShs. Million	Level 3 KShs. Million	Total KShs. Million
Assets								
Financial assets								
Cash and bank balances	-		83,235	83,235	-	83,235	-	83,235
Due from other banks	-		25,174	25,174	-	25,174	-	25,174
Financial assets at amortised cost	-		98,628	98,628	-	98,628	-	98,628
Financial assets fair value	66,238	-	-	70,614	66,238	-	-	66,238
Loans and advances to customers	-		535,371	539,747	-	539,747	-	535,371
Clearing house	-		1,181	1,181	-	1,181	-	1,181
Investment property		5,642	-	5,642	-	-	5,642	5,642
Other assets	-		32,027	32,027	-	32,027	-	32,027
Total financial assets	**66,238**	**5,642**	**779,992**	**851,872**	**66,238**	**779,992**	**5,642**	**851,872**
Liabilities								
Due to other banks	-		20,371	20,371	-	20,371	-	20,371
Deposits from customers	-		686,583	686,583	-	686,583	-	686,583
Bills payable	-		4,447	4,447	-	4,447	-	4,447
Other liabilities	-		35,834	35,834	-	35,834	-	35,834
Long term debt	-		21,485	21,485	-	21,485	-	21,485
Total financial liabilities	**-**		**768,720**	**768,720**	**-**	**768,720**	**-**	**768,720**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(a) Accounting classification and fair values (continued)

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

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

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

Investment securities with observable market prices including equity securities are fair valued using that information. Investment securities that do not have observable market data are fair valued either using discounted cash flow method or quoted market prices for securities with similar yield characteristics. The table above includes KShs 312 million (2019: KShs 348 million) of securities in both carrying amount and fair value columns that were measured at cost and for which disclosure at fair value was not provided because their fair value was not considered to be reliably measurable.

Loans and advances to customers are net of allowance for impairment. The estimated fair value of loans and advances represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. A substantial proportion of loans and advances are on floating rates and re-price within 12 months, hence their fair value approximates their carrying amounts.

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. Estimated fair value of fixed interest bearing deposits without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar maturities and interest rates. A substantial proportion of deposits mature within 12 months and hence the fair value approximates their carrying amounts.

Cash and bank balances are measured at amortized cost and their fair value approximates their carrying amount.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (Continued)

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

b) Reconciliation of level 3 item

	Investment property KShs. Million
Year ended 31 December 2020	
At start of year	**5,642**
Fair value gain through profit or loss	**392**
At end of year	**6,035**
Transfers into or out of level 3	-
At end of year	**6,035**
Year ended 31 December 2019	
At start of year and at end of year	**5,642**

(c) Valuation hierarchy

The table below presents the Group's assets that are measured at fair value the end of the year.

Financial Assets		Fair value as at		Fair value hierarchy	Valuation technique (s) and key inputs	Significant unobservable inputs
		31 December 2020 KShs. Million	31 December 2019 KShs. Million '000			
Financial assets						
-	At FVTPL	5,143	1,651	Level 1	Quoted bid prices in an active market	N/A
-	AT FVOCI	94,284	70,614	Level 1	Quoted bid prices in an active market	N/A
Loans and advances		3,396	-	Level 2	Valuation based on future operations of an entity	Discounted cashflows
Total assets		**99,427**	**72,265**			

The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

6. MANAGEMENT OF CAPITAL

Regulatory capital – Kenya

The Central Bank of Kenya sets and monitors capital requirements for all banks.

The objective of the Central Bank of Kenya is to ensure that a bank maintains a level of capital which:

- is adequate to protect its depositors and creditors;
- is commensurate with the risks associated with its activities and profile
- promotes public confidence in the Group.

In implementing current capital requirements, the Central Bank of Kenya requires banks to maintain a prescribed ratio of total capital to total risk-weighted assets. Banks are expected to assess the Credit risk, Market risk and the Operational risk of the risk weighted assets to derive the ratios. The Capital adequacy and use of regulatory capital are monitored regularly by management employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Kenya for supervisory purposes.

The Central Bank of Kenya requires a bank to maintain at all times:

- hold the minimum level of regulatory capital of KShs. 1 billion.
- Total risk weighted assets, plus risk weighted off- balance sheet assets at above the required minimum of 10.5%.
- A ratio of total regulatory capital; to core capital of not less than 8% of its total deposit liabilities
- a total capital of not less than 14.5% of its total risk weighted assets, plus risk weighted off-balance sheet items.

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

- Tier 1 capital. This includes ordinary share capital, share premium, retained earnings and after deduction of investment in subsidiaries, goodwill, other intangible assets and other regulatory adjustments relating to items that are included in equity which are treated differently for capital adequacy purposes.
- Tier 2 capital. This includes 25% of revaluation reserves of property, subordinated debt not exceeding 50% of core capital, collective impairment allowances and any other approved reserves.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

6. MANAGEMENT OF CAPITAL (Continued)

The regulatory capital position for the Group's banking subsidiaries was as follows:

Regulatory Capital - KCB Bank Kenya Limited

	2020 KShs. Million	2019 KShs. Million
Core capital (Tier 1)		
Share capital	53,986	53,986
Retained earnings	48,232	36,214
Total core capital	102,218	90,200
Supplementary capital (Tier 2)	24,456	10,867
Total capital	126,674	101,067
Risk weighted assets	653,060	577,236
Capital ratios		
Core capital/Total deposits (CBK min 8%)	17.4%	17.0%
Core capital/total risk weighted assets (CBK min 10.50%)	15.7%	15.6%
Total capital/total risk weighted assets (CBK min 14.50%)	19.4%	17.5%

Regulatory capital – Tanzania

KCB Bank Tanzania had the following capital adequacy ratios:-

	2020	2019
Core capital (Tier 1)		
Tier I (Minimum required 10%)	16.1%	17.3%
Tier I + Tier II (Minimum required 12%)	16.1%	17.3%

Regulatory capital – Rwanda

KCB Bank Rwanda had the following capital adequacy ratios:-

	2020	2019
Core capital (Tier 1)		
Tier I (Minimum required 10%)	17.0%	14.5%
Tier I + Tier II (Minimum required 12%)	16.3%	15.2%

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

6. MANAGEMENT OF CAPITAL (Continued)

Regulatory capital – South Sudan

KCB Bank South Sudan had the following capital adequacy ratios:-

	2020	2019
Core capital (Tier 1)		
Tier I (Minimum required 10%)	102.0%	80.0%
Tier I + Tier II (Minimum required 12%)	135.0%	102.0%

Regulatory capital – Burundi

KCB Bank Burundi had the following capital adequacy ratios:-

	2020	2019
Core capital (Tier 1)		
Tier I (Minimum required 10%)	32.9%	22.6%
Tier I + Tier II (Minimum required 12%)	31.7%	23.2%

Regulatory capital – Uganda

KCB Bank Uganda had the following capital adequacy ratios:-

	2020	2019
Core capital (Tier 1)		
Tier I (Minimum required 10%)	17.2%	13.1%
Tier I + Tier II (Minimum required 12%)	17.9%	13.7%

KCB Group Plc will ensure that the capital adequacy of its subsidiaries meet the requirements of home and host regulators as required by cap 488 of the Banking Act.

The Group was in compliance with all statutory capital requirements as at end of the year.In addition, the Group has an Internal Capital Adequacy Assessment Process (ICAAP) policy to guide in determining its capital planning and formulating its risk appetite process. Overall, the purpose of the ICAAP document is to provide an informative description of the methodology and procedures that the Group uses to assess and mitigate its risks and to make sure that adequate capital is kept to support its risks beyond the core minimum requirements.

It delineates the process through which the Group assesses the extent to which it holds sufficient capital in order to duly support its business activities. Specifically, through the ICAAP, the Group assesses its forecast capital supply and demand relative to its regulatory and internal capital targets, under various scenarios. The Group's capital plan is defined every year during the budgeting and strategic planning exercise while financial year risk appetite limits are set by the Board. Exposures are monitored on a quarterly basis against those limits and reported to the Board Credit and Risk Committees. Stress testing is a risk management exercise that forms an integral part of the ICAAP. As part of the Group's ICAAP, forecasts are made over a five-year horizon, taking into account the Basel Pillar I and II stresses.

The ICAAP provides for an assessment of the Pillar I risk types (i.e., credit, operational, market risks) and Pillar II risk types (i.e. concentration of risk, liquidity risk, interest rate risk, strategic risks). These assessments are conducted with a view to understanding the sensitivity of the key assumptions of the capital plan to the realisation of possible stress scenarios and in order to evaluate how the Group can continue to maintain adequate capital under such scenarios. The overriding aim of the stress testing framework for the Group is to ensure that risk management exercises are firmly embedded in the organisation's overall governance culture. This helps to bolster the observance of regulatory requirements with regard to risk management, while contributing to the competitive positioning of the Group.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

7. OPERATING SEGMENTS

An operating segment is a section of the Group that focus on distinct business activities and is regularly reviewed by the management in terms of performance and resource allocation. The Group's management identify the specific segments based on the internal reporting periodically to the executive committee. The segmentation is dependent on the customer's turnover and thus the current segments include corporate, retail, Treasury, and mortgages. The focus in these segments is as detailed below: -

- Retail banking – incorporating banking services such as customer current accounts, savings, and fixed deposits to individuals. Retail lending are mainly consumer loans and mortgages-based lending.
- Corporate banking – incorporating banking services such as current accounts, fixed deposits, overdrafts, loans, and other credit facilities both in local and foreign currencies.
- Mortgages – incorporating the provision of mortgage finance.
- Treasury – operates the Group's funds management activities.
- Other Group operations comprise of trade finance and forex business. The Group also participates in investments in Treasury Bills and Bonds from the Central Banks.

The Group does not have any one major customer contributing to more than 10% in revenue, loans, or deposits. There have been no changes in the reportable segments in the year, nor any intersegment transfers.

