I&M HOLDINGS

Annual Integrated Report & Financial Statements 2019

We Are On Your Side

We exist because of you

Our mission is to be partners of growth for all stakeholders. We seek to support you in your life's journey, by providing innovative, market driven and customised financial solutions. We believe that this forms the foundation for long-term shareholder value and sustainable societal development.

We are on your side

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Our Business

Flexible, Friendly and Efficient

Relationships are central to I&M's business and key to its future. Customers join and stay with us because of these qualities. We therefore strive to continue to embody these traits.

We are on your side

Introduction from Our Group Executive Director

Sarit Raja-Shah
Group Executive Director

"I&M Group's strong performance in 2019 is attributable to continued implementation of our customer centric growth strategy through an enhanced value proposition supported by digitisation, employee development, continued diversification and strong financial performance across the Group. In line with our long-term performance trajectory, we achieved an increase in profit before tax of 27%, continued to provide value to stakeholders and delivered a return on equity of 19%."

In the spirit of communicating how we create shared value for our stakeholders and the society in which we live, I am pleased to present I&M Holdings Plc's first integrated report. This report is a step above our traditional annual reporting as it aims to convey I&M Group's value added to our society beyond our immediate financial offerings. It offers a more in-depth perspective of how I&M has been able to create and execute a strategy that maintains its relevance in both the short and long terms.

In spite of the several market and operating challenges faced during the year, I&M Group's perseverance in executing its corporate strategy showcased our resilience to such external pressures. The Group continued to deliver on its value propositions to stakeholders. In doing so, we delivered a return on equity of 19%.

This year, I&M Group worked diligently to expand its digital value proposition with a focus on the customer experience, while leveraging technology and digital innovations to also improve operational efficiencies. This was done largely through implementation of an upgraded core banking system - Finacle 10 - across each of the banking entities in the Group, as well as the operationalisation of the Innovation hub – iCube.

At the same time, the Group also introduced the multiple channel platform for mobile banking enhancing the secured experience for customers transacting from their mobile phones. We continue to work on these platforms to provide a seamless customer experience.

Over the course of the year, the Group successfully delivered on its financial performance indicators with a growth in profit after tax by 27%, cost to income ratio of 40% and a drop in non-performing asset ratio to 6%. The reduction in the level of non-performing loans was as a result of concentrated efforts from our business and recovery teams across the region.

Introduction from Our Group Executive Director (Continued)

The Group continues to invest in its more than 2,000 employees, hailing from different backgrounds and experiences, by empowering them through capacity building and e-learning initiatives. In turn, they are able to grow professionally and are better able to deliver upon the Group's commitments to remain innovative and competitive.

Key developments in our regional operations

Kenya

During the last quarter of 2019, Kenya's Banking Act was repealed, removing the interest rate cap that had been in place for three years. This injected a sense of optimism with the expectation that financial resource allocation that had been skewed towards government would gradually shift towards business and boost economic growth.

During the year, I&M Bank LIMITED continued to grow and strengthen its range of strategic partnerships aimed at further improving its customer offering.

These include a property financing collaboration with Tatu City to facilitate access to credit for buyers of property within the 5,000 acre development and with DT Dobie for asset financing. Other notable partnerships were formed with the Kenya Association of Travel Agents to create an online payment solution and with Mayan Holdings to provide financing for the purchase of plots, villas and residential housing units in Laikipia County.

I&M Bank LIMITED made further progress on enhancing its product offering. As a result, the Bank is now able to facilitate payments for all customs-related taxes at all entry points through its branch network and through the i-Click internet banking platform. This service provides added convenience to our customers by eliminating the need to file manual forms or queue at tax authority offices.

In addition, through our new Remote Cheque Scanning offering, corporate customers now have a secure platform to scan cheques from their premises while simultaneously being credited to their I&M Bank account thereby improving the user experience journey.

I&M Bank LIMITED also boosted its premium banking offering by launching the Medical Equipment Financing product, a tailor-made financing solution for healthcare service providers.

All of these contributed to an increase in I&M Bank LIMITED's market share to reach 5.3%, thereby ringing in a new milestone for 2019 as it joined the country's top banks in attaining Tier 1 status.

I am pleased to note that I&M Bank LIMITED was further recognised at the Think Business Banking Awards 2019 in the following categories: Bank with Lowest Charges Overall - Winner; Bank with Lowest Charges for SMEs - 1st Runner Up; Most Efficient Bank in Kenya - 2nd Runner Up. The judging criteria focused not only on financial stability and growth of banks, but also on how the banks embraced corporate governance best practices, products and systems innovation, customer service as well as engaged in sustainable social projects.

Tanzania

Meanwhile, the banking industry in Tanzania faced challenging market conditions with policy uncertainties regarding banking regulations which continued to affect the business climate and foreign investments.

I&M Bank (T) Limited successfully launched its medium-term strategy driven by growth in corporate and retail banking segments with a continued focus on redesigning and improving the end-to-end customer experience through the digitisation of various systems and processes. It further progressed well on various initiatives towards enhancing its market share and its brand positioning. With a focus on improving customer service delivery and providing more banking solutions, the Bank successfully migrated its core banking system to Finacle 10.

In order to drive the performance culture, nurture talent and build capacities, various initiatives were also implemented during the year. These include introduction of the Balance Score Card approach to align individual personal score cards with the Bank's strategy, undertaking of a comprehensive job evaluation and salary survey and conducting extensive functional and technical trainings through internal and external programs.

On the products side, the Bank introduced the e-wallet payment solution, SPENN, to facilitate payments between users free of cost through advanced features based on QR codes and an innovative geo-location interface. The Bank also introduced Custodial & Investment Services to assist investors in managing their investments across the East African region in equities and bond markets.

Rwanda

Rwanda's banking sector reported a steady drop in non-performing loans in 2019, while the electronic retail payments continued to gain momentum with the number and value of point of sale transactions increasing year on year.

45% of transactions serviced by I&M Bank (Rwanda) PLC were done digitally, with an increase expected following planned 2020 initiatives towards further digitisation. The Bank reported a return on equity of 14.4% and a non-performing loan ratio of 2.6%, positively below the industry average.

I&M Bank (Rwanda) PLC successfully launched its home and personal loan products leading to a significant rise in the number of new customers. Launch of a retail mobile app, as well as the country's first ever multicurrency prepaid card, also enhanced the Bank's customer value proposition. The introduction of cash deposit taking machines, mobile ATMs and a number of other back-end automations further contributed positively to enhanced customer satisfaction level.

Mauritius

I&M's joint venture investment in Mauritius, Bank One Limited, reported record numbers in 2019 with profit after tax growing by 60% in comparison to the previous year, fuelled largely with deposits growing by 44%. This delivered a return on equity of above 20%, ranking it amongst the best in the country. In parallel, the asset quality strengthened with a drop in the Bank's non-performing ratio from 4.7% to 4.2%

Over the course of the year, Bank One Limited commenced its digitisation and transformation initiative geared towards capacity building, process enhancement, new product development and change management processes amongst others, which are all expected to pay off moving forward. Bank One set up an innovation lab called 'One Lab' to help incubate innovative ideas and attract talent enabling it to pursue a disruptive journey on the market.

I am also pleased to share that the Bank was once again recognised as the Best Private Bank in Mauritius for the fourth year running. It also won the LinkedIn Talent Awards in the Best Employer Brand category for Sub-Saharan Africa.

> In this difficult environment, we are confident that the innovations that will be delivered in 2020 will help us to stabilise, if not grow, our revenues as we benefit from cost efficiencies.

Outlook

The Group has witnessed steady growth with the implementation of its five year iMara strategy launched in 2017 aimed at positioning I&M as the preferred banking powerhouse in East Africa through the provision of innovative and market-driven banking solutions for its target segments.

Central to this strategy is our long-term perspective which ensures we do not make only short-term profits at the expense of our long-term goals. We endeavor to entrench ourselves in our customers' business while making it as convenient as possible for them to do business. Therefore, our journey in transformation will continue with ongoing investments in digital innovation and platforms.

With volatile global conditions and strains on the financial systems regionally, exacerbated by the COVID-19 pandemic and the ensuing worldwide economic crisis, 2020 will be very challenging for our businesses. With your continued support and the ongoing implementation of our agile corporate strategy, the Group remains positive it will continue to meet our stakeholders' needs.

In this difficult environment, we are confident that the innovations that will be delivered in 2020 will help us to stabilise, if not grow, our revenues as we benefit from cost efficiencies.

At this point I would like to thank all our stakeholders; our customers for choosing to entrust us with your business; our regulators for the continued guidance, support and cooperation; our CEOs, Senior Management and staff for their commitment and dedication and my fellow Directors and Board members of each of the entities in the Group for their leadership as we prove to our stakeholders that 'We are on your side'.

Sarit Raja-Shah

Group Executive Director
25th March 2020

OUR BUSINESS

Business at a Glance

Who We Are

I&M Holdings Plc has a long-standing presence in the Kenyan market and possesses a rich heritage in banking, insurance and real-estate. I&M Holdings Plc was incorporated on 16th August 1950 (at the time known as City Trust Limited) and was one of the oldest companies to list on the Nairobi Securities Exchange (NSE). I&M Bank was founded in 1974 as a financial services company and later converted to a commercial bank.

Over the years, I&M Holdings Plc has continued its successful growth and expansion in Kenya and the region attributable to our hallmark focus on sustaining excellent customer relationships. As a result, we have been able to deliver steady and positive returns to investors over the years. I&M Holdings Plc operates in five countries – Kenya, Tanzania, Rwanda, Uganda and Mauritius through its subsidiaries, affiliates and joint venture investments in each of these countries.

I&M Incorporated

1974

45 years of existance

1996
- I&M licensed as a Commercial Bank

2002
- I&M acquires Biashara Bank of Kenya

2006
- I&M Bank implements payment systems

2007
- Two leading European DFIs-Proparco & DEG became Sharholders

2008
- I&M 1st Tier II
- Acquisition of 50% shares in Bank One Limited, Mauritius (Formerly known as First City Bank Ltd.)

2010
- First bank in Kenya to launch e-commerce
- Acquisition of 55% stake in I&M Bank (T) Limited (Formerly known as CF Union Bank Ltd.)

2012
- Acquisition of 55% effective shareholding of I&M Bank (Rwanda) PLC. (Formerly BCR, Rwanda)

2013
- Set up of I&M Holdings as a non-operating holding company, listed on the NSE
- Began a Tier II MTN Program

2014
- I&M Bank delves into Bancassurance with the formation of I&M Insurance Agency Limited
- I&M Bank gets into social media; on Facebook has over 50,000 followers presently becoming 5th most popular bank
- I&M forms a real estate company I&M Realty Limited

2015
- I&M Bank ventures into Agency Banking

2016
- Acquired 65% shares in I&M Burbidge Capital Limited
- CDC Group Plc becomes a significant shareholder of I&M Holdings
- Launch of iMara Strategy

2017
- Acquired 100% stake in Giro Commercial Bank Limited

2018
- I&M Insurance Agency Limited acquires 100% of Youjays Insurance Brokers Limited

2019
- I&M joined the category of Tier 1 Banks
- I&M Bank Foundation established

What We Do

Products and Services

I&M Holdings Plc, through its subsidiaries and joint venture investments provides the following services:

- Commercial Banking (Retail, SME, Corporate & Institutional)
- Bancassurance
- Financial Advisory Services
- Custody and Investment Services
- Real Estate Investment

Commercial banking represents the largest portion of I&M Holdings Plc's assets with presence throughout the East Africa region. The products and services are segmented to meet the needs of each customer base and stems from our strategic goals of being the best bank for our customers, including increased convenience through the digitalisation of our services.

Customer Segments

- Corporate Banking: offering financial services for large corporates
- Business Banking: financial services catering for the medium, small and micro businesses
- Affluent: serving the high-income clients
- Personal Banking: offering non-business related financial services, including young professionals

Although I&M Bank may be traditionally known for its large customer base of high net worth customers and large corporate clients, the Bank has also achieved recognition for its services to small and medium sized enterprises, including many that have grown with the bank.

What Our Customers Say:

"It is easy to access I&M banking as a dedicated banker is only a phone call away."

"As an SME owner, I appreciate I&M's relationship-focused approach. Its flexible offerings are tailored to my needs. This is not possible everywhere."

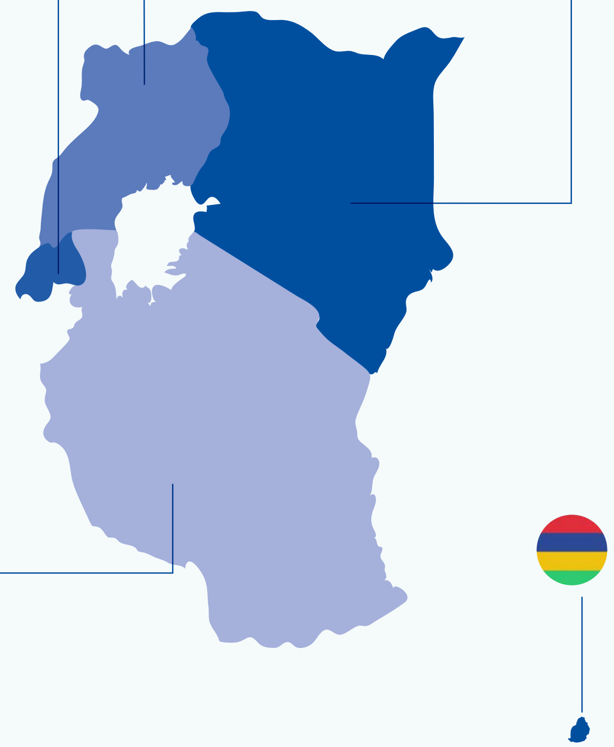
"They give great customer care service, they value people and honestly I love the way they work. Everybody knows everything, you do not need to wait for the manager to solve your problem. They are simply awesome."

"Effective mechanism that has been put in place makes the whole banking experience worthwhile, the staff are organised in such a way that even a new customer doesn't find the the experience intimidating. Security staff are also awesome, quick on their feet to assist any customer who seems stranded."

Where We Operate

Our Geographical Footprint

I&M Holdings Plc operates in five countries – Kenya, Tanzania, Rwanda, Uganda and Mauritius through its subsidiaries, affiliates and joint venture investments in each of these countries. Approximately 80% of I&M Holdings Plc's asset value stems from our Kenyan operations with the largest entity by asset value being I&M Bank LIMITED.



UGANDA

I&M Burbidge Capital (U) Limited
- Over 6 customers

RWANDA

I&M Bank (Rwanda) PLC
- Over 30,000 customers
- 18 branches
- 31 ATMs
- Staff force of 376

KENYA

I&M Bank LIMITED
- Over 140,000 customers
- 41 branches
- 55 ATMs
- Staff force of 1,124

I&M Burbidge Capital Limited
- Over 33 customers
- Staff force of 10

I&M Insurance Agency Limited
- Over 5,000 customers
- Staff force of 21

I&M Realty Limited
- Leasing properties for rental
- Currently owns three properties in Nairobi

TANZANIA

I&M Bank (T) Limited
- Over 16,000 customers
- 8 branches
- 9 ATMs
- Staff force of 183

MAURITIUS

Bank One Limited, Mauritius
- Over 60,000 customers
- 12 branches
- 13 ATMs
- Staff force of 411

OUR BUSINESS

What Drives Us

Our Vision
To become a company where the best people want to work. The first choice where customers want to do business and where shareholders are happy with their investment.

Our Mission
To be partners of growth for all our stakeholders.

Our Strategic Aspiration
To become a banking powerhouse in East Africa for medium to large businesses and premium clients.

Our Culture
To "nurture a culture of fairness to our partners" with respect to three key relationships:

Employee ▶ Employer | Customer ▶ Bank | Shareholders ▶ Bank

We strive to achieve this through

Our Core Values

- **Meeting our customers' expectations**
- **Motivating and developing every employee**
- **Enriching shareholder value**
- **Mutual Respect**
- **Fairness**
- **Innovativeness**

Our Accolades

2019 Recognition and Awards

I&M Bank LIMITED

Winner
Bank with the Lowest Charge Overall

1st Runner-Up
Bank with the Lowest Charge Overall

2nd Runner-Up
Most Efficient Bank in Kenya

Think Business

Silver Category
Excellence Enterprise Information Technology Adoption for Digital and Advanced Analytics

CIO 100 Awards

2nd Runner-Up
Corporate Legal Department of the Year

Nairobi Legal Awards 2019 (Law Society of Kenya)

I&M Burbidge Capital Limited

Winner
Financial Adviser Award

East Africa Private Equity & Venture Capital Association

Winner
Mergers & Acquisitions Financial Adviser (Deal Flow)

Deal Makers Africa

I&M Bank (T) Limited

Winner
US Dollar Payments Straight Through Processing (STP) Excellence Award

Citi Bank

I&M Bank (Rwanda) PLC

Winner
Best Bank in Rwanda

Global Finance

Winner
Investor of the Year

Rwanda Development Board Business Excellence Award

Winner
Best Taxpayer

Rwanda Revenue Authority

Bank One Limited, Mauritius

Winner
Best Private Bank Mauritius

Global Finance Magazine

Winner
Best Corporate Bank Mauritius

Global Banking & Finance Review

Winner
Best Employer Brand Sub-Saharan Africa (Below 500 Employees Category)

LinkedIn

Runner Up
Corporate Reporting Awards

PwC Mauritius

How We Create Value

As a financial services provider, I&M plays a crucial role in facilitating economic activity necessary for enabling sustainable growth and development by moving capital from where it is to where it is required. We are intrinsically connected as much to society at large as to our individual customers and employees.

As a result, our decision making is based upon the desire for not only short-term results, but also long-term value creation. I&M's focus on customer centricity, long-term thinking and financial strength enable it create shared value.

Our value creation process

Value creation is the result of how we apply and leverage our resources and maintain our relationships in delivering financial performance and optimising value for all stakeholders. Our value creation process is embedded in our purpose, described as part of our business model and integrated into the way we think and make decisions.

Our capitals and relationships

All organisations depend on various forms of capital for their success. These capitals are stores of value that, in one form or another, become inputs to the organisation's business model. Not all capitals are equally relevant or applicable to all organisations and the Integrated Reporting Framework allows for a tailored approach to fit the business context as long as the concept of how value is created for society is conveyed. For our report, we have chosen to adopt a framework to describe our value creation through the lens of our stakeholder relationships.

Meeting our stakeholders' expectations via our business model creates sustainable value for our stakeholders and society at large

CUSTOMERS

Over 200,000 corporate and private bank customers across the region

Our customers-both private and corporate-demand a superb personal and digital experience. They choose I&M because of our integrity as well as our efficiency.

EMPLOYEES

****2,034 employees**

Our employees are the heart of our operations. We have worked to create a fair and responsible workplace to create a conducive environment to promote employee empowerment and satisfaction.

REGULATORS

Regulators work to ensure industry standards and protect consumers. I&M enjoys robust relationships with regulators to deliver upon its commitments to society.

SHAREHOLDERS

Long-term shareholders and market capitalisation of KShs 44.6bn

Shareholders expect a competitive and sustainable return on their capital. I&M employs a strong risk management strategy consisting of social, environment and governance considerations to ensure long term growth.

SOCIETY

I&M Bank Foundation launched in 2019

As a financial services provider, society expects that we act responsibly. In addition to following sound governance rules, we also give back to society. I&M has been supporting students as well as the environment conservation initiati for years.

SERVICE PROVIDERS AND SUPPLIERS

Service providers and suppliers are integral parts of I&M's success. As much as possible, I&M tries to source locally for its needs. It also requires those working with us to maintain similar standards of ethics and integrity in their operations.

** Data includes Bank One Limited number of employees

	Change since previous year
CUSTOMERS	
Net Loans Advances - KShs 175bn	5% ▲
Interest Paid to Customers - KShs 10.1bn	15% ▲
Application Systems Uptime - 99.8%	1% ▲
EMPLOYEES	
Salaries and Benefits - KShs 4.7bn	15% ▲
*Number of Promotions - 101	38% ▲
*Workforce Gender Ratio(Female: Male) - 49:51	0%
Employee Engagement Score - 77%	3% ▲
REGULATORS	
Compliance with all regulatory requirements and smooth implementation of new regulations	
Regulatory Fees Paid - KShs 52mn	
Government Taxes Paid - KShs 3.8bn	28% ▲
SHAREHOLDERS	
Share Price Change - KShs 53 per share	23% ▲
Full-year Dividend - KShs 2.1bn	30% ▲
Return on Average Equity -19%	2% ▲
SOCIETY	
Projects supported through I&M Bank Foundation - KShs 175mn	
SERVICE PROVIDERS AND SUPPLIERS	
*The Group continues to support local enterprises with 98% of the contracts awards to local suppliers	

* Data for I&M Bank LIMITED

Our Strategy

The overarching strategy for the I&M Group is focused on six key strategic objectives to support achievement of our three key goals.

Our Strategic Pillars

Group Objectives

- Group investments
- Regulatory compliance
- Domestic and regional expansion
- Fund raising and capital management
- Group management
- Diversion of activities

Group Goals

- Support Growth of the Group
- Achieve optimal Group and Capital Structure
- Maintain Strong Investor Relations

Our Material Matters

Our strategic goals and objectives are informed by our material matters.

Macro Economic & Regulatory Environment	Changing Consumer Preferences & Digitalisation	Maintaining Value & Relevance To Society
Unpredictable macroeconomic and political outlook	Evolving consumer demands in the face of changing technologies and increased competition	Balancing consumer protection and public perception in the banking sector
Existence of illicit financial flows and unethical conduct	Emergence of cyber risk	Equitable economic growth
Demands on governance and regulatory compliance in the banking sector	Evolution of human resource needs	Climate change, environmental degradation and resource constraints

Our Sustainability Pillars

Our material risks and opportunities are identified through the lens of social, environmental, economic and financial factors.

Illustration of Bank Strategy Execution within the Group

I&M Bank represents 80% of Group Assets with I&M Bank LIMITED currently contributing the largest share. I&M Bank Kenya's Imara Strategy has three strategic focus areas:

- Digitise the Business
- Deliver distinct value proposition for each client segment
- Drive value through transactional banking

Digitise the Business

Given changing customer tastes and preferences, increasing disruption brought about by new technologies and innovation, I&M Bank LIMITED is leveraging its enhanced digital and IT capabilities to position the Bank not just as a leader in digital banking, but also as a payment solution provider for its target customers.

Our digital strategy is based on better understanding customers' needs and utilising technology to improve the overall customer experience, expanding our reach and improving our operations by creating faster, more efficient and reliable banking solutions. We also continue to leverage and expand our relationships with strong technical partners, such as strong fintechs, mobile telephone operators and card schemes, to develop collaborative and innovative banking solutions that meet our customers' needs.

Migration from branch to the digital channels has been on a steady upward trajectory with over 64% of the transactions processed using digital channels in 2019.

As part of the digital journey, the Bank has made strategic investments and set up a digital and innovation hub known as iCube whose main aim is to enhance the customer experience through data and innovation in a customer centric, responsive and digitally powered approach, while still delivering upon our priority risk and regulatory obligations. In 2019, iCube worked on the digital initiatives below:

Digital Initiatives

Customer Onboarding Application	Advanced Analytics	Redesign of our public website	Launch of the Cultivating I&Magination Innovation Framework
allows new customers to open accounts online.	focus on the next best products and customer retention.	to enhance its appeal and utility to customers, both current and new.	is translating ideas into innovative service that creates value for our customers.
To date, this solution has led to the opening of approximately 13,000 new accounts.	**This has resulted in a better understanding of customer behaviour.**	**I&M Kenya, Rwanda and Tanzania public websites recorded 33,894 users and 2,256,273 page views in 2019.**	**This has resulted in 4 innovation concepts that started off as ideas and are now ready to pilot in 2020.**

As the Bank grows in strides with the target of achieving its digitisation agenda, we are cognisant of the additional cyber risks that arise from digitisation and automation. As a result, I&M's Information and Cyber Security (ICS) arm continues to be vital, with the sole mandate of mitigating cyber-attack attempts. Our ICS team ensures business continuity in times of such attacks, by ensuring the Bank's automated service offering is free from cybercrime.

Our Strategy (Continued)

The ICS team also ensures visibility of those who connect to the Bank, the types of data and information that is being transmitted and the unsavoury elements that have made attempts to breach the Bank's network. The team does this while safeguarding the creativity and productivity of the Bank.

Delivering distinct value proposition across client segments

I&M Bank LIMITED's key focus areas in the year ahead

Business Banking - Launch of the MSME Segment

In response to increasing demand, the year 2020 will see I&M Bank LIMITED expand its client centric services to micro, small and medium sized companies (MSMEs) through a new dedicated unit. Digitisation and automation will be key to ensuring a successful efficient service offering to this customer demographic.

We have worked to respond to the market needs of the segment by launching simple but efficient transaction products, payment and financial services, such as providing unsecured bid bonds for small and medium sized business owners. I&M Bank LIMITED was also one of the five large banks that joined the "Stawi" initiative launched by the Kenyan banking sector in 2019, with the objective to extend credit to MSMEs.

In the year ahead, our focus will be on expanding services to MSMEs operating throughout the agriculture and renewable energy sectors.

AGRICULTURE	RENEWABLES	START-UPS
Micro-businesses in the agricultural sector are important to the Kenyan economy. New financing models, including guarantee products will support this segment.	Across the region, we are witnessing an increased demand for renewable energy options. Soft loans for solar energy installations, similar to what was successfully extended to larger corporations, will support growth in this sector.	Kenya is one of the continent's premier start-up destinations. Dedicated products and services focusing on start-up companies, including those in the tech and fintech sectors, will increase their ability to add value in our marketplace.

Personal Banking - Youth Segment

Three years ago, I&M Bank LIMITED launched banking services specifically focused on youth and young professionals. Our young professional segment targets those aged 23 to 40, early in their careers falling within the salary bracket of between KShs 50,000 to 300,000 per month. In December 2019, in response to high demand, an unsecured loan product was approved offering one-year loans valued at between KShs 100,000 to KShs 3,000,000. The roll-out of the digital banking services is also a priority given the technology savviness of the segment who prefer doing their transactions through the digital platform.

Affluent - Premium Segment

The premium banking segment has two levels: Premium and Premium Select, the latter of which focuses on high net worth individuals. Recognising the need to leverage digitalisation so as to capture and maintain customers in this segment, I&M Bank LIMITED offers personalised, customised and tailored financial service solutions. One of I&M's new focuses going forward is wealth management, in particular through domestic investment options, as well as offshore investments. This further capability will enhance existing robust Investment Management Solutions the bank has been offering to its Premium customers for years.

Drive Value through Transactional Banking

As the world experiences transformational digital distruption across every sector, I&M Bank LIMITED has continued to leverage on its digital capability in banking so as to anticipate and meet the customers' evolving needs. This has resulted in the creation of ecosystems and re-engineering of payment and trade journies, enabling their customers to become more effecient and competitive.

Our transactional banking activities revolve around offering integrated cash management solutions to customers. Our main areas of cash management centre around payments, collection, liquidity management, account management services and reconciliation solutions.

Our transactional banking strategy has successfully repositioned I&M as a transaction bank that stands out from the rest. Some of the most exciting solutions that we offer include:

- Remote Cheque Scanning - that allows clients scan cheques from the comfort of their premises
- Bulk KPLC Collections - that allows clients to pay bills for multiple KPLC accounts
- Business Connect Solution (B2B) - that allows clients to integrate their Enterprise Resource Planning (ERP) to the Bank's core-banking system thus allowing the automation of collections and reconciliations.

OUR BUSINESS

Our Material Matters

Definitions and Materiality Identification Process

In line with the International Integrated Reporting Council's guidelines, we define a factor to be material if it could substantively impact our commercial viability, our social relevance and the quality of relationships with our stakeholders in the short, medium and long terms.

In preparation of this year's report, we relied upon stakeholder engagements held throughout the year to review the topics and concerns most frequently raised to identify our material matters. We then went through an internal process of engaging with our staff, senior management and the Board, to narrow down a list of key concerns for I&M. Moving forward, we will continue to determine our material matters through a collaborative process of identifying and engaging, ranking and prioritising, and applying and reviewing.

Material Matters Process

Identify/Engage

I&M is deepening its external and internal stakeholder engagements to better understand how we create value, both for our stakeholders and for society at large. Identifying our potential material matters is a Group-wide responsibility and requires input from all business units and divisions, as well as all stakeholders.

Rank/Prioritise

Through a collaborative effort, I&M will consider the identified issues in order of relevance and potential impact. Approval of the material matters is done by our Group Executive Committee before the endorsement by the Group Board. Assessing material matters is a continual process to ensure our strategy remains relevant.

Apply/Review

Material matters are regularly considered and inform I&M's short to long-term strategy. And they change over time.

We therefore review them annually to ensure we are focusing on the most current industry trends that affect our business.

In our industry, the challenges which mostly inform our consumer-driven strategy are, as explained on the following pages related to the:

- macro economic and regulatory environments;
- digitalisation and changing consumer preferences; and
- maintaining value and relevance to society.

Macro Economic and Regulatory Environment

Unpredictable Macroeconomic and Political Outlook

I&M, as a financial services provider, is considerably connected to and interdependent upon the macroeconomic environment. Although trends in gross domestic product, inflation, employment, spending and monetary and fiscal policies are beyond our control, our ability to create value is notably dependent on these key economic drivers, our response to them and their impact on our stakeholders.

In 2019, the Kenyan economy—where we currently generate the largest portion of our earnings—recorded an average growth of 5.4% for the first three quarters of 2019, compared to an average growth of 6.0% in a similar period in 2018. The subdued growth was mainly as a result of (i) a slowdown in agricultural activities and curtailed agricultural production attributed to delayed long rains, which curtailed agricultural production and (ii) decreased output in transport and electricity activities due to the rise in fuel prices and insufficient long rains in the first and second quarters respectively. A strong economy encourages consumer spending and investment, which typically is positive for a bank.

In Kenya, we have enjoyed a period of relative stability during 2019 and are likely to expect the same during 2020. However, with a potential referendum related to the government's Building Bridges Initiative and with the succession race gathering speed ahead of the next elections in 2022, there remains an element of uncertainty.

Strategic Response: As a financial institution that has been around for over 40 years, I&M has focused on creating a balanced portfolio that considers short, medium and long term risks and returns. Our prudent risk management and governance strategies have enabled us to fare well during economic slumps, as well as thrive during times of economic boom. We will continue to rely upon our sound risk management practices and policies, while progressing with our growth and expansion strategies for a well-diversified and balanced portfolio regionally and across the financial services sector.

Existence of Illicit Financial Flows and Unethical Conduct

Illicit financial flows result from money that is illegally earned and then illegally transferred overseas, often through institutions with weak governance and transparency policies. Such flows are problematic as they deprive national governments of tax revenue needed to support development and maintain infrastructure for the benefit of society and the public at large. Studies conducted in this area indicate that illicit financial flows equal the amount of incoming development aid to many low-income countries.

To support global efforts at curbing such illicit flows, the banking industry must play a role through enhanced customer awareness, anti-money laundering policies and procedures and sound corporate governance policies.

Strategic Response: I&M Group has instituted strong controls across all its entities through stringent "Know Your Customer" processes, anti-money laundering policies and guidelines to prevent illicit financial flows. We also have a zero-tolerance policy on corruption and bribery and have extended it to our partners and service providers.

Our Business
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Our Material Matters (Continued)

Macro Economic and Regulatory Environment

Demands on Governance and Regulatory Compliance in the Banking Sector

The financial services industry worldwide has seen a significant increase in regulation since the global financial crisis of 2007/2008. These regulations have placed new demands on banks, resulting in an increased cost of banking.

Finding the proper balance to regulating the financial service sector is not easy. It is apparent that overregulation hampers rapid innovation, while deregulation appears to ensure faster short-term growth. However, this same deregulation, if not careful, may also come at a price as it may lead to instability and erode the soundness and safety of the banking system. A middle ground must therefore be found.

While we support the intention of regulations to protect our customers and stakeholders, the East African banking industry finds itself currently hampered by a host of new regulations that have come online in the past two years. Although well intended, we must find a way to operate within these new regulations.

Strategic Response: I&M embodies strong corporate governance practises across all its entities and ensures compliance with all relevant related regulations. Through our membership of the respective Bankers Associations we work with other national banks to support dialogue and enhance policymakers' understanding of our constraints under new and existing regulations. Through such dialogue we continue to lobby for a sound and balanced regulatory environment in the best interests of our industry, stakeholders and society.

Consolidation of the Banking Industry

The banking sector in the region has witnessed a growing number of mergers and acquisitions in the past few years with Kenyan banks at the forefront, all aimed at widening the reach and increasing market share for the acquiring bank.

The optimum number of banks in any country is and will remain a moot point but there is no doubt that while increased choice often means stiff competition, larger entities have more disposable funding available to invest in capital intensive research and product development necessary in today's high-tech environment. This often places them at an advantage, coupled with the fact they often have a greater reach country/region-wide as well as greater advertising budgets to attract new clientele.

Strategic Response: In addition to I&M's strong organic growth, we have for over a decade opted to grow inorganically through mergers and acquisitions to increase its regional presence having successfully acquired and integrated banking entities in Mauritius, Tanzania, Rwanda and Kenya.

Acquisition of Giro Commercial Bank Limited in Kenya bolstered I&M Bank LIMITED's market share in Kenya to five percent. This merger has helped us grow as a bank, while being able to maintain our commitment to client excellence and a strong balance sheet to ensure a solid growth trajectory.

Changing Consumer Preferences and Digitalisation

Evolving Consumer Demands in the Face of Changing Technologies and Increased Competition

One of the greatest changes we have seen in the banking industry over the past decade, is the emergence of fintechs, or in other words, the use of innovative information and automation technology in financial services. A direct impact of this has been that it is no longer enough to simply offer traditional banking services through brick and mortar establishments. Banks have been forced to adapt and embrace new technologies, alternate distribution channels and work through their operating platform all at an enormous learning curve. This has led banks and financial institutions to collaborate with fintechs to support their journey of transformation to become digitally enabled. As a result, most banking customers can use their mobile phones to transact from the comforts of their homes or offices without stepping foot in a bank.

At the same time, the banking sector has become more competitive with a growing number of non-bank financial institutions such as insurance firms, venture capital funded fintechs, currency exchanges and microfinance organisations providing financial services.

As a result, successful financial institutions today must keep pace with the evolving industry by focusing not only on what customers want today, but anticipating what they will want in the coming years.

Within the region, Kenya features among the top three African countries that have been ranked as "innovators in the financial sector," given its innovative mobile payment platforms.

Strategic Response: One of the three pillars of I&M's current corporate strategy is centred around digitising the business to improve the customer experience, drive sales and make better informed decisions. In line with this push for innovation, over the past two years, I&M has invested heavily in upgrading its core IT systems as well as its product and service delivery applications. In addition, we have rolled out our "digital factory" called iCube to develop transformative digital financial solutions aimed at improving operational efficiencies and enhancing customer delivery standards.

Emergence of Cyber Risk

With the innovations in financial technology has also come the emergence of new types of financial crimes, particularly cyberattacks. Given the amount of personal and financial data stored by financial institutions, banks and financial institutions have become targets and consequently, in addition to investing in customer centric digital technologies, banks are required to invest significant sums in antivirus and cybersecurity software, as well as cybersecurity training for staff to ensure client data security.

Strategic Response: I&M respects and takes seriously the data privacy of our clients. We therefore strive to prevent cyber risks and data breaches from occurring. In Kenya, I&M is currently leading in cyber-resilience statistics in the market as we continue to make strategic investments in next generation security solutions to improve our cyber-resilience.

Our Material Matters (Continued)

Changing Consumer Preferences and Digitalisation (Continued)

Emergence of Cyber Risk (Continued)

We believe training and awareness of our staff is critical to proactively manage cyber risk. We have therefore rolled out cyber risk e-learning for all employees and applicable partners. All this has enabled I&M to detect cyber crime attempts before they materialise (zero successful cases since 2018) and prevent malicious actors' activities (from thousands of phishing emails to zero). I&M is indeed confident in its secure digital journey ahead.

Evolution of Human Resource Needs

Given the rapid pace of digitisation in the financial industry, human resource needs in the financial services industry have also changed. This sector not only needs employees who know and understand banking, but also appreciate the new channels, systems and technologies which our clients are using.

Financial institutions have set up new teams and departments in charge of creating digital platforms and protecting financial institutions from cyber attacks. These were skillsets not previously required by banks, yet today such departments and staff with such skillsets are critical to the present and future sustainability of the institutions in which they work.

Strategic Response: I&M has gone through a significant restructuring over the past two years to support business growth. A large number of initiatives have been implemented in a short space of time both on the banking and the HR platforms. We have now arrived at our new HR model with an HR representative in every department for enhanced staff support. We take pride in being present for our staff and we embrace support for staff. The Board Nomination and Remuneration Committee handles any issues that must be escalated to the very top. Our governance and HR processes help to ensure equity and focus on professionalism, with clear staff targets so everyone knows what is expected. Over the past year we have rolled out an online E-learning platform and other programs to drive performance, nurture talent and build capacities. This complements the aforementioned iCube department, which is solely focused on technology innovation in our business.

Maintaining Value and Relevance to Society

Balancing Consumer Protection and Public Perception in the Banking Sector

In Kenya and across the globe, the banking industry has suffered from two main public perception challenges. The first is the public belief that banks make significant profits or super returns. The second, is the public perception that banks "don't care" about their clients, especially since the 2007/2008 global financial crisis when over-lending led to significant cases of consumer default. The interest rate cap introduced in 2016 in Kenya was largely a response to counter these public perceptions. Although this has since been repealed, the Central Bank of Kenya rolled out the Kenyan Banking Sector Charter as a mechanism to ensure banks focus on customer-centric models aimed at improving financial access; responsible pricing through adoption of risk-based loan pricing; enhanced transparency through disclosure of appropriate information including fees and complaints handling.

Maintaining Value and Relevance to Society (Continued)

Balancing Consumer Protection and Public Perception in the Banking Sector (Continued)

Strategic Response: The I&M brand has become known for its integrity and customer care. This identity has evolved over decades of building trust and loyalty with our clients. Today, I&M is on target to implement the Kenya Banking Sector Charter—a commitment from lenders to observe a responsible and disciplined banking sector – as per the timelines provided by our regulator.

Equitable Economic Growth

As a financial services provider, we act as an intermediary and facilitator of efficient allocation of capital for individuals and businesses. In doing so, we remain cognisant of the difficulties faced in accessing financing for lower income individuals and the impact it has on job creation and opportunities for women and youth.

Strategic Response: Small and mid-sized businesses, as well as today's youth, embody the promise for our future economic growth. As a result, they are also priority client groups for I&M Bank. Our corporate strategy has therefore segmented the small and medium sized business and youth product offerings to ensure appropriately targeted and tailored solutions to their needs. Going forward, we are also ramping up our product offerings to the micro and small business segment more broadly, i.e. with new credit lines and products specifically for the micro and small businesses, including in the agriculture and technology sectors. Although we do not otherwise directly target the mass market at this time, we show our support through our local procurement policies and through the work of our foundation.

Climate Change, Environmental Degradation and Resource Constraints

The massive economic, social and environmental challenges we are facing globally continue to intensify. As a financial institution, our core role is to ensure we channel capital to projects that are commercially, socially and environmentally sustainable in the long-term. Our economy is largely dependent on natural resources. At the same time, the impacts of climate and other environmental risks are disproportionately felt in regions like our own. New infrastructure and urban development must also factor into such risks as part of our risk management.

Strategic Response: We see safeguarding the environment as an intrinsic part of long-term commercial success. This is reflected both in our credit policy, in our new business/product development efforts, our own environmental footprint and our commitment through the newly established I&M Bank Foundation focused on four pillars of environment and conservation, education and skills training, economic empowerment and "enabling giving".

Relationships: We Are On Your Side!

