I&M Bank LIMITED

Annual Report & Consolidated 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

Contents

ABBREVIATIONS

In this document we have used the following abbreviations;

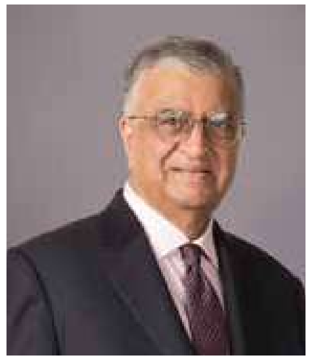
ACL	Allowance for Credit Losses
AGM	Annual General Meeting
ALCO	Assets and Liabilities Committee
BAC	Board Audit Committee
BCC	Board Credit Committee
BNRC	Board Nominations and Remuneration Committee
BPC	Board Procurement Committee
BRMC	Board Risk Management Committee
BSTC	Board Share Transfers Committee
CAPEX	Capital expenditure
CBK	Central Bank of Kenya
CEO	Chief Executive Officer
CMA	Capital Markets Authority
CRMC	Credit Risk Management Committee
CSR	Corporate Social Responsibility
EAD	Exposure at default
ECL	Expected credit losses
ED	Executive Director
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit and loss
GDP	Gross Domestic Product
GPO	General Post Office
Group	I&M Bank LIMITED together with its subsidiary undertakings
HRC	Human Resources Committee
IAS	International Accounting Standards
ICT	Information and Communication Technology
IFC	International Finance Corporation
IFRSs	International Financial Reporting Standards
IMIAL	I&M Insurance Agency Limited
IMHP	I&M Holdings PLC
ITSC	IT Steering Committee
LGD	Loss given default
M&A	Mergers and Acquisition
NSE	Nairobi Securities Exchange
OCI	Other Comprehensive Income
OPEX	Operating expense
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

Section 1

OUR LEADERSHIP TEAMS

OUR LEADERSHIP TEAMS

Board of Directors



SBR Shah, MBS
Chairman

Sarit Raja-Shah
Group Executive Director

Kihara Maina
Chief Executive Officer

M. Soundararajan
Independent Director

Nikhil Rustam Hira
Independent Director

Dr. Nyambura Koigi
Independent Director

Edward Muchemi Wambugu, MBS
Independent Director

Christopher Low
Independent Director

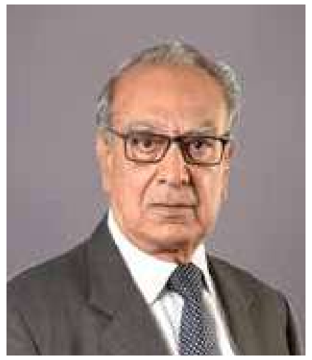
Maria Largey
Non - Executive Director

Sachit Shah
Non - Executive Director

NP Kothari
Company Secretary

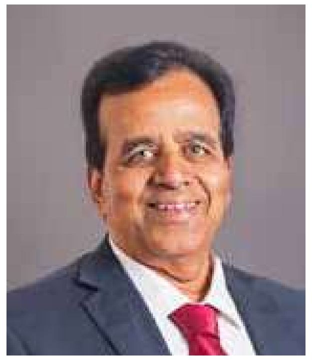
Senior Management

Senior Management 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

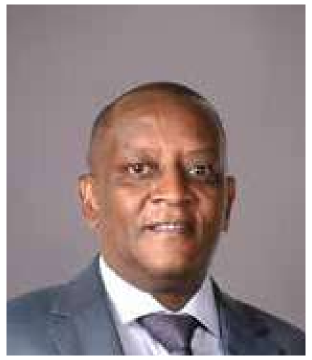
Connie Macharia
GM, Credit

Rohit Gupta
GM, ICT

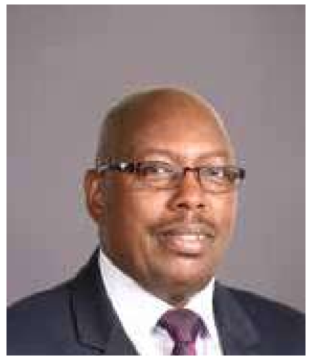
OUR LEADERSHIP TEAMS

I&M Bank LIMITED

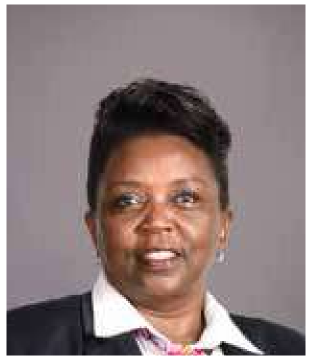
Senior Management Team (Continued)



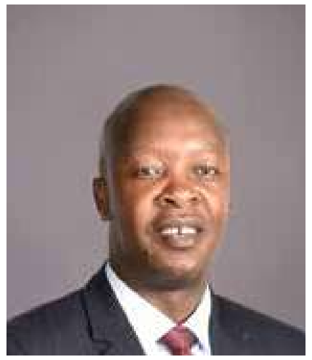
Henry Kirimania
GM, Treasury



Joseph Njomo
GM, Operations



Priscilla Ndonga
GM, Human Resources

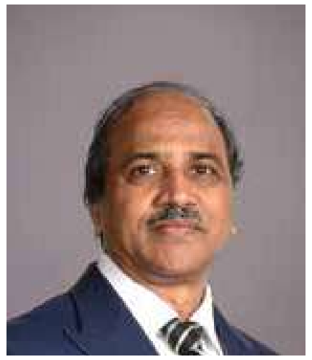


Enodius Makiwa
GM, Personal and Business Banking

Suprio Sen Gupta
GM, Products and Marketing

Raphael Mapfumo
GM, Alternate Channels

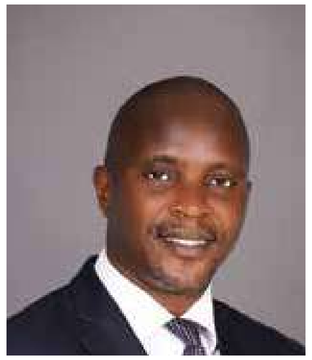
Gauri Gupta
GM, Corporate Advisory



Chhanda Mishra
GM, Projects

Anurag Srivastava
Head of Intergration, Business Development

Ruma Shah
GM, Internal Audit



Billy Ngetich
Acting GM, Finance

Section 2

CORPORATE INFORMATION

CORPORATE INFORMATION

Board of Directors

Suresh B R Shah, MBS	(Chairman)
Sarit Raja-Shah	(Executive Director)
Sachit S Raja Shah	
M Soundararajan*	
AN Koigi	
NR Hira	(Appointed on 11 February 2019)
EM Wambugu, MBS	(Appointed on 11 February 2019)
Maria Largey**	(Appointed on 10 May 2019)
ACM Low**	(Appointed on 25 September 2019)
CK Maina	(Chief Executive Officer)
EM Kimani, MBS	(Retired 22 March 2019)
PCM Kibati	(Retired 22 March 2019)

* Indian
**British

COMPANY SECRETARY

NP Kothari – FCS (Kenya)

AUDITOR

KPMG Kenya
8th Floor, ABC Towers
Waiyaki Way
PO Box 40612
00100 Nairobi GPO

REGISTERED OFFICE

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

CORRESPONDENT BANKS

Bank One Limited
Citibank NA
Commerzbank AG
Deutsche Bank AG
I&M Bank (Rwanda) PLC
I&M Bank (T) Limited
ICICI Limited Mumbai
Standard Bank of South Africa
Standard Chartered Bank NY

Branches

NAIROBI

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

I&M Bank Tower
Kenyatta Avenue
P.O. Box 30238
00100 Nairobi GPO

Sarit Centre
Karuna Road Westlands
P.O. Box 30238
00100 Nairobi GPO

Sarit Centre (Select)
Karuna Road Westlands
P.O. Box 30238
00100 Nairobi GPO

Ansh Plaza
Biashara Street
P.O. Box 30238
00100 Nairobi GPO

KCC Building
Changamwe Road
P.O. Box 30238
00500 Nairobi

Karen Office Park
Langata Road
P.O. Box 30238
00100 Nairobi GPO

Panari Centre
Mombasa Road
P.O. Box 30238
00100 Nairobi GPO

Centre Point
Parklands Road
P.O. Box 30238
00100 Nairobi GPO

Wilson Airport
Pewin House
P.O. Box 30238
00100 Nairobi GPO

Ongata Rongai
Maasai Mall
P.O. Box 30238
00100 Nairobi GPO

South C Shopping Centre
P.O. Box 30238
00100 Nairobi GPO

Langata Link Complex
Langata South Road
P.O. Box 30238
00100 Nairobi GPO

Kenol Kobil Valley Arcade
Gitanga Road
P.O. Box 30238
00100 Nairobi GPO

14 Riverside Drive
Riverside
P.O. Box 30238
00100 Nairobi GPO

Gigiri Square
United Nations Avenue
P.O. Box 30238
00100 Nairobi GPO

Lavington Mall
James Gichuru Road
P.O. Box 30238
00100 Nairobi GPO

Lunga Lunga
Lunga Lunga Square
P.O. Box 30238
00100 Nairobi GPO

Yaya Centre
Argwings Kodhek Road
P.O. Box 30238
00100 Nairobi GPO

Gateway Mall
Mombasa road
P.O. Box 30238
00100 Nairobi GPO

Garden City
Thika Road
P.O. Box 30238
00100 Nairobi GPO

Cross Road
Off River Road
P.O. Box 30238
00100 Nairobi GPO

Spring Valley Business Park
Ground floor, Block B
P.O. Box 30238
00100 Nairobi GPO

Eldama
Eldama Park
P.O. Box 30238
00100 Nairobi GPO

Industrial Area
Dunga road
P.O. Box 30238
00100 Nairobi GPO

Ridge Court
Parklands
P.O. Box 30238
00100 Nairobi GPO

THIKA
Kenyatta Highway
80 West Place
P.O. Box 1207
01000 Thika

NYERI
Hopewell Place
Gakere Road
P.O. Box 747
301 Nyeri

NANYUKI
Hussein Building, Ground Floor
Nyeri Nanyuki Road
P.O. Box 971
10400 Nanyuki

MERU
P&K Plaza, Ground floor
Moi Avenue
P.O. Box 576
60200 Meru

NAKURU
Polo Centre
Kenyatta Avenue
P.O. Box 18445
20100 Nakuru

KITALE
Mega Centre Mall
Makasembo Road
P.O. Box 2278
30200 Kitale

ELDORET
Imperial Court
Uganda Road
P.O. Box 9362
30100 Eldoret

KISUMU
Bon Accord House
Oginga Odinga Street
P.O. Box 424
40100 Kisumu

KISII
Royal Towers
Hospital Road
P.O. Box 4474
40200 Kisii

MOMBASA
Biashara Bank Building
Nyerere Avenue
P.O. Box 86357
80100 Mombasa

Nyali Cinemax
Main Nyali Road
P.O. Box 86357
80100 Mombasa

Haile Selassie Avenue
Patel Samaj Building
P.O. Box 86357
80100 Mombasa

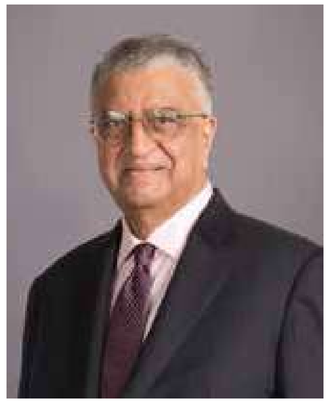
Changamwe
Airport Centre Mall
Magongo Road
P.O. Box 86357
80100 Mombasa

Mtwapa Mall
Mombasa Malindi Road
P.O. Box 86357
80100 Mombasa

MALINDI
Sabaki Centre
Lamu Road
P.O. Box 1125
80200 Malindi

CORPORATE INFORMATION

Chairman's Statement



SBR Shah, MBS
Chairman

KShs 12.01bn

Profit Before Tax increased by 37.6% driven by balance sheet growth and asset quality improvement.

The iMara strategy has helped build a coalition across the business over time, that has in turn nurtured a strong resolve in achieving the Bank's strategic initiatives.

Introduction

I have the pleasure of presenting the I&M Bank LIMITED Annual Report for the year 2019 on behalf of the Board of Directors.

The Bank has continued to perform well and has demonstrated consistent growth notwithstanding the various challenges in the operating environment. The Bank's efforts in the past few years have led to sustained growth and earned it recognition in 2019 as a Tier 1 Bank. I recognize that this would not have been possible without the support of our loyal customers and the dedication of our staff and I join the Board and Management in pledging our continued focus on enhancing excellence in our business.

Kenya 2019 Economic Performance and 2020 Economic Outlook

In 2019 GDP growth in Kenya was estimated at 5.9% and was expected to grow at 6% and 6.2% for 2020 and 2021 respectively. However, due to the outbreak of the COVID-19 virus in December 2019 at Wuhan city, Hubei province, China and the World Health Organization (WHO) declaring this as a global health emergency of international concern, COVID-19 has the potential to cause a global economic recession that will then cause a reduction in the economic growth of Kenya. From the original epicenter the virus spread to Italy, Iran, South Korea and Japan and then rapidly spread globally disrupting supply chains, economic activity and raising fear and panic. Although it is too early to predict the exact effects of COVID-19 on the Kenyan economy at the global level the disease has caused high levels of mortality and morbidity and due to its contagious nature, countries have been forced to close their borders and initiate widespread lockdowns of their economies. These measures have now been extended to Kenya where the Government has also initiated measures to partially lockdown the economy through the suspension of international flights from 18th March 2020 and daily curfew from 7 pm to 5 am starting on 27th March 2020.

Chairman's Statement (Continued)

However, although COVID-19 remains the biggest threat to the Kenyan economy in the first two quarters of 2020, the country must still grapple with the issues of transforming its key sectors such as agriculture, manufacturing and the labour market. This transformation is vital going forward as agriculture remains the main driver of GDP growth in Kenya accounting for 18.30% as at the third quarter of 2019, provides formal employment for 10% of the population and Tea and Horticulture contributing to 20% to 25% of Foreign Exchange Earnings in 2019; as outlined on the Kenya National Bureau of Statistics 2019 Report. In the year 2018/2019 economic growth in the country was adversely affected by severe drought that reduced food security and occasioned lower GDP growth compared to 2018. If the effects of COVID-19 at the global, regional and national levels on the agricultural sector are to be mitigated, the Kenyan Government will need to provide targeted interventions and extend credit, to ensure that these sectors do not collapse and dampen overall GDP growth. This is especially the case as these sectors provide most of the informal sector jobs where most Kenyans are employed.

Across the banking industry, banks and Micro Finance Institutions are now expressing concern that COVID-19 will adversely affect the country's economic performance which they mainly acknowledge will be driven by volatility of the shilling, with the possibility of increased Non Performing Loans, reduction in business confidence and reduced remittances into Kenya. This despite the repeal of the interest rate capping law and government's sustained focus on the big four agenda. This scenario is likely to reduce investor confidence globally and may have a negative effect not only in Kenya but the region and beyond. As Kenya relies heavily on the markets in the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA) the government will need to work with her regional counterparts to initiate an economic stimulus package that can restore investor confidence and supply capital to business that export.

Once the country deals with the COVID-19 crisis the country will need to return her attention to the structural reforms outlined in the World Bank's report on Kenya's Economic Update 2019. In this report the Bank recommends the government should: continue the effort towards easing barriers for SMEs growth, improving the quality of education and skills in the country, empowering women so they drive socio-economic growth, increase the support given for research and development and improve the climate for the adoption of technology and digitalization. This they argue would help propel Kenya's economic performance.

Going forward, Kenya will accrue great benefits by being part of the AfCFTA as this brings together all 55 member states of the African Union who boast a combined population of more than 1.2 billion people with a GDP of US$3.4 trillion. The UN Economic Commission for Africa (UNECA) estimates that this grouping should boost intra-African trade by 52.3% through the elimination of import duties and the reduction of non-tariff barriers.

The government must continue her drive to fulfil the Big Four Agenda that has four pillars namely: food security and nutrition; affordable universal health care; affordable housing and enhancing the private sector. The government intends to spur these sectors' growth through the creation of a conducive business environment for increased domestic and international investments and the access to credit for small and medium sized enterprises.

FINANCIAL PERFORMANCE

During the year, Profit Before Tax increased by 37.6% to close at Kshs. 12.01 billion driven by balance sheet growth and asset quality improvement. Customer Deposits increased by 10.5% to Kshs 195,404 million [2018 - Kshs 176,753 million], while the loan book size increased by 6.9% to close at Kshs. 141,543 million compared to Kshs. 132,319 million in 2018.

The Bank's non-funded income increased by 15.5% to close at Kshs. 6,797 million compared to Kshs. 5,880 million in 2018.

The Bank continued with its efforts towards containing Non-Performing loans. Non- performing loans decreased from Kshs 19,775 million [2018] to close at Kshs 18,799 million [2019], a 5% reduction.

Chairman's Statement (Continued)

RECOGNITION

I&M Bank LIMITED was recognised at the Think Business Banking Awards 2019 in the following categories Best Bank with lowest charges for SMEs – Winner, Best Bank with lowest charges – Winner and Most Efficient Bank – 2nd Runner's Up.

The Awards' objective is to encourage innovation, prudence and stability, in the banking sector by recognizing, awarding and celebrating exemplary performance in the sector.

The judging criteria focuses not only on financial stability and growth of banks, but also on how the banks embrace corporate governance best practices, products and systems innovation, customer service as well as engage in sustainable social projects.

RE-PLATFORMING OF OUR BUSINESS

I&M Bank LIMITED successfully rolled out Finacle 10 core-banking system, critical in increasing our operational efficiencies and enhancing delivery standards, while providing a platform to develop more technology driven financial solutions for our customers.

The Bank also successfully launched the Omni Channel Platform for Mobile banking enhancing a seamless customer experience for our customers while transacting from their phones.

In addition, the Bank also rolled out the Customer Relationship Management tool which has greatly improved our holistic appreciation of our customers' needs. The tool aimed at improving customer call rates has positively impacted the lift on the Sales Force Effectiveness Programme, ensuring sales leads are closed fast and effectively according to plan. We shall continue to take advantage of this tool to grow the Bank's Non Funded Income portfolio.

STRATEGIC PARTNERSHIPS

I&M Bank LIMITED enriched its partnership with DT Dobie on Asset Financing by extending the range of vehicles covered under this agreement. The partnership has seen the Bank not only provide up to 80 percent Asset Financing for Mercedes passenger vehicles but also the VW Polo vehicles. This partnership cuts across all our target segments and looks to improve the Bank's transactional volumes.

Tatu City and I&M Bank LIMITED signed a property financing pact to facilitate access to credit for buyers of property within the 5,000-acre development. As part of the agreement, I&M Bank LIMITED has a dedicated relationship management team available to service Tatu City clients interested in purchasing serviced land or financing construction, and also offering repayment periods of up to 20 years at interest rates not exceeding 12.5% per annum to eligible buyers.

The Bank partnered with Kenya Association of Travel Agents (KATA) to provide an online payment solution for KATA members to receive online payments worldwide on the Bank's E-commerce platform – I&M Webpay.

I&M Bank LIMITED partnered with MHH International, to provide upto 80 percent Asset Financing for customers to safely and conveniently import high end vehicles from the UK, Australia and Japan.

The Bank partnered with ITC Africa to launch the Chango App, an efficient Mobile App designed to facilitate Chamas and other social groups banked at I&M Bank LIMITED in raising and spending funds in an accountable manner.

I&M Bank LIMITED partnered with Mayan Holdings, to provide financing for purchase of plots, villas, and residential housing units at Maiyan and Swara ranches in Laikipia County.

NEW PRODUCTS

The Bank can now facilitate payments for all Customs taxes for (seaports, airports and border points), through I&M Bank LIMITED branches and on i-Click internet banking. This service is convenient and eliminates filling manual forms or queuing at KRA offices.

I&M Bank LIMITED, last year, enhanced its premium banking offering by launching the Medical Equipment Financing product, a tailor-made financing solution for health care service providers. The solution covers a range of equipment that covers the following: X-rays, Dialysis, Theatre, Intensive Care Unit, Ultrasound Machines, Radiology, Sterilisation, and Laboratory among others.

Chairman's Statement (Continued)

The Bank also upgraded the US Dollar denominated Sapphire Foreign Currency Account, with the introduction of the US dollar denominated debit card allowing customers to withdraw funds in US dollars from selected I&M Bank LIMITED's USD ATMs and pay in US dollars online and in merchant establishments around the world.

MEDIUM TERM NOTE ISSUE

In 2019, I&M Bank LIMITED issued a US Dollar denominated 5.5 Year Medium Term Note (MTN) via Private Placement raising USD 27,300,000/- from the Issue. The proceeds will be applied to support medium term funding and to diversify the bank's Capital Mix to include Tier II Capital. I&M Burbidge Capital Limited was the Transaction Advisor and Arranger for the Issue.

FUTURE OUTLOOK

The iMara Strategy, has helped build a coalition across the Business over time that has in turn nurtured a strong resolve in achieving our strategic initiatives, through a shared vision displaying the I&M spirit of collaboration, innovation and dynamism. 2019 rubber-stamped the success of iMara over the years.

Looking ahead, we have developed various initiatives aimed at supporting the implementation of the Bank's Corporate strategy to help improve our business performance.

The Bank will continue to focus on growing Quality Interest Earning Assets by improving our interest earning assets.

We shall continue to spearhead efforts in growing the Non Funded Income (NFI) portfolio through continually developing market driven solutions that meet our customers' financial and lifestyle requirements. Through sustained efforts on different cross sell initiatives, we look to build transactional volumes that will in turn grow the NFI portfolio.

The Bank shall take advantage of the interest rate cap removal to enhance our margins growth by improving our customers' risk profiling and growing the Bank's quality loan book. We shall also introduce quality pricing models to manage pricing for all our customers. In addition, the Bank will ensure that we deliver on fulfilling the requirements of the Banking Charter launched by CBK last year. This will focus on 4 key areas mainly: Fairness, Transparency in pricing, Financial access – and in our case, supporting the SME sector which aligns with the Big 4 national agenda.

The Bank will continue to spearhead efforts on Non-Performing Assets recoveries, which significantly improved last year. We achieved significant improvement in 2019 in the loan recovery space. We shall continue to spearhead efforts in nursing back to health all clients that are in distress and also push for more recoveries.

The Bank shall accelerate delivery on its digitization strategy through the implementation of the Omni channel platform for internet banking. In addition, we shall enhance the online account opening platform, through introduction of a facial recognition feature aimed at improving efficiencies in the security of the platform. Moreover, the Bank will also launch WhatsApp banking across the Group, which is a first in the industry. These are critical milestones for the Bank as they will future - proof our business through digitization.

Last year, we finalised the set-up of the I&M Bank Foundation which will now continue to spearhead the Bank's Shared Growth Agenda in the following key thematic areas: Environment and Conservation, Education and Skills Training, Economic Empowerment, and Philanthropy. We look forward to spearheading more initiatives across these key thematic areas to positively impact the socio-economic development of our communities.

ACKNOWLEDGMENT

I take this opportunity to thank our different stakeholders who contributed significantly in ensuring that 2019 was a success:

CORPORATE INFORMATION

Chairman's Statement (Continued)

1. To our customers: We do not take your support for granted and continually strive to be worthy of the trust bestowed on us. We appreciate your continued belief in us and we shall continue to place your interests at the heart of our business.

2. To our shareholders: Thank you for your confidence in the Bank. We will continue to build our shareholders' value; by enhancing the Bank's revenue, improving business efficiency, and continually managing all our costs in line with the corporate strategy.

3. Our staff and the management team: I appreciate your commitment, diligence and sense of purpose as you execute for the Bank's different stakeholders throughout the year. Your efforts over time are highly appreciated.

4. To my fellow Directors: Thank you for your continued guidance and oversight in implementation of the Corporate Strategy. I am confident that with continued focus and goodwill, the great efforts will yield even higher returns to our shareholders in 2020.

5. To our regulators including: Central Bank of Kenya, Capital Markets Authority (CMA), the Competition Authority of Kenya, Insurance Regulatory Authority and others. We thank you for providing an enabling business environment and for your continued support for the Bank's operations. We look forward to a continued successful partnership in 2020.

With best wishes,

Suresh Shah

SBR SHAH
CHAIRMAN

Section 3

I&M NEWS

I&M News Kenya

I&M BANK LIMITED, ISSUES MEDIUM TERM NOTE TO SUPPORT STRATEGIC GROWTH INITIATIVES

In 2019, I&M Bank LIMITED, issued a US Dollar denominated 5-and-a-half-years Medium Term Note (MTN) via Private Placement raising USD 27,300,000/- from the Issue.