The table below analyses the breakdown of segmental assets, liabilities, income, and expenses.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

7. OPERATING SEGMENTS (Continued)

The table below analyses the breakdown of segmental assets, liabilities, income and expenses;

31-Dec-20	Corporate banking KShs. Million	Retail banking KShs. Million	Treasury KShs. Million	Mortgages KShs. Million	Other KShs. Million	Total KShs. Million
Interest income	24,915	34,439	21,873	8,781	2,943	92,951
Interest expense	(11,872)	(5,336)	(1,785)	(855)	(959)	(20,807)
Net interest income	13,043	29,103	20,088	7,926	1,984	72,144
Net fees and commission income	4,907	8,473	19	7	167	13,573
Other income	277	3,367	6,072	-	563	10,279
Depreciation and amortization	(3)	(64)	(1)	-	(5,851)	(5,919)
Impairment	(13,667)	(10,068)	(23)	(1,715)	(2,036)	(27,509)
Fair Value Gain	393	-	-	-	-	393
Operating expenses	(4,151)	(19,414)	(270)	(243)	(13,294)	(37,372)
Profit before monetary items	799	11,397	25,885	5,975	(18,467)	25,589
Loss on monetary items	-	-	-	-	130	130
Profit before tax	799	11,397	25,885	5,975	(18,337)	25,719
Tax expense	(190)	(2,710)	(6,154)	(1,421)	4,360	(6,115)
Profit after tax	**609**	**8,687**	**19,731**	**4,554**	**(13,977)**	**19,604**

31-Dec-19						
Interest income	22,407	27,854	14,379	7,063	7,941	79,644
Interest expense	(10,689)	(1,253)	(1,359)	(3,903)	(1,016)	(18,220)
Net interest income	11,718	26,601	13,020	3,160	6,925	61,424
Net fees and commission income	7,254	14,307	4,045	177	(11,226)	14,557
Other income	3,040	3,584	1,696	-	-	8,320
Depreciation and amortization	(1,603)	(3,194)	(894)	(7)	903	(4,795)
Impairment	(3,248)	(5,315)	(120)	(206)	-	(8,889)
Operating expenses	(3,836)	(14,284)	(425)	(217)	(15,122)	(33,884)
Profit before monetary items	13,325	21,699	17,322	2,907	(18,520)	36,733
Loss on monetary items	-	-	-	-	164	164
Profit before tax	13,325	21,699	17,322	2,907	(18,356)	36,897
Tax expense	(4,237)	(6,899)	(5,507)	(924)	5,835	(11,732)
Profit after tax	**9,088**	**14,800**	**11,815**	**1,983**	**(12,521)**	**25,165**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

7. OPERATING SEGMENTS (Continued)

Financial position As at 31-Dec-20	Corporate banking KShs. Million	Retail banking KShs. Million	Treasury KShs. Million	Mortgages KShs. Million	Other KShs. Million	Total KShs. Million
Short term funds	-	15,153	283,947	-	-	299,100
Loans and advances	262,531	243,159	-	89,315	249	595,254
Other assets and prepayments	-	-	-	-	93,456	93,456
Total assets	**262,531**	**258,312**	**283,947**	**89,315**	**93,705**	**987,810**
Customer deposits	380,297	340,532	11,144	34,756	495	767,224
Borrowed funds	-	-	37,032	-	-	37,032
Payables and accrued expenses	-	-	19,668	-	21,461	41,129
Shareholders' funds	-	-	-	-	142,424	142,424
Total liabilities and shareholders' funds	**380,297**	**340,532**	**67,845**	**34,756**	**164,380**	**987,810**

Financial position As at 31-Dec-19	Corporate banking KShs. Million	Retail banking KShs. Million	Treasury KShs. Million	Mortgages KShs. Million	Other KShs. Million	Total KShs. Million
Short term funds	65,839	56,870	148,692	-	1,404	272,805
Loans and advances	251,622	221,991	-	66,134	-	539,747
Other assets and prepayments	-	7,128	9,295	977	68,620	86,020
Total assets	**317,461**	**285,989**	**157,987**	**67,111**	**70,024**	**898,572**
Customer deposits	306,158	336,213	17,095	25,713	1,404	686,583
Borrowed funds	-	-	21,485	-	-	21,485
Payables and accrued expenses	-	6,108	11,437	514	42,704	60,763
Shareholders' funds	-	-	-	-	129,741	129,741
Total liabilities and shareholders' funds	**306,158**	**342,321**	**50,017**	**26,227**	**173,849**	**898,572**

Major Customers

The Group does not have major customers contributing to 10% or more of the Group's income.

Geographical information

Five of the Group companies, KCB Bank Tanzania Limited, KCB South Sudan Limited, KCB Bank Uganda Limited, KCB Bank Rwanda Limited and KCB Bank Burundi Limited operate outside the domestic financial market. The following table analyses the regional segments in which the group operates.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

7. OPERATING SEGMENTS (Continued)

Geographical information

Income Statement

For the year ended 31-Dec-20	Kenya KShs. Million	Tanzania KShs. Million	South Sudan KShs. Million	Uganda KShs. Million	Rwanda KShs. Million	Burundi KShs. Million	Group Elimination KShs. Million	Total KShs. Million
Interest income	84,919	3,126	117	1,576	2,617	757	(161)	92,951
Interest expense	(18,143)	(1,116)	(95)	(582)	(940)	(92)	161	(20,807)
Net interest income	66,776	2,010	22	994	1,677	665	-	72,144
Net fees and commission income	11,725	398	423	293	407	327	-	13,573
Other income	9,554	363	617	380	193	126	(954)	10,279
Impairment	(26,722)	(709)	27	187	(284)	(8)	-	(27,509)
Fair value gain	393	-	-	-	-	-		393
Depreciation and amortization	(5,093)	(211)	(88)	(190)	(239)	(98)	-	(5,919)
Operating expenses	(33,486)	(1,358)	(460)	(1,117)	(1,121)	(500)	670	(37,372)
Profit before tax and monetary loss	23,147	493	541	547	633	512	(284)	25,589
Loss /(Gain)on monetary position	-	-	130	-	-	-	-	130
Profit before income tax	23,147	493	671	547	633	512	(284)	25,719
Tax	(5,619)	(277)	118	(169)	(187)	19	-	(6,115)
Profit after tax	**17,528**	**216**	**789**	**378**	**446**	**531**	**(284)**	**19,604**
For the year ended 31-Dec-19								
Interest income	72,109	2,727	63	1,619	2,404	722	-	79,644
Interest expense	(15,613)	(968)	(30)	(633)	(829)	(147)	-	(18,220)
Net interest income	56,496	1,759	33	986	1,575	575	-	61,424
Net fees and commission income	12,819	472	207	338	467	254	-	14,557
Other income	23,431	422	305	326	290	97	(16,551)	8,320
Impairment	(8,420)	(172)	232	(366)	(89)	(74)	-	(8,889)
Depreciation and amortization	(3,376)	(195)	(30)	(159)	(198)	(86)	-	(4,044)
Operating expenses	(30,252)	(1,287)	(332)	(1,204)	(1,069)	(491)	-	(34,635)
Profit before tax and monetary loss	50,698	999	415	(79)	976	275	(16,551)	36,733
Loss on monetary position	-	-	164	-	-	-	-	164
Profit before income tax	50,698	999	579	(79)	976	275	(16,551)	36,897
Tax	(10,773)	(315)	(18)	(408)	(213)	(5)	-	(11,732)
Profit after tax	**39,925**	**684**	**561**	**(487)**	**763**	**270**	**(16,551)**	**25,165**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

7. OPERATING SEGMENTS (Continued)

Geographical information

Statement of financial position

For the year ended 31-Dec-20	Kenya KShs. Million	Tanzania KShs. Million	South Sudan KShs. Million	Uganda KShs. Million	Rwanda KShs. Million	Burundi KShs. Million	Group Elimination KShs. Million	Total KShs. Million
Cash and short term funds	247,916	13,029	14,166	8,993	7,946	7,050	-	299,100
Loans and advances	547,501	19,234	920	7,602	17,103	2,895	-	595,255
Other assets	153,189	1,371	1,425	2,380	1,076	364	(66,350)	93,455
Total assets	**948,606**	**33,634**	**16,511**	**18,975**	**26,125**	**10,309**	**(66,350)**	**987,810**
Customer deposits	694,861	22,173	9,455	13,533	19,353	7,849	-	767,224
Borrowed funds	34,707	817	-	868	641	-	-	37,033
Other liabilities	14,967	6,026	3,112	1,653	2,112	443	12,816	41,129
Shareholders' funds	204,071	4,618	3,944	2,921	4,019	2,017	(79,166)	142,424
Total liabilities and shareholders' funds	**948,606**	**33,634**	**16,511**	**18,975**	**26,125**	**10,309**	**(66,350)**	**987,810**
For the year ended 31-Dec-19								
Cash and short term funds	230,998	9,577	11,954	15,383	5,394	4,345	-	277,651
Loans and advances	492,822	17,443	911	6,522	14,628	3,044	-	535,370
Other assets and prepayments	156,543	1,108	1,720	1,351	658	958	(76,787)	85,551
Total assets	**880,363**	**28,128**	**14,585**	**23,256**	**20,680**	**8,347**	**(76,787)**	**898,572**
Customer deposits	620,125	16,979	8,269	18,475	16,152	6,583	-	686,583
Borrowed funds	18,465	1,081	-	1,177	763	-	-	21,486
Payables and accrued expenses	49,929	6,098	2,220	1,394	779	342	-	60,762
Shareholders' funds	191,844	3,970	4,096	2,210	2,986	1,422	(76,787)	129,741
Total liabilities and shareholders' funds	**880,363**	**28,128**	**14,585**	**23,256**	**20,680**	**8,347**	**(76,787)**	**898,572**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

8. INTEREST INCOME AND INTEREST EXPENSE

INTEREST INCOME	**GROUP**		**COMPANY**	
	2020 KShs. Million	**2019 KShs. Million**	**2020 KShs. Million**	**2019 KShs. Million**
Interest on loans and advances	68,976	64,426	-	-
Financial instruments at FVOCI	18,697	10,502	-	-
Financial instruments at amortised cost	4,409	3,187	-	-
Other investments at armotised costs	72	377	-	-
Interest on impaired loans and advances	-	(121)	-	-
Interest on placements and bank balances	797	1,273	31	-
	92,951	**79,644**	**31**	**-**
INTEREST EXPENSE				
Interest on deposits	18,855	16,266	-	-
Interest on borrowed funds	1,952	1,954	-	-
	20,807	18,220	-	-
NET INTEREST INCOME	**72,144**	**61,424**	**31**	**-**

9. FEES AND COMMISSIONS INCOME AND EXPENSE

Retail and corporate fee income	6,126	6,276	-	-
Commission income	8,400	9,012	-	-
Custodian fee income	210	197	-	-
	14,736	**15,485**	**-**	**-**
Commission expense	(1,163)	(928)	-	-
	13,573	**14,557**	**-**	**-**

10. NET TRADING INCOME

Foreign currency dealings	5,390	4,018	38	(4)
Translation gains	-	479	-	-
	5,390	**4,497**	**38**	**(4)**

11. (a) DIVIDEND INCOME

Dividend Income	**-**	**-**	170	16,551

11. (b) OTHER OPERATING INCOME

Rent income	369	236	2	4
Profit on disposal of property and equipment	(32)	(6)	-	-
Income on disposal of securities	1,168	794	-	-
Risk premium fees	2,782	2,025	-	-
Miscellaneous income	602	774	56	152
Recharges to subsidiary entities	**-**	**-**	**449**	**259**
	4,889	**3,823**	**507**	**415**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

12. CREDIT IMPAIRMENT LOSSES

	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
a) Losses on financial assets				
Non-performing loans and advances (Stage 3)	36,807	14,197	-	-
Performing loans and advances (Stage 1 and 2)	1,406	4,782	-	-
Bad debts recovered during the year	(10,704)	(10,233)	-	-
Hyperinflation adjustment	-	143	-	-
	27,509	**8,889**	**-**	**-**

13. NET GAINS (LOSSES) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Gain on investment property	**393**	**-**	**-**	**-**

14. EMPLOYEE BENEFITS

Salaries and wages	17,297	16,208	618	315
Medical expenses	1,179	998	29	5
Pension costs – defined benefit scheme	1,360	857	6	6
Pension costs – defined contribution scheme	352	390	-	-
Social security contributions	-	191	-	-
Others *	323	815	-	-
	20,511	**19,459**	**653**	**326**

*Other costs relate to staff insurance, health and safety programs, recognition schemes, restructuring costs, recruitment and other incidental costs.