I&M recognises and appreciates that engagement with and active cooperation of its stakeholders, is essential for the Group's strong business performance on a sustainable basis, as well as achieving and maintaining public trust and confidence. Our stakeholder management policy is founded on the principles of transparency, active listening and equitable treatment that favours a consultative and collaborative engagement with all stakeholders.

Mode and Purpose of Our Stakeholder Engagement

We are guided by our **Stakeholder Engagement Policy** which has been developed to ensure the policy is applied consistently across all Group operations. We engage both formally and informally throughout the year to:

- Develop and promote a good understanding of stakeholder needs, interests and expectations;
- Provide guidance on how the Group should engage with its stakeholders to strengthen and maintain relationships with them;
- Identify the opportunities and threats arising from stakeholders' material issues; and
- Assist with strategic, sustainable decision-making.

Stakeholder engagement is decentralised within I&M. All I&M Group employees are accountable for managing relationships and meeting expectations of stakeholders within their areas of responsibility. Should a stakeholder not be satisfied with the service or assistance that they receive, there are a number of channels to ensure they can voice their concerns. These include our client call centre, our social media pages or our Bank email addresses. All available channels are clearly indicated on the "Contact us page" available on the Group's corporate website.

Concerns raised by stakeholders are monitored annually for compliance by the Group Risk and Compliance Team and by the Board Audit and Risk Management Committee.

I&M has identified the following stakeholders and methods of engagement, including the various channels and means of communications reliant on each specific stakeholder group.

Stakeholder	Purpose of Engagement	Methods of Engagement
CUSTOMERS	• To understand their aspirations, businesses and financial-service needs better • To provide appropriate advice, proactive financial solutions and value-adding services • To ensure the Group maintains high service levels that they expect and deserve • To inform product development and prioritisation • To develop products that embody customer centric innovation • To ensure accuracy of customers' personal and/or business information	• Interactions through sales agents, branch outlets, relationship managers, regional heads, senior management, call centres and other alternate banking channels • Customer events, face-to-face meetings and other surveys, as well as marketing and advertising activities • Formal written correspondence, emailers and newsletters and messages disseminated through social media
EMPLOYEES	• To provide staff with strategic direction and keep them informed about group activities • To ensure that we remain an employer of choice that provides a safe, positive and inspiring working environment • To understand and respond to the needs and concerns of staff members	• Regular, direct communication between managers, teams and individuals • Robust combination of face-to-face, written, digital and broadcast communications, culture and engagement surveys that include emails and intranet communications • CEO's monthly newsletter, town hall meetings, cluster and group recognition functions
REGULATORS	• To maintain open, honest and transparent relationships and ensure compliance with all legal and regulatory requirements • To retain our various operating licenses and minimize operational risk	• Various industry and regulatory forums, meetings between regulators and our board and management • This includes one-on-one discussions with various executive officials at prudential meetings as well as onsite meetings

Relationships: We are On Your Side! (Continued)

Stakeholder	Purpose of Engagement	Methods of Engagement
SHAREHOLDERS	• To provide current and future shareholders with relevant and timely information • To manage shareholder expectations and reputational risk • To maintain strong relationships and keep abreast of market developments • To ensure good governance and deepen the trust placed in us and our brand • To get feedback that informs our strategy, business operations and how we govern	• Annual General Meetings, Extraordinary General Meetings as and when called for • Investor briefings for year end and /or interim results announcements and roadshows • Various investor group meetings • Individual meetings with financial media, shareholders and analysts
GOVERNMENT AGENCIES, LOCAL AUTHORITIES AND INDUSTRY FORUMS	• To build and strengthen relationships with government, both as a partner in the development of the country and as a key client • To provide input into legislative development processes that will affect the economy and our activities and operations • To participate visibly in and be a partner to, the transformation of the Kenyan economy • To continue learning through interaction with the industry and cross-sectoral organisations • To use business associations as a forum through which we can promote our viewpoints on key industry issues • To influence and/or promote common agendas	• Various engagements with national and county officials, participation in consultative industry and sector forums
MEDIA	• To leverage the reach and influence of media channels to share our business and value creation story with stakeholders • To empower their audiences to make informed financial decisions	• Launches of various products and services • Interviews with key business media on relevant matters • Ongoing telephone and email interaction regarding media enquiries

Stakeholder	Purpose of Engagement	Methods of Engagement
SERVICE PROVIDERS AND SUPPLIERS	• As required or dictated by performance contracts and/or agreements • To obtain products or services required for conducting Group business • To maintain an ideal and timely supply of goods and services for operations • To encourage responsible practices across our supply chain, local procurement, supplier conduct and environmental considerations • To include critical suppliers in cross-functional teams to contribute expertise and advice before specifications are developed for products or services	• One-on-one negotiations and meetings for finalisation follow up and after sales service
OTHERS - COMMUNITY AND PUBLIC AT LARGE, ENVIRONMENT	• To create partnerships that serve to facilitate our integrated sustainability activities • To obtain input from environmental experts, communities and non-governmental organisations regarding key focus areas • To create awareness of our “shared growth” commitment and initiatives	• Group’s website, annual report, Group’s social media handles, press releases and media statements

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What Our Customers Say about I&M

"Highly responsive to our needs and requirements, very efficient processing of transactions, easily accessible branches, very helpful and hardworking staff."
Institutional Banking Customer - Kenya

"It is an innovative bank which meets my financial needs and requirements. They also have professional and friendly staff."
Personal Banking Customer - Kenya

"I&M has been a great partner. They have always been available to us when needed. They have also been flexible and have been a great asset in our operations."
Corporate Customer - Rwanda

"I&M bank has been a great partner in dealing with our financial needs. Starting from opening accounts, setting up direct payments, giving us preferential rates of exchange to the customer services when needed. We are very happy with I&M Bank and would definitely recommend it to anyone."
Institutional banking customer - Rwanda

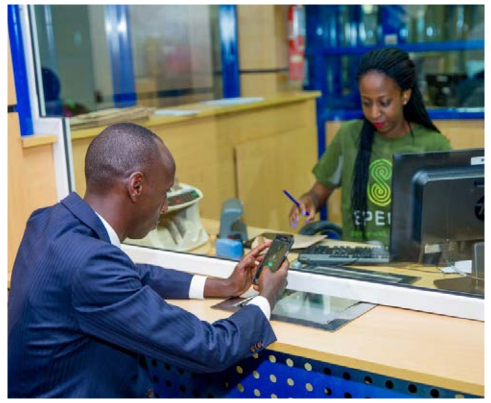
"I&M is a great bank that operates my account with the best of service. The bank charges lower monthly fees, has fewer queues and solves queries instantly."
Personal Banking Customer - Tanzania

"The bank provides very good service with hardly any waiting time which makes the service quicker."
Corporate Customer - Tanzania

"I want to thank Bank One for their performance. Although I know you have tens of thousands of customers, Bank One makes me feel like I'm the only one. Thank you."
Bank One private banking customer - Mauritius

"Best wishes to the entire Bank One team who stands with us at times of our needs. Highly appreciated" *- Mauritius*

Robin Bairstow, CEO, I&M Bank (Rwanda) PLC attends to a customer during the International Customer Service week.



An I&M Bank (Rwanda) PLC customer transacts on the Spenn App at the branch.

A Malaika customer receives a gift voucher during a customer event hosted by I&M Bank LIMITED.

I&M Bank LIMITED sponsors the Lion King movie for Young Savers Account holders.

Ravneet Chowdhury, CEO, Bank One Limited, Mauritius welcomes a customer during an event.

Ravneet Chowdhury, CEO, Bank One Limited, Mauritius interacts with a customer during the Corporate Banking Happy Hour hosted by the Bank.

I&M Bank LIMITED hosts 2019 Corporate Golf day.

Kihara Maina, CEO, I&M Bank LIMITED and Sunny Walia, GM, VISA East Africa at the I&M VISA Infinite Credit Card launch.

Relationships: We are On Your Side! (Continued)

Our Employees

Our staff are at the core of our value proposition. Our key concern is therefore to ensure I&M is an attractive place to work. The Group's clear and documented human resource policies ensure a workplace that is transparent and fair with respect to all matters concerning staff, so that everyone knows what to expect. We believe this has helped our attrition rates remain at a low 6%, compared to a higher industry average.

Over the past three years, I&M has undergone organisational restructuring to support our growth aspirations. We have upgraded our core banking system and improved our product segmentation. Our human resource management function has also been re-organised to better support the business and organisational needs of our employees.

Key initiatives during 2019 focused on professional and skills development.

Such initiatives have been critical to enable our staff to deliver on our promise. We invest heavily in this. Over the past year alone we invested KShs 31 million in training for our staff in all facets of the business, including customer service, technical programmes related to the usage of the upgraded core banking system, as well as in leadership development.

In the year ahead, our efforts will focus on:

- Entrenchment of a Group organisational structure and centralisation of specific functions designated as Group functions, including a revamp and roll out of the following key policies in HR management;
- Training and secondment policy for the Group's career development policy, including a succession planning programme;
- Talent development and retention policy;
- Roll out of staff rotation and on-the-job capacity building programmes; and
- Continued staff-led community programs: The I&M Bank Foundation will work in collaboration with staff teams to represent the organisation's involvement at community level.

Success of the various programmes will be tracked and monitored through clearly defined metrics.

I&M Bank LIMITED's Investment and Custodial Services staff members pose for a photo during the International Customer Service week to honor the Bank's customers.

Our Community

The key to achieving sustainable development lies in the health of three facets: **society, environment** and the **economy.** All three are interdependent. As a result, the failure of one has a direct and adverse impact on the other two.

At I&M, we understand this and have therefore positioned ourselves to ensure that we do our part in ensuring that each of these dimensions is thriving. To ensure this is done effectively, the Bank through its Corporate Social Responsibility arm, has identified five thematic areas to guide our efforts:

Environmental Conservation

It is increasingly apparent that the protection and restoration of the natural environment is key to achieving national development goals and must therefore be integrated into a country's economic growth plans. Preserving and protecting our natural environment and integrating environmental concerns is fundamental to our lives and well-being.

Karura Forest, Kenya

Karura Forest is a natural serene sanctuary in the heart of Nairobi. It is regarded as the second most visited protected nature attraction in Kenya, after Nairobi National Park.

In 2005, I&M Bank LIMITED leased 25 acres of the forest and committed to growing indigenous trees on the plot. Exotic trees, such as Eucalyptus and Black Wattles, known for their highwater consumption, often enough to dry rivers, were removed. A plan to replace those trees was then set in motion. Through the involvement of staff, the Bank has since planted over 5,000 trees. It aims to cover the entire 25-acre portion with indigenous trees.

Participants of the I&M Bank LIMITED tree planting exercise during the nature trail at the Karura Forest

Wisdom Fadhili, a Young Savers Account Holder plants his tree during the I&M Bank LIMITED tree planting exercise at the Bank's forest in Karura

Relationships: We are On Your Side! (Continued)

Our Community (Continued)

Education and Skills Development

"An educated mind is a healthy mind and a priceless asset to development."
~ Anonymous

Keeping in line with the United Nations Sustainable Development Goal 4: Providing Quality Education, I&M aims to provide inclusive and quality education opportunities to deserving students faced with financial constraints. The Bank has therefore spearheaded a range of initiatives through partnerships with various organisations. These initiatives include scholarships, education infrastructural developments and refurbishments, as well as mentorship programmes.

St. Ann Suresh Raja Girls High School, Kenya

In a bid to provide greater access to education for all, I&M Bank LIMITED constructed St. Ann Suresh Raja Girls High School in Kenya at a cost of over KShs. 215 million. Upon completion of construction in 2018, the administrative role of running the school was handed over to the Sisters of St. Ann under the Archdiocese of Nairobi.

The school has enlisted 169 students enrolled in Forms One through Three. In addition, the Bank provides a number of need-based scholarships to students that excelled in their primary education and have a desire to further their education.

The fourth industrialisation revolution that embraces utilisation of technology is currently underway globally. Digitisation has become the new norm increasing accessibility to services and information. Cognisant of this reality, the Bank has further initiated a coding boot camp at the school to nurture interest in digital technology and provide mentorship.

The boot camp facilitated by bank staff not only equips young girls, but is often the first introduction to computer literacy for most of the students. It is tailored to pique their interests in the fields of science, technology, engineering and mathematics.

A member of I&M Bank LIMITED's Digital Factory, iCube interacts with some students during the boot camp sessions.

Students at the St. Ann Suresh Raja Girls High School, Kairi pose for a photo in front of the school's Administration block during the opening of the school.

Palmhouse Foundation, Kenya

I&M Bank LIMITED recently celebrated 15 years of partnership with Palmhouse Foundation. Since the beginning of the partnership, the Bank has provided scholarships to 140 students, 92 of whom have completed their secondary school education. A number of these students have gone on to advance their education, gaining admission to both local and global universities.

In 2019, 93% of students that had been sponsored by I&M Bank LIMITED through the Palmhouse Foundation achieved a mean grade of C+ and above and are awaiting university admission.

James Gatere, Head of I&M Bank Foundation presents a donation to Eric Kimani, Founder, Palmhouse Foundation.

Kihara Maina, CEO, I&M Bank LIMITED addresses the group of students at the Palmhouse Foundation mentorship forum.

Empowering young people at national level, Mauritius

Bank One Limited, Mauritius, together with the CIEL Foundation, co-sponsored the Junior Achievement Africa ITS in collaboration with non-governmental organisation, Junior Africa Mascareignes and the Mauritius Institute of Training and Development, in providing training to 202 students (aged 16 to 25) across eight Mauritius Institute of Training and Development Centres in Mauritius. The trainings, which saw Bank One and CIEL Foundation each provide MUR 246,500, aimed to:

- educate students in entrepreneurship and develop their entrepreneurial spirit;
- address the educational needs of young vulnerable adults to improve their chances of employment;
- build the self-esteem of the youth;
- aid youth to develop self-confidence and positive attitudes;
- promote business ethics and civic values in the youth;
- create an inclusive culture in which Bank One Colleagues will also train and mentor the students; and
- upskill and improve their employability rate.

Bank One Limited, Mauritius staff supporting these trainings adopted a hands-on approach and complemented the sessions with engaging speakers. Staff educated the trainees on the importance of financial management, pricing of products and services and creation of procedures to enable for financial tracking of their businesses.

Rajesh Ramjuttan, a Bank One Limited, Mauritius volunteer delivers a training session to students at the Cote D'Or MITD Centre, as part of the "Empowering Young People" Project held in September 2019.

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Relationships: We are On Your Side! (Continued)

Our Community (Continued)

Raising money for education, Tanzania

On 30th March 2019, I&M Bank (T) Limited took part in a fundraising dinner organized by the Kisarawe District Commissioner, Hon. Jokate Mwegelo at Mlimani City Hall, Dar es Salaam. The dinner aimed to raise funds for the construction of a new girls only secondary school in Kisarawe District, 18 Km North East of Dar es Salaam.

At the dinner, the Bank pledged TZS 20 million to construct a library for the school. This pledge was presented by Ambassador Bertha Semu Somi, Board Member, I&M Bank (T) Limited. The fundraising dinner was graced by the Minister of Education, Science, Technology and Vocational Training and other senior government officials including the Minister of State in the President's Office and Minister of Tourism. The Bank fulfilled its promise in September 2019 and the construction began towards end of 2019.

Economic Empowerment

Women Empowerment Program at Solitude, Mauritius

In collaboration with La Caz Lespwar (also known as Caritas Solitude), Bank One, Limited Mauritius' Corporate Social Responsibility Team engaged in a women's empowerment initiative. Five women were selected from the Solitude region (North of Mauritius) during the first phase and shortlisted to undertake formal training on entrepreneurship skills in October 2019.

Following the training in November of the same year, the women's business plans were reviewed after which they received guidance on how to improve their plans.

The second phase of this initiative is set to take place in 2020 during which time the candidates small businesses will be launched.

Bank One Limited, Mauritius, CSR team member speaks to the beneficiaries of the Women Empowerment project.

The Bank One Limited, Mauritius Projects Team and the Caritus Solitude team pose for a picture with the beneficiaries of the Women Empowerment project.

Enabling Local Giving

I&M Bank (T) Limited Gives Back

During 2019, I&M Bank (T) Limited was involved in various initiatives that saw it give back to the community. The Bank partnered with East African Television in the ***"NAMTHAMINI"*** sanitary pads donation campaign and donated a year's supply of sanitary pads for 100 girls.

The campaign successfully achieved its goal to significantly reduce absenteeism of female students especially in the country's rural regions. The Bank has been participating in this initiative since its inception three years ago.

Some I&M Bank (T) Limited staff donate sanitary pads to the East Africa TV presenter who championed the 'NAMTHAMINI' campaign.

During the global Customer Service Week celebrations in October, which is also Breast Cancer Awareness Month globally, I&M Bank (T) Limited organised a visit to the Ocean Road Cancer Institute. The Bank staff led by Bank Board Member, Ambassador Bertha Semu-Somi and Head of Retail Banking, Ms. Lilian Mtali visited the hospital and donated Khangas and refreshments to close to 100 women battling breast cancer.

Ambassador Bertha Semu-Somi, Board Member and Lilian Mtali, Head of Retail Banking at I&M Bank (T) Limited, present khangas and refreshments to a nurse at the Ocean Road Cancer Institute during the International Customer Service week.

In December, 2019 the Bank donated TZS 10,000,000 to the Jakaya Kikwete Cardiac Institute this donation was to pay for heart surgery for children in need. The donation was handed to Hon. Paul Makonda the Regional Commissioner for Dar Es Salaam who is championing the exercise of mobilising funds to help around 500 children in need.

Ambassador Bertha Semu-Somi, Board Member (Right) and Lilian Mtali, Head of Retail Banking at I&M Bank (T) Limited (standing behind) Ambassador Semu- Somu, donate to support pediatric surgery at the Jakaya Kikwete Cardiac Institute.

OUR BUSINESS

Relationships: We are On Your Side! (Continued)

Our Community (Continued)

Enabling Local Giving (Continued)

Rwanda Children's Cancer Relief Awareness Walk

I&M Bank (Rwanda) PLC made a donation towards Rwanda Childhood Cancer Relief and joined in their annual walk for the fifth year running. The walk is organised to create awareness about childhood cancer and engage the community by educating them to detect early symptoms of the disease. This provided the Bank with an opportunity to provide support for the community.

Diana Kwayisima, Head of HR at I&M Bank (Rwanda) PLC, receives a certificate of appreciation from the Rwanda Children's Relief Awareness Walk team's representative.

Medical Insurance for Vulnerable People, Rwanda

In November 2019, I&M Bank (Rwanda) PLC staff presented 1,000 vulnerable persons from the district with medical insurance for the period 2019-2020. The selection of those who benefitted was done by district authorities in the area. The Bank staff also engaged in Umugunda* in Gicumbi District with the community to build a house for a vulnerable elderly woman.

I&M Bank (Rwanda) PLC staff members during the Umuganda Community Service at Rubavu district.

* Coming together in common purpose to achieve an outcome for the benefit of a person, society or nation.

SCB (Stakeholders' Community Based) Initiatives

Bank One Limited, Mauritius in house donation drive

In association with The Good Shop – a non-profit social enterprise selling secondhand goods – Bank One Limited, Mauritius held its first ever in-house donation drive across all its operations in December 2019. Toys, sports equipment, books, DVDs and clothes were collected and distributed to the children of "Ami De Don Bosco" Orphanage situated at Tombeau Bay on December 24th.

Distribution of items collected during the Bank's donation drive to the "Good Shop" NGO in December 2019

Kwibuka 25, Rwanda

The Bank, in partnership with AEGIS TRUST, joined the Jali sector community to remember victims of the 1994 genocide against the Tutsi. The victims include Tutsi buried at the Jali sector memorial and 23 I&M Bank (Former BCR) staff who lost their lives during the genocide.

Robin Bairstow, CEO, I&M Bank (Rwanda) PLC, lays a wreath at the Kigali Genocide Memorial.

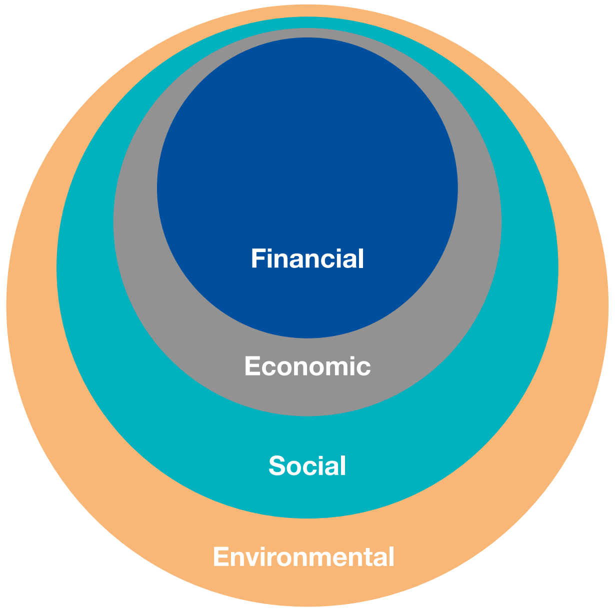
Girinka, Rwanda

In June 2019, I&M Bank (Rwanda) PLC donated 17 cows to vulnerable families in Nyarugenge in support of the government's one-cow-per-family programme also known as Girinka*. The Bank delivered heifers and submitted one-year life insurance documents for the animals to the district officials.

* Girinka is an initiative by President of the Republic of Rwanda, H.E. Paul Kagame, that was established to enable every poor household to own and manage a dairy cow in a bid to improve their livelihood through increased milk production, while also providing manure to increase crop yields in their farms. The program distributes pregnant cows to the poorest families who then pass on the first female offspring to the next poor family. Male offspring can be sold for additional income for other household needs.

Our Sustainability Action Plan

Our sustainability strategy is based on the four pillars of social, environmental, economic and financial sustainability —considerations that are central to the long-term commercial success of our business. We are committed to integrate these factors into all our subsidiaries' business activities through a phased approach.



I&M Holdings Plc is highly aware of its responsibility towards the community and the environment. This statement reflects the Group's commitment to mitigate its direct social and environmental impacts, as well as manage its indirect impacts, while continuously working to integrate environmental, social and broader governance factors into its core business operations across all its subsidiaries throughout the region. I&M therefore has a guiding approach through which it seeks to apply best methods for:

- integrating considerations of financial risks derived from environment and social impacts in decision making that are consistent with I&M's commitment to responsible financing, supported by I&M Holding's Environmental and Social Sustainability Policies and Procedures for credit assessment and implemented through our Social Environmental Management System (SEMS);
- applying scenario analysis to inform environmental and social risk identification, strategy setting, assessment and embedding those risks into the existing risk management system; and
- developing an approach to disclosure on the financial risks posed by environmental and social impacts.

The Group has further put in place guidelines that aid in carrying out its corporate social responsibility (CSR) mandate at each entity's level. The Group, through each of its entities, seeks to deepen its relationship with various stakeholders while providing opportunities to its staff members to participate in various CSR activities, with a focus on health, education and the environment.

Our sustainability strategy is currently implemented through four focus areas:

1. Robust Social Environmental Management System, including continuous staff training

Since inception of the Social Environmental Management System (SEMS), our credit risk analysis process has incorporated an assessment of environmental and social risk factors in line with IFC Performance Standards[1]. Actual site visits and corrective action monitoring with clients is central to a robust SEMS. In this way, we do not rely solely on permits and approvals. We also review our SEMS every two years and align our processes with changing industry dynamics in order to offer the best value to our clients.

[1] The IFC Performance Standards are an international benchmark for identifying and managing environmental and social risk. They have been adopted by many organisations as a key component of their environmental and social risk management.

Every two years, the Bank in partnership with its development partners, also undertakes to provide specialized E&S trainings to regional bank staff. This ensures that our staff complement is well informed. We are therefore able to maintain the quality of our internal environmental and social processes, which include facility application due diligence, monitoring and reporting.

2. Green Products

Our lending portfolio is diverse, but with significant representation of manufacturing, real estate and infrastructure. I&M appreciates that some sectors are predisposed to various environmental challenges with a more severe impact than others. We therefore look to develop specific opportunities for our clients in areas that are "green".

In 2020, we will implement a classification and monitoring system to capture how much of our portfolio is vulnerable to climate change risk. This will enable us, for example, to target lending for the development of green infrastructure, resource efficient and lean manufacturing upgrades, renewable energy installations, water efficiency and climate smart agriculture measures. Such solutions and innovations are increasingly part of cost-efficient and sound business practices that can benefit our clients and society at large.

3. I&M Bank Foundation

The I&M Bank Foundation was launched in 2019 as a separate entity. It will operate initially with contributions from I&M Bank of 2% of pre-tax profits. The Foundation will focus on key thematic areas namely: environment and conservation; education and skills training; economic empowerment; and enabling giving.

Thematic Focus Areas	Strategic Goal
Environmental Conservation	Reducing direct and indirect negative environmental impact by targeting interventions in reforestation and afforestation, green innovation, waste management, among others
Education and Skills Development	Enhancing education outcomes that lead to future jobs by supporting vulnerable children, including youth with disability, access quality education and key life skills
Economic Empowerment	Empowering youth and micro, small and medium enterprises (MSMEs) by improving their skillset and enhancing their networking opportunities
Enabling Local Giving	Networking with philanthropy groups to support initiatives aimed at developing local philanthropy and growing a culture of giving that leads to sustainable development
SCB (Stakeholders' Community – based) Initiatives	Supporting community-based initiatives that respond to local grass root needs

4. Reducing Our Environmental Footprint

I&M is committed to reduce its environmental footprint. This is embodied in our newly pioneered headquarters under I&M Realty Limited set to open in 2020. It is one of the largest state of the art green design buildings with integrated photo-voltaic glass installations one of a kind in East and Central Africa. The building will generate an estimated 100 kWh per year, which will cover a portion of its consumption through the use of photo-voltaic solar, via a thin film integrated into the glass of the roof atrium. It also features motion/presence detectors and daylight sensors for internal and external lighting respectively as key energy saving and pollution prevention features of the building design.

Our Sustainability Action Plan (Continued)

4. Reducing Our Environmental Footprint (Continued)

I&M's new headquarters is set to be opened in 2020. It is a state of the art green design building with integrated photo-voltaic glass installations, one of a kind in East & Central Africa.

Green building savings features

Electricity Generated Per Year
111.359 kWh

Total Lighting Points Operating 4 Hours Per Day
6.356 lights

Avoided CO_2 Emmissions Per Year
74.611 Kgø

Electric Car Mileage Thanks to the Energy Generated
824.881 Km

Barrels of Oil Saved
66 Barrels

Our Performance Trends

Management Discussion, Analysis and Performance Highlights

Overview of Operating Environment

On the back of improved credit management supported by a rise in non-interest income, the Group posted an improved year-on-year performance compared to 2018. This followed the Group's move to improve customer centricity. Three years into its iMara strategy, supported by digitisation of customer journeys, benefits have accrued largely on non-interest income. During 2019, the Group revamped its core banking system to an upgraded version of Finacle Core Banking System. This is now enabling the Group to leverage on better technologies to serve customers. The year 2019 was also the second year of the Group's implementation of IFRS 9. The implementation of the new standard has seen the Group benefit from low credit charges on the back of better credit management.

On the operating environment front, inflation was contained by the various jurisdictions in which we operate. In Kenya, the interest rate cap was still in force for much of the year before its repeal, leading to a subdued credit environment. Business in the Tanzanian market was slightly impacted by the government's decision to mobilize government-linked deposits to the reserve bank.

Business performance

The Group posted a 9% growth in total assets underpinned by an 8% rise in customer deposits and 5% growth on customer lending. This growth on the balance sheet, together with improved non-interest income and better credit quality, led to a 27% improvement on profit before tax year-on-year. The group cost to income ratio was contained at 40% supported by the Group's drive to leverage on technology in delivering service to customers. In numbers terms, Group total assets closed at Kshs 315 billion, up 8% from Kshs 288 billion in 2018 underpinned by growth in deposits and loans. Customer deposits rose from Kshs 213billion in 2018 to close at Kshs 229 billion at the close of 2019. Loans rose from Kshs 166 billion in 2018 to close at Kshs 175 billion in 2019. The Group's capital base has also grown steadily to Kshs 60 billion (from KShs 50 billion in 2018) supported by strong performance in each of the subsidiaries.

Operating within a capital-intensive sector, the majority of revenues generated are reinvested within the subsidiaries to support future business growth. This is in line with the Group's Internal Capital Adequacy Assessment Policy to ensure the business is adequately capitalized. The main contributor to this performance is the Group's Kenyan subsidiary contributing 83% of the total profit before tax, while Mauritius, Rwanda and Tanzania contributed 7%, 5% and 3%, respectively. The Group's return on investment was an impressive 17%—up from 16% in 2018—highlighting efficient use of available capital mix.

Group management continues to ensure shareholders receive the best possible return, while also paying a dividend. To this end, a proposed dividend of of Kshs 2.55 per share was approved by directors up from Kshs 1.95 in 2018. On the regulatory front, each subsidiary is in compliance with the set prudential ratios.

Outlook

The new year 2020 has opened on a rather uncertain note arising from the global COVID-19 pandemic. This has adversely affected world commerce, which has the potential to slow for the major part of the year. This has dampened the business outlook across the various sectors in which we operate. However, governments, through their reserve banks, have come out in full force to support businesses across various sectors.

The reserve banks are also providing waivers on treatment of COVID-19 induced credit quality deteriorations.

The Group is closely monitoring the developments and putting in place strategies to minimize the impact of the pandemic. While we forecast 2020 performance to be impacted by this occurrence, there is adequate capital to contain any prolonged adverse impact. Our partners are also in conversations with the Group to provide support where necessary to our customers in affected sectors.

Overview of performance against our Key Performance Indicators

The following key performance indicators represent a selection of those used by the I&M Holdings Plc Board to measure the performance of the Group.

FINANCIAL KPIs

KPI	2019	2018	2017
Profit before Tax - KShs bn	14.6	11.5	9.9
Profit after Tax - KShs bn	10.8	8.5	7.3
Non Funded Income - KShs bn	8.3	7.6	5.8
Total revenue - KShs bn	23.5	22.9	21.1
Total assets - KShs bn	315.3	288.5	240.1
Customer deposits - KShs bn	229.7	213.1	169.3
Net loans and advances - KShs bn	175.3	166.7	153.0
Return on average equity - %	19	17	17
Cost to income ratio - %	40	37	37
*Transactions on digital channels/total bank transactions - %	64	64	61

SUSTAINABILITY KPIs

SOCIAL	2019	2018	2017
**Number of employees	2034	1955	1765
Salaries and benefits paid to employees - KShs bn	4.7	4.1	3.7
*Revenue per staff - KShs bn	4.57	5.88	-
Staff Engagement Score (OHI) - %	77	75	73
*Customer Satisfaction Index - %	85	82	82
*Workforce gender ratio Female:Male	49:51	49:51	49:51
*Women in Leadership positions -%	32	29	49
*Average staff training days	1.5	1.3	1.1
*Number of health and safety incidents at the workplace	None	None	None

* Data for I&M Bank LIMITED
** Data includes Bank One Limited number of employees

Our Performance Trends (Continued)

Overview of performance against our Key Performance indicators (Continued)

SUSTAINABILITY KPIs (Continued)

ENVIRONMENTAL	2019	2018	2017
*Financial commitment to I&M Bank Foundation - KShs bn	174.5	150.3	173
*Survival rate of trees planted at Karura Forest - %	93	92	92
*Business and corporate loan portfolio subjected to E&S risk assessment and continous monitoring portfolio - %	100	100	100
*Number of employees trained on KBA SFI principles/green finance	938	884	834
ECONOMIC			
Loan book to SMEs - %	17	15	14
Incidents of non-compliance with bribery and corruption policy	Nil	Nil	Nil
*System uptime performance - %	99.8	99.3	99.6
*Contracts awarded to local contractor and suppliers - %	98	98	98

COMPARATIVE REGIONAL PERFORMANCE

	Kenya Kshs '000	Rwanda Kshs '000	Tanzania Kshs '000	Mauritius Kshs '000	Total Kshs '000
Profit before tax	12,314	994	390	905	**14,603**
Total Assets	253,680	34,150	22,546	4,915	**315,291**
% PBT	**84%**	**7%**	**3%**	**6%**	**100%**

* Data for I&M Bank LIMITED

FIVE YEAR REVIEW

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2015 KShs '000 Audited	2016 KShs '000 Audited	2017 KShs '000 Audited	2018 KShs '000 Audited	2019 KShs '000 Audited
ASSETS					
Government and other securities	42,198	49,343	55,935	56,692	59,323
Loans and advances to customers (net)	127,824	134,675	153,018	166,737	175,329
Property & equipment (tangible + intangible)	4,640	5,601	9,102	11,843	15,309
Other assets	16,995	20,923	22,056	53,250	65,330
Total Assets	**191,657**	**210,542**	**240,111**	**288,522**	**315,291**
LIABILITIES					
Customer deposits	132,981	146,514	169,282	213,139	229,737
Lines of credit	14,071	13,306	12,662	13,756	10,856
Other liabilities	10,884	11,216	11,151	10,753	13,836
Total Liabilities	**157,936**	**171,036**	**193,095**	**237,648**	**254,429**
Total Equity	33,721	39,506	47,016	50,874	60,862
TOTAL LIABILITIES AND EQUITY	**191,657**	**210,542**	**240,111**	**288,522**	**315,291**

VALUE ADDED STATEMENT

	2015 KShs '000 Audited	2016 KShs '000 Audited	2017 KShs '000 Audited	2018 KShs '000 Audited	2019 KShs '000 Audited
Interest income, fees commision & other revenues	26,461	29,241	29,960	33,338	35,135
Interest paid to depositors & cost of other services	(11,440)	(13,451)	(14,653)	(15,965)	(13,599)
Interest paid on borrowings	(930)	(937)	(926)	(1,019)	(864)
Wealth Created	**14,091**	**14,853**	**14,381**	**16,354**	**16,420**
Distribution of Wealth					
Employees - salaries, wages and other benefits	23.2%	24.2%	26.1%	25.1%	22.9%
Government - Tax	21.5%	19.1%	18.3%	18.3%	18.5%
Shareholder's dividends	9.7%	9.7%	10.1%	9.9%	10.2%
Retention to support future business growth					
Retained earnings	41.0%	42.5%	40.4%	42.1%	41.9%
Depreciation and amortisation	3.6%	3.3%	3.9%	3.7%	5.6%
Social Capital - I&M Foundation	1.1%	1.1%	1.2%	0.9%	0.8%
Wealth Distributed	**100%**	**100%**	**100%**	**100%**	**100%**
ASSETS					
Profit for the year	7,145	7,759	7,264	8,504	10,769
Total Equity	33,721	39,506	47,016	50,874	60,862
Return on Equity (average equity)	**23.11%**	**21.19%**	**16.79%**	**17.37%**	**19.28%**
Increase in non Funded	-	4.31%	15.57%	32.57%	8.61%

Our Governance

We embrace the principles of good governance throughout our operations. We believe this ensures accountability to our shareholders and our community. It is furthermore central to promoting I&M's long-term success.

We are on your side

Group Chairman's Statement

Daniel Ndonye
I&M Group Chairman

"Over the last few years, the Board of I&M Holdings Plc has worked closely with the boards and management of the various entities across the Group to harmonize key strategic initiatives and operationalize areas of opportunities for enhancing group synergies. As a result of this, we were able to achieve a Return On Average Equity of 19%."

As I present to you the Group's annual Integrated Report for 2019, it is under a pensive and sombre mood, while the world absorbs the realities of the ongoing global pandemic caused by the COVID-19 virus.

Together with my fellow directors and the leadership team at I&M Group, we remain hopeful and optimistic that this is a temporary phase. Like all challenges and crises that we have seen before, this too shall pass.

Until then, I assure you, there is nothing more important to us than the safety and well-being of our employees, their families and our customers at this time. Across the Group, we have instituted a raft of preventive and proactive measures informed by directives from the respective governments in Kenya, Mauritius, Rwanda, Tanzania and Uganda to prevent and reduce the spread of COVID–19.

The Year in Review

Turning our attention back to discuss 2019, globally, financial conditions remained volatile and constricted marked by a series of events.
The US-China trade war, Brexit, tensions in the Middle East, the protests in Hong Kong, growing concerns around climate change and its impact, as well as other natural calamities, all contributed to weak 2019 economic growth estimated worldwide to be at 2.9%.

In Sub Saharan Africa, high nonperforming loans continued to put a strain on financial systems, while weaknesses in public financial management systems resulted in large national deficits.

Despite these increasing challenges, the Group continued to implement and deliver upon its strategy, guided by its long term vision towards regional expansion, investment diversification and sustainable value generation for shareholders, customers and all our stakeholders alike.

In 2019, the Group continued to strengthen its operating model. A new position of Regional Director was created that aims at ensuring effective implementation of I&M Group's long term vision and strategy, while building, protecting and enhancing the Group's brand value and visibility across the countries where the Group has a presence. We are also pleased to welcome Ms. Rose Kinuthia as an Independent Director on the Company's board. Ms. Kinuthia is a seasoned risk practitioner with extensive experience in risk management, with over 20 years' experience in banking, pension funds and insurance.

Our Business
Our Governance
Our Financials

Group Chairman's Statement (Continued)

The year 2019 marked an important milestone for I&M Bank LIMITED as it attained Tier 1 status following an increase in its market share to 5.3%, ranking it among the country's top banks.

Over the last few years, the Board of I&M Holding Plc has worked closely with the boards and management of the various entities across the Group to harmonise key strategic initiatives and operationalise areas of opportunities for enhancing group synergies. We are starting to see the results of this with the Group having recorded a 27% growth in profit after tax on the strength of a robust growth of 9% in Total Assets. As a result of this, the Group was able to achieve a shareholders return on equity of 19%.

I&M Bank LIMITED

GDP growth in Kenya was estimated to be 5.9% for 2019. This is expected to drop to 3% as a result of the expected economic downturn post the COVID-19 pandemic. The government's continued support for the Big Four agenda, together with the creation of a conducive environment for increased domestic and international investments and access to credit for small and medium sized enterprises, is expected to help overcome the crisis arising from the pandemic and, in the medium term, boost the GDP growth rate.

Kenya is also expected to accrue significant benefits by being part of the 55 member states of the African Union under the AfCFTA umbrella with a combined population of more than 1.2 billion and GDP of USD 3.4 trillion. The Economic Commission for Africa estimates that this should boost intra-Africa trade by over 50% through the elimination of import duties and non-tariff barriers.

Keeping its promise of developing market driven solutions to enable the Bank to become a one stop shop for all financial solutions, the Bank has worked throughout the year to make its systems easier and more efficient.

The projects that have been finalised include:

- The rollout of the Finacle 10 core-banking system, which has been a major step in increasing our operational efficiencies and enhancing delivery standards, while providing a platform to develop more technology driven financial solutions for our customers;
- The successful launch of the Multiple Channel Platform on Mobile Banking for retail customers, which seeks to bring a seamless customer experience for our customers on the Internet and Mobile Banking platforms;
- The roll out of the Customer Relationship Management tool, which has greatly improved our holistic view of our customers and looks to positively impact the Sales Force Effectiveness Programme; and
- The launch of the Innovation Policy and Framework that will allow us to share innovative ideas on market driven solutions for our customers.

The year 2019 marked an important milestone for I&M Bank LIMITED as it attained Tier 1 status following an increase in its market share to 5.3%, ranking it among the country's top banks.

The Bank continued to perform well and recorded a notable growth of 37% in profitability attributed to 26% increase in top line and improvement in the quality of its assets. In an effort to bolster its capital adequacy ratio, the Bank issued a United States Dollar denominated Medium Term Note to raise an amount of USD 27.3 million of subordinated debt (Kshs 2.8 billion).