The proceeds of the Issue will be used for onward lending, to provide long term funding for I&M's future strategic growth and expansion as well as to enhance I&M's capital adequacy ratios by way of Tier II Capital.

I&M Burbidge Capital Limited, a subsidiary of I&M Holdings PLC was the Transaction Advisor and Arranger for the Issue.

I&M BANK LIMITED, ROLL OUTS FINACLE 10 CORE BANKING SYSTEM

In 2019, I&M Bank LIMITED, completed the roll out of the Finacle 10 core banking system, which was an upgrade of the previously used Finacle 7.

The upgraded system has now helped in achieving operational efficiency on the Bank's platforms and it now provides a platform to continue innovating market driven solutions.

I&M BANK LIMITED, ROLLS OUT CUSTOMER RELATIONSHIP MANAGEMENT SYSTEM

I&M Bank LIMITED last year rolled out a comprehensive Customer Relationship Management system. The system gives us a holistic view of the Bank's customers, by understanding their financial requirements better.

It is envisaged that the CRM system will be a big complement to the Sales Force Effectiveness Programme ensuring that sales leads are captured, actioned, tracked and closed effectively and timely according to plan, hence positively impacting the Bank's Non-Funded Income portfolio.

DEAL ON ASSET FINANCE FOR PREMIUM VEHICLES IMPORTS SEALED WITH MHH INTERNATIONAL

Last year, I&M Bank LIMITED announced a partnership with MHH International, a UK based company, with an agent and office in Nairobi, to offer customers a convenient and safe way to import high end vehicles from the UK, Australia and Japan.

The partnership has seen the Bank provide upto 80 percent Asset Financing to its new and existing Premium, Business and Corporate customers to import high quality vehicles from the UK, Australia and Japan while also providing competitive rates under insurance premium financing (IPF).

Kihara Maina, CEO, I&M Bank LIMITED, (Right) and Benn Alistair CEO, MHH International (Left) sign partnership to offer customers a convenient and safe way to import high end vehicles from the UK, Australia and Japan. Looking on is, Enodius Makiwa, GM Personal and Business Banking, I&M Bank LIMITED, (Right), Muchohi Gikonyo, Brand Ambassador, MHH International (Left) and Peris Chege, Head of Legal at I&M Bank LIMITED (Standing).

UNVEILING OF MEDICAL EQUIPMENT FINANCING PRODUCT TO PROMOTE QUALITY HEALTH CARE

I&M Bank LIMITED also launched the Medical Equipment Financing product, a tailor-made financing solution for health care service providers.

The product builds upon I&M Bank LIMITED reputation for developing innovative products and services, specific to customers' lifestyle and financial requirements, in this case, for the Premium Banking customers.

The Asset Finance solution covers a range of equipment that covers the following: X-rays, Dialysis, Theatre, Intensive Care Unit, Ultrasound Machines, Radiology, Sterilisation, and Laboratory among others.

Kihara Maina, CEO, I&M Bank LIMITED (First right) discusses the Medical Equipment Financing solution with a team from Phillips Healthcare Technologies Limited, during the launch of the product. The Asset Finance solution covers a range of equipment used for: X-rays, Dialysis, Theatre, Intensive Care Unit, Ultrasound Machines, Radiology, Sterilisation, and Laboratory among others aimed at promoting quality healthcare.

I&M News Kenya (Continued)

I&M BANK LIMITED PARTNERS WITH ITC AFRICA FOR CHANGO APP UNVEIL

Piggybacking on I&M Bank's LIMITED robust IT Infrastructure, the Bank continued to make strides in adopting technological innovations, to tap into new opportunities.

Through a partnership with ITC Africa, a local Fintech company, I&M Bank LIMITED, Kenya launched Chango, an efficient Mobile App designed to facilitate Chamas and other social groups in raising and spending funds in an accountable manner.

The solution has helped grow the Bank's Non-Funded Income portfolio through pushing low cost deposits and transactional income.

DT DOBIE ASSET FINANCING PARTNERSHIP EXTENDS RANGE OF VEHICLES COVERED

I&M Bank LIMITED last year enhanced its partnership with DT Dobie to provide upto 80 percent Asset Financing for the VW Polo vehicles targeting the Premium banking segment.

Under this financing agreement, customers have enjoyed an extended repayment period at competitive interest rates. In addition, the Bank through the Bancassurance arm, has provided an enriched comprehensive motor insurance package at a discounted premium rate.

In addition, the Bank further provides discounted insurance premium financing (IPF) for this Asset Financing option, aimed at easing the burden to make lump sum insurance premium payments in affordable monthly instalments.

I&M BANK LIMITED NOW FACILITATES CUSTOM TAXES PAYMENTS

I&M Bank LIMITED last year, launched a platform that now facilitates payments for all Customs taxes for (seaports, airports and border points), through I&M Bank LIMITED branches and on i-Click internet banking.

The service is convenient as it eliminates filling manual forms or queuing at the Kenya Revenue Authority (KRA) offices. This process will now ensure that our customers' business operations flow smoothly through timely clearance of cargo.

The Bank has over time partnered with KRA to help customers to conveniently pay taxes at any of our branches, through the Integrated Tax Management System (iTax).

In addition, I&M Bank LIMITED has also partnered with Kentrade to facilitate payments for international trade fees, levies, duties and taxes due to the Government, on goods imported into or exported out of the country.

I&M BANK LIMITED PARTNERS WITH TATU CITY FOR PROPERTY FINANCING

Tatu City and I&M Bank LIMITED in 2019, signed a Memorandum of Understanding to facilitate access to credit for buyers of property within the 5,000-acre development.

As part of the agreement, I&M Bank LIMITED provides a dedicated relationship management team to service Tatu City clients buying serviced land or financing construction. Through the financing agreement, clients will enjoy repayment periods of up to 20 years at interest rates not exceeding 12.5% per annum to eligible buyers.

This agreement is an addition to the robust Mortgage Financing offering known as I&M Step Up Home Loan, designed to meet a wide range of needs such as purchase of property, undeveloped plots, construction and renovations. The Mortgage Financing solution offers a wide range of products that caters to customers' needs in terms of amount, loan purpose and repayment flexibility.

I&M NEWS (Continued)

I&M News Kenya (Continued)

I&M BANK LIMITED PARTNERS WITH MAIYAN HOLDINGS FOR HOME FINANCING

I&M Bank LIMITED through the I&M Step Up Home Loan product offering, entered into a partnership, with Maiyan Holdings to provide financing for purchase of plots, villas and residential housing units at Maiyan and Swara ranches in Laikipia county. The financing solution targets the premium banking segment.

I&M Bank LIMITED CEO, Kihara Maina (Right) and James Mworia, Chairman, Maiyan Holdings (Left) exchange partnership agreements, where the Bank is providing financing for purchase of plots, villas and residential housing units at Maiyan and Swara ranches in Laikipia county.

I&M BANK LIMITED PARTNERS WITH UNIONPAY TO INCREASE CHINESE ONLINE CARD PAYMENT ACCEPTANCE ACROSS EAST AFRICA REGION

Last year, UnionPay International and I&M Bank LIMITED announced a partnership, to provide online payments access to UnionPay cardholders across Kenya, Tanzania and Rwanda.

The move has helped bring increased convenience to UnionPay cardholders transacting in Kenya and across Africa, through I&M Bank LIMITED's network of E-Commerce merchants.

E-commerce merchants who accept UnionPay cards will now definitely enjoy the freedom of modern banking whose future is digital. This service gives the Bank's merchants across East Africa more alternatives that are cheaper allowing them to better tap into business opportunities in China.

The collaboration between the two partners will further ensure smooth online payments between China and Africa, offering stronger support for China-Africa trade.

Barry Coetzee, CEO, Iveri (First Left), Kihara Maina, CEO, I&M Bank LIMITED (Second Left), Zhang Luping, General Manager, Africa Union Pay International, (Second Right) and Hao Zhe, Executive Vice President, China Union Pay International (furthest right), during the launch of the partnership between I&M Bank LIMITED and Union Pay International.

I&M BANK LIMITED ASSOCIATION OF TRAVEL AGENTS PARTNERSHIP EASES THE RECEIPT OF TRAVEL PAYMENTS FROM ALL OVER THE WORLD

In 2019, the Kenya Association of Travel Agents (KATA) and I&M Bank LIMITED launched a partnership to provide an online payment solution, which can be used by KATA members to receive online payments worldwide.

This move, through I&M Bank LIMITED's E-Commerce platform, has increased convenience to VISA, MasterCard and UnionPay cardholders transacting all over the world. The collaboration between the two organizations has further smoothened the process of online payments by providing merchants a secure and convenient avenue, with shorter payment turnaround times.

The partnership will help to enhance the tours and travel industry through e-commerce and will allow merchants to enjoy the freedom of modern banking. I&M Bank LIMITED banks a significant number of travel agencies and through this new solution will allow the member agents of KATA to grow their businesses.

Nicanor Sabula, CEO, KATA (Left), Kihara Maina, CEO, I&M Bank LIMITED (Right) exchange the MOU marking the partnership between KATA and I&M Bank LIMITED. The partnership will enable travel agents in Kenya to receive online payments on the Bank's e-commerce platform known as I&M Webpay.

I&M News Kenya (Continued)

I&M BANK LIMITED SIGNS PARTNERSHIP WITH OPIC

I&M Bank LIMITED in 2019 signed a guarantee facility agreement (GFA) with Overseas Private Investment Corporation (OPIC), which is the United States government's development finance institution.

The Bank looks to expand its lending in the Agribusiness sector and this facility will help tap into the Agribusiness space.

Through this partnership, the Bank will target players in the Agribusiness space ranging from the farmers to Agro processors to exporters. OPIC, as part of the agreement, will reach out to potential agriculture small and medium sized enterprises, to help build a pipeline for the facility in order to help the Bank meet its objective in expanding lending in this space.

I&M BANK LIMITED CUSTOMERS HOSTED AT ANNUAL SEMINAR

Last year, I&M Bank LIMITED organized a seminar for Premium, Corporate and Business clients themed on Synergy of Business, Balance and Beyond. The key note speaker was Mr. Azim Jamal, Founder of Corporate Sufi Worldwide Inc, a company dedicated to inspiring and empowering leaders at all levels to achieve success.

The event provided an informative platform for customers to learn more about achieving success through embracing a deep sense of purpose, passion and happiness.

Through the session, customers were enlightened on how to make the best out of their business, whilst maintaining balance between home, work, health, and finances, while at the same time pursuing purpose in everything that they do. In addition, the key note speaker shed light on the power of giving and described how it always leads to greater abundance.

The event was well received by customers and represents the Bank's various opportunities to go beyond traditional banking, to provision of value added services to customers, with an objective of enriching their lives in order to achieve their full success potential.

Key note Speaker, Mr. Azim Jamal, Founder, Corporate Sufi Worldwide (standing) interacts with customers at the I&M Bank LIMITED Annual Customer Seminar.

YOUNG SAVERS HOSTED FOR LION KING MOVIE

I&M Bank LIMITED looks to nurture creativity and innovation amongst children as part of its business model. In 2019, the Bank's Young Savers Account holders were treated to the Lion King movie that was showcased in different shows in Nairobi, Mombasa and Eldoret. The event attracted over 400 Young Savers accompanied by their parents.

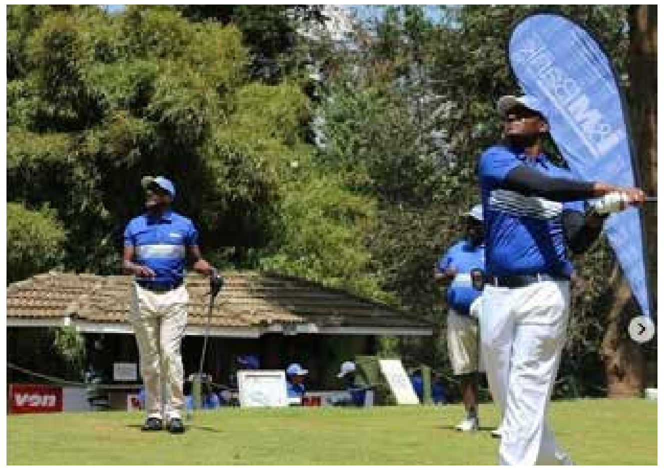
A section of our Young Savers Account holders of I&M Bank LIMITED'S branch in Eldoret during the Lion King Movie sponsored by the Bank.

I&M NEWS (Continued)

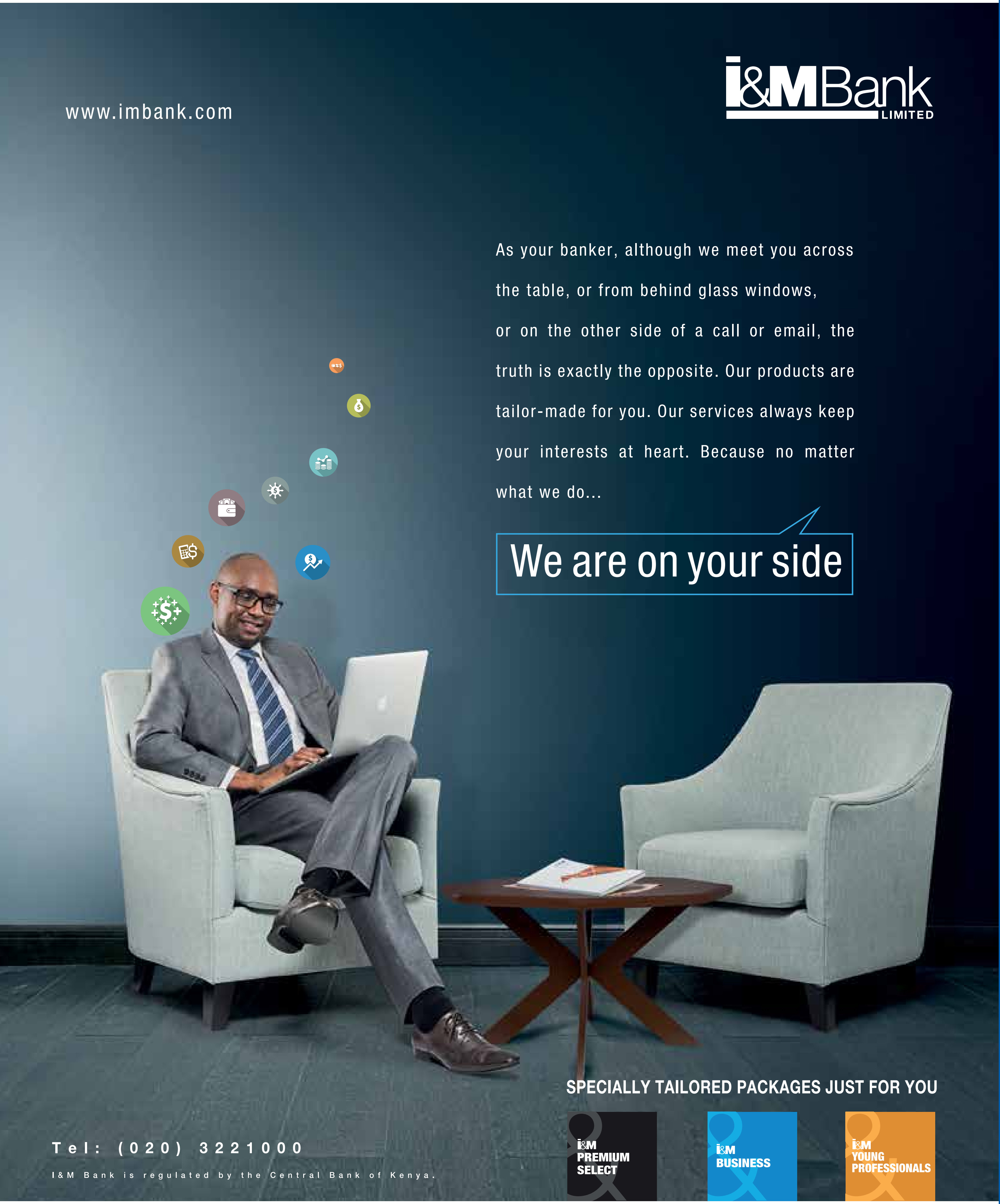
I&M News Kenya (Continued)

I&M BANK LIMITED CUSTOMERS HOSTED AT ANNUAL I&M GOLF DAY

Last year, I&M Bank LIMITED Corporate, Premium and Business customers were yet again hosted at the annual I&M Golf Day that took place at the Muthaiga Golf Club. The event, powered by the I&M Bank LIMITED Visa Infinite Credit Card was well received by the clients and had a high attendance.



An I&M Bank LIMITED customer tees off during the 2019 I&M Corporate Golf Day.



Section 4

OUR FINANCIALS

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 for the year ended 31 December 2019, which disclose the state of affairs of the Company ("the Bank" or "the Company") and the Group. The Group comprises I&M Bank LIMITED, I&M Bank (T) Limited, Tanzania, I&M Insurance Agency Limited and Youjays Insurance Brokers Limited.

1. Principal activities

The Bank and I&M Bank (T) Limited provide extensive range of banking, financial and related services permitted under the Banking Act, Kenya and the Banking and Financial Institutions Act, 2006, Tanzania and regulated by Central Bank of Kenya and Bank of Tanzania respectively. I&M Insurance Agency Limited and Youjays Insurance Brokers Limited provide insurance agency services as defined by the Insurance Act.

2. Results/business review

The consolidated results for the year are as follows:

	2019 KShs'000	2018 KShs'000
Profit before income tax	12,455,876	9,180,415
Income tax expense	(3,434,423)	(2,544,384)
Net profit for the year after tax	**9,021,453**	**6,636,031**

Net profit closed at KShs 9.02 billion, an increase 35.95% despite significant challenges in the banking industry. Net operating income increased by KShs 3.89 billion partially offset by increase in operating expenses by KShs. 0.61 billion.

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. Dividend

The directors recommend payment of a final dividend of KShs 65.00 per share amounting to KShs 1,937,000,000 for the year ended 31 December 2019 (2018 – Nil). The Directors did not pay an interim dividend during the year ended 31 December 2019 (2018 - KShs 53.00 per share amounting to KShs. 1,579,400,000).

4. Directors

The Directors of the Company who served during the year and up to the date of this report are set out on page 8. The Company provides professional indemnity for all the Directors.

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.

Report of the Directors

For The Year Ended 31 December 2019 (Continued)

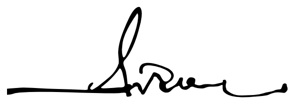
6. Auditor

In accordance with section 719 of the Companies Act, 2015 and Section 24 of the Banking Act (Cap 488), a resolution is to be proposed at the Annual General Meeting for the appointment of KPMG Kenya as the auditor of the Company.

7. Approval of financial statements

The financial statements were approved and authorised for issue at a meeting of the Directors held on 19 March 2020

BY ORDER OF THE BOARD
Secretary



Date: 19 March 2020.

Statement on Corporate Governance

Governance Framework

At I&M Bank Limited (Bank or 'I&M'), the Board has the ultimate responsibility to ensure that the Bank conducts its business with high standards of integrity, transparency and accountability across all levels. The corporate governance framework, established by the Board of includes a robust management structure built on a platform of stringent internal control and pre-approved policies, practices and procedures to deliver sustainable value to its shareholders, whilst remaining focused on its responsibility to society at large.

The Board is fully committed to high standards of corporate governance, which include embracing the following principles:

- To observe high standards of ethical and moral behaviour;
- To act in the best interests of shareholders;
- To ensure that the Company acts as a good corporate citizen;
- To recognize the legitimate interests of all stakeholders;
- To disclose accurate, adequate and timely information so as to allow stakeholders make informed decisions.

The Board of Directors – Roles & Responsibilities

The Board has put in place the necessary mechanisms to enable it effectively discharge its roles and responsibilities. The Bank has in place a Board Charter which 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 Board ensures that appropriate steps are taken to protect and enhance the value of the assets of the Bank in the best interests of its shareholders and other stakeholders. This entails the approval and oversight of the implementation of the Bank's strategic objectives, risk strategy, corporate governance and corporate values, as well as the oversight of Senior Management. Further, the Board ensures that at the heart of the organisation, there is a culture of honesty, integrity and excellent performance.

The Board meets quarterly to review overall performance and progress on significant initiatives. To facilitate the discharge of its roles and responsibilities, the Board develops an annual work plan and calendar of meetings for the year to guide its activities for the year.

Board Operations & Controls

The Bank's Board, led by the Chairman Mr Suresh B R Shah, consists of ten Directors, of which 50% are Independent Directors. This in in line with the Bank'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 comprises five (5) Independent Directors, three (3) Non-executive Directors, and two (2) Executive Directors including the Chief Executive Officer.

The tenure of Independent Directors is set so as not to exceed a cumulative term of 9 years. Further the term of office of various Directors is organized in a manner that ensures a smooth transition. The Board also ensures that the functions of the Chairperson and the CEO are not exercised by the same individual.

The Directors, collectively have vast experience stemming out of their varied backgrounds in different disciplines, which include, inter alia Banking, General Management, Law, Information Communication and Technology, Taxation, Accounting and Investment Analysis, apart from hands on experience in various industries. The unique collective experience of our Board members provides a superior mix of skills as required by the Board, in not only discharging its responsibilities and providing a strategic vision and direction for the Bank, but more importantly also adds value to, and brings in the element of independent judgment and risk assessment to bear in the decision making process.

I&M Annual Report & Consolidated Financial Statements 2019 | 27

Statement on Corporate Governance (Continued)

Board Operations & Controls (Continued)

Director	Profile
SBR Shah, MBS **Chairman**	Mr. Suresh Bhagwanji Raja Shah is a founder member and Chairman of I&M Bank. 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.
Sarit S. Raja Shah **Executive Director**	Mr. Sarit S Raja Shah has been the Executive Director of I&M Bank since 1993. He holds a Master's degree in Internal Audit and Management from City University London. He also serves on the boards of several companies including I&M Holdings PLC subsidiaries and associates such as: I&M Bank Limited, I&M Bank (T) Limited and GA Insurance Limited.
Kihara Maina **Chief Executive Officer**	Mr. Kihara Maina, joined I&M Bank as the Chief Executive Officer and Board member in May 2016. He holds a Bachelor's degree in Mathematics from Moi University and an Executive MBA from the University of Chicago – Booth School of Business. He began his banking career in June 1993 at Stanbic Bank Kenya then moved to Barclays Bank Kenya in 1997 where he served extensively over the years ultimately taking up senior leadership positions. Prior to joining I&M Bank, Kihara was the Managing Director of Barclays Bank Tanzania.
M. Soundararajan **Independent Director**	Mr. Soundararajan, CEO of Delta Corp East Africa Ltd, joined the Board in 2009. He made a name for himself in the banking industry having served in different positions in banks both in Kenya and India. Before joining Delta Corp East Africa, he was the managing Director of CFC Financial Services Ltd and also Managing Director of CFC Bank.
Dr. Nyambura Koigi **Independent Director**	Dr. Koigi joined the Board in April 2015. She 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 Microfinance. She holds a Doctorate of BA from the Nelson Mandela Metropolitan University, an MBA and a BA both from the University of Nairobi. She is a fellow of the Institute of Certified Public Secretaries of Kenya and the Kenya Institute of Management. She sits on the boards of several companies.
Nikhil Rustam Hira **Independent Director**	Mr. Hira, Director at Bowman and former partner of Deloitte East Africa, joined the Board in February 2019. He holds a BSc Joint Honours in Accountancy and Process Engineering from University of Salford, England. He is a Fellow of the Institute of Chartered Accountants of England and Wales, member of the Institute of Certified Public Accountants of Kenya and also registered with similar institutes in Uganda and Tanzania. He headed the tax practice for Deloitte in the East Africa region and in addition was the Technology, Media and Telecom industry leader. He has specialised in taxation since 1987 in various jurisdictions around the world including the UK and East Africa. He sits on the Advisory board of Eastern Africa Association.