The number of employees of the Group as at 31 December 2020 was 7,525 (31 December 2019 – 7,584). The number of employees of the Company as at 31 December 2020 was 10 (31 December 2019 – 10).

15. DEPRECIATION AND AMORTISATION

	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
Depreciation of property and equipment (Note 29)	2,408	2,106	12	8
Amortization of intangible assets (Note 30)	2,310	1,938	2	1
Depreciation of Right of Use assets	1,201	751	-	-
	5,919	**4,795**	**14**	**9**

16. LEASE EXPENSES

	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
Interest expense on lease liabilities	667	464	-	-

The Group leases a number of bank premises and motor vehicles to undertake its business. The average lease term for premises is 6 years with an option to extend whereas motor vehicles covers for a 5-year period. The Group negotiates after the end of every lease period with the lessor to reflect the prevailing market conditions subject to an agreement between the two parties.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

17. OTHER OPERATING EXPENSES

	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
Depositor's protection fund premiums	992	689	-	-
Marketing, events and sponsorship	1,743	1,715	38	48
Project expenses,repairs & maintenance, rent and utilities	1,590	3,217	1	3
Equipment costs,maintenance, repairs and leases	2,000	1,837	9	9
Communication costs	814	517	1	-
Professional and outsourced service costs	3,711	2,457	389	318
Software related costs	2,051	542	1	2
Other costs	3,293	2,987	993	219
	16,194	**13,961**	**1,432**	**599**

The Group also leases computer equipment and point of sale machines for between one to three years. These leases are short-term or low valued and the Group has elected not to recognize the right-of-use assets and liabilities as exempted by the standard.

18. PROFIT BEFORE INCOME TAX

	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
Profit before tax is arrived at after charging/ (crediting):				
Depreciation	2,408	2,104	12	9
Amortization of intangible assets	2,310	1,938	2	1
Directors' emoluments – salaries emoluments	296	456	232	430
Auditors remuneration	63	64	4	2
Armortisation of right of use assets	1,201	751	-	-
Profit/(loss) on disposal of property and equipment	32	6	(3)	(31)

19. GAIN/ (LOSS) ON MONETARY POSITION

Gain/(loss)Loss on monetary position on hyperinflation	**130**	**(164)**	**-**	**-**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

19. GAIN/ (LOSS) ON MONETARY POSITION (Continued)

Gain / Loss in monetary position is as a result of the South Sudan economy being declared a hyperinflationary economy in 2016. The financial statements for KCB Bank South Sudan Limited have been adjusted for hyperinflation which resulted in a gain on monetary position of KShs.130 million (2019 – loss KShs. 164 million)

2020	1-Jan-20 KShs. Million	Net change in monetary items KShs. Million	31-Dec-20 KShs. Million
Monetary Items			
Cash and balances with Bank of South Sudan	11,285	2,103	13,388
Investment in government securities	-	-	-
Placements and balances with other banking institutions	591	65	656
Amounts due from related companies	134	(12)	122
Loans and advances to customers	915	7	922
Other assets	37	3	40
Customer deposits	(8,305)	(855)	(9,160)
Balances due to other banks	(1)	-	(1)
Tax Payable	1	(45)	(44)
Other liabilities	(866)	45	(821)
Due to related companies	(1,816)	(905)	(2,721)
Net monetary assets	**1,975**	**406**	**2,381**
Expressed in purchasing power at 31 Dec 2020	(1,811)	(440)	(2,251)
Gain on net monetary position	**164**	**(34)**	**130**

2019	1-Jan-19 KShs. Million	Net change in monetary items KShs. Million	31-Dec-19 KShs. Million
Monetary Items			
Cash and balances with Bank of South Sudan	10,900	385	11,285
Investment in government securities	-	-	-
Placements and balances with other banking institutions	418	173	591
Amounts due from related companies	101	33	134
Loans and advances to customers	504	411	915
Other assets	230	(193)	37
Customer deposits	(8,451)	(146)	(8,305)
Balances due to other banks	-	(1)	(1)
Tax payable	60	(59)	1
Other liabilities	(109)	(334)	(443)
Lease liabilities	-	(423)	(423)
Amounts due to related companies	(1,620)	(196)	(1,816)
Net monetary assets	**2,033**	**58**	**1,975**
Expressed in purchasing power at 31 Dec 2019	(2,335)	524	(1,811)
Loss on net monetary position	**(302)**	**466**	**164**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

20. CURRENT INCOME TAX

Group	2020 KShs. Million	2019 KShs. Million
Income tax expense		
Charge to profit or loss for the year	11,622	14,854
Under /(over) provisions in prior years	165	(29)
	11,787	**14,825**
Deferred income tax		
Credit to profit or loss for the year (note 35)	(4,919)	(4,489)
Under /(over) provisions in prior years	(753)	1,396
	(5,672)	**(3,093)**
Hyperinflation adjustment	(3)	(54)
Total income tax expense for the year	**6,115**	**11,732**

Reconciliation of effective tax

Accounting profit for the year	**25,719**	**36,895**
Income tax expense calculated	6,602	11,026
Effects of non-taxable income	(758)	(697)
Effects of non-allowable expenses	154	2,886
Effect of change in tax rate	(798)	-
Effects of hyperinflation adjustment	(3)	(54)
Under /(over) provisions of current income tax in in prior years	165	(29)
Under /(over) provisions of deferred income tax in prior years	753	(1,396)
Income tax expense recognised in profit or loss	**6,115**	**11,732**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

20. CURRENT INCOME TAX (Continued)

Company	2020 KShs. Million	2019 KShs. Million
Income tax expense		
Charge to profit or loss for the year	6	23
Under provisions in prior years	-	18
	6	**42**
Deferred income tax		
Charge to profit or loss for the year (note 35)	11	100
Over provisions in prior years	1	-
	12	**100**
Total income tax expense for the year	**18**	**142**
Reconciliation of effective tax		
Accounting (loss)/profit for the year	**(1,371)**	**16,028**
Income tax expense calculated	(338)	4,809
Effects of non-taxable income	(43)	(4,967)
Effects of non-allowable expenses	396	186
Overprovisions in deferred income tax in prior years	1	-
Overprovision in current income tax in prior years	-	18
Effect of change in tax rate	2	96
Income tax expense recognised in profit or loss	**18**	**142**

(b) Statement of financial position - Group	2020 KShs. Million	2019 KShs. Million
At start of year	416	309
Current income tax expense	(11,622)	(14,854)
On acquisition of subsidiary	-	452
Total income taxes paid	11,616	15,015
Effects of hyperinflation adjustment	16	(370)
At end of the year	**426**	**552**

Company	2020 KShs. Million	2019 KShs. Million
At start of year	27	68
Current income tax expense (note 9)	(7)	(23)
Under provisions of current income tax in prior period	-	(18)
Total income taxes paid	5	-
At end of year	**25**	**27**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

21. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated on the profit attributable to ordinary shareholders of KShs. 19,604 million (2019 – KShs. 25,165 million) and on the weighted average number of ordinary shares during the year of 3,213 million (2019 – 3,213 million shares).

	GROUP		COMPANY	
	2020 KShs.	2019 KShs.	2020 KShs.	2019 KShs.
Basic earnings per share	6.10	7.83	(0.43)	4.94
Diluted earnings per share	6.10	7.83	(0.43)	4.94

22. CASH AND BANK BALANCES

	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
Cash on hand	15,153	15,605	1,147	1,178
Balances with Central Banks:	-	-	-	-
Cash reserve ratio	35,671	48,152	-	-
Other current accounts	13,784	19,478	-	-
	64,608	**83,235**	**1,147**	**1,178**

Cash held with Central Banks represent cash ratio and other non-interest earning current accounts and is based on the value of deposits as adjuatsted for Central Banks' requirements. Mandatory cash reserve ratio is not available for use in the Group's day-to-day operations.

23. LOANS AND ADVANCES TO BANKS

	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
Balances in nostro accounts*	9,885	8,321	-	-
Placements with other banks	13,821	16,853	-	-
	23,706	**25,174**	**-**	**-**

The Group participates in the inter-bank market for the generation of revenue. Regularly, the counterparties are assessed for creditworthiness in line with the Group credit policies. The weighted average effective interest rate on balances due from other banks at 31 December 2020 was 5.3% (2019 – 7.5%).

*Nostro accounts are accounts held in other banks in a foreign country.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
Quoted investments	597	3,908	-	14
Unquoted equity investments	17	47	-	11
Corporate bonds	-	-	-	-
Treasury bonds	93,670	61,502	-	-
	94,284	**65,457**	**-**	**25**

25. INVESTMENT IN EQUITY

Investment in equity	600	600	-	-

This relates to the Group 20% shareholding in Kenya Mortgage Refinance Company. The investment is held at cost as the formalization of the transaction has not yet been completed.

26. OTHER ASSETS AND PREPAYMENTS

	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
Other receivables	35,702	31,427	33	37
Prepayments	6,810	6,534	-	-
Un-cleared effects	650	1,181	-	-
	43,162	**39,142**	**33**	**37**

Other receivables are current and non-interest bearing and are generally between 30 to 90 days terms.

The clearing house balance consists of items in transit to/from other banks through the Central Banks of various countries' clearing system. These items generally clear by send of the next business day.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

27. LOANS AND ADVANCES TO CUSTOMERS

The summary of loans and advances is as follows:

	31 Dec 2020 KShs. Million	31 Dec 2019 KShs. Million
Loans and advances at amortised cost	591,859	535,371
Loans and advances at fair value	3,396	4,376
	595,255	**539,747**

Loans and advances at amortised cost

	2020			2019		
	Gross KShs. Million	Credit Loss Allowance KShs. Million	Carrying Amount KShs. Million	Gross KShs. Million	Credit Loss Allowance KShs. Million	Carrying Amount KShs. Million
CORPORATE						
Mortgage	12,709	871	11,838	10,048	166	9,882
Overdrafts	9,854	194	9,660	7,791	248	7,543
Term Loans	314,999	32,266	282,733	248,642	20,460	228,183
	334,166	**33,331**	**300,835**	**266,481**	**20,874**	**245,607**
RETAIL						
Mortgage	56,902	1,341	55,561	55,662	2,558	53,104
Overdrafts	4,920	2,115	2,804	4,813	3,351	1,462
Term Loans	260,788	28,129	232,659	254,102	18,904	235,198
	322,610	**31,586**	**291,024**	**314,577**	**24,813**	**289,764**
	660,172	**64,917**	**591,859**	**581,058**	**45,687**	**535,371**

2020 Loans and advances to customers	Corporate KShs. Million	Mortgages KShs. Million	Retail KShs. Million	Total KShs. Million
Stage 3				
At start of year	17,312	1,392	14,597	33,301
Allowances made during the year (Note 12)	25,348	1,684	9,775	36,807
Write downs/ write-offs during the year	(8,279)	-	-	(8,279)
Recoveries/reversals (Note 12)	(5,079)	(1,202)	(4,423)	(10,704)
At end of year	**29,302**	**1,874**	**19,949**	**51,125**
Stage 1 & 2				
At start of year	5,284	287	6,815	12,386
Allowances made during the year (note 12)	1,222	955	(771)	1,406
At end of year	**6,506**	**1,242**	**6,044**	**13,792**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

27. LOANS AND ADVANCES TO CUSTOMERS (continued)

2019 Loans and advances to customers	Corporate KShs. Million	Mortgages KShs. Million	Retail KShs. Million	Total KShs. Million
Stage 3				
At start of year	6,805	547	5,738	13,090
Allowances made during the year (note 12)	10,460	658	3,818	14,936
Write downs/ write-offs	11,627	98	4,522	16,247
Recoveries/reversals (note 12)	(4,856)	(1,149)	(4,228)	(10,233)
At end of year	**24,036**	**154**	**9,850**	**34,040**
Stage 1 & 2				
At start of year	4,393	186	2,980	7,559
Allowances made during the year (note 12)	2,707	293	1,827	4,827
At end of year	**7,100**	**479**	**4,807**	**12,386**
Maturity analysis of gross loans and advances to customers				
Maturing as follows:				
Within 1 month	75,672	60,840	-	-
After 1 month, but within 3 months	32,695	25,552	-	-
After 3 months, but within 1 year	51,340	35,383	-	-
After 1 year, but within 5 years	201,068	192,212	-	-
Within 1 month	299,397	267,071	-	-
	660,172	**581,058**	**-**	**-**
Sectorial analysis of gross loans and advances to customers:				
Private sector and individuals	626,434	546,961	-	-
Government and parastatals	33,738	34,097	-	-
	660,172	**581,058**	**-**	**-**

The weighted average effective interest rate on loans and advances as at 31 December 2020 was 10.5% (2019 – 10.6%).

