I&M BANK LIMITED ANNUAL REPORT & CONSOLIDATED FINANCIAL STATEMENTS 2020

Rebuilding and moving forward

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.

Rebuilding and moving forward

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 Committe
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
GM	General manager
GPO	General Post Office
Group	I&M Bank LIMITED together with its subsidiary undertakings
GED	Group executive director
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
KShs	Kenya Shillings
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
PP&E	Property and Equipment
SICR	Significant increase in credit risk
SPPI	Solely payments of principal and interest
YIB	Youjays Insurance Brokers Limited

OUR LEADERSHIP TEAMS

OUR LEADERSHIP TEAMS

Board of Directors


Oliver Fowler
Independent Chairman


Suresh B R Shah, MBS
Non-Executive Director


Sarit Raja-Shah
Group Executive Director


Kihara Maina
Chief Executive Officer


Dr. Nyambura Koigi
Independent Director


E Muchemi Wambugu
Independent Director


Alan James Dodd
Independent Director


M Soundararajan
Independent Director


Nikhil Rustam Hira
Independent Director


Sachit S Raja Shah
Non-Executive Director

The Bank welcomes Mr. Oliver Merrick Fowler as Chairman of the Board and Mr. Alan James Dodd as an Independent Director.Together they bring a wealth of experience from the financial sector in the region. We would like to thank Ms. Maria Largey for her service to the Bank as a Non-Executive Director on the board until her resignation on 30th September 2020.

OUR LEADERSHIP TEAMS

Senior Management


AV Chavda
Director, Credit


Chris Low
Regional Director


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


Amit Budhdev
Group Chief Finance Officer


Shameer Patel
Group GM Strategy and Transformation


Sandeep Sinha
Group GM, Credit


Rohit Gupta
Group GM, ICT


Priscilla Ndonga
Group GM, Human Resources


Suprio Sen Gupta
Group GM, Marketing

OUR LEADERSHIP TEAMS

Senior Management (Continued)

Kennedy Makale
Group GM, Shared Services

Gauri Gupta
Group GM, Corporate Advisory

Henry Kirimania
GM, Treasury

Joseph Njomo
GM, Operations

Winnie Hunja
GM, Corporate Banking

Enodious Makiwa
GM, Personal & Business Banking

Chhanda Mishra
GM, Projects

Stella Kariuki
Company Secretary

CORPORATE INFORMATION

Corporate information

Board of Directors

Oliver Fowler	(Chairman-appointed 18 March 2021)
Sarit S Raja Shah	(Executive Director)
Sachit S Raja Shah	
M Soundararajan*	
Dr. Alice N Koigi	
Nikhil R Hira	
Edward M Wambugu	
Kihara Maina	(Chief Executive Officer)
Alan J Dodd	(Appointed on 10 February 2021)
Maria C Largey**	(Resigned on 30 September 2020)
Allan Christopher M Low**	(Resigned on 22 January 2021)
Suresh B R Shah, MBS	(Retired as Chairman on 18 March 2021)

* 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
1 Park Avenue
1st Parklands Avenue
PO Box 30238
00100 Nairobi GPO

Correspondent Banks
Bank One Limited
Citibank NA
Commerzbank AG
Deutsche Bank AG
I&M Bank (Rwanda) Limited
I&M Bank (T) Limited
ICICI Limited Mumbai
Standard Bank of South Africa
Standard Chartered Bank NY
JP Morgan Newyork

Branches

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

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

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

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

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

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

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

1 Park Avenue
1st Parklands Avenue.
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
South C
P.O. Box 30238
00100 Nairobi GPO

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

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

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

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

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

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

Airport Centre Mall
North Airport Road
P.O. Box 86357
80100 Mombasa

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

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

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

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

Lavington Mall
James Gichuru Road
P.O. Box 3023 00100 Nairobi GPO

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

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 Mall
Thika Road
P.O. Box 30238
Nairobi GPO

Cross Road
Off River Road
P.O. BOX 20338
Nairobi

Nanyuki
Hussein Building
Ground floor
Nyeri Nanyuki Road
Nanyuki

Spring Valley Business Park, Ground floor, Block B
Nairobi

P&K Plaza, Ground floor
Moi Avenue
Meru

Eldama, Eldama Park
Nairobi

Industrial Area
Dunga road
Nairobi

Ridge Court
Parklands
Nairobi

Haile Selassie Avenue
Patel Samaj Building
Mombasa

CHAIRMAN'S STATEMENT

Oliver Fowler
Chairman

Chairman's Statement Introduction

I have the pleasure of presenting the I&M Bank LIMITED Annual Report for the year 2020 on behalf of the Board of Directors. This is my first report as Chairman, having taken over the honor of chairing the Board of the Bank from Suresh Bhagwanji Raja (SBR) Shah, who retired from the role after 47 years of exemplary service. I take this opportunity to thank him for his dedicated, visionary service to the bank and I am pleased that he continues to serve on the board as a Non-Executive Director. Let me assure all our stakeholders that the Board is committed to continue to fulfil the mission SBR set out for the bank to be a true partner for Growth for all stakeholders.

There is no doubt that 2020 was one of the most challenging years that we have witnessed. Collectively, we all had to grapple with a global pandemic that saw many countries including Kenya institute lockdowns for long periods to mitigate the spread of COVID-19. These lockdowns had a negative economic impact on the country and the Banking industry's performance in particular.

Despite the challenging operating environment, I&M Bank LIMITED remained resilient and with sustained efforts, driven by a focus on implementation of the Bank's iMara Strategy, we managed to record a strong set of financial results as we edged closer to achieving our aspiration of being Kenya's leading financial partner for growth.

Kenya 2019 Economic Performance And 2020 Economic Outlook

According to the World Bank and the African Development Bank, Kenya's economic performance for 2020 was projected to contract by slightly under 1% compared to the 5.4% growth in Real GDP, which was recorded in 2019. Kenya's economy like many other global economies was hit hard by the COVID-19 pandemic greatly impacting key sectors especially Education, Hospitality and the Tourism industry. Supply and demand shocks brought about by total/partial lockdowns and other COVID-19 related directives, reduced consumption and investment and hampered both domestic and international trade.

Government data showed that the strongest impact of the coronavirus crisis on the Kenyan economy was felt in the second quarter of 2020, wherein the country's GDP decreased by 5.5 percent. The third quarter of 2020 also showed a negative trajectory with the GDP growth rate measured at -1.1 percent. Several sectors such as Construction and Mining however grew by 16 percent and 18 percent respectively. The Agricultural sector slightly rebounded due to improved weather conditions.

Subdued exports, coupled with the increasing demand for the US dollar globally as investors shied away from uncertainty associated with the impact of the Covid-19 pandemic, contributed to the depreciation of the Kenya Shilling despite the strong diaspora remittances recorded. The local currency weakened by 8.9% to the dollar in comparison to 2019. The 12-month Inflation rate remained broadly within target at 5.6%. The Nairobi Securities Exchange share index fell 28.5% between 31st December 2019 and 31st December 2020, and market capitalization fell 6.8% over the same period. Approximately, 2 million people are estimated to have fallen into poverty, and nearly 900,000 lost their jobs.

The Kenyan Government however rolled out an economic stimulus package valued at Kshs. 53.7 billion, to help cushion the impact of the Pandemic and aid in boosting economic recovery.

The banking industry withstood market shocks caused by the COVID-19 despite the slower economy and grappled with a market environment characterized by constrained supply and demand.

Chairman's Statement (Continued)

According to the Kenya Bankers Association, the banking industry's assets recorded a modest growth, supported by an increase in private sector credit growth of 7.7 percent as at June 2020. Non-performing loans however remained elevated. Banks effectively activated their business continuity plans and implemented measures aimed at cushioning their clients from the impact of COVID-19. Capital sufficiency with adequate buffers helped the banking industry remain as the key line of defense in response to the current economic slowdown.

The World Bank predicts that Kenya's economy will expand sharply by 6.9% in 2021. The rebound is based on the assumption that economic activity will normalize once the economy is fully re-opened coupled with successful implementation of the Economic Recovery Strategy.

Inflation is projected to remain within the Central Bank of Kenya's target range of 2.5% to 7.5%, and fiscal and current account deficits are forecast to narrow as a result of improved revenue collection and exports.

Delays in the full reopening of the economy, challenges in managing external financing to execute the national budget, a slowdown in global growth and disruptive social conditions during the run-up to the 2022 elections may however negatively impact the 2021 growth outlook.

Financial Performance

In 2020, the Bank's balance sheet size closed at Kshs 283.56bn, which represents a 11.53% growth over similar period in the prior year of Kshs 254.25bn. Customer deposits increased from Kshs 195.40bn in December 2019 to close at Kshs 218.15bn depicting an increase of 11.64%.

The Bank's lending recorded a modest growth of 5.75% compared to December 2019, rising from 141.5 bn in 2019 to 149.7 bn in 2020. In addition, there was an increase in Non-Performing Assets compared to a similar period last year to stand at Kshs 20.17bn in 2020 while in 2019 this was reported at Kshs. 18.79bn.

Profit before tax for the period was Kshs 10.289bn, representing a 14.35% decrease compared to 2019, which stood at Kshs. 12.012 bn. Non Funded Income increased by 1.35% compared to December 2019. Interest income recorded a marginal increase of 1.24%, while Interest expense increased by only 1.97%, largely due to lower funding costs.

A Refresh of the Imara Strategy: Imara 2.0

The Bank continues to implement its iMara Strategy, which it first rolled out in 2017 and decided to refresh in 2020 to better align to changes since seen in the operating environment. The iMara 2.0 strategy seeks to achieve its aspiration of becoming Kenya's Leading Financial Partner for Growth through implementation of three key pillars namely: Driving Business Growth, Building a Resilient Business and Optimising the Operating Model. The strategy emphasises customer centricity underpinned by aggressive digitisation of the business and supported by implementation of Future-state Enterprise ICT Infrastructure. Our digital transformation journey and investments in future-state ICT infrastructure projects pave the way for the development of innovative market-driven solutions, enhanced operational efficiencies and will encourage our customers to take advantage of seamless alternate delivery channels to facilitate their own growth as personal or business customers. Key among our new initiatives was the introduction of the new Card System, which sought to modernize the Bank's cards payments infrastructure by providing more stability, flexibility in product configuration and faster time-to-market. The system is envisaged to improve quality of card transactions and allow for greater versatility of the Banks' card products suite. It will allow for roll out of advanced product features such as instalment payments, e-Pins, multi-currency and virtual cards.

Through its digital factory, I&M Bank LIMITED rolled out the pilot phase of the I&M On The Go internet banking platform for Corporate and Business Customers. This state of the Art Omni channel platform is easy to use, secure and convenient, enabling customers to transact wherever and whenever it suits them, giving them an enjoyable banking experience, that makes their day to day business operations seamless.

Strategic Partnerships

In 2020, the Bank drew down the second and final tranche of US dollars 25 million from FMO, the Dutch Government's development bank, for onward lending to our customers. Customers meeting the set eligibility criteria will now benefit from competitively priced US Dollar loan financing from I&M Bank.

Chairman's Statement (Continued)

New Products and Enhancements

In 2020, the Bank revamped the Diaspora Banking offering by adding features such as: Whatsapp chat banking facility, pension scheme offering, additional Diaspora Banking Agents in several countries, wider range of international money remittance services such as Small World, a Deal Facilitation service for buying property, Special Diaspora Assistance for as little as USD30 – USD50 to cover medical expenses when customers visit Kenya and also to repatriate mortal remains to Kenya in case of demise, a unique I&M WebPay facility to transfer funds from customers' VISA or MasterCard cards directly to their I&M Bank account and Custody and Investment Services that provide customers with all facilities required for investing in equities, fixed income and other securities.

The Bank significantly enhanced the cash back loyalty program for credit and debit cards, offering upto 1.5% cash back points on card transactions. Redemption of points can now be done by various ways including encashment of shopping vouchers at leading supermarkets.

The Bank also revamped the I&M Business Connect offering, which is an efficient and convenient way for organizations to collect and account for payments made by their customers, providing instant payment notifications for all successful payments. The solution provides ease of payments reconciliation using ready-made transaction reports, improved data quality and reporting accuracy, lower transaction costs leading to reduced operating expenses and relief from cash management challenges.

The Bank introduced the Lipa na Mpesa option on the I&M Mobile Banking app, customers can now pay directly to an Mpesa Paybill or Till No. (Buy Goods and Services) from the New I&M Retail Mobile App, without having to load their M-PESA wallet. This is an addition to the existing services of paying someone else by MPESA directly from an I&M Bank account through the I&M Mobile App; and also transferring money from an MPESA wallet to an I&M Bank account through Paybill no 542542.

In addition, the Bank rolled out the MSME banking offering comprising of transaction accounts, unsecured bid bonds, business and personal insurance, digital payments platforms and cards, technology solutions through partnerships with Fintechs, financing solutions like overdrafts, business loans, asset finance and insurance premium financing.

Covid-19 Interventions

Due to the COVID-19 pandemic, the Bank implemented various initiatives to drive transactional behaviour towards use of Alternate Channels. Some of these initiatives included: 25 percent discount on bank charges for transactions conducted on the Omni Channel mobile and internet banking platform; waiver of annual fees of Kes 2,000 for I&M Visa Gold Credit Card & Kes 1,500 for the I&M Visa Classic Credit Card (applicable for a supplementary card); additional Interest of +0.25% p.a. on the Fixed Deposit Account if opened on the new Omni Channel digital banking platforms; free I&M USD Debit Card for the first year to push uptake and usage of the I&M Visa US Dollar debit card for the Sapphire Foreign Currency Account and making Lipa na Mpesa available on the New I&M Mobile Banking App.