Statement on Corporate Governance (Continued)

Board Operations & Controls (Continued)

Director	Profile
Edward Muchemi Wambugu, MBS **Independent Director**	Mr Wambugu, Management Consultant and founder of Sirius Consult, Joined the Board in February 2019. He holds an Honors degree in Commerce, majoring in Management Information Systems from the University of Manitoba, Canada, and a Masters Certificate in Project Management from the University of California-Berkeley, USA. He is a certified member of the Project Management Institute (PMI) and also an ICF certified Executive and Systemic Team Coach. He sits on the board of several other organisations and institutions.
Christopher Low **Independent Director**	Mr. Low an international banker (with experience in digital transformation, emerging markets, risk management and financial inclusion) joined the board in September 2019. He has more than 30 years in the financial services industry, both in non-executive and CEO roles. He brings a wealth of knowledge to the board especially in Governance best practice and digital experience. He holds a Chartered Accountancy qualification from Institute of Chartered Accountants in England and Wales and has worked in the UK, Africa, Asia and the Middle East. He also sits on boards of other Companies.
Maria Largey **Non - Executive Director**	Ms. Largey currently serves as the Head of the Financial Institutions sector team at CDC and is responsible for the equity FI portfolio across Africa and Asia. Prior to joining CDC in 2012, she worked in the microfinance sector at both Agora Microfinance Partners and Opportunity International. Before joining the development finance sector, Maria worked at JPMorgan in both London and New York where she was responsible for creating investment solutions for asset management clients. Maria holds a BSc in Biology from the University of California, Santa Barbara. Maria joined the Board of I&M Bank in May 2019.
Mr Sachit Shah **Non - Executive Director**	Mr. Sachit Shah holds a Bachelor's of Science degree in Banking and Finance from City University London. He is the Executive Director of GA Insurance Limited. He has had the opportunity to work with AMP Asset Management in London and HSBC Bank Plc, London. He sits on the boards of several companies.

Statement on Corporate Governance (Continued)

Board Operations & Controls (Continued)

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 Bank but also have 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.

Induction, Orientation & Continuous Professional Development

All new Directors are appropriately introduced to the business of the Bank and the Group and are provided with a comprehensive induction and information pack containing a brief presentation on the affairs, strategy, the governance structure & conduct of meetings, the director's duties & responsibilities, the Bank's Constitution and such 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 Bank organizes for Directors, 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;

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

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.

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.

OUR FINANCIALS

Statement on Corporate Governance (Continued)

Board attendance

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

Name of Director	22 March 2019	20 June 2019	18 September 2019	06 December 2019	Total Board meetings attended in 2019
Suresh B R Shah (Chairman)	√	√	X	√	80%
Eric M Kimani	√	N/A	N/A	N/A	100%
Mugo Kibati	√	N/A	N/A	N/A	100%
Sarit S Raja Shah	√	√	√	√	100%
Sachit S Raja Shah	√	√	√	√	100%
Nikhil Hira	√	√	√	√	100%
M Soundararajan	√	√	√	√	100%
A N Koigi	√	√	√	√	100%
C K Maina	√	√	√	√	100%
Muchemi Wambugu	√	√	√	√	100%
Maria Largey	N/A	√	√	√	100%
Allan Christopher Low	N/A	N/A	N/A	√	100%

√ Attended

X Not Attended

N/A Either resigned or Not yet appointed to Board

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

Statement on Corporate Governance (Continued)

Board Committees

In order to assist in discharging its responsibilities, the Board has set up several Board Committees and Management Committees to assist in discharging its responsibilities. Tabulated below are Board Committees, their composition and membership, functions and the frequency of meetings:

	Board Audit Committee	Board Risk Management Committee	Board Credit Committee	Board Procurement Committee	Board Share Transfers Committee	Board Nomination & Remuneration Committee
Chairman	Independent Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director	Non-Executive Director	Independent Non-Executive Director
Members (Including Chairman)	• 4 Independent Non-Executive Directors • Head of Internal Audit (Secretary) • Group Head of Internal Audit (Alternate Secretary) **Invitees:** • Group Executive Director • CEO • A member of Senior Management at the discretion of the ED &/ or CEO	• 3 Independent Non-Executive Directors • 1 Non–Executive Director • Group Executive Director (GED) • Chief Executive Officer (CEO) • Group Head of Risk & Compliance (Secretary) • Manager Risk (Alternate Secretary) **Invitees:** • A member of Senior Management at the discretion of the Chairman	• 3 Independent Non-Executive Directors • 1 Non–Executive Director • Group Executive Director(GED) • Chief Executive Officer (CEO) • General Manager Credit (Secretary) • Manager Credit (Alternate Secretary) **Invitees:** • A member of Senior Management at the discretion of the ED &/ or CEO	• 3 Independent Non-Executive Directors • Group Executive Director (GED) • Chief Executive Officer (CEO) • Divisional Head, Business Support • Manager Procurement (Secretary) • Manager Finance (Alternate Secretary) **Invitees:** • A member of Senior Management at the discretion of the ED &/ or CEO	• 2 Non-Executive Directors • Group Executive Director(GED) • CEO • Company Secretary (Secretary) **Invitees:** • A member of Senior Management at the discretion of the ED &/ or CEO	• 3 Independent Non-Executive Directors • Group Executive Director (GED) • Chief Executive Officer (CEO) • General Manager HR (Secretary) • Manager HR (Alternate Secretary)
Frequency of Meetings	Quarterly	Quarterly	Quarterly	Quarterly	On need basis	Half-yearly

Statement on Corporate Governance (Continued)

Board Committees (Continued)

	Board Audit Committee	Board Risk Management Committee	Board Credit Committee	Board Procurement Committee	Board Share Transfers Committee	Board Nomination & Remuneration Committee
Main Functions	• Ensure establishment of an adequate, efficient and effective internal audit function • Review structure and adequacy of internal controls • Review and co-ordinate between External Auditors and Internal Audit Department • Review and receive CBK Inspection Report, and ensure implementation of recommendations therein.	• Ensure that the Risk management framework and the processes as approved are implemented • Review, monitor and deliberate on the appropriate risk mitigation approach • Ensure business continuity planning is formulated, tested and reviewed periodically • Review of policies, procedures and exposure limits • Review of proposed strategic initiatives • Creating awareness about Risk Management Process in the Bank. • Ensure that the Risk management strategies are designed to manage social and environmental risks and promote good sustainability practices across all Bank's activities.	• Review lending policy • Consider loan applications beyond discretionary limits granted to CRMC • Review lending by CRMC • Direct, monitor, review all aspects that will impact upon present and future Credit risk management at the Bank • Ensure compliance with Banking Act and Prudential Guidelines • Conduct independent loan reviews as and when appropriate.	• Review and approve the Procurement Policy • Review and consider significant procurement proposals / consultancy assignments above the delegated authority limit of the Executive Director's. • Vet agreements/ Procurement proposals from related parties • Review and ratify unbudgeted capital expenditure above Executive Director's delegated authority limits.	• Ensure that any new shareholders meet the Board's criteria of good standing • Approve/reject applications for the transfer of shares and approve registration of such transfers • Give guidance and approve any share allotment arising out of a bonus/rights issue • Sign the Share Certificates, under Company Seal, to be issued to any shareholder.	• Assessment of Board requirements for non-executive directors • Induction programs for new Directors and development programs to build individual skills and improve Board effectiveness • Board succession planning • Performance evaluation of the Board of Individual Directors and of the ED & CEO • Set remuneration policies & strategic objectives of Board, ED & CEO • Policies in relation to the ESOP Scheme and provide requisite guidance to Scheme Trustee.

Statement on Corporate Governance (Continued)

Management Committees

Tabulated below are Management Committees, their composition and membership, functions and the frequency of meetings

	Executive Committee	Management Committee	Assets & Liabilities Committee	Credit Risk Management Committee	Transformation Office Steering Committee	Risk & Compliance Committee
Chairman	CEO	CEO	CEO	Group Executive Director	CEO	CEO
Members	• GED, CEO • Regional Director • Division Head, Business Development • Division Head, Business Support • General Managers (Finance, Risk, Treasury, Strategy & Transformation, Credit, Corporate Banking and Personal & Business Banking) • Manager – Group Executive Office (Secretary)	• GED, CEO • Division Head, Business Development • Division Head, Business Support • All General Managers • Assistant General Managers (Premium and Personal Banking) • Manager – Group Executive Office (Secretary) **Invitees:** • General Manager – Internal Audit	• GED, CEO • Division Head, Business Development • General Managers (Finance, Treasury, Risk) • Manager, Middle Office (Market Risk) • Assistant General Manager- Compliance (Secretary)	• GED, CEO • Senior General Manager • Divisional Head, Business Development • General Managers (Credit, Risk) • Assistant General Manager Credit (Secretary) • Head - Debt Recovery	• GED, CEO • Division Head, Business Development • Division Head, Business Support • General Managers (Premium & Business, Credit, Finance, Strategy & Transformation, Human Resource)	• GED, CEO • Division Head, Business Development • Division Head, Business Support • General Managers (Risk, Finance, ICT, Credit, HR, Treasury, Operations) • Manager Operational Risk • Head of Legal • Senior Managers – Compliance and Information Security **Invitees** • Group Head Internal Audit • Head of Internal Audit
Frequency of Meetings	Monthly	Quarterly	Monthly	Fortnightly	Weekly	Monthly

Statement on Corporate Governance (Continued)

Management Committees (Continued)

	Executive Committee	Management Committee	Assets & Liabilities Committee	Credit Risk Management Committee	Transformation Office Steering Committee	Risk & Compliance Committee
Main functions	• The Executive Committee is to drive and oversee effective and efficient business performance, in line with the agreed Corporate Objectives and Budget • The EXCO will focus on business performance related issues and largely incorporate the business development team. • The Division Head of Business Support • General Manager Finance and General Manager Risk are part of this session to specifically provide required inputs from a business support perspective.	• The Management Committees is to review the Bank's non-financial corporate objectives, progress of special projects and identification of risks or opportunities. • The Management Committee will focus on the business support function and provide a platform for reviewing of new products, initiatives & ideas and developments in the banking industry • Regularly assess impact of changes in regulations/legislation	• Treasury Market Risk and Middle Office Management • Asset and Liability Management • Interest Rate Risk Management • Treasury Credit Risk Management \ Counter Party and Settlements Risk management • Funding Risk Management • Liquidity Risk Management • Capital Risk management and the Internal Capital assessment process (ICAAP) • Product Pricing • Currency Risk management.	• Implement Credit Policy and Credit Risk Management Policy • Reviews Credit Proposals in line with Policy and CBK Guidelines • Review NPAs • Consider and approve new asset-based products • Control and follow-up on credit-related matters • Regularly report to Board Credit Committee.	• Guide and oversee development of the five year corporate strategy; • Guide/oversee annual review of agreed strategy, making recommendations to the Board on any changes deemed necessary mid-stream • On a quarterly basis, evaluate progress on achievement of Strategic milestones, against the set strategic targets, and in case of significant variances, consider need or otherwise to review overall strategy. • Review and approve all significant Strategic Initiatives, before roll out • Evaluate progress on Strategic and Corporate Objectives • Prior to the annual budgeting exercise, consider and agree broad budget parameters in line with the set strategic targets.	• Ensure a culture of the enterprise risk and integrate risk management into the organization's goals. • Communicate internally matters relating to risk governance and oversight. • Review and approve the risk management infrastructure • Review and evaluate the Bank's policies and procedures with respect to risk assessment and risk management • Guide and support development of the Enterprise Risk Management framework • Monitor the Bank's risk profile and potential exposure to various risk types • Present to the BRC a report summarizing the committee's review of the Bank's risk assessment

Statement on Corporate Governance (Continued)

Management Committees (Continued)

	Human Resources Committee	Management Procurement Committee	IT Steering Committee	SFE Review	Space Committee
Chairman	Chief Executive Officer (CEO)	Chief Executive Officer (CEO)	Chief Executive Officer (CEO)	Chief Executive Officer (CEO)	Chief Executive Officer (CEO)
Members	• GED, CEO • Division Head, Business Development • Division Head, Business Support • General Manager HR • Manager HR (Secretary)	• CEO • Division Head, Business Development • General Managers (ICT, Operations, Projects, Finance) • Manager Finance (Secretary)	• CEO • Division Head, Business Development • Division Head, Business Support • General Managers (ICT, Operations, Projects, ABC) • Assistant General Manager ICT(Secretary) **Invitee:** Senior Manager Information Security	• CEO • Division Head, Business Development • General Managers (Finance, Corporate Banking, Personal, Premium and Business Banking, Strategy and Transformation,) • Transformation Office Reps • SFE Champions Secretary)	• GED, CEO • Division Head, Business Development • Division Head, Business Support • General Managers (Strategy and Transformation and Operations) • Senior Manager Premises (Secretary)
Frequency of meetings	Once every 2 months	Once every 2 months	Quarterly	Weekly	Quarterly

Statement on Corporate Governance (Continued)

Management Committees (Continued)

	Human Resources Committee	Management Procurement Committee	IT Steering Committee	SFE Review	Space Committee
Main functions	• Review HR Strategy and ensure implementation to comply with all HR related standards, laws and regulations • Periodically review the effectiveness and alignment of the Bank's Human Resources policies to business needs • Review and recommend the appointment of and compensation (including incentive bonus, benefits) for the staff team • Review the competencies of existing Senior Management resources, and ensure that competent pipeline is available for succession to critical positions • Oversee staff alignment with agreed I&M Group priorities. • Review and Monitor the Grievance Resolution and Discipline handling process of the Bank. • Update Board on HR matters.	• Review and approve all major expenditure items (both CAPEX and OPEX) across the Bank to ensure that the Bank in all cases obtains value for money • Review of any major agreements before the same are committed	• Draw up the ICT Strategic Plan • Monitor ICT related investments • Monitor ICT enabled / dependent initiatives manage ICT investments. • Assess and direct management of ICT risks • Define and manage ICT and ICT-dependent projects • Ensure optimum use of IT resources and manage ICT investments.	• Monitor segmental business performance to ensure the Bank's Strategic targets are achieved	• To determine the space requirements for the Bank and monitor implementation through the premises department

Statement on Corporate Governance (Continued)

Risk Management, Internal Controls & Compliance

The Bank has established an integrated and enterprise risk management framework in place to identify, assess, manage and report risks and risk adjusted returns on a consistent and reliable basis. The Bank faces various diverse and complex types of risks related to its business as a banking institution. The Risk Management Department manages these risks through a continuous and on-going process of effective management of risks.

Risks are evaluated in an unbiased way. The Bank consciously takes the appropriate amount of risks and manages these risks competently to seize related opportunities. Risk taking is core to I&M's innovation capacity and ultimately its entrepreneurial success.

I&M's approach to Risk Management is characterized through a 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 I&M's decision making process which not only ensures that the risk reward trade-off is optimized but also that risks assumed are within the overall Risk Appetite and Risk Tolerance levels as laid down by the Board in the various Policy Documents.

I&M's Risk Management Process is guided by the following principles:

- Its Risk Appetite & Risk Tolerance Levels
- An Independent Audit, Compliance & Quality Assurance Department
- Zero Tolerance for violations
- A Policy of "No Surprises"
- Protection of Reputation
- Enhanced Stakeholder Satisfaction

The Bank endeavours to be compliant with Best Practices in its Risk Management and uses the Committee of Sponsoring Organisations of the Treadway Commission "COSO" framework as a reference and adopts compatible processes and terminology.

Compliance

The Board ensures that laws, rules and regulations, codes and standards applicable to the Bank are identified, documented and observed. The Board has set up an independent Compliance function which continuously monitors the Bank's compliance with applicable laws, rules and regulations, codes and standards.

All policies and procedures are tailored to ensure that the Bank's processes are fully compliant with all relevant Laws and regulations. The Board ensures compliance with all laws and regulations by continuously monitoring the Compliance review report.

Additionally the Board receives a report at each of its scheduled meetings on changes to the legislation and regulatory framework and evaluates its impact in addition to ensuring that the Bank puts in place the appropriate processes to ensure compliance from the effective date.

Risk based Internal Audit & Assurance

While the Board is responsible for the overall risk management and internal control systems, oversight of the Bank's risk management process has been delegated to the Board Audit and Risk Management Committees. This is undertaken through independent Internal Audit function established within the Bank.

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

Statement on Corporate Governance (Continued)

Risk based Internal Audit & Assurance (Continued)

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 organization goals are met and governance processes are effective and efficient

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 14

Ethics & Social Responsibility

Code of Ethics

The Bank 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 Bank 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 excuse themselves from the relevant discussions and do not exercise their right to vote in respect of such matters. The Conflicts of Interest policy is also extended on a similar basis to all Senior management and employee who can influence decision making processes.

Insider Trading & Related Party Transactions

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

- Dealing in the shares of its parent entity – I&M Holdings Plc (listed on the Nairobi Securities Exchange) 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

Statement on Corporate Governance (Continued)

Insider Trading & Related Party Transactions (Continued)

Through the Group, the Bank 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 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 39.

Whistle Blowing Policy

The Board has adopted a Whistle blowing policy to enhance committed to the highest standards of openness, probity and accountability. An important aspect of accountability and transparency is a mechanism to enable staff of the Bank and Group to voice concerns in a responsible and effective manner.

The policy is designed to enable employees 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; and.
- Let employees know the Group is serious about adherence to the code of conduct and the various policies in place.

Sustainability & Corporate Social Responsibility (CSR)

The Bank is very conscious of its responsibility towards the Community and those around it. It is in this endeavour that the Bank has put in place guidelines that support the discharge of its Corporate Social Responsibility mandate, which is well integrated within the Bank. The Bank has continued to deepen its relationship with various stakeholders while providing opportunities to its employees to participate in various CSR activities with a focus towards health, education and the environment.

I&M Bank's CSR activities are aimed at making sustainable difference under four key social pillars:

- Environmental conservation
- Education and skills development:
- Economic empowerment
- Enabling giving:

Statement on Corporate Governance (Continued)

Stakeholder Management

I&M recognizes and appreciates that engagement with, and active cooperation of its stakeholders, is essential for the Bank and Group's strong business performance on a sustainable basis, as well as to achieving and maintaining public trust and confidence. The Bank is guided by the Group's stakeholder management policy which 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 employees are accountable for managing relationships and meeting expectations of internal and external stakeholders within their areas of responsibility. Should a stakeholder not be satisfied with the service or assistance that they receive from their I&M point of contact, there are a number of opportunities that allow for anonymity (if desired) as well as independence to ensure a voice for concerned stakeholders. These include our client call centre that is the first point of call for all clients' requests and the section "Contact us" on the Bank's corporate website. Concerns raised by stakeholders are monitored regularly for compliance by the Bank's Risk and Compliance Teams and by the Board Risk Management Committee.

Statement of Directors' Responsibilities

The Directors are responsible for the preparation and presentation of the consolidated and separate financial statements of I&M Bank LIMITED (the "Group" and "Company") set out on pages 45 to 178 which comprise the consolidated and company statements of financial position as at 31 December 2019, and consolidated and company statements of profit or loss and other comprehensive income, statements of changes in equity and 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 are of the opinion that the financial statements give a true and fair view of the financial position and the profit or loss of the Group and the Company.

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 year that give a true and fair view of the financial position of the Group and the Company as at the end of the financial year and of the profit or loss of the Group and the Company for that year. It also requires the Directors to ensure the company keeps proper accounting records which disclose with reasonable accuracy the financial position and profit or loss 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 financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the Company and Group ability to continue as a going concern and have no reason to believe the Group and Company 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 19 March 2020.

Suresh Shah

Suresh SBR Shah, MBS
Director

SRShah

Sarit Raja Shah
Director

Nikhil Hira

N.R Hira
Director

Date: 19 March 2020.

KPMG

Independent Auditor's Report to the members of I&M Bank LIMITED

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of I&M Bank LIMITED (the "Group" and "Company") set out on pages 45 to 178, which comprise the consolidated and company statements of financial position as at 31 December 2019, and the consolidated and company statements of profit or loss and other comprehensive income, consolidated and company statements of changes in equity and 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 Bank LIMITED as at 31 December 2019, and of 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 in the manner required by the Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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.

Other information

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

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express 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 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, 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.

KPMG

Independent Auditor's Report to the members of I&M Bank LIMITED (Continued)

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

Directors' responsibilities for the consolidated and separate financial statements

As stated on page 41, 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 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 Company to cease operations, or has 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 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company'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 and/or Company to cease to continue as a going concern.

KPMG

Independent Auditor's Report to the members of I&M Bank LIMITED (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)

- 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 and separate financial statements. We are responsible for the direction, supervision and performance of the Group and Company 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.

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 in the report of the Directors on pages 24 and 25 is consistent with the consolidated and separate financial statements; and

(ii) We have issued an unqualified audit report on the consolidated and separate financial statements.

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

KPMG Kenya

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

Date: 19 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2019

	Note	2019 KShs'000	2018 KShs'000
Interest income	8(a)	23,288,243	22,329,707
Interest expense	9(a)	(10,245,943)	(9,201,860)
Net interest income		**13,042,300**	**13,127,847**
Fee and commission income	10(a)	3,616,927	3,571,783
Fee and commission expense	10(a)	(177,864)	(168,589)
Net fee and commission income	**10(a)**	**3,439,063**	**3,403,194**
Revenue		**16,481,363**	**16,531,041**
Net trading income	11(a)	3,466,539	2,727,847
Other operating income	12(a)	157,592	62,478
Net operating income before change in expected credit losses and other credit impairment charges		**20,105,494**	**19,321,366**
Net impairment losses on financial assets	21(b)	(587,780)	(3,691,665)
Net operating income		**19,517,714**	**15,629,701**
Staff costs	13(a)	(3,587,222)	(3,130,510)
Premises and equipment costs	13(a)	(386,099)	(748,192)
General administrative expenses	13(a)	(2,283,958)	(2,186,456)
Depreciation and amortisation	13(a)	(804,559)	(384,128)
Operating expenses		**(7,061,838)**	**(6,449,286)**
Profit before income tax	**14(a)**	**12,455,876**	**9,180,415**
Income tax expense	15(a)(i)	(3,434,423)	(2,544,384)
Net profit for the year after tax		**9,021,453**	**6,636,031**

(Continued Page 46)

The notes set out on pages 56 to 178 form an integral part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2019 (Continued)

	Note	2019 KShs'000	2018 KShs'000
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Net change in fair value of FVOCI financial assets - Equity instruments		(167,758)	196,169
Deferred tax on fair value of FVOCI financial assets - Equity instruments		50,327	(58,851)
Items that are or may be reclassified to profit or loss:			
Net change in fair value of FVOCI financial assets- Debt instruments		217,921	(86,236)
Deferred tax on fair value of FVOCI financial assets - Debt instruments		(65,377)	25,871
Foreign currency translation differences		(28,760)	(148,152)
Total other comprehensive income for the year		**6,353**	**(71,199)**
Total comprehensive income for the year		**9,027,806**	**6,564,832**
Profit attributable to:			
Equity holders of the company		8,942,877	6,552,909
Non-controlling interest		78,576	83,122
		9,021,453	**6,636,031**
Comprehensive income attributable to:			
Equity holders of the company		8,953,947	6,519,427
Non-controlling interest		73,859	45,405
		9,027,806	**6,564,832**
Basic and diluted earnings per share - (KShs)	**16**	**300.10**	**219.90**

The notes set out on pages 56 to 178 form an integral part of these financial statements.

Company Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2019

	Note	2019 KShs'000	2018 KShs'000
Interest income	8(b)	21,115,108	20,324,529
Interest expense	9(b)	(9,370,443)	(8,346,835)
Net interest income		**11,744,665**	**11,977,694**
Fee and commission income	10(b)	3,217,448	3,161,426
Fee and commission expense	10(b)	(167,478)	(154,824)
Net fee and commission income	**10(b)**	**3,049,970**	**3,006,602**
Revenue		**14,794,635**	**14,984,296**
Net trading income	11(b)	3,328,571	2,591,680
Other operating income	12(b)(i)	202,668	69,370
Dividend income	12(b)(ii)	48,759	57,500
Net operating income before change in expected credit losses and other credit impairment charges		**18,374,633**	**17,702,846**
Net impairment losses on financial assets	21(b)	(303,783)	(3,415,940)
Net operating income		**18,070,850**	**14,286,906**
Staff costs	13(b)	(3,075,095)	(2,694,710)
Premises and equipment costs	13(b)	(348,768)	(671,108)
General administrative expenses	13(b)	(1,948,466)	(1,890,002)
Depreciation and amortisation	13(b)	(686,179)	(305,760)
Operating expenses		**(6,058,508)**	**(5,561,580)**
Profit before income tax	**14(b)**	**12,012,342**	**8,725,326**
Income tax expense	15(a)(ii)	(3,273,473)	(2,386,470)
Net profit for the year after tax		**8,738,869**	**6,338,856**
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Net change in fair value of FVOCI financial assets - Equity instruments		(306,956)	196,169
Deferred tax on fair value of FVOCI financial assets - Equity instruments		92,087	(58,851)
Items that are or may be reclassified to profit or loss:			
Net change in fair value of FVOCI financial assets		217,921	70,767
Deferred tax on fair value of FVOCI financial assets		(65,376)	(21,230)
Total other comprehensive income for the year		**(62,324)**	**186,855**
Total comprehensive income for the year		**8,676,545**	**6,525,711**
Basic and diluted earnings per share - (KShs)	**16**	**293.25**	**212.71**

The notes set out on pages 56 to 178 form an integral part of these financial statements.