Loan and advances at fair value through profit or loss

	31 Dec 2020 KShs. Million	31 Dec 2019 KShs. Million
Gross carrying value	4,376	5,115
Fair value loss provision	(980)	(739)
At end of year	3,396	4,376

Loans and advances at fair value relate to loan notes issued to a Special Purpose Entity (SPE) formed as part of a restructuring arrangement between lender banks and Kenya Airways Plc in 2016. Under the terms of the restructuring, the amounts owing to the banks were transferred to the SPE, which in exchange was allocated equity shares of Kenya Airways Plc. Principally, the banks will recover the amounts due through the sale of Kenya Airways shares. The banks receive a fixed interest income on the amounts due at a rate that is largely below the market rates.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

28. FINANCIAL ASSETS AT AMORTIZED COST

Government treasury bills and bonds	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
Maturing as follows:				
Within 1 month	241	551	-	-
After 1 month, but within 3 months	413	743	-	-
After 3 months, but within 1 year	1438	10,601	-	-
After 1 year, but within 5 years	23,057	19,375	-	-
Maturing after 5 years	86,208	65,707	-	-
	111,357	**96,977**	**-**	**-**

Treasury bonds are debt securities issued by the Government of the Republic of Kenya, Government of Uganda, Government of the Republic of Rwanda, United Republic of Tanzania, Government of the Republic of Burundi. The bills and bonds are categorized as amounts held at amortized cost and carried at amortized cost. The weighted average effective interest rates on Government securities as at 31 December 2020 was 7.9% (31 December 2019– 8.9%).

29. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
Government Securities	5,143	1,651	-	-
At end of year	5,143	1,651	-	-

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

30. PROPERTY AND EQUIPMENT

a) GROUP

As at 31 December 2020:	Freehold and lease premises KShs. Million	Leasehold improvements KShs. Million	Motor vehicle, furniture and equipment KShs. Million	Total KShs. Million
COST:				
At start of year	3,253	5,310	26,691	35,254
Additions	439	46	2,939	3,424
Disposals	-	(48)	(156)	(204)
Reclassifications/ internal transfers	818	-	(169)	649
Translation differences	-	32	82	114
Hyperinflationary change	-	(85)	(47)	(132)
At end of year	**4,510**	**5,255**	**29,340**	**39,105**
DEPRECIATION				
At start of year	449	3,377	18,297	22,123
Acquisitions	-	-	-	-
Charge for the year	49	337	2,022	2,408
Disposals	-	(26)	(156)	(182)
Reclassifications/ internal transfers	1	-	-	1
Translation differences	-	48	78	126
At end of year	**499**	**3,736**	**20,241**	**24,476**
CARRYING AMOUNT	**4,011**	**1,519**	**9,099**	**14,629**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

30. PROPERTY AND EQUIPMENT (Continued)

	Freehold and lease premises KShs. Million	Leasehold improvements KShs. Million	Motor vehicle, furniture and equipment KShs. Million	Total KShs. Million
As at 31 December 2019:				
COST:				
At start of year	1,808	3,442	22,047	27,297
Additions	-	40	2,203	2,243
Disposals	-	(4)	(304)	(308)
Acquisitions	2,285	2,179	3,563	8,027
Reclassifications/ internal transfers	(841)	8	(1,334)	(2,167)
Translation Difference	-	(295)	548	253
Hyperinflationary change	-	(58)	(32)	(90)
At end of year	**3,252**	**5,312**	**26,691**	**35,255**
DEPRECIATION				
At start of year	386	1,630	14,274	16,290
Acquisitions	22	1,853	2,493	4,368
Charge for the year	65	107	1,932	2,104
Disposals	-	-	(284)	(284)
Reclassifications/ internal transfers	(24)	251	-	227
Translation differences	-	(447)	(102)	(549)
Hyperinflationary change	-	(17)	(16)	(33)
At end of year	**449**	**3,377**	**18,297**	**22,123**
CARRYING AMOUNT	**2,803**	**1,935**	**8,394**	**13,132**

Included in property and equipment are fully depreciated assets amounting to KShs. 9,152 Million (31 December 2019 – KShs. 9,334 Million) which would have a notional depreciation of KShs. 1,257 Million (31 December 2019 – KShs. 1,630 Million).

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

30. PROPERTY AND EQUIPMENT (Continued)

COMPANY As at 31 December 2020:	Freehold and leasehold premises KShs. Million	Leasehold improvements KShs. Million	Freehold and furniture and equipment KShs. Million	Total KShs. Million
COST:				
At start of year	585	-	57	642
Additions	-	-	22	22
Adjusted balance at start of year	585	-	79	664
At end of year	**585**	**-**	**79**	**664**
DEPRECIATION				
At start of year	29	-	7	36
Charge for the year	3	-	9	12
At end of year	**32**	**-**	**16**	**48**
CARRYING AMOUNT				
At end of year	**553**	**-**	**63**	**616**
As at 31 December 2019:				
COST:				
At start of year	585	-	91	676
Additions	-	-	(34)	(34)
At end of year	**585**	**-**	**57**	**642**
DEPRECIATION				
At start of year	26	-	1	27
Charge for the year	3	-	6	9
At end of year	**29**	**-**	**7**	**36**
CARRYING AMOUNT				
At end of year	**556**	**-**	**50**	**607**

Included in property and equipment are fully depreciated motor vehicle, furniture and equipment amounting to KShs. 7.9 Million (2019 – KShs. 9.8 Million) which would have a notional depreciation of KShs. 0.8 Million (2019 – KShs. 1.0 Million).

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

31. INVESTMENT PROPERTY

	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
At start of year	5,642	-	-	-
Gain on revaluation	393	-	-	-
At end of year	**6,035**	**5,642**	**-**	**-**

32. RIGHT OF USE ASSETS

	2020			2019		
	Leasehold premises KShs. Million	Leased motor vehicles KShs. Million	Totals KShs. Million	Leasehold premises KShs. Million	Leased motor vehicles KShs. Million	Totals KShs. Million
COST						
At start of year	9,325	1,294	10,619	219	-	219
IFRS 16 transition adjustment	-	-	-	-	-	-
Acquisition of a subsidiary	-	-	-	3,552	195	3,747
Additions	132	-	132	4,385	1,101	5,486
Disposals	(191)	-	(191)	-	-	-
Reclassification/Internal transfers	(815)	-	(815)	1,680	-	1,680
Hyperinflationary change	(45)	-	(45)	-	-	-
Translation difference	169	2	171	(511)	(2)	(513)
At end of year	**8,575**	**1,296**	**9,871**	**9,325**	**1,294**	**10,619**
AMORTISATION						
At start of year	(3,127)	(208)	(3,335)	(94)	-	(94)
IFRS 16 transition adjustment	-	-	-	(2,224)	-	(2,224)
Disposals	191	-	191	-	-	-
Charge for the year	(986)	(215)	(1,201)	(543)	(208)	(751)
Acquisition of a subsidiary	-	-	-	(320)	-	(320)
Hyperinflationary change	1	-	1	-	-	-
Translation difference	(67)	(1)	(68)	54	-	54
At end of year	**(3,988)**	**(424)**	**(4,412)**	**(3,127)**	**(208)**	**(3,335)**
CARRYING AMOUNT						
At end of year	**4,587**	**872**	**5,459**	**6,198**	**1,086**	**7,284**

Right of use assets relate to leased premises and motor vehicles.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

33. INTANGIBLE ASSETS-SOFTWARE

	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
COST				
At start of year	17,406	9,379	10	-
Additions	1,281	2,669	-	10
Acquisition of a subsidiary	-	4,235	-	-
Disposals	(2)	(184)	-	-
Reclassification/Internal transfers	169	1,323	-	-
Translations differences	43	(16)	-	-
At end of year	**18,897**	**17,406**	**10**	**10**
AMORTISATION				
At start of year	(11,069)	(6,376)	-	-
Acquisitions	-	(2,851)	-	-
Disposals	3	89	-	-
Amortization for the year	(2,310)	(1,938)	(3)	-
Translations differences	(22)	7	-	-
At end of year	**(13,398)**	**(11,069)**	**(3)**	**-**
CARRYING AMOUNT				
At end of year	**5,499**	**6,337**	**7**	**10**

Included in intangible assets are fully depreciated assets amounting to KShs. 3,716 Million (31 December 2019 – KShs. 3,915 Million) which would have a notional depreciation of KShs. 3,036 Million (31 December 2019: KShs. 3,921 Million)

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

34. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

(a) Investment in subsidiaries

Investments in subsidiaries: Incorporated in Kenya:		Beneficial ownership %	2020 KShs. Million	2019 KShs. Million
Company	**Activity**			
KCB Bank Kenya Limited	Commercial Banking	100	53,986	53,986
Kenya Commercial Finance Company Limiteds	Dormant	100	150	150
KCB Capital Limited	Investment	100	400	400
Savings & Loan Kenya Limited	Dormant	100	500	500
KCB Foundation	Corporate Social Responsibility	100	-	-
National Bank of Kenya	Commercial Banking	100	11,191	11,191
Kenya Commercial Bank Nominees Limited	Nominee Shareholders	100	-	-
Kencom House Limited	Property Ownership & Management	100	749	749
KCB Insurance Agency Limited	Insurance Brokerage	100	-	-
Incorporated outside Kenya:				
KCB Bank Tanzania Limited	Commercial Banking	100	3,546	3,546
KCB Bank South Sudan Limited	Commercial Banking	100	2,354	2,354
KCB Bank Rwanda Limited	Commercial Banking	100	2,705	2,269
KCB Bank Burundi Limited	Commercial Banking	100	936	936
KCB Bank Uganda Limited	Commercial banking	100	3,145	3,145
Investment in associates:				
United Finance Limited*	Dormant	45	-	-
			79,662	**79,227**

	2020 KShs. Million	2019 KShs. Million
Movement in investment in subsidiaries		
Balance at 1 January	79,227	68,036
Acquisition of National Bank of Kenya	-	6,191
Equity injection into National Bank of Kenya	-	5,000
Equity injection into KCB Bank Rwanda Limited	435	-
Total additional investment in subsidiaries	435	11,191
Balance at 31 December	**79,662**	**79,227**

The significant risks for the various subsidiaries have been documented in Note 4.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

34. INVESTMENT IN SUBSIDIARY UNDERTAKINGS (Continued)

Significant restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios.