Additionally, the Bank waived specific charges on I&M Home Loan, which allowed customers to sign up for the mortgage facility and get a waiver on charges such as legal expenses, cost of discharging securities and valuation fees.

As part of its social impact activities, the Bank through the I&M Foundation set aside Kshs. 25 million to support COVID-19 interventions for vulnerable communities, which was donated to the National COVID-19 response initiative.

Through partnership with different I&M Bank customers and like-minded organizations, the Foundation also donated Kshs. 25 million for food packages and hand sanitization stations.

This included a feeding programme for over 2,500 families in Kibera, Mathare, Kangemi, Tatu City and Ngewe, in partnership with its sister company – GA Insurance and the Shamas Rugby Foundation.

The Foundation also partnered with the Shree Visa Oshwal Community to donate food for vulnerable communities across the country. It also partnered with the Kenya National Chamber of Commerce and Industry (KNCCI) Mombasa Branch, to provide food donations that were distributed through the Kenya Red Cross Society to different sub counties in Mombasa.

In addition, the Foundation partnered with various media houses and I&M Bank customers to provide food donations to Kenyan athletes whose source of livelihood was gravely impacted by the COVID-19 pandemic.

Chairman's Statement (Continued)

A section of the funding also went to the Kenya Community Development Foundation (KCDF) to set up 140 hand-washing stations in 12 counties across the country. The Foundation also provided funding for KCDF to work with 13 community-based organizations to provide food packages for 1,300 vulnerable households in informal settlements in 10 counties across Kenya.

The I&M Foundation also provided a grant of KES 2,000,000/- to support online learning needs for 62 financially constrained students at the St. Anne's Suresh Raja Shah Secondary School in Kairi in Form 1 to Form 3.

The Foundation further donated KShs. 1,000,000 to the Maa Trust to support Maa Beadwork social enterprise, which engages 579 Maasai women, living in the Maasai Mara, by supporting them to have sustainable livelihoods.

I&M Bank LIMITED Rebrand

In 2020, I&M Bank LIMITED embarked on a new and exciting journey to unveil a new brand identity for I&M Bank on all our digital channels, which was the first phase of the rebrand process.

The new look which draws inspiration from a DNA strand, signifies a seamless transformation of the old I&M logo, to represent the I&M Group's stability in a constantly changing and challenging operating environment.

Through this new look, we would like to reaffirm our commitment to be our stakeholders' financial growth partner driven by our brand promise – ***We are on your side.*** This new identity will help us live through the Bank's values namely: ***Mutual Trust, Innovativeness and Fairness,*** that form the pillars to meeting our customers' financial and lifestyle requirements.

The new brand identity also underlines the Bank's continued focus on customer centricity where we shall continue to service customers with utmost professionalism, through delivery of consistent and reliable levels of customer service and delivery of innovative market-driven solutions. The rollout of the second phase of the rebrand process continues this year across all physical assets at the Bank.

Future Outlook

Although we are not sure how long the threat of COVID-19 will be with us we are very optimistic that the measures instituted by us will continue to enhance our shareholders' value. At a macro level, the Government's drive to vaccinate the population gives us hope that the economy will begin to recover in the near future and this bodes well for the economy and the banking sector.

The global pandemic has forced us to conduct our business in a new dimension. It is in this light that the Bank's outlook for the next year is to focus on building a resilient financial institution. This will be done through increasing our liquidity and funding to cushion against emerging operational, cyber and credit risks. Through the work of the I&M Foundation and through the embedment of its Environment, Social & Governance policies, the Bank will increase the visibility of the organization through programmes and projects that highlight environmental, social and good governance.

In addition, the Bank will focus on driving business growth through diversification into new market segments such as MSMEs and entrenchment of its sales processes to ensure optimum wallet share.

We shall continue to digitize our business by leveraging on strategic partnerships such as Fintechs, to improve the quality and range of our products and channels, whilst simplifying our processes.

The Bank shall continue to support our clients' businesses by nursing them back to health as they recover from the impact of the pandemic.

We will continue to support the vulnerable in our community through our shared value agenda, spearheaded by the I&M Foundation. We shall continue to provide this support through the Foundation's key pillars of Education, Environment, Economic Empowerment and Enabling Giving.

ACKNOWLEDGMENT

I take this opportunity to thank our different stakeholders who contributed significantly in ensuring that 2020 remained a success despite the challenges felt.

CORPORATE INFORMATION

Chairman's Statement (Continued)

1. To our customers: Thank you for your continued belief in our solutions. We shall continue to innovate with your needs and requirements at the heart of our operations, driven by our commitment to be your financial growth partner.

2. To our shareholders: We appreciate your continued trust in our investment decisions. 2020 was an eventful year and we are optimistic about a better 2021. We shall take advantage of every opportunity to enhance your shareholder value with us.

3. To our staff: For your continued resolve in always placing our customers first in everything that you do. Your persistence and resilience in a very difficult year is highly appreciated. In the true I&M Spirit of resilience, determination and a shared vision, we executed for our customers and shareholders with utmost professionalism and quality service delivery standards, especially in an environment that truly challenged our status quo.

4. To my fellow Directors: For your support, guidance and stewardship in providing strategic direction for this organization.

5. To our regulators (Central Bank of Kenya, Capital Markets Authority and Insurance Regulatory Authority): For your support and guidance that has helped us achieve major successes that we continue to celebrate.

With best wishes,

Oliver Fowler
Chairman

I&M
NEWS KENYA

I&M News Kenya

Set Up of MSME Business Banking offering

In 2020, the Bank rolled out its Micro, Small and Medium Enterprises Business banking offering as a means to diversify revenue streams. The offering targets businesses with an annual turnover below Kshs. 10 million. It comprises of various products such as Short-term Loans with a maximum tenor of 12 months, Business and Personal Insurance, Overdraft facilities, LPO & Invoice Discounting at 70% & 80% financing respectively and Unsecured Bid bonds.

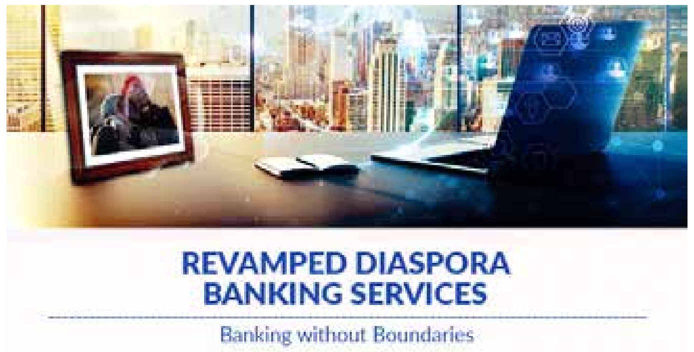
Launch of Lipa Na Mpesa option on the new I&M App

I&M Bank LIMITED launched the Lipa na Mpesa option on the new I&M Mobile Banking App. Customers no longer need to transfer funds to an M-Pesa wallet to carry out their M-Pesa transactions. This now allows them to pay directly to an mpesa paybill or till no (buy goods and services) making this a faster and more convenient service.

This service is an addition to the existing services offered on the I&M Mobile App where transfers can be made from an M-Pesa wallet to an I&M bank account through paybill no 542542, or direct payment by M-Pesa from an I&M Bank account through the I&M Mobile App.

Revamp of I&M Business Connect for Corporates

In 2020, I&M Bank LIMITED revamped the I&M Business Connect product for Corporates. The solution presents an efficient and convenient way for organisations to not only collect and account for payments from their customers, but also get instant notifications for all successful payments.



The service is ideal for collection of school fees payments, membership subscriptions for clubs or professional bodies, rent payments, utility bills payments, invoice collections in businesses for goods/services sold. The service can be accessed through: Mobile Money - M-Pesa Paybill, Pesalink, RTGS, and Cash and Cheque deposits at I&M Bank branches.

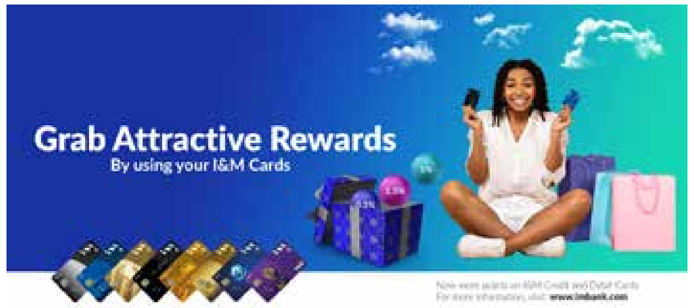
Promotion on free I&M USD debit card

In 2020, the Bank launched a limited time promotion to push uptake and usage of the I&M Visa US Dollar debit card for the Sapphire Foreign Currency Account. The promotion allowed customers to acquire the card for free for the first year. In addition, the Bank increased the ATM transaction withdrawal limits from USD 1,000 to USD 2,000.

Discount on bank charges for omni channel platform

In a bid to push customers to use the new Omni channel mobile and internet banking platforms to conduct their banking transactions, the Bank introduced a limited time 25 percent discount, on all standard applicable bank charges for transactions conducted through these channels. This was done with an objective to push the Bank's Non-Funded income.

Enhanced card loyalty programme



With a view of promoting cashless card transactions, the bank significantly enhanced the cash back loyalty program for credit and debit cards, offering upto 1.5% cash back points on card transactions. Redemption of points can be done by various ways including encashment of shopping vouchers at leading supermarkets.

Revamp of the Diaspora Banking offering

In 2020, the Bank revamped the I&M Kwetu Diaspora Banking offering. This was done through introduction of a Whatsapp chat facility allowing customers to easily access the Bank on any enquiries. The Bank also introduced a pension scheme offering for diaspora clients and increased the number of I&M Bank diaspora banking agents in various countries.

In addition, the Bank provided a wider range of international money remittance services such as Small World, which is a leading global money transfer business that operates in South Africa. over 190 countries. Through the enhanced diaspora banking offering, customers can also use the I&M WebPay facility to transfer funds from customers' VISA or MasterCard cards directly to their I&M Bank account.

The Bank also introduced Custody and Investment Services that provide diaspora banking customers with all facilities required for investing in equities, fixed income and other securities.

Lastly, the Bank introduced a Deal Facilitation service for buying property and a Special Diaspora Assistance for a premium of as little as USD30 – USD50 to cover medical expenses when customers visit Kenya and also to repatriate mortal remains to Kenya in case of demise.

Free supplementary credit cards for loved ones

The Bank, in 2020, launched a limited time offer for both the I&M VISA Gold and Classic Credit Cards where cardholders would enjoy a waiver of annual fees of Kes 2,000 for I&M Visa Gold & Kes 1,500 for I&M Visa Classic Credit Card (applicable for a supplementary card). The incentive gave customers the chance to get their loved one(s) a Supplementary Card at no cost.

Waiver of specific charges on I&M Home Loans

The Bank launched an offer for the I&M Step-Up Home Loan, which enabled customers to sign up for the mortgage facility and get a waiver on charges such as legal expenses, cost of discharging securities and valuation fees. The I&M Step-Up Home loan comes with a wide range of mortgage facilities for: purchase and construction of new or existing residential property; takeover of existing house loans from other financing institutions and purchase of undeveloped plot or land among other options.

I&M Bank LIMITED partners with IFC for webinars with Business Clients

In 2020, I&M Bank LIMITED partnered with IFC to run a series of webinars for Business customers. The webinars focused on educating customers on ways to build capacity in running their businesses such as scaling up & overcoming turbulent times.

The webinars have also provided an opportunity to engage with customers in a structured way allowing the Bank to showcase its Business banking portfolio, whilst receiving feedback from our customers on our offering. The webinars, provided customers with a global perspective of and opportunities for growth.

Malaikas hosted at Webinar

In 2020, I&M Bank LIMITED hosted 300 Malaika account customers for a webinar on financial health and investment. The event held in conjunction with the Bank's Investment and Custodial Services, focused on various topics such as: Measuring Your Financial Health and Making Sense of Your Money, Investing with a purpose and the link between Risk and Investment.

The key note speaker was Waceke Nduati, founder of Centonomy, an organization that provides financial literacy programmes and helps people take control of their wealth and wealth creation journey, as well as build their finances at different stages and ages. The event provided an opportunity to enlighten Malaikas on various measures aimed at cushioning them against the impact of COVID-19.

Young Savers Hosted for Online Competition

The Bank, in 2020, held an online competition for the Young Savers account holders. The competition which looked to nurture talent and creativity amongst the Young Savers in an exciting and engaging manner, was a challenge to complete a puzzle of the new Head-Office at One Park Avenue. The event was well received and attracted good participation.

OUR FINANCIALS

Report of the Directors

For the year ended 31 December 2020

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2020, 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 provide insurance agency services as defined by the Insurance Act.

2. Results/business review

The consolidated results for the year are as follows:

	2020 KShs'000	2019 KShs'000
Profit before income tax	10,698,178	12,455,876
Income tax expense	(2,185,196)	(3,434,423)
Net profit for the year after tax	**8,512,982**	**9,021,453**

Net profit closed at KShs 8.51 billion, a 5.64% decrease due to significant advese effects of COVID-19 facing the world. Net operating income decreased by KShs 1.21 billion further impacted by increase in operating expenses by KShs 0.55 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.