OUR FINANCIALS

Consolidated Statement of Financial Position

At 31 December 2019

	Note	2019 KShs '000	2018 KShs '000
ASSETS			
Cash and balances with central banks	18(a)	12,062,162	12,002,031
Items in the course of collection	19(a)	536,459	764,460
Loans and advances to banks	20(a)	40,573,680	31,205,610
Loans and advances to customers	21(a)(i)	156,768,746	147,623,509
Financial assets at fair value through profit or loss (FVTPL)	22(a)(i)	13,697,717	13,144,378
Financial assets measured at fair value through other comprehensive income (FVOCI)	22(b)(i)	15,421,415	13,943,848
Other financial assets at amortised cost	22(c)(i)	23,629,440	22,736,727
Property and equipment	24(a)	2,863,172	827,527
Intangible assets - goodwill	25(a)(i)	705,345	707,729
Intangible assets - software	25(b)(i)	1,422,282	1,194,657
Tax recoverable	15(b)(i)	8,927	84,281
Deferred tax asset	26(a)	3,386,195	2,219,356
Due from group companies	27(a)(i)	832,885	853,185
Other assets	28(a)	2,119,324	1,332,268
TOTAL ASSETS		**274,027,749**	**248,639,566**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	29(a)	2,437,283	1,339,255
Deposits from customers	30(a)	209,025,201	191,334,148
Due to group companies	27(b)(i)	993,874	2,069,611
Tax payable	15(b)(i)	868,187	31,488
Other liabilities	31(a)	3,897,473	2,346,862
Long term debt	32(a)	4,770,428	7,619,933
Subordinated debt	33(a)	3,645,247	4,511,679
		225,637,693	**209,252,976**
Shareholders' equity (Page 52-53)			
Share capital	34(a)	2,980,000	2,980,000
Share premium	34(b)	5,531,267	5,531,267
Retained earnings		34,564,173	28,804,385
Statutory credit risk reserve	34(c)	4,839,393	1,656,304
Fair value reserve	34(e)	(123,573)	(158,278)
Translation reserve	34(d)	(448,786)	(425,151)
Equity attributable to owners of the company		**47,342,474**	**38,388,527**
Non- controlling interest		1,047,582	998,063
Total shareholders' equity		**48,390,056**	**39,386,590**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**274,027,749**	**248,639,566**

The financial statements set out on pages 45 to 178 were approved and authorised for issue by the Board of Directors on **19 March 2020** and were signed on its behalf by:

Suresh SBR Shah, MBS - Director | **Sarit Raja Shah - Director**

N.R Hira - Director | **NP Kothari**

The notes set out on pages 56 to 178 form an integral part of these financial statements.

Company Statement of Financial Position

At 31 December 2019

	Note	2019 KShs '000	2018 KShs '000
ASSETS			
Cash and balances with Central Bank of Kenya	18(b)	10,701,846	10,110,215
Items in the course of collection	19(b)	530,507	763,445
Loans and advances to banks	20(b)	40,573,680	30,858,283
Loans and advances to customers	21(a)(ii)	141,543,126	132,319,259
Financial assets at fair value through profit or loss (FVTPL)	22(a)(ii)	13,697,717	13,144,378
Financial assets measured at fair value through other comprehensive income (FVOCI)	22(b)(ii)	15,671,495	14,339,916
Other financial assets at amortised cost	22(c)(ii)	18,925,430	18,306,701
Investment in subsidiaries	23	2,750,753	2,750,753
Property and equipment	24(b)	2,510,551	633,417
Intangible assets - software	25(b)(ii)	1,132,558	1,037,775
Tax recoverable	15(b)(ii)	-	64,449
Deferred tax asset	26(b)	3,125,340	1,950,464
Due from group companies	27(a)(ii)	1,200,414	1,663,796
Other assets	28(b)	1,888,755	1,218,283
TOTAL ASSETS		**254,252,172**	**229,161,134**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	29(b)	436,270	496,100
Deposits from customers	30(b)	195,404,638	176,753,511
Due to group companies	27(b)(ii)	1,211,356	2,173,854
Other liabilities	31(b)	3,393,244	2,105,193
Tax payable	15(b)(ii)	845,413	-
Long term debt	32(b)	3,115,727	5,612,229
Subordinated debt	33(b)	2,830,389	3,681,657
		207,237,037	**190,822,544**
Shareholders' equity (page 54-55)			
Share capital	34(a)	2,980,000	2,980,000
Share premium	34(b)	5,531,267	5,531,267
Retained earnings		34,023,451	28,440,796
Statutory credit risk reserve	34(c)	4,598,169	1,441,955
Fair value reserve	34(e)	(117,752)	(55,428)
		47,015,135	**38,338,590**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**254,252,172**	**229,161,134**

The financial statements set out on pages 45 to 178 were approved and authorised for issue by the Board of Directors on **19 March 2020** and were signed on its behalf by:

Suresh SBR Shah, MBS - Director | **Sarit Raja Shah - Director**

N.R Hira - Director | **NP Kothari**

The notes set out on pages 56 to 178 form an integral part of these financial statements.

OUR FINANCIALS

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2019

	Note	2019 KShs'000	2018 KShs'000
Net cash flows generated from operating activities	35(a)	**10,556,987**	**33,920,994**
Cash flows from investing activities			
Purchase of property and equipment (excluding right of use assets)	24(a)	(575,554)	(231,191)
Purchase of intangible assets	25(b)(i)	(762,256)	(1,059,375)
Acquisition of Youjays Insurance Brokers Limited	35(c)	-	(273,440)
Proceeds from disposal of property and equipment		2,060	3,731
Purchase of equity shares		(6,971)	-
Purchase of preference shares in I&M Realty Limited	39(b)	(300,000)	-
Net cash used in/(from) investing activities		**(1,642,721)**	**(1,560,275)**
Cash flows from financing activities			
Payment of lease liabilities	3(v)(i)	(252,494)	-
Net outflow of subordinated debt		(866,432)	-
Dividend paid to shareholders of the company		-	(2,688,294)
Rights issue-I&M Bank (T) Limited		-	183,762
Dividend paid to non-controlling interest		(24,340)	-
Net cash flow used in financing activities		**(1,143,266)**	**(2,504,532)**
Net increase in cash and cash equivalents	**35(b)**	**7,771,000**	**29,856,187**
Cash and cash equivalents at start of the year	**35(b)**	**33,609,131**	**3,752,944**
Cash and cash equivalents at end of the year	**35(b)**	**41,380,131**	**33,609,131**

The notes set out on pages 56 to 178 form an integral part of these financial statements.

Company Statement of Cash Flows

For the Year Ended 31 December 2019

	Note	2019 KShs'000	2018 KShs'000
Net cash flows generated from operating activities	35(d)	**11,999,400**	**33,824,559**
Cash flows from investing activities			
Purchase of property and equipment (excluding right of use assets)	24(b)	(515,917)	(203,635)
Purchase of intangible assets	25(b)(ii)	(589,031)	(910,387)
Proceeds from disposal of property and equipment		1,921	7,872
Purchase of additional shares in a subsidiary - I&M Bank (T) Limited	23	-	(426,628)
Purchase of preference shares in I&M Realty Limited	39(b)	(300,000)	-
Dividends received	12(b)(ii)	48,759	57,500
Net cash used in investing activities		**(1,354,268)**	**(1,475,278)**
Cash flows from financing activities			
Payment of lease liabilities	3(v)(i)	(216,131)	-
Net outflow of subordinated debt		(851,268)	-
Dividend paid		-	(2,688,294)
Net cash outflow from financing activities		**(1,067,399)**	**(2,688,294)**
Net increase in cash and cash equivalents	**35(e)**	**9,577,733**	**29,660,987**
Cash and cash equivalents at start of the year	**35(e)**	**33,365,421**	**3,704,434**
Cash and cash equivalents at end of the year	**35(e)**	**42,943,154**	**33,365,421**

The notes set out on pages 56 to 178 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2019

2019:	Share capital KShs'000	Share premium KShs'000	Funds awaiting shares allotment KShs'000	Retained earnings KShs'000	Statutory credit risk 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	**2,980,000**	**5,531,267**	**-**	**28,804,385**	**1,656,304**	**(158,278)**	**(425,151)**	**38,388,527**	**998,063**	**39,386,590**
Net profit after tax	-	-	-	8,942,877	-	-	-	8,942,877	78,576	9,021,453
Other comprehensive income	-	-	-	(3,183,089)	3,183,089	34,705	(23,635)	11,070	(4,717)	6,353
Total comprehensive income	**-**	**-**	**-**	**5,759,788**	**3,183,089**	**34,705**	**(23,635)**	**8,953,947**	**73,859**	**9,027,806**
Transactions with owners recorded directly in equity										
Final dividend - 2018	-	-	-	-	-	-	-	-	(24,340)	(24,340)
Total transactions with owners for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(24,340)**	**(24,340)**
Balance as at 31 December 2019	**2,980,000**	**5,531,267**	**-**	**34,564,173**	**4,839,393**	**(123,573)**	**(448,786)**	**47,342,474**	**1,047,582**	**48,390,056**

The notes set out on pages 56 to 178 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2019 (Continued)

2018:	Share capital KShs'000	Share premium KShs'000	Funds awaiting shares allotment KShs'000	Retained earnings KShs'000	Statutory credit risk reserve KShs'000	Fair Value Reserve KShs'000	Translation reserve KShs'000	Total KShs'000l	Non controlling interest KShs'000	Total KShs'000
At 1 January 2018	**2,880,245**	**3,759,624**	**1,871,398**	**25,429,367**	**1,619,262**	**(151,215)**	**(314,716)**	**35,093,965**	**774,883**	**35,868,848**
Day one IFRS 9 transition adjustments (Note 41)	-	-	-	99,689	(746,197)	(120,023)	-	(766,531)	(8,553)	(775,084)
Deferred tax on day one (Note 25)	-	-	-	193,953	-	36,007	-	229,960	2,566	232,526
Adjusted balance at 1 January 2018	**2,880,245**	**3,759,624**	**1,871,398**	**25,723,009**	**873,065**	**(235,231)**	**(314,716)**	**34,557,394**	**768,896**	**35,326,290**
Net profit after tax	-	-	-	6,552,909	-	-	-	6,552,909	83,122	6,636,031
Other comprehensive income	-	-	-	(783,239)	783,239	76,953	(110,435)	(33,482)	(37,717)	(71,199)
Total comprehensive income	**-**	**-**	**-**	**5,769,670**	**783,239**	**76,953**	**(110,435)**	**6,519,427**	**45,405**	**6,564,832**
Transactions with owners recorded directly in equity										
Rights issue - I&M Bank (T) Limited	-	-	-	-	-	-	-	-	183,762	183,762
Allotment of shares	99,755	1,771,643	(1,871,398)	-	-	-	-	-	-	-
Final dividend - 2017	-	-	-	(1,108,894)	-	-	-	(1,108,894)	-	(1,108,894)
Interim dividend - 2018	-	-	-	(1,579,400)	-	-	-	(1,579,400)	-	(1,579,400)
Total transactions with owners for the year	**99,755**	**1,771,643**	**(1,871,398)**	**(2,688,294)**	**-**	**-**	**-**	**(2,688,294)**	**183,762**	**(2,504,532)**
Balance as at 31 December 2018	**2,980,000**	**5,531,267**	**-**	**28,804,385**	**1,656,304**	**(158,278)**	**(425,151)**	**38,388,527**	**998,063**	**39,386,590**

The notes set out on pages 56 to 178 form an integral part of these financial statements.

Company Statement of Changes in Equity

For the Year Ended 31 December 2019 (Continued)

2019:	Share capital KShs'000	Share premium KShs'000	Funds awaiting shares allotment KShs'000	Retained earnings KShs'000	Statutory credit risk reserve KShs'000	Fair Value Reserve KShs'000	Total KShs'000
At 1 January 2019	**2,980,000**	**5,531,267**	**-**	**28,440,796**	**1,441,955**	**(55,428)**	**38,338,590**
Net profit after tax	-	-	-	8,738,869	-	-	8,738,869
Other comprehensive income	-	-	-	(3,156,214)	3,156,214	(62,324)	(62,324)
Total comprehensive income	**-**	**-**	**-**	**5,582,655**	**3,156,214**	**(62,324)**	**8,676,545**
Balance as at 31 December 2019	**2,980,000**	**5,531,267**	**-**	**34,023,451**	**4,598,169**	**(117,752)**	**47,015,135**

The notes set out on pages 56 to 178 form an integral part of these financial statements.

Company Statement of Changes in Equity

For the Year Ended 31 December 2019

2018:	Share capital KShs'000	Share premium KShs'000	Funds awaiting shares allotment KShs'000	Retained earnings KShs'000	Statutory credit risk reserve KShs'000	Fair value reserve KShs'000	Total KShs'000
At 1 January 2018	**2,880,245**	**3,759,624**	**1,871,398**	**25,113,725**	**1,556,786**	**(158,267)**	**35,023,511**
Day one IFRS 9 transition adjustments (Note 41)	-	-	-	120,023	(746,198)	(120,023)	(746,198)
Deferred tax on day one (Note 25)	-	-	-	187,853	-	36,007	223,860
Adjusted balance at 1 January 2018	**2,880,245**	**3,759,624**	**1,871,398**	**25,421,601**	**810,588**	**(242,283)**	**34,501,173**
Net profit after tax	-	-	-	6,338,856	-	-	6,338,856
Other comprehensive income	-	-	-	(631,367)	631,367	186,855	186,855
Total comprehensive income	**-**	**-**	**-**	**5,707,489**	**631,367**	**186,855**	**6,525,711**
Transactions with owners recorded directly in equity							
Allotment of shares	99,755	1,771,643	(1,871,398)	-	-	-	-
Proposed dividend - 2017	-	-	-	(1,108,894)	-	-	(1,108,894)
Dividend paid - 2017 Final	-	-	-	(1,579,400)	-	-	(1,579,400)
Total transactions with owners for the year	**99,755**	**1,771,643**	**(1,871,398)**	**(2,688,294)**	**-**	**-**	**(2,688,294)**
Balance as at 31 December 2018	**2,980,000**	**5,531,267**	**-**	**28,440,796**	**1,441,955**	**(55,428)**	**38,338,590**

The notes set out on pages 56 to 178 form an integral part of these financial statements.

OUR FINANCIALS

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019

1. REPORTING ENTITY

I&M Bank LIMITED (the "Bank" or "Company"), a financial institution licensed under the Kenyan Banking Act (Chapter 488), provides corporate and retail banking services in various parts of the country. The Bank is incorporated in Kenya under the Kenyan Companies Act and has subsidiaries in Kenya and Tanzania. The consolidated financial statements of the Bank as at and for the year ended 31 December 2019 comprise the Bank and its subsidiaries (together referred to as the "Group"). The address of its registered office is as follows:

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

The Bank has 70.38% shareholding in I&M Bank (T) Limited (2018 – 70.38%) and 100% shareholding in I&M Insurance Agency Limited (incorporated on 23 July 2014) which owns 100% of Youjays Insurance Brokers Limited (effective 31 March 2018) together with the parent (I&M Bank LIMITED) referred to as "Group".

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

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.

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) which are measured at fair value.

(c) Functional and presentation currency

These consolidated and separate financial statements are presented in Kenya Shillings (KShs), which also is the Bank'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.

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

2. BASIS OF PREPARATION (Continued)

(d) Use of estimates and judgments (Continued)

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).

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

(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) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest (NCI) and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Transactions eliminated on consolidation

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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. 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 recognized 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.

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.

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)

Amortised cost and gross carrying amount

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

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

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 Other Comprehensive Income (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.

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.

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)

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

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

Other fee and commission expenses relate mainly to transaction and service fees, which are recognised at a point in time as the service is performed.

(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.

(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:

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Income tax expense (Continued)

- 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. 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:

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)

- 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.

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.

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)

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

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;
- 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 recognized 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. 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 recognized 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 recognized in the consolidated statement of profit or loss and other comprehensive income.

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 FVOCI (Continued)

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 are 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.

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

Debt instruments designated at FVTPL

Financial assets classified in this category are those that have been designated by the Bank 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 recognized in Non-interest income in the statement of profit or loss.

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 recognized 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 recognized in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

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)

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 (amortised cost and FVOCI) including debt instruments, loans and advances and trade receivables from Bancassurance.
- 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 (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since their initial recognition i.e. stage 1 (see Note 5(a)).

Loss allowances for trade receivables (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.

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)

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'.

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

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 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).

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

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.
- 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; and
- 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; and
(iii) The intentions and capacity, reflected in public statements, of governments and agencies honor these commitments.

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

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

- *financial assets measured at amortised cost:* as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts:* generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the 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.

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)

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.

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.

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).

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.

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)

(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 recognized 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.

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:

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)

- 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 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%

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

(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. 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.

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 from 1 January 2019 (Continued)

Group acting as a lessee (Continued)

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.

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.

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 (Continued)

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.

(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.

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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. Retirement plans are funded by contributions from the employees and the respective entities. The Group's contributions are recognised in profit or loss in the year to which they relate.

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.

(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 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 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.

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)

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. 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.

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)

Group acting as a lessee (Continued)

Impact on financial statements

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

	Group KShs'000	Company KShs'000
Right of use assets	1,676,909	1,498,017
Lease liabilities	1,586,481	1,412,017

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.

Group acting as a lessee

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.

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)

Group acting as a lessee (Continued)

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;
- 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 the 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)

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.

	Group KShs'000	Company KShs'000
Balance at 1 January 2019	-	-
Recognition of right of use asset	1,676,909	1,498,017
Additions	55,676	55,676
Depreciation charge for the year	(303,258)	(271,399)
Translation difference	80	-
Balance at 31 December 2019	**1,429,407**	**1,282,294**

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	Company KShs'000
Total comprehensive income		
Less than one year	478,119	472,802
Between one and five years	2,476,446	2,350,760
More than five years	418,704	417,704
Total undiscounted lease liabilities at 31 December	**3,373,269**	**3,241,266**

Lease liabilities

Included in other liabilities (Note 31) are lease liabilities as at 31 December 2019 amounting to KShs 1,389,567,292 and KShs 1,251,561,625 for the Group and Company respectively.

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)

Amounts recognised in profit or loss

	Group KShs'000	Company KShs'000
2019 - Leases under IFRS 16		
Interest on lease liabilities (Note 9)	147,617	135,724
Expenses relating to short-term leases	-	-
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-	-
	147,617	**135,724**
2018 - Operating leases under IAS 17		
Lease expense	516,570	458,065
Contingent expense	-	-
	516,570	**458,065**
Amounts recognised in statement of cash flows		
Interest on lease liabilities	(147,617)	(135,724)
Payment of lease liabilities	(252,494)	(216,131)
Total cash outflow for leases	**(400,111)**	**(351,855)**

Extension options

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. 885 million.

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

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).

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 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 did not have an impact on the financial statements of the Group.

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)

— 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.

— 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'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).

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)

— IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) (Continued)

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.

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.

(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 2019, and have not been applied in preparing these financial statements.

The Group does not plan to adopt these standards early. These are summarised below:

New standards 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).

— 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.

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 (Continued)

- 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.

—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's financial statements.

—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.

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 (Continued)

The amendments are effective from 1 January 2020 but may be applied earlier.

The Group 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.

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.

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 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'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's financial statements.

The Group did not early adopt new or amended standards in the year ended 31 December 2019.

(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 initially adopted IFRS 16 from 1 January 2019.

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 most important types of risk to which the Group is exposed are credit risk, market risks and operational risk. Market risk includes liquidity risk, 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.

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.

Credit-related commitment risks

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.

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.

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Credit-related commitment risks (Continued)

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.

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 and 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 (Continued)

Group

2019:

	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 KShs'000
Risk classification				
Loans and advances to Customers at amortised cost				
Normal (Stage 1)	129,281,349	-	-	129,281,349
Watch (Stage 2)	-	17,358,894	-	17,358,894
Non-Performing loans (Stage 3)	-	-	20,675,454	20,675,454
Gross carrying amount	**129,281,349**	**17,358,894**	**20,675,454**	**167,315,697**
Loss allowance	(212,301)	(492,071)	(9,842,579)	(10,546,951)
Carrying amount	**129,069,048**	**16,866,823**	**10,832,875**	**156,768,746**

2018:

	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 KShs'000
Risk classification				
Loans and advances to Customers at amortised cost				
Normal (Stage 1)	118,821,953	-	-	118,821,953
Watch (Stage 2)	-	18,226,029	-	18,226,029
Non-Performing loans (Stage 3)	-	-	21,895,604	21,895,604
Gross carrying amount	**118,821,953**	**18,226,029**	**21,895,604**	**158,943,586**
Loss allowance	(769,849)	(1,339,011)	(9,211,217)	(11,320,077)
Carrying amount	**118,052,104**	**16,887,018**	**12,684,387**	**147,623,509**

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 (Continued)

Company

2019:

	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 KShs'000
Risk classification				
Loans and advances to Customers at amortised cost				
Normal (Stage 1)	116,658,514	-	-	116,658,514
Watch (Stage 2)	-	15,770,306	-	15,770,306
Non-Performing loans (Stage 3)	-	-	18,799,002	18,799,002
Gross carrying amount	**116,658,514**	**15,770,306**	**18,799,002**	**151,227,822**
Loss allowance	(208,208)	(484,242)	(8,992,246)	(9,684,696)
Carrying amount	**116,450,306**	**15,286,064**	**9,806,756**	**141,543,126**

2018:

	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 KShs'000
Risk classification				
Loans and advances to Customers at amortised cost				
Normal (Stage 1)	106,732,028	-	-	106,732,028
Watch (Stage 2)	-	16,391,036	-	16,391,036
Non-Performing loans (Stage 3)	-	-	19,775,933	19,775,933
Gross carrying amount	**106,732,028**	**16,391,036**	**19,775,933**	**142,898,997**
Loss allowance	(746,969)	(1,321,239)	(8,511,530)	(10,579,738)
Carrying amount	**105,985,059**	**15,069,797**	**11,264,403**	**132,319,259**

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 (Continued)

The following shows the grading of loans and advances to customers in line with local prudential guidelines

Group:	2019 KShs'000	2018 KShs'000
Loans and advances to customers		
Identified impairment:		
Grade 3: Substandard	2,939,438	2,652,733
Grade 4: Doubtful	15,119,943	17,730,807
Grade 5: Loss	2,616,073	1,512,064
	20,675,454	**21,895,604**
Specific allowances for impairment	(9,842,579)	(9,211,217)
Carrying amounts	**10,832,875**	**12,684,387**
Unidentified impairment:		
Grade 2: Watch	17,358,894	18,226,029
Grade 1: Normal	129,281,349	118,821,953
	146,640,243	**137,047,982**
Portfolio allowances for impairment	(704,372)	(2,108,860)
Carrying amounts	**145,935,871**	**134,939,122**
Total carrying amounts	**156,768,746**	**147,623,509**

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 (Continued)

Company:	2019 KShs'000	2018 KShs'000
Loans and advances to customers		
Identified impairment:		
Grade 3: Substandard	2,287,221	1,537,074
Grade 4: Doubtful	14,664,584	17,106,473
Grade 5: Loss	1,847,197	1,132,386
	18,799,002	**19,775,933**
Specific allowances for impairment	(8,992,246)	(8,511,530)
Carrying amounts	**9,806,756**	**11,264,403**
Unidentified impairment:		
Grade 2: Watch	15,770,306	16,391,036
Grade 1: Normal	116,658,514	106,732,028
	132,428,820	**123,123,064**
Portfolio allowances for impairment	(692,450)	(2,068,208)
Carrying amounts	**131,736,370**	**121,054,856**
Total carrying amounts	**141,543,126**	**132,319,259**

Group:	Gross KShs'000	Net KShs'000
Identified impairment:		
31 December 2019		
Grade 3: Substandard	2,939,438	1,560,017
Grade 4: Doubtful	15,119,943	8,346,833
Grade 5: Loss	2,616,073	926,025
	20,675,454	**10,832,875**
31 December 2018		
Grade 3: Substandard	2,652,733	2,063,636
Grade 4: Doubtful	17,730,807	9,853,941
Grade 5: Loss	1,512,064	766,810
	21,895,604	**12,684,387**

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 (Continued)

Group:	**Gross KShs'000**	**Net KShs'000**
Unidentified impairment:		
31 December 2019		
Grade 1: Normal	129,281,349	129,069,048
Grade 2: Watch	17,358,894	16,866,823
	146,640,243	**145,935,871**
31 December 2018		
Grade 1: Normal	118,821,953	118,052,104
Grade 2: Watch	18,226,029	16,887,018
	137,047,982	**134,939,122**
Company:		
Identified impairment:		
31 December 2019		
Grade 3: Substandard	2,287,221	1,065,195
Grade 4: Doubtful	14,664,584	8,136,341
Grade 5: Loss	1,847,197	605,220
	18,799,002	**9,806,756**
31 December 2018		
Grade 3: Substandard	1,537,074	1,184,677
Grade 4: Doubtful	17,106,473	9,495,958
Grade 5: Loss	1,132,386	583,768
	19,775,933	**11,264,403**
Unidentified impairment:		
31 December 2019		
Grade 1: Normal	116,658,514	116,450,306
Grade 2: Watch	15,770,306	15,286,064
	132,428,820	**131,736,370**
31 December 2018		
Grade 1: Normal	106,732,028	105,985,059
Grade 2: Watch	16,391,036	15,069,797
	123,123,064	**121,054,856**

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.