KCB Foundation is the corporate social responsibility arm of the Group and it’s financial results are not included in the consolidated group’s position.

35. DEFERRED INCOME TAX

Group	Balance at 1 January	Prior year (over)/under provision	Recognised in profit or loss	Recognised in Other comprehensive income	Balance at 31 December
	KShs. Million	KShs. Million	KShs. Million	KShs. Million	KShs. Million
2020					
Property and equipment	541	-	396	-	937
Other deductible differences	12,360	-	3,938	-	16,298
Tax losses	608	-	585	-	1,193
Financial assets at FVOCI	(916)	753	-	(936)	(1,099)
Unrealised gains and losses	268	-	-	-	268
Retirement benefit obligation	-	-	-	50	50
	12,861	**753**	**4,919**	**(886)**	**17,647**
2019					
Property and equipment	535	-	6	-	541
Other deductible differences	8,313	-	4,047	-	12,360
Tax losses	440	-	168	-	608
Financial assets at FVOCI	(817)	(1,407)	-	1,308	(916)
Unrealised gains and losses	-	-	268	-	268
Retirement benefit obligation	205	11	-	(216)	-
	8,676	**(1,396)**	**4,489**	**1,092**	**12,861**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

35. DEFERRED INCOME TAX (Continued)

Company	Balance at 1 January KShs. Million	Prior year over provision KShs. Million	Recognised in profit or loss KShs. Million	Recognised in Other comprehensive income KShs. Million	Balance at 31 December KShs. Million
2020					
Property and equipment	2	(1)	1	-	2
Other deductible differences	-	-	(12)	-	(12)
	2	**(1)**	**(11)**	**-**	**(10)**
2019					
Property and equipment	94	-	(92)	-	2
Financial assets at FVOCI	8	-	(8)	-	-
	102	**-**	**(100)**	**-**	**2**

Other deductible differences mainly relate to allowances for expected credit losses on loans and advances which are only deductible for tax purposes when the credit losses meet the income tax law guidelines for tax deductibility which include among others credit write-off, total inability to collect etc..

The directors believe that, based on the historical performance, the Bank, will have future taxable profits against which these assets cab be utilised and also meet the income tax law conditions for deductibility of the allowances for expected credit losses on loans and advances

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

36. DEPOSITS FROM BANKS

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs. Million	KShs. Million	KShs. Million	KShs. Million
Deposits and balances from other banks	19,668	20,371	-	-
Maturing as follows:				
Within 1 month	15,818	11,767	-	-
After 1 month, but within 3 months	3,850	5,183	-	-
After 3 months, but within 1 year	-	3,421	-	-
	19,668	**20,371**	**-**	**-**

37. DEPOSITS FROM CUSTOMERS

(a) From government and parastatals:				
Maturing as follows:				
Within 1 month	249,197	209,385	-	-
After 1 month, but within 3 months	19,022	-5,090	-	-
After 3 months, but within 1 year	1,263	16,452	-	-
After 1 year, but within 5 years	126	-	-	-
	269,608	**220,747**	**-**	**-**
(b) From private sector and individuals:				
Maturing as follows:				
Within 1 month	395,885	333,086	-	-
After 1 month, but within 3 months	45,170	42,963	-	-
After 3 months, but within 1 year	52,625	80,220	-	-
After 1 year, but within 5 years	3,936	9,408	-	-
	497,616	**465,677**	**-**	**-**
Total other customer deposits	**767,224**	**686,424**	**-**	**-**
Maturing as follows:				
Within 1 month	645,964	542,471	-	-
After 1 month, but within 3 months	64,291	37,874	-	-
After 3 months, but within 1 year	54,115	96,672	-	-
After 1 year, but within 5 years	2,854	9,407	-	-
	767,224	**686,424**	**-**	**-**

The weighted average effective interest rates on interest bearing customer deposits as at 31 December 2020 was 2.6% (At 31 December 2019 – 2.7%).

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

38. PAYABLES AND ACCRUED EXPENSES

	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
Accruals	4,013	8,664	-	-
Other payables	650	20,709	47	5
Bills payable	9,765	4,447	-	-
	14,428	**33,820**	**47**	**5**

Bills payable consist of cheques issued by the Group to customers and suppliers that were not presented for payment at the end of the year.

39. LEASE LIABILITIES

	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
At start of year	6,108	5,950	-	-
Additions during the Year	175	985	-	-
Reclassifications/ internal transfers	1,359	-	-	-
Interest Expense in the Year	667	464	-	-
Payments in the Year	(1,551)	(1,082)	-	-
Hyperinflationary change	(18)	(109)	-	-
Translation Adjustment	118	(100)	-	-
At end of year	**6,858**	**6,108**	**-**	**-**

The balance sheet shows the following amounts relating to leases. All the leases are at the Group

	31 Dec 2020 KShs. Million	31 Dec 2019 KShs. Million
Current	498	500
Non- current	6,360	5,608

The statement of profit or loss shows the following amounts relating to leases:

Depreciation charge of right-of-use assets	986	543
Interest expense	667	464
Expense relating to short-term leases (included in administrative expenses)	391	280

The total cash outflow for leases in 2020 was KShs 1.551 billion that related to principal portion of lease payments, expenses related to short term leases and interest expense on the leases.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

39. LEASE LIABILITIES (Continued

Some leases of office premises contain extension options exercisable by the Bank up to one term after the end of the non-cancellable contract period. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

During the year, the Group obtained rent relief due to the COVID-19 pandemic. The reliefs received amounted to KShs 9.3 million and have been derecognised as part of the lease liability.

40. RELATED PARTY TRANSACTIONS

A number of transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. The volumes of related party transactions, outstanding balances at the end of the year and the related expenses and income for the year are as follows:

	2020 KShs. Million	2019 KShs. Million
(a) Due from related parties		
KCB Bank Kenya Limited	**-**	**6,336**
KCB Bank Rwanda Limited	28	-
KCB Bank South Sudan Limited	101	-
KCB Bank Uganda Limited	3	-
KCB Bank Burundi Limited	66	-
KCB Bank Tanzania Limited	15	-
	213	**6,336**
(b) Due to related parties		
KCB Bank Kenya Limited	3,553	-
	3,553	**-**
Net balances payable / receivable from group companies	**(3,340)**	**6,336**

Receivables from and payables to group companies are non-interest bearing and are generally on 30-90-day term. The balances relate to transactions entered into with the subsidiary companies at arm's length in the ordinary course of business.

	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
(i) Loans				
Government of Kenya*	613	126	-	-
Directors - Executive	12	13	-	-
- Non-Executive	28	12	-	-
Senior management	144	214	-	-
	797	**365**	**-**	**-**

*Government of Kenya loans relate to loans advanced to parastatals.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

40. RELATED PARTY TRANSACTIONS (Continued)

	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
Movement in loans to Directors and senior management				
At 1 January	239	460	-	-
Loans issued during the year	165	239	-	-
Loans repayments during the year	(220)	(460)	-	-
At 31 December	**184**	**239**	**-**	**-**
Accrued interest income	**13**	**1**	**-**	**-**
(ii) Deposits				
Government of Kenya	113,842	112,365	-	-
Directors	149	96	-	-
Senior management	86	23	-	-
At 31 December	**114,077**	**112,484**	**-**	**-**
Movement in deposits by Directors and senior management				
At 1 January	119	121	-	-
Deposits received during the year	1,484	1,567	-	-
Deposits withdrawn during the year	(1,368)	(1,569)	-	-
At 31 December	**235**	**119**	**-**	**-**
Interest expense	**5**	**9**		

Interest rates charged on balances outstanding from related parties are approximately half of the rates that would be charged in an arm's length transaction. The interest charged on balances outstanding from related parties amounted to KShs. 5 million (2019 – KShs. 9 million). The interest paid on balances outstanding to related parties amounted to KShs. 2 million (2019 – KShs. 1 million). The mortgages and secured loans granted are secured over property of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

No impairment losses have been recorded against balances outstanding during the period with key management personnel and no specific allowance has been made for impairment losses on balances with key management personnel at the reporting date.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

40. RELATED PARTY TRANSACTIONS (Continued)

(c) Shareholders, Directors and key management personnel

Senior management personnel compensation (Included under personnel costs)	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
Short term employee benefits	**834**	**1,015**	**490**	**714**

(d) Directors emoluments

	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
Executive directors:				
- Salaries and other staff benefits	177	391	177	391
Fees and other benefits to non-executive directors	119	65	55	39
	296	**456**	**232**	**430**

41. BORROWINGS

Maturing within one year	398	2,276	-	-
Maturing after one year, but within five years	20,258	11,935	-	-
Maturing after five years	16,376	7,602	-	-
	37,032	**21,813**	**-**	**-**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

Reconciliation of the movement in the long term debt

	2020 KShs. Million	2019 KShs. Million
Group		
At start of year	21,813	22,447
Funds received	16,376	-
Interest expense	1,952	1,954
Currency translation losses	600	653
Payments on principal	(2,787)	(1,050)
Payment of interest	(922)	(1,557)
Net movement in borrowings	15,219	(634)
At end of year	**37,032**	**21,813**

The long-term debt includes: -

(a) A 10-year loan obtained from International Finance Corporation in 2020 of US$ 150 million by KCB Bank Kenya at interest terms of Libor +5.15% p.a.
(b) A 7-year loan obtained from European Investment Bank of EUR 7 million by KCB Bank Rwanda in 2019 at interest terms of 7.96% p.a.
(c) A 7-year loan obtained from African Development Bank in 2018 of US$ 100 million by KCB Bank Kenya at interest terms of Libor +2.70% p.a.
(d) A 7-year loan obtained from International Finance Corporation in 2018 of US$ 75 million by KCB Bank Kenya at interest terms of Libor +5.3% p.a.
(e) A 3-year loan obtained from Tanzania Mortgage Refinance Company in 2018 of TZS 5.0 billion by KCB Bank Tanzania at interest terms of 10.0% p.a.
(f) A 7-year loan obtained from European Investment Bank of UGX 33 billion by KCB Bank Uganda in 2017 at interest terms of 11.66% p.a.
(g) A 7-year loan obtained from European Investment Bank of TZS 27.9 billion by KCB Bank Tanzania in 2017 at interest terms of 9.72% p.a.
(h) A 3-year loan obtained from Tanzania Mortgage Refinance Company of TZS 5.0 billion by KCB Bank Tanzania in 2017 at interest terms of 12.5% p.a.
(i) A 5-year loan obtained from International Finance Corporation of US$ 10 million by KCB Bank Uganda in 2016 at interest terms of Libor +3.5% p.a.
(j) A 5-year loan obtained from European Investment Bank of RWF 4,412 million by KCB Bank Rwanda at interest rate of 8.04% p.a.