The ongoing COVID-19 pandemic has caused major disruptions to community health and economic activity with wide-ranging impacts across many business sectors in Kenya, Tanzania and globally. Additionally, many of the Group's customers have been impacted by the COVID-19 pandemic. As a result, during the year the Group launched support packages for retail and commercial customers in Kenya, including the option of an up to six-month loan repayment deferral. The Group is continuing to work with customers impacted by COVID-19 to restructure loans and in some circumstances will provide an extension to loan repayment deferrals for a further period.

Regulators and governments have implemented a broad range of measures to promote financial stability in response to COVID-19. Those measures implemented by governments and regulators in Kenya include financial assistance packages for homeowners and businesses, liquidity and funding initiatives to strengthen the banking system, and regulatory changes to capital requirements.

Report of the Directors

For the year ended 31 December 2020 (Continued)

2. Results/business review (Continued)

The pandemic has also increased the estimation uncertainty in the preparation of the financial statements. The Group has made various accounting estimates for future events in the financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2020 and that the Group believes are reasonable under the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Group. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in the financial statements.

3. Dividend

The directors recommend payment of a final dividend of KShs 83 per share amounting to KShs 2,478,526,862 for the year ended 31 December 2020 (2019 – Kshs 1,937,000,000).

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 2. 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.

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 2021.

BY ORDER OF THE BOARD

Secretary
Date: 19 March 2021.

STATEMENT ON CORPORATE GOVERNANCE

Governance Framework

At I&M Bank LIMITED (Bank, Company 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 Directors 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 Oliver Fowler, consists of nine 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 six (6) independent Directors, one (1) 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.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Director	Profile
Oliver Fowler Chairman Independent Non - Executive Director	Mr. Oliver Fowler is a qualified Kenyan Advocate and an English Solicitor and is a retired Senior Partner of Kaplan & Stratton Advocates. His work encompassed commercial work, particularly financial, corporate and taxation matters. He has been extensively involved in project finance, capital markets, banking and foreign investments sectors. He holds an LLB from University of Bristol and was admitted to the Kenyan High Court in 1979. He sits on the boards of several companies
SBR Shah,MBS	Mr. Suresh Bhagwanji Raja Shah is a founder member and former 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 of Kenya (now Absa 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 (now Absa Bank Tanzania).
M. Soundararajan Independent Non - Executive 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. Alice N. Koigi Independent Non - Executive 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.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Board Operations & Controls (Continued)

Director	Profile
Nikhil Rustam Hira Independent Non - Executive 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 also sits on the Advisory board of Eastern Africa Association.
Edward Muchemi Wambugu, MBS Independent Non - Executive 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 International Coaching Federation certified Executive and Systemic Team Coach. He sits on the boards of several other organisations and institutions.
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.
Alan J Dodd Independent Non - Executive Director	Mr. Dodd joined the board on 10 February 2021 having served for 43 years in the Banking industry. He has a wealth of experience having served the banking industry in various executive capacities in Kenya, Asia and the Middle East. The first 28 years of his career were spent with Standard Chartered Group, latterly in East Africa where he rose to the position of Executive Director responsible for Corporate and Service Quality. In 2006 he joined NIC Bank Kenya Ltd, now NCBA, where he held the positions of Executive Director responsible for Corporate, Asset Finance, including Leasing, and Bancassurance until end of 2020 Mr. Dodd holds a BA (Hons) degree in Economics from University of Portsmouth, UK and is a member of The London Institute of Banking and Finance Mr Dod sits on the board of GA Insurance Limited.Mr Dodd bring on board significant knowledge and experience in financial sector, governance protocols, risk management disciplines and customer service.

OUR FINANCIALS

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 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;

Program	Date
Training on tax matters	12 October 2020
Training on restructuring	13 October 2020
Training on IFRS 9	6 November 2020
Conference on the role of risk in supporting strategy execution	2 November 2020 & 3 November 2020

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.

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	19-Mar-2020	19-Jun-2020	17-Sep-2020	10-Dec-2020	Total Board meetings attended in 2020
Suresh B R Shah (Chairman)	√	√	√	√	100%
Sarit S Raja Shah	√	√	√	√	100%
Sachit S Raja Shah	√	√	√	√	100%
Nikhil Hira	√	√	√	√	100%
M Soundararajan	√	√	√	√	100%
Dr Alice N Koigi	√	√	√	√	100%
Kihara Maina	√	√	√	√	100%
Edward M Wambugu	√	√	√	√	100%
Maria Largey	√	√	X	N/A	67%
Allan Christopher Low	√	√	√	√	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 Director	Independent Director	Independent Director	Independent Director	Non-Executive Director	Independent Director
Members (Including Chairman)	• 4 Independent Directors • Head of Internal Audit • Group Head of Internal Audit • Company Secretary (Secretary) Invitees: • Group Executive Director • CEO • Group Chief Operations Officer • A member of Senior Management at the discretion of the GED &/or CEO	• 3 Independent Directors • 1 Non–Executive Director • Group Executive Director (GED) • Chief Executive Officer (CEO) • Group Chief Operations Officer • Group Chief Risk Officer & Compliance (Secretary) • Head of Compliance • Company Secretary (Secretary) Invitees: • A member of Senior Management at the discretion of the Chairman	• 3 Independent Directors • 1 Non–Executive Director • Group Executive Director(GED) • Chief Executive Officer (CEO) • Group General Manager Credit • Manager Credit • Company Secretary (Secretary) Invitees: • A member of Senior Management at the discretion of the GED &/or CEO	• 3 Independent Directors • Group Executive Director (GED) • Chief Executive Officer (CEO) • Group Chief Operations Officer • Divisional Head, Business Support • Company Secretary (Secretary) Invitees: • A member of Senior Management at the discretion of the GED &/or CEO	• 2 Independent Directors • Group Executive Director(GED) • CEO • Company Secretary (Secretary) Invitees: • A member of Senior Management at the discretion of the GED &/or CEO	• 3 Independent Directors • Group Executive Director (GED) • Chief Executive Officer (CEO) • Group Chief Operations Officer • Group General Manager HR • Manager HR • Company Secretary (Secretary)

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
Frequency Of Meetings	Quarterly	Quarterly	Quarterly	Quarterly	On need basis	Half-yearly
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, 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 Group Executive Director's (GED). • Vet agreements/ procurement proposals from related parties. • Review and ratify unbudgeted capital expenditure above Group 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 GED & CEO. • Set remuneration policies & strategic objectives of Board, GED & 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 • Group Chief Operations Officer • Division Head, Business Development • Division Head, Business Support • General Managers (Finance, Risk, Treasury, Strategy & Transformation, Credit, Corporate Banking and Personal & Business Banking) • Group Executive Office (Secretary)	• GED, CEO, • Group Chief Operations Officer • Division Head, Business Development • Division Head, Business Support • All General Managers • Assistant General Managers (Premium and Personal Banking) • Group Executive Office (Secretary) • Invitees: • General Manager – Internal Audit	• GED, CEO, • Group Chief Operations Officer • 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 • Group Chief Operations Officer • Division Head, Business Development • Division Head, Business Support • General Managers (Premium & Business, Credit, Finance, Strategy & Transformation, Human Resource)	• GED,CEO • Group Chief Operations Officer • 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

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
Frequency of meetings	Monthly	Quarterly	Monthly	Fortnightly	Weekly	Monthly
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. • 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 and 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 or 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 non performing accounts. • 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)

	Making Banking Great Steering Committee	Human Resources Committee	Management Procurement Committee	IT Steering Committee	Sales Force Effectivenes (SFE) Review	Space Committee
Chairman	Group Chief Operations Officer	Chief Executive Officer (CEO)	Chief Executive Officer (CEO)	Chief Executive Officer (CEO)	Chief Executive Officer (CEO)	Chief Executive Officer (CEO)
Members	• Independent Director • Regional Director • Group General Managers (Strategy and Transformation, ICT, Alternate Banking Channels) • Head of Digital & Innovation • Head of Transactional Banking • Transformation Office Reps	• GED, CEO • Group Chief Operations Officer • Division Head, Business Development • Division Head, Business Support • General Manager HR • Manager HR (Secretary)	• CEO • Group Chief Operations Officer • Division Head, Business Development • General Managers (ICT, Operations, Projects, Finance) • Manager Finance (Secretary)	• CEO • Group Chief Operations Officer • Division Head, Business Development • Division Head, Business Support • General Managers (ICT, Operations, Projects, Alternate Banking Channels-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 • Sales Force Effectivenes(SFE) Champions • (Secretary)	• GED, CEO • Division Head, Business Development • Division Head, Business Support • General Managers (Strategy and Transformation and Operations) • Senior Manager Premises (Secretary)

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Management Committees (Continued)

	Making Banking Great Steering Committee	Human Resources Committee	Management Procurement Committee	IT Steering Committee	Sales Force Effectivenes (SFE) Review	Space Committee
Frequency of meetings	Once every 6 weeks	Once every 2 months	Once every 2 months	Quarterly	Weekly	Quarterly
Main functions	• Review and recommend to the Board through the Group EXCO the direction of the Digital Strategy. • Review and approve digital project implementation. • Review and approve expected project deliverables, including commercials linked to the business case. • Review and approve commitments to external entities. • Reviews work plans for prioritisation aligned to the digital strategy and delegates projects to iCube.	• 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 Board 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.

The Internal Audit function provides independent assurance to the 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.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

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 and staff of all Group entities; and contractors who have or may have access to Material Non-public Information regarding the Company from:

- Market Manipulations - artificially inflating or deflating the price of a security or otherwise influencing the behaviour of the market for personal gain;
- False Trading and Market Rigging – dissemination of favourable or unfavourable information likely to induce the subscription, sale or purchase of shares by other people, or raise, lower or maintain the market price of shares;
- Fraudulently inducing trading in securities;
- Front Running - entering into a securities trade to capitalize on advance, non-public knowledge of a large (“block”) pending transaction that will influence the price of the underlying security;
- Obtaining gain by fraud; and,
- Communicating unpublished price-sensitive information to other people.

The policy also prohibits anyone having Inside Information relating to the Group from buying or selling the entity’s securities, except within certain stipulated open periods.

Insiders handling price sensitive information are subjected to preclearance restrictions which shall require them to declare their intention to purchase or sell Company’s securities before transacting.

The Bank’s Board Audit and Risk Management Committee (BARMC) has oversight on insider trading and are made aware of any breach to the Insider Trading Policy through quarterly returns detailing all insider trades executed within the reporting period.

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:

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Insider Trading & Related Party Transactions (Continued)

- 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 40.

Whistle Blowing Policy

The Board has adopted a Whistle blowing policy to enhance commitment to the highest standards of openness, probity and accountability. An important aspect of accountability and transparency is a mechanism to enable staff of the 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; and,
- Enabling giving.

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 48 to 168 which comprise the consolidated and company statements of financial position as at 31 December 2020, 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 consolidated and separate 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 Group and 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 2021.

Nikhil R Hila	Sachit S Raja Shah	Kihara Maina
Director	**Director**	**Director**

Date: 19 March 2021.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF I&M Bank LIMITED

KPMG

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 48 to 168, which comprise the consolidated and company statements of financial position as at 31 December 2020, and the consolidated and company statements of profit or loss and other comprehensive income, the consolidated and company statements of changes in equity and the consolidated and company statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies 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 2020, 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 (IFRSs) 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 International Ethics Standards Board for Accountants *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated and separate financial statements in Kenya and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the *I&M Bank LIMITED 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF I&M Bank LIMITED (Continued)

KPMG

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

Directors' responsibilities for the consolidated and separate financial statements

The Directors are responsible for the preparation of the consolidated and separate financial statements that give a true and fair view in accordance with IFRSs, 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 misstatements, 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 the Company to cease operations, or has no realistic alternative but to do so.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF I&M Bank LIMITED (Continued)

KPMG

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)

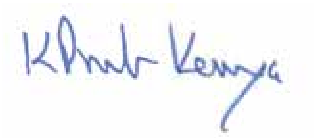
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain 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 the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

As required by the Kenyan Companies Act, 2015 we report to you based on our audit, that in our opinion, the information in the report of the Directors on pages 28 and 29 is consistent with 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.



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

Date: 30 March 2021.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31 December 2020

	Note	2020 KShs'000	2019 KShs'000
Interest income	8(a)	23,577,383	23,288,243
Interest expense	9(a)	(10,457,395)	(10,245,943)
Net interest income		**13,119,988**	**13,042,300**
Fee and commission income	10(a)	3,781,495	3,616,927
Fee and commission expense	10(a)	(143,118)	(177,864)
Net fee and commission income	10(a)	**3,638,377**	**3,439,063**
Revenue		**16,758,365**	**16,481,363**
Net trading income	11(a)	3,293,637	3,466,539
Other operating income	12(a)	116,335	157,592
Net operating income before change in expected credit losses and other credit impairment charges		**20,168,337**	**20,105,494**
Net impairment losses on financial assets	21(b)	(1,857,277)	(587,780)
Net operating income		**18,311,060**	**19,517,714**
Staff costs	13(a)	(3,548,976)	(3,587,222)
Premises and equipment costs	13(a)	(399,448)	(386,099)
General administrative expenses	13(a)	(2,628,519)	(2,283,958)
Depreciation and amortisation	13(a)	(1,035,939)	(804,559)
Operating expenses		**(7,612,882)**	**(7,061,838)**
Profit before income tax	14(a)	**10,698,178**	**12,455,876**
Income tax expense	15(a)(i)	(2,185,196)	(3,434,423)
Net profit for the year after tax		**8,512,982**	**9,021,453**

(Continued Page 49)

The notes set out on page 59 to 168 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

For the Year Ended 31 December 2020 (Continued)

	Note	2020 KShs'000	2019 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	22	161,724	(167,758)
Deferred tax on fair value of FVOCI financial assets - Equity instruments		(48,517)	50,287
Items that are or may be reclassified to profit or loss:			
Net change in fair value of FVOCI financial assets- Debt instruments	22	276,549	217,921
Deferred tax on fair value of FVOCI financial assets - Debt instruments		(82,965)	(65,337)
Foreign currency translation differences		269,437	(28,760)
Total other comprehensive income for the year		**576,228**	**6,353**
Total comprehensive income for the year		**9,089,210**	**9,027,806**
Profit attributable to:			
Equity holders of the company		8,431,558	8,942,877
Non-controlling interest		81,424	78,576
		8,512,982	**9,021,453**
Comprehensive income attributable to:			
Equity holders of the company		8,935,034	8,953,947
Non-controlling interest		154,176	73,859
		9,089,210	**9,027,806**
Basic and diluted earnings per share - (KShs)	16	**282.94**	**300.10**

The notes set out on pages 59 to 168 form an integral part of these financial statements.