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 (Continued)

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 for customers. 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	12,997	355	12,642	No
Past due:				
30-90 days	14,496	459	14,037	No
91-180 days	15,072	1,975	13,097	Yes
180-360 days	19,348	3,650	15,698	Yes
Over 360 days	13,870	13,870	-	Yes
	75,783	**20,309**	**55,474**	

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Exposure to credit risk (Continued)

(ii) Credit quality analysis – trade receivables (Continued)

2018:	Gross KShs'000	Impairment KShs'000	Net KShs'000	Credit impaired
Current	24,457	4,945	19,512	No
Past due:				
30-90 days	17,922	1,701	16,221	No
91-180 days	12,527	4,555	7,972	Yes
180-360 days	8,619	3,760	4,859	Yes
Over 360 days	3,513	3,513	-	Yes
	67,038	**18,474**	**48,564**	

Impairment loss movement on trade receivables

	2019 KShs'000	2018 KShs'000
At 1 January	18,474	4,757
Day one IFRS 9 adjustment	-	12
Acquisition of Youjays insurance Brokers Limited	-	5,858
Charge for the year	1,835	7,847
At 31 December	**20,309**	**18,474**

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 entities.

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)

Exposure to credit risk (Continued)

(iii) Credit quality analysis – other assets

The Group has estimated that the ECL for the following financial assets is not material as at 31 December 2019. These financial assets have been assessed to be in Stage 1 (low credit risk). Consequently, no ECL has been carried in the books.

	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Balances with central banks (Note 18)	10,279,604	10,158,473	9,200,353	8,607,502
Items in the course of collection (Note 19)	536,459	764,460	530,507	763,445
Loans and advances to banks (Note 20)	40,573,680	31,205,610	40,573,680	30,858,283
Financial assets at fair value through other comprehensive income (FVOCI) - Debt instruments (Note 22)	15,421,415	13,943,848	15,671,495	14,339,916
Other financial assets at amortised cost; Government securities (Note 22)	23,573,966	22,688,163	18,925,430	18,306,701
Due from group companies (Note 27)	832,885	853,185	1,200,414	1,663,796
	91,218,009	**79,613,739**	**86,101,879**	**74,539,643**

(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:

Loans and advances to customers	2019 KShs'000	2018 KShs'000
Group		
Fair value of collateral held – against impaired loans	**10,832,875**	**12,684,387**
Company		
Fair value of collateral held - against impaired loans	**9,806,756**	**11,264,403**

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)

(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)

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).

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.

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)

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.

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 countries` 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.

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)

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				
Macro-Economic variable	2020			
	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				
Macro-Economic variable		**2020**		
	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	-	-	-

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.

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)

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.

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).

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 (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000
Balance at 1 January 2019	**769,849**	**1,339,011**	**9,211,217**	**11,320,077**	**118,821,953**	**18,226,029**	**21,895,604**	**158,943,586**
Transfer from 12 months ECL (Stage 1)	(46,417)	44,351	2,066	-	(7,803,078)	7,483,364	319,714	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	324,690	(568,763)	244,073	-	5,739,001	(8,786,708)	3,047,707	-
Transfer from Lifetime ECL credit impaired (Stage 3)	611,288	458,857	(1,070,145)	-	1,961,943	1,106,461	(3,068,404)	-
Net remeasurement of loss allowance	(1,454,129)	(755,154)	2,323,597	**114,314**	5,265,217	(879,031)	2,228,518	**6,614,704**
New financial assets originated or purchased	54,955	40,466	23,190	**118,611**	12,878,443	951,552	30,213	**13,860,208**
Financial assets derecognised	(47,901)	(66,595)	(188,906)	**(303,402)**	(7,521,516)	(733,572)	(849,451)	**(9,104,539)**
Write off	-	-	(698,298)	**(698,298)**	-	-	(2,917,819)	**(2,917,819)**
Translation difference	(34)	(102)	(4,215)	**(4,351)**	(60,614)	(9,201)	(10,628)	**(80,443)**
Balance at 31 December 2019	**212,301**	**492,071**	**9,842,579**	**10,546,951**	**129,281,349**	**17,358,894**	**20,675,454**	**167,315,697**

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 ECL credit impaired (Stage 3) KShs'000	Total KShs'000
Balance at 1 January 2018	**806,634**	**187,803**	**5,876,546**	**6,870,983**	**99,701,179**	**23,327,503**	**18,940,696**	**141,969,378**
Day one IFRS 9 transition adjustment	(368,920)	643,328	-	**274,408**	-	-	-	-
Adjusted balance at 1 January 2018	**437,714**	**831,131**	**5,876,546**	**7,145,391**	**99,701,179**	**23,327,503**	**18,940,696**	**141,969,378**
Transfer from 12 months ECL (Stage 1)	(24,622)	20,746	3,876	-	(2,768,566)	2,442,197	326,369	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	220,856	(339,018)	118,162	-	5,467,042	(9,554,041)	4,086,999	-
Transfer from Lifetime ECL credit impaired (Stage 3)	130,651	426,811	(557,462)	-	367,126	2,523,906	(2,891,032)	-
Net remeasurement of loss allowance	(102,408)	355,951	3,699,060	**3,952,603**	5,552,717	(516,703)	2,632,288	**7,668,302**
New financial assets originated or purchased	130,672	50,620	202,933	**384,225**	16,797,027	470,944	411,724	**17,679,695**
Financial assets derecognised	(20,436)	(6,375)	(104,684)	**(131,495)**	(5,805,377)	(380,065)	(1,521,110)	**(7,706,552)**
Translation difference	(2,578)	(855)	(27,214)	**(30,647)**	(489,195)	(87,712)	(90,330)	**(667,237)**
Balance at 31 December 2018	**769,849**	**1,339,011**	**9,211,217**	**11,320,077**	**118,821,953**	**18,226,029**	**21,895,604**	**158,943,586**

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 (Continued)

Company	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 2019	**746,969**	**1,321,239**	**8,511,530**	**10,579,738**	**106,732,028**	**16,391,036**	**19,775,933**	**142,898,997**
Transfer from 12 months ECL (Stage 1)	(46,197)	44,131	2,066	-	(7,507,904)	7,188,189	319,715	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	307,916	(551,989)	244,073	-	5,190,800	(8,238,507)	3,047,707	-
Transfer from Lifetime ECL credit impaired (Stage 3)	611,288	456,453	(1,067,741)	-	1,961,944	1,101,068	(3,063,012)	-
Net remeasurement of loss allowance	(1,421,545)	(759,470)	2,042,206	**(138,809)**	5,128,781	(895,095)	2,145,526	**6,379,212**
New financial assets originated or purchased	54,295	40,466	23,190	**117,951**	11,970,214	947,331	30,213	**12,947,758**
Financial assets derecognised	(44,518)	(66,588)	(64,780)	**(175,886)**	(6,817,349)	(723,716)	(539,260)	**(8,080,325)**
Write off	-	-	(698,298)	**(698,298)**	-	-	(2,917,820)	**(2,917,820)**
Translation difference	-	-	-	-	-	-	-	-
Balance at 31 December 2019	**208,208**	**484,242**	**8,992,246**	**9,684,696**	**116,658,514**	**15,770,306**	**18,799,002**	**151,227,822**

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 (Continued)

Company	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	**697,286**	**168,197**	**5,421,604**	**6,287,087**	**88,038,949**	**21,236,443**	**17,668,514**	**126,943,906**
Day one IFRS 9 transition adjustment	(383,007)	636,894	-	**253,887**	-	-	-	-
Adjusted balance at 1 January 2018	**314,279**	**805,091**	**5,421,604**	**6,540,974**	**88,038,949**	**21,236,443**	**17,668,514**	**126,943,906**
Transfer from 12 months ECL (Stage 1)	(16,397)	13,800	2,597	-	(3,119,129)	2,767,600	351,529	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	210,142	(326,039)	115,897	-	6,324,411	(10,418,700)	4,094,289	-
Transfer from Lifetime ECL credit impaired (Stage 3)	123,313	423,327	(546,640)	-	569,825	3,132,071	(3,701,896)	-
Net remeasurement of loss allowance	6,786	362,289	3,324,892	**3,693,967**	4,501,520	(435,347)	2,324,640	**6,390,813**
New financial assets originated or purchased	129,282	49,146	197,608	**376,036**	14,723,930	434,165	394,452	**15,552,547**
Financial assets derecognised	(20,436)	(6,375)	(4,428)	**(31,239)**	(4,307,478)	(325,196)	(1,355,595)	**(5,988,269)**
Balance at 31 December 2018	**746,969**	**1,321,239**	**8,511,530**	**10,579,738**	**106,732,028**	**16,391,036**	**19,775,933**	**142,898,997**

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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 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 2019	**228,693**	**93,577**	**-**	**322,270**	**50,056,828**	**2,705,695**	**-**	**52,762,523**
Transfer from 12 months ECL (Stage 1)	(6,841)	6,841	-	-	(1,385,743)	1,385,743	-	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	11,429	(11,429)	-	-	159,566	(159,566)	-	-
Transfer from Lifetime ECL credit impaired (Stage 3)	-	-	-	-	259,076	604,935	(864,011)	-
Net remeasurement of loss allowance	(162,996)	(25,122)	45,099	**(143,019)**	(1,563,189)	(1,232,837)	1,433,558	**(1,362,468)**
New financial assets originated or purchased	21,487	234	-	**21,721**	9,451,055	1,837,159	-	**11,288,214**
Financial assets derecognised	(21,417)	(14,944)	-	**(36,361)**	(4,205,599)	(466,180)	(120,216)	**(4,791,995)**
Translation difference	(23)	(6)	-	**(29)**	(16,141)	(158)	-	**(16,299)**
Balance at 31 December 2019	**70,332**	**49,151**	**45,099**	**164,582**	**52,755,853**	**4,674,791**	**449,331**	**57,879,975**

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	**-**	**-**	**-**	**-**	**48,583,731**	**3,609,644**	**-**	**52,193,375**
Day one IFRS 9 transition adjustment	330,545	170,119	-	**500,664**	-	-	-	-
Adjusted balance at 1 January 2018	**330,545**	**170,119**	**-**	**500,664**	**48,583,731**	**3,609,644**	**-**	**52,193,375**
Transfer from 12 months ECL (Stage 1)	(7,637)	7,637	-	-	(1,358,079)	1,358,079	-	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	71,190	(71,190)	-	-	2,025,488	(2,025,488)	-	-
Net remeasurement of loss allowance	(82,734)	(25,456)	-	**(108,190)**	3,031,394	(189,753)	-	**2,841,641**
New financial assets originated or purchased	24,387	20,326	-	**44,713**	6,364,991	207,448	-	**6,572,439**
Financial assets derecognised	(106,870)	(7,843)	-	**(114,713)**	(8,590,697)	(254,235)	-	**(8,844,932)**
Translation difference	(188)	(16)	-	**(204)**	-	-	-	-
Balance at 31 December 2018	**228,693**	**93,577**	**-**	**322,270**	**50,056,828**	**2,705,695**	**-**	**52,762,523**

5. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Loan commitments and financial guarantee contracts (Continued)

Company	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 2019	**220,547**	**92,516**	**-**	**313,063**	**46,837,330**	**2,674,172**	**-**	**49,511,502**
Transfer from 12 months ECL (Stage 1)	(6,841)	6,841	-	**-**	(1,387,020)	1,387,020	-	**-**
Transfer from Lifetime ECL not credit impaired (Stage 2)	11,428	(11,428)	-	-	190,931	(190,931)	-	-
Transfer from Lifetime ECL credit impaired (Stage 3)	-	-	-	**-**	259,076	604,935	(864,011)	**-**
Net remeasurement of loss allowance	(155,929)	(25,129)	45,099	**(135,959)**	(1,017,956)	(1,262,933)	1,433,558	**(847,331)**
New financial assets originated or purchased	21,487	234	-	**21,721**	9,450,620	33,237	-	**9,483,857**
Financial assets derecognised	(21,417)	(14,944)	-	**(36,361)**	(4,205,319)	(150,633)	(120,216)	**(4,476,168)**
Balance at 31 December 2019	**69,275**	**48,090**	**45,099**	**162,464**	**50,127,662**	**3,094,867**	**449,331**	**53,671,860**

5. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Loan commitments and financial guarantee contracts (Continued)

Company	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	**-**	**-**	**-**	**-**	**45,918,925**	**3,609,644**	**-**	**49,528,569**
Day one IFRS 9 transition adjustment	322,191	170,119	-	**492,310**	-	-	-	**-**
Adjusted balance at 1 January 2018	**322,191**	**170,119**	**-**	**492,310**	**45,918,925**	**3,609,644**	**-**	**49,528,569**
Transfer from 12 months ECL (Stage 1)	(7,502)	7,502	-	**-**	(1,330,448)	1,330,448	-	**-**
Transfer from Lifetime ECL not credit impaired (Stage 2)	71,190	(71,190)	-	**-**	2,025,488	(2,025,488)	-	**-**
Net remeasurement of loss allowance	(82,337)	(26,398)	-	**(108,735)**	3,350,539	(193,645)	-	**3,156,894**
New financial assets originated or purchased	23,787	20,326	-	**44,113**	4,826,850	207,448	-	**5,034,298**
Financial assets derecognised	(106,782)	(7,843)	-	**(114,625)**	(7,954,024)	(254,235)	-	**(8,208,259)**
Balance at 31 December 2018	**220,547**	**92,516**	**-**	**313,063**	**46,837,330**	**2,674,172**	**-**	**49,511,502**

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	
	2019	2018	2019	2018
At 31 December	47%	45%	27%	30%
Average for the period	47%	41%	29%	31%
Highest for the period	49%	47%	32%	37%
Lowest for the period	44%	33%	26%	25%

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2019 and 2018 to the contractual maturity date:

Group	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
31 December 2019						
LIABILITIES						
Deposits from banks	431,299	2,023,964	2,583	-	-	**2,457,846**
Deposits from customers	57,505,794	103,558,943	49,562,299	1,343,118	-	**211,970,154**
Due to group companies	1,584,510	-	-	-	-	**1,584,510**
Other liabilities	1,615,262	699,284	-	-	331,367	**2,645,913**
Long term debt	-	10,888	1,798,676	3,588,966	-	**5,398,530**
Subordinated debt	-	3,751	-	4,537,794	-	**4,541,545**
Contractual off-balance sheet financial liabilities	-	-	114,571,786	-	-	**114,571,786**
Capital commitments	-	-	4,392,843	-	-	**4,392,843**
Lease liabilities	42,082	125,526	270,067	1,598,922	533,308	**2,569,905**
At 31 December 2019	**61,178,947**	**106,422,356**	**170,598,254**	**11,068,800**	**864,675**	**350,133,032**

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	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
31 December 2018						
LIABILITIES						
Deposits from banks	1,302,454	26,841	13,062	-	-	**1,342,357**
Deposits from customers	57,051,889	103,885,222	32,033,875	436,029	-	**193,407,015**
Due to group companies	2,182,187	768,111	-	-	-	**2,950,298**
Other liabilities	230,988	2,115,874	-	-	-	**2,346,862**
Long term debt	11,088	3,091	1,839,458	6,472,775	-	**8,326,412**
Subordinated debt	-	3,795,789	12,963	817,059	-	**4,625,811**
Contractual off-balance sheet financial liabilities	-	-	91,143,738	-	-	**91,143,738**
Capital commitments	-	-	3,365,472	-	-	**3,365,472**
Leases	-	-	478,119	2,476,446	418,704	**3,373,269**
At 31 December 2018	**60,778,606**	**110,594,928**	**128,886,687**	**10,202,309**	**418,704**	**310,881,234**

Company	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
31 December 2019						
LIABILITIES						
Deposits from banks	431,299	4,891	2,583	-	-	**438,773**
Deposits from customers	52,944,785	101,278,307	43,587,166	189,055	-	**197,999,313**
Due to group companies	1,216,000	-	-	-	-	**1,216,000**
Other liabilities	1,442,398	699,284	-	-	-	**2,141,682**
Long term debt	-	-	1,798,676	1,604,002	-	**3,402,678**
Subordinated debt	-	-	-	3,484,209	-	**3,484,209**
Contractual off-balance sheet financial liabilities	-	-	110,363,671	-	-	**110,363,671**
Capital commitments	-	-	3,630,405	-	-	**3,630,405**
Lease liabilities	42,082	125,526	270,067	1,598,922	395,303	**2,431,900**
At 31 December 2019	**56,076,564**	**102,108,008**	**159,652,568**	**6,876,188**	**395,303**	**325,108,631**

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)

Company	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
31 December 2018						
LIABILITIES						
Deposits from banks	459,299	26,841	13,062	-	-	**499,202**
Deposits from customers	51,670,039	101,313,114	25,827,443	15,783	-	**178,826,379**
Due to group companies	2,182,187	-	-	-	-	**2,182,187**
Other liabilities	45,035	2,060,158	-	-	-	**2,105,193**
Long term debt	-	-	1,839,458	4,479,251	-	**6,318,709**
Subordinated debt	-	3,795,789	-	-	-	**3,795,789**
Contractual off-balance sheet financial liabilities	-	-	87,892,717	-	-	**87,892,717**
Capital commitments	-	-	2,624,000	-	-	**2,624,000**
Leases	-	-	472,802	2,350,760	418,704	**3,242,266**
At 31 December 2018	**54,356,560**	**107,195,902**	**118,669,482**	**6,845,794**	**418,704**	**287,486,442**

Deposits from customers represent transactional accounts, savings accounts, 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	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
31 December 2019							
ASSETS							
Cash and balances with central banks	-	-	-	-	-	12,062,162	**12,062,162**
Items in the course of collection	-	-	-	-	-	536,459	**536,459**
Loans and advances to banks	33,104,340	7,061,884	407,456	-	-	-	**40,573,680**
Loans and advances to customers	141,426,836	5,121,998	3,338,990	4,432,736	2,448,186	-	**156,768,746**
Financial assets at fair value through profit or loss (FVTPL)	-	1,969,108	6,141,558	1,690,879	3,896,172	-	**13,697,717**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	497,802	2,679,486	953,365	11,246,069	44,693	**15,421,415**
Other financial assets at amortised cost	-	7,856,320	8,848,192	4,232,308	2,692,620	-	**23,629,440**
Due from group companies	-	-	-	-	-	832,885	**832,885**
Other assets	-	-	-	-	-	2,119,324	**2,119,324**
At 31 December 2019	**174,531,176**	**22,507,112**	**21,415,682**	**11,309,288**	**20,283,047**	**15,595,523**	**265,641,828**
LIABILITIES							
Deposits from banks	428,975	2,005,826	2,482	-	-	-	**2,437,283**
Deposits from customers	54,732,449	102,381,555	48,177,204	1,180,245	-	2,553,748	**209,025,201**
Due to group companies	-	-	-	-	-	993,874	**993,874**
Other liabilities	32,758	-	-	-	331,367	3,533,348	**3,897,473**
Long term debt	-	10,703	1,738,901	3,020,824	-	-	**4,770,428**
Subordinated debt	-	3,660	-	3,641,587	-	-	**3,645,247**
At 31 December 2019	**55,194,182**	**104,401,744**	**49,918,587**	**7,842,656**	**331,367**	**7,080,970**	**224,769,506**
Interest rate gap	**119,336,994**	**(81,894,632)**	**(28,502,905)**	**3,466,632**	**19,951,680**	**8,514,553**	**40,872,322**

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 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	-	-	-	11,989,948	**12,002,031**
Items in the course of collection	-	-	-	-	-	764,460	**764,460**
Loans and advances to banks	20,122,062	11,083,548	-	-	-	-	**31,205,610**
Loans and advances to customers	145,731,996	1,891,513	-	-	-	-	**147,623,509**
Financial assets at fair value through profit or loss (FVTPL)	-	1,966,474	4,525,423	1,229,790	5,422,691	-	**13,144,378**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	3,215,050	4,596,736	6,096,127	35,935	**13,943,848**
Other financial assets at amortised cost	-	3,863,519	10,286,210	5,873,674	2,713,324	-	**22,736,727**
Due from group companies	-	-	-	-	-	853,185	**853,185**
Other assets	-	11,711	-	-	-	1,320,557	**1,332,268**
At 31 December 2018	**165,854,058**	**18,828,848**	**18,026,683**	**11,700,200**	**14,232,142**	**14,964,085**	**243,606,016**
LIABILITIES							
Deposits from banks	1,300,207	26,451	12,597	-	-	-	**1,339,255**
Deposits from customers	54,266,352	102,733,368	31,312,087	434,115	-	2,588,226	**191,334,148**
Due to group companies	-	-	-	-	-	2,069,611	**2,069,611**
Other liabilities	-	-	-	-	-	2,346,862	**2,346,862**
Long term debt	11,088	3,091	1,777,254	5,828,500	-	-	**7,619,933**
Subordinated debt	-	3,681,657	12,963	817,059	-	-	**4,511,679**
At 31 December 2018	**55,577,647**	**106,444,567**	**33,114,901**	**7,079,674**	**-**	**7,004,699**	**209,221,488**
Interest rate gap	**110,276,411**	**(87,615,719)**	**(15,088,218)**	**4,620,526**	**14,232,142**	**7,959,386**	**34,384,528**

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.

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)

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.

Company 31 December 2019	Effective interest rate	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 Bank of Kenya	-	-	-	-	-	-	10,701,846	**10,701,846**
Items in the course of collection	-	-	-	-	-	-	530,507	**530,507**
Loans and advances to banks	1.1%	33,104,340	7,061,884	407,456	-	-	-	**40,573,680**
Loans and advances to customers	11.4%	139,759,402	1,783,724	-	-	-	-	**141,543,126**
Financial assets at fair value through profit or loss (FVTPL)	-	-	1,969,108	6,141,558	1,690,879	3,896,172	-	**13,697,717**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	497,802	2,699,260	953,365	11,521,068	-	**15,671,495**
Other financial assets at amortised cost		-	7,445,237	6,690,762	2,942,002	1,847,429	-	**18,925,430**
Due from group companies	-	-	-	-	-	-	1,200,414	**1,200,414**
Other assets	-	-	-	-	-	-	1,888,755	**1,888,755**
At 31 December 2019		**172,863,742**	**18,757,755**	**15,939,036**	**5,586,246**	**17,264,669**	**14,321,522**	**244,732,970**
LIABILITIES								
Deposits from banks	5.9%	428,975	4,813	2,482	-	-	-	**436,270**
Deposits from customers	4.6%	52,742,605	100,126,848	42,369,056	166,129	-	-	**195,404,638**
Due to group companies	-	-	-	-	-	-	1,211,356	**1,211,356**
Other liabilities	-	-	-	-	-	-	3,393,244	**3,393,244**
Long term debt	-	-	-	1,738,901	1,376,826	-	-	**3,115,727**
Subordinated debt	12.5%	-	-	-	2,830,389	-	-	**2,830,389**
At 31 December 2019		**53,171,580**	**100,131,661**	**44,110,439**	**4,373,344**	**-**	**4,604,600**	**206,391,624**
Interest rate gap		**119,692,162**	**(81,373,906)**	**(28,171,403)**	**1,212,902**	**17,264,669**	**9,716,922**	**38,341,346**

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)

Company 31 December 2018	Effective interest rate	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 Bank of Kenya	-	-	-	-	-	-	10,110,215	10,110,215
Items in the course of collection	-	-	-	-	-	-	763,445	763,445
Loans and advances to banks	1.1%	19,774,735	11,083,548	-	-	-	-	30,858,283
Loans and advances to customers	11.4%	130,427,746	1,891,513	-	-	-	-	132,319,259
Financial assets at fair value through profit or loss (FVTPL)	-	-	1,966,474	4,525,423	1,229,790	5,422,691	-	13,144,378
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	-	3,372,053	4,596,736	6,371,127	-	14,339,916
Other financial assets at amortised cost	-	-	3,470,066	8,695,667	4,191,445	1,949,523	-	18,306,701
Due from group companies	-	-	-	-	-	-	1,663,796	1,663,796
Other assets	-	-	-	-	-	-	1,218,283	1,218,283
At 31 December 2018		**150,202,481**	**18,411,601**	**16,593,143**	**10,017,971**	**13,743,341**	**13,755,739**	**222,724,276**
LIABILITIES								
Deposits from banks	5.9%	457,052	26,451	12,597	-	-	-	496,100
Deposits from customers	4.6%	51,472,727	100,161,260	25,105,655	13,869	-	-	176,753,511
Due to group companies	-	-	-	-	-	-	2,173,854	2,173,854
Other liabilities	-	-	-	-	-	-	2,105,193	2,105,193
Long term debt	-	-	-	1,777,254	3,834,975	-	-	5,612,229
Subordinated debt	12.5%	-	3,681,657	-	-	-	-	3,681,657
At 31 December 2018		**51,929,779**	**103,869,368**	**26,895,506**	**3,848,844**	**-**	**4,279,047**	**190,822,544**
Interest rate gap		**98,272,702**	**(85,457,767)**	**(10,302,363)**	**6,169,127**	**13,743,341**	**9,476,692**	**31,901,732**

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)

Customer deposits up to three months represent current, savings 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.