It is heartening to see that the Bank is starting to see the positive impact of the iMara strategy put in place in 2017. iMara has helped build a coalition across the business over time. In turn, this has nurtured a strong resolve in achieving the Bank's strategic initiatives through a shared vision and bold display of the I&M spirit of collaboration, innovation and dynamism.

I&M Bank (T) Limited, Tanzania

The Tanzania economy continued to record steady growth averaging 6.9%, mirroring the corresponding period in 2018. The exchange rate remained stable, bolstered by prudent monetary and fiscal policies, moderate current account deficit and subdued oil prices in the world market. In addition, measures implemented by the Bank of Tanzania to ensure transparency and orderly market for foreign exchange operations contributed to the stability of the shilling.

Interest rates continued to remain lower on the back of accommodative monetary and fiscal policies by the government. The banking sector registered an improved performance coupled with reduced impairment levels. Implementation of key statutory and regulatory changes including IFRS 16, reduction of statutory minimum reserve ratio and the abolishment of the 1% general provision for loans categorised as 'normal', all provided the required stimulus to the industry.

The balance sheet growth for the Tanzania entity remained subdued at TZS 510 billion in 2019 as there was emphasis on recovery of non-performing assets and growth of the non-funded book. The Bank demonstrated consistency in its profitability trend reporting a profit before tax of TZS 8.8 billion marginally lower than the TZS 9.01 billion reported the previous year.

I&M Bank (Rwanda) PLC

Rwanda continued to demonstrate high growth rates with annual GDP averaging 8.5%. This was supported by the booming construction sector, robust activity in the service industry and a healthy agricultural output. It was encouraging to note the improvements in fiscal stability, as well as price and exchange rate stability.

Likewise, the banking sector recorded a steady growth rate of 12.5%, albeit lower than 15.1% recorded the previous year. The sector is rapidly embracing digital banking avenues through agencies, internet and mobile banking. The effects are reflected through improved efficiencies and growth in profitability.

I&M Bank (Rwanda) PLC recorded a growth of 8% in total assets and a 5% growth in deposits while effectively managing the risks and challenges that we have faced within the operating landscape. Profitability however dropped by 17% on account of the one-off Voluntary Separation Scheme and the increased amortisation cost arising from significant investments in the core banking system, which fully materialised in the course of 2019.

Bank One Limited posted impressive numbers in 2019 despite the local and offshore challenges with a 39% growth in assets and a 54% growth in profitability resulting in a return on equity of over 20%.

Bank One Limited, Mauritius

In Mauritius, the banking system remained resilient despite the increased regulatory supervision and reporting requirements.

The Bank posted impressive numbers in 2019 despite the local and offshore challenges with a 39% growth in assets and a 54% growth in profitability resulting in a return on equity of over 20%. The Group injected additional capital of MUR 150 million (KES 431million) during the year to achieve an optimal capital mix and boost its Tier I Capital ratios.

The Bank continues to hone its risk management systems and de-risk its portfolio by penetrating new markets and offering an enhanced range of products.

I&M Burbidge Capital Limited

Our advisory business reported a 25% reduction in revenues as a result of a challenging origination environment and delay in completion of transactions leading to deferment of revenue recognition. These deferred revenues will positively impact 2020.

At the same time, I am pleased to note that the company won the Financial Adviser Award granted by the East Africa Private Equity & Venture Capital Association Awards. The Company also won the best Financial Advisor Award for Mergers and Acquisitions in East Africa at the Dealmakers Africa award ceremony earlier this year. These awards are a reflection of and a testimony to, the company's ability to originate, structure and execute transactions for its clients, presenting tailor-made and effective corporate finance solutions.

I&M Realty Limited

Construction of the Group's new headquarters at the junction of 1st Parklands Avenue and Limuru Road – 1 Park Avenue, Nairobi was completed in January 2020.

Group Chairman's Statement (Continued)

Fit out works are ongoing and it is expected that the teams shall relocate to the new headquarters sometime in mid-2020.

I&M Bank Foundation

The Group set up the I&M Bank Foundation in 2019 which will now continue to spearhead the Group's shared growth agenda in the areas of environment and conservation, education and skills training, economic empowerment and philanthropy.

Outlook

The COVID-19 pandemic, while being a health crisis, is expected to have a significant adverse impact in our economies through reduction in purchasing power, disruption to supply chains for manufacturers and traders, travel bans and reduction or even cancellation of investments from FDI partners. It is clear that the private and public sectors will have to work together to mitigate as much as possible the impact of this pandemic and safeguard our economies and the livelihood of our citizens.

I&M remains committed to supporting these efforts and working with the respective Central Banks in facilitating the targeted interventions and credit extensions to the vulnerable segments.

At a Group level, we look forward to strengthening further our Corporate Governance Framework guided by local regulations and international best practices. In 2020 the Group aims to implement a classification and monitoring system to capture how much of its portfolio is vulnerable to climate change risk.

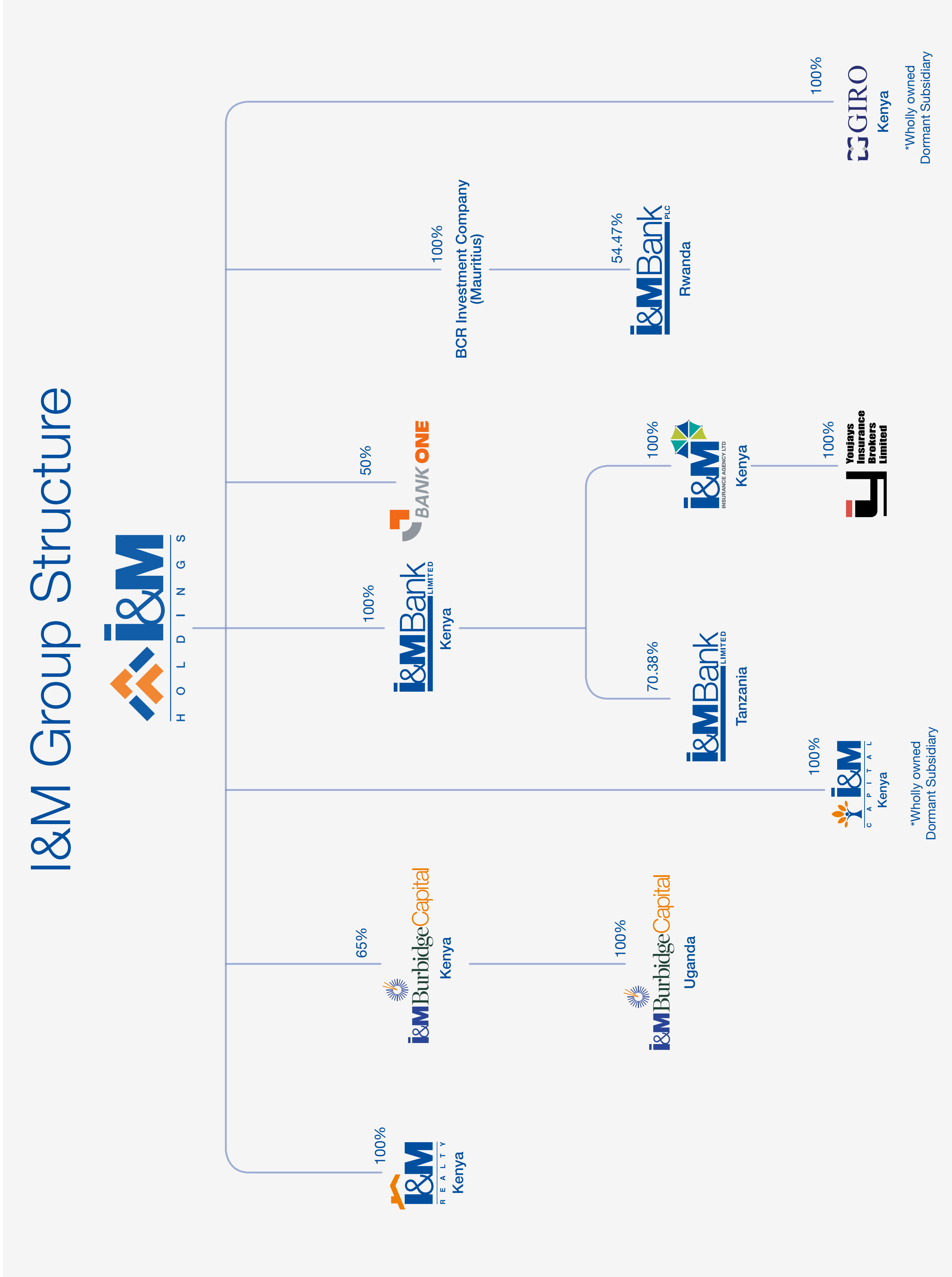
The Group remains focused on executing its strategy, while being flexible to make the required adjustments and building on its strengths to deliver sustainable returns for the long term.

Appreciation

In conclusion, I would like to express my heartfelt thanks to each of our stakeholders. First and foremost, I wish to thank our customers and our employees for their unwavering loyalty and continued support. To our shareholders and investors, we are grateful for your belief and trust in the Group. To our partners across the spectrum – development financial institutions, correspondent banks, service providers and suppliers – we thank you for your patronage. I also wish to acknowledge our regulators for their guidance, support and cooperation. And last but not least, I wish to extend my appreciation to my fellow Board members and members of the Board of every entity in the Group for their dynamic leadership and guidance.

Daniel Ndonye
Chairman

25th March 2020



Our Board

The Company's ten member Board is led by an independent chairman. The Board comprises of six independent directors, two non-executive directors and two executive directors. This is in line with the Company's Corporate Governance Policy which stipulates that the Board shall at all times have at least one third of its members as independent directors.

The Board has put in place the necessary mechanisms to enable it to effectively discharge its roles and responsibilities. It further ensures that there is a culture of honesty, integrity and excellent performance across the Group. Additionally, the Board provides strategic direction to the Group's business and meets quarterly to review overall performance and progress on significant initiatives.

Daniel Ndonye
Independent Chairman

Tenure on Board:
Appointed on 14 June 2013

Committee Memberships:
- Board Nomination, Remuneration and Governance Committee (Member)

Qualification:
- Bachelor of Commerce (B.Com)
- Fellow of the Institute of Chartered Accountants (FCA) in England and Wales
- Institute of Certified Public Accountants of Kenya (CPA) K
- Institute of Certified Secretaries of Kenya (ICPSK).

Profile:
Mr. Daniel Ndonye is a Chartered Accountant by profession, having worked with Deloitte & Touche for over 30 years, 20 of which he was the Managing/Senior Partner. He has a broad range of experience at board level and sits on the boards of several companies.

Sarit Raja-Shah
Group Executive Director

Tenure on Board:
Appointed on 14 June 2013

Committee Memberships:
- Board Nomination, Remuneration and Governance Committee (Member)
- Board Strategy Steering Committee (Member)

Qualification:
- Master of Science in Internal Audit and Management (M.Sc) from City University London.

Profile:
Mr. Sarit Raja-Shah has been the Executive Director of I&M Bank since 1993 with extensive experience in leadership and management. He also sits in the Boards of several companies including subsidiaries and associates of I&M Holdings Plc.

Vincent De Brouwer
Regional Director

Tenure on Board:
Appointed on 5 November 2019

Committee Memberships:
- Board Audit and Risk Management Committee (Member)
- Board Nomination, Remuneration and Governance Committee (Member)
- Board Strategy Steering Committee (Member)

Qualification:
- Double graduate with a degree in Engineering and a Bachelor of Science (B.Sc) in Economics from Université Catholique de Louvain, Belgium
- Bachelor of Science (B.Sc) in applied Science from Katholieke Universiteit Leuven, Belgium.

Profile:
Mr. Vincent De Brouwer is the Regional Director of the Group. He brings on board a vast wealth of experience and knowledge having spent a significant part of his career in the financial sector on the African continent, particularly in East-Africa.

Suresh B R Shah, MBS
Non Executive Director

Tenure on Board:
Appointed on 14 June 2013

Committee Memberships:
None

Qualification:
- Founder Member

Profile:
Mr. Suresh Bhagwanji Raja Shah is a founder member and Chairman of I&M Bank LIMITED. He has vast experience in the banking industry and in business.

In December 2002, he was bestowed the Honour of a Moran of the Order of the Burning Spear. He sits on the boards of several companies.

Michael Turner
Independent Director

Tenure on Board:
Appointed on 1 August 2014

Committee Memberships:
- Board Audit and Risk Management Committee (Member)
- Board Nomination, Remuneration and Governance Committee (Chair)

Qualification:
- Bachelor of Science (B.Sc) in Civil Engineering from the University of Southampton
- Fellow of the Institute of Chartered Accountants (FCA), in England and Wales

Profile:
Mr. Michael Turner is the Managing Director of Actis (East Africa). He has vast experience in investment banking. He sits on the boards of various companies.

Our Board (Continued)

Oliver Fowler

Independent Director

Tenure on Board:
Appointed on 21 August 2015

Committee Memberships:
- None

Qualification:
- Bachelor of Laws (LLB) from University of Bristol Admitted to the Kenyan High Court in 1979.

Profile:
Mr. Oliver Fowler is a qualified Kenyan Advocate and an English Solicitor and is a Senior Partner at Kaplan & Stratton Advocates. His work encompasses commercial work, particularly financial, corporate and taxation matters and has been extensively involved in the project finance, capital markets, banking and foreign investments sectors. He sits on the boards of several companies.

Dr. Nyambura Koigi

Independent Director

Tenure on Board:
Appointed on 28 October 2015

Committee Memberships:
- None

Qualification:
- Doctorate of Business Administration (DBA) from the Nelson Mandela Metropolitan University
- Master of Business Administration (MBA) and Bachelor of Arts (B.A) both from the University of Nairobi
- Fellow of the Institute of Certified Secretaries of Kenya
- Kenya Institute of Management (KIM).

Profile:
Prof. Nyambura Koigi was the Managing Director of Postbank from 2005 to 2014. She has worked in various capacities in the financial sector including banking, business development and information communication technology. She has extensive training and experience in leadership, project management, product development, ICT and

Suleiman Kiggundu Jr

Independent Director

Tenure on Board:
Appointed on 5 June 2018

Committee Memberships:
- Board Strategy Steering Committee (Chair)

Qualification:
- Bachelor of Arts (B.A) in Electrical engineering and economist from Yale University.

Profile:
Mr. Suleiman Kiggundu Jr. has served in senior leadership roles at various institutions, including Equator Bank, HSBC Bank Plc and CDC Group Plc.
He sits on the boards of several companies.

Sachit S Raja Shah

Non Executive Director

Tenure on Board:
Appointed on 10 July 2015

Committee Memberships:
- None

Qualification:
- Bachelor of Science (B.Sc) in Banking and Finance from City University London.

Profile:
Mr. Sachit Shah is the Executive Director of GA Insurance Limited. He previously worked with AMP Asset Management in London and HSBC Bank PLC London. He sits on the boards of various companies.

Rose Wanjiru Kinuthia

Independent Director

Tenure on Board:
Appointed on 3 March 2020

Committee Memberships:
- Board Audit and Risk Management Committee (Chair)

Qualification:
- Master of Science (M.Sc) in Risk Management from New York University
- Master of Business Administration (MBA) from Adelphi University, New York
- Bachelor of Arts (B.A) from the University of Nairobi.

Profile:
Ms. Rose Kinuthia brings on board wealth of experience and knowledge having spent a significant part of her career as a seasoned risk practitioner for 20 years with extensive experience in risk management and specializing in banking, pension funds and insurance.

Bilha Wanjiru Mwangi

Company Secretary

Tenure on Board:
Appointed on 20 December 2018

Committee Memberships:
- None

Qualification:
- Global Executive Masters of Business Administration (GeMBA) from United States International University
- Bachelor of Laws (LLB) from the University of Nairobi
- Certified Public Secretary (CPS)
- Member of the Institute of Certified Public Secretaries
- Member of the Law Soviety of Kenya.

Profile:
Ms. Bilha W Mwangi is an advocate of the High Court of Kenya and Certified Public Secretary. Bilha is a partner at Wanjiru Kinyanjui Advocates LLP and specialises in company secretarial practice, commercial law, banking and security law and conveyancing.

Our Leadership Teams

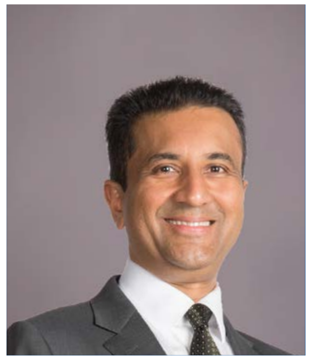
The Leadership across the group's subsidiaries comprises teams of highly accomplished individuals with long industry experience. In upholding I&M Group's governance framework, every director, board member and management staff member operating within each I&M Bank Group company are fully committed to:

- observe high standards of ethical and moral behaviour;
- act in the best interests of shareholders;
- ensure that the Company acts as a good corporate citizen;
- recognise the legitimate interests of all stakeholders; and
- disclose accurate, adequate and timely information.

I&M Bank LIMITED

Board of Directors

Suresh B R Shah, MBS
Chairman



Sarit Raja-Shah
Group Executive Director

Kihara Maina
Chief Executive Officer

M Soundararajan
Independent Director

Nikhil Rustam Hira
Independent Director

E Muchemi Wambugu
Independent Director

Dr. Nyambura Koigi
Independent Director

Allan Christopher Low
Independent Director

Maria Largey
Non-Executive Director

Sachit S Raja Shah
Non-Executive Director

Senior Leadership Team

AV Chavda
Director, Credit

Bhartesh Shah
Group Chief Operations Officer

L A Sivaramakrishnan
Divisional Head, Business Development

Lucy Thegeya
Divisional Head, Business Support

Dancan Okun
Group Chief Risk Officer

Shameer Patel
GM, Strategy and Transformation

Stephen Kimwele
GM, Corporate Banking

Connie Macharia
GM, Credit

Rohit Gupta
GM, ICT

OUR GOVERNANCE

Our Leadership Teams (Continued)

I&M Bank LIMITED

Senior Leadership Team (Continued)

Henry Kirimania
GM, Treasury

Joseph Njomo
GM, Operations

Priscilla Ndonga
GM, Human Resources

Enodius Makiwa
GM, Personal and Business Banking

Suprio Sen Gupta
GM, Products and Marketing

Raphael Mapfumo
GM, Alternate Channels

Gauri Gupta
GM, Corporate Advisory

Chhanda Mishra
GM, Projects

Anurag Srivastava
Head of Intergration, Business Development

Ruma Shah
GM, Internal Audit

Billy Ngetich
Acting GM, Finance

I&M Burbidge Capital Limited

Michael Turner
Chairman

Edward Burbidge
Chief Executive Officer

Pratul H. D. Shah
Independent Director

Arun S Mathur
Non Executive Director

Gauri Gupta
Non Executive Director

I&M Burbidge Capital (U) Limited

Dr. William Kalema
Independent Chairman

Edward Burbidge
Director

Our Leadership Teams (Continued)

Bank One Limited, Mauritius

Board of Directors

Sandra Martyres
Chairlady

Ravneet Chowdhury
Chief Executive Officer
and Executive Director

Leonard C Mususa
Independent Director

Nikhil Treeboohun
Independent Director

Ignacio Serrahima Arbestain
Independent Director

Gauri Gupta
Non-Executive Director

L A Sivaramakrishnan
Non-Executive Director

Paul E Leech
Non-Executive Director

Marc-Emmanuel Vives
Non-Executive Director

Senior Leadership Team

Saleem Ul Haq
Chief Operations Officer

Ranjeeve Gowreesunkur
Chief Financial Officer

Stephen Vlok
Chief Risk Officer

Fareed Soobadar
Head of Corporate Banking

Carl Stephen Chirwa
Head of International Banking

Guillaume Passebecq
Head of Private Banking and
Wealth Management

Shehryar Bakht Ali
Head of Retail Banking

Rishyraj Lutchman
Head of Treasury

Valerie Duval
Head of Legal
and Regulatory Affairs

Priscilla Mutty
Head of Human Resources

Our Leadership Teams (Continued)

I&M Bank (T) Limited

Board of Directors

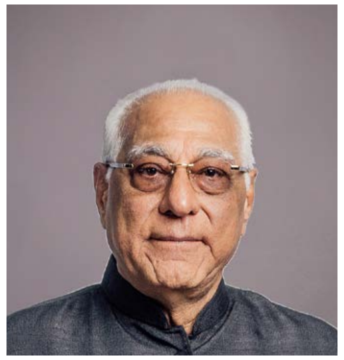
Sarit Raja-Shah
Chairman

Baseer Mohammed
Chief Executive Officer

Alan Mchaki
Independent Director

Pratul H D Shah
Independent Director

Ambassador Bertha E Semu-Somi
Independent Director



Bharat K Ruparelia
Independent Director

Shameer Patel
Non-Executive Director

Michael N. Shirima
Non-Executive Director

Thierry Hugnin
Non-Executive Director

Senior Leadership Team

Krishnan Ramachandran
Head of Corporate Banking

Lilian Kidee Mtali
Head of Retail Banking

Patrick Richard Kapella
Head of Treasury

Clement John Kagoye
Head of Credit

Don Mate
Head of Operations

Amulike Esau Kamwela
Head of Finance

Emmanuel Wilson
Head of Risk and Compliance

Alan Mbangula
Head of ICT

Aimtonga Adolph
Head of Internal Audit

Our Leadership Teams (Continued)

I&M Bank (Rwanda) PLC

Board of Directors


William Irwin
Chairman


Robin Bairstow
Managing Director


Faustin Byishimo
Executive Director


M Soundararajan
Independent Director


Crystal Rugege
Independent Director


Richard Mugisha
Independent Director


Alice Nkulikiyinka
Independent Director


Nikhil Hira
Independent Director


Paul Simon Morris
Independent Director


Arun S Mathur
Non-Executive Director


Vincent Brouwer
Non-Executive Director

Senior Leadership Team


Paul Sagnia
Chief Operating Officer


Lise Mugisha
Chief Risk Officer


Anita Umulisa
Chief Finance Officer


Dederi Wimana
Chief Internal Auditor


Benjamin Mutimura
Head of Corporate Banking


Alfred Baguma
Head of Credit


Yvon Abane
Head of Treasury


Nicolas Uwimana
Head of Legal


Cynthia Rwamamara
Head of Internal Control
and Compliance


John Gatasha
Head of Projects


Diana Kwarisiima
Head of Human Resources

Our Leadership Teams (Continued)

Board of Directors

I&M Realty Limited

Arun S Mathur
Chairman

Gauri Gupta
Director

I&M Insurance Agency Limited

Kihara Maina
Chairman

L A Sivaramakrishnan
Director

I&M Bank Foundation

SBR Shah
Chairman

Sarit Raja-Shah
Trustee

Kihara Maina
Trustee

Janet Mawiyoo
Trustee

Eric Kimani
Trustee

Our Shareholders

The Company is listed on the Nairobi Securities Exchange and had 2,821 Shareholders as at 31st December 2019. The top ten shareholders of the Company listed below hold 77.65% of the shares.

Name	No. of Shares	% Holding
Minard Holdings Limited	176,650,032	21.37
Tecoma Limited	152,089,616	18.39
Ziyungi Limited	147,096,000	17.79
CDC Group PLC (through Standard Chartered Kenya Nominees Ltd A/C KE002796)	83,763,000	10.13
Bhagwanji Raja Charitable Foundation Registered Trustees	21,135,060	2.56
Investments & Mortgages Nominees Ltd A/C 0001229	16,958,572	2.05
Investments & Mortgages Nominees Ltd A/C 0004047	16,790,936	2.03
Investments & Mortgages Nominees Ltd A/C 002983	11,000,000	1.33
Blanford Investments Limited	9,157,204	1.11
Lombard Holdings Limited	7,372,724	0.89
Others (2,811 shareholders not holding more than 5% individually)	184,797,594	22.35
Total	**826,810,738**	**100.00**

Following the issuance of bonus shares during the year, the numbers of shares in issue increased to 826,810,738.

Below is the distribution of shareholders in terms of their holdings.

Share Range	No. of Shareholders	No. of Shares	% Holding
Less than 1 million shares	2787	115,526,886	13.97
> 1 million < 2 million shares	12	16,676,542	2.02
> 2 million < 3 million shares	4	9,013,360	1.09
> 3 million shares	18	685,593,950	82.92
Grand Total	**2,821**	**826,810,738**	**100.00**

Shareholder Relations & Communication

The Company is committed to ensuring open communication with its shareholders and observing the highest standards in corporate governance and shareholder communications. To this end, it has put in place a Shareholder Communication policy which sets out its policy for communication with its shareholders. This Policy also outlines the processes which the Company has in place to facilitate and encourage participation at shareholder meetings.

The policy is aimed at nurturing the loyalty and confidence of the Company's shareholders through frequent, full and forthright communication, both directly to shareholders and indirectly through analysts and the media. The Company seeks to ensure that each investor interaction with the Company meets the highest levels of professionalism and quality. A copy of the policy is available on the Group's website. The table below sets out the timelines of the key events and shareholder communication forums during the year.

Event / Communication	Date
Financial Year End	31 December
Release of Full Year Results	27 March 2019
Investor Briefing	9 April 2019
Annual General Meeting	23 May 2019
Release of 1st Quarter Results	29 May 2019
Release of Half Year Results	29 August 2019
Investor Briefing	10 September 2019
Announcement on Director Appointment	18 November 2019
Release of 3rd Quarter Results	28 November 2019

Our Governance Framework

This report by the Directors, including the sections which follow, sets out how the Company has applied the principles of good governance in accordance with international best practices and compliance with the Code of Corporate Governance issued by the Capital Markets Authority in Kenya (the Code).

The Board has consistently placed great importance on sound corporate governance practices of the Company, its subsidiaries and joint venture investments (together the 'Group'). It believes such practices are vital for strong and sustainable business performance.

During the year 2019, the Company ensured that it fully complied with the requirements of the Code with enhancements in its governance framework. This included introduction of new policy statements and launch of this integrated report.

Board Governance and Committees

I&M Holdings Plc is a non-operating holding company. The Group's banking and advisory subsidiaries are governed by different statutory and regulatory requirements across the region.

As a non-operating holding company, the Board takes full ownership of its responsibility to provide effective and responsible leadership, characterised by ethical values of responsibility, accountability, fairness and transparency in order to promote the long-term success of the Group by creating and delivering sustainable shareholder value.

The Board Charter defines the governance parameters within which the Board exists and operates. It also sets out specific responsibilities to be discharged by the Board, its committees and directors collectively, as well as certain roles and responsibilities binding upon the directors as individuals.

The tenure of independent directors is set so as not to exceed a cumulative term of nine years. The term of office for directors is organized in a manner that ensures a smooth transition.

To facilitate this, the Board develops an annual work plan and calendar of meetings to guide its activities for the year.

Board Committees

The Board has set up three Board Committees to assist in discharging its responsibilities. These include:

(i) Board Audit and Risk Management Committee (BARMC)

The BARMC consists of two independent directors and one executive director. It is led by an independent director. The key responsibilities of the BARMC are to assist the Board in fulfilling its statutory and fiduciary responsibilities by providing an objective and independent review of the effectiveness of the external reporting of financial information and the internal control environment of the Group. The BARMC is also responsible for the oversight of the Group's risk management framework and reviewing the Group's risk appetite from time to time.

(ii) Board Nomination, Remuneration and Governance Committee (BNRGC)

The BNRGC consists of two independent directors and two executive directors. It is chaired by an independent director. The BNRGC assists the Board in fulfilling its responsibilities by undertaking structured assessment of candidates for membership of the Board and board committees and the establishment of an appropriate framework for remuneration of the Board and board committees, in line with clearly defined remuneration principles. In addition, the Committee provides oversight in relation to the development and implementation of governance related policies at the Group level and ensures compliance with the prevailing corporate governance regulations and principles.

The Board, through the Board Nomination, Remuneration and Governance Committee, is responsible for nominating members to the Board and for filling vacancies on the Board that occur between annual meetings of shareholders. In considering potential directors, the Board seeks to not only identify candidates with appropriate skills, knowledge and experience to contribute to effective direction of the Group but also ensure achievement of diversity in its composition as set out in the Board Succession Policy.

All directors receive formal letters of appointment setting out the main terms and conditions of their appointment.

(iii) Board Strategy Steering Committee (BSSC)

The BSSC consists of one independent director, two executive directors and five members. The BSSC assists and provides guidance to the Board in fulfilling its responsibilities by considering matters pertaining to the Group's overall long-term strategic direction, as well as corporate objectives. The BSSC assists the Board in review of the optimum level of the Group's capital structure to support the Group's strategic and financial goals and review the Group's major strategic and investment decisions (including merger & acquisition transactions).

Induction, Orientation & Continuous Professional Development

All new Directors are appropriately introduced to the business of the Company and the Group and are provided with a comprehensive induction and information pack containing a brief presentation on the affairs of the Group, the governance structure & conduct of meetings, the director's duties & responsibilities, the Company's Constitution and other useful documents.

All directors have access to the advice and services of the Company Secretary, who is responsible for providing guidance to the Directors as to their duties, responsibilities and powers.

Directors also have access to Senior Executives to obtain information on items to be discussed at board meetings or meetings of board committees or on any other area they consider to be appropriate.

The Board and its Committees also have the authority to obtain such outside or other independent professional advice as they consider necessary to carry out their duties.

In addition the Company organizes for Directors across the Group, up-skilling and continuous development programs in order to enhance governance practices within the Board itself and in the interest of the Group.

Tabulated below are the programs held during the year

Programs	
Financial Crime Management	April 2019
Risk Management in Era of Digital Disruption	October 2019
Enterprise Risk Management	November 2019

Board Meetings

The Board meets at least quarterly each year for scheduled meetings and on other occasions when required to deal with specific matters between scheduled meetings. Board members receive board papers well in advance of their meetings, thereby facilitating meaningful deliberations therein. Proceeds of all meetings are minuted by the Company Secretary and signed by the Chairperson of the meeting.

Board Evaluation

The Board has established a mechanism to evaluate the performance of the Board and its members with the process being reviewed and refined periodically. The review and evaluation includes; the functioning of the Board and Board committees as collective bodies and the performance of the Chairperson, individual directors and Company Secretary.

Our Governance Framework (Continued)

Board Attendance

The following table shows the number of meetings held during the year and the attendance of the individual director:

Directors	18 January 2019	25 March 2019	08 July 2019	17 October 2019	Total Board meetings attended in 2019
Daniel Ndonye	✓	✓	✓	✓	100%
Suresh B R Shah	✓	✓	✓	✓	100%
Sarit Raja-Shah	✓	✓	✓	✓	100%
Michael Turner	✓	✓	✓	✓	100%
Oliver Fowler	✓	✓	✓	✕	75%
Sachit S Raja Shah	✓	✓	✕	✕	50%
Nyambura Koigi	✓	✓	✓	✓	100%
Suleiman Kiggundu	✓	✓	✓	✓	100%
Vincent De Brouwer*	N/A	N/A	N/A	N/A	N/A

*Appointed on 5 November 2019

✓ Attended

✕ Not Attended

N/A Not Applicable / Meeting preceded appointment and regulatory approval.

Where a director did not attend a Board or Board Committee meeting, an acceptable apology had been received by the Chairman well in advance of the scheduled meeting.

Management Delegations & Accountability

The Board has set up a Group Executive Office to lead and direct the implementation of business strategy, performance delivery and safe and compliant execution of I&M Group's banking and other business so as to deliver sustainable long term value for shareholders, including the establishment, execution and delivery of agreed strategic objectives approved by the Board.

The Group Executive Office is headed by the Group Executive Director (GED). He is ably supported by the Regional Director, Group Nominated Directors and other team members in the Group Executive Office.

In addition and for purposes of co-ordinating and discharging its mandate, the Board, through the GED and the Group Nominated Directors receives regular structured and timely reports from the respective entity level boards. Each entity in the Group has various Board and Management Committees to oversee the effective conduct of its business.

The key committees for the subsidiaries in the group comprise the following:

Board Audit Committee (BAC)

The BAC assists the Board in fulfilling its responsibilities by reviewing the financial condition of the Bank, its internal controls, performance and findings of the Internal Audit functions. Two BAC meetings are held in each year independent of management giving the internal and external auditors an opportunity to raise matters directly with members of the BAC.

Board Risk Management Committee (BRC)

The BRC, through the risk management function, is responsible for translating the Risk Management Framework established by the Board of Directors into specific policies, processes and procedures that can be implemented and verified within the different business units, so that risks faced by the Bank are adequately considered and mitigated.

Board Credit Committee (BCC)

The BCC is responsible for review of the overall lending policy, conducting independent loan reviews, delegation and review of lending limits. It also ensures compliance with all statutory and regulatory requirements and is responsible for the overall management of credit risk. The Credit Risk Management Committee (CRMC) assists the BCC in its role.

Board Procurement Committee (BPC)

The BPC is responsible for reviewing and approving significant procurement proposals as well as proposed consultancy assignments and unbudgeted capital expenditure. In addition, the BPC also vets any agreements with procurement from related parties.

Management Committees

Executive/Management Committee (EXCO/ MANCO)

This committee provides the link between the Board, Top Management and Department Heads. It is responsible for reviewing the Bank's corporate objectives, business performance review of progress of special projects and to strategise on the way forward in line with market dynamism/conditions. The committee also considers and plans the required action, including assessment of impact thereof on the agreed Corporate Objectives for the year on significant matters agreed upon at the quarterly Board meetings.

Assets & Liabilities Committee (ALCO)

The Assets & Liability Committee ("ALCO") is a sub-committee of the Board Risk Management Committee responsible for setting, monitoring and reviewing financial risk management policy and controls including devising the most appropriate strategy for the Bank in terms of the mix of assets and liabilities and this is based on the committee expectations of the future and the potential impact of interest-rate movements, liquidity constraints, foreign-exchange exposure and capital adequacy.

Credit Risk Management Committee (CRMC)

CRMC is the link between the Board and Management in terms of implementing the credit and lending policies of the Bank. It is responsible for the sanction of credit proposals in line with the Bank's Credit Policy, effective management and follow-up of all credit-related matters and review of Non-Performing Accounts. The Non Performing Accounts Committee and the Card Centre Credit Appraisal Committee assist the CRMC in its role.

Transformation Office Steering Committee (TO SteerCo)

This Committee provides the link between the Board and Management in terms of implementing and monitoring of the Bank's Strategic direction, intent and objectives. The Committee plays a significant role in providing direction and focus on the emerging issues/ challenges in respect of the implementation of the Bank's strategy.

Risk & Compliance Management Committee (RISKCO)

RISKCO is primarily repsonsible for integrating risk management into the organisation's goals. RISKCO defines risk review activities regarding the decisions, initiatives, transactions and exposures and prioritises these prior to presentation to the Board. The committee also periodically reviews and assess the effectiveness of the Bank's enterprise-wide risk assessment processes and recommend improvements, where appropriate;

Governance Framework (Continued)

Management Delegations & Accountability (Continued)

Human Resources Committee (HRC)

HRC assists the Board in fulfilling its Human Resource Management responsibilities with due recognition to this key resource. HRC oversees implementation of all major HR initiatives, rendering support and guidance as appropriate. It also facilitates periodic review of the Bank's HR policies and practices to ensure the Bank remains competitive and able to attract and retain competent Talent for its business.

Management Procurement Committee (MPC)

MPC's primary mandate is to review and approve of all major expenditure items (both CAPEX and OPEX) across the Bank to ensure that the Bank in all cases obtains value for money. The Committee also reviews all related major agreements before the same are committed as a risk mitigation measure.

IT Steering Committee (ITSC)

ITSC's primary objective is to enhance information systems governance in a growing ICT – enabled banking environment with emphasis on assessment and management of ICT risks, ensuring optimum use of ICT resources, determining prioritization of ICT investments in line with the Bank's strategy, monitoring service levels and adopting best practices.

Key Policies

I&M Group's business execution is guided by Group Policies and Procedures. These are approved by the Group Board and reviewed annually. Key policies are described below and in dedicated sections of the report.

Risk Management, Internal Controls and Compliance

Risk Management, Internal Controls & Compliance

The Group has an integrated risk management framework in place to identify, assess, manage and report risks and risk adjusted returns on a consistent and reliable basis. Further, the Group maintains a keen focus on ensuring that the risk management framework at a Group level is robust enough to safeguard the business processes and products of each entity. See further in the Risk Management Report on page 75.

Risk Based Internal Audit and Assurance

While the Board is responsible for the overall risk management and internal control systems, oversight of the Group's risk management process has been delegated to the Board Audit and Risk Management Committee. Every banking and regulated entity within the Group has established an independent Internal Audit function.

The respective Boards and Management set out the mandate for Internal Audit, defining its purpose, authority and responsibilities. The respective Boards ensure that the Head of Internal Audit department in each entity is not responsible for any other function in the entity and reports directly to its Board Audit Committee.

The Internal Audit function provides independent assurance to its respective Board and Management that:

- The internal control system in place is performing effectively and is adequate to mitigate risks consistent with the risk appetite of the Bank; and
- The organisation goals are met and governance processes are effective and efficient.

In addition, the Group has set up the Group Internal Audit unit to provide independent assurance to the Company's Board and to, inter alia:

- Highlight high risk areas as reported by internal audit, External Auditors and Regulators for the respective group entities and action being taken by the respective entity Management and Board Audit Committee;
- Bring to the attention any areas of concern on the adequacy and effectiveness of the respective entity processes for controlling its activities and managing its risks in the areas set forth under the scope of work that may require group direction; and
- Provide quality assurance on the audit activity deployed in the respective entities.

External Auditors

The Board has put in place mechanisms to ensure that external auditors:

- Maintain a high standard of auditing;
- Have complete independence;
- Have no pecuniary relationship with the auditee entity or a related party;
- Bring to the attention of management and supervisor any matters that require urgent action.

Audit and other fees paid to the external auditors during the year have been separately disclosed under Note 15.

Ethics and Sustainability

Code of Ethics

The Group has in place a Code of Conduct and Code of Ethics that binds all its Directors and staff to ensure that business is carried out in an ethical, fair and transparent manner, in keeping with the local regulations and international best practices.

The Code of Ethics that all staff are expected to adhere to, encompasses, inter alia, matters touching upon safety and health, environment, compliance with laws and regulations, confidentiality of customer information, financial integrity and relationships with external parties. This Code of Ethics is reviewed periodically and amendments incorporated if necessary.

Conflicts of Interest

The Board has in place a policy to provide guidance on what constitutes a conflict of interest and expects its members, both individually and collectively, to act ethically and in a manner consistent with the values of the business. Each director as far as practically possible, minimize the possibility of any conflict of interest with the Company or the Group by restricting involvement in other businesses that would be likely to lead to a conflict of interest. Where conflicts of interest do arise, Directors will excuse themselves from the relevant discussions and will not exercise their right to vote in respect of such matters. At the Group subsidiaries, policy is directed not only to Directors but to all Senior management and employee who can influence any decisions of these subsidiaries.

Insider Trading & Related Party Transactions

The Group has adopted an Insider Trading Policy that prohibits Directors, staff and contractors of the Group from:

- Dealing in the Company's shares except during the open period following the publication of the results of the banking entities within the trading jurisdiction. This is done to avoid trading when in possession of unpublished price-sensitive information.
- Communicating unpublished price-sensitive information to other people.

The Group Board has also adopted a related party policy that outlines how to deal with related parties in a transparent manner and at arm's length on Related Party Transactions.

Related parties, whether body corporate or natural persons, fall into two main groups:

- those that are related to the Group because of ownership interest; and
- those that are related otherwise, such as directors and senior officers who may also have some ownership interest in the Group.

In line with the above-mentioned guideline, the Board has adopted a policy which sets out the rules governing the identification of related parties, the terms and conditions applicable to transactions entered into with them. All related party dealings/transactions are disclosed under Note 38.

Whistle Blowing Policy

The Boards of I&M Holdings Plc and subsidiaries have adopted a Whistle blowing policy to enhance commitment to the highest standards of openness, probity and accountability. An important aspect of accountability and transparency is a mechanism to enable staff of the Group to voice concerns in a responsible and effective manner.