The Group was in compliance with all financial covenants in respect to the borrowings at the end of the year.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

42. SHARE CAPITAL

	GROUP AND COMPANY	
	2020 KShs. Million	2019 KShs. Million
Authorised:		
4,500,000,000 (2020: 4,500,000,000) ordinary shares of KShs. 1 each	**4,500**	**4,500**
Issued and fully paid:		
At start of year 3,213,462,815 and at end of year ordinary shares of KShs. 1 each	**3,213**	**3,213**

All ordinary shares rank equally with regards to the Company's residual assets, entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the company.

43. RESERVES

	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
At 1 January	(8,429)	(4,995)	(52)	(43)
Foreign currency translation differences for foreign operations	584	(780)	-	-
Transfer to statutory credit risk reserve	-	459	-	-
Hyperinflationary impact	(889)	443	-	-
Remeasurement of retirement benefit obligation (net of tax)	(117)	(503)	-	-
Change in fair value of financial assets at fair value through other comprehensive income (net of tax)	2,183	(3,053)	52	(9)
At 31 December	**(6,668)**	**(8,429)**	**-**	**(52)**

*Other reserves comprises of defined benefit reserve, translation reserve, hyperinflation reserve and fair value through other comprehensive income reserve.

The *share premium* arises from issue of shares at a price higher than the par value of the shares. This amount is not available for distribution.

The fair value through other comprehensive income (FVTOCI) *reserve* arises from marking to market of investment securities classified under FVTOCI category. The reserves are recognized in income statement once the underlying asset has been derecognized. This amount is not available for distribution.

Statutory credit risk reserve represents an amount set aside to cover additional provision for loan losses required to comply with the requirements of Central Banks Prudential guidelines. This amount is not available for distribution.

The *translation reserve* arises from translation of the net investment in foreign subsidiaries to Kenya Shillings. This amount is not available for distribution.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

43. RESERVES (Continue)

Defined benefit reserve arises from changes in the fair value of the net assets held by the pension fund. The reserves are recognized in income statement once the underlying asset has been derecognized and is not available for distribution.

Hyperinflation reserve relates to changes in equity of the foreign operation as a result of adjusting non-monetary assets and liabilities and equity balances for hyperinflation under IAS 29. The hyperinflation adjustment has been presented as an adjustment to equity in the statement of changes in equity.

44. DIVIDEND PER SHARE

Dividends are recognized as a liability in the period in which they are declared.

At the Annual General Meeting to be held on 27 May 2021, a final dividend in respect of the year ended 31 December 2020 of KShs. 1.00 per share (2019: KShs .3.50 per share) amounting to KShs. 3,213 million (2019 – 11,099 million) will be proposed. Payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non-resident shareholders.

45. NOTES TO THE STATEMENT OF CASH FLOWS

	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
(a) Cash flows from operating activities				
This has been derived as follows:				
Profit before tax	25,719	36,897	(1,371)	16,028
Adjustments for:				
Depreciation of property and equipment	2,408	2,104	12	9
Amortization of prepaid operating lease rentals	1,201	751	-	-
Amortization of intangible assets	2,310	1,938	3	-
Net interest income	(72,144)	(56,130)	(31)	-
Dividend income	-	-	170	16,551
Interest expense on lease liability	667	464	-	-
Hyperinflation adjustments	(1,425)	(503)	-	-
Retirement benefit expense	58	614	-	-
(Loss)/profit on disposal of property and equipment	(32)	6	-	86
Operating profit before movements in operating assets and liabilities	**(41,238)**	**(13,859)**	**(1,217)**	**32,674**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

45. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs. Million	KShs. Million	KShs. Million	KShs. Million
(b) Cash flows from operating activities				
Cash reserve ratio	19,215	(12,766)	-	-
Financial assets at FVOCI	(21,487)	10,138	66	-
Financial assets at amortised cost	(15,020)	(59,803)	-	-
Loans and advances	(59,884)	(79,491)	-	-
Related parties balance - cash flow	-	-	9,695	27
Other assets	(4,412)	(12,730)	15	(37)
Deposits from banks	(703)	266	-	-
Other customer deposits	80,641	149,123	-	-
Other liabilities	(19,392)	13,199	43	(51)
	(62,280)	**(5,923)**	**8,602**	**32,613**
Interest received	93,354	75,564	31	-
Dividend received	-	-	(170)	(16,551)
Interest paid	(17,291)	(14,264)	-	-
Income taxes paid	(11,616)	(15,015)	(5)	-
Net cash flows from operating activities	**2,167**	**40,362**	**8,458**	**16,062**
(c) Analysis of cash and cash equivalents				
Balances with Central Banks	20,518	19,478	-	-
Cash on hand	15,153	15,605	-	-
Bank balances	-	-	1,147	1,178
Financial assets at amortised cost with original tenor less than 3 months	654	1,294	-	-
Advances to banks	23,706	25,174	-	-
Financial assets at fair value through other comprehensive income	5,143	1,651	-	-
	65,174	**63,202**	**1,147**	**1,178**

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months to maturity from the date of acquisition. Cash and cash equivalents exclude, KShs 32,346 million (2019 - KShs. 48,152 million) being the cash reserve requirement held with the Central Banks which is not available for use by the Group.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

45. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

The cash and cash equivalent components disclosed above are same amounts included in the statement of financial position except held at amortised cost investments, whose reconciliation is as follows:

	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
Balance as per statement of cash flows	654	1,294	-	-
Balances with less than three months maturity from the acquisition date	110,703	95,683	-	-
Balance as per statement of financial position	**111,357**	**96,977**	**-**	**-**

46. COMMITMENTS

To meet the financial needs of the customers, the Group enters into various irrevocable commitments. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

	GROUP		COMPANY	
	2020 KShs. Million	2019 KShs. Million	2020 KShs. Million	2019 KShs. Million
Capital commitments contracted for at year end	**2,130**	**1,482**	**-**	**-**
Loans committed but not disbursed at year end	**59,603**	**55,277**	**-**	**-**
Foreign currency commitments	**(468)**	**(10)**	**-**	**-**

Commitments to extend credit represent contractual commitments to make loans and other credit facilities to counterparties who, as per the Group credit risk rating model, are rated as either normal or watch. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

47. OFF BALANCE SHEET FINANCIAL INSTRUMENTS AND CONTINGENT LIABILITIES

	2020 KShs. Million	2019 KShs. Million
Letters of credit	22,013	27,534
Guarantees	51,362	64,245
Forward foreign exchange contract	19,617	15,445
Lease commitment	12,973	7,352
Total	**105,965**	**114,576**

Nature of contingent liabilities

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

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

47. OFF BALANCE SHEET FINANCIAL INSTRUMENTS AND CONTINGENT LIABILITIES (Continued)

Letters of credit commit the Group to make payment to third parties, on production of documents, which are subsequently reimbursed by customers. An acceptance is an undertaking to pay a bill of exchange drawn on a customer. The Group expects most acceptances to be presented and reimbursement by the customer is almost immediate.

Forward foreign exchange contracts are commitments to either purchase or sell a designated financial instrument at a specified future date for a specified price and may be settled in cash or another financial asset. The fair values of the respective currency forwards are carried under financial assets and liabilities held for trading.

48. RETIREMENT BENEFIT OBLIGATIONS

KCB Pension Fund and Staff Retirement Benefit Scheme

The Group operates a funded defined benefit plan. The Fund closed to new entrants effective 1 June 2006. The Fund is non-contributory with the Group responsible for the cost of benefits accruing. The Fund is established under trust. The Fund assets are invested in a variety of asset classes comprising Government securities, corporate bonds, call and term deposits, investment properties, shares and offshore investments. Old Mutual Asset Managers and Pine Bridge Investments (East Africa) limited are responsible for the investment of assets.

Characteristics and risks of the Fund

The Fund is registered under irrevocable trust with the Retirement Benefits Authority. The Retirement Benefits Act, 1997 ("the Act") and the Regulations under the Act require the Fund to maintain a funding level of 100%. Where the funding level is below, such deficits are required to be amortized over a period not exceeding 6 years.

- The Fund is managed by a Board of Trustees. The Board is responsible for the overall operation of the Fund including making sure benefits are paid to beneficiaries on time.
- 42.9% of the Fund assets are invested in property assets. The exposure is a concentration risk to the property market for the Fund and, by extension, the Company.
- Following the closing of the Fund as of 1 June 2006, some active in-service members opted to transfer their accrued benefits under the Fund to the new Defined Contribution Plan established by the Company. The Fund therefore comprises mainly of pensioners and deferred pensioners, although some in-service members remain in the Fund. Some of the main risks relating to the benefits under the Fund are the rates of pension increases and the rates of return earned on the Fund assets. For the in-service members, rates of salary escalation will also have a direct bearing on the benefits paid under the Fund. In addition, the pension benefits are payable for the duration of the life of the pensioners. Therefore, the Fund's post-retirement mortality experience with respect to the pensioners will also have an impact on the liabilities under the Fund.

The information below summarizes the scheme assets and liabilities:
Composition of fund assets based on the Investment Manager's reports as of 31 December 2020.

	2020 KShs. Million	2020 %	2019 KShs. Million	2019 %
Property	3,015	42.9%	3,939	47.98%
Government securities	2,682	38.1%	2,650	32.28%
Fixed and term deposits	335	4.8%	365	4.45%
Quoted equities	797	11.3%	1,004	12.23%
Corporate bonds	7	0.1%	146	1.78%
Net current assets	194	2.8%	105	1.28%
Total	**7,030**	**100.0%**	**8,209**	**100%**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

48. RETIREMENT BENEFIT OBLIGATIONS (Continued)

Changes in the present value of the defined benefit obligation over the year:

	2020 KShs. Million	2019 KShs. Million
At start of year	(7,318)	(7,309)
Current service cost (net of employer contributions)	(58)	(69)
Interest cost	(897)	(898)
Actuarial gain-due to experience	22	-
Actuarial gain-due to changes in assumptions	42	45
Benefits paid	1,002	913
At end of year	**(7,207)**	**(7,318)**

Changes in the fair value of plan assets over the year

At start of year	8,209	8,173
Interest income on plan assets	1,013	1,006
Employer contributions	49	49
Actuarial gains/(loss)	(1,239)	(106)
Benefits paid	(1,002)	(913)
At end of year	**7,030**	**8,209**

The amounts recognised in the statement of financial position are determined as follows;

	2020 KShs. Million	2019 KShs. Million
Present value of fund obligations	(7,207)	(7,318)
Fair value of plan assets	7,030	8,209
Effect of asset ceiling at end of period	-	(891)
Liability recognized in the statement of financial position	**(177)**	**-**

Reconciliation of liability in the statement of financial position:

	2020 KShs. Million	2019 KShs. Million
At start of year	-	(658)
Net expense recognised in statement of profit and loss	(59)	(12)
Employer contribution	49	(49)
Amount recognised in other comprehensive income	(167)	719
At end of year	**(177)**	**-**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

48. RETIREMENT BENEFIT OBLIGATIONS (Continued)

The amount recognised in profit and loss for the year are as follows:

	2020 KShs. Million	2019 KShs. Million
Service Cost		
Current service cost (employer)	58	69
Total Service Cost	**58**	**69**
Interest Cost		
Interest cost on defined benefit obligation	897	898
Interest income on plan assets	(1,013)	(1,006)
Interest on the effect of the asset ceiling	117	27
Net interest cost on Balance Sheet liability	**1**	**(81)**
Net included in profit and loss in respect of the scheme	**59**	**(12)**
Re-measurement (Other comprehensive income)		
Actuarial loss – obligation	(64)	(45)
Return on plan assets (excluding amount in interest cost)	1,239	106
Change in effect of asset ceiling (excluding amount in interest cost)	(1,008)	658
Amount recognized in other comprehensive income	**167**	**719**

The principal actuarial assumptions used are as follows:

Actuarial Assumptions	2020	2019
Discount Rate (% p.a.)		
Future salary increases (% p.a.)	13.20%	13.00%
Future pension increases (% p.a.)	6.00%	6.00%
Mortality (pre-retirement)	A1949-1952	A1949-1952
Mortality (post-retirement)	a (55) Ultimate	a (55) Ultimate
Withdrawals (voluntary)	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Retirement age	55 Years	55 Years

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER (Continued)

Sensitivity Analysis
The results of the actuarial valuation will be more sensitive to changes in the financial assumptions than changes in the demographic assumptions. In preparing the sensitivity analysis of the results to the discount rate used, The Group has relied on our calculations of the duration of the liability. Based on this methodology, the results of our sensitivity analysis are summarized in the table below:

	2020 Current discount rate KShs. Million	2019 Discount rate +1% KShs. Million
Present Value of Obligation	7,030	7,318

Given a large portion of the liability is in respect of inactive members, the sensitivity of the liability to a change in the salary escalation assumption will not be as significant as a change to the discount rate as it affects only in-service members.