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 **200 basis points**	**Profit or loss Increase/decrease in basis points (KShs'000)**	**Equity net of tax Increase/decrease in basis points (KShs'000)**
Assets	5,000,926	3,500,648
Liabilities	(4,353,771)	(3,047,640)
Net position	**647,155**	**453,008**
31 December 2018	**Profit or loss**	**Equity net of tax**
Assets	4,572,839	3,200,987
Liabilities	(4,044,336)	(2,831,035)
Net position	**528,503**	**369,952**
Company		

Company

31 December 2019 **200 basis points**	**Profit or loss Increase/decrease in basis points (KShs'000)**	**Equity net of tax Increase/decrease in basis points (KShs'000)**
Assets	4,608,229	3,225,760
Liabilities	(4,035,740)	(2,825,018)
Net position	**572,488**	**400,742**
31 December 2018	**Profit or loss**	**Equity net of tax**
Assets	4,179,371	2,925,560
Liabilities	(3,730,870)	(2,611,609)
Net position	**448,501**	**313,951**

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)

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	GBP	Euro	Other	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
ASSETS					
Cash and balances with central banks	963,833	193,918	222,109	17,080	**1,396,940**
Items in the course of collection	32,486	-	-	-	**32,486**
Loans and advances to banks	29,864,134	9,141,922	1,655,326	261,470	**40,922,852**
Loans and advances to customers	54,482,450	2,639,588	2,038,346	2,851	**59,163,235**
Due from group companies	66,195	-	-	3,818	**70,013**
Other assets	9,138	-	-	76	**9,214**
At 31 December 2019	**85,418,236**	**11,975,428**	**3,915,781**	**285,295**	**101,594,740**
LIABILITIES					
Deposits from banks	982,529	42,044	59,893	44,032	**1,128,498**
Deposits from customers	55,547,210	11,898,308	3,086,779	215,959	**70,748,256**
Other liabilities	241,026	11,037	40,332	43,703	**336,098**
Long-term debt	4,630,079	-	264,298	-	**4,894,377**
Subordinated debt	3,377,948	-	-	-	**3,377,948**
At 31 December 2019	**64,778,792**	**11,951,389**	**3,451,302**	**303,694**	**80,485,177**
Net on statement of financial position	**20,639,444**	**24,039**	**464,479**	**(18,399)**	**21,109,563**
Net notional off balance sheet position	**(20,730,195)**	**(13,379)**	**(458,115)**	**54,585**	**(21,147,104)**
Overall net position – 2019	**(90,751)**	**10,660**	**6,364**	**36,186**	**(37,541)**

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)

Currency rate risk (Continued)

Group (Continued)

At 31 December 2018	USD	GBP	Euro	Other	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
ASSETS					
Cash and balances with central banks	1,559,951	189,217	217,247	14,695	**1,981,110**
Items in the course of collection	58,576	-	530	-	**59,106**
Loans and advances to banks	16,503,192	12,066,839	2,840,982	210,285	**31,621,298**
Loans and advances to customers	55,873,087	1,801,013	1,775,970	4,355	**59,454,425**
Due from group companies	21,085	-	-	-	**21,085**
Other assets	86,575	-	2,813	-	**89,388**
At 31 December 2018	**74,102,466**	**14,057,069**	**4,837,542**	**229,335**	**93,226,412**
LIABILITIES					
Deposits from banks	2,098,757	62,444	200,030	8,034	**2,369,265**
Deposits from customers	49,059,973	13,855,956	3,468,868	184,829	**66,569,626**
Other liabilities	405,663	13,204	49,289	22,347	**490,503**
Long-term debt	6,742,703	-	451,681	-	**7,194,384**
Subordinated debt	571,941	-	-	-	**571,941**
At 31 December 2018	**58,879,037**	**13,931,604**	**4,169,868**	**215,210**	**77,195,719**
Net on statement of financial position	**15,223,429**	**125,465**	**667,674**	**14,125**	**16,030,693**
Net notional off balance sheet position	**(15,341,040)**	**(129,814)**	**(666,736)**	**15,184**	**(16,122,406)**
Overall net position – 2018	**(117,611)**	**(4,349)**	**938**	**29,309**	**(91,713)**

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)

Currency rate risk (Continued)

Company

At 31 December 2019	**USD**	**GBP**	**Euro**	**Other**	**Total**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
ASSETS					
Cash and balances with Central Bank of Kenya	865,388	94,022	202,564	7,608	**1,169,582**
Items in the course of collection	25,394	-	-	-	**25,394**
Loans and advances to banks	29,864,134	9,141,922	1,655,326	261,470	**40,922,852**
Loans and advances to customers	44,066,742	2,639,588	2,038,346	2,851	**48,747,527**
Due from group companies	66,195	-	-	3,818	**70,013**
Other assets	6,302	-	-	76	**6,378**
At 31 December 2019	**74,894,155**	**11,875,532**	**3,896,236**	**275,823**	**90,941,746**
LIABILITIES					
Deposits from banks	784,799	42,044	59,893	44,032	**930,768**
Deposits from customers	47,667,835	11,798,508	3,067,026	215,959	**62,749,328**
Other liabilities	70,797	10,806	40,322	34,035	**155,960**
Long-term debt	2,851,430	-	264,298	-	**3,115,728**
Subordinated debt	2,830,389	-	-	-	**2,830,389**
At 31 December 2019	**54,205,250**	**11,851,358**	**3,431,539**	**294,026**	**69,782,173**
Net on statement of financial position	**20,688,905**	**24,174**	**464,697**	**(18,203)**	**21,159,573**
Net notional off balance sheet position	**(20,730,195)**	**(13,379)**	**(458,115)**	**54,585**	**(21,147,104)**
Overall net position – 2019	**(41,290)**	**10,795**	**6,582**	**36,382**	**12,469**

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)

Currency rate risk (Continued)

Company (Continued)

At 31 December 2018	**USD**	**GBP**	**Euro**	**Other**	**Total**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
ASSETS					
Cash and balances with Central Bank of Kenya	814,170	82,119	153,973	4,901	**1,055,163**
Items in the course of collection	56,478	-	530	-	**57,008**
Loans and advances to banks	16,503,192	12,066,839	2,840,982	210,285	**31,621,298**
Loans and advances to customers	44,140,306	1,801,013	1,775,970	4,355	**47,721,644**
Due from group companies	21,085	-	-	-	**21,085**
Other assets	36,480	-	2,813	-	**39,293**
At 31 December 2018	**61,571,711**	**13,949,971**	**4,774,268**	**219,541**	**80,515,491**
LIABILITIES					
Deposits from banks	822,104	62,444	200,030	8,034	**1,092,612**
Deposits from customers	40,711,932	13,749,337	3,407,916	184,829	**58,054,014**
Other liabilities	97,887	12,979	46,941	20,236	**178,043**
Long-term debt	4,648,064	-	451,681	-	**5,099,745**
At 31 December 2018	**46,279,987**	**13,824,760**	**4,106,568**	**213,099**	**64,424,414**
Net on statement of financial position	**15,291,724**	**125,211**	**667,700**	**6,442**	**16,091,077**
Net notional off balance sheet position	**(15,341,040)**	**(129,814)**	**(666,736)**	**15,184**	**(16,122,406)**
Overall net position – 2018	**(49,316)**	**(4,603)**	**964**	**21,626**	**(31,329)**

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)

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:

At 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)	(2,269)	(1,588)
GBP (± 2.5% movement)	267	187
EUR (± 2.5% movement)	159	111
At 31 December 2018		
USD (± 2.5% movement)	(2,940)	(2,058)
GBP (± 2.5% movement)	(109)	(76)
EUR (± 2.5% movement)	23	16

Company:

At 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)	(1,032)	(723)
GBP (± 2.5% movement)	270	189
EUR (± 2.5% movement)	165	115
At 31 December 2018		
USD (± 2.5% movement)	(1,233)	(863)
GBP (± 2.5% movement)	(115)	(81)
EUR (± 2.5% movement)	24	17

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(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 recognized 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 banking industry in Kenya.

The objective of the Central Bank of Kenya is to ensure that a Bank maintains a level of capital which:

- is adequate to protect its depositors and creditors;
- is commensurate with the risks associated with its activities and profile
- promotes public confidence in the Bank.

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 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:

- a core capital of not less than 8% of total risk weighted assets, plus risk weighted off -balance sheet items
- a core capital of not less than 8% of its total deposit liabilities
- a total capital of not less than 12% of its total risk weighted assets, plus risk weighted off-balance sheet items

In addition to the minimum capital adequacy ratios of 8% and 12%, institutions are required to hold a capital conservation buffer of 2.5% over and above these minimum ratios to enable the institutions withstand future periods of stress. This brings the minimum core capital to risk weighted assets and total capital to risk weighted assets requirements to 10.5% and 14.5% respectively.

A bank must maintain a minimum core capital of KShs 1,000 million. The bank's regulatory capital is analysed into two tiers:

- Tier 1 capital. This includes ordinary share capital, share premium, retained earnings and after deduction of investment in subsidiaries, goodwill, other intangible assets and other regulatory adjustments relating to items that are included in equity which are treated differently for capital adequacy purposes.
- Tier 2 capital. This includes 25% of revaluation reserves of property and equipment, subordinated debt not exceeding 50% of core capital, collective impairment allowances and any other approved reserves.

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 – Kenya (Continued)

The risk based approach to capital adequacy measurement is applied to both on and off balance sheet items. Risk weights are assigned on assets from assessing the following:

- Credit risk arising from the possibility of losses associated with reduction of credit quality of borrowers or counterparties;
- Market risk arising from movements in market prices pertaining to interest rate related instruments and foreign exchange risk and commodities risk;
- Operational risk resulting from inadequate or failed internal processes, people and systems or from external events.

The Bank's (Company's) regulatory capital position at 31 December was as follows:

Company:	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: Goodwill	-	-
Investment in subsidiary	(2,750,653)	(2,750,653)
Total Core capital	**37,847,065**	**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**

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)

Capital ratios	Minimum*	2019 KShs'000	2018 KShs'000
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***

Regulatory capital – Tanzania

The Bank of Tanzania sets and monitors capital requirements for the Tanzania banking industry. 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: This 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: This 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 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.

		2019 TZS'000	2018 TZS'000
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 Bank of Tanzania***

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 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. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

(e) 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 HIERARCHY 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.

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

7. FAIR VALUE HIERARCHY FOR ASSETS CARRIED AT FAIR VALUE (Continued)

Accounting classifications at carrying amounts and fair values

Group	Carrying amounts					Fair value			
31 December 2019	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
Financial assets									
Cash and balances with central banks	12,062,162	-	-	-	**12,062,162**	12,062,162	-	-	**12,062,162**
Items in the course of collection	536,459	-	-	-	**536,459**	-	-	536,459	**536,459**
Loans and advances to banks	40,573,680	-	-	-	**40,573,680**	-	-	40,573,680	**40,573,680**
Loans and advances to customers	156,768,746	-	-	-	**156,768,746**	-	-	156,768,746	**156,768,746**
Financial assets at fair value through profit or loss (FVTPL)	-	-	13,697,717	-	**13,697,717**	13,697,717	-	-	**13,697,717**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	15,421,415	-	-	**15,421,415**	10,729,728	4,691,687	-	**15,421,415**
Other financial assets at amortised cost	23,629,440	-	-	-	**23,629,440**	23,792,911	-	-	**23,792,911**
Due from group companies	832,885	-	-	-	**832,885**	-	-	832,885	**832,885**
Other assets	2,119,324	-	-	-	**2,119,324**	-	-	2,119,324	**2,119,324**
	236,522,696	**15,421,415**	**13,697,717**	**-**	**265,641,828**	**60,282,518**	**4,691,687**	**200,831,094**	**265,805,299**
Financial liabilities									
Deposits from banks	-	-	-	2,437,283	**2,437,283**	-	-	2,437,283	**2,437,283**
Deposits from customers	-	-	-	209,025,201	**209,025,201**	-	-	209,025,201	**209,025,201**
Due to group companies	-	-	-	993,874	**993,874**	-	-	993,874	**993,874**
Long term borrowings	-	-	-	4,770,428	**4,770,428**	-	-	4,770,428	**4,770,428**
Subordinated debt	-	-	-	3,645,247	**3,645,247**	-	-	3,645,247	**3,645,247**
Other liabilities	-	-	-	3,897,473	**3,897,473**	-	-	3,897,473	**3,897,473**
	-	**-**	**-**	**224,769,506**	**224,769,506**	**-**	**-**	**224,769,506**	**224,769,506**

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

7. FAIR VALUE HIERARCHY FOR ASSETS CARRIED AT FAIR VALUE (Continued)

Accounting classifications at carrying amounts and fair values (Continued)

Group	Carrying amounts					Fair value			
31 December 2018	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
Financial assets									
Cash and balances with central banks	12,002,031	-	-	-	**12,002,031**	12,002,031	-	-	**12,002,031**
Items in the course of collection	764,460	-	-	-	**764,460**	-	-	764,460	**764,460**
Loans and advances to banks	31,205,610	-	-	-	**31,205,610**	-	-	31,205,610	**31,205,610**
Loans and advances to customers	147,623,509	-	-	-	**147,623,509**	-	-	147,623,509	**147,623,509**
Financial assets at fair value through profit or loss (FVTPL)	-	-	13,144,378	-	**13,144,378**	13,144,378	-	-	**13,144,378**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	13,943,848	-	-	**13,943,848**	13,943,848	-	-	**13,943,848**
Other financial assets at amortised cost	22,736,727	-	-	-	**22,736,727**	22,711,297	-	-	**22,711,297**
Due from group companies	853,185	-	-	-	**853,185**	-	-	853,185	**853,185**
Other assets	1,332,268	-	-	-	**1,332,268**	-	-	1,332,268	**1,332,268**
	216,517,790	**13,943,848**	**13,144,378**	**-**	**243,606,016**	**61,801,554**	**-**	**181,779,032**	**243,580,586**
Financial liabilities									
Deposits from banks	-	-	-	1,339,255	**1,339,255**	-	-	1,339,255	**1,339,255**
Deposits from customers	-	-	-	191,334,148	**191,334,148**	-	-	191,334,148	**191,334,148**
Due to group companies	-	-	-	2,069,611	**2,069,611**	-	-	2,069,611	**2,069,611**
Long term borrowings	-	-	-	7,619,933	**7,619,933**	-	-	7,619,933	**7,619,933**
Subordinated debt	-	-	-	4,511,679	**4,511,679**	-	-	4,511,679	**4,511,679**
Other liabilities	-	-	-	2,346,862	**2,346,862**	-	-	2,346,862	**2,346,862**
	-	**-**	**-**	**209,221,488**	**209,221,488**	**-**	**-**	**209,221,488**	**209,221,488**

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

7. FAIR VALUE HIERARCHY FOR ASSETS CARRIED AT FAIR VALUE (Continued)

Measurement of fair values

Valuation techniques and significant unobservable inputs

Financial assets measured at fair value - At 31 December

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 at securities exchanges	None	Not applicable

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

7. FAIR VALUE HIERARCHY 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**	**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**
Financial assets									
Balances with Central Bank of Kenya	10,701,846	-	-	-	**10,701,846**	-	-	10,701,846	**10,701,846**
Items in the course of collection	530,507	-	-	-	**530,507**	-	-	530,507	**530,507**
Financial assets at fair value through profit or loss (FVTPL)	-	-	13,697,717	-	**13,697,717**	13,697,717	-	-	**13,697,717**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	15,671,495	-	-	**15,671,495**	10,729,728	514,876	4,426,891	**15,671,495**
Other financial assets at amortised cost	18,925,430	-	-	-	**18,925,430**	19,088,901	-	-	**19,088,901**
Loans and advances to banks	40,573,680	-	-	-	**40,573,680**	-	-	40,573,680	**40,573,680**
Loans and advances to customers	141,543,126	-	-	-	**141,543,126**	-	-	141,543,126	**141,543,126**
Due from group companies	1,200,414	-	-	-	**1,200,414**	-	-	1,200,414	**1,200,414**
Other assets	-	1,888,755	-	-	**1,888,755**	-		1,888,755	**1,888,755**
	213,475,003	**17,560,250**	**13,697,717**	**-**	**244,732,970**	**43,516,346**	**514,876**	**200,865,219**	**244,896,441**
Financial liabilities									
Deposits from banks	-	-	-	436,270	**436,270**	-	-	436,270	**436,270**
Deposits from customers	-	-	-	195,404,638	**195,404,638**	-	-	195,404,638	**195,404,638**
Due to group companies	-	-	-	1,211,356	**1,211,356**	-	-	1,211,356	**1,211,356**
Long term borrowings	-	-	-	3,115,727	**3,115,727**	-	-	3,115,727	**3,115,727**
Subordinated debt	-	-	-	2,830,389	**2,830,389**	-	-	2,830,389	**2,830,389**
Other liabilities	-	-	-	3,393,244	**3,393,244**	-	-	3,393,244	**3,393,244**
	-	**-**	**-**	**206,391,624**	**206,391,624**	**-**	**-**	**206,391,624**	**206,391,624**

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

7. FAIR VALUE HIERARCHY 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**	**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**
Financial assets									
Balances with Central Bank of Kenya	10,110,215	-	-	-	**10,110,215**	-	-	10,110,215	**10,110,215**
Items in the course of collection	763,445	-	-	-	**763,445**	-	-	763,445	**763,445**
Financial assets at fair value through profit or loss (FVTPL)	-	-	13,144,378	-	**13,144,378**	13,144,378	-	-	**13,144,378**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	14,339,916	-	-	**14,339,916**	14,339,916	-	-	**14,339,916**
Other financial assets at amortised cost	18,306,701	-	-	-	**18,306,701**	18,281,271	-	-	**18,281,271**
Loans and advances to banks	30,858,283	-	-	-	**30,858,283**	-	-	30,858,283	**30,858,283**
Loans and advances to customers	132,319,259	-	-	-	**132,319,259**	-	-	132,319,259	**132,319,259**
Due from group companies	1,663,796	-	-	-	**1,663,796**	-	-	1,663,796	**1,663,796**
Other assets	-	1,218,283	-	-	**1,218,283**	-		1,218,283	**1,218,283**
	194,021,699	**15,558,199**	**13,144,378**	**-**	**222,724,276**	**45,765,565**	**-**	**176,933,281**	**222,698,846**
Financial liabilities									
Deposits from banks	-	-	-	496,100	**496,100**	-	-	496,100	**496,100**
Deposits from customers	-	-	-	176,753,511	**176,753,511**	-	-	176,753,511	**176,753,511**
Due to group companies	-	-	-	2,173,854	**2,173,854**	-	-	2,173,854	**2,173,854**
Long term borrowings	-	-	-	5,612,229	**5,612,229**	-	-	5,612,229	**5,612,229**
Subordinated debt	-	-	-	3,681,657	**3,681,657**	-	-	3,681,657	**3,681,657**
Other liabilities	-	-	-	2,105,193	**2,105,193**	-	-	2,105,193	**2,105,193**
	-	**-**	**-**	**190,822,544**	**190,822,544**	**-**	**-**	**190,822,544**	**190,822,544**

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

8. INTEREST INCOME

	2019 KShs '000	**2018 KShs '000**
(a) Group		
Loans and advances to customers	19,232,792	17,727,941
Loans and advances to banks	560,620	247,614
Investment securities:-		
- At amortised cost	2,384,215	2,533,514
- FVOCI - Debt instruments	1,110,616	1,820,638
	23,288,243	**22,329,707**
(b) Company		
Loans and advances to customers	17,513,573	16,147,964
Loans and advances to banks	559,429	242,885
Investment securities:-		
- At amortised cost	1,931,490	2,113,042
- FVOCI - Debt instruments	1,110,616	1,820,638
	21,115,108	**20,324,529**

9. INTEREST EXPENSE

(a) Group		
Deposits from customers	9,265,228	8,147,609
Deposits from banks	193,252	163,546
Long term debt	416,581	343,100
Subordinated debt	223,265	547,605
Lease liabilities	147,617	-
	10,245,943	**9,201,860**
(b) Company		
Deposits from customers	8,682,835	7,500,855
Deposits from banks	109,838	114,355
Long term debt	294,766	263,840
Subordinated debt	147,280	467,785
Lease liabilities	135,724	-
	9,370,443	**8,346,835**

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

	2019 KShs '000	2018 KShs '000
10.NET FEE AND COMMISSION INCOME		
(a) Group		
Fee and commission income		
Commissions	2,612,518	2,456,429
Service fees	1,004,409	1,115,354
	3,616,927	**3,571,783**
Fees and commission expense		
Interbank transaction fees	(73,004)	(72,360)
Other	(104,860)	(96,229)
	(177,864)	**(168,589)**
Net fee and commission income	**3,439,063**	**3,403,194**
(b) Company		
Fee and commission income		
Commissions	2,213,004	2,149,559
Service fees	1,004,444	1,011,867
	3,217,448	**3,161,426**
Fees and commission expense		
Interbank transaction fees	(65,068)	(61,011)
Other	(102,410)	(93,813)
	(167,478)	(154,824)
Net fee and commission income	**3,049,970**	**3,006,602**

11. NET TRADING INCOME

	2019 KShs '000	2018 KShs '000
(a) Group		
Income from foreign exchange dealings	2,214,834	2,188,135
Net income on Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-
Net income on financial assets at fair value through profit or loss (FVTPL)	1,251,705	539,712
	3,466,539	**2,727,847**
(b) Company		
Income from foreign exchange dealings	2,076,866	2,051,968
Net income on Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-
Net income on financial assets at fair value through profit or loss (FVTPL)	1,251,705	539,712
	3,328,571	**2,591,680**

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

	2019 KShs '000	2018 KShs'000
12.OTHER OPERATING INCOME		
(a) Group		
(i) Other income		
Profit on sale of property and equipment	1,515	8,066
Management fees income	38,447	13,693
Other income	117,630	40,719
	157,592	**62,478**
(b) Company		
(i) Other income		
Profit on sale of property and equipment	1,376	7,828
Management fees	92,915	43,490
Other income	108,377	18,052
	202,668	**69,370**
(ii) Dividend income		
Dividend income-I&M Bank (T) Limited	48,759	-
Dividend income-I&M Insurance Agency Limited	-	57,500
	48,759	**57,500**

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

13. OPERATING EXPENSES

	2019 KShs '000	2018 KShs'000
(a) Group		
Staff costs		
Salaries and wages	2,882,173	2,496,071
Contribution to defined benefit and contribution plan	150,443	128,780
Statutory contribution	36,618	29,526
Other staff costs	517,988	476,133
	3,587,222	**3,130,510**
Premises and equipment costs		
Rental of premises	121,157	516,570
Utilities	94,022	71,393
Other premises and equipment costs	170,920	160,229
	386,099	**748,192**
General administrative expenses		
Deposit protection insurance contribution	264,564	228,393
Loss on disposal of property and equipment	-	4,623
Other general administrative expenses	2,019,394	1,953,440
	2,283,958	**2,186,456**
Depreciation and amortisation		
Depreciation on property and equipment (Note 24)	591,361	241,561
Amortisation of intangible assets (Note 25)	213,198	142,567
	804,559	**384,128**
The average number of employees employed by the Group are as follows:		
Management	1,105	1,021
Others	225	208
	1,330	**1,229**

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

13. OPERATING EXPENSES (Continued)

	2019 KShs '000	2018 KShs'000
(b) Company		
Staff costs		
Salaries and wages	2,510,827	2,178,973
Contribution to defined benefit and contribution plan	148,374	127,550
Statutory contribution	2,492	2,284
Other staff costs	413,402	385,903
	3,075,095	**2,694,710**
Premises and equipment costs		
Rental of premises	121,157	458,065
Utilities	81,547	58,369
Other premises and equipment costs	146,064	154,674
	348,768	**671,108**
General administrative expenses		
Deposit protection insurance contribution	242,519	207,104
Other general administrative expenses	1,705,947	1,682,898
	1,948,466	**1,890,002**
Depreciation and Amortisation		
Depreciation on property and equipment (Note 24)	512,267	193,337
Amortisation of intangible assets (Note 25)	173,912	112,423
	686,179	**305,760**
The average number of employees employed by the Company are as follows:		
Management	919	836
Others	205	189
	1,124	**1,025**