The policy is designed to enable employees of the Group to raise concerns internally and at a high level and to disclose information which the individual believes shows malpractice or impropriety. The policy aims to:

- Encourage employees to feel confident in raising their apprehensions and to question any act that may raise concerns about practice that may bring disrepute to the Group and or cause financial or other loss to the Group and or any malicious act that may adversely affect a staff member.
- Provide avenues for employees to raise those concerns and receive feedback on any action taken
- Reassure employees that they will be protected from possible reprisals or victimization if they have reasonable belief that they have made any disclosure in good faith.
- Minimize the Group's exposure to the damage that can occur when employees circumvent internal mechanisms.
- Let employees know the Group is serious about adherence to the code of conduct and the various policies in place.

The Whistle blowing policy is also available on the Company website.

Our Governance Framework (Continued)

Sustainability & Corporate Social Responsibility (CSR)

The Group is conscious of its responsibility towards the community and those around it. It is in this endeavor that the Group has put in place guidelines that aid in carrying out its corporate social responsibility mandate at each entity's level. The Group, through each of its entities, seeks to deepen its relationship with various stakeholders while providing opportunities to its staff members to participate in various CSR activities, with a focus towards health, education and the environment. At the same time, the Group is committed to continuously work to integrate environmental, social and broader governance factors into its core business operations.

Stakeholder Management

I&M recognises and appreciates that engagement with and active cooperation of its stakeholders, is essential for the Group's strong business performance on a sustainable basis, as well as to achieving and maintaining public trust and confidence. The Group's stakeholder management policy is founded on the principles of transparency, active listening and equitable treatment that favours a consultative and collaborative engagement with all stakeholders. Stakeholder engagement is decentralized within I&M. All I&M Group employees are accountable for managing relationships and meeting expectations of stakeholders within their areas of responsibility. See further in section on Our Relationships.

Information Technology (IT) Policy

The Group has implemented an appropriate Information Technology in its business processes to provide IT enabled solutions to its customers. The Group acknowledges that it is essential for its continued successful operation that the availability, integrity and confidentiality of its information systems and associated data are maintained, in a cost-effective manner and at a level that is appropriate to its business needs. The need for such protection arises because information systems are potentially vulnerable to unwanted events, or threats.

The Group's Information Security Policy is aimed at enhancement of its ability to collect, store, process and transmit Information. Information Systems and Information Processing are vital to the various entities in the Group in pursuit of its business objectives and it is important that it is managed with regard to:

- Confidentiality – ensuring that information is accessible only to those authorised to have access
- Integrity – safeguarding the accuracy and completeness of information and processing methods
- Availability – ensuring that authorised users have access to information and associated assets when required.
- Effectiveness - the capability to produce the desired results especially to ensure that regulatory, operational and contractual requirement are fulfilled
- Efficiency - the extent to which resources are used to achieve the desired results

Procurement Policy

The Group has put in place a Group Procurement policy aimed at guiding the approach to procurement in the areas of systems implementation or significant upgrades of existing systems, acquisition of significant ICT infrastructure, deployment of standardized specifications such as for branding and marketing and for provision of critical services across the Group entities.

The coordinated approach to procurement of major goods and services is designed to deliver benefits in terms of standardized specifications, platforms for delivery of critical business operations and for deriving synergies, competitive pricing arising from economies of scale, a harmonized approach to business continuity in major business and operational matters and more importantly an efficient and reliable financial and management reporting as may be required from time to time by various stakeholders.

The policy is guided by key governance principles to maintain the highest level of integrity and transparency. It is a pre requisite that no entity shall seek to gain undue advantage over another in pursuance of any one procurement initiative at Group level. The Procurement policy is also available on the Company's website.

Governance Audit

The Board is committed to ensure that the company has sound Corporate Governance practices and strives for continuous improvement by seeking to identify any loopholes and gaps in the Company's governance structures and processes.

The Board ensures that it subjects the Company to an annual Governance Audit by an accredited Governance Auditor as required by Section 2.11 of the Code. The Company subjected itself to an independent external Governance Audit in 2017 and 2018 and received an exemption from the Capital Markets Authority for the FY 2019.

Legal & Compliance Audit

In accordance with the Code, the Company undertook an external and independent Legal and Compliance Audit for the FY 2018. For the FY 2019, the Legal and Compliance audit was undertaken by the Group's Compliance Team and a detailed report thereon was received and reviewed by the Board Audit and Risk Management Committee.

Our Approach to Risk Management

Robust risk management is particularly significant for businesses in financial services. In light of this, below is a more detailed description of the risk management framework for I&M Holdings Plc.

Risk Governance

The Group has an integrated risk management framework in place to identify, assess, manage and report risks and risk adjusted returns on a consistent and reliable basis. I&M Holdings Plc maintains a keen focus on ensuring that the risk management framework at a Group level is robust enough to safeguard the business processes and products of each entity.

Given that risk taking is core to the Group's innovation capacity and ultimately its entrepreneurial success, I&M Holdings Plc's approach to risk management is characterized by strong risk oversight at the board level and a strong risk management culture at all levels and across all functions. Such an approach supports and facilitates decision making processes across the Group.

Enterprise risk management policy framework

The Enterprise Risk Management function within and at I&M Holdings Plc (IMH or the Group) is integrated and holistic covering all risk spectrums across the different geographic locations where it is present.

The Group had adopted the Committee of Sponsoring organisations of the Treadway Commission's COSO Framework in its approach to management of risks across the various entities. The COSO Framework addresses the strategic, organisational, operational, analytical, reporting and control and is driven by a governance structure consisting of a board of directors and executive management committees at subsidiaries and joint venture level.

Subsidiary risk governance

The Group acknowledges that subsidiaries and the joint venture are separate entities with independent local boards of directors and regulatory authorities to which they must render stewardship reports. Consequently, the Group approach to the implementation of a uniform enterprise risk management across the subsidiaries and the joint venture is to develop a set of risk standards and policies in line with global best practices, such as the Basel Committee for Banking Supervision, which the subsidiaries are expected to benchmark against and adopt as long as those guidelines do not contradict local regulations and guidelines.

Group risk management oversight function

Risk-related issues are taken into consideration in all business decisions and the Group continually strives to maintain a balance between risk and revenue. Additionally, the Group continues to emphasize ongoing education of effective risk management practises to strengthen and enhance a culture of risk consciousness across the Group.

The Board of Directors is responsible to ensure strict compliance with relevant laws, rules and standards issued by the industry regulators and other law enforcement agencies, market conventions, codes of practices promoted by industry associations and internal policies.

The Group Board Audit and Risk Committee at IMH level (BARMC) is responsible for the overall risk oversight for the subsidiaries and joint venture.

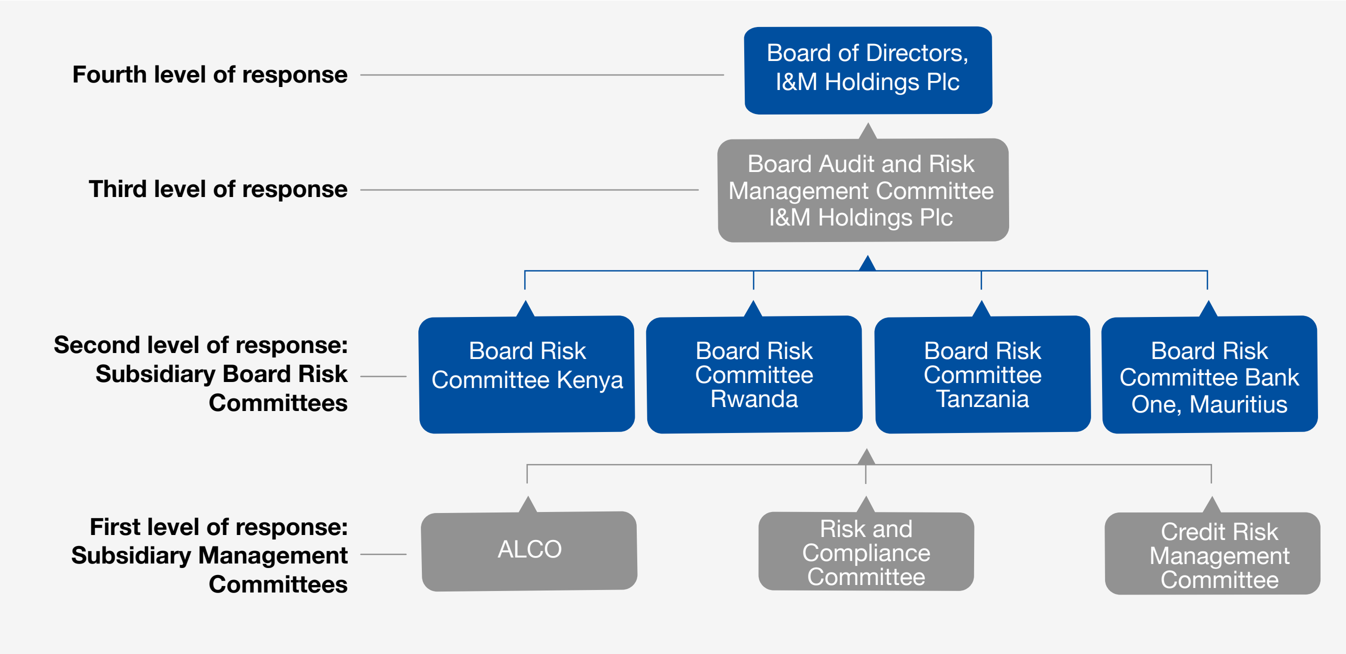
The following are the responsibilities and functions of the committee as it relates to risk management. It must:

- Ensure there is adequate review and monitoring of the various risk indicators and the Group's overall risk profile in accordance with the structure and periodicity as defined under the Risk Management Process of the Group;
- Receive and review regular quarterly reports identifying the key risk indicators, the aggregate risk profile and changes therein and any recommendations for the implementation of the appropriate risk management technique, with regard to the Group entities; and
- Receive and review reports with regard to implementation plans for recommendations made and status of implementation.

Our Approach to Risk Management (Continued)

In order to discharge the functions above on a daily basis, the committee is supported by the Group Chief Risk Officer who reports on the Group's risk profile, rating and instituted controls every quarter. The risk management framework ensures identified risks are adequately considered and mitigated.

The risk governance structure: The risk management framework ensures identified risks are adequately considered and mitigated.



- The Board of Directors at the Group and individual entity level assume the ultimate responsibility for the level of risks taken and are responsible for overseeing the effective implementation of the risk strategies;
- The organisational risk structure and the functions, tasks and powers of the committees, staff and departments involved in the risk processes are continuously reviewed to ensure their effectiveness and the clarity of their roles and responsibilities;
- Risk issues are taken into consideration in all business decisions. Measures are in place to develop risk-based performance measures and is supplemented by establishing risk limits at the company level;
- Risk management has been integrated into various management processes such as strategic planning, annual budgeting and performance measurement;
- Identified risks are reported in a transparent and timely manner; and
- Appropriate and effective controls exist for all processes.

While the Board is responsible for the overall risk management and internal control systems, oversight of the Group's risk management process has been delegated to the Board Audit and Risk Management Committee. The internal audit function is responsible for providing assurance to the Board regarding the implementation, operation and effectiveness of internal control and risk management within the Group.

In serving our chosen business segments, IMHP adopts a managed risk appetite aligned to our vision. At IMHP, risk and control is everyone's responsibility.

Group risk appetite

The Group Risk appetite expresses the level of risk that the Group is willing to assume within its risk capacity in order to achieve its business objectives. It includes a set of minimum quantitative metrics and qualitative standards adopted by all subsidiaries in the achievement of their specific country objectives.

Qualitative

Managed risk appetite that aligns with our vision:

- Living the risk philosophy that 'Sustainability of the bank's business and enhancement of our stakeholder's value will always inform our business decisions'
- Implementation of the three lines of defense approach to strengthen and embed risk culture where everyone within the Bank assumes responsibility for risk and control

Quantitative

The Group's risk appetite framework will involve the following:

- Return on Equity (ROE) above cost of equity;
- Aggregate operational loss not to exceed the pre-defined threshold;
- Ensuring the Group's Capital Adequacy ratio exceeds that of required by regulator and the pre-specified buffer at all times; and
- Ensuring the ratio of non-performing assets to total assets does not exceed the pre-defined threshold.

Risk management framework

Extract of the Group's risk management policy

- Risk management is embedded in the Group as an intrinsic process. It is a core competence of all its employees and ensures early warning triggers and alerts are actively controlled and mitigated.
- The Group risk profile identifies and includes 12 key risk categories in a coordinated manner within the organisation:

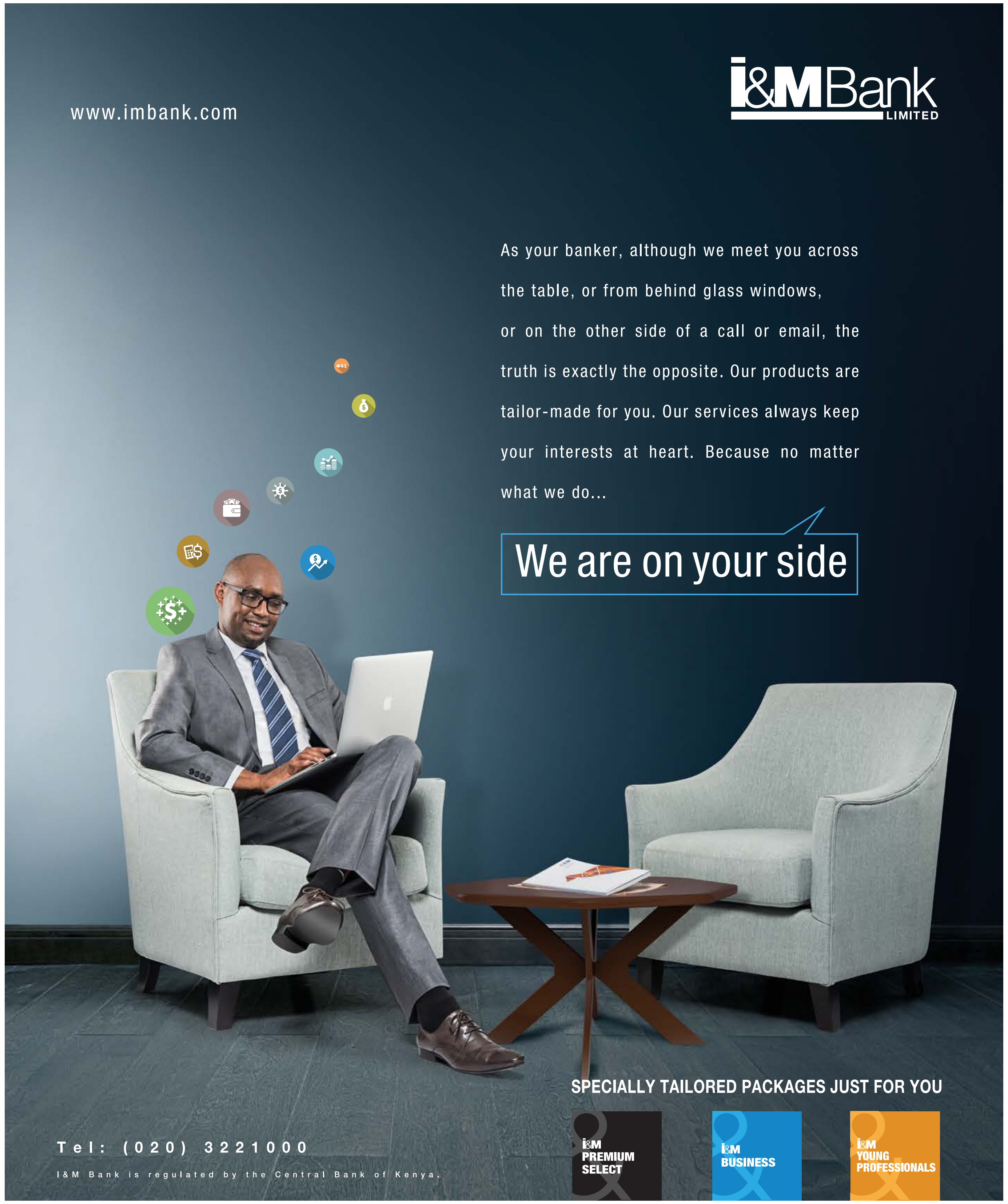
Risk category	Definition
Credit Risk	The potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. In simple terms, credit risk is the risk that the borrower defaults and does not honour his obligation to service the debt or delay in servicing the debt.
Market Risk	The risk of losses in on-and off-balance sheet risk positions arising from movements in market prices. The losses result from changes in the prices of instruments such as bonds, shares currencies and commodities.
Operational Risk	Defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk, as well as the losses that the Group entities are exposed to due to poorly designed or poorly executed processes; challenges with human capital whether in terms of numbers or competencies; challenges with systems both software and hardware; or from external events such as terrorist activities, coronavirus, earthquakes, floods etc.

Our Approach to Risk Management (Continued)

Extract of the group's risk management policy (Continued)

Risk category	Definition
Compliance Risk	The risk of legal or regulatory sanctions, financial loss, or loss to reputation that a group entity may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice.
Environmental and Social Risk	The possible financial loss and/or reputational damage to a group entity as a result of the clients' activities/operations that may have negative environmental and social impacts. The impact could be direct e.g. fines, restoration of the degraded environment or indirect through loss in value of asset pledged as collateral.
Capital Management (ICAAP)	This is an internal review of the core risks that the Banking entities are exposed to and assessing if the capital at its disposal is adequate given the risks and the possible shocks.
Cyber Risk	Possible financial loss, disruption to operations or damage to a group's reputation as a result of malicious damage to the information technology system. These could come in the form of denial of service, data breaches, etc.
Information Communication Technology Risk	The risk of loss or damage resulting from breach of confidentiality, integrity and availability of ICT assets. The loss or damage could be financial, reputational or safety
Country/Transfer	The exposure to losses caused by events in the particular country, which may be under the control of the government but not under the control of a private enterprise or individual. Transfer risk is the risk that the government may impose restrictions on the transfer of funds by debtors/corporations (subsidiary) in the country in question to foreign creditors or parent company for financial or other reasons.
Reputational Risk	The possible financial loss resulting from a potential damage of the Group's image
Business Continuity Risk	The capability of the organisation to continue delivery of products or services at acceptable predefined levels following a disruptive incident. It also includes the possibility of financial loss, reputational damage to a group entity as a result of not adequately planning for natural disasters, terrorist incidents, or blackouts etc. that could lead to business disruptions.
Liquidity risks	The ability of a group entity to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses.

The Group continually modifies and enhances its risk management policies and systems to reflect changes in markets, products and international best practices. Training, individual responsibility and accountability, together with a disciplined and cautious culture of control, is an integral part of the Group's management of risk.



Our Financials

Our financial decisions are not only based upon short-term results, but also long-term value creation. I&M's focus on customer centricity, long-term thinking and financial durability combine to ensure we are there for you for years to come.

We are on your side.

Abbreviations

In this document we have used the following abbreviations;

AFS	Available-for-sale
AGM	Annual General Meeting
BNRC	Board Nominations and Remuneration Committee
CBK	Central Bank of Kenya
CMA	Capital Markets Authority
EAD	Exposure at default
ECL	Expected Credit Losses
ESOP	Employee Share Ownership Plan
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit and loss
GCBL	Giro Commercial Bank Limited
GROUP	I&M Holdings Plc together with its subsidiary undertakings
IAS	International Accounting Standards
IFC	International Finance Corporation
IFR	International Financial Reporting Standards
IMHP	I&M Holdings Plc
GDP	Gross Domestic Product
GPO	General Post Office
LGD	Loss Given Default
M&A	Mergers and Acquisition
NSE	Nairobi Securities Exchange
PBT	Profit Before Tax
PD	Probability of Default
SICR	Significant increase in credit risk
SPPI	Solely payments of principal and interest
YIB	Youjays Insurance Brokers Limited

Corporate Information

BOARD OF DIRECTORS

Daniel Ndonye	Chairman
Suresh B R Shah, MBS	
Sarit Raja-Shah	
Michael Turner*	
Sachit S. Raja Shah	
Oliver Fowler	
Nyambura Koigi	
Suleiman Kiggundu Jr. **	
Vincent De Brouwer ***	(Appointed on 5 November 2019)
Rose Wanjiru Kinuthia	(Appointed on 3 March 2020)

* *British*
** *Ugandan*
*** *Belgian*

COMPANY SECRETARY

Bilha Wanjiru Mwangi (CS Kenya)
12th Floor, One Padmore Place
P.O. Box 51922, 00100 GPO
Nairobi

AUDITOR

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers Waiyaki Way
P.O. Box 40621, 00100 GPO
Nairobi

REGISTERED OFFICE

I&M Bank House
2nd Ngong Avenue
P.O. Box 30238, 00100 GPO
Nairobi

BANKERS

I&M Bank LIMITED
P.O. Box 30238, 00100 GPO
Nairobi

LEGAL ADVISORS

Kaplan & Stratton
Williamson House
4th Ngong Avenue
P.O. Box 40111, 00100 GPO
Nairobi

BANKING ENTITIES REGISTERED OFFICES

I&M Bank LIMITED

I&M Bank House
2nd Ngong Avenue
P.O. Box 30238, 00100 GPO
Nairobi, Kenya

I&M BANK (T) LIMITED

Maktaba Square
Maktaba Street
P.O. Box 1509
Dar es Salaam, Tanzania

I&M BANK (RWANDA) PLC

11, Boulevard de la Revolution
P.O. BOX 354
Kigali, Rwanda

BANK ONE LIMITED

16 Sir William Newton Street
Port Louis, Mauritius

COMPANY REGISTRARS

CDSC Registrars Limited
1st Floor, Occidental Plaza
Muthithi Road
P.O. Box 6341, 00100 GPO
Nairobi, Kenya

Report of the Directors

For the Year ended 31 December 2019

The Directors have pleasure in submitting their annual report together with the audited financial statements of I&M Holdings Plc ("the Company"), its subsidiaries and its joint venture (together "the Group") for the year ended 31 December 2019, which shows the state of affairs of the Group and of the Company.

1. Principal activities

The Group provides an extensive range of banking, financial and related services through its banking subsidiaries in Kenya, Tanzania, Rwanda and a joint venture in Mauritius. The Companies that make up the Group are contained on Note 1. The Company is listed on the Nairobi Securities Exchange and is regulated by the Capital Markets Authority and the Central Bank of Kenya as a non-operational holding company.

2. Results/Business review

The consolidated results for the year are as follows:

	2019 KShs'000	2018 KShs'000
Profit before income tax	14,603,108	11,497,780
Income tax expense	(3,834,494)	(2,994,423)
Profit for the year	**10,768,614**	**8,503,357**

Net profit closed at KShs 10.77 billion, an increase of 26.64% (or KShs 2.27 billion) compared to prior year. This increase was mainly due to a decrease in impairment provision. The Directors and employees re-affirm their commitment to achieving the laid down strategies and consequently delivering key value to shareholders.

The principal risks and uncertainties facing the Group and Company as well as the risk management framework are outlined in Note 5 of the consolidated and separate financial statements.

3. Dividends

The Directors proposed a first and final dividend of KShs 2.55 per share amounting to KShs 2,108,367,382 for the year ended 31 December 2019. An interim dividend of KShs 3.90 per share amounting to KShs 1,612,281,000 in respect for the year ended 31 December 2018 was paid on 23 May 2019.

4. Directors

The Directors who served during the year and up to the date of this report are set out on page 82.

5. Relevant audit information

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

(i) There is no relevant audit information of which the Company's auditor is unaware; and

(ii) Each director has taken all the steps that they ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

6. Auditor

To note that Messrs KPMG Kenya continue in office as Auditors by virtue of section 721 of the Companies Act, 2015 and subject to section 24(1) of the Banking Act (Cap. 488) and to authorise the Directors to fix the Auditor's remuneration for the ensuing financial year.

7. Approval of financial statements

The financial statements were approved and authorised for issue at a meeting of the Board of Directors held on 25 March 2020.

BY ORDER OF THE BOARD
Secretary

Date: 25 March 2020.

Directors' Remuneration Report

The Board Nomination, Remuneration and Governance Committee (BNRGC) of I&M Holdings Plc is pleased to present the Directors' remuneration report for the year ended 31 December 2019. This report is in compliance with the Company's Board Charter on Director's reward and remuneration, the Code of Corporate Governance Guidelines issued by the Capital Markets Authority on Directors' remuneration and the new Companies Act, 2015. In the course of executing these policies, the Board's desire is to align rewards with a clear and measurable linkage to business performance.

The Company is regulated by the Capital Markets Authority (CMA) and the Central Bank of Kenya as a non-operational holding company.

Board Remuneration

Directors' remuneration is paid in the form of (i) Directors' Sitting Fees and (ii) Annual Retainer fees. The fees available to be paid to Directors is subject to shareholder ratification /approval as appropriate and in accordance with the provisions of the Companies Act, 2015 and the CMA Regulations and Guidelines on Corporate Governance.

The BNRGC is tasked with ensuring that Directors remuneration levels are reviewed with sufficient regularity and are subject to external benchmarking to ensure that the Company continuously offers competitive reward packages for its Directors. The remuneration to Directors is comprised of the following:

1. Fixed Annual Retainer Fees

These fees are determined taking into account market rates of pay. Fees are reviewed with sufficient regularity to align to prevailing market movements. Any increases are determined in accordance with the business' ability to fund the increase. Retainer Fees are paid quarterly in arrears.

2. Sitting or Attendance Fees

All Directors are paid sitting or attendance fee in recognition of the time spent attending Board or Committee meetings. The level of fees paid are also benchmarked to market rates and trends.

During the year, the BNRGC carried out a review of fees paid to directors and adopted the following:

Particulars	Annual retainer fees 2019 KShs	Annual retainer fees 2018 KShs
Chairman	1,030,000	1,000,000
Director	592,250 - 824,000	575,000 - 800,000

Non-Executive Directors are not entitled to any pension, bonus or long term incentive plans. There will be no changes to these policies in the next financial year.

Directors' Remuneration Report (Continued)

Directors' Contract of Service

Directors who serve on the Board of the Company are elected to office during the AGM and offer themselves up for re-election as mandated in the Companies Act, 2015. The tenure of the Directors is for a period of three years, upon which the Directors can elect to offer themselves for re-election, in accordance with Article No. 112 of the Company's Articles of Association. A Director's appointment ceases immediately upon termination by resignation or a resolution by the shareholders and no further remuneration accrues to the Director thereafter. The tenures of the Directors in office at the end of the last financial year are tabulated below:

Director	Board Membership	Appointment Date	Last Re-election Date	Notice period
Daniel Ndonye	Independent Chairman	14-June-2013	25-May-2017	3 months
Suresh Bhagwanji Raja Shah, MBS	Non-Executive Director	14-June-2013	24-May-2018	3 months
Sarit Raja-Shah	Group Executive Director	14-June-2013	24-May-2018	3 months
Michael Turner	Independent Director	01-August-2014	25-May-2017	3 months
Sachit S Raja Shah	Non-Executive Director	10-July-2015	23-May-2019	3 months
Oliver Fowler	Independent Director	21-August-2015	23-May-2019	3 months
Nyambura Koigi	Independent Director	28-October-2015	18-May-2016	3 months
Suleiman Kiggundu	Independent Director	05-June-2018	23-May-2019	3 months
Vincent De Brouwer	Executive Director	05-November-2019	-	3 months
Rose Wanjiru Kinuthia	Independent Director	03-March-2020	-	3 months

Directors Shareholding

Directors' direct and indirect interests as at 31st December 2019 are tabulated below:

Name of Director	Number of Shares	% Shareholding
Mr. SBR Shah, MBS	88,323,250	10.68%
Mr. Sarit Raja-Shah	16,958,572	2.05%
Mr. Sachit S. Raja-Shah	16,790,936	2.03%

The other members of the Board do not hold shares in their personal capacity in the Company.

Share Options and long term incentive schemes

Directors are not entitled to any share option arrangement or long term share incentive schemes.

Non-Executive Directors

Non-Executive Directors receive fees and other emoluments in recognition of their contribution to the Company for Board and Committee meetings. The attendance fees is payable after the occurrence of the meetings.

The Non-Executive Directors do not receive any performance-based remuneration.

Directors' Remuneration Report (Continued)

The remuneration paid to Directors in the year under review, and comparative figures for 2018, are summarised below:

	2019				2018			
Director	Annual Retainer KShs	Fees KShs	Fees earned in Subsidiaries KShs	Total KShs	Annual retainer KShs	Fees KShs	Fees earned in Subsidiaries KShs	Total KShs
Daniel Ndonye	1,030,000	1,069,200	-	**2,099,200**	1,000,000	1,180,000	-	**2,180,000**
Suresh Bhagwanji Raja Shah, MBS	592,250	281,600	1,390,840	**2,264,690**	575,000	220,000	1,268,000	**2,063,000**
Sarit Raja-Shah	592,250	789,800	436,780	**1,818,830**	575,000	770,000	335,597	**1,680,597**
Michael Turner	824,000	741,000	1,255,923	**2,820,923**	800,000	580,000	1,215,094	**2,595,094**
Sachit S Raja Shah	592,250	167,200	2,050,125	**2,809,575**	575,000	220,000	1,945,000	**2,740,000**
Oliver Fowler	824,000	281,600	-	**1,105,600**	800,000	385,000	-	**1,185,000**
Nyambura Koigi	592,250	281,600	3,992,630	**4,866,480**	575,000	275,000	4,102,500	**4,952,500**
Suleiman Kiggundu	824,000	803,400	-	**1,627,400**	454,795	390,000	-	**844,795**
	5,871,000	**4,415,400**	**9,126,298**	**19,412,698**	**5,354,795**	**4,020,000**	**8,866,191**	**18,240,986**

Our Business

Our Governance

Our Financials

Directors' Remuneration Report (Continued)

Mr. Sarit Raja-Shah also received the following remuneration from I&M Bank LIMITED, a wholly owned subsidiary of I&M Holdings Plc:

Details	2019	2018
	KShs	KShs
Salary	31,350,911	30,490,200
Bonus	2,789,325	3,465,000
Pension	2,661,982	2,154,165
Insurance	2,882,888	2,690,154
Total	**39,685,106**	**38,799,519**

Mr. Vincent De Brouwer received the following remuneration from I&M Bank LIMITED, a wholly owned subsidiary of I&M Holdings Plc:

Details	2019	2018
	KShs	KShs
Salary	5,620,000	-
Insurance	112,293	-
Total	**5,732,293**	**-**

In the AGM held on 23 May 2019, the Directors remuneration was approved unanimously.

Information on aggregate amount of emoluments and fees paid to directors are disclosed in note 15 of the financial statements.

Other Key Policies Influencing Directors Remuneration

Discretions retained by the BNRC
The Company does not operate any long term incentive plan such as a Share Option Plan or a Share Performance Plan. There are therefore no areas of discretion to disclose.

Insurance Cover
IMHP provides professional indemnity for all the Directors in line with best practice in the market.

for **Michael Turner**
Chairman, Board Nomination and Remuneration Committee

Date: 25 March 2020.

Statement of Directors' Responsibilities

The Board of Directors is the cornerstone of Corporate Governance. The codification of the fiduciary duties of Directors in the Kenyan Companies Act, 2015 ("the Act") set out the Kenya Government's goal in ensuring that companies are well governed and shareholder' investments are properly managed. The Act not only confirmed the common law duties of Directors but went further and made Directors personally liable for breach of some of the duties stipulated in the Act.

The Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 ("the Code") has also emphasized not only the importance of good Corporate Governance but also the role of the Board in ensuring that listed Companies are well governed and that in as much as possible, shareholders are assured of a return on investments. The Code provides the minimum standards required from Shareholders, Directors, Chief Executive Officers and Management of listed companies so as to promote high standards of conduct as well as to ensure that they exercise their duties and responsibilities with clarity, assurance and effectiveness.

In general, Directors are required to act in good faith and more specifically they have a duty to promote the success of the Company for the benefit of its members. Directors also have a duty to exercise reasonable care, skill and diligence and to ensure that conflicts of interest are avoided or where they occur, that there is a process for managing them.

The Board of Directors of I&M Holdings Plc is committed to the highest standards of good Corporate Governance and strives for continuous improvement by seeking to identify any loopholes and gaps in the Company's governance structures and processes. It is on this premise that the Board commissioned a Governance Audit with the aim of ensuring that all processes that are necessary for directing and controlling the Company are in place.

Adoption of the Governance Audit Report for the year 2019

The Governance Audit Report was adopted by the Board of Directors on **25 March 2020.**

Chairman

Director

Date: 25 March 2020.

Statement of Directors' Responsibilities (Continued)

The Directors are responsible for the preparation and presentation of the consolidated and separate financial statements of I&M Holdings Plc (the "Group" or "Company") set out on pages 97 to 210 which comprise the consolidated and separate statements of financial position at 31 December 2019, the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended and the notes to the financial statements including a summary of significant accounting policies and other explanatory information, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015.

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

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

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

The Directors have made an assessment of the Group and Company's ability to continue as a going concern and have no reason to believe the Company, its subsidiaries and joint venture will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the consolidated and separate financial statements

The consolidated and separate financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on **25 March 2020.**

Chairman

Director

Date: 25 March 2020.

Independent Auditor's Report to the Members of I&M Holdings Plc

Report on the audit of the consolidated and separate financial statements

KPMG

Opinion

We have audited the consolidated and separate financial statements of I&M Holdings Plc (the "Group" and "Company") set out on pages 97 to 210 which comprise the consolidated and company statements of financial position at 31 December 2019 and the consolidated and company statements of profit or loss and other comprehensive income, the consolidated and company of changes in equity and the consolidated and company statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of I&M Holdings Plc as at 31 December 2019 and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act, 2015.

Basis for opinion

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

Key audit matters

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

Impairment allowances on loans and advances at amortised cost including off balance sheet elements of the allowance in the consolidated financial statements
The disclosure associated with credit risk is set out in the financial statements in the following notes: • Note 3 (f) (iii) – Impairment on financial assets (page 114 – 118) • Note 5(a) – Credit risk (page 140 – 158) • Note 21 (b) – Change in expected credit losses and other credit impairment charges (page 185)

Independent Auditor's Report to the Members of I&M Holdings Plc (Continued)

KPMG

Report on the audit of the consolidated and separate financial statements (Continued)

Key audit matters (Continued)

Impairment allowances on loans and advances at amortised cost including off balance sheet elements of the allowance in the consolidated financial statements (Continued)

The key audit matter	How the matter was addressed in our audit

Subjective estimate
The estimation of expected credit losses ("ECL") on loans and advances and off balance sheet elements, involves significant judgement and estimates. The key areas where we identified greater levels of management judgement in the Group's financial statements and therefore increased levels of audit focus in the estimation of ECLs are:
- Forward looking Information – IFRS 9 requires the Group to measure ECLs on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied in determining the macroeconomic information used and the probability weightings applied.
- Significant increase in credit risk ("SICR") – the criteria selected to identify a significant increase in credit risk is a key area of judgement within the Group's ECL calculation as these criteria determine whether a 12 month or lifetime provision is recorded.
- Model estimations – inherently judgemental modelling is used to estimate ECL which involves determining probabilities of default ("PD"), loss given default ("LGD") and exposures at default ("EAD"). The PD models used in the retail and corporate portfolios are the key drivers of the Group's ECL results and are therefore the most significant judgemental aspect of the Group's ECL modelling approach.
 	
The effect of these matters is that, as part of our risk assessment, we determined that the impairment of loans and advances to customers and off balance sheet elements to be a key audit matter due to the high degree of estimation uncertainty and significant judgement applied by management in determination of ECL.
	Our procedures in this area included, among others:
	- Performing process walk-throughs to identify the key systems, applications and controls used in the ECL processes. We tested the relevant general IT and applications controls over key systems used in the ECL process. This included testing the design and operating effectiveness of the key controls over the staging criteria and completeness and accuracy of the key inputs and assumptions into the IFRS 9 impairment models.
	- Evaluating key aspects of the ECL model by:
	  • Selecting a sample from the Group's loan book and carrying out tests to establish whether significant facilities are correctly staged/classified and valued based on IFRS as well as regulatory considerations;
	  • Testing of a sample of key data inputs and assumptions impacting ECL calculations to assess the reasonableness of economic forecasts and PD assumptions applied;
	  • Evaluating the appropriateness of the Group's assessment of SICR criteria used;
	  • Testing the impairment calculations to check if the correct parameters on Probability of Default (PDs), Loss Given Default (LGDs) and Exposure at Default (EADs) were determined; and
	  • Evaluating management's basis for establishing Stage 3 impairment amounts. This includes challenging reasonability of management assumptions through among others performing retrospective review of prior year assumptions.
	- Involving our internal financial risk modelling specialists to:
	  • Assess the appropriateness of the Group's methodology for determining the macro-economic scenarios used and the probability weightings applied to them.
	  • Assess the key economic variables used, including agreeing samples of economic variables to external sources, as well as the overall reasonableness of the economic forecasts by comparing the Group's forecasts to our own modelled forecasts.
	- Evaluating the adequacy of the financial statements disclosures, including disclosures of key assumptions and judgements.

Independent Auditor's Report to the Members of I&M Holdings Plc (Continued)

KPMG

Report on the audit of the consolidated and separate financial statements (Continued)

Key audit matters (Continued)

Impairment of goodwill in the consolidated financial statements

The key audit matter	How the matter was addressed
See accounting policy note 3 (j) (ii) – Significant accounting policies; disclosure note 25(a) – Intangible assets – Goodwill	
Impairment of goodwill is considered a key audit matter because: - The sectors in which the Group operates are highly regulated and continues to experience competitive market conditions with uncertainty of forecast cash flows used in the valuation models. - A significant level of judgment is applied when considering management's assessment of impairment. We focused our audit on the Group's valuation methodologies and key inputs such as forecast cash flows, discount rates applied, forecast growth rates and terminal growth rates.	Our audit procedures in this area included, among others: - Assessing management's determination of the Group's Cash Generating Unit (CGU) based on our understanding of the nature of the Group's business. We also analysed the internal reporting of the Group to assess how results are monitored and reported. - Comparing the cash flow forecasts to the Board approved forecasts. We also evaluated the forecasting process undertaken by the Group by assessing the precision of prior year forecast cash flows by comparing with actual outcomes. - Involving our own internal valuation specialists to assist us in challenging the Group's valuation methodologies, discount rates and growth rates. This included comparing the Group's input to external data such as economic growth projections and interest rates. - Comparing the carrying amount of the assets to management's valuation for the intangible assets to confirm the accuracy of the impairment charge, where impairment had been recognised. - Evaluating the adequacy of the financial statements disclosures, including disclosures of key assumptions and judgements.

Information Technology (IT) systems and controls in the consolidated financial statements

The key audit matter	How the matter was addressed
The Group financial accounting and reporting systems are heavily dependent on complex systems. Significant reliance on IT systems presents a significant risk to the Group as the core banking system is considered complex due to the multiple significant functionalities and interdependence with other systems. Significant audit effort was spent in the audit of these systems as part of the audit process, as it is critical for the control environment of the Group.	Our audit procedures in this area included, among others the use of our IT auditors/specialists in: - Testing the governance and controls operating over the information technology environment across the Group, including system access and system change management, program development and computer operations. - Testing the design and operating effectiveness of automated controls critical to financial reporting. - With the support of our internal IT specialists assessing the appropriateness of the access rights granted to applications relevant to financial accounting and reporting systems and the operating effectiveness of controls over granting, removal and appropriateness of access rights.