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

	Note	2020 KShs'000	2019 KShs'000
Interest income	8(b)	21,377,125	21,115,108
Interest expense	9(b)	(9,555,256)	(9,370,443)
Net interest income		**11,821,869**	**11,744,665**
Fee and commission income	10(b)	3,330,661	3,217,448
Fee and commission expense	10(b)	(131,648)	(167,478)
Net fee and commission income	10(b)	**3,199,013**	**3,049,970**
Revenue		**15,020,882**	**14,794,635**
Net trading income	11(b)	3,149,146	3,328,571
Other operating income	12(b)(i)	109,890	202,668
Dividend income	12(b)(ii)	116,140	48,759
Net operating income before change in expected credit losses and other credit impairment charges		**18,396,058**	**18,374,633**
Net impairment losses on financial assets	21(b)	(1,601,678)	(303,783)
Net operating income		**16,794,380**	**18,070,850**
Staff costs	13(b)	(3,016,650)	(3,075,095)
Premises and equipment costs	13(b)	(359,324)	(348,768)
General administrative expenses	13(b)	(2,256,770)	(1,948,466)
Depreciation and amortisation	13(b)	(872,605)	(686,179)
Operating expenses		**(6,505,349)**	**(6,058,508)**
Profit before income tax	14(b)	**10,289,031**	**12,012,342**
Income tax expense	15(a)(ii)	(2,027,274)	(3,273,473)
Net profit for the year after tax		**8,261,757**	**8,738,869**
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Net change in fair value of FVOCI financial assets - Equity instruments	22	328,920	(306,956)
Deferred tax on fair value of FVOCI financial assets - Equity instruments		(98,676)	92,087
Items that are or may be reclassified to profit or loss:			
Net change in fair value of FVOCI financial assets	22	276,549	217,921
Deferred tax on fair value of FVOCI financial assets		(82,965)	(65,376)
Total other comprehensive income for the year		**423,828**	**(62,324)**
Total comprehensive income for the year		**8,685,585**	**8,676,545**
Basic and diluted earnings per share - (KShs)	16	**277.24**	**293.25**

The notes set out on pages 59 to 168 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2020

	Note	2020 KShs '000	2019 KShs '000
ASSETS			
Cash and balances with central banks	18(a)	16,061,058	12,062,162
Items in the course of collection	19(a)	622,994	536,459
Loans and advances to banks	20(a)	14,109,377	40,573,680
Loans and advances to customers	21(a)(i)	164,776,964	156,768,746
Financial assets at fair value through profit or loss (FVTPL)	22(a)(i)	11,798,434	13,697,717
Financial assets measured at fair value through other comprehensive income (FVOCI)	22(b)(i)	41,464,529	15,421,415
Other financial assets at amortised cost	22(c)(i)	41,665,290	23,629,440
Held for sale assets	23(a)	1,020,401	631,334
Property and equipment	25(a)	3,933,603	2,863,172
Intangible assets - goodwill	26(a)(i)	737,560	705,345
Intangible assets - software	26(b)(i)	1,870,088	1,422,282
Tax recoverable	15(b)(i)	72,535	8,927
Deferred tax asset	27(a)	4,522,038	3,386,195
Due from group companies	28(a)(i)	806,335	832,885
Other assets	29(a)	1,628,272	1,487,990
TOTAL ASSETS		**305,089,478**	**274,027,749**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	30(a)	1,280,233	2,437,283
Deposits from customers	31(a)	235,306,158	209,025,201
Due to group companies	28(b)(i)	951,315	993,874
Tax payable	15(b)(i)	57,980	868,187
Other liabilities	32(a)	4,062,046	3,897,473
Long term debt	33(a)	5,981,854	4,770,428
Subordinated debt	34(a)	3,380,047	3,645,247
		251,019,633	**225,637,693**
Shareholders' equity (Page 55-56)			
Share capital	35(a)	2,980,000	2,980,000
Share premium	35(b)	5,531,267	5,531,267
Retained earnings		39,278,973	34,564,173
Statutory credit risk reserve	35(c)	5,179,151	4,839,393
Fair value reserve	35(e)	183,218	(123,573)
Translation reserve	35(d)	(252,101)	(448,786)
Equity attributable to owners of the company		**52,900,508**	**47,342,474**
Non- controlling interest		1,169,337	1,047,582
Total shareholders' equity		**54,069,845**	**48,390,056**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**305,089,478**	**274,027,749**

The financial statements set out on pages 48 to 168 were approved and authorised for issue by the Board of Directors on 19 March 2021 and were signed on its behalf by:

Sachit S Raja Shah
Director

Kihara Maina
Director

Nikhil R Hira
Director

N P Kothari
Secretary

The notes set out on pages 59 to 168 form an integral part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2020

	Note	2020 KShs '000	2019 KShs '000
ASSETS			
Cash and balances with Central Bank of Kenya	18(b)	13,745,687	10,701,846
Items in the course of collection	19(b)	619,833	530,507
Loans and advances to banks	20(b)	13,504,068	40,573,680
Loans and advances to customers	21(a)(ii)	149,675,064	141,543,126
Financial assets at fair value through profit or loss (FVTPL)	22(a)(ii)	11,798,434	13,697,717
Financial assets measured at fair value through other comprehensive income (FVOCI)	22(b)(ii)	41,878,761	15,671,495
Other financial assets at amortised cost	22(c)(ii)	36,732,012	18,925,430
Held for sale assets	23(b)	1,020,401	631,334
Investment in subsidiaries	24	2,750,753	2,750,753
Property and equipment	25(b)	3,552,193	2,510,551
Intangible assets - software	26(b)(ii)	1,607,476	1,132,558
Tax recoverable	15(b)(ii)	79,972	-
Deferred tax asset	27(b)	4,113,030	3,125,340
Due from group companies	28(a)(ii)	1,024,802	1,200,414
Other assets	29(b)	1,466,061	1,257,421
TOTAL ASSETS		**283,568,547**	**254,252,172**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	30(b)	1,014,464	436,270
Deposits from customers	31(b)	218,152,863	195,404,638
Due to group companies	28(b)(ii)	1,212,576	1,211,356
Other liabilities	32(b)	3,581,021	3,393,244
Tax payable	15(b)(ii)	-	845,413
Long term debt	33(b)	4,233,156	3,115,727
Subordinated debt	34(b)	3,050,747	2,830,389
		231,244,827	**207,237,037**
Shareholders' equity (page 57-58)			
Share capital	35(a)	2,980,000	2,980,000
Share premium	35(b)	5,531,267	5,531,267
Retained earnings		38,925,990	34,023,451
Statutory credit risk reserve	35(c)	4,580,387	4,598,169
Fair value reserve	35(e)	306,076	(117,752)
		52,323,720	**47,015,135**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**283,568,547**	**254,252,172**

The financial statements set out on pages 48 to 168 were approved and authorised for issue by the Board of Directors on 19 March 2021 and were signed on its behalf by:

Sachit S Raja Shah	**Kihara Maina**	**Nikhil R Hira**	**N P Kothari**
Director	Director	Director	Secretary

The notes set out on pages 59 to 168 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2020

	Note	2020 KShs'000	2019 KShs'000
Net cash flows generated from operating activities	36(a)	**(15,307,812)**	**10,556,987**
Cash flows from investing activities			
Purchase of property and equipment (excluding right of use assets)	25(a)	(1,177,390)	(575,554)
Purchase of intangible assets	26(b)(i)	(804,870)	(762,256)
Proceeds from disposal of property and equipment		12,776	2,060
Purchase of equity shares		-	(6,971)
Purchase of preference shares in I&M Realty Limited		-	(300,000)
Net cash used in/(from) investing activities		**(1,969,484)**	**(1,642,721)**
Cash flows from financing activities			
Payment of lease liabilities		(314,132)	(252,494)
Net outflow of subordinated debt		(265,200)	(866,432)
Dividend paid to shareholders of the company		(3,377,000)	-
Dividend paid to non-controlling interest		(32,421)	(24,340)
Net cash flow used in financing activities		**(3,988,753)**	**(1,143,266)**
Net increase in cash and cash equivalents		**(21,266,049)**	**7,771,000**
Cash and cash equivalents at start of the year		**41,380,131**	**33,609,131**
Cash and cash equivalents at end of the year	36(b)	**20,114,082**	**41,380,131**

The notes set out on pages 59 to 168 form an integral part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2020

	Note	2020 KShs'000	2019 KShs'000
Net cash flows generated from operating activities	36(c)	**(19,354,861)**	**11,999,400**
Cash flows from investing activities			
Purchase of property and equipment (excluding right of use assets)	25(b)	(1,128,830)	(515,917)
Purchase of intangible assets	26(b)(ii)	(783,610)	(589,031)
Proceeds from disposal of property and equipment		2,841	1,921
Purchase of preference shares in I&M Realty Limited		-	(300,000)
Dividends received	12(b)(ii)	116,140	48,759
Net cash used in investing activities		**(1,793,459)**	**(1,354,268)**
Cash flows from financing activities			
Payment of lease liabilities		(280,187)	(216,131)
Net outflow of subordinated debt		220,358	(851,268)
Dividend paid		(3,377,000)	-
Net cash outflow from financing activities		**(3,436,829)**	**(1,067,399)**
Net increase in cash and cash equivalents		**(24,585,149)**	**9,577,733**
Cash and cash equivalents at start of the year		**42,943,154**	**33,365,421**
Cash and cash equivalents at end of the year	36(d)	**18,358,005**	**42,943,154**

The notes set out on pages 59 to 168 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2020

2020:	Share capital KShs'000	Share premium 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 2020	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
Comprehensive income for the year									
Net profit after tax	-	-	8,431,558	-	-	-	8,431,558	81,424	8,512,982
Total comprehensive income for the year	**-**	**-**	**8,431,558**	**-**	**-**	**-**	**8,431,558**	**81,424**	**8,512,982**
Total comprehensive income for the year	**-**	**-**	**8,431,558**	**-**	**-**	**-**	**8,431,558**	**81,424**	**8,512,982**
Other comprehensive income									
Translation reserve	-	-	-	-	-	196,685	196,685	72,752	269,437
Fair value reserve	-	-	-	-	438,273	-	438,273	-	438,273
Deferred tax - fair value reserve	-	-	-	-	(131,482)	-	(131,482)	-	(131,482)
Statutory credit risk reserve	-	-	(339,758)	339,758	-	-	-	-	-
Total other comprehensive income	**-**	**-**	**(339,758)**	**339,758**	**306,791**	**196,685**	**503,476**	**72,752**	**576,228**
Total comprehensive income	**-**	**-**	**8,091,800**	**339,758**	**306,791**	**196,685**	**8,935,034**	**154,176**	**9,089,210**
Transactions with owners, recorded directly in equity									
Special dividend - 2020	-	-	(1,440,000)	-	-	-	(1,440,000)	-	(1,440,000)
Final dividend - 2019	-	-	(1,937,000)	-	-	-	(1,937,000)	(32,421)	(1,969,421)
Total transactions with owners for the year	**-**	**-**	**(3,377,000)**	**-**	**-**	**-**	**(3,377,000)**	**(32,421)**	**(3,409,421)**
Balance as at 31 December 2020	**2,980,000**	**5,531,267**	**39,278,973**	**5,179,151**	**183,218**	**(252,101)**	**52,900,508**	**1,169,337**	**54,069,845**

The notes set out on pages 59 to 168 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the Year Ended 31 December 2020 (Continued)

2019:	Share capital KShs'000	Share premium 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**
Comprehensive income for the year									
Net profit after tax	-	-	8,942,877	-	-	-	8,942,877	78,576	9,021,453
Total comprehensive income for the year	**-**	**-**	**8,942,877**	**-**	**-**	**-**	**8,942,877**	**78,576**	**9,021,453**
Other comprehensive income									
Translation reserve	-	-	-	-	-	(23,635)	(23,635)	(5,125)	(28,760)
Fair value reserve	-	-	-	-	49,580	-	49,580	583	50,163
Deferred tax - fair value reserve	-	-	-	-	(14,875)	-	(14,875)	(175)	(15,050)
Statutory credit risk reserve	-	-	(3,183,089)	3,183,089	-	-	-	-	-
Total 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 59 to 168 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2020