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Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

14. PROFIT BEFORE INCOME TAX

	2019 KShs'000	2018 KShs'000
(a) Group		
Profit before income tax is arrived at after charging:		
Depreciation	591,361	241,561
Amortisation of intangible assets	213,198	142,567
Directors' emoluments: -fees	16,949	19,323
Directors' emoluments: -other	107,430	100,222
Auditor's remuneration	16,894	15,900
Net profit on sale of property and equipment	1,515	3,443
(b) Company		
Profit before income tax is arrived at after charging:		
Depreciation	512,267	193,337
Amortisation of intangible assets	173,912	112,423
Directors' emoluments: -fees	16,578	19,038
Directors' emoluments: -other	107,430	100,222
Auditor's remuneration	9,680	6,838
Net profit on sale of property and equipment	1,376	7,828

15. INCOME TAX EXPENSE AND TAX PAYABLE

(a) Income tax expense

(i) Group	2019 KShs'000	2018 KShs'000
Current tax		
Current year's tax	4,380,496	3,012,185
Under provision in prior year	237,326	54,657
	4,617,822	**3,066,842**
Deferred tax (Note 26)		
Current year	(783,369)	(392,620)
Prior year adjustment	(400,030)	(129,838)
	(1,183,399)	**(522,458)**
Income tax expense	**3,434,423**	**2,544,384**

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

15. INCOME TAX EXPENSE AND TAX PAYABLE

(a) Income tax expense (Continued)

The tax on the Group's profit differs from the theoretical amount using the basic tax rate as follows:

	2019 KShs'000	2018 KShs'000
Accounting profit before tax	**12,455,876**	**9,180,415**
Computed tax using the applicable corporation tax rate at 30%	3,736,763	2,754,125
Under provision in prior year	237,326	54,657
Effect on non-deductible costs/non-taxable income	(139,636)	(134,560)
Over provision in prior year - deferred tax	(400,030)	(129,838)
	3,434,423	**2,544,384**

(ii) Company	2019 KShs'000	2018 KShs'000
Current tax		
Current year's tax at 30%	4,185,887	2,800,148
Under provision in prior year	235,750	54,557
	4,421,637	**2,854,705**
Deferred tax (Note 26)		
Current year	(748,169)	(338,397)
Prior year adjustment	(399,995)	(129,838)
	(1,148,164)	**(468,235)**
Income tax expense	**3,273,473**	**2,386,470**

The tax on the Group's profit differs from the theoretical amount using the basic tax rate as follows:

	2019 KShs'000	2018 KShs'000
Accounting profit before tax	**12,012,342**	**8,725,326**
Computed tax using the applicable corporation tax rate at 30%	3,603,703	2,617,598
Under provision in prior year	235,750	54,557
Effect on non-deductible costs /non-taxable income	(165,985)	(155,847)
Under provision in prior year - deferred tax	(399,995)	(129,838)
	3,273,473	**2,386,470**

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

15. INCOME TAX EXPENSE AND TAX PAYABLE (Continued)

(b) Tax recoverable

	2019 KShs'000	2018 KShs'000
(i) Group		
At 1 January	(52,793)	(542,748)
Income tax expense (Note 15(a)(i))	4,617,822	3,066,842
Effect of tax in foreign jurisdiction	2,385	(806)
Acquisition of Youjays Insurance Brokers Limited	-	(2,443)
Tax paid (Note 35(a))	(3,708,154)	(2,573,637)
At 31 December	**859,260**	**(52,793)**
Tax recoverable	(8,927)	(84,281)
Tax payable	868,187	31,488
	859,260	**(52,793)**
(ii) Company		
At 1 January	(64,449)	(545,305)
Income tax expense (Note 15(a)(ii))	4,421,637	2,854,705
Tax paid (Note 35(d))	(3,511,775)	(2,373,849)
At 31 December	**845,413**	**(64,449)**

16. EARNINGS PER SHARE

	Group		Company	
	2019	2018	2019	2018
Net profit after tax attributable to owners of the company (KShs '000')	**8,942,877**	**6,552,909**	**8,738,869**	**6,338,856**
Weighted average number of ordinary shares in issue during the year ('000)	**29,800**	**29,800**	**29,800**	**29,800**
Earnings per share (KShs)	**300.10**	**219.90**	**293.25**	**212.71**

There were no potentially dilutive shares outstanding at 31 December 2019 (2018 – Nil).

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

17. DIVIDEND PER SHARE

	2019 KShs'000	2018 KShs'000
The calculation of dividend per share is based on:		
Interim dividend paid during the year (KShs'000)	-	1,579,400
Final dividend proposed during the year (KShs'000)	1,937,000	-
	1,937,000	**1,579,400**
Number of ordinary shares in issue as at 31 December ('000)	**29,800**	**29,800**
Final dividend per share (KShs.)	**65.00**	**53.00**

The payment of dividends is subject to withholding tax at the rate of 10% for all non-residents, 5% for Kenyan residents and nil for resident Kenyan companies with shareholding of 12.5% or more.

18. CASH AND BALANCES WITH CENTRAL BANKS

	KShs'000	KShs'000
(a) Group		
Cash on hand	1,782,558	1,843,558
Balances with central banks:		
-Restricted balances (Cash reserve ratio)	9,357,369	9,036,312
-Unrestricted balances	922,235	1,122,161
	12,062,162	**12,002,031**
(b) Company		
Cash on hand	1,501,493	1,502,713
Balances with Central Bank of Kenya:		
-Restricted balances (Cash reserve ratio)	8,429,091	7,883,019
-Unrestricted balances	771,262	724,483
	10,701,846	**10,110,215**

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 and, 7.0% (2018 – 7.0%) in Tanzania of eligible deposits. These funds are available for use by the Company in its day-to-day operations in a limited way provided that on any given day this balance does not fall below the 3.00% requirement and provided that the overall average in the month is at least 5.25%.

19. ITEMS IN THE COURSE OF COLLECTION

	2019 KShs'000	2018 KShs'000
(a) Group		
Assets	**536,459**	**764,460**
(b) Company		
Assets	**530,507**	**763,445**

Items in the course of collection represent net settlement balances through the inter-banking clearing process.

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

	2019 KShs'000	2018 KShs'000
20.LOANS AND ADVANCES TO BANKS		
(a) Group		
Due within 90 Days	**40,573,680**	**31,205,610**
(b) Company		
Due within 90 Days	**40,573,680**	**30,858,283**

21. LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

	2019 KShs'000	2018 KShs'000
(i) Group		
Overdrafts	49,806,626	48,769,118
Loans	112,012,831	106,240,632
Bills discounted	1,114,867	530,307
Finance leases	4,381,373	3,403,529
Gross loans and advances	**167,315,697**	**158,943,586**
Less: Impairment losses on loans and advances	(10,546,951)	(11,320,077)
Net loans and advances	**156,768,746**	**147,623,509**
(ii) Company		
Overdrafts	44,157,876	43,484,380
Loans	101,573,706	95,480,781
Bills discounted	1,114,867	530,307
Finance leases	4,381,373	3,403,529
Gross loans and advances	**151,227,822**	**142,898,997**
Less: Impairment losses on loans and advances	(9,684,696)	(10,579,738)
Net loans and advances	**141,543,126**	**132,319,259**

The movement in impairment loss reserves in compliance with IFRS 9 is disclosed on Note 5(a)(iii).

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 - Group

2019:	**Loans and advances to Customers at amortised cost KShs'000**	**Loan commitments and financial guarantee contracts KShs'000**	**Total banking KShs'000**	**Trade receivable KShs'000**	**Total KShs'000**
Net remeasurement of loss allowance	114,314	(143,019)	(28,705)	1,835	(26,870)
New financial assets originated or purchased	118,611	21,721	140,332	-	140,332
	232,925	**(121,298)**	**111,627**	**1,835**	**113,462**
Recoveries and impairment no longer required	(303,402)	(36,361)	(339,763)	-	(339,763)
Recoveries of loans and advances previously written off	(255,148)	-	(255,148)	-	(255,148)
Amounts directly written off during the year	1,057,847	8,861	1,066,708	2,521	1,069,229
	732,222	**(148,798)**	**583,424**	**4,356**	**587,780**

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 - Group

2018:	Loans and advances to Customers at amortised cost KShs'000	Loan commitments and financial guarantee contracts KShs'000	Total banking KShs'000	Trade receivable KShs'000	Total KShs'000
Net remeasurement of loss allowance	3,952,603	(108,190)	3,844,413	7,847	3,852,260
New financial assets originated or purchased	384,225	44,713	428,938	-	428,938
	4,336,828	**(63,477)**	**4,273,351**	**7,847**	**4,281,198**
Recoveries and impairment no longer required	(131,495)	(114,625)	(246,120)	-	(246,120)
Recoveries of loans and advances previously written off	(594,017)	-	(594,017)	-	(594,017)
Amounts directly written off during the year	**250,604**	-	250,604	-	250,604
	3,861,920	**(178,102)**	**3,683,818**	**7,847**	**3,691,665**

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 – Company

2019:	**Loans and advances to Customers at amortised cost KShs'000**	**Loan commitments and financial guarantee contracts KShs'000**	**Total banking KShs'000**
Net remeasurement of loss allowance	(138,809)	(135,959)	(274,768)
New financial assets originated or purchased	117,951	21,721	139,672
	(20,858)	**(114,238)**	**(135,096)**
Recoveries and impairment no longer required	(175,886)	(36,361)	(212,247)
Recoveries of loans and advances previously written off	(255,148)	-	(255,148)
Amounts directly written off during the year	906,274	-	906,274
	454,382	**(150,599)**	**303,783**
2018:			
Net remeasurement of loss allowance	3,693,967	(108,735)	3,585,232
New financial assets originated or purchased	376,036	44,113	420,149
	4,070,003	**(64,622)**	**4,005,381**
Recoveries and impairment no longer required	(31,239)	(114,625)	(145,864)
Recoveries of loans and advances previously written off	(594,017)	-	(594,017)
Amounts directly written off during the year	150,440	-	150,440
	3,595,187	**(179,247)**	**3,415,940**

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

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)

(i) Group	2019 KShs'000	2018 KShs'000
Interest on impaired loans and advances which has not yet been received in cash	1,277,275	1,986,059
(ii) Company		
Interest on impaired loans and advances which has not yet been received in cash	926,201	1,626,397

(d) Loans and advances concentration by sector

(i) Group

	2019		2018	
	KShs'000	%	KShs'000	%
Manufacturing	46,233,911	28%	37,925,439	24%
Wholesale and retail trade	30,841,132	18%	33,796,251	21%
Building and construction	10,720,747	6%	13,244,694	8%
Agriculture	3,653,851	2%	4,443,604	3%
Real estate	33,501,959	20%	31,882,138	20%
Transport and communication	7,157,681	4%	7,193,205	5%
Business services	13,201,078	8%	22,615,277	14%
Electricity and water	543,889	0%	189,884	0%
Finance and insurance	4,496,192	3%	2,261,067	1%
Mining and quarrying	1,131,892	1%	1,489,928	1%
Others	15,833,365	10%	3,902,099	3%
	167,315,697	**100%**	**158,943,586**	**100%**

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(ii) Company

	2019		2018	
	KShs'000	%	KShs'000	%
Manufacturing	42,566,079	28%	34,276,661	24%
Wholesale and retail trade	28,528,625	19%	31,477,098	22%
Building and construction	10,380,758	7%	12,841,912	9%
Agriculture	3,051,544	2%	3,760,466	3%
Real estate	29,640,373	20%	28,020,077	20%
Transport and communication	6,383,638	4%	6,290,525	4%
Business services	10,900,832	7%	20,383,440	14%
Electricity and water	543,889	0%	189,884	0%
Finance and insurance	4,496,192	3%	2,261,067	2%
Mining and quarrying	724,772	0%	1,094,515	1%
Others	14,011,120	10%	2,303,352	1%
	151,227,822	**100%**	**142,898,997**	**100%**

(e) Finance leases

Loans and advances to customers include finance leases receivable as follows:

(i) 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**

(i) Company

Receivable no later than 1 year	387,150	394,077
Receivable later than I year and no later than 5 years	3,994,223	3,009,452
	4,381,373	**3,403,529**

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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)

(i) Group

	2019 KShs'000	2018 KShs'000
Corporate bonds	-	336,136
Derivative assets	1,874,389	1,267,045
Government securities (Non Liquid)	11,823,328	11,541,197
	13,697,717	**13,144,378**

(i) Company

Corporate bonds	-	336,136
Derivative assets	1,874,389	1,267,045
Government securities (Non Liquid)	11,823,328	11,541,197
	13,697,717	**13,144,378**

(b) Financial assets measured at fair value through other comprehensive income (FVOCI)

(i) Group

	2019 KShs'000	2018 KShs'000
Equity investment	559,569	472,218
Preference shares investment in I&M Realty Limited*	4,132,118	3,956,977
Government securities (Non Liquid)	10,729,728	9,514,653
	15,421,415	**13,943,848**

(ii) Company

Equity investment	514,876	436,283
Preference shares investment	4,426,891	4,388,980
Government securities (Non Liquid)	10,729,728	9,514,653
	15,671,495	**14,339,916**

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

22. FINANCIAL ASSETS (Continued)

(b) Financial assets measured at fair value through other comprehensive income (FVOCI) (Continued)

* On 28 January 2016 and 6 July 2016, I&M Realty Limited issued 350 5% non-cumulative preference shares of a par value of KShs 10,000,000 each to the value of Kshs 3.5 billion redeemable after a period of 7 years at the discretion of the Issuer, which were fully subscribed to by I&M Bank LIMITED. An additional 30 non-cumulative redeemable preference shares of Kshs 10,000,000/- each were issued in 2019 by I&M Realty Limited and were fully subscribed by I&M Bank LIMITED. These additional preference rank pari passu in all respect with the existing non-cumulative redeemable preference shares.

(c) Other financial assets at amortised cost

(i) Group

	2019 KShs'000	2018 KShs'000
Government securities (Non Liquid)	23,573,966	22,688,163
Trade receivables	55,474	48,564
	23,629,440	**22,736727**

(ii) Company

Government securities (Non Liquid)	**18,925,430**	**18,306,701**

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

22. FINANCIAL ASSETS (Continued)

The change in the carrying amount of investment securities held by the Group is as shown below:

	Financial assets at fair value through profit or loss (FVTPL)	Other financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income (FVOCI)				
Group	Government securities KShs'000	Government securities KShs'000	Government securities KShs'000	Preference shares KShs'000	Equity investments KShs'000	Corporate bond KShs'000	Total KShs'000
31 December 2019							
At 1 January 2019	13,144,378	22,688,163	9,514,653	3,956,977	472,218	-	49,776,389
Reclassification	-	-	-	-	127,000	-	127,000
Additions	12,209,523	14,845,095	2,294,559	300,000	6,971	-	29,656,148
Disposals and maturities	(12,250,883)	(14,042,226)	(1,200,000)	-	(4,603)	-	(27,497,712)
Changes in fair value	579,564	-	217,921	(124,859)	(42,899)	-	629,727
Amortisation of discounts and premiums, unearned interest and interest receivable	15,135	97,990	(97,405)	-	1,063	-	16,783
Translation reserve	-	(15,056)	-	-	(181)	-	(15,237)
At 31 December 2019	**13,697,717**	**23,573,966**	**10,729,728**	**4,132,118**	**559,569**	**-**	**52,693,098**
31 December 2018							
At 1 January 2018	711,396	24,531,410	20,470,148	3,500,000	738,410	331,104	50,282,468
Reclassification	7,973,311	-	(7,642,207)	-	-	(331,104)	-
Additions	2,779,317	14,342,778	9,782,293	-	-	-	26,904,388
Disposals and maturities	1,034,472	(18,513,670)	(14,821,835)	-	(11,959)	-	(32,312,992)
Changes in fair value	106,170	-	(86,236)	456,977	(260,808)	-	216,103
Amortisation of discounts and premiums, unearned interest and interest receivable	539,712	2,484,950	1,812,490	-	8,148	-	4,845,300
Translation reserve	-	(157,305)	-	-	(1,573)	-	(158,878)
At 31 December 2018	**13,144,378**	**22,688,163**	**9,514,653**	**3,956,977**	**472,218**	**-**	**49,776,389**

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

22. FINANCIAL ASSETS (Continued)

The change in the carrying amount of investment securities held by the Company is as shown below:

	Financial assets at fair value through profit or loss (FVTPL)	Other financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income (FVOCI)				
	Government securities KShs'000	Government securities KShs'000	Government securities KShs'000	Preference shares KShs'000	Equity investments KShs'000	Corporate bond KShs'000	Total KShs'000
Company							
31 December 2019							
At 1 January 2018	13,144,378	18,306,701	9,514,653	4,388,980	436,283	-	45,790,995
Reclassification	-	-	-	-	127,000	-	127,000
Additions	12,209,523	12,817,100	2,294,559	300,000	-	-	27,621,182
Disposals and maturities	(12,250,883)	(12,127,843)	(1,200,000)	-	(4,603)	-	(25,583,329)
Changes in fair value	579,564	-	217,921	(262,089)	(44,867)	-	490,529
Amortisation of discounts and premiums, unearned interest and interest receivable	15,135	(70,528)	(97,405)	-	1,063	-	(151,735)
At 31 December 2019	**13,697,717**	**18,925,430**	**10,729,728**	**4,426,891**	**514,876**	**-**	**48,294,642**
At 31 December 2018							
At 1 January 2018	711,396	20,747,773	20,470,148	3,500,000	700,902	331,104	46,461,323
Reclassification	7,973,311	-	(7,642,207)	-	-	(331,104)	-
Additions	2,779,317	11,112,886	9,782,293	275,000	-	-	23,949,496
Disposals and maturities	1,034,472	(15,667,000)	(14,821,835)	-	(11,959)	-	(29,466,322)
Changes in fair value	106,170	-	(86,236)	613,980	(260,808)	-	373,106
Amortisation of discounts and premiums, unearned interest and interest receivable	539,712	2,113,042	1,812,490	-	8,148	-	4,473,392
At 31 December 2018	**13,144,378**	**18,306,701**	**9,514,653**	**4,388,980**	**436,283**	**-**	**45,790,995**

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

23. INVESTMENT IN SUBSIDIARIES

	Country of incorporation	Sector	2019 KShs'000	2019 % Ownership	2018 KShs'000	2018 % Ownership
I&M Bank (T) Limited	Tanzania	Banking	2,750,653	70.38%	2,750,653	70.38%
I&M Insurance Agency Limited	Kenya	Insurance	100	100%	100	100%
			2,750,753		2,750,753	

The Bank acquired 55.03% controlling equity stake in CF Union Bank Limited (now I&M Bank (T) Limited) on 14 January 2010 to offer banking services in Tanzania. In 2016, through a combination of rights issues (effective 12 October 2016) and a buyout of Proparco shares in I&M Bank (T) Limited (effective 26 October 2016), the group stake in the subsidiary increased to 70.38%.

I&M Insurance Agency Limited was incorporated on 23 July 2014 and commenced operations on 1 August 2014 to offer insurance agency services in Kenya.

A summary of the subsidiaries performance is shown below;

	Year	Revenue KShs'000 a	Expenses KShs'000 b	Profit before tax KShs'000 c=(a-b)	Profit after tax KShs'000 d
I&M Tanzania Limited	2019	1,676,558	(1,285,695)	**390,863**	**265,281**
	2018	1,563,386	(1,155,343)	**408,043**	**280,626**
I&M Insurance Agency Limited	2019	185,191	(78,960)	**106,231**	**69,679**
	2018	158,657	(66,073)	**92,584**	**63,674**
Youjays Insurance Brokers Limited	2019	700	3,904	**4,604**	**5,789**
	2018	3,392	(208)	**3,184**	**2,229**

	Bank 2019 KShs'000	Bank 2018 KShs'000
At 1 January	2,750,753	2,324,125
Additional investment in I&M Bank (T) Limited	-	426,628
At 31 December	**2,750,753**	**2,750,753**

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

24. PROPERTY AND EQUIPMENT

(a) Group

2019:

	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	1,230,747	1,039,115	563,603	108,128	-	68,284	3,009,877
Recognition of right of use assets	-	-	-	-	1,676,909	-	1,676,909
Additions	28,934	111,090	16,899	19,854	55,676	398,777	631,230
Disposals	-	(553)	(214)	(7,518)	-	-	(8,285)
Reclassification/internal transfers	33,416	7,499	328,612	-	-	(369,527)	-
Transfers from Intangible assets	-	-	-	-	-	320,336	320,336
Translation differences	(861)	(1,065)	(162)	(77)	-	(9)	(2,174)
At 31 December	**1,292,236**	**1,156,086**	**908,738**	**120,387**	**1,732,585**	**417,861**	**5,627,893**
Depreciation							
At 1 January	868,312	671,875	574,265	67,898	-	-	2,182,350
Charge for the year	97,685	77,344	95,925	17,149	303,258	-	591,361
On disposal	-	(8)	(214)	(7,518)	-	-	(7,740)
Translation differences	(450)	(523)	(138)	(59)	(80)	-	(1,250)
At 31 December	**965,547**	**748,688**	**669,838**	**77,470**	**303,178**	**-**	**2,764,721**
Net book value at 31 December	**326,689**	**407,398**	**238,900**	**42,917**	**1,429,407**	**417,861**	**2,863,172**

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

24. PROPERTY AND EQUIPMENT (Continued)

(a) Group (Continued)

2018:	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	1,169,031	979,190	546,642	90,484	-	48,905	2,834,252
Additions	64,705	67,320	18,697	31,910	-	48,559	231,191
Disposal	(43)	(625)	(457)	(19,604)	-	-	(20,729)
Reclassification/internal transfers	13,697	4,827	-	6,005	-	(24,529)	-
Write offs/Back	(9,461)	(3,403)	-	-	-	(4,532)	(17,396)
Translation differences	(7,182)	(8,194)	(1,279)	(667)	-	(119)	(17,441)
At 31 December	**1,230,747**	**1,039,115**	**563,603**	**108,128**	**-**	**68,284**	**3,009,877**
Depreciation							
At 1 January	780,276	606,522	523,159	67,531	-	-	1,977,488
Charge for the year	96,952	71,828	52,563	20,218	-	-	241,561
Write offs	(5,756)	(2,109)	-	-	-	-	(7,865)
Disposals	-	(581)	(434)	(19,426)	-	-	(20,441)
Translation differences	(3,160)	(3,785)	(1,023)	(425)	-	-	(8,393)
At 31 December	**868,312**	**671,875**	**574,265**	**67,898**	**-**	**-**	**2,182,350**
Net book value at 31 December	**362,435**	**367,240**	**(10,662)**	**40,230**	**-**	**68,284**	**827,527**

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

24. PROPERTY AND EQUIPMENT (Continued)

(b) Company

2019:	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	1,059,124	785,820	615,977	93,626	-	50,618	2,605,165
Recognition of right of use assets	-	-	-	-	1,498,017	-	1,498,017
Additions	28,707	64,831	10,186	16,780	55,676	395,413	571,593
Disposals	-	(553)	(214)	(6,700)	-	-	(7,467)
Reclassification/internal transfers	33,416	7,499	328,612	-	-	(369,527)	-
Transfers from intangible assets	-	-	-	-	-	320,336	320,336
At 31 December	**1,121,247**	**857,597**	**954,561**	**103,706**	**1,553,693**	**396,840**	**4,987,644**
Depreciation							
At 1 January	788,065	556,265	570,218	57,200	-	-	1,971,748
On disposals	-	(8)	(214)	(6,700)	-	-	(6,922)
Charge for the year	79,640	55,318	92,009	13,901	271,399	-	512,267
At 31 December	**867,705**	**611,575**	**662,013**	**64,401**	**271,399**	**-**	**2,477,093**
Net book value at 31 December	**253,542**	**246,022**	**292,548**	**39,305**	**1,282,294**	**396,840**	**2,510,551**

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

24. PROPERTY AND EQUIPMENT (Continued)

(a) Company (Continued)

2018:	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	1,005,734	722,249	597,440	73,821	-	25,553	2,424,797
Additions	45,260	59,369	18,537	31,910	-	48,559	203,635
Disposal	-	(625)	-	(18,110)	-	-	(18,735)
Reclassification/internal transfers	8,130	4,827	-	6,005	-	(18,962)	-
Items expensed through P&L	-	-	-	-	-	(4,532)	(4,532)
At 31 December	**1,059,124**	**785,820**	**615,977**	**93,626**	**-**	**50,618**	**2,605,165**
Depreciation							
At 1 January	713,343	501,914	523,396	58,449	-	-	1,797,102
On disposals	-	(581)	-	(18,110)	-	-	(18,691)
Charge for the year	74,722	54,932	46,822	16,861	-	-	193,337
At 31 December	**788,065**	**556,265**	**570,218**	**57,200**	**-**	**-**	**1,971,748**
Net book value at 31 December	**271,059**	**229,555**	**45,759**	**36,426**	**-**	**50,618**	**633,417**

Assets that are fully depreciated amounted to Kshs 1,630,833,667 (2018 - KShs 1,497,408,943). If depreciation had been charged during the year on the cost of these assets at a nominal rate, it would have amounted to KShs 368,365,107 (2018 – KShs 345,955,849).