OUR FINANCIALS

Independent Auditor's Report to the Members of I&M Holdings Plc (Continued)

Report on the audit of the consolidated and separate financial statements (Continued)

Key audit matters (Continued)

Information Technology (IT) systems and controls in the consolidated financial statements (continued)	
The key audit matter	**How the matter was addressed**
The calculations, recording and financial reporting of transactions and balances recorded in the financial statements is highly dependent on IT automated system and processes. Gaps in the IT control environment could result in the financial accounting and reporting records being materially misstated. Based on the above, we therefore determined IT systems and controls to be a key audit matter.	- Where we identify the need to perform additional procedures, placing reliance on manual compensating controls, such as reconciliations between systems and other information sources or performing additional testing such as extending the size of our sample to obtain sufficient appropriate audit evidence over balances impacted.

Other information

The Directors are responsible for the other information. The other information comprises the Corporate information, Report of the directors, Statement on corporate governance, Statement of Directors' responsibilities and Directors' remuneration report, but does not include the consolidated and separate financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the other information to be included in the published *Integrated report and Financial Statements*, which is expected to be made available to us after that date.

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

In connection with our audit of the consolidated and separate 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 consolidated and separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidated and separate financial statements

As stated on page 89, the Directors are responsible for the preparation of the consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, Directors are responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group and/or

Report on the audit of the consolidated and separate financial statements (Continued)

Directors' responsibilities for the consolidated and separate financial statements (Continued)

Company or to cease operations, or have no realistic alternative but to do so. The Directors are responsible for overseeing the Group's and Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with 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.

Independent Auditor's Report to the Members of I&M Holdings Plc (Continued)

Report on the audit of the consolidated and separate financial statements (Continued)

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

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

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

Report on other legal and regulatory requirements

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

i. In our opinion the information given in the *Report of the Directors* on pages 84 is consistent with the consolidated and separate financial statements;
ii. In our opinion the auditable part of the *Directors' Remuneration Report* on pages 85 to 88 has been properly prepared in accordance with the Kenyan Companies Act, 2015; and
iii. Our audit report on the consolidated and separate annual financial statements is unqualified.

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

KPMG Kenya

Certified Public Accountants
8th Floor, ABC Towers
Waiyaki Way
PO Box 40602 – 00100
Nairobi

Date: 25 March 2020

Consolidated and Company Statements of Profit or Loss and Other Comprehensive Income

For The Year Ended 31 December 2019

	Note	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
Interest income	9	27,163,847	25,998,868	42,017	34,441
Interest expense	10	(11,654,006)	(10,404,686)	-	-
Net interest income		**15,509,841**	**15,594,182**	**42,017**	**34,441**
Fee and commission income	11	3,993,648	3,936,092	-	-
Fee and commission expense	11	(313,915)	(258,305)	-	-
Net fee and commission income	11	**3,679,733**	**3,677,787**	**-**	**-**
Revenue		**19,189,574**	**19,271,969**	**42,017**	**34,441**
Net trading income	12	3,835,815	3,107,748	4,713	619
Other operating income	13	456,078	553,501	363,733	2,875,570
Net operating income before change in expected credit losses and other credit impairment charges		**23,481,467**	**22,933,218**	**410,463**	**2,910,630**
Change in expected credit losses and other credit impairment charges	21(b)	(636,455)	(3,807,345)	-	-
Net operating income		**22,845,012**	**19,125,873**	**410,463**	**2,910,630**
Staff costs	14	(4,727,698)	(4,108,876)	-	-
Premises and equipment costs	14	(423,951)	(748,058)	-	-
Other expenses	14	(2,829,772)	(2,769,620)	(40,699)	(29,039)
Depreciation and amortisation expenses	14	(1,165,520)	(596,849)	-	(11)
Operating expenses		**(9,146,941)**	**(8,223,403)**	**(40,699)**	**(29,050)**
Operating profit		**13,698,071**	**10,902,470**	**369,764**	**2,881,580**
Share of profit of joint venture	23(a)	905,037	595,310	-	-
Profit before income tax	**15**	**14,603,108**	**11,497,780**	**369,764**	**2,881,580**
Income tax expense	16(a)	(3,834,494)	(2,994,423)	(5,088)	(5,679)
Profit for the year		**10,768,614**	**8,503,357**	**364,676**	**2,875,901**

(Continued on page 98)

The notes set out on pages 104 to 210 form an integral part of these consolidated and separate financial statements.

Consolidated and Company Statements of Profit or Loss and Other Comprehensive Income (Continued)

For The Year Ended 31 December 2019

	Note	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
Other Comprehensive Income					
Items that will not be reclassified to profit or loss:					
Actuarial gains/(losses) on re-measurement of defined benefit scheme net of deferred tax	34(g)	(30,681)	15,744	-	-
Revaluation surplus on property and equipment net of deferred tax charge		55,708	16,477		
Movement in fair value reserve for FVOCI - Equity Instruments		(30,029)	(182,566)	-	-
Items that may be classified to profit or loss:					
Movement in fair value reserve for FVOCI debt instruments		220,586	(63,951)	(3,016)	2,977
Foreign operations-foreign currency translation differences		(750,519)	(690,980)	-	-
Total other comprehensive income for the year		**(534,935)**	**(905,276)**	**(3,016)**	**2,977**
Total comprehensive income for the year		**10,233,679**	**7,598,081**	**361,660**	**2,878,878**
Profit attributable to:					
Equity holders of the Company		10,309,038	7,950,819	364,676	2,875,901
Non -controlling interest		459,576	552,538	-	-
		10,768,614	**8,503,357**	**364,676**	**2,875,901**
Total comprehensive income attributable to:					
Equity holders of the Company		9,871,024	7,240,716	361,660	2,878,878
Non-controlling interest		362,655	357,365	-	-
		10,233,679	**7,598,081**	**361,660**	**2,878,878**
Basic and diluted earnings per share - (Kshs)	17	**12.47**	**9.62**	**0.44**	**3.48**

The notes set out on pages 104 to 210 form an integral part of these consolidated and separate financial statements.

Consolidated and Company Statements of Financial Position

As at 31 December 2019

	Note	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
ASSETS					
Cash and balances with central banks	18	15,385,829	14,867,139	-	-
Items in the course of collection	19	536,459	764,460	-	-
Loans and advances to banks	20	43,662,404	33,675,193	-	-
Loans and advances to customers	21(a)	175,329,426	166,736,729	-	-
Financial assets at fair value through profit or loss (FVTPL)	22(a)	13,744,048	13,145,126	-	-
Financial assets measured at fair value through other comprehensive income (FVOCI)	22(b)	13,109,198	10,853,371	27,679	133,223
Other financial assets at amortised cost	22(c)	27,071,019	28,158,101	-	-
Investment in Joint Venture	23(a)	5,398,545	4,535,205	2,110,591	1,679,971
Investment in subsidiaries	23(b)	-	-	25,662,294	25,662,294
Property and equipment	24	10,152,429	6,724,561	-	-
Intangible assets - Goodwill	25(a)	3,113,771	3,136,312	-	-
Intangible assets - Software	25(b)	2,042,907	1,735,882	-	-
Prepaid operating lease rentals	26	-	246,271	-	-
Tax recoverable	16(b)	37,819	126,609	5,253	6,347
Deferred tax asset	27	3,014,836	1,929,345	-	-
Due from group companies	38(b)(iii)	-	-	79,277	1,648,515
Other assets	28	2,691,984	1,887,745	8,880	499
TOTAL ASSETS		**315,290,674**	**288,522,049**	**27,893,974**	**29,130,849**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Deposit from banks	29	8,005,604	5,647,101	-	-
Items in course of collection	19	147,321	177,736	-	-
Deposits from customers	30	229,736,509	213,139,370	-	-
Tax payable	16(b)	894,694	130,130	-	-
Due to group companies	38(b)(iv)	-	-	1,881,592	1,881,898
Other liabilities	31	4,788,747	4,797,580	90,582	1,687,364
Long term debt	32	6,210,571	8,246,775	-	-
Subordinated debt	33	4,645,055	5,508,909	-	-
		254,428,501	**237,647,601**	**1,972,173**	**3,569,262**
Shareholders' equity (pages 100 - 102)					
Share capital	34(a)	826,811	413,405	826,810	413,405
Share premium	34(b)	18,390,507	18,805,359	18,390,507	18,805,359
Retained earnings		33,918,324	26,931,401	6,704,522	6,339,846
Revaluation reserve	34(c)	875,985	820,277	-	-
Fair value reserve	34(d)	(273,802)	(454,825)	(39)	2,977
Translation reserve	34(e)	(1,416,566)	(766,356)	-	-
Statutory credit risk reserve	34(f)	5,518,392	2,190,131	-	-
Defined benefit reserve	34(g)	(101,042)	(70,361)	-	-
Equity attributable to Owners of the Company		**57,738,607**	**47,869,031**	**25,921,801**	**25,561,587**
Non-controlling interest		3,123,564	3,005,417	-	-
TOTAL SHAREHOLDERS' EQUITY		**60,862,173**	**50,874,448**	**25,921,801**	**25,561,587**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**315,290,674**	**288,522,049**	**27,893,974**	**29,130,849**

The financial statements set out on pages 97 to 103 were approved and authorised for issue by the Board of Directors on 25 March 2020 and were signed on its behalf by:

Daniel Ndonye	Sarit Raja-Shah	Sachit S Raja Shah	Bilha Wanjiru Mwangi
Director	**Director**	**Director**	**Company Secretary**

The notes set out on pages 104 to 210 form an integral part of these consolidated and separate financial statements.

Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2019

	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Defined benefit reserve KShs'000	Statutory credit risk reserve KShs'000	Revaluation reserve KShs'000	Fair value reserve KShs'000	Translation reserve KShs'000	Total KShs'000	Non-controlling Interest KShs'000	Total KShs'000
At 1 January 2019	413,405	18,805,359	26,931,401	(70,361)	2,190,131	820,277	(454,825)	(766,356)	47,869,031	3,005,417	50,874,448
Comprehensive income for the year											
Net profit after tax	-	-	10,309,038	-	-	-	-	-	10,309,038	459,576	10,768,614
	-	-	10,309,038	-	-	-	-	-	10,309,038	459,576	10,768,614
Other comprehensive income											
Translation reserve	-	-	-	-	-	-	-	(650,210)	(650,210)	(100,309)	(750,519)
Fair value reserve	-	-	8,780	-	-	-	232,204	-	240,984	4,985	245,969
Deferred tax charge - fair value reserve	-	-	(2,634)	-	-	-	(51,181)	-	(53,815)	(1,597)	(55,412)
Revaluation reserve	-	-	-	-	-	79,583	-	-	79,583	-	79,583
Deferred tax charge - revaluation reserve	-	-	-	-	-	(23,875)	-	-	(23,875)	-	(23,875)
Defined benefit plan	-	-	-	(30,681)	-	-	-	-	(30,681)	-	(30,681)
Statutory credit risk	-	-	(3,328,261)	-	3,328,261	-	-	-	-	-	-
Total other comprehensive income	-	-	(3,322,115)	(30,681)	3,328,261	55,708	181,023	(650,210)	(438,014)	(96,921)	(534,935)
Total comprehensive income	-	-	6,986,923	(30,681)	3,328,261	55,708	181,023	(650,210)	9,871,024	362,655	10,233,679
Transactions with owners											
Issue of bonus shares	413,406	(413,406)	-	-	-	-	-	-	-	-	-
Issue related cost	-	(1,446)	-	-	-	-	-	-	(1,446)	-	(1,446)
Dividends declared - 2018	-	-	-	-	-	-	-	-	-	(244,508)	(244,508)
Total transactions with owners for the year	413,406	(414,852)	-	-	-	-	-	-	(1,446)	(244,508)	(245,954)
At 31 December 2019	826,811	18,390,507	33,918,324	(101,042)	5,518,392	875,985	(273,802)	(1,416,566)	57,738,609	3,123,564	60,862,173

The notes set out on pages 104 to 210 form an integral part of these consolidated and separate financial statements.

Consolidated Statement of Changes in Equity (Continued)

For The Year Ended 31 December 2019

	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Defined benefit reserve KShs'000	Statutory credit risk reserve KShs'000	Revaluation reserve KShs'000	Fair value reserve KShs'000	Translation reserve KShs'000	Total KShs'000	Non-controlling Interest KShs'000	Total KShs'000
At 1 January 2018	413,405	18,805,359	22,621,210	(86,105)	2,163,403	805,901	(125,292)	(278,028)	44,319,853	2,695,630	47,015,483
Day one IFRS 9 transition adjustments (Note 40)	-	-	43,723	-	(808,889)	-	(110,672)	-	(875,838)	(34,771)	(910,609)
Deferred tax on IFRS 9 transition adjustments (Note 27)	-	-	210,297	-	-	-	33,202	-	243,499	10,431	253,930
Adjusted balance at 1 January 2018	413,405	18,805,359	22,875,230	(86,105)	1,354,514	805,901	(202,762)	(278,028)	43,687,514	2,671,290	46,358,804
Net profit after tax	-	-	7,950,819	-	-	-	-	-	7,950,819	552,538	8,503,357
Other comprehensive income	-	-	(835,449)	15,744	835,617	14,376	(252,063)	(488,328)	(710,103)	(195,173)	(905,276)
Total comprehensive income	-	-	7,115,370	15,744	835,617	14,376	(252,063)	(488,328)	7,240,716	357,365	7,598,081
Transactions with owners recorded directly in equity											
Dividends paid - 2017 final	-	-	(1,446,918)	-	-	-	-	-	(1,446,918)	(207,000)	(1,653,918)
Dividends declared - 2018	-	-	(1,612,281)	-	-	-	-	-	(1,612,281)	-	(1,612,281)
Other transactions	-	-	-	-	-	-	-	-	-	183,762	183,762
Transactions with owners for the year	-	-	(3,059,199)	-	-	-	-	-	(3,059,199)	(23,238)	(3,082,437)
At 31 December 2018	413,405	18,805,359	26,931,401	(70,361)	2,190,131	820,277	(454,825)	(766,356)	47,869,031	3,005,417	50,874,448

The notes set out on pages 104 to 210 form an integral part of these consolidated and separate financial statements.

Company Statement of Changes in Equity

For The Year Ended 31 December 2019

	Share capital KShs '000	Share premium KShs '000	Retained Earnings KShs '000	Fair value reserve KShs '000	Total KShs'000
2019					
At 1 January 2019	**413,405**	**18,805,359**	**6,339,846**	**2,977**	**25,561,587**
Comprehensive income for the year					
Profit for the year	-	-	364,676	-	364,676
Other comprehensive income	**-**	**-**	**364,676**	**-**	**364,676**
Fair value reserve	-	-	-	(3,016)	(3,016)
Total other comprehensive income	**-**	**-**	**-**	**(3,016)**	**(3,016)**
Total comprehensive income for the year	**-**	**-**	**364,676**	**(3,016)**	**361,660**
Transactions with owners recorded directly in equity					
Issue of bonus shares	413,406	(413,406)	-	-	-
Issue related cost	-	(1,446)	-	-	(1,446)
Total transactions with owners for the year	**413,406**	**(414,852)**	**-**	**-**	**(1,446)**
At 31 December 2019	**826,811**	**18,390,507**	**6,704,522**	**(39)**	**25,921,801**
2018					
At 1 January 2018	**413,405**	**18,805,359**	**6,523,144**	**-**	**25,741,908**
Comprehensive income for the year					
Profit for the year	-	-	2,875,901	-	2,875,901
Total transactions with owners for the year	**-**	**-**	**2,875,901**	**-**	**2,875,901**
Fair value reserve	-	-	-	2,977	2,977
Fair value on government securities	**-**	**-**	**-**	**2,977**	**2,977**
Total comprehensive income for the year	**-**	**-**	**2,875,901**	**2,977**	**2,878,878**
Transactions with owners recorded directly in equity					
Dividends paid - 2017	-	-	(1,446,918)	-	(1,446,918)
Dividends declared - 2018	-	-	(1,612,281)	-	(1,612,281)
Total transactions with owners for the year	**-**	**-**	**(3,059,199)**	**-**	**(3,059,199)**
At 31 December 2018	**413,405**	**18,805,359**	**6,339,846**	**2,977**	**25,561,587**

The notes set out on pages 104 to 210 form an integral part of these consolidated and separate financial statements.

Consolidated and Company Statements of Cash Flows

For The Year Ended 31 December 2019

	Note	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
Net cash flows generated from operating activities	35(a)	**11,830,044**	**30,000,643**	**(1,137,172)**	**4,552,285**
Cash flows used in investing activities					
Purchase of property and equipment (excluding right of use assets)	24	(1,654,839)	(1,952,270)	-	-
Purchase of intangible assets	25(b)	(1,026,409)	(1,428,774)	-	-
Additional Investment in Joint venture	23(a)	(430,620)	-	(430,620)	-
Proceeds from disposal of property and equipment		4,847	10,582	-	-
Acquisition of Youjays Insurance Brokers Limited net of cash and cash equivalents	35(c)	-	(273,440)	-	-
Net cash used in investing activities		**(3,107,021)**	**(3,643,902)**	**(430,620)**	**-**
Cash flows used in financing activities					
Net outflows from term subordinated debt		(863,854)	1,018,500	-	-
Dividend paid to shareholders of the company		-	(1,446,918)	-	(1,612,281)
Dividend paid to non-controlling interests		(244,508)	(207,000)	-	-
Rights issue - I&M Bank (T) Limited		-	183,762	-	-
Payment of lease liabilities		(421,795)	-	-	-
Capital restructuring costs		(1,446)	-	(1,446)	-
Net cash used in financing activities		**(1,531,603)**	**(451,656)**	**(1,446)**	**(1,612,281)**
Net increase / (decrease) in cash and cash equivalents	35(b)	**7,191,420**	**25,905,085**	**(1,569,238)**	**2,940,004**
Cash and cash equivalents at start of the year	35(b)	**33,957,996**	**8,052,911**	**3,092,456**	**152,452**
Cash and cash equivalents at end of the year	35(b)	**41,149,416**	**33,957,996**	**1,523,218**	**3,092,456**

The notes set out on pages 104 to 210 form an integral part of these consolidated and separate financial statements.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019

1. REPORTING ENTITY

I&M Holdings Plc (the "Company"), is a non-operating holding company licensed by the Central Bank of Kenya (CBK) under the Kenyan Banking Act (Chapter 488). The Company is incorporated in Kenya under the Kenyan Companies Act, 2015 and comprises banking subsidiaries in Kenya, Tanzania, Rwanda and a joint venture in Mauritius and non banking Subsidiaries in Kenya, Mauritius and Uganda. The consolidated financial statements as at and for the year ended 31 December 2019 comprise of entities in Kenya – I&M Bank LIMITED, I&M Capital Limited, I&M Realty Limited, I&M Burbidge Capital Limited, Giro Limited, I&M Insurance Agency Limited, and Youjays Insurance Brokers Limited; Tanzania - I&M Bank (T) Limited; Rwanda - I&M Bank (Rwanda) Plc, Mauritius - BCR Investment Company Limited and a joint venture - Bank One Limited; and Uganda - I&M Burbidge Capital (U) Limited (together referred to as the "Group"). The address of its registered office is as follows:

I&M Bank House
2nd Ngong Avenue
PO Box 30238
00100 Nairobi GPO

The Company owns the following entities directly:

(i) Bank One Limited – 50% interest in Bank One Limited, a joint venture in a bank licensed in Mauritius;
(ii) I&M Bank LIMITED – 100% shareholding;
(iii) I&M Capital Limited – 100% Shareholding;
(iv) I&M Realty Limited – 100% Shareholding;
(v) BCR Investment Company Limited – 68.742% Shareholding;
(vi) I&M Burbidge Capital Limited – 65% Shareholding; and
(vii) Giro Limited – 100% Shareholding.

Through I&M Bank LIMITED, the Company has:

(i) 70.38% (2018 – 70.38%) shareholding in I&M Bank (T) Limited;
(ii) 100% shareholding in I&M Insurance Agency Limited (incorporated on 23 July 2014);
(iii) 100% shareholding in Youjays Insurance Brokers Limited (effective 31 March 2018) through I&M Insurance Agency Limited.

Through BCR Investment Company Limited, the Company has 54.47% effective shareholding in I&M Bank (Rwanda) PLC as BCR Investment Company Limited (Mauritius) owns 79.232% shareholding in I&M Bank (Rwanda) PLC;

Through I&M Burbidge Capital Limited, the Company has 65% effective shareholding in I&M Burbidge Capital (U) Limited as the Company is 100% owned by I&M Burbidge Capital Limited.

2. BASIS OF PREPARATION

(a) Statement of compliance

The Group's consolidated and separate financial statements for the year 2019 have been prepared in accordance with International Financial Reporting Standards (IFRSs). Additional information required by the regulatory bodies is included where appropriate.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019

2. BASIS OF PREPARATION (Continued)

(a) Statement of compliance (Continued)

This is the first set of the Consolidated and separate annual financial statements in which IFRS 16 Leases have been applied. Changes to significant accounting policies are described in Note 3(v)(i) and 4.

Details of the significant accounting policies are included in Note 3.

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

(b) Basis of measurement

These consolidated and separate financial statements have been prepared under the historical cost basis of accounting except for the financial assets classified as Fair Value through Profit or Loss (FVTPL) and Fair Value through Other Comprehensive Income (FVOCI) and buildings which are measured at fair value.

(c) Functional and presentation currency

These consolidated and separate financial statements are presented in Kenya Shillings (KShs), which is also the Group's functional currency. All financial information presented in KShs has been rounded to the nearest thousand (KShs'000) except where otherwise stated.

(d) Use of estimates and judgments

In preparing these consolidated 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 on-going basis. Revisions to estimates are recognised prospectively.

In particular information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 6.

The classification of financial assets includes the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. See Note 3(f)(ii).

The impairment of financial instruments includes the assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses (ECL). See Notes 3(f)(iii) and 5(a).

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

(a) Basis of consolidation

Business combination

(i) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(ii) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement in the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. All intercompany transactions are eliminated during consolidation.

(iii) Interest in equity-accounted investees

Investments in joint ventures are accounted for using the equity method of accounting in the financial statements. These are undertakings in which the Group has between 20% and 50% of the voting rights and over which the Group exercises significant influence but which it does not control. Under the equity method, the Group's share of its joint ventures' post-acquisition profits or losses is recognised in profit or loss and its share of other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition total comprehensive income or loss (including dividends received from the associate) is adjusted against the carrying amount of the investment.

Losses of a joint venture in excess of the Group's interest in that joint venture are recognised only to the extent that the Group has incurred legal or constructive obligations to make payments on behalf of the associate.

Unrealized gains arising from transaction with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Investments in joint ventures are accounted at cost less impairment loss in the separate financial statements of the Group. They are initially recognised at cost which includes transaction costs.

(b) Foreign currencies

Foreign currency transactions are translated into the functional currency of Group entities using the exchange rates prevailing at the dates of the transactions.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Foreign currencies (Continued)

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss in the year in which they arise.

Foreign currency non-monetary items measured at fair value are translated into functional currency using the rate of exchange at the date the fair value was determined. Foreign currency gains and losses on non-monetary items are recognised in the Consolidated Statement of Income or Consolidated Statement of Comprehensive Income consistent with the gain or loss on the non-monetary item.

(c) Foreign operations

The results and financial position of the subsidiaries have been translated into the presentation currency as follows:

(i) Assets and liabilities at each reporting period are translated at the closing rate at the reporting date;
(ii) Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
(iii) All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold, such exchange differences are recognised in profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) Income recognition

(i) Net interest income

Effective interest rate and amortised cost

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 credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

Our Business
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Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income recognition (Continued)

(i) Net interest income (Continued)

Effective interest rate and amortised cost (Continued)

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.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

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.

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.

For information on when financial assets are credit-impaired, see Note 3(f)(iii).

Presentation

Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income recognition (Continued)

(i) Net interest income (Continued)

Presentation (Continued)

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

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

(ii) Net fee and commission income

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

Corporate advisory fees receivable in the normal course of business, are recognised on the basis of terms and conditions stipulated in the client engagement contract and are recognised over time as the service is provided. The amounts to be collected from customers at period end are recognised as trade receivables. Variable commission are recognised when it is probable that the fee is payable.

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.

(iii) Net trading income and net income on financial assets at fair value through profit or loss

'Net trading income and net income on financial assets at fair value through profit or loss' comprises gains less losses related to trading assets and liabilities and includes all fair value changes, interest, dividends and foreign exchange differences.

(iv) Other operating income

Other operating 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. It also includes rental income and gain on disposal of property and equipment.

(v) Rental income – other operating income

Rental income is recognised in the profit or loss on a straight-line basis over the term of the lease.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income recognition (Continued)

(vi) Dividend income

Dividend income is recognised when the right to receive income is established. Dividends are reflected as a component of operating income.

(e) Income tax expense

Income tax expense comprises current tax and change in deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred 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 for:

- temporary 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;
- Temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax 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 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 utilised.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred 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.

(f) Financial assets and financial liabilities

(i) Recognition

The Group initially recognises loans and advances, trade receivables, deposits and debt securities on the date at which they are originated. All other financial assets and liabilities (including assets designated at fair value through profit or loss) are initially recognised on the trade date on which the Group becomes a party to the contractual provision of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(i) Recognition (Continued)

Subsequent to initial recognition, financial liabilities (deposits and debt securities) are measured at their amortized cost using the effective interest method.

(ii) Classification

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

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(ii) Classification (Continued)

Business model assessment (Continued)

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

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

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

The Group holds a portfolio of long-term fixed rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty.

The Group has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Debt instruments measured at amortised cost

Debt instruments are measured at amortized cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortized cost. Interest income on these instruments is recognised in interest income using the effective interest rate method.

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(ii) Classification (Continued)

Debt instruments measured at armotised cost (Continued)

Amortized cost is calculated by taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate.

Impairment on debt instruments measured at amortized cost is calculated using the expected credit loss approach. Loans and debt securities measured at amortized cost are presented net of the allowance for credit losses (ACL) in the statement of financial position.

Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income (OCI), unless the instrument is designated in a fair value hedge relationship. When designated in a fair value hedge relationship, any changes in fair value due to changes in the hedged risk are recognised in Non-interest income in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. Upon derecognition, realized gains and losses are reclassified from OCI and recorded in Non-interest income in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on an average cost basis. Foreign exchange gains and losses that relate to the amortized cost of the debt instrument are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Premiums, discounts and related transaction costs are amortized over the expected life of the instrument to Interest income in the Consolidated Statement of Profit or Loss and Other Comprehensive Income using the effective interest rate method.

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach.The ACL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the Consolidated Statement of Financial Position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge to Provision for credit losses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. The accumulated allowance recognised in OCI is recycled to the Consolidated Statement of Profit or Loss and Other Comprehensive Income upon derecognition of the debt instrument.

Debt instruments measured at FVTPL

Debt instruments are measured at FVTPL if assets:

(i) Are held for trading purposes;
(ii) Are held as part of a portfolio managed on a fair value basis; or
(iii) Whose cash flows do not represent payments that are solely payments of principal and interest.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(ii) Classification (Continued)

Debt instruments designated at FVTPL (Continued)

These instruments are measured at fair value in the Consolidated Statement of Financial Position, with transaction costs recognised immediately in the Consolidated Statement of Profit or Loss and Other Comprehensive Income as part of Non-interest income. Realized and unrealized gains and losses are recognised as part of Non-interest income in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Financial assets classified in this category are those that have been designated by the Group upon initial recognition and once designated, the designation is irrevocable. The FVTPL designation is available only for those financial assets for which a reliable estimate of fair value can be obtained.

Financial assets are designated at FVTPL if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise.

Financial assets designated at FVTPL are recorded in the Consolidated Statement of Financial Position at fair value. Changes in fair value are recognised in Non-interest income in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Equity instruments

The Group has elected at initial recognition to irrevocably designate an equity investment, held for purposes other than trading, at FVOCI. The fair value changes, including any associated foreign exchange gains or losses, are recognised in OCI and are not subsequently reclassified in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, including upon disposal. Realized gains and losses are transferred directly to retained earnings upon disposal. Consequently, there is no review required for impairment. Dividends will normally be recognised in the profit or loss.

Reclassifications

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

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised.

(iii) Impairment on financial assets

The Group recognises loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments (amortised cost and FVOCI) including loans and advances, trade receivables from Bancassurance and Advisory and other financial assets measured at armotised cost.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(iii) Impairment on financial assets (Continued)

- lease receivables (rental income collected from Investment properties);
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

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

- debt investment securities that are determined to have low credit risk at the reporting date i.e. balances held with central banks, domestic government bills and bonds and loans and advances to banks; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition i.e. stage 1 (see Note 5(a)).

Loss allowances for lease receivables (on investment property) and trade receivables (on advisory and bancassurance) are always measured at an amount equal to lifetime ECL.

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(iii) Impairment on financial assets (Continued)

Significant Increase in Credit Risk (SICR)

At each reporting date, the Group performs both qualitative and quantitative assessments whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral and the impact of forward-looking macroeconomic factors.

The common assessments for SICR is largely determined by the Prudential Guidelines classification augmented by macroeconomic outlook, management judgement and delinquency and monitoring.

Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap. Examples of situations include a significant departure from the primary source of repayment, changes in adjudication criteria for a particular group of borrowers; changes in portfolio composition; and legislative changes impacting certain portfolios.

With regards to delinquency and monitoring, there is a rebuttable presumption that delinquency backstop when contractual payments are more than 30 days past due.

Measurement of ECL (on loans and advances)

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

- *financial assets that are not credit-impaired at the reporting date(stage 1 and 2)*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- *financial assets that are not credit-impaired at the reporting date(stage 3)*: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments*: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *financial guarantee contracts*: the expected payments to reimburse the holder less any amounts that the Group expects to recover. See also Note 5(a).

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see note 3(f)(iv)) and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(iii) Impairment on financial assets (Continued)

Restructured financial assets (Continued)

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

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

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

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

Government securities (debt instruments)

In making an assessment of whether an investment in sovereign debt (government bills and bonds, Balances due from central banks) is credit-impaired, the Group considers the following factors;

(i) The country's ability to access own local capital markets for new debt issuance.
(ii) The respective government ability to maintain sovereignty on its currency
(iii) The intentions and capacity, reflected in public statements, of governments and agencies honor these commitments.

Presentation of allowance for ECL in the statement of financial position

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

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(iii) Impairment on financial assets (Continued)

Presentation of allowance for ECL in the statement of financial position (Continued)

- *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; and
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Financial assets at both amortised and FVOCI are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally 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. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(iv) De-recognition

Financial assets

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

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

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

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

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

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(iv) De-recognition (Continued)

Financial assets (Continued)

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

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

The Group securitises various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Group transferring substantially all of the risks and rewards of ownership. The securitisation vehicles in turn issue securities to investors. Interests in the securitised financial assets are generally retained in the form of senior or subordinated tranches, interest-only strips or other residual interests (retained interests). Retained interests are recognised as investment securities and carried at FVOCI. Gains or losses on securitisation are recorded in other revenue.

Financial liabilities

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

(v) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

The impact of modifications of financial assets on the expected credit loss calculation is discussed in note 3(f)(iii)

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(v) Modifications of financial assets and financial liabilities (Continued)

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

(vi) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

(g) Fair value measurement

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

If there is no quoted price in an active market, then 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 of the factors that market participants would take into account in pricing a transaction.

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

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

Portfolio of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of net exposure to either market or credit risk are measure on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fair value measurement (Continued)

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group measure fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included in level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

(h) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows in the financial statements, 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.

(i) Property and equipment

Items of property and equipment are measured at cost or valuation less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the asset.

Subsequent expenditure is capitalised only when it is probable that future economic benefits of the expenditure will flow to the Group. On-going repairs and maintenance are expensed as incurred.

Depreciation is charged on a straight line basis to allocate the cost of each asset, to its residual value over its estimated useful life as follows:

Leasehold buildings	2% or over the period of lease if shorter than 50 years
Leasehold improvements	10-12½% or over the period of lease if shorter than 8 years
Computer equipment and computer software	20-33⅓%
Furniture, fittings and fixtures	10- 12½%
Motor vehicles	20 -25%

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Property and equipment (Continued)

Depreciation is recognised in profit or loss. The assets' residual values and useful lives are reviewed and adjusted as appropriate, at each reporting date.

Any gains or losses on disposal of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in other income in profit or loss.

(j) Intangible assets

(i) Computer software

The costs incurred to acquire and bring to use specific computer software licences are capitalised. Software is measure at cost less accumulated amortisation and accumulated impairment. The costs are amortised on a straight line basis over the expected useful lives, from the date it is available for use, not exceeding five years. Costs associated with maintaining software are recognised as an expense as incurred.

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

(ii) Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's interest in the net fair value of the acquired company's identifiable assets, liabilities and contingent liabilities as at the date of acquisition. Goodwill is stated at cost less accumulated impairment losses. At the reporting date, the Group assesses the goodwill carried in the books for impairment.

(k) Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

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 of time 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.

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

Group acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative standalone price.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Leases (Continued)

Group acting as a lessee (Continued)

However, for leases of branches and office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

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 any improvements made to branches or office premises.

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the 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 analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the 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 in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Leases (Continued)

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 leases of IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Group acting 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 the major part of the economic life of the asset.

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

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

Group acting as a lessee

The Group did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

Group acting as a lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Leases (Continued)

Policy applicable before 1 January 2019 (Continued)

Group acting as a lessor (Continued)

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

(l) 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.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and group. Impairment losses are recognised in the profit or loss. Impairment losses recognised 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.

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.

(m) Derivative financial instruments

The Group uses financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities.

Derivative financial instruments are recognised initially at fair value on the date the derivative contract is entered into. Subsequent to initial recognition, derivative financial instruments are stated at fair value.

The fair value of forward exchange contracts is the amount of the mark to market adjustment at the reporting date.

(n) Employee benefits

(i) Defined contribution plan

The majority of the Group's employees are eligible for retirement benefits under a defined contribution plan.

The assets of the defined contribution scheme are held in a separate trustee administered guaranteed scheme managed by an insurance company.

The Group's contributions are recognised in profit or loss in the year to which they relate.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Employee benefits (Continued)

(i) Defined contribution plan (Continued)

The Group also contributes to various national social security funds in the countries it operates. Contributions are determined by local statute and the Group's contributions are charged to the income statement in the year to which they relate.

(ii) Leave accrual

The monetary value of the unutilised leave by staff as at year end is recognised within accruals and the movement in the year is debited/credited to the profit or loss.

(iii) Employee Share Ownership Plan (ESOP)

The grant date fair value of equity-settled share-based payment awards (i.e. stock options) granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(o) Share capital and share issue costs

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

(p) Earnings per share

Earnings per share are calculated based on the profit attributable to owners of the company divided by the number of ordinary shares. Diluted earnings per share are computed using the weighted average number of equity shares and dilutive potential ordinary shares outstanding during the year.

(q) Dividends

Dividends are charged to equity in the period in which they are declared. Proposed dividends are not accrued until they have been ratified at the Annual General Meeting.

(r) Contingent liabilities

Letters of credit, acceptances and guarantees are not recognised and 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 the financial statements are approved for issue by the directors. Any expected loss is charged to profit or loss.

(s) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Fiduciary activities

The Group commonly acts as Trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefits plans and institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

(u) Comparative information

Where necessary, comparative figures have been restated to conform with changes in presentation in the current year.

(v) New standards, amendments and interpretations

(i) New standards, amendments and interpretations effective and adopted during the year

The Group and Company has adopted the following new standards and amendments during the year ended 31 December 2019, including consequential amendments to other standards with the date of initial application by the Group and Company being 1 January 2019. The nature and effects of the changes are as explained here in.

New standard or amendments	Effective for annual periods beginning on or after
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over income tax treatments	1 January 2019
IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
Annual improvements cycle (2015-2017)	1 January 2019
IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019

- *IFRS 16: Leases*

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of a lease

- previously, the Group determined at contract inception whether an arrangement
- is or contains a lease under IFRIC 4.
- Determining whether an Arrangement contains a Lease.

The Group now assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards, amendments and interpretations (Continued)

(i) New standards, amendments and interpretations effective and adopted during the year (Continued)

- *IFRS 16: Leases (Continued)*

Definition of a lease (Continued)

Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

Group acting as a lessee

As a lessee, the Group leases *office premises*. The Group previously classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for leases of branch and office premises – i.e. these leases are on-balance sheet.

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.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019.

Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets (i.e. offices);
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

Impact on financial statements

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities

As at 1 January 2019	Group KShs'000
Right of use assets	1,984,201
Lease liabilities	1,882,810
Prepaid Operating Lease	246,271

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards, amendments and interpretations (Continued)

(i) New standards, amendments and interpretations effective and adopted during the year (Continued)

Impact on financial statements (Continued)

When measuring lease liabilities for leases that were classified as operating leases, the company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted- average rate applied is 13%.

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

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 of time 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.

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

At commencement or on modification of a contract that contains a lease component, the Company allocates consideration in the contract to each lease component on the basis of its relative stand- alone price.

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 any improvements made to branches or office premises.

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the 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 analysing its bank borrowings and makes certain adjustments to reflect the terms of the lease and type of asset leased.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards, amendments and interpretations (Continued)

(i) New standards, amendments and interpretations effective and adopted during the year (Continued)

– IFRS 16 Leases (Continued)

Policy applicable from 1 January 2019 (Continued)

Group acting as a lessee (Continued)

- 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 in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

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

Policy applicable before 1 January 2019

For contracts entered before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards, amendments and interpretations (Continued)

(i) New standards, amendments and interpretations effective and adopted during the year (Continued)

– IFRS 16 Leases (Continued)

Short-term leases and leases of low-value assets

Policy applicable before 1 January 2019 (Continued)

The Group did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

Right-of-use assets

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

2019	**Group KShs'000**
Balance at 1 January 2019	-
Recognition of right of use asset of initial application of IFRS 16	1,984,201
Transfer from prepaid operating lease rentals	246,271
Additions	55,676
Depreciation charge for the year	(391,335)
Translation difference	1,550
Balance at 31 December 2019	**1,896,363**

At 31 December 2018, the future minimum lease payments under non-cancellable operating leases were payable as follows:

Maturity analysis – Contractual undiscounted cash flows

	Group KShs'000
Total comprehensive income	
Less than one year	504,957
Between one and five years	2,583,267
More than five years	504,666
Total undiscounted lease liabilities at 31 December 2018	**3,592,890**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards, amendments and interpretations (Continued)

(i) New standards, amendments and interpretations effective and adopted during the year (Continued)

– IFRS 16 Leases (Continued)

Policy applicable from 1 January 2019 (Continued)

Right-of-use assets (Continued)

Lease liabilities

Included in other liabilities (Note 31) are lease liabilities as at 31 December 2019 amounting to KShs 1,619,631,638 for the Group.

Amounts recognised in profit or loss

2019 - Leases under IFRS 16

	Group KShs'000
Interest on lease liabilities (Note 10)	166,005
Expenses relating to short-term leases	-
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-
	166,005

2018 - Operating leases under IAS 17

Lease expense	489,664
Contingent expense	-
	489,664

Amounts recognised in statement of cash flows

Interest on lease liabilities	(166,005)
Payment of lease liabilities	(421,795)
Total cash outflow for leases	**(587,800)**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards, amendments and interpretations (Continued)

(i) New standards, amendments and interpretations effective and adopted during the year (Continued)

– IFRS 16 Leases (Continued)

Policy applicable from 1 January 2019 (Continued)

Amounts recognised in statement of cash flows

Some leases of office premises contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. 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.

The Group has estimated that the potential future lease payments, should it exercise the extension options, would result in an increase in lease liability of KShs 998 million.

– IFRIC 23 Clarification on accounting for Income tax exposures

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

The entity is required to measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards, amendments and interpretations (Continued)

(i) New standards, amendments and interpretations effective and adopted during the year (Continued)

– IFRIC 23 Clarification on accounting for Income tax exposures (Continued)

The entity will also need to provide disclosures, under existing disclosure requirements, about

(a) judgments made;
(b) assumptions and other estimates used; and
(c) potential impact of uncertainties not reflected.

The new Standard is effective for annual periods beginning on or after 1 January 2019.