2020:	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Statutory credit risk reserve KShs'000	Fair value reserve KShs'000	Total KShs'000
At 1 January 2020	2,980,000	5,531,267	34,023,451	4,598,169	(117,752)	47,015,135
Comprehensive income for the year						
Net profit after tax	-	-	8,261,757	-	-	8,261,757
	-	**-**	**8,261,757**	**-**	**-**	**8,261,757**
Other comprehensive income						
Statutory credit reserve	-	-	17,782	(17,782)	-	-
Fair value reserve	-	-	-	-	605,469	605,469
Deferred tax - fair value reserve	-	-	-	-	(181,641)	(181,641)
Total other comprehensive income	**-**	**-**	**17,782**	**(17,782)**	**423,828**	**423,828**
Total comprehensive income	**-**	**-**	**8,279,539**	**(17,782)**	**423,828**	**8,685,585**
Transactions with owners recorded directly in equity						
Special dividend - 2020	-	-	(1,440,000)	-	-	(1,440,000)
Final dividend - 2019	-	-	(1,937,000)	-	-	(1,937,000)
Total transactions with owners for the year	**-**	**-**	**(3,377,000)**	**-**	**-**	**(3,377,000)**
Balance as at 31 December 2020	**2,980,000**	**5,531,267**	**38,925,990**	**4,580,387**	**306,076**	**52,323,720**

The notes set out on pages 59 to 168 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY (Continued)

For the Year Ended 31 December 2020 (Continued)

	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Statutory credit risk reserve KShs'000	Fair value reserve KShs'000	Total KShs'000
2019:						
At 1 January 2019	2,980,000	5,531,267	28,440,796	1,441,955	(55,428)	38,338,590
Comprehensive income for the year						
Net profit after tax	-	-	8,738,869	-	-	8,738,869
	-	-	**8,738,869**	-	-	**8,738,869**
Other comprehensive income						
Statutory credit reserve	-	-	(3,156,214)	3,156,214	-	-
Fair value reserve	-	-	-	-	(89,035)	(89,035)
Deferred tax - fair value reserve	-	-	-	-	26,711	26,711
Total 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 59 to 168 form an integral part of these financial statements.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

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 2020 comprise the Bank and its subsidiaries (together referred to as the "Group"). The address of its registered office is as follows:

1 Park Avenue

1st Parklands Avenue

PO Box 30238

00100 Nairobi GPO

The Bank has a 70.38% shareholding in I&M Bank (T) Limited (2019 – 70.38%) and 100% shareholding in I&M Insurance Agency Limited (IMIAL) (incorporated on 23 July 2014). IMIAL 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 2020 have been prepared in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Kenyan Companies Act 2015. Additional information required by the regulatory bodies is included where appropriate. Details of the significant accounting policies are included in Note 3.

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

(b) Basis of measurement

These consolidated and separate financial statements have been prepared under the historical cost basis of accounting except for the financial assets classified as fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI) 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.

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.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

2. BASIS OF PREPARATION (Continued)

(d) Use of estimates and judgments (Continued)

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.

(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 statement of profit or loss or statement of comprehensive income consistent with the gain or loss on the non-monetary item.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 at points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability

Amortised cost and gross carrying amount

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

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.

Notes to the Consolidated and Separate Financial Statements
For the Year Ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income recognition (Continued)

(i) Net interest income – Continued

Calculation of interest income and expense – Continued

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.

(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) are 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.

Notes to the Consolidated and Separate Financial Statements
For the Year Ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income recognition (Continued)

(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:

- 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.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(ii) Classification

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

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Group's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(ii) Classification – (Continued)

Business model assessment (Continued)

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

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

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

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

- contingent events that would change the amount and timing of cash flows;

- 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.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(ii) Classification – Continued

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 statement of profit or loss and other comprehensive income.

Premiums, discounts and related transaction costs are amortized over the expected life of the instrument to Interest income in the consolidated statement of profit or loss and other comprehensive income using the effective interest rate method.

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The ACL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the 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 statement of profit or loss and other comprehensive income. The accumulated allowance recognised in OCI is recycled to the statement of profit or loss and other comprehensive income upon derecognition of the debt instrument.

Debt instruments measured at FVTPL

Debt instruments are measured at FVTPL if assets:

(i) Are held for trading purposes;

(ii) Are held as part of a portfolio managed on a fair value basis; or

(iii) Whose cash flows do not represent payments that are solely payments of principal and interest.

These instruments are measured at fair value in the statement of financial position, with transaction costs recognized immediately in the 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 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 statement of financial position at fair value. Changes in fair value are recognized in Non-interest income in the statement of profit or loss.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(iii) Classification – (Continued)

Equity instruments

The Group has elected at initial recognition to irrevocably designate an equity investment, held for purposes other than trading, to FVOCI. The fair value changes, including any associated foreign exchange gains or losses, are recognized in OCI and are not subsequently reclassified in the 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 statement of profit or loss and other comprehensive income.

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) Impairement 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.

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'.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(iii) Impairment of financial assets – Continued

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).

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.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(iii) Impairment of financial assets – Continued

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.

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.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(iv) ***De-recognition***

Financial assets

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

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

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

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

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

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).

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Financial liabilities

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

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:

- **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.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fair value measurement (Continued)

- **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.

(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.

Goodwill is reviewed annualy for impairment.The task involves comparing the carrying value of a cash generating unit (CGU) including goodwill cashflows discounted at a rate of interest that reflects the inherent risks of the CGU to which the goodwill relates to.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Leases

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.

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.

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Leases (Continued)

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

(l) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and group. Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(m) Derivative financial instruments

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

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

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

(n) Employee benefits

(i) Defined contribution plan

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

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

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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) 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.

(w) 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 2020, including consequential amendments to other standards with the date of initial application by the Company being 1 January 2020. The nature and effects of the changes are as explained here in.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020

- *IFRS 3 Definition of a Business*

  With a broad business definition, determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. These amendments to IFRS 3 Business Combinations seek to clarify this matter as below however complexities still remain.

  - Optional concentration test
    The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.

  - Substantive process
    If an entity chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

    The definition of a business is now narrower and could result in fewer business combinations being recognised.

  The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.

  The adoption of this standard did not have an impact on the financial statements of the Group and Company.

- *Amendments to References to the Conceptual Framework in IFRS Standards*

  This amendment sets out amendments to IFRS Standards (Standards), their accompanying documents and IFRS practice statements to reflect the issue of the International Accounting Standards Board (IASB) revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework).

  Some Standards, their accompanying documents and IFRS practice statements contain references to, or quotations from, the IASC's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 (Framework) or the Conceptual Framework for Financial Reporting issued in 2010. Amendments to References to the Conceptual Framework in IFRS Standards updates some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

  These amendments are based on proposals in the Exposure Draft Updating References to the Conceptual Framework, published in 2015, and amend Standards, their accompanying documents and IFRS practice statements that will be effective for annual reporting periods beginning on or after 1 January 2020.

  The adoption of these changes did not affect the amounts and disclosures of the Group's and Company'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.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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.

- *Interest rate benchmark reform (Amendments to IFRS 9, IAS 39 and IFRS 7)*

  The amendments, provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the profit or loss account.

  The adoption of this standard did not have a material impact on the Group's and Company's financial statements.

  The application of the amendments did not have an impact on the Group's and Company's financial statements.

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2020

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2020, 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
COVID-19-Related Rent Concessions (Amendments to IFRS 16)	1 June 2020
Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
Annual Improvements to IFRS Standards 2018-2020	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
Classification of Liabilities as Current or Non-current (Amendments IAS 1)	1 January 2023
IFRS 17 Insurance contracts	1 January 2023
Amendments to IFRS 17	1 January 2023
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).

- *Covid-19-related Rent Concessions (Amendments to IFRS 16)*

  As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. In May 2020, the IASB made an amendment to IFRS 16 Leases which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) 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 2020 – Continued

Covid-19-related Rent Concessions (Amendments to IFRS 16) (continued)

Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions.

- *Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)*

  The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.

  The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's and Compnay's consolidated financial statements.

- *Annual Improvement cycle (2018 – 2020) – various standards*

  The following improvements were finalised in May 2020:

Standards	
IFRS 9 Financial Instruments	IFRS 9 *Financial Instruments* - clarifies which fee should be included in the 10% test for derecognition of financial liabilities.
IFRS 16 Leases	IFRS 16 Leases - amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
IFRS 1 First-time Adoption of International Financial Reporting Standards	IFRS I First-time Adoption of International Financial Reporting Standards - allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS I exemption.

  The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated and Company's financial statements.

- ***Property, Plant and Equipment: Proceeds before intended use (Amendments to IAS 16)***

  The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

  Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

  The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's and Company's financial statements.

- *Reference to the Conceptual Framework (Amendments to IFRS 3)*

  Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) 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 2020 – (Continued)

Reference to the Conceptual Framework (Amendments to IFRS 3) (continued)

The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's and Company's financial statements.

- *Classification of Liabilities as Current or Non-current (Amendments IAS 1)*

  The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (eg the receipt of a waver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability.

  The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity.

  They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

- *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.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) 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 2020 – Continued

- *IFRS 17 Insurance Contracts – Continued*

IFRS 17 also requires disclosures to enable users of financial statements to understand the amounts recognised in the entity's statement of financial position and statement of profit or loss and other comprehensive income, and to assess the risks the Company faces from issuing insurance contracts.

IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 is effective for financial periods commencing on or after 1 January 2021. An entity shall apply the standard retrospectively unless impracticable. A Company can choose to apply IFRS 17 before that date, but only if it also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

The adoption of these changes will not affect the amounts and disclosures of the Group's and Company's financial statements.

- *Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28)*

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or Company meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or Company is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The effective date for these changes has now been postponed until the completion of a broader review.

The adoption of these changes will not affect the amounts and disclosures of the Group's and Company's financial statements.

The Group did not early adopt new or amended standards in the year ended 31 December 2020.

4. IMPACT OF COVID-19

The COVID-19 pandemic and its effect on the global economy has impacted our customers, operations and Group performance. The outbreak necessitated governments to respond at unprecedented levels to protect the health of the population, local economies and livelihoods. It has affected different regions at different times and at varying degrees and there remains a risk of subsequent waves of infection.

Thus the pandemic has significantly increased the estimation uncertainty in the preparation of these financial statements including:

- the extent and duration of the disruption to business arising from the actions of governments, businesses and consumers to contain the spread of the virus;
- the extent and duration of the expected economic downturn, and subsequent recovery. This includes the impacts on capital markets and liquidity, credit quality, increasing unemployment, declines in consumer spending, reductions in production, and other restructuring activities; and
- the effectiveness of government and central bank measures to support businesses and consumers through this disruption and economic downturn.

The Group has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2020 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

4. IMPACT OF COVID-19 (Continued)

are also subject to uncertainties which are often outside the control of the Group. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets.

The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant note of these financial statements. Readers should carefully consider these disclosures in light of the inherent uncertainty described above.

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.

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.

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.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Credit-related commitment risks (Continued)

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.

Group

2020:	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL Credit impaired (Stage 3)	Total 31 December
Risk classification	KShs'000	KShs'000	KShs'000	KShs'000
Loans and advances to customers at amortised cost				
Normal (Stage 1)	134,495,641	-	-	134,495,641
Watch (Stage 2)	-	19,650,983	-	19,650,983
Non-performing loans (Stage 3)	-	-	22,785,145	22,785,145
Gross carrying amount	**134,495,641**	**19,650,983**	**22,785,145**	**176,931,769**
Loss allowance	(403,666)	(1,095,529)	(10,655,610)	(12,154,805)
Carrying amount	**134,091,975**	**18,555,454**	**12,129,535**	**164,776,964**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(i) Credit quality analysis – Loans and advances to customers – Continued

2019:	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 31 December
Risk classification	KShs'000	KShs'000	KShs'000	KShs'000
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**

Company

2020:	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 31 December
Risk classification	KShs'000	KShs'000	KShs'000	KShs'000
Loans and advances to customers at amortised cost				
Normal (Stage 1)	123,850,781	-	-	123,850,781
Watch (Stage 2)	-	16,636,736	-	16,636,736
Non-performing loans (Stage 3)	-	-	20,177,531	20,177,531
Gross carrying amount	**123,850,781**	**16,636,736**	**20,177,531**	**160,665,048**
Loss allowance	(382,838)	(1,066,775)	(9,540,371)	(10,989,984)
Carrying amount	**123,467,943**	**15,569,961**	**10,637,160**	**149,675,064**

2019:	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 31 December
Risk classification	KShs'000	KShs'000	KShs'000	KShs'000
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**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(i) Credit quality analysis – Loans and advances to customers – Continued

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

Group:

Loans and advances to customers	**2020 KShs'000**	**2020 KShs'000**
Identified impairment:		
Grade 3: Substandard	3,977,319	2,939,438
Grade 4: Doubtful	15,002,912	15,119,943
Grade 5: Loss	3,804,914	2,616,073
	22,785,145	**20,675,454**
Specific allowances for impairment	(10,655,610)	(9,842,579)
Carrying amount	**12,129,535**	**10,832,875**
Unidentified impairment:		
Grade 2: Watch	19,650,983	17,358,894
Grade 1: Normal	134,495,641	129,281,349
	154,146,624	**146,640,243**
Portfolio allowances for impairment	(1,499,195)	(704,372)
Carrying amount	**152,647,429**	**145,935,871**
Total carrying amount	**164,776,964**	**156,768,746**

Company:	**2020**	**2019**
Loans and advances to customers	**KShs '000**	**KShs '000**
Identified impairment:		
Grade 3: Substandard	3,646,549	2,287,221
Grade 4: Doubtful	14,319,543	14,664,584
Grade 5: Loss	2,211,439	1,847,197
	20,177,531	**18,799,002**
Specific allowance for impairment	(9,540,371)	(8,992,246)
Carrying amount	**10,637,160**	**9,806,756**
Unidentified impairment:		
Grade 2: Watch	16,636,736	15,770,306
Grade 1: Normal	123,850,781	116,658,514
	140,487,517	**132,428,820**
Portfolio impairment provision	(1,449,613)	(692,450)
Carrying amount	**139,037,904**	**131,736,370**
Total carrying amount	**149,675,064**	**141,543,126**

OUR FINANCIALS

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(i) Credit quality analysis – loans and advances to customers – Continued

Group:

Identified impairment:	**Gross KShs'000**	**Net KShs'000**
31 December 2020		
Grade 3: Substandard	3,977,319	2,165,113
Grade 4: Doubtful	15,002,912	8,294,992
Grade 5: Loss	3,804,914	1,669,430
	22,785,145	**12,129,535**
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**
Unidentified impairment:		
31 December 2020		
Grade 1: Normal	134,495,641	134,091,975
Grade 2: Watch	19,650,983	18,555,454
	154,146,624	**152,647,429**
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**

Company:

Identified impairment:	**Gross KShs'000**	**Net KShs'000**
31 December 2020		
Grade 3: Substandard	3,646,549	1,866,523
Grade 4: Doubtful	14,319,543	7,857,971
Grade 5: Loss	2,211,439	912,666
	20,177,531	**10,637,160**
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**
Unidentified impairment:		
31 December 2020		
Grade 1: Normal	123,850,781	123,467,943
Grade 2: Watch	16,636,736	15,569,961
	140,487,517	**139,037,904**
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**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(i) Credit quality analysis – loans and advances to customers – Continued

Impaired loans and securities

Impaired loans and securities are loans for which the Group determines that it is probable that it will be unable to collect all or part principal and interest due according to the contractual terms of the loan agreement(s). These loans are graded 3 (Substandard) to 5 (Loss) in the Group's internal credit risk and grading system.

Neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed with reference to the Group's internal rating system. All such loans must be performing in accordance with the contractual terms and are expected to continue doing so. Loans in this category are fully protected by their current sound net worth and paying capacity of the borrower. These loans and advances are categorised as normal in line with CBK prudential guidelines.

Past due but not impaired loans

These are loans where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group. These loans are stage 2 (Watch) in the Group's internal credit risk and grading system.

(ii) Credit quality analysis – trade receivables

The Group's exposure to trade receivables credit risk is influenced mainly by the individual characteristics of each customer. The Group uses an allowance matrix, using the simplified approach, to measure the lifetime ECLs of trade receivables 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.

2020:	Gross KShs'000	Impairment KShs'000	Net KShs'000	Credit impaired
Current	27,542	1,776	25,766	No
Past due:				
30-90 days	11,055	908	10,147	No
91-180 days	23,633	5,639	17,994	Yes
180-360 days	26,134	7,845	18,289	Yes
Over 360 days	7,457	7,457	-	Yes
	95,821	**23,625**	**72,196**	

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(i) Credit quality analysis – trade receivables – Continued

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**	

Impairment loss movement on trade receivables

	2020 KShs'000	2019 KShs'000
At 1 January	20,309	18,474
Charge for the year	3,316	1,835
At 31 December	**23,625**	**20,309**

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 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(i) Credit quality analysis – other assets

The Group has estimated that the ECL for the following financial assets is not material as at 31 December 2020. 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	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Balances with central banks (Note 18)	12,707,755	10,279,604	11,212,300	9,200,353
Items in the course of collection (Note 19)	622,994	536,459	619,833	530,507
Loans and advances to banks (Note 20)	14,109,377	40,573,680	13,504,068	40,573,680
Financial assets at fair value through other comprehensive income (FVOCI) - Debt instruments (Note 22)	41,464,529	15,421,415	41,878,761	15,671,495
Other financial assets at amortised cost; Government securities (Note 22)	41,593,094	23,573,966	36,732,012	18,925,430
Due from group companies (Note 28)	806,335	832,885	1,024,802	1,200,414
	111,304,084	**91,218,009**	**104,971,776**	**86,101,879**

(iii) 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 2020 or 2019.

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

Loans and advances to customers

	2020 KShs'000	2019 KShs'000
Group		
Fair value of collateral held – against impaired loans	**12,129,535**	**10,832,875**
Company		
Fair value of collateral held - against impaired loans	**10,637,160**	**9,806,756**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) 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).

COVID-19 considerations for the year ended 31 December 2020
In response to the impacts of COVID-19, various packages, such as repayment deferrals, have been offered to eligible retail and commercial customers in Kenya and Tanzania. The Group does not consider that when a customer is first provided assistance, all other things being equal, that there has been a significant increase in credit risk (SICR) and a consequent impact on ECL when assessing provisions. Subsequent to take-up, customers have been contacted to discuss available options once the packages reach their end date. This additional information on the customer's financial position and ability to recommence their loan repayments is used to assist in classification of customers into risk categories. Customers in higher risk categories, and those who have requested a deferral extension, have been classified as having a SICR.

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 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) 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.

COVID-19 considerations for the year ended 31 December 2020
The key consideration for probability weightings in the current period is the continuing impact of COVID-19.

The Group considers these weightings in each geography to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Group's credit portfolios in determining them.

In addition to the base case forecast which reflects the negative economic consequences of COVID-19, greater weighting has been applied to the downside scenario given the Group's assessment of downside risks.

The assigned probability weightings in Kenya, Tanzania and Rest of world are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

Modified financial assets
The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(f)(v).

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Amounts arising from ECL – Continued

Modified financial assets – Continued

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms;
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

COVID-19 considerations for the year ended 31 December 2020
During the year, the Group has offered various forms of assistance to customers to counteract the impact of COVID-19 on the ability of customers to meet their loan obligations. The assistance provided has included arrangements such as temporary deferral of principal and interest repayments, replacing principal and interest with interest only repayments, and extension of loan maturity dates. Refer to Key Judgements and Estimates in this Note for details of the impact of deferrals when determining if there has been a Significant Increase in Credit Risk (SICR).

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT ((Continued)

(a) Credit risk (Continued)

(iii) Amounts arising from ECL – Continued

Modified financial assets – Continued

COVID-19 considerations for the year ended 31 December 2020 (Continued)

The loan repayment deferral package is considered to be a loan modification under IFRS 9. This either results in the loan being derecognised and replaced with a new loan (substantial modification) or the existing loan continuing to be recognised (non-substantial modification). The table below shows the outstanding balance as at 31 December 2020 of all loans that have been modified (both substantial and non-substantial modifications):

	Group KShs'000	Company KShs'000
Assistance package category		
Loan deferral package		
Corporate & Institutional Banking	8,130,304	2,957,986
Business Banking	408,290	408,290
Premium Banking	100,164	100,164
Personal Banking	129,141	-
Interest only		
Corporate Institutional Banking	579,944	-
Business Banking	213,475	213,475
Premium Banking	-	-
Personal Banking	16,345	-
Term extensions		
Corporate Institutional Banking	12,109,924	12,109,924
Business Banking	4,156,435	4,156,435
Premium Banking	1,175,221	1,175,221
Personal Banking	199,624	199,624
Total		
Corporate Institutional Banking	**20,820,172**	**15,067,910**
Business Banking	**4,778,200**	**4,778,200**
Premium Banking	**1,275,385**	**1,275,385**
Personal Banking	**345,110**	**199,624**
	27,218,867	**21,321,119**

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one for either credit or commercial reasons, an assessment is made to determine if the changes to the terms of the existing financial asset are considered substantial. This assessment considers both changes in cash flows arising from the modified terms as well as changes in the overall instrument risk profile; for example, changes in the principal (credit limit), term, or type of underlying collateral. Where a modification is considered non-substantial, the existing financial asset is not derecognised and its date of origination continues to be used to determine SICR. Where a modification is considered substantial, the existing financial asset is derecognised and a new financial asset is recognised at its fair value on the modification date, which also becomes the date of origination used to determine SICR for this new asset.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Amounts arising from ECL – Continued

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. 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.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Amounts arising from ECL – Continued

Incorporation of forward-looking information – Continued

In determining the likelihood of each of the macroeconomic scenarios based on sectors, a weighting of 75% (base case), 16.67% (upside case) and 8.33% (downside case) was applied for Kenya.

COVID-19 considerations for the year ended 31 December 2020

There have been no changes to the types of forward-looking variables (key economic drivers) used as model inputs in the current year.

As at 31 December 2020, the base case assumptions have been updated to reflect the rapidly evolving situation with respect to COVID-19. This includes an assessment of the impact of central bank policies, governments' actions, the response of business, and institution specific responses (such as repayment deferrals). These are considered in determining the length and severity of the forecast economic downturn. The expected outcomes of key economic drivers for the base case scenario as at 31 December 2020 are described below.

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument.

The economic scenarios used as at 31 December 2020 included the following ranges of key indicators based on sectors;

Kenya				
Manufacturing		Weighting		
	Coefficients	Base	Upside	Downside
		75%	**16.67%**	**8.33%**
Reverse repo	(0.4729)	7.36%	10.77%	3.96%
Public debt to GDP	3.4272	63.00%	60.51%	65.49%
Constant	(1.806)	-	-	-

Energy & Water		Weighting		
	Coefficients	Base	Upside	Downside
		75%	**16.67%**	**8.33%**
Interbank lending rate	1.63625	4.17%	2.94%	5.39%
Constant	(0.0578)	-	-	-

Transport & Communication		Weighting		
	Coefficients	Base	Upside	Downside
		75%	**16.67%**	**8.33%**
Public debt to GDP	1.05427	63.00%	60.45%	65.55%
Constant	(0.51345)	-	-	-

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Amounts arising from ECL – Continued

Incorporation of forward-looking information – Continued

Real Estate		Weighting		
	Coefficients	Base	Upside	Downside
		75%	**16.67%**	**8.33%**
Reverse repo	(0.5156)	7.36%	10.77%	3.96%
Public debt to GDP	1.2594	63.00%	60.45%	65.55%
Constant	(0.5943)	-	-	-

Financial Services		Weighting		
	Coefficients	Base	Upside	Downside
		75%	**16.67%**	**8.33%**
91 Day T-Bills	0.9852	6.69%	6.54%	6.85%
Central bank rate	0.4575	6.83%	6.49%	7.18%
Constant	(0.0928)	-	-	-

Kenya				
Personal & Household		Weighting		
	Coefficients	Base	Upside	Downside
		75%	**16.67%**	**8.33%**
Reverse repo	(0.37587)	5.56%	8.97%	2.16%
Public debt to GDP	0.65554	62.30%	59.75%	64.85%
Constant	(0.23495)	-	-	-

Some sectors did not have correlations with macro-economic factors. These include: agriculture, building and construction, mining and quarrying, trade, tourism restaurant and hotels. In view of this, management judgements were applied by taking an average of the percentage macro-adjustments from the sectors above was applied for purposes of ECL calculation.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have been considered, but are not deemed to have a material impact on therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Amounts arising from ECL – Continued

Incorporation of forward-looking information – Continued

In determining the likelihood of each of the macroeconomic scenarios based on sectors, a weighting of 50% (base case), 25% (upside case) and 25% (downside case) was applied for Tanzania.

Tanzania				
Manufacturing		Weighting		
	Coefficients	Base	Upside	Downside
		50%	**25%**	**25%**
Saving	(11.2844)	2.00%	2.05%	1.95%
Interbank lending rate	2.521	16.04%	14.55%	17.53%
Constant	(0.0237)	-	-	-
Building & construction		Weighting		
	Coefficients	Base	Upside	Downside
		50%	**25%**	**25%**
Saving	(27.046)	2.06%	2.10%	2.01%
Constant	1.225	-	-	-
Trade		Weighting		
	Coefficients	Base	Upside	Downside
		50%	**25%**	**25%**
Saving	(4.9441)	2.00%	2.05%	1.95%
Constant	0.22201	-	-	-

Tanzania				
Real Estate		Weighting		
	Coefficients	Base	Upside	Downside
		50%	**25%**	**25%**
Saving	(18.3186)	2.17%	2.21%	2.12%
Constant	0.61336	-	-	-
Personal & Household				Weighting
	Coefficients	Base	Upside	Downside
		50%	**25%**	**25%**
Repo	1.3433	2.75%	2.75%	2.75%
Reverse repo	1.0319	5.19%	4.17%	6.20%
Central Bank Rate	1.3779	7.67%	4.68%	10.65%
Deposit	1.4934	5.94%	5.75%	6.12%
Constant	(0.1677)	-	-	-

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Amounts arising from ECL – Continued

Incorporation of forward-looking information – Continued

Some sectors did not have an intuitive relationship with macro-economic factors and had weak correlations. These include: housing, transport and communication, mining and quarrying, other services, tourism, agriculture, education and hotels and restaurants. For these sectors, an average adjustment of sectors with intuitive relationship with macroeconomic factors and CC above 40% was used to adjust Historical PDs.

Other Sectors had no historical default rates and historical PDs were noted as 0%. This included Education, Agriculture (Stage 2) and tourism restaurant and hotels (Stage 2). In view of this, management judgements were applied by taking a minimum PD of 0.05% for purposes of ECL calculation.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for loans and advances to banks and investment securities.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based mainly on the counterparties' collateral and also on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Amounts arising from ECL – Continued

Measurement of ECL – Continued

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- segment type;
- credit risk grading; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

ECL - Sensitivity analysis

The uncertainty of the impact of COVID-19 introduces significant estimation uncertainty in relation to the measurement of the Group's allowance for expected credit losses. The rapidly evolving consequences of COVID-19 and government, business and consumer responses could result in significant adjustments to the allowance in future financial years.