49. HYPERINFLATION

For the financial year ended 31 December 2020, the directors evaluated and determined the economy of South Sudan to be hyperinflationary. As a result of this, KCB Bank South Sudan Limited, a significant foreign subsidiary of the Group complied with the requirements of IAS 29 - Financial reporting in Hyperinflationary Economies on the individual financial statements for the year ending 31 December 2020. The standard requires significant judgments to be made by the financial statement preparer considering guidelines provided in IAS 29. Consequently, for the individual entity, the financial statements and corresponding figures for previous periods are restated for the changes in the general purchasing power of the functional currency, and as a result are stated in terms of the measuring unit current at the end of the reporting period. The consolidated financial statements have been adjusted to reflect changes in KCB Bank South Sudan as indicated above.

The Directors considered the following factors in determining and concluding that the South Sudan economy was hyperinflationary:

(a) The population's preference to keep wealth in non-monetary assets or a relatively stable foreign currency;
(b) Prices for credit transactions being set at levels to compensate for expected loss of purchasing power during the credit period;
(c) Interest rates and wages are frequently adjusted to compensate the loss of purchasing power; and
(d) The cumulative inflation rate over the past three years exceeding 100%.

The cumulative three years' inflation rate was approximately 68% as at 31 December 2020 in South Sudan. The data below represents the Consumer Price Indexes (CPI) used in 2016 and prior year restatements in the KCB Bank South Sudan individual financial statements for the year ending 31 December 2020. The source of the price indexes used was the International Monetary Fund (IMF).

	CPI
CPI as at 31 December 2018	6,916.73
CPI as at 31 December 2019	6,642.19
CPI as at 31 December 2020	6,223.17
Average CPI in 2018	6,975.10
Average CPI in 2019	11,136.61
Average CPI in 2020	6,337.68

KCB GROUP PLC
(Incorporated in Kenya under the Companies Act, 2015, Laws of Kenya)
(Registration Number C 9/88)

NOTICE OF THE 50TH ANNUAL GENERAL MEETING

Notice is hereby given that the 50th Annual General Meeting of the shareholders of KCB Group PLC (**"Company"**) will be held via electronic communication, on Thursday, 27 May 2021 at 10.00 a.m. when the business set out below will be transacted:

Due to the ongoing Government of Kenya restrictions on public gatherings, shareholders will not be able to attend the meeting in person but will be able to register for, access relevant information, follow the meeting in the manner detailed below and vote electronically or by proxy. Shareholders may ask questions in advance of the meeting as detailed in the instructions below.

AGENDA

1. Constitution of the Meeting

To read the notice convening the meeting and determine if a quorum is present.

2. Ordinary Business

i) Report and Financial Statements for the Year ending 31 December 2020.

To receive, consider and, if thought fit, adopt the Audited Consolidated Financial Statements for the year ending 31 December 2020 together with the reports of the Directors, the Group Chairman, the Group Chief Executive Officer & Managing Director, and the Auditor thereon.

ii) Dividend

To declare a first and final dividend of KShs. 1.00 per ordinary share, payable, net of withholding tax, on or before 26 June 2021 to shareholders on the Register of Members at the close of business on 26 April 2021.

iii) Election of Directors

(a) Rotation of Directors

In accordance with Articles 94 and 95 of the Company's Articles of Association, the following Directors retire by rotation, and being eligible, offer themselves for re-election:

(i) Mr. John Nyerere
(ii) C. S. - National Treasury
(iii) Mrs. Anne Eriksson

(b) Appointment of Director

In accordance with Article 101 of the Company's Articles of Association, having been appointed by the Board to fill in a casual vacancy, the following directors retire from the Board and being eligible offer themselves for re-election:

(i) Mr. Ahmed Mohamed.
(ii) Dr. Obuya Bagaka

(c) Audit & Risk Committee

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 said Committee:

(i) Mrs. Anne Eriksson
(ii) Mr. Tom Ipomai
(iii) Ms. Georgina Malombe
(iv) Dr. Obuya Bagaka

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 Directors.

v) Appointment of Auditors

To re-appoint Messrs. PriceWaterhouseCoopers, Certified Public Accountants, as the Auditors of the Company until conclusion of the next Annual General Meeting.

vi) Remuneration of the Auditors

To authorize the Directors to fix the remuneration of the Auditors.

3. Special Business

i) Proposed amendment to the Articles of Association

To consider and, if thought fit, pass the following resolutions BY WAY OF SPECIAL RESOLUTIONS:

(a) **THAT,** the Articles of Association of the Company be amended by inserting a new Article 54A immediately after Article 54 to read as follows:

"54A. Notwithstanding the provisions of Article 54 and 58, the Members may, if they think fit, or if the Directors notify them that such is the manner in which any particular general meeting would be held, hold a physical, virtual or hybrid meeting".

(b) **THAT,** the Articles of Association of the Company be amended by deleting Article 112 in its entirety and substituting with the following new Article:

"112 Where the Company elects to maintain the seal, the Directors shall provide for safe custody of the seal which shall only be used by the authority of the Directors or of a committee of the Directors authorized by the Directors in that behalf; and every instrument to which the seal shall be affixed shall be signed by two Directors or one Director and the Company Secretary or one director and such other person as the Directors may appoint for the purpose.

ii) Expansion in Rwanda and Tanzania

To consider and, if thought fit, pass the following resolutions BY WAY OF ORDINARY RESOLUTIONS:

(a) **Acquisition of up to 100% of the issued share capital of Banque Populaire Du Rwanda Plc**

THAT, subject to and conditional upon the receipt of requisite regulatory approvals and fulfilment or waiver (if legally capable of being waived) of other applicable conditions as agreed in writing between the Company and the relevant counterparties in the share purchase agreements entered into by the Company in this regard (**"BPR Transaction Agreements"**), the acquisition by the Company of up to 100% of the issued shares in Banque Populaire Du Rwanda PLC (**"BPR"**), in accordance with, and on the terms set out in the BPR Transaction Agreements as a result of which, upon completion BPR would become a subsidiary of the Company, be and is hereby approved.

(b) **Acquisition of up to 100% of the issued share capital of African Banking Corporation Tanzania Limited**

THAT, subject to and conditional upon the receipt of requisite regulatory approvals and fulfilment or waiver (if legally capable of being waived) of other applicable conditions as agreed in writing between the Company and the relevant counterparties in the share purchase agreements entered into by the Company in this regard (**"BancABC Transaction Agreements"**), the acquisition by the Company of up to 100% of the issued shares in African Banking Corporation Tanzania Limited (**"BancABC Tanzania"**), in accordance with, and on the terms set out in the BancABC Transaction Agreements as a result of which, upon completion BancABC Tanzania would become a subsidiary of the Company, be and is hereby approved.

A shareholders' circular providing details relating to these transactions shall, upon receipt of regulatory approval, be made available to shareholders on the Company's website not later than ten (10) days before the date of the AGM.

iii) THAT, the Board of Directors of the Company be and is hereby authorised to do all such things and take all such steps as are necessary to give effect to the above resolutions.

4. Any Other Business

To transact any other business of the Company for which due notice has been received.

By order of the Board

Bonnie Okumu
Company Secretary
5 May 2021

Notes:

1. In view of the ongoing Corona virus 2019 (COVID-19) pandemic and the related Public Health Regulations and directives passed by the Government restricting public gatherings, it is impossible for KCB Group PLC to hold a physical Annual General Meeting (AGM).

2. On 29 April 2020, the High Court of Kenya in Miscellaneous Application No. E680 of 2020, made under the provisions of Section 280 of the Companies Act, 2015 (the Companies Act) issued an order granting special dispensation to any company listed on the Nairobi Securities Exchange ("**Public Company**") to convene and conduct a virtual general meeting subject to receipt of a No Objection from the Capital Markets Authority (CMA).

3. KCB Group PLC has convened and is conducting this virtual annual general meeting following receipt of a No Objection from the Capital Markets Authority.

4. Shareholders wishing to participate in the meeting should register for the AGM by dialling ***483*253#** on their mobile telephone and follow the various prompts regarding the registration process.

5. In order to complete the registration process, shareholders will need to have their ID/Passport Numbers which were used to purchase their shares and/or their CDSC Account Number at hand. For assistance shareholders should dial the following helpline number: +(254) 709 170 000 from 8:00 a.m. to 5:00 p.m. from Monday to Friday. Any shareholder outside Kenya should dial the helpline number to be assisted to register.

6. Registration for the AGM opens on Thursday, 6 May 2021 at 9.00 a.m. and will close on Tuesday, 25 May 2021 at 10.00 a.m. Shareholders will not be able to register after Tuesday 25 May 2021 at 10.00 a.m.

7. In accordance with Section 283 (3) of the Companies Act, the following documents may be viewed on the Company's website www.kcbgroup.com
    a. a copy of this Notice and the proxy form;
    b. the Company's Annual Report & Audited financial statements for the year ended 31st December 2020;
    c. the amended Articles of Association of the Company;
    d. the shareholders' circular in relation to the acquisition of up to 100% of Banque Populaire Du Rwanda PLC and up to 100% of African Banking Corporation Tanzania Limited.
    e. a copy of the No Objection issued by the CMA.

8. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so by:
    a. sending their written questions by email to kcbshares@image.co.ke; or
    b. to the extent possible, physically delivering their written questions with a return physical, postal or email address to the registered office of the Company at Kencom House, P.O. Box 48400 – 00100, Nairobi, or to Image Registrars offices at 5 floor, Absa Towers (formerly Barclays Plaza), Loita Street;
    c. Shareholders must provide their full details (full names, National ID/Passport Number/CDSC Account Number) when submitting their questions and clarifications.

    All questions and clarification must reach the Company on or before Tuesday, 25 May 2021 at 5.00pm.