The Group and Company is assessing the potential impact on its financial statements resulting from the application of IFRIC 23.

– Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendments clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

The amendments apply for annual periods beginning on or after 1 January 2019 with retrospective application, early adoption is permitted.

The adoption of these amendments will not have an impact on the financial statements of the Group and Company.

– Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate and joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The amendments apply for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

The adoption of these standards will not have an impact on the financial statements of the Group and Company.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards, amendments and interpretations (Continued)

(i) New standards, amendments and interpretations effective and adopted during the year (Continued)

– Annual improvement cycle (2015 – 2017) – various standards

Standards	Amendments
IFRS 3 Business Combinations and IFRS 11 Joint Arrangements	Clarifies how a Company accounts for increasing its interest in a joint operation that meets the definition of a business: • If a party maintains (or obtains) joint control, then the previously held interest is not remeasured. • If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.
IAS 12 Income taxes	Clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.
IAS 23 Borrowing costs	Clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

The amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The adoption of these amendments is not expected to affect the amounts and disclosures of the Group and Company's financial statements.

– IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments clarify that:

- on amendment, curtailment or settlement of a defined benefit plan, a Company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and
- the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).

Consistent with the calculation of a gain or loss on a plan amendment, entities will now use updated actuarial assumptions to determine the current service cost and net interest for the period. Previously, entities would not have updated the calculation of these costs until the year-end.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards, amendments and interpretations (Continued)

(i) New standards, amendments and interpretations effective and adopted during the year (Continued)

– Annual improvement cycle (2015 – 2017) – various standards

Further, if a defined benefit plan is settled, any asset ceiling would be disregarded when determining the plan assets as part of the calculation of gain or loss on settlement.

The amendments apply for plan amendments, curtailments or settlements that occur on or after 1 January 2019, or the date on which the amendments are first applied. Earlier application is permitted.

The adoption of this standard did not have an impact on the financial statements of the Group and Company.

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2019

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2018 and have not been applied in preparing these financial statements.

The Group and Company does not plan to adopt these standards early. These are summarised below:

New standard or amendments	Effective for annual period beginning or after
IFRS 3 Definition of a Business	1 January 2020
Amendments to references to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020
IFRS 17 Insurance contracts	1 January 2022
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the entity).

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards, amendments and interpretations (Continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2019 (Continued)

– IFRS 3 Definition of a Business

With a broad business definition, determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. These amendments to IFRS 3 Business Combinations seek to clarify this matter as below however complexities still remain.

- Optional concentration test

The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.

- Substantive process

If an entity chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

The definition of a business is now narrower and could result in fewer business combinations being recognised.

The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. The adoption of this standard will not have an impact on the financial statements of the Group and Company.

– Amendments to References to the Conceptual Framework in IFRS Standards

This amendment sets out amendments to IFRS Standards (Standards), their accompanying documents and IFRS practice statements to reflect the issue of the International Accounting Standards Board (IASB) revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework).

Some Standards, their accompanying documents and IFRS practice statements contain references to, or quotations from, the IASC's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 (Framework) or the Conceptual Framework for Financial Reporting issued in 2010. Amendments to References to the Conceptual Framework in IFRS Standards updates some of those references and quotations so that they refer to the 2018 Conceptual Framework and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

These amendments are based on proposals in the Exposure Draft Updating References to the Conceptual Framework, published in 2015 and amend Standards, their accompanying documents and IFRS practice statements that will be effective for annual reporting periods beginning on or after 1 January 2020.

The adoption of these changes will not affect the amounts and disclosures of the Group and Company's financial statements.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards, amendments and interpretations (Continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2019 (Continued)

– IAS 1 and IAS 8 Definition of Material

The amendment refines the definition of Material to make it easier to understand and aligning the definition across IFRS Standards and the Conceptual Framework.

The amendment includes the concept of 'obscuring' to the definition, alongside the existing references to 'omitting' and 'misstating'. Additionally, the amendments also adds the increased threshold of 'could influence' to 'could reasonably be expected to influence' as below.

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

However, the amendment has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1 January 2020 but may be applied earlier.

The Group and Company is assessing the potential impact on its financial statements resulting from the application of the refined definition of materiality.

– IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts sets out the requirements that an entity should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. An entity shall apply IFRS 17 Insurance Contracts to:

(a) insurance contracts, including reinsurance contracts, it issues;
(b) reinsurance contracts it holds; and
(c) investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

IFRS 17 requires an entity that issues insurance contracts to report them on the statement of financial position as the total of:

(a) the fulfilment cash flows—the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and
(b) the contractual service margin—the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards, amendments and interpretations (Continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2019 (Continued)

– IFRS 17 Insurance Contracts (Continued)

IFRS 17 requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the Company expects to recognise in the future. IFRS 17 requires an entity to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts are accounted for in profit or loss as soon as the Company determines that losses are expected. IFRS 17 requires the entity to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates. The entity:

(a) accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and
(b) chooses where to present the effects of some changes in discount rates either in profit or loss or in other comprehensive income.

IFRS 17 also requires disclosures to enable users of financial statements to understand the amounts recognised in the entity's statement of financial position and statement of profit or loss and other comprehensive income and to assess the risks the Company faces from issuing insurance contracts.

IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 is effective for financial periods commencing on or after 1 January 2021. An entity shall apply the standard retrospectively unless impracticable.

A Company can choose to apply IFRS 17 before that date, but only if it also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

The adoption of these changes will not affect the amounts and disclosures of the Group and Company's financial statements.

– Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28)

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or Company meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or Company is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The effective date for these changes has now been postponed until the completion of a broader review.

The adoption of these changes will not affect the amounts and disclosures of the Group and Company's financial statements.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Non-current assets held for sale

Non-current assets are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal, are re-measured in accordance with the Group's accounting policies. Thereafter, generally the assets, or disposal, are measured at the lower of their carrying amount and fair value less cost to sell. For non-financial assets, fair value takes into account the highest and best use either on a standalone basis or in combination with other assets or other assets and liabilities.

Any impairment loss on a disposal is first allocated to goodwill and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to financial assets, deferred tax assets and employee benefit assets which continue to be measured in accordance with the Bank's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

4. CHANGES IN ACCOUNTING POLICIES

The Group has adopted IFRS 16 effective from 1 January 2019, using the modified retrospective approach.

A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

Except for the changes in Note 3(v)(i), the Group has consistently applied the accounting to all periods presented in these consolidated financial statements.

5. FINANCIAL RISK MANAGEMENT

This section provides details of the Group's exposure to risk and describes the methods used by management to control risk.

Financial risk

The more significant types of risk to which the Group is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk and interest rate risk.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

The Board of Directors of the individual Group entities have delegated responsibility of the management of credit risk to their respective Board Credit Committees. Further, each entity has its own and separate Credit Risk Management Committee that reports to its Board Credit Committee. The Group's credit exposure at the reporting date from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the statement of financial position.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position. In the case of credit derivatives, the Group is also exposed to or protected from the risk of default of the underlying entity referenced by the derivative. With gross-settled derivatives, the Group is also exposed to a settlement risk, being the risk that the Group honours its obligation but the counterparty fails to deliver the counter-value.

The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf and enters into commitments to extend credit 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.

Credit-related commitment risks

The Board of Directors of the individual Group entities have delegated responsibility of the management of credit risk to their respective Board Credit Committees. Further, each entity has its own and separate Credit Risk Management Committee that reports to its Board Credit Committee. The Group's credit exposure at the reporting date from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the statement of financial position.

The risk that the counter-parties to trading instruments might default on their obligation is monitored on an on-going basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments over their remaining life.

To manage the level of credit risk, the Group deals with counter parties of good credit standing wherever possible and when appropriate, obtains collateral.

An assessment of the extent to which fair values of collaterals cover existing credit risk exposure on loans and advances to customers is highlighted below.

The Group also monitors concentrations of credit risk that arise by industry and type of customer in relation to Group loans and advances to customers by carrying a balanced portfolio. The Group has no significant exposure to any individual customer or counter-party.

To determine impairment of loans and advances, the Group assesses whether it is probable that it will be unable to collect all principal and interest according to the contractual terms of the loans and advances.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Exposure to credit risk

The Group also monitors concentrations of credit risk that arise by industry and type of customer in relation to loans and advances to customers by carrying a balanced portfolio. The Group has no significant exposure to any individual customer or counter-party.

To determine impairment of loans and advances, the Group assesses whether it is probable that it will be unable to collect all principal and interest according to the contractual terms of the loans and advances.

(i) Credit quality analysis – Loans and advances to customers

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt instruments. 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. See accounting policy on note 3(f)(iii) for the explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Exposure to credit risk (Continued)

(i) Credit quality analysis – Loans and advances to customers

Group

2019 **Risk classification**	**12 month ECL (Stage 1) KShs'000**	**Lifetime ECL Not credit impaired (Stage 2) KShs'000**	**Lifetime ECL credit impaired (Stage 3) KShs'000**	**Total 31 December 2019 KShs'000**
Loans and advances to Customers at amortised cost				
Normal (Stage 1)	146,184,774	-	-	146,184,774
Watch (Stage 2)	-	18,852,792	-	18,852,792
Non-Performing loans (Stage 3)	-	-	21,310,499	21,310,499
Gross carrying amount	**146,184,774**	**18,852,792**	**21,310,499**	**186,348,065**
Loss allowance	(283,411)	(550,536)	(10,184,692)	(11,018,639)
Net carrying amount	**145,901,363**	**18,302,256**	**11,125,807**	**175,329,426**

2018 **Risk classification**	**12 month ECL (Stage 1) KShs'000**	**Lifetime ECL Not credit impaired (Stage 2) KShs'000**	**Lifetime ECL credit impaired (Stage 3) KShs'000**	**Total 31 December 2018 KShs'000**
Loans and advances to Customers at amortised cost				
Normal (Stage 1)	136,701,338	-	-	136,701,338
Watch (Stage 2)	-	19,367,483	-	19,367,483
Non-Performing loans (Stage 3)	-	-	22,492,452	22,492,452
Gross carrying amount	**136,701,338**	**19,367,483**	**22,492,452**	**178,561,273**
Loss allowance	(825,900)	(1,396,700)	(9,601,944)	(11,824,544)
Net carrying amount	**135,875,438**	**17,970,783**	**12,890,508**	**166,736,729**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(i) Credit quality analysis – Loans and advances to customers (Continued)

The following shows the grading of loans and advances to customers in line with local prudential guidelines:

	2019 KShs'000	2018 KShs'000
Group:		
Loans and advances to customer		
Identified impairment:		
Grade 3: Substandard	3,173,487	2,745,279
Grade 4: Doubtful	15,294,918	18,005,413
Grade 5: Loss	2,842,094	1,741,760
	21,310,499	**22,492,452**
Specific allowances for impairment	(10,184,692)	(9,601,944)
Carrying amounts	**11,125,807**	**12,890,508**
Unidentified impairment:		
Grade 2: Watch	18,852,792	19,367,483
Grade 1: Normal	146,184,774	136,701,338
	165,037,566	**156,068,821**
Portfolio allowances for impairment	(833,947)	(2,222,600)
Carrying amounts	**164,203,619**	**153,846,221**
Total carrying amounts	**175,329,426**	**166,736,729**

	Gross KShs'000	Net KShs'000
Identified impairment:		
31 December 2019		
Grade 3: Substandard	3,173,487	1,707,305
Grade 4: Doubtful	15,294,918	8,457,433
Grade 5: Loss	2,842,094	961,069
	21,310,499	**11,125,807**
31 December 2018		
Grade 3: Substandard	2,745,279	2,114,920
Grade 4: Doubtful	18,005,413	9,951,882
Grade 5: Loss	1,741,760	823,706
	22,492,452	**12,890,508**

	Gross KShs'000	Net KShs'000
Unidentified impairment:		
31 December 2019		
Grade 1: Normal	146,184,774	145,901,363
Grade 2: Watch	18,852,792	18,302,256
	165,037,566	**164,203,619**
31 December 2018		
Grade 1: Normal	136,701,338	135,875,438
Grade 2: Watch	19,367,483	17,970,783
	156,068,821	**153,846,221**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(i) Credit quality analysis – Loans and advances to customers (Continued)

Impaired loans and securities

Impaired loans and securities are loans for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement(s). These loans are graded 3 (Substandard) to 5 (Loss) in the Group's internal credit risk and grading system.

Neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed with reference to the Group's internal rating system. All such loans must be performing in accordance with the contractual terms and are expected to continue doing so. Loans in this category are fully protected by their current sound net worth and paying capacity of the borrower. These loans and advances are categorised as normal in line with CBK prudential guidelines.

Past due but not impaired loans

These are loans 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. These loans are stage 2 (Watch) in the Group's internal credit risk and grading system.

(ii) Credit quality analysis – Trade receivables

The Group's exposure to trade receivables credit risk is influenced mainly by the individual characteristics of each customer. The Group uses an allowance matrix, using the simplified approach, to measure the lifetime ECLs of trade receivables. Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off.

2019:	Gross KShs'000	Impairment KShs'000	Net KShs'000	Credit impaired
Current	28,777	1,908	26,869	No
Past due:				
30-90 days	15,024	584	14,440	No
91-180 days	23,007	5,914	17,093	Yes
180-360 days	40,243	20,843	19,400	Yes
Over 360 days	13,870	13,870	-	Yes
	120,921	**43,119**	**77,802**	

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(ii) Credit quality analysis – Trade receivables (Continued)

2018:	Gross KShs'000	Impairment KShs'000	Net KShs'000	Credit impaired
Current	48,257	7,106	41,151	No
Past due:				
30-90 days	18,543	1,900	16,643	No
91-180 days	14,956	6,488	8,468	No
180-360 days	34,708	25,100	9,608	Yes
Over 360 days	3,513	3,513	-	Yes
	119,977	**44,107**	**75,870**	

Impairment loss movement on trade receivables

	2019 KShs'000	2018 KShs'000
At 1 January	44,107	25,159
Day one IFRS 9 adjustment	-	14,493
Acquisition of Youjays insurance Brokers Limited	-	5,858
Charge for the year	(709)	349
Write off during the year	(281)	(1,752)
Translation difference	2	-
At 31 December	**43,119**	**44,107**

Loss rates are based on actual credit loss experience over the past three years. All trade receivables that are past due over 180 days are considered uncollectible and fully impaired. All financial assets that are contractually 90 days in arrears are automatically classified as impaired under IFRS 9. The Group therefore is of the view that due to the short term nature of these instruments, the impact of economic conditions is immaterial. Consequently, the impact of forward looking information has not been taken on these financial statements.

The risk management committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes, if they are available; financial statements, credit agency information, industry information and in some cases references from other credible sources. Credit limits are established for each customer and reviewed frequently. Any credit exceeding those limits require approval from the risk management committee.

In addition, the Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of six months for customers. A significant part of the Group's customers have been transacting with the larger banking group.

The Group does not require collateral in respect of trade and other receivables. The Group does not have trade receivable and contract assets for which no loss allowance is recognised because of collateral.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Credit quality analysis – Other assets

The Group has estimated that the ECL for the following financial assets is not significant as at 31 December 2019. These financial assets have been assessed to be in Stage 1 (low credit risk). Consequently, no ECL has been recorded as at 31 December 2019

	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Balances with central banks (Note 18)	13,024,765	12,458,135	-	-
Items in the course of collection (Note 19)	536,459	764,460	-	-
Loans and advances to banks (Note 20)	43,662,404	33,675,193	-	-
Financial assets at fair value through other comprehensive income (FVOCI)				
- Debt instruments (Note 22)	13,109,198	10,853,371	27,679	133,223
Other financial assets at amortised cost;				
Government securities (Note 22)	26,993,217	28,082,231	-	-
Due from group companies (Note 38)	-	-	79,277	1,648,515
	97,326,043	**85,833,390**	**106,956**	**1,781,738**

(iv) Collateral and other security enhancements

The Group holds collaterals against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Estimate of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowings activity. Collateral usually is not held against investment securities and no such collateral was held at 31 December 2019 or 2018.

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

Group	2019 KShs'000	2018 KShs'000
Fair value of collateral held – against impaired loans	**11,125,807**	**12,890,508**

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3(f)(iii).

Significant increase in credit risk

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

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

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Credit risk grading

Other than for loans and advances to banks and investment securities where the Group relies on internal credit rating models, the Group relies substantially on the prudential guidelines applicable in the market it operates in for credit risk grading that reflect its assessment of the probability of default of individual counterparties.

In addition, the prudential guidelines are supplemented

- by Borrower and loan specific information collected at the time of application (such as disposable income and level of collateral for retail exposures; and turnover and industry type for wholesale exposures
- External data such as credit bureau scoring information on individual borrowers.
- Expert judgement from the Credit Risk Officer to be fed into the final credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

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

Credit risk grading (Continued)

The following are additional considerations for each type of portfolio held by the Group:

Customer loans and advances

After the date of initial recognition, the payment behaviour of the borrower is monitored on a periodic basis to develop a behavioural score. Any other known information about the borrower which impacts their creditworthiness. A relationship manager will also incorporate any updated or new information/credit assessments into the credit system on an ongoing basis.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for loans and advances. The Group collects performance and default information about its credit risk exposures analysed by country and borrower as well as by credit risk grading.

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

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and exchange rate.

Based on advice from the Risk Committees and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

The Group has applied a simpler methodology (lifetime ECL) for its other exposures including lease receivables and trade receivables.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(f)(v).

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Modified financial assets (Continued)

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

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

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

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Definition of default

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

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

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

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

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Incorporation of forward-looking information

For banking subsidiaries, the Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the respective country Assets and Liabilities Committee (ALCO) and consideration of a variety of external actual and forecast information, the banking subsidiaries formulate a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the International Monetary Fund (IMF), World Bank and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the banking subsidiaries carry out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

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

In each country, the Banking Industry non-performing loans (NPL %) was a reasonable approximation to the default risk. The correlation between the Banking Industry non-performing loans (NPL%) with the macroeconomic factors was then inferred to the Bank's predicated Probabilities of Default.

Further, in determining the economic scenarios to be applied, each of the economic variable was adjusted either upside or downside using the historical standard deviation.

In determining the likelihood of each of the three macroeconomic scenarios, a weighting of 90% (base case), 5% (upside case) and 5% (downside case) was applied.

The economic scenarios used as at 31 December 2019 included the following ranges of key indicators;

Kenya				
		2020		
Macro-economic variable	**Coefficient/sensitivity**	**Base**	**Upside**	**Downside**
		%	%	%
Weighting		**90.00%**	**5.00%**	**5.00%**
Deposit rate	2.49	7.38%	8.02%	6.74%
Housing price index	(0.65)	-1.03%	0.97%	-3.03%
Public debt to GDP	0.48	60.91%	68.31%	53.52%
Constant	(0.35)	-	-	-

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Incorporation of forward-looking information (Continued)

The correlation of the above factors with the Banking Industry non-performing loans (NPL %) were also used to determine whether these factors should be lagged.

Based on this analysis, Lending Rate was lagged by 4 months and Public debt to GDP ratio was lagged by 2 months.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets were developed based on analysing historical data over the past 3 to 5 years.

Tanzania				
		2020		
Macro-economic variable	**Coefficient/sensitivity**	**Base**	**Upside**	**Downside**
		%	%	%
Weighting		**90.00%**	**5.00%**	**5.00%**
91 days Treasury bills	(1.26)	5.13%	7.25%	3.00%
Savings rate	(3.75)	2.34%	2.69%	1.99%
GDP	(0.40)	6.00%	6.78%	5.22%
Currency exchange rate	(0.61)	1.17%	1.69%	1.17%
Public debt to GDP	0.59	38.00%	39.37%	36.63%
Constant	0.07	-	-	-

Rwanda				
		2020		
Macro-economic variable	**Coefficient/sensitivity**	**Base**	**Upside**	**Downside**
		%	%	%
Weighting		**90.00%**	**5.00%**	**5.00%**
Repo rate	(0.63)	3.65%	5.50%	1.80%
Treasury bills 182 days	(0.53)	7.05%	9.74%	4.36%
Lending rate	0.87	16.98%	17.82%	16.14%
GDP	0.12	6.78%	7.70%	5.85%
Constant	0.06	-	-	-

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Incorporation of forward-looking information (Continued)

Measurement of ECL

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

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

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for loans and advances to banks and investment securities.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based mainly on the counterparties' collateral and also on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Measurement of ECL (Continued)

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- segment type;
- credit risk grading; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 3(f)(iii).

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Loans and advances to customers at amortised cost

Group	Provisions (ECL allowance)				Exposure (Gross balance)			
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage2) KShs'000	Lifetime ECL credit impaired (Stage3) KShs'000	Total KShs'000
Balance at 1January 2019	**825,900**	**1,396,700**	**9,601,944**	**11,824,544**	**136,701,338**	**19,367,483**	**22,492,452**	**178,561,273**
Transfer from 12 months ECL (Stage 1)	(49,542)	46,742	2,800	-	(8,770,949)	8,269,632	501,317	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	337,348	(591,167)	253,819	-	5,915,796	(9,152,343)	3,236,547	-
Transfer from Lifetime ECL credit impaired (Stage 3)	617,001	464,680	(1,081,681)	-	1,978,953	1,119,082	(3,098,035)	-
Net remeasurement of loss allowance	(1,464,656)	(746,606)	2,474,739	**263,477**	5,369,758	(946,426)	2,179,671	**6,603,003**
New financial assets originated or purchased	69,266	50,091	34,487	**153,844**	14,358,672	1,010,380	48,515	**15,417,567**
Financial assets derecognised	(49,260)	(66,788)	(378,051)	**(494,099)**	(8,502,938)	(754,409)	(1,094,641)	**(10,351,988)**
Write off	-	-	(698,298)	**(698,298)**	-	-	(2,917,819)	**(2,917,819)**
Translation difference	(2,646)	(3,116)	(25,067)	**(30,829)**	(865,856)	(60,607)	(37,508)	**(963,971)**
Balance at 31 December 2019	**283,411**	**550,536**	**10,184,692**	**11,018,639**	**146,184,774**	**18,852,792**	**21,310,499**	**186,348,065**

Our Business
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5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Loans and advances to customers at amortised cost (Continued)

Group	Provisions (ECL allowance)				Exposure (Gross balance)			
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECLcredit impaired (Stage 3) KShs'000	Total KShs'000
Balance at 1 January 2018	**491,073**	**859,150**	**6,176,816**	**7,527,039**	**116,423,811**	**24,357,908**	**19,484,639**	**160,266,358**
Transfer from 12 months ECL (Stage 1)	(26,995)	22,510	4,485	-	(3,428,968)	2,873,958	555,010	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	225,080	(347,016)	121,936	-	5,586,364	(9,768,890)	4,182,526	-
Transfer from Lifetime ECL credit impaired (Stage 3)	131,625	428,081	(559,706)	-	369,085	2,527,658	(2,896,743)	-
Net remeasurement of loss allowance	(101,886)	392,715	3,887,721	4,178,550	5,731,493	(586,397)	2,632,461	7,777,557
New financial assets originated or purchased	136,461	52,920	207,846	397,227	20,586,823	530,081	421,553	21,538,457
Financial assets derecognised	(22,710)	(7,212)	(179,676)	(209,598)	(6,815,552)	(401,330)	(1,755,597)	(8,972,479)
Translation difference	(6,748)	(4,448)	(57,478)	(68,674)	(1,751,718)	(165,505)	(131,397)	(2,048,620)
Balance at 31 December 2018	**825,900**	**1,396,700**	**9,601,944**	**11,824,544**	**136,701,338**	**19,367,483**	**22,492,452**	**178,561,273**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Loan commitments and financial guarantee contracts

Group	Provisions (ECL allowance)				Exposure (Gross blance)			
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000
Balance at 1 January 2019	**235,675**	**93,595**	**-**	**329,270**	**55,677,743**	**2,707,378**	**-**	**58,385,121**
Transfer from 12 months ECL (Stage 1)	(6,843)	6,843	-	-	(1,387,009)	1,387,009	-	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	11,430	(11,430)	-	-	159,667	(159,667)	-	-
Transfer from Lifetime ECL credit impaired (Stage 3)	-	-	-	-	259,076	604,935	(864,011)	-
Net remeasurement of loss allowance	(164,093)	(15,833)	45,099	**(134,827)**	(1,982,310)	(1,231,601)	1,433,558	**(1,780,353)**
New financial assets originated or purchased	22,242	324	-	**22,566**	13,455,683	1,865,185	-	**15,320,868**
Financial assets derecognised	(23,624)	(24,113)	-	**(47,737)**	(5,173,113)	(466,661)	(120,216)	**(5,759,990)**
Translation difference	(323)	(40)	-	**(363)**	(455,029)	(1,151)	-	**(456,180)**
Balance at 31 December 2019	**74,464**	**49,346**	**45,099**	**168,909**	**60,554,708**	**4,705,427**	**449,331**	**65,709,466**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Loan commitments and financial guarantee contracts (Continued)

Group	Provisions (ECL allowance)				Exposure (Gross balance)			
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000
Balance at 1 January 2018	**341,495**	**170,538**	**-**	**512,033**	**51,373,581**	**3,621,640**	**-**	**54,995,221**
Transfer from 12 months ECL (Stage 1)	(7,639)	7,639	-	-	(1,358,855)	1,358,855	-	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	71,214	(71,214)	-	-	2,029,010	(2,029,010)	-	-
Net remeasurement of loss allowance	(84,356)	(25,451)	-	**(109,807)**	3,666,353	(190,073)	-	**3,476,280**
New financial assets originated or purchased	24,864	20,332	-	**45,196**	6,674,614	207,649	-	**6,882,263**
Financial assets derecognised	(109,330)	(8,215)	-	**(117,545)**	(9,485,773)	(273,500)	-	**(9,759,273)**
Translation difference	(573)	(34)	-	**(607)**	2,778,813	11,817	-	**2,790,630**
Balance at 31 December 2018	**235,675**	**93,595**	**-**	**329,270**	**55,677,743**	**2,707,378**	**-**	**58,385,121**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk

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 Bank's reputation. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by Asset and Liabilities Committee. The Asset and Liabilities Committee (ALCO) also monitors the liquidity gap and at first instance would source funds from market using interbank borrowings and as a last resort, use repo and reverse repo arrangements with the central banks. The Group has also arranged for long term funding as disclosed under Note 32 and Note 33.

The liquidity ratios at the reporting date and during the reporting period (based on month end ratios) were as follows;

	Kenya		Tanzania		Rwanda	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
At 31 December	47%	45%	27%	30%	39%	35%
Average for the period	47%	41%	29%	31%	37%	43%
Highest for the period	49%	47%	32%	37%	40%	50%
Lowest for the period	44%	33%	26%	25%	35%	35%

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2019 to the contractual maturity date

Group **31 December 2019**	**Within 1 month KShs'000**	**Due within 1-3 months KShs'000**	**Due between 3-12 months KShs'000**	**Due between 1-5 years KShs'000**	**Due after 5 years KShs'000**	**Total KShs'000**
LIABILITIES						
Deposits from banks	3,374,767	4,163,034	340,770	261,541	-	**8,140,112**
Items in the course of collection	147,321	-	-	-	-	**147,321**
Deposits from customers	72,741,316	107,479,279	51,259,049	1,449,812	-	**232,929,456**
Other liabilities	1,393,844	1,443,905	-	-	331,366	**3,169,115**
Long term debt	1,451,202	10,888	1,798,676	3,588,966	-	**6,849,732**
Subordinated debt	-	3,751	-	5,792,553	-	**5,796,304**
Contractual off-balance sheet financial liabilities	-	-	124,441,918	-	-	**124,441,918**
Capital commitments	-	-	7,192,759	-	-	**7,192,759**
Lease liabilities	42,082	125,526	275,973	1,740,278	542,247	**2,726,106**
At 31 December 2019	**79,150,532**	**113,226,383**	**185,309,145**	**12,833,150**	**873,613**	**391,392,823**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

Group 31 December 2018	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
LIABILITIES						
Deposits from banks	2,625,864	2,198,292	863,475	-	-	**5,687,631**
Items in the course of collection	177,736	-	-	-	-	**177,736**
Deposits from customers	73,051,001	104,302,050	37,577,720	436,029	-	**215,366,800**
Other liabilities	1,037,219	2,115,871	-	-	-	**3,153,090**
Long term debt	11,088	3,091	1,851,445	7,037,337	115,977	**9,018,938**
Subordinated debt	-	3,795,789	12,963	1,910,023	-	**5,718,775**
Contractual off-balance sheet						
financial liabilities	-	-	97,552,893	-	-	**97,552,893**
Capital commitments	-	-	6,034,326	-	-	**6,034,326**
Leases	-	-	504,957	2,583,267	504,666	**3,592,890**
At 31 December 2018	**76,902,908**	**112,415,093**	**144,397,779**	**11,966,656**	**620,643**	**346,303,079**

Deposits from customers represent business transaction, personal transaction, savings, call and fixed deposit balances, which past experience has shown to be stable.

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spread (not relating to changes in the obligator's/issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments.

All trading instruments are subject to market risk, the risk that the future changes in market conditions may make an instrument less valuable or more onerous. The Group manages its use of trading instruments in response to changing market conditions.

The Board of Directors of the individual Group entities have delegated responsibility for management of Market Risk to their respective Board Risk Committees. Exposure to market risk is formally managed within Risk Limits and Policy Guidelines issued by the Board, on recommendation of the Board Risk Committee. ALCO, a Management Committee is charged with the responsibility of ensuring implementation and monitoring of the risk management framework in line with policy guidelines. The Group is primarily exposed to Interest Rate and Foreign Exchange Risk. The policy guidelines and procedures in place are adequate to effectively manage these risks.

Exposure to interest rate risk

This is the risk of loss from fluctuations in the future cash flows of fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the group's interest rate gap position reflecting assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates is shown below.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk (Continued)

Group 31 December 2019	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS							
Cash and balances with central banks	-	-	-	-	-	15,385,829	**15,385,829**
Items in the course of collection	-	-	-	-	-	536,459	**536,459**
Loans and advances to banks	33,104,341	8,981,791	407,456	-	-	1,168,816	**43,662,404**
Loans and advances to customers	144,691,248	6,091,845	5,476,176	12,374,079	6,696,078	-	**175,329,426**
Financial assets at fair value through profit or loss (FVTPL)	46,331	1,969,108	6,141,558	1,690,879	3,896,172	-	**13,744,048**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	497,802	2,909,854	1,560,408	8,052,288	88,846	**13,109,198**
Other financial assets at amortised cost	86,239	8,064,764	9,921,445	5,488,346	3,510,225	-	**27,071,019**
Other assets	-	-	-	-	-	2,691,984	**2,691,984**
At 31 December 2019	**177,928,159**	**25,605,310**	**24,856,489**	**21,113,712**	**22,154,763**	**19,871,934**	**291,530,367**
LIABILITIES							
Deposits from banks	2,500,752	4,107,927	326,426	215,963	-	854,536	**8,005,604**
Items in the course of collection	-	-	-	-	-	147,321	**147,321**
Deposits from customers	55,910,262	106,233,748	49,802,096	1,268,256	-	16,522,147	**229,736,509**
Other liabilities	32,758	-	-	-	331,367	4,424,622	**4,788,747**
Long term debt	1,440,143	10,703	1,738,901	3,020,824	-	-	**6,210,571**
Subordinated debt	-	3,659	-	4,641,396	-	-	**4,645,055**
At 31 December 2019	**59,883,915**	**110,356,037**	**51,867,423**	**9,146,439**	**331,367**	**21,948,626**	**253,533,807**
Interest rate gap	**118,044,244**	**(84,750,727)**	**(27,010,934)**	**11,967,273**	**21,823,396**	**(2,076,692)**	**37,996,560**

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For The Year Ended 31 December 2019 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk (Continued)

Group 31 December 2018	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS							
Cash and balances with central banks	-	12,083	-	-	-	14,855,056	**14,867,139**
Items in the course of collection	-	-	-	-	-	764,460	**764,460**
Loans and advances to banks	20,122,062	12,329,192	-	-	-	1,223,939	**33,675,193**
Loans and advances to customers	147,827,056	4,447,308	2,063,684	7,673,034	4,725,647	-	**166,736,729**
Financial assets at fair value through profit or loss (FVTPL)	-	1,966,474	4,525,423	1,230,538	5,422,691	-	**13,145,126**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	3,861,048	4,961,266	1,995,122	35,935	**10,853,371**
Other financial assets at amortised cost	541,089	4,688,182	11,938,049	6,395,930	4,594,851	-	**28,158,101**
Other assets	-	11,711	-	-	-	1,876,034	**1,887,745**
At 31 December 2018	**168,490,207**	**23,454,950**	**22,388,204**	**20,260,768**	**16,738,311**	**18,755,424**	**270,087,864**
LIABILITIES							
Deposits from banks	3,126,643	238,883	1,855,483	182,611	243,481	-	**5,647,101**
Items in the course of collection	-	-	-	-	-	177,736	**177,736**
Deposits from customers	60,451,067	105,688,165	37,849,900	3,080,534	3,481,478	2,588,226	**213,139,370**
Other liabilities	-	-	-	-	-	4,797,580	**4,797,580**
Long term debt	11,088	3,091	1,789,006	6,343,610	99,980	-	**8,246,775**
Subordinated debt	-	3,681,658	12,963	1,814,288	-	-	**5,508,909**
At 31 December 2018	**63,588,798**	**109,611,797**	**41,507,352**	**11,421,043**	**3,824,939**	**7,563,542**	**237,517,471**
Interest rate gap	**104,901,409**	**(86,156,847)**	**(19,119,148)**	**8,839,725**	**12,913,372**	**11,191,882**	**32,570,393**

Customer deposits up to three months represent transactional accounts, savings accounts and call deposit account balances, which past experience has shown to be stable and of a long term nature.

The Group's operations are subject to the risk of interest rate fluctuations to the extent that the interest earning assets (including investments) and interest bearing liabilities mature or re-price at different times or in differing amounts. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Group's business strategies.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk (Continued)

Sensitivity analysis

A change of 200 basis points in interest rates at the reporting date would have increased/decreased equity and profit or loss by the amounts shown below. The analysis assumes that all other variables in particular foreign currency exchange rates remain constant.

Group **31 December 2019**	**Profit or loss Increase/decrease in basis points ('000)**	**Equity net of tax Increase/decrease in basis points ('000)**
200 basis points		
Assets	5,433,169	3,803,218
Liabilities	(4,631,704)	(3,242,193)
Net position	**801,465**	**561,025**
31 December 2018	**Profit or loss**	**Equity net of tax**
Assets	5,026,649	3,518,654
Liabilities	(4,599,079)	(3,219,355)
Net position	**427,570**	**299,299**

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk

The Group is exposed to currency risk through transactions in foreign currencies. The Group's transactional exposure gives rise to foreign currency gains and losses that are recognised in the profit or loss. In respect of monetary assets and liabilities in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. The table below analyses the currencies which the Group is exposed to as at 31 December 2019 and 31 December 2018.

Group

At 31 December 2019	**USD KShs'000**	**GBP KShs'000**	**Euro KShs'000**	**Other KShs'000**	**Total KShs'000**
ASSETS					
Cash and balances with central banks	1,699,186	211,427	396,072	19,386	**2,326,071**
Items in the course of collection	32,486	-	-	-	**32,486**
Loans and advances to banks	32,169,334	9,149,451	2,391,597	301,193	**44,011,575**
Loans and advances to customers	57,869,670	2,639,588	2,038,375	2,851	**62,550,484**
Other assets	2,359,033	65,327	48	76	**2,424,484**
At 31 December 2019	**94,129,709**	**12,065,793**	**4,826,092**	**323,506**	**111,345,100**
LIABILITIES					
Deposits from banks	2,502,160	42,044	86,039	44,032	**2,674,275**
Deposits from customers	62,093,913	11,926,863	3,821,902	235,002	**78,077,680**
Other liabilities	686,285	76,430	230,799	54,271	**1,047,785**
Long-term debt	4,630,079	-	264,298	-	**4,894,377**
Subordinated debt	4,377,756	-	-	-	**4,377,756**
At 31 December 2019	**74,290,193**	**12,045,337**	**4,403,038**	**333,305**	**91,071,873**
Net on statement of financial position	**19,839,516**	**20,456**	**423,054**	**(9,799)**	**20,273,227**
Net notional off balance sheet position	**(17,995,453)**	**(13,379)**	**(268,670)**	**54,585**	**(18,222,917)**
Overall net position – 2019	**1,844,063**	**7,077**	**154,384**	**44,786**	**2,050,310**

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk (Continued)

Group (Continued)

At 31 December 2018	**USD KShs'000**	**GBP KShs'000**	**Euro KShs'000**	**Other KShs'000**	**Total KShs'000**
ASSETS					
Cash and balances with central banks	1,799,375	195,411	308,770	16,783	**2,320,339**
Items in the course of collection	58,576	-	530	-	**59,106**
Loans and advances to banks	21,112,280	12,122,915	3,183,269	336,745	**36,755.209**
Loans and advances to customers	58,998,785	1,801,019	1,776,277	4,355	**62,580,436**
Other assets	102,000	-	2,813	4	**104,817**
At 31 December 2018	**82,071,016**	**14,119,345**	**5,271,659**	**357,887**	**101,819,907**
LIABILITIES					
Deposits from banks	2,304,125	62,444	200,030	8,034	**2,574,633**
Items in the course of collection	11,111	971	64	-	**12,146**
Deposits from customers	56,285,383	13,939,264	3,934,737	291,031	**74,450,415**
Other liabilities	410,633	13,204	49,289	23,096	**496,222**
Long-term debt	6,752,055	-	451,681	-	**7,203,736**
Subordinated debt	1,565,975	-	-	-	**1,565,975**
At 31 December 2018	**67,329,282**	**14,015,883**	**4,635,801**	**322,161**	**86,303,127**
Net on statement of financial position	**14,741,734**	**103,462**	**635,858**	**35,726**	**15,516,780**
Net notional off balance sheet position	**(14,737,580)**	**(142,426)**	**(460,694)**	**4,852**	**(15,335,848)**
Overall net position – 2018	**4,154**	**(38,964)**	**175,164**	**40,578**	**180,932**

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk (Continued)

Sensitivity analysis

A reasonable possible strengthening or weakening of the USD, GBP, EUR against the Kenya shilling (KShs) would have affected the measurement of financial instruments denominated in foreign currency and effected equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates remain constant.

Group **31 December 2019**	**Profit or loss Strengthening/weakening of currency KShs ('000)**	**Equity net of tax Strengthening/weakening of currency KShs ('000)**
USD (± 2.5% movement)	46,102	32,271
GBP (± 2.5% movement)	177	124
EUR (± 2.5% movement)	3,860	2,702
31 December 2018		
USD (± 2.5% movement)	104	73
GBP (± 2.5% movement)	(974)	(682)
EUR (± 2.5% movement)	4,379	3,065

(d) Capital management

The Group's policy is to maintain a strong capital base so as to maintain regulatory, investor, creditor and market confidence and to sustain future development of business. The impact of the level of capital of shareholders' return is also recognised in addition to recognizing the need to maintain a balance between the higher returns that may be possible with greater gearing and the advantages and security afforded by sound capital position.

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; and
- Promotes public confidence in the bank.

5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

Regulatory capital – Kenya (Continued)

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:

- The minimum level of regulatory capital of KShs 1 billion.
- A core capital of not less than 10.5% of total risk weighted assets, plus risk weighted off-balance sheet items
- A core capital of not less than 10.5% 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.

I&M Bank LIMITED 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.