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Group should be considered as a best estimate within a range of possible estimates.

The table below illustrates the sensitivity of collectively assessed ECL to key factors used in determining it as at 31 December 2020:

Group	ECL KShs'000	Impact KShs'000
If 1% of stage 1 facilities were included in Stage 2	1,754,918	94,398
If 1% of stage 2 facilities were included in Stage 1	1,649,438	(11,082)
100% upside scenario	1,184,200	(502,446)
100% base scenario	1,683,016	22,496
100% downside scenario	2,154,016	493,497

Company	ECL KShs'000	Impact KShs'000
If 1% of stage 1 facilities were included in Stage 2	1,685,636	93,074
If 1% of stage 2 facilities were included in Stage 1	1,581,703	(10,860)
100% upside scenario	1,103,180	(489,382)
100% base scenario	1,612,989	20,426
100% downside scenario	2,096,149	503,587

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 3(f)(iii).

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) 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)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Balance at 1 January 2020	**212,301**	**492,071**	**9,842,579**	**10,546,951**	**129,281,349**	**17,358,894**	**20,675,454**	**167,315,697**
Transfer from 12 months ECL (Stage 1)	(10,196)	8,881	1,315	-	(9,071,705)	8,179,883	891,822	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	104,644	(276,908)	172,264	-	4,744,919	(7,793,254)	3,048,335	-
Transfer from Lifetime ECL credit impaired (Stage 3)	-	1,222,344	(1,222,344)	-	18,578	2,837,294	(2,855,872)	-
Net remeasurement of loss allowance	30,800	(353,448)	2,132,827	**1,810,179**	7,920,384	(697,747)	1,522,136	**8,744,773**
New financial assets originated or purchased	83,541	16,818	19,802	**120,161**	14,178,347	248,959	20,060	**14,447,366**
Financial assets derecognised	(18,210)	(15,164)	(33,231)	**(66,605)**	(13,435,834)	(591,227)	(286,300)	**(14,313,361)**
Write off	-	-	(323,009)	**(323,009)**	-	-	(358,276)	**(358,276)**
Translation difference	786	935	65,407	**67,128**	859,603	108,181	127,786	**1,095,570**
Balance at 31 December 2020	**403,666**	**1,095,529**	**10,655,610**	**12,154,805**	**134,495,641**	**19,650,983**	**22,785,145**	**176,931,769**

Notes to the Consolidated and Separate Financial Statements
For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Amounts arising from ECL – Continued

Loans and advances to customers at amortised cost – Continued

Group	Provisions (ECL allowance)				Exposure (Gross balance)			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired		12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
	(Stage 1)	(Stage 2)	(Stage 3)	Total	Total	(Stage 2)	(Stage 3)	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	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**

Notes to the Consolidated and Separate Financial Statements
For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Amounts arising from ECL – Continued

Loans and advances to customers at amortised cost – Continued

Company	Provisions (ECL allowance)				Exposure (Gross balance)			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired		12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
	(Stage 1)	(Stage 2)	(Stage 3)	Total	(Stage 1)	(Stage 2)	(Stage 3)	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Balance at 1 January 2020	**208,208**	**484,242**	**8,992,246**	**9,684,696**	**116,658,514**	**15,770,306**	**18,799,002**	**151,227,822**
Transfer from 12 months ECL (Stage 1)	(9,894)	8,589	1,305	-	(7,348,809)	6,641,679	707,130	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	103,506	(275,760)	172,254	-	4,557,199	(7,349,320)	2,792,121	-
Transfer from Lifetime ECL credit impaired (Stage 3)	-	1,213,665	(1,213,665)	-	18,578	2,813,105	(2,831,683)	-
Net remeasurement of loss allowance	15,912	(365,669)	1,905,483	**1,555,726**	8,430,954	(903,356)	1,305,653	**8,833,251**
New financial assets originated or purchased	83,045	16,818	19,392	**119,255**	13,751,629	248,959	19,637	**14,020,225**
Financial assets derecognised	(17,939)	(15,110)	(13,635)	**(46,684)**	(12,217,284)	(584,637)	(256,053)	**(13,057,974)**
Write off	-	-	(323,009)	**(323,009)**	-	-	(358,276)	**(358,276)**
Balance at 31 December 2020	**382,838**	**1,066,775**	**9,540,371**	**10,989,984**	**123,850,781**	**16,636,736**	**20,177,531**	**160,665,048**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Amounts arising from ECL – Continued

Loans and advances to customers at amortised cost – Continued

Company	Provisions (ECL allowance)				Exposure (Gross balance)			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired		12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
	(Stage 1)	(Stage 2)	(Stage 3)	Total	(Stage 1)	(Stage 2)	(Stage 3)	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	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)**
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 2020

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(iii) Amounts arising from ECL – Continued

Loan commitments and financial guarantee contracts

Group	Provisions (ECL allowance)				Exposure (Gross balance)			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired		12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
	(Stage 1)	(Stage 2)	(Stage 3)	Total	(Stage 1)	(Stage 2)	(Stage 3)	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Balance at 1 January 2020	**70,332**	**49,151**	**45,099**	**164,582**	**52,755,853**	**4,674,791**	**449,331**	**57,879,975**
Transfer from 12 months ECL (Stage 1)	(1,173)	1,171	2	-	(458,115)	453,687	4,428	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	4,911	(6,307)	1,396	-	236,830	(933,086)	696,256	-
Transfer from Lifetime ECL credit impaired (Stage 3)	-	-	-	-	-	-	-	-
Net remeasurement of loss allowance	35,084	6,294	(30,052)	**11,326**	20,439,844	(1,428,321)	(524,301)	**18,487,222**
New financial assets originated or purchased	10,474	3,394	8,524	**22,392**	8,535,837	452,283	103,734	**9,091,854**
Financial assets derecognised	(12,512)	(161)	-	**(12,673)**	(5,827,442)	(14,507)	-	**(5,841,949)**
Translation difference	550	115	-	**665**	178,978	107,591	-	**286,569**
Balance at 31 December 2020	**107,666**	**53,657**	**24,969**	**186,292**	**75,861,785**	**3,312,438**	**729,448**	**79,903,671**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Amounts arising from ECL – Continued

Loan commitments and financial guarantee contracts – Continued

Group	Provisions (ECL allowance)				Exposure (Gross balance)			
	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	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 2020

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(iii) Amounts arising from ECL – Continued

Loan commitments and financial guarantee contracts – Continued

Company	Provisions (ECL allowance)				Exposure (Gross balance)			
	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Balance at 1 January 2020	**69,275**	**48,090**	**45,099**	**162,464**	**50,127,662**	**3,094,867**	**449,331**	**53,671,860**
Transfer from 12 months ECL (Stage 1)	(1,173)	1,171	2	**-**	(433,930)	429,502	4,428	**-**
Transfer from Lifetime ECL not credit impaired (Stage 2)	4,911	(6,307)	1,396	**-**	236,830	(933,086)	696,256	**-**
Transfer from Lifetime ECL credit impaired (Stage 3)	-	-	-	**-**	-	-	-	**-**
Net remeasurement of loss allowance	20,725	7,379	(30,054)	**(1,950)**	16,139,406	367,102	(524,301)	**15,982,207**
New financial assets originated or purchased	10,281	1,016	8,524	**19,821**	7,232,334	317,000	103,734	**7,653,068**
Financial assets derecognised	(12,264)	(154)	-	**(12,418)**	(4,740,613)	(13,983)	-	**(4,754,596)**
Balance at 31 December 2020	**91,755**	**51,195**	**24,967**	**167,917**	**68,561,689**	**3,261,402**	**729,448**	**72,552,539**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) 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**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

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 33 and Note 34.

The liquidity ratios at the reporting date and during the reporting period (based on month end ratios) were as follows:

	Kenya		Tanzania	
	2020	2019	2020	2019
At 31 December	50%	47%	29%	27%
Average for the period	48%	47%	25%	29%
Highest for the period	50%	49%	29%	32%
Lowest for the period	46%	44%	23%	26%

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2020 and 2019. The amounts are gross and undiscounted.

Group **31 December 2020**	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
LIABILITIES						
Deposits from banks	360,007	333,828	671,874	-	-	**1,365,709**
Deposits from customers	64,740,030	106,196,484	65,293,925	2,680,052	-	**238,910,491**
Due to group companies	1,382,203	-	-	-	-	**1,382,203**
Other liabilities	611,646	3,283,347	167,054	-	-	**4,062,047**
Long term debt	-	-	1,958,233	4,837,478	-	**6,795,711**
Subordinated debt	-	65,412	349,746	3,676,529	-	**4,091,687**
Contractual off-balance sheet financial liabilities	-	-	87,313,036	-	-	**87,313,036**
Capital commitments	-	-	3,125,034	-	-	**3,125,034**
Lease liabilities	42,082	125,526	270,067	1,598,922	395,303	**2,431,900**
At 31 December 2020	**67,135,968**	**110,004,597**	**159,148,969**	**12,792,981**	**395,303**	**349,477,818**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (Continued)

Group 31 December 2019	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
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**
Leases	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**

Company 31 December 2020	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
LIABILITIES						
Deposits from banks	360,007	10,927	671,874	-	-	**1,042,808**
Deposits from customers	60,871,305	101,914,005	58,380,897	10,623	-	**221,176,830**
Due to group companies	1,217,224	-	-	-	-	**1,217,224**
Other liabilities	412,416	3,168,605	-	-	-	**3,581,021**
Long term debt	-	-	1,958,233	2,726,100	-	**4,684,333**
Subordinated debt	-	65,362	-	3,676,529	-	**3,741,891**
Contractual off-balance sheet financial liabilities	-	-	79,961,904	-	-	**79,961,904**
Capital commitments	-	-	2,547,000	-	-	**2,547,000**
Lease liabilities	42,082	125,526	270,067	1,598,922	395,303	**2,431,900**
At 31 December 2020	**62,903,034**	**105,284,425**	**143,789,975**	**8,012,174**	**395,303**	**320,384,911**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

Company 31 December 2019	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
LIABILITIES						
Deposits from banks	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**
Leases	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**

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 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk – Continued

Group 31 December 2020	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	-	-	-	-	-	16,061,058	**16,061,058**
Items in the course of collection	-	-	-	-	-	622,994	**622,994**
Loans and advances to banks	10,953,184	3,156,193	-	-	-	-	**14,109,377**
Loans and advances to customers	149,203,201	2,282,120	2,862,729	3,151,558	7,277,356	-	**164,776,964**
Financial assets at fair value through profit or loss (FVTPL)	-	1,881,721	3,873,554	28,233	6,014,926	-	**11,798,434**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	1,964,254	13,198,009	4,797,177	21,457,352	47,737	**41,464,529**
Other financial assets at amortised cost	85,682	7,010,983	18,687,458	12,142,821	3,738,346	-	**41,665,290**
Due from group companies	-	-	-	-	-	806,335	**806,335**
Other assets	-	-	-	-	-	1,628,272	**1,628,272**
At 31 December 2020	**160,242,067**	**16,295,271**	**38,621,750**	**20,119,789**	**38,487,980**	**19,166,396**	**292,933,253**
LIABILITIES							
Deposits from banks	303,823	330,765	645,645	-	-	-	**1,280,233**
Deposits from customers	61,339,796	104,989,109	63,469,186	2,355,054	-	3,153,013	**235,306,158**
Due to group companies	-	-	-	-	-	951,315	**951,315**
Other liabilities	-	67,746	167,054	-	-	3,827,246	**4,062,046**
Long term debt	-	-	1,893,156	4,088,698	-	-	**5,981,854**
Subordinated debt	-	64,176	329,250	2,986,621	-	-	**3,380,047**
At 31 December 2020	**61,643,619**	**105,451,796**	**66,504,291**	**9,430,373**	**-**	**7,931,574**	**250,961,653**
Interest rate gap	**98,598,448**	**(89,156,525)**	**(27,882,541)**	**10,689,416**	**38,487,980**	**11,234,822**	**41,971,600**

Notes to the Consolidated and Separate Financial Statements
For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (Continued)

Exposure to interest rate risk – Continued

Group 31 December 2019	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS							
Cash and balances with central banks	-	-	-	-	-	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	-	-	-	-	-	1,487,990	**1,487,990**
At 31 December 2019	**174,531,176**	**22,507,112**	**21,415,682**	**11,309,288**	**20,283,047**	**14,964,189**	**265,010,494**
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**	**7,883,219**	**40,240,988**