    Following receipt of the questions and clarifications, the Directors of the Company shall provide written responses to the questions received to the return physical, postal or email address provided by the Shareholder no later than 12 hours before the start of the AGM. A full list of all questions received and the answers thereto will be published on the Company's website not later than 12 hours before the start of the AGM.

9. 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. A proxy form is attached to this Notice and is available on the Company's website via this link: www.kcbgroup.com. Physical copies of the proxy form are also available at the following address: Image Registrars Limited offices, 5 Floor Absa Towers (formerly Barclays Plaza), Loita Street P. O. Box 9287 – 00100. Shareholders who do not propose to be at the Annual General Meeting are requested to complete and return the proxy form to Image Registrars Limited, or alternatively to the Registered Office of the Company so as to arrive not later than 10.00am. on Tuesday, 25 May 2021.

    Duly signed proxy forms may also be emailed to kcbshares@image.co.ke in PDF format. A proxy form must be signed by the appointor or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument appointing the proxy shall be given under the Company's common seal or under the hand of an officer or duly authorized attorney of such body corporate.

10. The AGM will be streamed live via a link which shall be provided to all shareholders who will have registered to participate in the AGM. Duly registered shareholders and proxies will receive a short message service (SMS/USSD) prompt on their registered mobile numbers, 24 hours prior to the AGM acting as a reminder of the AGM. A second SMS/USSD prompt shall be sent one hour before the AGM, reminding duly registered shareholders and proxies that the AGM will begin in an hour's time and providing a link to the live stream.

11. Duly registered shareholders and proxies may follow the proceedings of the AGM using the live stream platform and may access the agenda. Duly registered shareholders and proxies may vote (when prompted by the chairman) via the USSD prompts.

12. Results of the AGM shall be published within 24 hours following conclusion of the AGM.

Shareholders are encouraged to continuously monitor the Company's website www.kcbgroup.com for updates relating to the AGM.

THE GROUP COMPANY SECRETARY,
KCB GROUP PLC,
KENCOM HOUSE, MOI AVENUE,
P. O. BOX 48400 – 00100,
NAIROBI, KENYA

I/WE.. of...

Being a shareholder of **KCB Group Plc** hereby appoint --- (see notes 2 and 3) (Name of proxy) of P.O.BOX... .... and whose mobile phone number for purposes of registration and voting is .... OR FAILING WHOM, the Chairman of the Meeting in respect of my .... (Number of shares). Please indicate here if you are appointing more than one proxy (including the mobile phone number of such proxy)... (see note 3) as my/our proxy to attend, represent and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held electronically on Thursday 27 May 2021 at 10.00 am and at any adjournment thereof.

Signed this ________________________ day of ____________________ 2021

Signature(s) (i)____ (ii)____

I/WE direct my/our proxy to vote on the following resolutions as I/WE have indicated by marking the appropriate box with an 'X'. If no indication is given, my/our proxy will vote or abstain his or her vote at his or her discretion and I/WE authorize my/our proxy to vote (or withhold his or her vote) as he or she thinks fit in relation to any other matte which is properly put before the Meeting.

Please clearly mark the box below to instruct your proxy how to vote.

RESOLUTION	FOR	AGAINST	ABSTAIN
Approval of the Report and Financial Statements for the Year ending 31 December 2020			
Approval of the final dividend of Kes. 1.00 per ordinary share, payable, net of withholding tax, on or before 26 June 2021 to shareholders on the Register of Members at the close of business on 26 April 2021.			
Re-election of Mr. John Nyerere			
Re-election of C. S. – National Treasury			
Re-election of Mrs. Anne Eriksson			
Appointment of Mr. Ahmed Mohamed as a **Director** having been appointed by the Board to fill in a casual vacancy and being eligible offers himself for re-election.			
Appointment of Dr. Obuya Bagaka as a **Director** having been appointed by the Board to fill in a casual vacancy and being eligible offers himself for re-election.			
Audit Committee: In accordance with the provisions of Section 769 of the Companies Act, 2015, the following directors, being members of the Board Audit Committee be elected to continue to serve as members of the said Committee: (i) Mrs. Anne Eriksson, (ii) Mr. Tom Ipomai, (iii) Ms. Georgina Malombe and (iv) Dr. Obuya Bagaka			
Approve the Directors' Remuneration Report and to authorize the Board to fix the remuneration of Directors.			
To re-appoint Messrs. PriceWaterhouseCoopers, Certified Public Accountants, as the Auditors of the Company until conclusion of the next Annual General Meeting.			
Authorize Directors to fix the remuneration of the Auditors.			
Proposed amendment to the Articles of Association To consider and, if thought fit, pass the following resolutions BY WAY OF SPECIAL RESOLUTION: **THAT,** the Articles of Association of the Company be amended by inserting a new Article 54A immediately after Article 54 to read as follows: *"54A. Notwithstanding the provisions of Article 54 and 58, the Members may, if they think fit, or if the Directors notify them that such is the manner in which any particular general meeting would be held, hold a physical, virtual or hybrid meeting".*			

PROXY FORM

RESOLUTION	FOR	AGAINST	ABSTAIN
Proposed amendment to the Articles of Association To consider and, if thought fit, pass the following resolutions BY WAY OF SPECIAL RESOLUTION: **THAT,** the Articles of Association of the Company be amended by deleting Article 112 in its entirety and substituting with the following new Article: *"112 Where the Company elects to maintain the seal, the Directors shall provide for safe custody of the seal which shall only be used by the authority of the Directors or of a committee of the Directors authorized by the Directors in that behalf; and every instrument to which the seal shall be affixed shall be signed by two Directors or one Director and the Company Secretary or one director and such other person as the Directors may appoint for the purpose."*			
Acquisition of up to 100% of the issued share capital of Banque Populaire Du Rwanda Plc The acquisition by KCB of up to 100% of the issued shares in Banque Populaire Du Rwanda PLC (**"BPR"**), in accordance with, and on the terms set out in the share purchase agreement between KCB and the relevant counterparties and as a result of which, upon completion BPR would become a subsidiary of KCB, be and is hereby approved.			
Acquisition of up to 100% of the issued share capital of African Banking Corporation Tanzania Limited The acquisition by KCB of up to 100% of the issued shares in African Banking Corporation Tanzania Limited (**"BancABC Tanzania"**), in accordance with, and on the terms set out in the share purchase agreement between KCB and the relevant counterparties and as a result of which, upon completion BancABC Tanzania would become a subsidiary of KCB, be and is hereby approved.			
The board of directors of KCB be and is hereby authorised to do all such things and take all such steps as are necessary to give effect to the above resolutions.			

ELECTRONIC COMMUNICATIONS PREFERENCE FORM (Please complete in BLOCK CAPITALS)

Full name of member(s): ………

Address: ………

CDSC No. (if known) ……………………………………………………………………(This can be found on your CDSC Statement)

Mobile Number

Date: ……………………………………………………………………………Signature: ……………………………………………………………………

Please tick **ONE** of the boxes below and return to Image Registrars at P.O. Box 9287 – 00100 Nairobi, 5 Floor, Absa Towers (formerly Barclays Plaza), Loita Street:

Approval of Registration

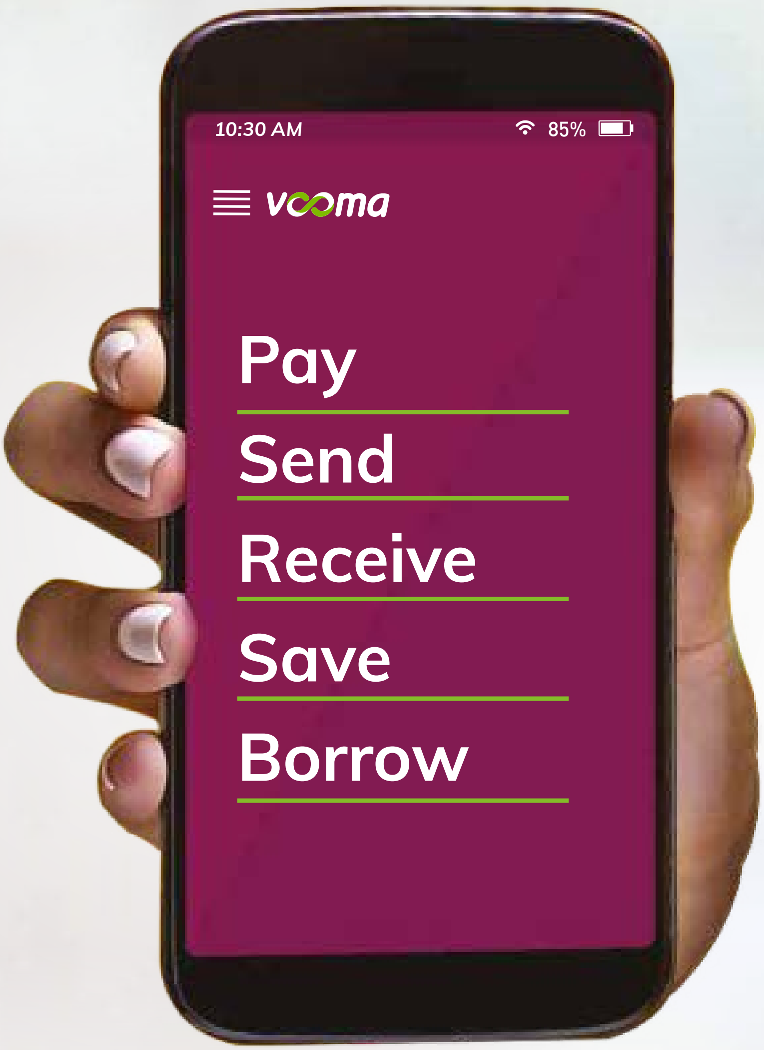
I/WE approve to register to participate in the virtual Annual General Meeting to be held on 27 May 2021. ☐

Consent for use of the Mobile Number provided

I/WE would give my/our consent for the use of the mobile number provided for purposes of voting at the AGM ☐

Notes:

1. If a member is unable to attend personally, this Proxy Form should be completed, duly signed and returned to reach the Company's share registrar, **Image Registrars Limited**, 5 Floor, Absa Towers (formerly Barclays Plaza), Loita Street, P. O. Box 9287 – 00100 Nairobi or can be scanned and emailed to kcbshares@image.co.ke in PDF format, to arrive not later than **10:00 a.m.** on Tuesday 25 May 2021 i.e. 48 hours before the meeting or any adjournment thereof.
2. In case of a member being a corporate body, the Proxy Form must be under given under its common seal or under the hand of an officer or duly authorized attorney of such corporate body.
3. As a shareholder you are entitled to appoint one or more proxies to exercise all or any of your shareholder rights to attend and to speak and vote on your behalf at the meeting. The appointment of the Chairman of the meeting as proxy has been included for convenience. To appoint any other person as a proxy, delete the words *"the Chairman of the Meeting or"* and insert the full name of your proxy in the space provided. A proxy need not to be a shareholder of the Company.
4. Completion and submission of the Proxy Form will not prevent you from attending the meeting and voting at the meeting in person, in which case any votes cast by your proxy will be excluded.
5. A "vote abstain" option has been included on the Proxy Form. The legal effect of choosing this option on any resolution is that you will be treated as not having voted on the relevant resolution. The number of votes in respect of which votes are abstained will, however, be counted and recorded, but disregarded in calculating the number of votes for or against each resolution.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www.kcbgroup.com