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) Group		
I&M Bank (T) Limited	473,061	475,445
Youjays Insurance Brokers Limited	232,284	232,284
Balance as 31 December	**705,345**	**707,729**
(ii) Movement of Goodwill		
At 1 January	707,729	507,009
Addition	-	232,284
Write off - Biashara Bank of Kenya Limited	-	(10,747)
Exchange differences	(2,384)	(20,817)
At 31 December	**705,345**	**707,729**

The recoverable amounts for I&M Bank (T) Limited has been calculated based on their value in use, determined by discounting the future cash flows expected to be generated from the continuing use of the Cash Generating Unit (CGU). The present value of the recoverable amounts on I&M Bank LIMITED share were Kshs 3.002 billion (2018: Kshs 2.318 billion) for I&M Bank (T) Limited. No impairment losses were recognised during 2019 (2018: Nil), because the recoverable amounts of these CGUs were determined to be higher than their carrying amounts. The key assumptions used in the calculation of value in use were as follows:

	I&M Bank (T) Limited
	2019
5 year risk free rate	11.95%
Risk premium	9.94%
Terminal growth rate	3.00%
Exchange rate	KShs 1 = Tzs 22.68
	2018
5 year risk free rate	12.00%
Risk premium	13.60%
Terminal growth rate	3.00%
Exchange rate	KShs 1 = Tzs 22.60

The discount rate utilised was the risk free rate on the rate of 5 year government bonds issued by the government in the respective markets and in the same currency as the cash flows.

These cash flows have been projected for 7 years for I&M Bank (T) Limited based on the approved Business plans of the respective units. For I&M Bank (T) Limited the terminal growth rates estimated were 3.00%.

In the opinion of the Directors, there was no impairment of goodwill during the year.

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

25. INTANGIBLE ASSETS (Continued)

(b) Computer software

(i) Group

2019:

Cost	**Computer Software KShs'000**	**Capital work in progress KShs'000**	**Total KShs'000**
At 1 January	**1,455,838**	**800,801**	**2,256,639**
Additions	541,863	220,393	762,256
Reclassification from capital work in progress	611,017	(611,017)	-
Transfer to property and equipment	-	(320,336)	(320,336)
Translation differences	(1,405)	(359)	(1,764)
At 31 December	**2,607,313**	**89,482**	**2,696,795**
Amortisation			
At 1 January	**1,061,982**	**-**	**1,061,982**
Amortisation for the year	213,198	-	213,198
Translation differences	(667)	-	(667)
At 31 December	**1,274,513**	**-**	**1,274,513**
Carrying amount at 31 December	**1,332,800**	**89,482**	**1,422,282**

2018:

Cost	**Computer Software KShs'000**	**Capital work in progress KShs'000**	**Total KShs'000**
At 1 January	1,099,216	106,489	1,205,705
Additions	247,501	811,874	1,059,375
Reclassification from capital work in progress	114,437	(114,437)	-
Translation differences	(5,316)	(3,125)	(8,441)
At 31 December	**1,455,838**	**800,801**	**2,256,639**
Amortisation			
At 1 January	923,980	-	923,980
Amortisation for the year	142,567	-	142,567
Translation differences	(4,565)	-	(4,565)
At 31 December	**1,061,982**	**-**	**1,061,982**
Carrying amount at 31 December	**393,856**	**800,801**	**1,194,657**

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

25. INTANGIBLE ASSETS (Continued)

(b) Computer software (Continued)

(ii) Company

2019:

Cost	**Computer Software KShs'000**	**Capital work in progress KShs'000**	**Total KShs'000**
At 1 January	**1,366,388**	**604,530**	**1,970,918**
Additions	368,638	220,393	589,031
Reclassification from capital work in progress	468,610	(468,610)	-
Transfer to Property and equipment	-	(320,336)	(320,336)
At 31 December	**2,203,636**	**35,977**	**2,239,613**
Amortisation			
At 1 January	**933,143**	**-**	**933,143**
Amortisation for the year	173,912	-	173,912
At 31 December	**1,107,055**	**-**	**1,107,055**
Carrying amount at 31 December	**1,096,581**	**35,977**	**1,132,558**

2018:

Cost	**Computer Software KShs'000**	**Capital work in progress KShs'000**	**Total KShs'000**
At 1 January	**1,007,548**	**52,983**	**1,060,531**
Additions	244,403	665,984	910,387
Reclassification from capital work in progress	114,437	(114,437)	-
At 31 December	**1,366,388**	**604,530**	**1,970,918**
Amortisation			
At 1 January	**820,720**	**-**	**820,720**
Amortisation for the year	112,423	-	112,423
At 31 December	**933,143**	**-**	**933,143**
Carrying amount at 31 December	**433,245**	**604,530**	**1,037,775**

The Company's computer software with a gross value of KShs 747,049,298 (2018 – KShs. 753,898,974) are fully amortised but still in use.

26. DEFERRED TAX ASSETS

Deferred tax assets at 31 December 2019 and 31 December 2018 are attributable to the following:

(a) Group

2019:	Balance at 1 January KShs'000	Day one IFRS 9 transition adjustments KShs'000	Acquisition KShs'000	Prior year adjustment KShs'000	Recognised in equity KShs'000	Translation differences KShs'000	Recognized in profit or loss KShs'000	Balance at 31 December KShs'000
Equipment	119,759	-	-	2,236	-	(76)	(62,691)	59,228
Right of use asset	-	-	-	-	-	-	16,580	16,580
General provisions	311,002	-	-	22,529	-	(1,412)	692,807	1,024,926
Impairment allowances	1,757,885	-	-	375,265	-	-	136,673	2,269,823
Fair value reserves	30,710	-	-	-	(15,050)	(22)	-	15,638
	2,219,356	**-**	**-**	**400,030**	**(15,050)**	**(1,510)**	**783,369**	**3,386,195**
2018:								
Equipment	114,410	-	1,346	1,322	-	739	1,942	119,759
General provisions	246,808	8,663	-	-	-	(9,099)	64,630	311,002
Impairment allowances	1,079,470	223,863	-	128,516	-	(12)	326,048	1,757,885
Fair value reserves	63,511	-	-	-	(32,980)	179	-	30,710
	1,504,199	**232,526**	**1,346**	**129,838**	**(32,980)**	**(8,193)**	**392,620**	**2,219,356**

26. DEFERRED TAX ASSETS (Continued)

(b) Company

2019:	Balance at 1 January KShs'000	Day one IFRS 9 transition adjustments KShs'000	Prior year adjustment KShs'000	Recognised in equity KShs'000	Recognized in profit or loss KShs'000	Balance at 31 December KShs'000
Equipment	132,850	-	357	-	(62,033)	71,174
Right of use asset	-	-	-	-	16,580	16,580
General provisions	93,674	-	22,529	-	657,308	773,511
Impairment allowances	1,736,195	-	377,109	-	136,315	2,249,619
Fair value reserves	(12,255)	-	-	26,711	-	14,456
	1,950,464	**-**	**399,995**	**26,711**	**748,170**	**3,125,340**
2018:						
Equipment	131,919	-	1,322	-	(391)	132,850
General provisions	79,395	-	-	-	14,279	93,674
Impairment allowances	1,059,311	223,859	128,516	-	324,509	1,736,195
Fair value reserves	67,826	-	-	(80,081)	-	(12,255)
	1,338,451	**223,859**	**129,838**	**(80,081)**	**338,397**	**1,950,464**

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

27.(a) DUE FROM RELATED PARTY

(i) Group

	2019 KShs'000	2018 KShs'000
I&M Realty Limited	832,885	841,447
Giro Limited	-	11,738
	832,885	**853,185**

(ii) Company

	2019 KShs'000	2018 KShs'000
I&M Realty Limited	832,885	841,447
I&M Bank (T) Limited	367,529	768,111
I&M Insurance Agency Limited	-	42,500
Giro Limited	-	11,738
	1,200,414	**1,663,796**

(b) DUE TO RELATED PARTY

(i) Group

	2019 KShs'000	2018 KShs'000
Giro Limited	179,789	236,524
I&M Holdings PLC	79,277	1,648,515
I&M Realty Limited	264,643	21,216
I&M Bank (Rwanda) PLC	461,343	151,842
I&M Burbidge Capital Limited	2,087	5,222
I&M Capital Limited	6,735	6,292
	993,874	**2,069,611**

(ii) Company

	2019 KShs'000	2018 KShs'000
Giro Limited	179,789	236,524
I&M Holdings PLC	79,277	1,648,515
I&M Realty Limited	264,643	21,216
I&M Bank (T) Limited	99,326	48,057
I&M Bank (Rwanda) PLC	461,343	151,842
I&M Insurance Agency Limited	118,156	56,186
I&M Burbidge Capital Limited	2,087	5,222
I&M Capital Limited	6,735	6,292
	1,211,356	**2,173,854**

Mostly relates to deposits and balances held with the Bank.

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

	2019 KShs'000	2018 KShs'000
28. OTHER ASSETS		
(a) Group		
Prepayments	358,313	256,924
Other receivables	1,761,011	1,075,344
	2,119,324	**1,332,268**
(b) Company		
Prepayments	301,262	184,327
Other receivables	1,587,493	1,033,956
	1,888,755	**1,218,283**
29. DEPOSITS FROM BANKS		
(a) Group		
Due within 90 Days	2,434,801	1,326,658
Due after 90 days	2,482	12,597
	2,437,283	**1,339,255**
(b) Company		
Due within 90 Days	433,788	483,503
Due after 90 days	2,482	12,597
	436,270	**496,100**
30. DEPOSITS FROM CUSTOMERS		
(a) Group		
Government and Parastatals	644,073	1,014,884
Private sector and individuals	208,381,128	190,319,264
	209,025,201	**191,334,148**
(b) Company		
Government and Parastatals	582,142	272,913
Private sector and individuals	194,822,496	176,480,598
	195,404,638	**176,753,511**

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

31. OTHER LIABILITIES

	2019 KShs'000	2018 KShs'000
(a) Group		
Accruals	1,467,815	1,149,273
Other accounts payables	702,217	714,345
Lease liability	1,389,567	-
Provisions for loan commitments*	164,582	322,270
Bankers cheques payable	173,292	160,974
	3,897,473	**2,346,862**
(b) Company		
Accruals	1,400,082	1,071,314
Other accounts payables	419,644	575,524
Lease liability	1,251,562	-
Provisions for loan commitments*	162,464	313,063
Bankers cheques payable	159,492	145,292
	3,393,244	**2,105,193**

*This represents impairment allowance for loan commitments and financial guarantee contracts.

32. LONG TERM BORROWINGS

	2019 KShs'000	2018 KShs'000
(a) Group		
Less than one year	1,749,603	1,791,433
One to five years	3,020,825	5,828,500
	4,770,428	**7,619,933**

The Group's long term borrowings constituted those in note 32(b) and following in I&M Bank (T) Limited:

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.

USD 12 million facility granted on 16th March 2016 by Nenderlandse Financierings-Maatschappij Voor Ontwikkelingslande N.V (FMO) as senior debt 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.

USD 15 million granted on December 2018 by FMO as a senior debt for tenor of 5 years, of which an amount of USD 10 Million was received during the month of December 2018. The interest and principal on the facility is repayable on a quarterly basis. The effective interest rate on this facility is 5.68% p.a.

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

32. LONG TERM BORROWINGS (Continued)

	2019 KShs'000	2018 KShs'000
(b) Company		
Less than one year	1,738,901	1,777,255
One to five years	1,376,826	3,834,974
	3,115,727	**5,612,229**

The Company's borrowings constituted the following:

i. USD 50,000,000 facility granted on 16 July 2013 by International Finance Corporation (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.

Loan movement schedule

	2019 KShs'000	2018 KShs'000
(i) Group		
At 1 January	7,619,933	7,314,699
Funds received	-	2,549,072
Payments on principal and interest	(3,010,616)	(2,010,051)
Interest payable	209,807	75,368
Translation differences	(48,696)	(309,155)
At 31 December	**4,770,428**	**7,619,933**
(ii) Company		
At 1 January	5,612,229	5,965,227
Funds received	-	1,527,750
Payments on principal and interest	(2,488,868)	(1,608,704)
Interest payable	12,505	13,388
Translation differences	(20,139)	(285,432)
At 31 December	**3,115,727**	**5,612,229**

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

33. SUBORDINATED DEBT

	2019 KShs'000	2018 KShs'000
(a) Group		
Less than one year	207,587	3,694,621
One to five years	3,437,660	817,058
	3,645,247	**4,511,679**

The Group's subordinated debts constitute that in note 33(b) and USD 10 million facility granted on January 2015 by DEG (Deutsche Investitions- und Entwicklungsgesellschaft mbH) to I&M Bank (T) Limited.

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 has not had any defaults of principal or interest with respect to these debts.

	2019 KShs'000	2018 KShs'000
(b) Company		
Less than one year	203,927	3,681,657
One to five years	2,626,462	-
	2,830,389	**3,681,657**

The Company's subordinated debts constitute 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.

34. SHARE CAPITAL AND RESERVES

(a) Share capital

	Group and Company	
	2019 KShs'000	2018 KShs'000
Authorised		
1 January and 31 December - 30,000,000 Ordinary shares of KShs 100 each	**3,000,000**	**3,000,000**
Issued and fully paid		
1 January 2018 - 28,802,453 and 1 January and 31 December - 29,800,000 Ordinary shares of KShs 100 each	**2,980,000**	**2,980,000**

All the ordinary shares rank equally with regard to the Company's residual assets; are entitled to dividends from time to time and are entitled 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) Major shareholders and share premium

The major shareholders at 31 December 2019 and 2018 were as follows:

	%	Number of shares	Share Capital KShs'000	Share Premium KShs'000
I&M Holdings PLC (2019)	**100**	**29,800,000**	**2,980,000**	**5,531,267**
At 31 December	**100**	**29,800,000**	**2,980,000**	**5,531,267**
I&M Holdings PLC (2018)	**100**	**28,802,453**	**2,880,245**	**3,759,624**
Allocation of shares	**-**	**997,547**	**99,755**	**1,771,643**
At 31 December	**100**	**29,800,000**	**2,980,000**	**5,531,267**

(c) Statutory credit risk 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 52-55.

(d) Translation reserve

The translation reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations (namely I&M Bank (T) Limited - Tanzania) into the functional currency of the parent company. This is disclosed in the statement of changes in equity appearing on pages 52-55.

(e) 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 52-55.

35. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before income tax to net cash flow from operating activities- Group

	Note	2019 KShs'000	2018 KShs'000
Profit before income tax		12,455,876	9,180,415
Adjustments for:			
Depreciation on property and equipment	24(a)	288,103	241,561
Depreciation on right of use asset	24(a)	303,258	-
Amortisation of intangible asset	25(b)(i)	213,198	142,567
Interest on lease liabilities	9(a)	147,617	-
Profit on sale of property and equipment		(1,515)	(3,443)
Goodwill write off - Biashara Bank of Kenya Limited	25(a)	-	10,747
Property and equip items expensed		-	9,531
Net income on financial assets at fair value through profit or loss (FVTPL)	11(a)	(1,251,705)	(539,712)
Exchange reserves		(24,580)	(418,160)
		12,130,252	**8,623,506**
(Increase)/decrease in operating assets			
Movement in loans and advances to customers		(9,145,237)	(13,279,866)
Financial assets at fair value through profit or loss (FVTPL)		698,366	(4,251,063)
Financial assets measured at fair value through other comprehensive income (FVOCI)		(1,120,841)	3,563,540
Other financial assets at amortised cost		(892,713)	1,858,295
Cash and balances with Central Banks:			
– Cash Reserve Ratio		(321,057)	(3,183,727)
Due from group companies		20,300	867
Other assets		(787,056)	(343,205)
		(11,548,238)	**(15,635,159)**
Increase/(decrease) in operating liabilities			
Customer deposits		17,691,053	43,751,977
Deposits from banks		(10,115)	10,398
Long term borrowings		(2,844,896)	614,389
Due to group companies		(1,075,737)	37,486
Other liabilities		70,439	(907,966)
		13,830,744	**43,506,284**
Cash flows generated from operating activities		**14,412,758**	**36,494,631**
Tax paid	15(b)(i)	(3,708,154)	(2,573,637)
Interest on lease liabilities		(147,617)	-
Net cash flows generated from operating activities		**10,556,987**	**33,920,994**

35. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

(b) Analysis of cash and cash equivalents – Group

	Note	2019 KShs'000	2018 KShs'000	Change KShs'000
Cash and balances with central banks – excluding CRR	18(a)	2,704,793	2,965,719	(260,926)
Items in the course of collection	19(a)	536,459	764,460	(228,001)
Loans and advance to banks	20(a)	40,573,680	31,205,610	9,368,070
Deposits from banks	29(a)	(2,434,801)	(1,326,658)	(1,108,143)
		41,380,131	**33,609,131**	**7,771,000**

(c) Acquisition of Youjays Insurance Brokers Limited

The details of the fair value of the assets and liabilities acquired and goodwill arising are as follows:

	2018 KShs'000
Total purchase consideration paid in cash	**282,800**
Total assets	94,201
Total liabilites	(43,685)
Net assets acquired	**50,516**
Goodwill	**232,284**

Acquisition of Youjays Insurance Brokers Limited [YIB] net of cash and cash equivalents

Net assets acquired	50,516
Less: Cash and cash equivalent	(9,360)
Net cash outflow	**41,156**
Goodwill	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)

35. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

(d) Reconciliation of profit before income tax to net- Company

	Note	2019 KShs'000	2018 KShs'000
Cash flows from operating activities			
Profit before income tax		12,012,342	8,725,326
Adjustments for:			
Depreciation on property and equipment	24(b)	240,868	193,337
Depreciation on right of use asset	24(b)	271,399	-
Amortisation of intangible asset	25(b)(ii)	173,912	112,423
Interest on lease liabilities	9(b)	135,724	-
Profit on sale of property and equipment		(1,376)	(7,828)
Goodwill write off - Biashara Bank of Kenya Limited		-	10,747
Property and equip items expensed		-	4,532
Net income on financial assets at fair value through profit or loss (FVTPL)	11(b)	(1,251,705)	(539,712)
Dividend income	12(b)(ii)	(48,759)	(57,500)
		11,532,405	**8,441,325**
Increase/(decrease) in operating assets			
Movement in loans and advances to customers		(9,223,867)	(12,408,638)
Financial assets at fair value through profit or loss (FVTPL)		698,366	(4,695,523)
Financial assets measured at fair value through other comprehensive income (FVOCI)		(1,120,614)	3,020,031
Other financial assets at amortised cost		(618,729)	2,441,072
Due from group companies		463,382	(787,467)
Cash and balances with Central Bank of Kenya:			
– Cash Reserve Ratio		(546,072)	(3,075,738)
Other assets		(670,472)	409,230
		(11,018,006)	**(15,097,033)**
Increase/(decrease) in operating liabilities			
Customer deposits		18,651,127	43,952,619
Balances due to group companies		(962,498)	88,617
Deposits from banks		(10,115)	10,398
Long-term borrowings		(2,476,363)	(67,567)
Other liabilities		(69,651)	(1,129,951)
		15,132,500	**42,854,116**
Cash flows generated from operating activities		**15,646,899**	**36,198,408**
Tax paid	15(b)(ii)	(3,511,775)	(2,373,849)
Interest on lease liabilities		(135,724)	-
Net cash flows generated from operating activities		**11,999,400**	**33,824,559**

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)

(e) Analysis of cash and cash equivalents – Company

	Note	2019 KShs'000	2018 KShs'000	Change KShs'000
Cash and balances with Central Bank of Kenya – excluding CRR	18(b)	2,272,755	2,227,196	45,559
Items in the process of collection	19(b)	530,507	763,445	(232,938)
Loans and advances to banks	20(b)	40,573,680	30,858,283	9,715,397
Deposits from banks	29(b)	(433,788)	(483,503)	49,715
		42,943,154	**33,365,421**	**9,577,733**

36. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Group 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, the Group conducts business involving guarantees, acceptances and letters of credit. These facilities are offset by corresponding obligations of third parties. At the year end, the contingencies were as follows:

Group	2019 KShs'000	2018 KShs'000
Contingencies related to:		
Letters of credit	26,545,306	24,415,047
Guarantees	16,056,807	18,031,627
Other credit commitments	15,277,862	10,315,849
	57,879,975	**52,762,523**
Commitments related to:		
Outstanding spot/forward contracts	56,691,811	38,381,215
	114,571,786	**91,143,738**
Company		
Contingencies related to:		
Letters of credit	25,298,554	22,955,219
Guarantees	13,611,349	16,946,244
Other credit commitments	14,761,957	9,610,039
	53,671,860	**49,511,502**
Commitments related to:		
Outstanding spot/forward contracts	56,691,811	38,381,215
	110,363,671	**87,892,717**

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

36. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS (Continued)

(b) Contractual off-balance sheet financial liabilities (Continued)

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

Letters of credit commit the 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 Bank 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. 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 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.

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.

38. ASSETS PLEDGED AS SECURITY

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**
Company	**1,136,000**	**1,270,000**

Notes to The Consolidated and Separate Financial Statements

For The Year Ended 31 December 2019 (Continued)

39. 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 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	**13,487**	**19,898**
Interest Income from loans to directors/shareholders	483	682
ii. Deposits from directors/shareholders	**843,887**	**2,448,666**
Interest expense on deposits from directors/shareholders	65,788	59,944
iii. Loans from Shareholders	-	-
iv. The Directors remunerations are in Note 14		
(b) Transactions with related companies		
i. Loans to related companies	**1,452,838**	**1,518,048**
Interest income from loans to related companies	180,188	169,709
ii. Deposits from related companies	**1,034,781**	**1,160,726**
Interest expense on deposits from related companies	47,726	47,474
iii. Amounts due from group companies subsidiaries/joint venture	**62,840**	**53,636**
Interest income on amounts due from subsidiaries and joint venture	-	-
iv. Amounts due to group companies subsidiaries/joint venture	**1,211,356**	**2,069,611**
Interest expense on amounts due from subsidiaries and joint venture	-	-
v. Preference shares in I&M Realty Limited (Note 22)	**3,800,000**	**3,500,000**
vi. Preference shares I&M Insurance Agency Limited	**275,000**	**275,000**
(c) Transactions with employees		
Staff loans	**1,233,631**	**1,263,413**
Interest earned on these loans was KShs.	91,118	110,740
(d) Management fees received	**92,915**	**43,490**
(e) Management compensation	**101,359**	**100,222**

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

39. RELATED PARTY TRANSACTIONS (Continued)

(f) I&M Bank (T) Limited – Tanzania

In the normal course of business, the Company enters into transactions with related parties. All the loans and advances and deposits are issued or received from the related parties are market interest rates. There were no provisions held towards impairment of any of the advances to related parties.

40. CAPITAL COMMITMENTS

	2019 KShs'000	2018 KShs'000
Group	4,392,843	3,365,472
Company	3,630,405	2,624,000

41. DAY ONE IFRS 9 TRANSITION ADJUSTMENT ON IMPAIRMENT LOSS ALLOWANCE

Group

	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	ECL on trade receivables KShs'000	Total KShs'000
Day one adjustment				
Loans and advances to Customers at amortised cost	(368,920)	643,328	-	274,408
Loan commitments and financial guarantee contracts	330,545	170,119	-	500,664
Trade receivables	-	-	12	12
	(38,375)	**813,447**	**12**	**775,084**

Company

	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Total KShs'000
Day one adjustment			
Loans and advances to Customers at amortised cost	(383,007)	636,894	253,887
Loan commitments and financial guarantee contracts	322,191	170,119	492,310
	(60,816)	**807,013**	**746,197**

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

42. EVENTS AFTER THE 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 Bank continues to closely monitor and assess on an ongoing basis the rapidly changing situation.

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 through the Board Risk Committee, 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.
- 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 bank 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.

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

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 bank 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. The Group also adheres to international best practice (IFC performance standards and ILO standards as ratified by the Kenya government).

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 Bank's critical accounting policies and estimates and the application of these policies and estimates.

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