The risk based approach to capital adequacy measurement is applied to both on and off balance sheet items. Risk weights are assigned based on an assessment of the following:

- Credit risk arising from the possibility of losses associated with reduction of credit quality of borrowers or counterparties;
- Market risk is the risk of losses arising from movements in market prices pertaining to interest rate related instruments and foreign exchange risk;
- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

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For The Year Ended 31 December 2019 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

Regulatory capital – Kenya (Continued)

The regulatory capital position for I&M Bank LIMITED being the Kenyan banking subsidiary was as follows:

		2019 KShs'000	2018 KShs'000
Core capital (Tier 1)			
Share capital		2,980,000	2,980,000
Share premium		5,531,267	5,531,267
Retained earnings		32,086,451	28,440,796
		40,597,718	**36,952,063**
Less: Investment in subsidiary		(2,750,653)	(2,750,653)
Total Core capital		**39,784,065**	**34,201,410**
Supplementary capital (Tier 2)			
Term subordinated debt		2,830,389	141,667
Statutory loan loss reserve		4,598,169	1,441,955
		7,428,558	**1,583,622**
Total capital		**45,275,623**	**35,785,032**
Risk weighted assets			
Credit risk weighted assets		174,882,505	160,916,162
Market risk weighted assets		4,460,142	7,313,937
Operational risk weighted assets		30,638,806	31,469,719
Total risk weighted assets		**209,981,453**	**199,699,818**
Deposits from customers		**196,165,364**	**178,452,689**
Capital ratios	**Minimum***		
Core capital/Total deposit liabilities	**8.0%**	**19.29%**	**19.17%**
Core capital /Total risk weighted assets	**10.5%**	**18.02%**	**17.13%**
Total capital /Total risk weighted assets	**14.5%**	**21.56%**	**17.92%**

****As defined by the Central Bank of Kenya***

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5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

Regulatory capital – Tanzania

The Bank of Tanzania sets and monitors capital requirements for the banking industry as a whole. The Bank of Tanzania has set among other measures, the rules and ratios to monitor adequacy of a bank's capital. In implementing current capital requirements, The Bank of Tanzania requires banks to maintain a prescribed ratio of total capital to total risk-weighted assets. The Bank's regulatory is analysed in two tiers:

- *Tier 1 capital*, which includes ordinary share capital, share premium, retained earnings, after deductions for prepaid expenses, goodwill, other intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- *Tier 2 capital*, which includes qualifying subordinated liabilities, collective impairment allowances and the element of fair value reserve relating to unrealized gains on equity instruments classified as available for sale.

Various limits are applied to elements of the capital base such as qualifying Tier 2 Capital cannot exceed Tier 1 Capital and qualifying subordinated debt may not exceed 50 percent of Tier 1 Capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of Tier 2 Capital.

Tier 1 Capital (Core capital) is also subjected to various limits such as Tier 1 Capital should not be less than 10 percent of the risk weighted assets and premises investments should not exceed 50 percent of the Core capital and movable assets should not exceed 20% of Core capital.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of business. The impact of the level of capital of shareholders' return is also recognised in addition to recognizing the need to maintain a balance between the higher returns that may be possible with greater gearing and the advantages and security afforded by sound capital position.

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5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

Regulatory capital – Tanzania (Continued)

		2019 TZS'000	2018 TZS'000
Core capital (Tier 1)			
Share capital		16,202,000	16,202,000
Share premium		18,090,228	18,090,228
Retained earnings		37,303,341	34,024,364
		71,595,569	**68,316,592**
Less: Prepaid expenses		(1,293,797)	(1,636,884)
Deferred tax asset		(5,620,807)	(4,894,725)
Intangible assets		-	(3,357,199)
Total Core capital		**64,680,965**	**58,427,784**
Supplementary capital (Tier 2)			
Term subordinated debt		3,680,000	12,908,000
General provisions in equity		8,150,554	7,286,602
Fair value reserve		248,938	217,700
		12,079,492	**20,412,302**
Total capital		**76,760,457**	**78,840,086**
Risk weighted assets			
On balance sheet		334,697,311	338,717,810
Off balance sheet		46,799,438	48,782,755
Capital charge for market risk		1,144,316	2,312,875
Operational risk weighted assets		27,871,571	37,249,586
Total risk weighted assets		**410,512,636**	**427,063,026**
Capital ratios	**Minimum***		
Core capital /Total risk weighted assets	**10.0%**	**15.76%**	**13.68%**
Total capital /Total risk weighted assets	**12.0%**	**18.70%**	**18.46%**

***As defined by the Central Bank of Tanzania**

• The minimum level of regulatory capital is TZS 15 billion.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

Regulatory capital – Rwanda

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

- To comply with the capital requirements set by the National Bank of Rwanda;
- To safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To maintain a strong capital base to support the development of its business.

The National Bank of Rwanda (BNR) sets and monitors capital requirements for the banking industry as a whole. In implementing its current capital requirements, BNR, requires Banks in Rwanda to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank's regulatory capital consists only of Tier 1 capital, which includes ordinary share capital, retained earnings, revaluation reserves and statutory reserves. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

		2019 Frw'000	2018 Frw'000
Core capital (Tier 1)			
Share capital		5,050,000	5,050,000
Share premium		400,000	400,000
Retained earnings		33,390,046	27,347,278
		38,840,046	**32,797,278**
Less: Other reserves		188,347	882,688
Less: Intangible assets		(4,492,050)	(4,785,353)
Total Core capital (Tier 1 Capital)		**34,536,343**	**28,894,613**
Supplementary capital			
Revaluation reserves		2,047,698	647,925
Term subordinated debt		7,380,140	8,791,009
		9,427,838	**9,438,934**
Total capital (Tier 2 Capital)		**43,964,181**	**38,333,547**
Total risk weighted assets		**240,635,377**	**207,287,506**
Capital ratios	**Minimum***		
Core capital /Total risk weighted assets	**10.0%**	**14.35%**	**13.94%**
Total capital /Total risk weighted assets	**15.0%**	**18.27%**	**18.49%**

**** As defined by the Bank of Rwanda***

• The minimum level of regulatory capital is Frw 5 billion.

5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

Regulatory Capital – Mauritius

Under the BASEL II methodology, Bank of Mauritius has issued guidelines for the measurement of Credit Risk, Market Risk and Operational Risk. The minimum required capital as set by the Bank of Mauritius, under BASEL II guidelines, is a capital to Risk Weighted Assets of 10%.

The Bank's capital management policy is to provide sufficient capital for the banking business to achieve its strategic objectives, taking into account the regulatory, economic and commercial environment in which it operates. The capital adequacy framework is supported by a Board approved Internal Capital Adequacy Assessment Process (ICAAP), which encompasses capital planning for current and future periods, taking into consideration strategic focus and business plan and assessment of all material risks under stress conditions.

The Bank's objectives when managing capital are:

- To comply to the capital requirements set by the regulator;
- To safeguard the Bank's ability to continue its business as a going concern;
- To maximize returns to shareholders and optimize the benefits to stakeholders;
- To maintain a strong capital base to support the development of its business.

The Bank's eligible capital as managed by the Bank's management is divided into two tiers:

1. *Core capital or Tier 1 Capital*: Comprising Share capital, profit and loss and reserves created by appropriations of retained earnings. The book value of goodwill and other intangible assets is deducted in arriving at core capital; and
2. *Supplementary capital or Tier 2 Capital*: Qualifying perpetual and term subordinated debts, collectively assessed impairment allowances, regulatory reserve and fair value gains arising on revaluation of holdings of land and buildings and available-for sale equities and debt securities. Investment in subsidiaries, significant investments in non-subsidiary companies and shares and investments in other banks' equity are deducted 50 % from Tier-1 capital and 50% from supplementary capital to arrive at the eligible capital.

Capital Adequacy and the use of eligible capital are monitored regularly by Management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by Bank of Mauritius for supervisory purposes. The required information is submitted to the Bank of Mauritius on a quarterly basis.

The ratio of its capital to aggregate risk weighted assets being the Capital Adequacy Ratio as at 31 December 2019 was 14.71% (2018 - 12.99%).

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

6. USE OF ESTIMATES AND JUDGEMENT

Key sources of estimation uncertainty

(a) Allowance for credit losses

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI debt instruments is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 3(f)(iii) which also sets out key sensitivities of the ECL to changes in these elements.

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

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

(b) Income taxes

Significant estimates are required in determining the liability 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 liability in the period in which such determination is made.

(c) Property and equipment

Property and equipment is 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. The rates used are set out under accounting policy Note 3(i).

(d) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy 3(j)(ii) and computed in Note 25(a). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

(e) Lease term

The Group makes judgement on whether it is reasonably certain that it will exercise extension options. The impact of extension options is set out on Note 3(v)(i).

(f) Critical accounting judgements in applying the Group's accounting policies

Critical accounting judgements made in applying the Group's accounting policies include financial asset and liability classification. The Group's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances.

In classifying financial assets as held to maturity, the Group has determined that it has both positive intention and ability to hold the assets until their maturity date as required by the group's accounting policies.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

7. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE

Accounting classifications at carrying amounts 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.

Group	Carrying amounts						Fair value			
31 December 2019	Non financial asset KShs'000	Financial assets at amortised cost KShs'000	Financial assets at FVOCI KShs'000	Financial assets at FVTPL KShs'000	Other financial liabilities at amortised cost KShs'000	Total KShs'000	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Cash & balances with central banks	-	15,385,829	-	-	-	**15,385,829**	-	-	15,385,829	**15,385,829**
Items in the course of collection	-	536,459	-	-	-	**536,459**	-	-	536,459	**536,459**
Loans and advances to banks	-	43,662,404	-	-	-	**43,662,404**	-	-	43,662,404	**43,662,404**
Loans and advances to customers	-	175,329,426	-	-	-	**175,329,426**	-	-	175,329,426	**175,329,426**
Financial assets at fair value through profit or loss (FVTPL)	-	-	-	13,744,048	-	**13,744,048**	13,744,048	-	-	**13,744,048**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	13,109,198	-	-	**13,109,198**	12,549,629	-	559,569	**13,109,198**
Other financial assets at amortised cost	-	27,071,019	-	-	-	**27,071,019**	27,234,490	-	-	**27,234,490**
Property and equipment										
Buildings	2,387,951	-	-	-	-	**2,387,951**	-	2,387,951	-	**2,387,951**
Other assets	-	2,691,984	-	-	-	**2,691,984**	-	-	2,691,984	**2,691,984**
	2,387,951	**264,677,121**	**13,109,198**	**13,744,048**	**-**	**293,918,318**	**53,528,167**	**2,387,951**	**238,165,671**	**294,081,789**
Deposits from banks	-	-	-	-	8,005,604	**8,005,604**	-	-	8,005,604	**8,005,604**
Items in course of collection	-	-	-	-	147,321	**147,321**	-	-	147,321	**147,321**
Deposits from customers	-	-	-	-	229,736,509	**229,736,509**	-	-	229,736,509	**229,736,509**
Other liabilities	-	-	-	-	4,788,747	**4,788,747**	-	-	4,788,747	**4,788,747**
Long term debt	-	-	-	-	6,210,571	**6,210,571**	-	-	6,210,571	**6,210,571**
Subordinated debt	-	-	-	-	4,645,055	**4,645,055**	-	-	4,645,055	**4,645,055**
	-	**-**	**-**	**-**	**253,533,807**	**253,533,807**	**-**	**-**	**253,533,807**	**253,533,807**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

7. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE (Continued)

Accounting classifications at carrying amounts and fair values (Continued)

Group	Carrying amounts						Fair value			
31 December 2018	Non financial asset KShs'000	Financial assets at amortised cost KShs'000	Financial assets at FVOCI KShs'000	Financial assets at FVTPL KShs'000	Other financial liabilities at amortised cost KShs'000	Total KShs'000	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Cash & balances with central banks	-	14,867,139	-	-		**14,867,139**	-	-	14,867,139	**14,867,139**
Items in the course of collection	-	764,460	-	-	-	**764,460**	-	-	764,460	**764,460**
Loans & advances to banks	-	33,675,193	-	-	-	**33,675,193**	-	-	33,675,193	**33,675,193**
Loans & advances to customers	-	166,736,729	-	-	-	**166,736,729**	-	-	166,736,729	**166,736,729**
Financial assets at fair value through profit or loss (FVTPL)	-	-	-	13,145,126	-	**13,145,126**	13,145,126	-	-	**13,145,126**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	10,853,371	-	-	**10,853,371**	10,381,153	-	472,218	**10,853,371**
Other financial assets at amortised cost	-	28,158,101	-	-	-	**28,158,101**	28,132,671	-	-	**28,132,671**
Property and equipment										
Buildings	2,375,615	-	-	-		**2,375,615**	-	2,375,615	-	**2,375,615**
Other assets	-	1,887,745	-	-	-	**1,887,745**	-	-	1,887,745	**1,887,745**
	2,375,615	**246,089,367**	**10,853,371**	**13,145,126**	**-**	**272,463,479**	**51,658,950**	**2,375,615**	**218,403,484**	**272,438,049**
Deposits from banks	-	-	-	-	5,647,101	**5,647,101**	-	-	5,647,101	**5,647,101**
Items in course of collection	-	-	-	-	177,736	**177,736**	-	-	177,736	**177,736**
Deposits from customers	-	-	-	-	213,139,370	**213,139,370**	-	-	213,139,370	**213,139,370**
Due to group companies	-	-	-	-	4,797,580	**4,797,580**	-	-	4,797,580	**4,797,580**
Long term debt	-	-	-	-	8,246,775	**8,246,775**	-	-	8,246,775	**8,246,775**
Subordinated debt	-	-	-	-	5,508,909	**5,508,909**	-	-	5,508,909	**5,508,909**
	-	-	-	-	**237,517,471**	**237,517,471**	**-**	**-**	**237,517,471**	**237,517,471**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

7. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE (Continued)

Accounting classifications at carrying amounts and fair values (Continued)

Company	Carrying amounts				Fair value		
31 December 2019	Financial assets at amortised cost KShs'000	Financial assets at FVOCI KShs'000	Other financial liabilities at amortised cost KShs'000	Total KShs'000	Level 1 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets							
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	27,679	-	**27,679**	27,679	-	**27,679**
Due from group companies	79,277	-	-	**79,277**	-	79,277	**79,277**
Other assets	8,880	-	-	**8,880**		8,880	**8,880**
	88,157	**27,679**	**-**	**115,836**	**27,679**	**88,157**	**115,836**
Financial liabilities							
Due to group companies	-	-	1,881,592	**1,881,592**	-	1,881,592	**1,881,592**
Other liabilities	-	-	90,581	**90,581**	-	90,581	**90,581**
	-	**-**	**1,972,173**	**1,972,173**	**-**	**1,972,173**	**1,972,173**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

7. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE (Continued)

Accounting classifications at carrying amounts and fair values (Continued)

Company	Carrying amounts				Fair value		
31 December 2018	Financial assets at amortised cost KShs'000	Financial assets at FVOCI KShs'000	Other financial liabilities at amortised cost KShs'000	Total KShs'000	Level 1 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets							
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	133,223	-	**133,223**	133,223	-	**133,223**
Due from group companies	1,648,515	-	-	**1,648,515**	-	1,648,515	**1,648,515**
Other assets	499	-	-	**499**	-	499	**499**
	1,649,014	**133,223**	**-**	**1,782,237**	**133,223**	**1,649,014**	**1,782,237**
Financial liabilities							
Due to group companies	-	-	1,881,898	**1,881,898**	-	1,881,898	**1,881,898**
Other liabilities	-	-	1,687,364	**1,687,364**	-	1,687,364	**1,687,364**
	-	**-**	**3,569,262**	**3,569,262**	**-**	**3,569,262**	**3,569,262**

Measurement of fair values

(i) Valuation techniques and significant unobservable inputs

Financial assets measured at fair value - At 31 December 2019 and 31 December 2018

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Investment securities – Fair Value through Other Comprehensive Income	Prices quoted in an active market	None	Not applicable

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

8. OPERATING SEGMENTS

The Group operations are within five geographical segments, Kenya, Tanzania, Rwanda, Uganda and Mauritius.
The table below contains segmental information for the year ended 31 December 2019.

2019	KENYA KShs'000	TANZANIA KShs'000	RWANDA KShs'000	MAURITIUS KShs'000	UGANDA KShs'000	ELIMINATION KShs'000	TOTAL KShs'000
Net interest income	11,798,315	1,294,729	2,416,797	-	-	-	15,509,841
Net fee commission and other income	7,098,877	381,448	662,350	-	2,636	(173,685)	7,971,626
Results from joint venture	-	-	-	905,037	-	-	905,037
Operating income	**18,897,192**	**1,676,177**	**3,079,147**	**905,037**	**2,636**	**(173,685)**	**24,386,504**
Operating expenses	(5,448,724)	(893,153)	(1,725,307)	-	(2,618)	88,381	(7,981,421)
Depreciation and Amortisation	(743,671)	(112,901)	(308,936)	-	(12)	-	(1,165,520)
Net impairment losses on loans and advances	(305,595)	(279,641)	(51,219)	-	-	-	(636,455)
Operating expenses	**(6,497,990)**	**(1,285,695)**	**(2,085,462)**	**-**	**(2,630)**	**88,381**	**(9,783,396)**
Profit before tax	**12,399,202**	**390,482**	**993,685**	**905,037**	**6**	**(85,304)**	**14,603,108**
Profit after tax	**9,005,120**	**264,900**	**678,855**	**898,935**	**6**	**(79,202)**	**10,768,614**
Loans and advances to customers	**141,543,126**	**15,225,620**	**18,560,680**	**-**	**-**	**-**	**175,329,426**
Deposits from customers	**195,404,638**	**13,620,563**	**20,711,308**	**-**	**-**	**-**	**229,736,509**
Total assets	**287,189,138**	**22,545,831**	**34,149,852**	**4,914,959**	**5,954**	**(33,515,060)**	**315,290,674**
Total liabilities	**206,852,953**	**18,971,164**	**29,529,663**	**1,896**	**1,306**	**(928,481)**	**254,428,501**
Capital expenditure	**1,510,313**	**169,583**	**1,001,352**	**-**	**-**	**-**	**2,681,248**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

8. OPERATING SEGMENTS (Continued)

2018	KENYA KShs'000	TANZANIA KShs'000	RWANDA KShs'000	MAURITIUS KShs'000	UGANDA KShs'000	ELIMINATION KShs'000	TOTAL KShs'000
Net interest income	12,065,677	1,148,053	2,380,452	-	-	-	15,594,182
Net fee commission and other income	6,195,731	415,334	772,192	-	2,428	(46,649)	7,339,036
Results from joint venture	-	-	-	595,310	-	-	595,310
Operating income	**18,261,408**	**1,563,387**	**3,152,644**	**595,310**	**2,428**	**(46,649)**	**23,528,528**
Operating expenses	(5,420,535)	(815,713)	(1,592,233)	-	(2,641)	204,568	(7,626,554)
Depreciation and Amortisation	(360,355)	(71,751)	(164,727)	-	(16)	-	(596,849)
Net impairment losses on loans and advances	(3,416,894)	(267,879)	(122,572)	-	-	-	(3,807,345)
Operating expenses	**(9,197,784)**	**(1,155,343)**	**(1,879,532)**	**-**	**(2,657)**	**204,568**	**(12,030,748)**
Profit before tax	**9,063,624**	**408,044**	**1,273,112**	**595,310**	**(229)**	**157,919**	**11,497,780**
Profit after tax	**6,591,402**	**280,627**	**878,277**	**595,310**	**(177)**	**157,918**	**8,503,357**
Loans and advances to customers	**132,319,260**	**15,304,250**	**19,113,219**	**-**	**-**	**-**	**166,736,729**
Deposits from customers	**176,753,511**	**14,580,637**	**21,805,222**	**-**	**-**	**-**	**213,139,370**
Total assets	**261,481,343**	**22,691,036**	**33,432,347**	**4,044,858**	**5,604**	**(33,133,139)**	**288,522,049**
Total liabilities	**190,668,164**	**19,283,552**	**28,618,567**	**1,851**	**1,000**	**(925,533)**	**237,647,601**
Capital expenditure	**2,210,109**	**169,583**	**1,001,352**	**-**	**-**	**-**	**3,381,044**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

9. INTEREST INCOME

	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
Loans and advances to customers	22,364,083	20,673,770	-	-
Loans and advances to banks	656,440	319,888	17,708	16,102
Investment securities:-				
- At amortised cost	2,843,711	2,829,061	-	1,763
- FVOCI - Debt instruments	1,299,613	2,176,149	24,309	16,576
	27,163,847	**25,998,868**	**42,017**	**34,441**

10. INTEREST EXPENSE

	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
Deposits from customers	10,081,560	8,800,765	-	-
Deposits from banks	542,610	584,664	-	-
Long term debt	544,131	433,905	-	-
Subordinated debt	319,700	585,352	-	-
Lease liabilities	166,005	-	-	-
	11,654,006	**10,404,686**	**-**	**-**

11. NET FEE AND COMMISSION INCOME

	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
Fee and commission income				
Commissions	2,893,937	2,737,863	-	-
Service fees	1,099,711	1,198,229	-	-
	3,993,648	**3,936,092**	**-**	**-**
Fee and commission expense				
Interbank transaction fees	(91,965)	(85,565)	-	-
Other	(221,950)	(172,740)	-	-
	(313,915)	**(258,305)**	**-**	**-**
Net fee and commission income	**3,679,733**	**3,677,787**	**-**	**-**

12. NET TRADING INCOME

	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
Foreign exchange income	2,577,518	2,567,418	-	-
Net income on Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	4,713	619
Net income on financial assets at fair value through profit or loss (FVTPL)	1,258,297	540,330	-	-
	3,835,815	**3,107,748**	**4,713**	**619**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

13. OTHER OPERATING INCOME

	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
Rental income	218,286	76,170	-	-
Profit on sale of property and equipment	4,277	-	-	-
Other income	233,515	477,331	12,153	238
Dividend income	-	-	351,580	2,875,332
	456,078	**553,501**	**363,733**	**2,875,570**

14. OPERATING EXPENSES

	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
Staff Costs				
Salaries and wages	3,740,107	3,330,296	-	-
Contribution to defined contribution plan	150,443	128,780	-	-
Statutory contribution	77,377	72,154	-	-
Other staff costs	759,771	577,646	-	-
	4,727,698	**4,108,876**	**-**	**-**
Premises and equipments costs				
Rental of premises	124,999	489,664	-	-
Electricity	126,527	93,091	-	-
Other Premises and equipment costs	172,425	165,303	-	-
	423,951	**748,058**	**-**	**-**
Other expenses				
Deposit protection insurance contribution	292,410	244,086	-	-
Loss on disposal of property and equipment	-	5,796	-	-
Other general administrative expenses	2,537,362	2,519,738	40,699	29,039
	2,829,772	**2,769,620**	**40,699**	**29,039**
Depreciation and amortisation				
Depreciation on property and equipment (Note 24)	821,799	387,570	-	11
Amortisation of intangible assets (Note 25)	343,721	189,610	-	-
Amortisation of prepaid operating lease rentals (Note 26)	-	19,669	-	-
	1,165,520	**596,849**	**-**	**11**

The average number of employees employed by the Group are as follows:

	Group 2019	Group 2018	Company 2019	Company 2018
Management	1,470	1,373	-	-
Others	245	230	-	-
	1,715	**1,603**	**-**	**-**

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Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

15. PROFIT BEFORE INCOME TAX

	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
Profit before income tax is arrived at after charging /(crediting):				
Depreciation	821,799	387,570	-	11
Amortisation of intangible assets	343,721	189,610	-	-
Directors' emoluments:				
- Fees	19,413	18,241	10,286	9,375
- Other	45,417	38,800	-	-
Auditors' remuneration	28,960	19,381	1,680	1,600
Amortisation of prepaid operating lease rentals	-	19,669	-	-
Net (loss)/profit on disposal of property and equipment	(4,277)	5,796	-	-
Dividend income	-	-	351,580	2,875,332

16. INCOME TAX EXPENSE AND TAX PAYABLE

(a) Income tax expense

	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
Current tax				
Current year's	4,754,399	3,459,327	6,905	5,243
Under/(Over) provision in prior year	238,341	44,299	(1,817)	436
	4,992,740	**3,503,626**	**5,088**	**5,679**
Deferred tax (Note 27)				
Current year	(763,618)	(381,832)	-	-
Prior year adjustment	(394,628)	(127,371)	-	-
	(1,158,246)	**(509,203)**	**-**	**-**
Income tax expense	**3,834,494**	**2,994,423**	**5,088**	**5,679**
Accounting profit before income tax	**14,603,108**	**11,497,780**	**369,764**	**2,881,580**
Computed tax using the applicable corporation tax rate (30%)	4,380,932	3,449,334	110,929	864,474
Under/(Over) provision in the prior year	238,341	44,299	(1,817)	436
Impact of share of joint ventures	(271,511)	(178,593)	-	-
Effect on non-deductible costs /non-taxable income	(118,640)	(193,246)	(104,024)	(859,231)
Over provision in prior year - Deferred tax (Note 27)	(394,628)	(127,371)	-	-
	3,834,494	**2,994,423**	**5,088**	**5,679**

(b) Tax (recoverable)/payable

	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
At 1 January	3,521	(315,563)	(6,347)	(5,799)
Income tax expense (Note 16(a))	4,992,740	3,503,626	5,088	5,679
Effect of tax in foreign jurisdiction	(9,026)	(47,050)	-	-
Acquisition of Youjays Insurance Brokers Limited	-	(2,443)	-	-
Tax paid	(4,130,360)	(3,135,049)	(3,994)	(6,227)
At 31 December	**856,875**	**3,521**	**(5,253)**	**(6,347)**
Tax recoverable	(37,819)	(126,609)	(5,253)	(6,347)
Tax payable	894,694	130,130	-	-
Net payable	**856,875**	**3,521**	**(5,253)**	**(6,347)**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

17. EARNINGS PER SHARE

	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
Profit for the year attributable to equity holders (KShs '000')	10,309,038	7,950,819	364,676	2,875,901
Weighted average number of ordinary shares in issue during the year	826,811	826,811	826,811	826,811
Earnings per share (KShs)	**12.47**	**9.62**	**0.44**	**3.48**

There were no potentially dilutive shares outstanding at 31 December 2019 (2018 – Nil).

18. CASH AND BALANCES WITH CENTRAL BANKS

	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
Cash on hand	2,361,064	2,409,004	-	-
Balances with central banks				-
Restricted balances (CRR*)	10,824,740	10,370,295	-	-
- Unrestricted balances	2,200,025	2,087,840	-	-
	15,385,829	**14,867,139**	**-**	**-**

The Group's Cash Reserve Ratio is non-interest earning and is based on the value of deposits as adjusted for the respective central banks requirements. At 31 December 2019, the cash ratio requirement was 5.25% (2018: 5.25%) in Kenya, Tanzania was 10.0% (2018: 10.0%) and 5% (2018: 5%) in Rwanda of eligible deposits.

19. ITEMS IN THE COURSE OF COLLECTION

	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
Assets	**536,459**	**764,460**	**-**	**-**
Liabilities	**147,321**	**177,736**	**-**	**-**

Items in the course of collection represent net settlement balances through the inter-banking clearing process

20. LOANS AND ADVANCES TO BANKS

	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
Due within 90 Days	43,662,404	33,675,193	-	-

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

21. LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

	2019 KShs'000	2018 KShs'000
Overdrafts	53,205,302	52,936,730
Loans	127,646,523	121,690,707
Bills discounted	1,114,867	530,307
Hire purchase- finance leases	4,381,373	3,403,529
Gross loans and advances	**186,348,065**	**178,561,273**
Less: Impairment losses on loans and advances	(11,018,639)	(11,824,544)
Net loans and advances	**175,329,426**	**166,736,729**

The movement in impairment loss reserves in compliance with IFRS 9 is disclosed on Note 5(a)(v).

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(b) Impairment losses on loans and advances and other financial assets at amortised cost - Group

	Loans and advances to Customers at amortised cost KShs'000	Loan commitments and financial guarantee contracts KShs'000	Total banking related financial assets KShs'000	Other financial assets at cost - trade receivable KShs'000	Total KShs'000
2019:					
Net remeasurement of loss allowance	263,477	(134,827)	128,650	(709)	127,941
New financial assets originated or purchased	153,844	22,566	176,410	-	176,410
	417,321	**(112,261)**	**305,060**	**(709)**	**304,351**
Recoveries and impairment no longer required	(494,099)	(47,737)	(541,836)	-	(541,836)
Recoveries of loans and advances previously written off	(255,148)	-	(255,148)	-	(255,148)
Amounts directly written off during the year	1,112,879	13,688	1,126,567	2,521	1,129,088
	780,953	**(146,310)**	**634,643**	**1,812**	**636,455**
2018:					
Net remeasurement of loss allowance	4,178,550	(109,807)	4,068,743	349	4,069,092
New financial assets originated or purchased	397,227	45,196	442,423	-	442,423
	4,575,777	**(64,611)**	**4,511,166**	**349**	**4,511,515**
Recoveries and impairment no longer required	(209,598)	(117,573)	(327,171)	-	(327,171)
Recoveries of loans and advances previously written off	(636,388)	11,369	(625,019)	-	(625,019)
Amounts directly written off during the year	247,415	-	247,415	605	248,020
	3,977,206	**(170,815)**	**3,806,391**	**954**	**3,807,345**

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Non-performing loans and advances

Non-performing loans and advances net of impairment losses and estimated value of securities are disclosed in note 5(a):

	2019 KShs'000	2018 KShs'000
Interest on impaired loans and advances which have not yet been received in cash	**1,273,012**	**2,055,118**

(d) Loans and advances to customers concentration by sector

Group	2019		2018	
	KShs '000	%	KShs '000	%
Manufacturing	49,749,008	27%	42,008,094	24%
Wholesale and retail trade	34,803,564	19%	37,898,992	21%
Building and construction	15,934,435	9%	15,413,001	9%
Agriculture	4,633,291	2%	4,838,467	3%
Real estate	34,300,561	18%	31,882,138	18%
Transport and communication	8,621,354	5%	8,854,654	5%
Business services	13,201,078	7%	22,615,277	13%
Electricity and water	786,619	0%	429,355	0%
Finance and insurance	4,496,192	2%	2,261,067	1%
Mining and quarrying	1,131,892	1%	1,513,281	1%
Others	18,690,071	10%	10,846,947	6%
	186,348,065	**100%**	**178,561,273**	**100%**

(e) Finance leases

Loans and advances to customers include finance leases receivable as follows:

Group	2019 KShs'000	2018 KShs'000
Receivable no later than 1 year	387,150	394,077
Receivable later than 1 year and no later than 5 years	3,994,223	3,009,452
	4,381,373	**3,403,529**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

22. FINANCIAL ASSETS

(a) Financial assets at fair value through profit or loss (FVTPL)

Group	2019 KShs'000	2018 KShs'000
Corporate bonds	-	336,136
Derivative assets	1,920,720	1,267,793
Government securities (Non Liquid)	11,823,328	11,541,197
	13,744,048	**13,145,126**

(b) Financial assets measured at fair value through other comprehensive income (FVOCI)

Group	2019 KShs'000	2018 KShs'000
Equity investment	559,569	472,218
Government securities (Non Liquid)	12,549,629	10,381,153
	13,109,198	**10,853,371**
Company		
Government securities (Non Liquid)	**27,679**	**133,223**

(c) Other financial assets at amortised cost

Group	2019 KShs'000	2018 KShs'000
Government securities (Non Liquid)	26,993,217	28,082,231
Trade receivables	77,802	75,870
	27,071,019	**28,158,101**

22. FINANCIAL ASSETS (Continued)

The change in the carrying amount of investment securities held by the Group is as shown below:

Group:

	Financial assets at fair value through profit or loss (FVTPL) Government securities KShs'000	Other financial assets at amortised cost Government securities KShs'000	Financial assets measured at fair value through other comprehensive income (FVOCI) Government securities KShs'000	Equity investments KShs'000	Corporate bond KShs'000	Total KShs'000
31 December 2019						
At 1 January 2019	13,145,126	28,082,231	10,381,153	472,218	-	**52,080,728**
Reclassification	-	-	-	127,000	-	**127,000**
Additions	14,198,212	15,995,419	3,927,248	6,971	-	**34,127,850**
Disposals and maturities	(14,193,813)	(16,994,722)	(1,944,447)	(4,603)	-	**(33,137,585)**
Revaluation gain	-	-	-	21,494	-	**21,494**
Changes in fair value	579,421	-	288,868	(42,899)	-	**825,390**
Amortisation of discounts and premiums, unearned interest and interest receivable	15,135	173,259	(21,205)	1,063	-	**168,252**
Translation reserve	(33)	(262,970)	(103,482)	(181)	-	**(366,666)**
At 31 December 2019	**13,744,048**	**26,993,217**	**12,528,135**	**581,063**	**-**	**53,846,463**
31 December 2018						
At 1 January 2018	2,911,654	27,022,965	20,663,671	738,511	331,104	**51,667,905**
Reclassification	5,946,915	2,623,822	(8,239,633)	-	(331,104)	**-**
Additions	6,008,680	19,491,995	18,005,886	-	-	**43,506,561**
Disposals and maturities	(2,196,257)	(23,469,488)	(22,132,820)	(12,060)	-	**(47,810,625)**
Changes in fair value	99,920	-	(84,045)	260,808)	-	**(244,933)**
Amortisation of discounts and premiums, unearned interest and interest receivable	540,330	2,753,191	2,168,001	8,148	-	**5,469,670**
Translation reserve	(166,116)	(340,254)	93	(1,573)	-	**(507,850)**
At 31 December 2018	**13,145,126**	**28,082,231**	**10,381,153**	**472,218**	**-**	**52,080,728**

22. FINANCIAL ASSETS (Continued)

The change in the carrying amount of investment securities held by the Company is as shown below:

Financial assets measured at fair value through other comprehensive income (FVOCI)	**2019 KShs'000**	**2018 KShs'000**
At 1 January	133,223	193,523
Additions	296,350	-
Disposals and maturities	(423,187)	(79,853)
Changes in fair value	(3,016)	2,977
Amortisation of discounts and premiums, unearned interest and interest receivable	24,309	16,576
At 31 December	**27,679**	**133,223**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

23. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE

The Company holds investments in subsidiaries in I&M Bank (T) Limited and I&M Insurance Agency Limited and Youjays Insurance Brokers Limited through I&M Bank LIMITED. All the three entities have been consolidated with the results of I&M Bank LIMITED. I&M Bank (Rwanda) PLC (subsidiary through BCR Investment Company Limited), I&M Capital Limited, I&M Realty Limited, I&M Burbidge Capital Limited, I&M Burbidge Capital (U) Limited are the other subsidiaries of I&M Holdings Plc. I&M Holdings Plc owns 50% of a joint venture in Mauritius (Bank One Limited).

(a) Investment in joint venture

The Company has 50% (2018 -50%) control over Bank One Limited with the other joint venture, CIEL Investments Limited. The joint venture was formerly owned through I&M Bank LIMITED until 22 August 2014 when it was transferred to I&M Holdings Plc.

Group	2019 KShs'000	2018 KShs'000
Balance at start of the year	4,535,205	4,267,166
Additional investment in the year	430,620	-
Share of:		
Profit from operations	905,037	595,310
Dividends received	(196,340)	(114,695)
Other comprehensive income	(275,977)	(212,576)
Balance at end of the year	**5,398,545**	**4,535,205**
Percentage ownership	**50.00%**	**50.00%**
Total assets (including cash and cash equivalents)	154,211,857	118,803,363
Total liabilities (including cash and cash equivalents)	(144,365,577)	(110,683,763)
Net assets (100%)	**9,846,280**	**8,119,600**
Group's share of net assets (50%)	4,923,139	4,059,799
Goodwill	475,406	475,406
Carrying amount of interest in joint venture	**5,398,545**	**4,535,205**
Interest income	4,838,100	4,222,737
Interest expense	1,715,390)	(1,336,669)
Other income	1,210,973	1,420,327
Operating expenses	(2,436,387)	(2,948,668)
Income tax expense	(87,222)	(167,107)
Profit and total comprehensive income (100%)	**1,810,074**	**1,190,620**
Profit and loss (50%)	**905,037**	**595,310**
Groups share of other comprehensive income	**629,060**	**382,734**
Company:		
At 1 January	**1,679,971**	**1,679,971**
Additional investment in Bank One Limited	430,620	-
At 31 December	**2,110,591**	**1,679,971**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

23. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE (Continued)

(b) Investment in subsidiaries

Company	Activity	Shareholding	2019 KShs'000	2018 KShs'000
I&M Bank LIMITED	Banking	100.00%	19,840,176	19,840,176
I&M Capital Limited	Dormant	100.00%	6,611	6,611
I&M Bank (Rwanda) PLC through BCR Investment Company Limited	Banking	54.47%	1,629,277	1,629,277
I&M Realty Limited	Real estate	100.00%	5,170	5,170
I&M Burbidge Capital Limited	Investment	65.00%	66,037	66,037
Giro Limited	Dormant	100.00%	4,115,023	4,115,023
			25,662,294	**25,662,294**

The Group owns the following subsidiaries through I&M Bank LIMITED, its wholly owned subsidiary:

Company	Activity	Jurisdiction	Shareholding
I&M Insurance Agency Limited	Bancassurance	Kenya	100.00%
I&M Bank (T) Limited	Banking	Tanzania	70.38%
Youjays Insurance Brokers Ltd	Bancassurance	Kenya	100.00%

(c) Movement in investment in subsidiaries

	2019 KShs'000	2018 KShs'000
At 1 January	**25,662,294**	**23,790,896**
Additional investment in I&M Bank LIMITED	-	1,871,398
At December	**25,662,294**	**25,662,294**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

23. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE (Continued)

Below is the summary of financials of the banking subsidiaries.

	I&M Bank LIMITED		I&M Bank (T) LIMITED		I&M Bank (Rwanda) PLC	
	2019 KShs'M	2018 KShs'M	2019 KShs'M	2018 KShs'M	2019 KShs'M	2018 KShs'M
Summarized statement of financial position						
Total assets	254,252	229,161	22,498	22,643	34,327	33,262
Total liabilities	207,237	190,823	18,971	19,284	29,707	28,788
Net assets	**47,015**	**38,338**	**3,527**	**3,359**	**4,620**	**4,474**
Summarized statement of profit and loss and other comprehensive income						
Net interest income	**12,844**	**12,413**	**1,295**	**1,148**	**2,417**	**2,380**
Profit before income tax	12,012	8,725	391	408	994	1,273
Income tax expense	(3,273)	(2,386)	(126)	(127)	(315)	(395)
Profit for the year	**8,739**	**6,339**	**265**	**281**	**679**	**878**
Summarised statement of cash flows						
Net cash generated from operating activities	11,999	33,825	(1,257)	(239)	2,068	(1,209)
Net cash used in investing activities	(1,354)	(1,475)	(418)	(170)	(1,346)	(718)
Net cash (used in)/generated from financing activities	(1,067)	(2,688)	(122)	594	510	551
Net increase/(decrease) in cash and cash equivalents	**9,578**	**29,662**	**(1,797)**	**185**	**1,232**	**(1,376)**
Cash and cash equivalents at beginning of year	**33,366**	**3,704**	**1,051**	**866**	**2,028**	**3,404**
Cash and cash equivalents at end of year	**42,944**	**33,366**	**(746)**	**1,051**	**3,260**	**2,028**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

24. PROPERTY AND EQUIPMENT

2019	Buildings KShs'000	Leasehold improvements KShs'000	Furniture, fittings, fixtures and office equipment KShs'000	Computers KShs'000	Motor Vehicles KShs'000	Right of use asset KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost/valuation								
At 1 January 2019	2,520,071	1,273,307	1,360,542	774,610	202,050	-	3,400,726	9,531,306
Recognition of right of use asset on initial application of IFRS 16	-	-	-	-	-	1,984,201	-	1,984,201
Transfer from prepaid operating lease rentals	-	-	-	-	-	317,623	-	317,623
Additions	12,713	28,934	126,710	51,729	29,871	55,676	1,404,882	1,710,515
Revaluation reserve	55,000	-	-	-	-	-	-	55,000
On disposals	-	-	(776)	(214)	(25,323)	-	-	(26,313)
Reclassification/internal transfers	23,381	33,416	30,829	355,626	-	-	(443,252)	-
Transfers from intangible assets	-	-	-	-	-	-	340,925	340,925
Write offs/back	(7,670)	-	33	211	-	-	(287)	(7,713)
Translation difference	(33,085)	(861)	(15,100)	(10,669)	(4,129)	-	(70,280)	(134,124)
At 31 December 2019	**2,570,410**	**1,334,796**	**1,502,238**	**1,171,293**	**202,469**	**2,357,500**	**4,632,714**	**13,771,420**
Depreciation								
At 1 January 2019	144,456	898,799	875,722	746,635	141,133	-	-	2,806,745
Transfer from prepaid operating lease rentals	-	-	-	-	-	71,352	-	71,352
Charge for the year	70,141	97,685	104,012	132,842	25,784	391,335	-	821,799
Write-offs	-	-	33	434	-	-	-	467
Reversal on revaluation	(24,583)	-	-	-	-	-	-	(24,583)
On disposals	-	-	(206)	(214)	(25,323)	-	-	(25,743)
Translation differences	(7,555)	(448)	(9,996)	(8,350)	(3,147)	(1,550)	-	(31,046)
At 31 December 2019	**182,459**	**996,036**	**969,565**	**871,347**	**138,447**	**461,137**	**-**	**3,618,991**
Net book value at 31 December 2019	**2,387,951**	**338,760**	**532,673**	**299,946**	**64,022**	**1,896,363**	**4,632,714**	**10,152,429**

In 2019, the buildings on LR No: 209/7265 and LR No: 1870/1/579 were revalued by an independent valuer, Kiragu & Mwangi Limited. The valuation is level 3 under the Fair value hierarchy.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

24. PROPERTY AND EQUIPMENT (Continued)

2018

	Buildings KShs'000	Leasehold improvements KShs'000	Furniture, fittings, fixtures and office equipment KShs'000	Computers KShs'000	Motor Vehicles KShs'000	Right of use asset KShs'000	Capital work in progress KShs'000	Total KShs'000
At 1 January 2018	2,510,899	1,211,591	1,278,795	763,598	178,672	-	1,936,412	7,879,967
Additions	125,461	64,705	95,270	22,483	54,277	-	1,590,074	1,952,270
Transfer to intangible work in progress	-	-	-	-	-	-	(4,010)	(4,010)
On disposals	(15,218)	(43)	(4,327)	(1,856)	(29,073)	-	-	(50,517)
Items expensed	-	-	-	-	-	-	(4,532)	(4,532)
Reclassification/internal transfers	-	13,698	24,379	-	6,005	-	(44,082)	-
Write offs/back	(17,464)	(9,461)	(3,403)	-	-	-	(69)	(30,397)
Surplus on revaluation	(23,538)	-	-	-	-	-	-	(23,538)
Translation difference	(60,069)	(7,183)	(30,172)	(9,615)	(7,831)	-	(73,067)	(187,937)
At 31 December 2018	**2,520,071**	**1,273,307**	**1,360,542**	**774,610**	**202,050**	**-**	**3,400,726**	**9,531,306**
Depreciation								
At 1 January 2018	126,575	805,444	797,162	669,539	145,394	-	-	2,544,114
Charge for the year	67,639	102,272	102,589	84,082	30,988	-	-	387,570
Write-offs	-	(5,756)	(2,109)	-	-	-	-	(7,865)
Reversal on revaluation	(39,458)	-	-	-	-	-	-	(39,458)
On disposals	(309)	-	(3,101)	(1,834)	(28,895)	-	-	(34,139)
Translation differences	(9,991)	(3,161)	(18,819)	(5,152)	(6,354)	-	-	(43,477)
At 31 December 2018	**144,456**	**898,799**	**875,722**	**746,635**	**141,133**	**-**	**-**	**2,806,745**
Net book value at 31 December 2018	**2,375,615**	**374,508**	**484,820**	**27,975**	**60,917**	**-**	**3,400,726**	**6,724,561**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

25. INTANGIBLE ASSETS

(a) Goodwill

	2019 KShs'000	2018 KShs'000
I&M Bank LIMITED	1,195	1,195
I&M Bank (T) Limited	473,061	475,444
Biashara Bank of Kenya Limited	-	-
I&M Bank (Rwanda) PLC	428,916	449,145
I&M Burbidge Capital Limited	34,176	34,105
Giro Limited	1,944,139	1,944,139
Youjays Insurance Brokers Limited	232,284	232,284
	3,113,771	**3,136,312**

Movement of Goodwill

	2019 KShs'000	2018 KShs'000
At 1 January	3,136,312	2,972,556
Write off Biashara Bank of Kenya Limited	-	(10,747)
Acquisition of Youjays Insurance Brokers Limited	-	232,284
Exchange differences	(22,541)	(57,781)
At 31 December	**3,113,771**	**3,136,312**

Acquisition of Youjays Insurance Brokers Limited

	2018 KShs'000
Total purchase consideration paid in cash	**282,800**
Total assets	94,201
Total liabilities	(43,685)
Net assets acquired	**50,516**
Goodwill	**232,284**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

25. INTANGIBLE ASSETS (Continued)

(a) Goodwill (continued)

With respect to goodwill assessment for impairment, no impairment losses have been recognised as the recoverable amounts of the Cash Generating Units (CGUs) were determined to be higher than their carrying amounts. The recoverable amounts have been calculated by discounting the future cash flows expected to be generated from the continuing use of the respective CGUs. The key assumptions used in the calculation of value in use were as follows:

2019	I&M Bank Tanzania Ltd	I&M Bank (Rwanda) PLC	I&M Burbidge Capital Limited	Giro Limited
5 year risk free rate	11.95%	11.20%	11.49%	11.40%
Risk premium	9.94%	10.43%	9.43%	9.43%
Terminal growth rate	3.00%	3.00%	4.00%	40.00%
Exchange rate	KShs 1 = Tzs 22.68	KShs 1 = Rwf 9.26	KShs 1 = KShs 1	KShs 1 = KShs 1
Present value of the recoverable amounts KShs in billions	3.002	3.280	0.35	4.277
Goodwill impaired	Nil	Nil	Nil	Nil

2018	I&M Bank (Tanzania) Ltd	I&M Bank (Rwanda) PLC	I&M Burbidge Capital Limited	Giro Limited
5 year risk free rate	12.00%	11.80%	11.30%	11.30%
Risk premium	13.60%	13.60%	11.64%	9.64%
Terminal growth rate	3.00%	2.50%	3.00%	3.00%
Exchange rate	KShs 1 = Tzs 22.60	KShs 1 = Rwf 8.84	KShs 1 = KShs 1	KShs 1 = KShs 1
Present value of the recoverable amounts KShs in billions	2.318	3.927	0.174	6.083
Goodwill impaired	Nil	Nil	Nil	Nil

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

25. INTANGIBLE ASSETS (Continued)

(a) Goodwill (continued)

The discount rate utilised was the risk free rate on the rate of 5 year government bonds issued by the governments in the respective markets and in the same currency as the cash flows.

These cash flows have been projected for 7 years, based on the approved Business plans of the respective units.

In the opinion of the Directors, there was no impairment of goodwill during the year.

(b) Software

	Software KShs'000	Capital work in progress KShs'000	Total KShs'000
2019:			
Cost			
At 1 January 2019	2,206,062	822,180	3,028,242
Additions	545,977	480,432	1,026,409
Reclassification	823,345	(823,345)	-
Transfers to tangible assets	-	(340,925)	(340,925)
Write offs	-	(6,665)	(6,665)
Translation differences	(37,755)	(4,355)	(42,110)
At 31 December 2019	**3,537,629**	**127,322**	**3,664,951**
Amortisation			
At 1 January 2019	1,292,360	-	1,292,360
Amortisation for the year	343,721	-	343,721
Translation differences	(14,037)	-	(14,037)
At 31 December 2019	**1,622,044**	**-**	**1,622,044**
Carrying amount at 31 December 2019	**1,915,585**	**127,322**	**2,042,907**
2018:			
Cost			
At 1 January 2018	1,359,595	292,643	1,652,238
Additions	256,162	1,172,612	1,428,774
Reclassification	631,855	(631,855)	-
Transferred from tangible work in progress	-	4,010	4,010
Translation differences	(41,550)	(15,230)	(56,780)
At 31 December 2018	**2,206,062**	**822,180**	**3,028,242**
Amortisation			
At 1 January 2018	1,124,274	-	1,124,274
Amortisation for the year	189,610	-	189,610
Translation differences	(21,524)	-	(21,524)
At 31 December 2018	**1,292,360**	**-**	**1,292,360**
Carrying amount at 31 December 2018	**913,702**	**822,180**	**1,735,882**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

26. PREPAID OPERATING LEASE RENTALS

	Group		Company	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
Cost				
At 1 January	317,623	317,623	-	-
Transfer to right of use asset	(317,623)	-	-	-
At 31 December	**-**	**317,623**	**-**	**-**
Amortisation				
At 1 January	71,352	51,683	-	-
Transfer to right of use asset	(71,352)	-	-	-
Charge for the year	-	19,669	-	-
At 31 December	**-**	**71,352**	**-**	**-**
At 31 December	**-**	**246,271**	**-**	**-**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

27. DEFERRED TAX ASSET - GROUP

	Balance at 1 January KShs'000	Day one IFRS 9 transition adjustments KShs'000	Acquisition of subsidiary KShs'000	Prior year adjustment KShs'000	Recognised in equity KShs'000	Translation differences KShs'000	Recognised in profit or loss KShs'000	Balance at 31 December KShs'000
2019								
Property and Equipment	(392,141)	-	-	(1,409)	-	11,084	(80,937)	(463,403)
Right of use of asset	-	-	-	-	-	-	16,580	16,580
General provisions	325,700	-	-	20,549	-	(4,504)	11,113	352,858
Other provisions	1,830,413	-	-	375,488	-	(267)	694,511	2,900,145
Fair value reserves	165,373	-	-	-	(79,287)	219	122,351	208,656
	1,929,345	**-**	**-**	**394,628**	**(79,287)**	**6,532**	**763,618**	**3,014,836**
2018								
Property and Equipment	(408,906)	-	1,346	1,322	-	22,043	(7,946)	(392,141)
General provisions	265,594	17,746	-	(17)	-	(13,203)	55,580	325,700
Other provisions	1,146,298	223,863	-	126,066	-	(12)	334,198	1,830,413
Fair value reserves	63,511	12,321	-	-	91,275	(1,734)	-	165,373
	1,066,497	**253,930**	**1,346**	**127,371**	**91,275**	**7,094**	**381,832**	**1,929,345**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

28. OTHER ASSETS

	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
Prepayments	406,745	372,044	500	499
Other receivables	2,285,239	1,515,701	8,380	-
	2,691,984	**1,887,745**	**8,880**	**499**

29. DEPOSITS FROM BANKS

	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
Due within 90 Days	7,463,215	4,800,765	-	-
Due after 90 days	542,389	846,336	-	-
	8,005,604	**5,647,101**	**-**	**-**

30. DEPOSITS FROM CUSTOMERS

	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
Government and Parastatals	4,039,916	1,788,450	-	-
Private sector and individuals	225,696,593	211,350,920	-	-
	229,736,509	**213,139,370**	**-**	**-**

31. OTHER LIABILITIES

	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
Bankers cheques payable	174,896	190,839	-	-
Accruals	1,669,538	1,438,808	2,153	3,880
Lease liabilities	1,619,632	-	-	-
Provisions for loan commitments*	168,909	329,270	-	-
Other accounts payable	(1,067,345)	1,155,179	-	-
Dividend payable	88,428	1,683,484	88,428	1,683,484
	4,788,747	**4,797,580**	**90,581**	**1,687,364**

*This represents impairment allowance for loan commitments and financial guarantee contracts.

32. LONG TERM DEBT

	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
Less than one year	1,749,603	1,803,185	-	-
One to five years	4,460,968	6,343,610	-	-
Over five years	-	99,980	-	-
	6,210,571	**8,246,775**	**-**	**-**

Loan movement schedule

	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
At 1 January	8,246,775	8,150,179	-	-
Funds received	957,195	2,549,072	-	-
Payments on principal and interest	(2,916,609)	(2,081,191)	-	-
Exchange differences	(76,790)	(371,285)	-	-
At 31 December	**6,210,571**	**8,246,775**	**-**	**-**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

32. LONG TERM DEBT (Continued)

Long term borrowings constituted the following:

i. USD 50,000,000 facility granted on 16 July 2013 by IFC repayable semi-annually over 7 years after an initial two years grace period.

ii. USD 26,000,000 facility granted on 21 March 2014 by PROPARCO repayable semi-annually over seven years four months after an initial one year grace period.

iii. EUR 10,000,000 facility granted on 21 March 2014 by PROPARCO repayable semi-annually over seven years four months after an initial one year grace period.

iv. USD 7,400,000 facility granted on 29 December 2017 by ResponsAbility Investment AG repayable annually over 3 years and interest repayable semi-annually for the same period.

v. USD 15,000,000 facility granted on 9 November 2018 by FMO repayable semi-annually over 4 and a half years after an initial one year grace period.

vi. USD 5,000,000 facility granted on 3 July 2012 by PROPARCO repayable in semi – annually with a final repayment date of 31 October 2019.

vii. TZS 3,250 million facility granted on 14 July 2014 by Tanzania Mortgage Refinance Company Limited (TMRC). The interest on the facility repayable quarterly over 3 years with redemption on maturity.

viii. USD 12,000,000 granted on 16th March 2016 by FMO as senior debts for tenor of 6 years. The interest and principal on the facility is repayable on a quarterly basis. Final Repayment date is 10 October 2021.

ix. USD 15,000,000 granted on December 2018 by FMO as senior debts for tenor of 5 years. The interest and principal on the facility is repayable on a quarterly basis.

x. USD 4,657,777 and USD 5,342,223 unsecured loan from European Investment Bank repayable in Rwandan Francs. The loans maturing on 17th November 2025 and 15 May 2025 respectively.

33. SUBORDINATED DEBT

	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
Less than one year	207,586	3,694,621	-	-
One to five years	3,437,661	1,814,288	-	-
Over five years	999,808	-	-	-
	4,645,055	**5,508,909**	**-**	**-**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

33. SUBORDINATED DEBT (Continued)

Subordinated debt comprises:

In Kenya, USD 27,350,000 medium term unsecured subordinated fixed and floating rate notes issued on 14 August 2019 for a tenor of 5 years with redemption on the maturity date.

In Tanzania, USD 10 Million granted on January 2015 by DEG of which USD 8 Million was received in January 2015 and will mature on September 2021.

In Rwanda, USD 10 Million 5 year subordinated loan with IFC at an interest rate of 9.003%.

The subordinated debt would in the event of winding up of the respective companies be subordinated to the claims of depositors and all other creditors. The Group and Company has not had any defaults of principal or interest with respect to these debts

34. SHARE CAPITAL AND RESERVES

(a) Share capital and share premium – Group and Company

	2019 KShs'000	2018 KShs'000
Authorised:		
1,500,000,000 ordinary shares of KShs 1 each	**1,500,000**	**1,500,000**
Issued and fully paid:		
Ordinary shares of KShs 1 each at 31 December	**826,811**	**413,405**

Movement of share capital and premium

	Number of shares '000	Share Capital Kshs'000	Share premium Kshs'000	Total Kshs'000
2019:				
1 January 2019	413,405	413,405	18,805,359	19,218,764
Issue of bonus shares	413,406	413,406	(413,406)	-
Issue related costs	-	-	(1,446)	(1,446)
31 December 2019	**826,811**	**826,811**	**18,390,507**	**19,217,318**
2018:				
31 December 2018	**413,405**	**413,405**	**18,805,359**	**19,218,764**

During the Annual General Meeting (AGM) of 23 May 2019, shareholders approved issuance of bonus shares at a proportion of one (1) new share for every one (1) of existing and paid up shares held by shareholders respectively. The shares were treated as an increase in the amount of nominal amount of capital of the Company held by each shareholder. Requisite approvals were received and KShs 413,405,369 was capitalized from Share Premium account to form part of un-distributable capital.

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

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

34. SHARE CAPITAL AND RESERVES (Continued)

(b) Share premium

Share premium is the amount which the Company raises in excess of the par value/nominal value of the shares. This is disclosed in the statement of changes in equity appearing on pages 100-102.

(c) Revaluation reserve

The revaluation reserve arises on revaluation of buildings. When revalued property is disposed, the portion of the revaluation reserve that relates to that asset is transferred to retained earnings. This is disclosed in the statement of changes in equity appearing on pages 100-102.

(d) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of FVOCI investments, excluding impairment losses, until the investment is derecognised. This is disclosed in the statement of changes in equity appearing on pages 100-102.

(e) Translation reserve

The translation reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations. Details of the Group investments outside Kenya are disclosed in Note 1 of the financial statements. This is disclosed in the statement of changes in equity appearing on pages 100-102.

(f) Statutory credit risk statutory reserve

Where impairment losses required by legislation or regulations exceed those computed under International Financial Reporting Standards (IFRSs), the excess is recognised as a statutory reserve and accounted for as an appropriation of retained profits and the reverse for reductions. These reserves are not distributable. This is disclosed in the statement of changes in equity appearing on pages 100-102.

(g) Defined benefit reserve

Bank One Limited (a joint venture for I&M Holdings Plc) operates a defined benefit scheme. The net obligation is calculated by estimating 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. The calculation is performed annually by a qualified actuary using the projected unit credit method. The Group share of actuarial gains or losses arising from the calculation are recognised in other comprehensive income.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

35. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before income tax to cashflow from operating activities

	Note	Group 2019 KShs '000	Group 2018 KShs '000	Company 2019 KShs '000	Company 2018 KShs '000
Profit before income tax		14,603,108	11,497,780	369,764	2,881,580
Adjustments for:					
Depreciation on property and equipment	24	430,444	387,570	-	11
Depreciation on right of use asset	24	391,335	-	-	-
Amortisation of intangible asset	25(b)	343,721	189,610	-	-
Amortisation of prepaid lease rentals	26	-	19,669	-	-
Interest on lease liabilities		166,005	-	-	-
Loss/ (gain) on sale of property and equipment		(4,277)	5,796	-	-
Property and equipment of items expensed		-	5,288	-	-
Profit on sale of available for sale securities		(1,258,297)	(540,330)	-	-
Write off to profit or loss - intangible assets		-	10,747	-	-
Write off to profit or loss - property and equipment		7,246	27,064	-	-
Profit from joint venture	23(a)	(905,037)	(595,310)	-	-
Exchange reserves		(207,708)	(571,218)	-	-
		13,556,560	**10,436,666**	**369,764**	**2,881,591**
Increase/ (decrease) in operating assets					
Movement in loans and advances to customers		(8,592,697)	(13,997,409)	-	-
Financial assets at fair value through profit or loss		(659,375)	(4,286,557)	-	-
Financial assets measured at fair value through other comprehensive income (FVOCI)		(2,009,858)	2,393,983	102,528	60,300
Other financial assets at amortised cost		1,056,401	1,579,542	-	-
Loans and advances to banks		-	-	-	-
Cash and balances with Central Banks					
Cash Reserve Ratio	18	(454,445)	(3,211,326)	-	-
Other assets		(804,239)	(263,798)	(8,381)	1,500
		(10,145,463)	**(17,785,565)**	**94,147**	**61,800**
Increase/ (decrease) in operating liabilities					
Customer deposits		16,597,139	43,857,056	-	-
Deposits from banks		(303,947)	(1,606,402)	-	-
Long-term borrowings		(1,959,415)	467,881	-	-
Other liabilities		(1,628,465)	(2,233,944)	(1,596,782)	1,615,530
Amounts due to group company		-	-	(306)	(409)
		12,705,310	**40,484,591**	**(1,597,088)**	**1,615,121**
Cash flows generated from operating activities		**16,126,409**	**33,135,692**	**(1,133,177)**	**4,558,512**
Tax paid	16(b)	(4,130,360)	(3,135,049)	(3,994)	(6,227)
Interest on lease liabilities		(166,005)	-	-	-
Net cash flows generated from operating activities		**11,830,044**	**30,000,643**	**(1,137,171)**	**4,552,285**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

35. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

(b) Analysis of cash and cash equivalents - Group

		2019 KShs'000 a	2018 KShs'000 b	Change KShs'000 c =(a – b)
Cash and balances with Central Banks – excluding CRR*	18	4,561,089	4,496,844	64,245
Items in the process of collection	19	389,138	586,724	(197,586)
Loans and advances to banks	20	43,662,404	33,675,193	9,987,211
Deposits from banks	29	(7,463,215)	(4,800,765)	(2,662,450)
		41,149,416	**33,957,996**	**7,191,420**

*Cash Reserve Ratio

(c) Acquisition of Youjays Insurance Brokers Limited

Acquisition of Youjays Insurance Brokers [YIB] Limited net of cash and cash equivalents	**2018 KShs'000**
Net assets acquired	50,516
Less: Cash and cash equivalents	(9,360)
Net cash outflow	**41,156**
Goodwill (Note 25)	232,284
Net Cash flow on acquisition	**273,440**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

36. OFF BALANCE SHEET CONTINGENT LIABILITIES AND COMMITMENTS - GROUP

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Group as at 31 December 2019. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

(b) Contractual off-balance sheet financial liabilities

In the ordinary course of business, banking entities in the Group conduct business involving guarantees, acceptances and letters of credit. These facilities are offset by corresponding obligations of third parties. At the period end, the contingent liabilities were as follows:

Group	2019 KShs'000	2018 KShs'000
Contingencies related to:		
Letters of credit	27,973,277	25,194,569
Guarantees	20,417,687	21,195,359
Other credit commitments	17,318,502	11,995,193
Commitments related to:		
Outstanding spot/forward contracts	58,732,452	39,167,772
	124,441,918	**97,552,893**

Nature of contingent liabilities

Guarantees are generally written by a 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.

Letters of credit commit a bank to make payment to third parties, on production of documents, which are subsequently reimbursed by customers.

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

Forward contracts are arrangements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate.

The fair values of the respective currency forwards are carried on the face of the balance sheet.

37. ASSETS PLEDGED AS SECURITY - GROUP

The below are government securities held under lien in favour of the Central Banks.

	2019 KShs'000	2018 KShs'000
Group	**3,086,587**	**1,447,236**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

38. RELATED PARTY TRANSACTIONS

In the normal course of business, the Group enters into transactions with related parties. All the loans and advances and deposits are issued or received from the related parties are at market interest rates. There were no provisions held towards impairment of any of the advances to related parties.

	2019 KShs'000	2018 KShs'000
(a) Transactions with directors/shareholders		
(i) Loans to directors/shareholders	**33,747**	**84,425**
Interest Income from loans to directors/shareholders	2,111	7,118
(ii) Deposits from directors/shareholders	**894,791**	**2,653,664**
Interest expense on deposits from directors/shareholders	65,788	65,199
(iii) The Directors remuneration is disclosed in Note 15		
(b) Transactions with related companies		
(i) Loans to related companies	**1,488,433**	**1,590,128**
Interest income from loans to related companies	188,421	169,709
(ii) Deposits from related companies	**1,035,227**	**1,160,726**
Interest expense on deposits from related companies	47,726	47,474
(iii) Amounts due from group companies subsidiaries/joint venture	**79,277**	**1,648,515**
Interest income on amounts due from subsidiaries and joint venture	-	-
(iv) Amounts due to group companies subsidiaries/joint venture	**1,881,592**	**1,881,898**
Interest expense on amounts due from subsidiaries and joint venture	-	-
(c) Transactions with employees		
Staff loans	**1,264,583**	**1,624,094**
Interest earned on these loans was KShs	93,113	110,740
(d) Management compensation	**224,762**	**220,072**

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

39. CAPITAL COMMITMENTS

	2019 KShs'000	2018 KShs'000
Group	7,192,759	6,034,326

40. IFRS 9 TRANSITION ON THE DATE OF INITIAL APPLICATION

(a) Day one IFRS 9 transition adjustment on impairment loss allowance

2018:

	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Other financial assets at armotised cost Kshs'000	Total Kshs'000
Day one adjustment				
Loans and advances to Customers at amortised cost	(366,019)	644,851	-	278,832
Loan commitments and financial guarantee contracts	341,495	170,538	-	512,033
Trade receivables	-	-	14,493	14,493
Government securities	-	-	105,251	105,251
	(24,524)	**815,389**	**119,744**	**910,609**

41. EVENTS AFTER REPORTING DATE

The world is experiencing a significant challenge emanating from the COVID-19 pandemic. Globally governments are attempting to stop the spread of the virus with the introduction of various measures, including complete lock downs of countries. Governments are also considering economic stimulus packages to ease the burden on business and their citizens as a whole. At Group and Bank level, we are keenly following the developments, particularly the impact on business, bank customers and other stakeholders. Preliminary measures and business continuity plans to mitigate adverse impact have been activated as at the date of these financial statements even as the Group continues to closely monitor and assess on an ongoing basis the rapidly changing situation. These Group and Company financial statements have not been adjusted for potential impacts of the COVID-19 pandemic.

42. CONTINGENT LIABILITIES

On completion of the tax audit by Kenya Revenue Authority (KRA), covering the years of Income 2011 to 2013, KRA raised an additional tax assessment on I&M Bank LIMITED (the Bank) on June 2015. The Bank immediately settled amounts not in dispute and objected to all other items which were in the directors' view erroneously assessed. The KRA confirmed the assessment on 13 March 2017 amounting to KShs 238,811,243. The Bank lodged a case in the High Court for adjudication; subsequently, the High Court referred the matter to the Tax Appeal Tribunal for a decision.

Based on the prevailing Tax Procedure Act that defines, inter alia, timeframes in conduct of tax assessments, the directors in consultation with the bank legal and tax advisors are of the opinion the ruling will be in the Bank's favour.

Further, on completion of an excise duty audit by Kenya Revenue Authority (KRA), covering the period from 1 January 2014 to 30 September 2018, KRA raised an additional excise duty assessment for an amount KShs 283,512,550 on the Bank on 17 January 2019. The Bank objected to all items which were in the Directors' view erroneously assessed. The KRA subsequently confirmed the assessment on 15 April 2019 for an amount of KShs 231,220,414. The Bank has lodged an appeal against this assessment to the Tax Appeal Tribunal.

At the date of signing these financial statements, both matters are awaiting ruling at the Tax Appeal Tribunal.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

43. OTHER DISCLOSURES

(a) Operational risk

The overall responsibility of managing operational risks - the risk arising from failed or inadequate internal processes, people, systems and external events - is vested with the Board of Directors. The Board's of the various subsidiaries through their Board Risk Committee or equivalent, issues policies that guide management on appropriate practices of operational risk mitigation.

An independent Risk Manager assures the Board Risk Committee of the implementation of the said policies.

The following are key measures that the Group undertakes in managing operational risk:

- Documentation of procedures and controls, including regular review and updates to reflect changes in the dynamic business environment;
- Appropriate segregation of duties, including the independent authorisation of transactions;
- Reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Reporting of operational losses and ensuring appropriate remedial action to avoid recurrence;
- Development and implementation of Business Continuity and Disaster Recovery Plans;
- Training and professional development of employees to ensure they are well equipped to identify and mitigate operational risks in a timely manner;
- Establishment of ethical practices at business and individual employee's level; and
- Implementation of Risk mitigation parameters, including insurance where this is considered effective.

The entire operational risk management framework is subjected to periodic independent audits (internal) in order for the Group to obtain an independent opinion on the effectiveness and efficiency of the framework. Further, the findings of the Internal Audit department are reviewed by the Board Audit Committee and recommendations made implemented in line with the agreed timeframe.

(b) Compliance and regulatory risk

Compliance and regulatory risk includes the risk of bearing the consequences of non-compliance with regulatory requirements. The compliance function is responsible for establishing and maintaining an appropriate framework of Group compliance policies and procedures. Compliance with such policies and procedures is the responsibility of all managers.

(c) Environmental and social risks

Environmental and social risks are the risks that the Group could bear the consequences of socio-environmental fall-out of transactions. Such risks could arise from failure of the Group to assess the impacts of activities (of both the group and its clients) which could harm the environment or have negative social impact.

The Group is aware that it has a responsibility to ensure that its internal practice and its lending activities do not have negative environmental and social impacts and is thus committed to ensure that such risks are sufficiently managed through its environmental and social management policy and by adopting the country's labour and environmental laws.

Notes to the Consolidated and Separate Financial Statements
For The Year Ended 31 December 2019 (Continued)

43. OTHER DISCLOSURES (Continued)

(c) Environmental and social risks (Continued)

The Group is aware that it has a responsibility to ensure that its internal practice and its lending activities do not have negative environmental and social impacts and is thus committed to ensure that such risks are sufficiently managed through its environmental and social management policy and by adopting the country's labour and environmental laws.

The Group also adheres to international best practice i.e. International Finance Corporation (IFC) performance standards and International Labour Organisation (ILO) standards, as ratified by the Kenya government and Governments of the various jurisdictions in which the Group operates. An environmental and social management system is being put in place to ensure due diligence and monitoring of the environmental and social risk is done efficiently. Compliance to these laws is monitored by the compliance function.

The Directors are responsible for selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

4th June 2020

I&M Holdings Plc

Notice of the Annual General Meeting

Notice is hereby given that the Sixty Eighth Annual General Meeting of the Shareholders of I&M Holdings Plc will be held via electronic communication on Friday, 26 June, 2020 at 10.00 a.m. for purposes of transacting the business set out below.

Due to the ongoing Government of Kenya restrictions on public gatherings, shareholders will not be able to attend the Annual General Meeting in person but will be able to register for, access information pertaining to the Integrated Report and Audited Financial Statements of I&M Holdings Plc for the year ending 31 December, 2019, 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 below.

A. ORDINARY BUSINESS

1. To receive the Group's audited financial statements for the year ended 31 December, 2019 together with the Chairman's, Directors' and Auditor's reports thereon.

2. To approve the Directors' remuneration as provided in the accounts for the year ended 31 December 2019.

3. To approve payment of a first and final dividend of Kshs. 2.55 per share amounting to Kshs. 2,108,367,382 for the year ended 31 December 2019. The dividend will be payable to the shareholders in the Company's Register of Members at the close of business on Monday, 8 June, 2020 and will be paid on or around Friday, 26 June, 2020.

4. To re-elect directors:

   i. Mr. Vincent De Brouwer who was appointed as a director of the Company with effect from 5th November 2019 retires in accordance with Article No. 111 of the Company's Articles of Association and being eligible offers himself for re-election.
   ii. Ms. Rose Wanjiru Kinuthia who was appointed as a director of the Company with effect from 3rd March 2020 retires in accordance with Article No. 111 of the Company's Articles of Association and being eligible offers herself for re-election.
   iii. In accordance with Article 2.5 of the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015, Mr. Daniel Ndonye, having attained the age of 70 years retires and offers himself for re-election.
   iv. In accordance with Article 2.5 of the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015, Mr. SBR Shah having attained the age of 70 years retires and offers himself for re-election.
   v. In accordance with Article No. 112 of the Company's Articles of Association Dr. Alice Nyambura Koigi, retires by rotation and being eligible offers herself for re-election.
   vi. In accordance with Article No. 112 of the Company's Articles of Association Mr. Michael Turner, retires by rotation and being eligible offers himself for re-election.

5. Pursuant to the provisions of Section 769 of the Companies Act, 2015, Mr. Michael Turner, Mr. Vincent De Brouwer and Ms. Rose Wanjiru Kinuthia being members of the Board Audit and Risk Management Committee, be elected to serve as Members of this Committee.

6. To note that the auditors Messrs. KPMG Kenya Certified Public Accountants (K), having expressed their willingness, continue in office in accordance with Section 721 (2) of the Companies Act, 2015 and to authorize the Directors to fix their remuneration for the ensuing financial year.

AGM NOTICE

B. SPECIAL BUSINESS

7. **Amendment of the Articles of Association** – To consider and if thought fit to pass the following resolutions as **SPECIAL RESOLUTIONS**:

   a) THAT, the Articles of Association of the Company be amended so as to insert a new clause 66A which will read as follows:

   The Board may determine that a general meeting may be held entirely by electronic or other communication facility that permits all those entitled to be present to participate in the meeting. Any shareholder (entitled to vote) participating at the meeting may vote by means of the telephonic, electronic or other communication facility that the Company has made available for that purpose.

   b) THAT, the Articles of Association of the Company be amended by deleting Article 149 in its entirety.

8. To transact any other business which may be properly transacted at an Annual General Meeting.

BY ORDER OF THE BOARD

Bilha Wanjiru Mwangi
Company Secretary,
P.O. Box 51922-00100,
Nairobi.

4th June 2020

Notes

1. In view of the ongoing Coronavirus 2019 (COVID-19) pandemic and the related public health Regulations and directives passed by the Government of Kenya precluding inter alia public gatherings, it is impracticable, as contemplated under section 280 of the Companies Act 2015, for I&M Holdings Plc to hold a physical Annual General Meeting in the manner prescribed in its Articles of Association.

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. I&M Holdings Plc has convened and is conducting this virtual annual general meeting following receipt of a No Objection from the Capital Markets Authority.

   Shareholders wishing to participate in the meeting should register using either of the following:

   a) **Through the web portal**
   By logging onto https://www.escrowagm.com/CDSCR/ and filling in the registration form. 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 or Share Account Number at hand. For assistance shareholders should dial the following helpline number: (+254) 710 888 000 between 9:00 a.m. to 4:00 p.m. from Monday to Friday.

   b) **Unstructured Supplementary Service Data (USSD)**
   By dialing *483*560# and following the prompts. 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 or Share Account Number at hand. For assistance shareholders should dial the following helpline number: (+254) 710 888 000 between 9:00 a.m. to 4:00 p.m. from Monday to Friday. The USSD service cost will be borne by the company.

4. Registration for the AGM opens on 18th June 2020 at 8.00 am and shall remain open to any Shareholder wishing to participate in the meeting.

5. In accordance with Section 283 (2) (c) of the Companies Act, the following documents may be viewed on the Company's website at *https://www.imbank.com/about-us/i-and-m-holdings/investor-relations*

   (i) a copy of this Notice and the proxy form;
   (ii) the Company's Integrated Report and Audited Financial Statements for the year 2019;
   (iii) a copy of the High Court Order in Miscellaneous Application No. E680 of 2020; and
   (iv) a copy of the No Objection issued by the CMA.

6. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so by:
   a. sending their written questions by email to invest@imbank.co.ke ; or
   b. to the extent possible, physically delivering their written questions with a return physical address or email address to the registered office of the Company at I&M Bank House, 2nd Ngong Avenue, Nairobi, or to CDSC Registrars offices at 1st Floor, Occidental Plaza, Westlands, Nairobi; or
   c. sending their written questions with a return physical address or email address by registered post to the Company's address at P. O. Box 30238 -00100 Nairobi.

Shareholders must provide their full details (full names, ID/Passport Number/CDSC or Share Account Number) when submitting their questions and clarifications.

AGM NOTICE

All questions and clarification must reach the Company on or before 23rd June, 2020 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 address or email address provided by the Shareholder no later than 24 hours before the start of the general meeting. A full list of all questions received and the answers thereto will be published on the Company's website not later than 24 hours before the start of the general meeting.

7. In accordance with Section 298(1) of the Companies Act, shareholders entitled to attend and vote at the AGM are entitled to appoint a proxy to vote on their behalf. A proxy need not be a member of the Company but if not the Chairman of the AGM, the appointed proxy will need access to a mobile telephone.

   A proxy form is attached to this Notice and is available on the Company's website via this link: *https://www.imbank.com/about-us/i-and-m-holdings/investor-relations*. Physical copies of the proxy form are also available at the following address: CDSC Registrars offices at 1st Floor, Occidental Plaza, Westlands, Nairobi.

   A proxy 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 its common seal or under the hand of an officer or duly authorized attorney of such body corporate. A completed form of proxy should be emailed to registrar@cdscregistrars.com or delivered to CDSC Registrars offices at 1st Floor, Occidental Plaza, Westlands, P.O. Box 6341-001000 Nairobi, so as to be received not later than 24th June, 2020 at 5.00 p.m. Any shareholder appointing a proxy must provide the phone number, Identity Card Number and e-mail address of the proxy on the proxy form. Any proxy registration that is rejected will be communicated to the shareholder concerned no later than 25th June, 2020 to allow time to address any issues.

8. All proxies should register using either the web portal or USSD. When registering, the proxy will be required to use their identity card/Passport Number. For further assistance, Proxies may call CDSC Registrars on +254 710 888 000.

9. The AGM will be streamed live via a link which shall be provided to all shareholders who will have registered to participate in the general meeting. Duly registered shareholders and proxies shall be able to join the meeting either by logging into the system using their registration credentials or following proceedings on the link to be shared.

10. Duly registered shareholders and proxies may follow the proceedings of the AGM using the live stream platform. Duly registered shareholders and proxies may vote (when prompted by the Chairman) for resolutions on a panel provided next to the live stream screen or via the USSD prompts.

11. Results of the AGM shall be published within 24 hours following conclusion of the AGM. The results will also be available on the web portal and summarized results on the USSD menu.

12. Shareholders are encouraged to continuously monitor the Company's website *https://www.imbank.com/about-us/i-and-m-holdings/investor-relations* for updates relating to the AGM due to the continuous evolving situation with COVID-19 and the Government directives being subject to change. The Company appreciates the understanding of its shareholders as it navigates the changing business conditions posed by COVID-19.

PROXY FORM

I&M Holdings Plc

CDSC A/c No: ....
Shareholder No: ....
ID No: ....

THE COMPANY SECRETARY
P.O BOX 51922 -00100
NAIROBI

I/WE ____

of ____

Being a shareholder of I&M Holdings Plc hereby appoint the Chairman of the Meeting or (see note 7)

____

(Name of proxy) of ____________________ (Mobile number of proxy) and ____________________

____________________ (email address of the proxy) in respect of my ____________

____________ (Number of shares). Please indicate here if you are appointing more than one proxy

____________ 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 ________ , 2020 at am and at any adjournment thereof.

Signed this ____________ day of ____________ , 2020

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 withhold 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 matter which is properly put before the Meeting.

PROXY FORM

Please clearly mark the box below to instruct your proxy how to vote.

RESOLUTION	FOR	AGAINST	WITHHELD
Approval of the Group's audited financial statements for the year ended 31st December 2019 together with the Chairman's, Directors' and Auditor's reports thereon			
Approval of the Directors' remuneration as provided in the accounts for the year ended 31st December, 2019			
Approval of the first and final dividend of KShs. 2.55 per ordinary share, payable on or around Friday, 26 June 2020 to shareholders on the Register of Members at the close of business on Monday, 8 June, 2020			
Re-election of Mr. Vincent De Brouwer			
Re-election of Ms. Rose Wanjiru Kinuthia			
Re-election of Mr. Daniel Ndonye			
Re-election of Mr. SBR Shah			
Re-election of Dr. Alice Nyambura Koigi			
Re-election of Mr. Michael Turner			
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) Mr. Michael Turner, (ii) Mr. Vincent De Brouwer and (iii) Ms. Rose Wanjiru Kinuthia			
Re-appointment of auditors: Messrs. KPMG Kenya Certified Public Accountants (K), having expressed their willingness, continue in office in accordance with Section 721 (2) of the Companies Act, 2015 and authorization of the Directors to fix their remuneration for the ensuing financial year.			

THAT, the Articles of Association of the Company be amended so as to insert a new clause 66A which will read as follows: "The Board may determine that a general meeting may be held entirely by electronic or other communication facility that permits all those entitled to be present to participate in the meeting. Any shareholder (entitled to vote) participating at the meeting may vote by means of the telephonic, electronic or other communication facility that the Company has made available for that purpose."			
THAT, the Articles of Association of the Company be amended by deleting Article 149 in its entirety.			

I&M HOLDINGS

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www.imbank.com