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 2020

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 2020	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	-	-	-	-	-	-	13,745,687	**13,745,687**
Items in the course of collection	-	-	-	-	-	-	619,833	**619,833**
Loans and advances to banks	1.1%	10,964,469	2,539,599	-	-	-	-	**13,504,068**
Loans and advances to customers	11.4%	147,639,914	2,035,150	-	-	-	-	**149,675,064**
Financial assets at fair value through profit or loss (FVTPL)	-	-	1,881,721	3,873,554	28,233	6,014,926	-	**11,798,434**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	2,426,223	13,198,009	4,797,177	21,457,352	-	**41,878,761**
Other financial assets at amortised cost		-	6,416,003	17,444,329	10,264,197	2,607,483	-	**36,732,012**
Due from group companies	-	-	-	-	-	-	1,024,802	**1,024,802**
Other assets	-	-	-	-	-	-	1,466,061	**1,466,061**
At 31 December 2020		**158,604,383**	**15,298,696**	**34,515,892**	**15,089,607**	**30,079,761**	**16,856,383**	**270,444,722**
LIABILITIES								
Deposits from banks	5.9%	358,067	10,752	645,645	-	-	-	**1,014,464**
Deposits from customers	4.6%	60,638,856	100,755,319	56,749,353	9,335	-	-	**218,152,863**
Due to group companies	-	-	-	-	-	-	1,212,576	**1,212,576**
Other liabilities	-	-	-	-	-	-	3,581,021	**3,581,021**
Long term debt	-	-	-	1,893,156	2,340,000	-	-	**4,233,156**
Subordinated debt	12.5%	-	64,127	-	2,986,620	-	-	**3,050,747**
At 31 December 2020		**60,996,923**	**100,830,198**	**59,288,154**	**5,335,955**	**-**	**4,793,597**	**231,244,827**
Interest rate gap		**97,607,460**	**(85,531,502)**	**(24,772,262)**	**9,753,652**	**30,079,761**	**12,062,786**	**39,199,895**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk – Continued

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	-	-	-	-	-	-	1,257,421	**1,257,421**
At 31 December 2019		**172,863,742**	**18,757,755**	**15,939,036**	**5,586,246**	**17,264,669**	**13,690,188**	**244,101,636**
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**	**9,085,588**	**37,710,012**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

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 2020	Profit or loss	Equity net of tax
200 basis points	Increase/decrease in basis points (KShs'000)	Increase/decrease in basis points (KShs'000)
Assets	5,475,337	3,832,736
Liabilities	(4,860,602)	(3,402,421)
Net position	**614,735**	**430,315**
31 December 2019	Profit or loss	Equity net of tax
Assets	5,000,926	3,500,648
Liabilities	(4,353,771)	(3,047,640)
Net position	**647,155**	**453,008**

Company		
31 December 2020	Profit or loss	Equity net of tax
200 basis points	Increase/decrease in basis points (KShs'000)	Increase/decrease in basis points (KShs'000)
Assets	5,071,767	3,550,237
Liabilities	(4,529,025)	(3,170,318)
Net position	**542,742**	**379,919**
31 December 2019	Profit or loss	Equity net of tax
Assets	4,608,229	3,225,760
Liabilities	(4,035,740)	(2,825,018)
Net position	**572,489**	**400,742**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

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 2020 and 31 December 2019.

Group

At 31 December 2020	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with central banks	6,278,709	5,645,039	1,271,696	371,414	**13,566,858**
Items in the course of collection	31,236	-	1,341	-	**32,577**
Loans and advances to banks	2,964,368	74,547	67,116	-	**3,106,031**
Loans and advances to customers	61,016,604	3,630,886	4,183,707	13,323	**68,844,520**
Other financial assets at amortised cost	2,227,615	-	-	-	**2,227,615**
Due from group companies	123,742	-	-	2,336	**126,078**
Other assets	10,077	-	-	-	**10,077**
At 31 December 2020	**72,652,351**	**9,350,472**	**5,523,860**	**387,073**	**87,913,756**
LIABILITIES					
Deposits from banks	504,927	62,525	30,645	7,369	**605,466**
Deposits from customers	64,565,610	9,823,772	2,504,460	303,743	**77,197,585**
Other liabilities	596,032	17,744	25,126	45,752	**684,654**
Long-term debt	5,878,156	-	103,698	-	**5,981,854**
Subordinated debt	3,380,047	-	-	-	**3,380,047**
At 31 December 2020	**74,924,772**	**9,904,041**	**2,663,929**	**356,864**	**87,849,606**
Net on statement of financial position	**(2,272,421)**	**(553,569)**	**2,859,931**	**30,209**	**64,150**
Net notional off balance sheet position	**1,628,594**	**552,608**	**(2,835,032)**	**(10,332)**	**(664,162)**
Overall net position – 2020	**(643,827)**	**(961)**	**24,899**	**19,877**	**(600,012)**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk – Continued

Group – Continued

At 31 December 2019	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with central banks	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 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk – Continued

Company

At 31 December 2020	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with Central Bank of Kenya	6,105,896	5,523,005	1,222,625	345,125	**13,196,651**
Items in the course of collection	31,626	-	1,341	-	**32,967**
Loans and advances to banks	2,448,177	74,547	67,116	-	**2,589,840**
Loans and advances to customers	50,381,512	3,630,886	4,183,707	13,323	**58,209,428**
Other financial assets at amortised cost	2,227,615	-	-	-	**2,227,615**
Due from group companies	123,742	-	-	2,336	**126,078**
Other assets	7,834	-	-	-	**7,834**
At 31 December 2020	**61,326,402**	**9,228,438**	**5,474,789**	**360,784**	**76,390,413**
LIABILITIES					
Deposits from banks	504,927	62,525	30,645	7,369	**605,466**
Deposits from customers	55,827,841	9,702,311	2,460,235	303,743	**68,294,130**
Other liabilities	53,460	16,105	21,708	27,780	**119,053**
Long-term debt	4,129,458	-	103,698	-	**4,233,156**
Subordinated debt	3,050,747	-	-	-	**3,050,747**
At 31 December 2020	**63,566,433**	**9,780,941**	**2,616,286**	**338,892**	**76,302,552**
Net on statement of financial position	**(2,240,031)**	**(552,503)**	**2,858,503**	**21,892**	**87,861**
Net notional off balance sheet position	**1,628,594**	**552,608**	**(2,835,032)**	**(10,332)**	**(664,162)**
Overall net position – 2020	**(611,437)**	**105**	**23,471**	**11,560**	**(576,301)**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk – Continued

Company – Continued

At 31 December 2019	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with Central 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 2020

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 2020	Profit or loss strengthening/ weakening of currency KShs'000	Equity net of tax strengthening/ weakening of currency KShs'000
USD (± 2.5% movement)	(16,096)	(11,267)
GBP (± 2.5% movement)	(24)	(17)
EUR (± 2.5% movement)	622	436

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

Company:

At 31 December 2020	Profit or loss strengthening/ weakening of currency KShs'000	Equity net of tax strengthening/ weakening of currency KShs'000
USD (± 2.5% movement)	(15,286)	(10,700)
GBP (± 2.5% movement)	3	2
EUR (± 2.5% movement)	587	411

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

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

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 2020

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:		**2020 KShs'000**	**2019 KShs'000**
Core capital (Tier 1)			
Share capital		2,980,000	2,980,000
Share premium		5,531,267	5,531,267
Retained earnings		36,447,470	32,086,451
		44,958,737	**40,597,718**
Less: Goodwill		-	-
Investment in subsidiary		(2,750,653)	(2,750,653)
Total Core capital		**42,208,084**	**37,847,065**
Supplementary capital (Tier 2)			
Term subordinated debt		2,546,106	2,830,389
Statutory loan loss reserve		4,580,387	4,598,169
		7,126,493	**7,428,558**
Total capital		**49,334,577**	**45,275,623**
Risk weighted assets			
Credit risk weighted assets		181,977,999	174,882,505
Market risk weighted assets		12,306,196	4,460,142
Operational risk weighted assets		29,691,747	30,638,806
Total risk weighted assets		**223,975,941**	**209,981,453**
Deposits from customers		**219,831,712**	**196,165,364**
Capital ratios	Minimum*		
Core capital/Total deposit liabilities	**8.0%**	**19.20%**	**19.29%**
Core capital/Total risk weighted assets	**10.5%**	**18.84%**	**18.02%**
Total capital/Total risk weighted assets	**14.5%**	**22.03%**	**21.56%**

*** As defined by the Central Bank of Kenya**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

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.

		2020 TZS'000	2019 TZS'000
Total risk weighted assets		398,392,315	410,512,636
Capital ratios	Minimum*		
Core capital/Total risk weighted assets	10.0%	13.80%	15.76%
Total capital/Total risk weighted assets	12.0%	18.94%	18.70%

*** As defined by the Bank of Tanzania**

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.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

6. USE OF ESTIMATES AND JUDGEMENT (Continued)

(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) 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.

(d) 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.

7. FAIR VALUE HEIRARCHY

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.

Notes to the Consolidated and Separate Financial Statements
For the Year Ended 31 December 2020

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

Accounting classifications at carrying amounts and fair values

Group	Carrying amounts					Fair value			
31 December 2020	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	16,061,058	-	-	-	**16,061,058**	-	-	-	-
Items in the course of collection	622,994	-	-	-	**622,994**	-	-	-	-
Loans and advances to banks	14,109,377	-	-	-	**14,109,377**	-	-	-	-
Loans and advances to customers	164,776,964	-	-	-	**164,776,964**	-	-	-	-
Financial assets at fair value through profit or loss (FVTPL)	-	-	11,798,434	-	**11,798,434**	11,798,434	-	-	**11,798,434**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	41,464,529	-	-	**41,464,529**	36,606,922	4,857,607	-	**41,464,529**
Other financial assets at amortised cost	41,665,290	-	-	-	**41,665,290**	41,665,290	-	-	**41,665,290**
Due from group companies	806,335	-	-	-	**806,335**	-	-	-	-
Other assets	1,628,272	-	-	-	**1,628,272**	-	-	-	-
	239,670,290	**41,464,529**	**11,798,434**	**-**	**292,933,253**	**90,070,646**	**4,857,607**	**-**	**94,928,253**
Financial liabilities									
Deposits from banks	-	-	-	1,280,233	**1,280,233**	-	-	-	-
Deposits from customers	-	-	-	235,306,158	**235,306,158**	-	-	-	-
Due to group companies	-	-	-	951,315	**951,315**	-	-	-	-
Long term borrowings	-	-	-	5,981,854	**5,981,854**	-	-	-	-
Subordinated debt	-	-	-	3,380,047	**3,380,047**	-	-	-	-
Other liabilities	-	-	-	4,062,046	**4,062,046**	-	-	-	-
	-	**-**	**-**	**250,961,653**	**250,961,653**	**-**	**-**	**-**	**-**

Notes to the Consolidated and Separate Financial Statements
For the Year Ended 31 December 2020

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

Accounting classifications at carrying amounts and fair values (Continued)

Group	Carrying amounts					Fair value			
31 December 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**	-	-	-	-
Items in the course of collection	536,459	-	-	-	**536,459**	-	-	-	-
Loans and advances to banks	40,573,680	-	-	-	**40,573,680**	-	-	-	-
Loans and advances to customers	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**	-	-	-	-
Other assets	1,487,990	-	-	-	**1,487,990**	-	-	-	-
	235,891,362	**15,421,415**	**13,697,717**	**-**	**265,010,494**	**48,220,356**	**4,691,687**	**-**	**52,912,043**
Financial liabilities									
Deposits from banks	-	-	-	2,437,283	**2,437,283**	-	-	-	-
Deposits from customers	-	-	-	209,025,201	**209,025,201**	-	-	-	-
Due to group companies	-	-	-	993,874	**993,874**	-	-	-	-
Long term borrowings	-	-	-	4,770,428	**4,770,428**	-	-	-	-
Subordinated debt	-	-	-	3,645,247	**3,645,247**	-	-	-	-
Other liabilities	-	-	-	3,897,473	**3,897,473**	-	-	-	-
	-	**-**	**-**	**224,769,506**	**224,769,506**	**-**	**-**	**-**	**-**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

7. FAIR VALUE HEIRARCHY 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 2020

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

Accounting classifications at carrying amounts and fair values (Continued)

Company	Carrying amounts					Fair value			
31 December 2020	Financial assets at amortised cost	Financial assets at FVOCI	Financial assets at FVTPL	Other financial liabilities at amortised cost	Total	Level 1	Level 2	Level 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Financial assets									
Balances with Central Bank of Kenya	13,745,687	-	-	-	**13,745,687**	-	-	-	-
Items in the course of collection	619,833	-	-	-	**619,833**	-	-	-	-
Financial assets at fair value through profit or loss (FVTPL)	-	-	11,798,434	-	**11,798,434**	11,798,434	-	-	**11,798,434**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	41,878,761	-	-	**41,878,761**	36,606,922	401,120	4,870,719	**41,878,761**
Other financial assets at amortised cost	36,732,012	-	-	-	**36,732,012**	36,732,012	-	-	**36,732,012**
Loans and advances to banks	13,504,068	-	-	-	**13,504,068**	-	-	-	-
Loans and advances to customers	149,675,064	-	-	-	**149,675,064**	-	-	-	-
Due from group companies	1,024,802	-	-	-	**1,024,802**	-	-	-	-
Other assets	-	1,466,061	-	-	**1,466,061**	-		-	-
	215,301,466	**43,344,822**	**11,798,434**	-	**270,444,722**	**85,137,368**	**401,120**	**4,870,719**	**90,409,207**
Financial liabilities									
Deposits from banks	-	-	-	1,014,464	**1,014,464**	-	-	-	-
Deposits from customers	-	-	-	218,152,863	**218,152,863**	-	-	-	-
Due to group companies	-	-	-	1,212,576	**1,212,576**	-	-	-	-
Long term borrowings	-	-	-	4,233,156	**4,233,156**	-	-	-	-
Subordinated debt	-	-	-	3,050,747	**3,050,747**	-	-	-	-
Other liabilities	-	-	-	3,581,021	**3,581,021**	-	-	-	-
	-	**-**	**-**	**231,244,827**	**231,244,827**	**-**	**-**	**-**	**-**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

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

Accounting classifications at carrying amounts and fair values (Continued)

Company

	Carrying amounts					Fair value			
	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
31 December 2019									
Financial assets									
Balances with Central Bank of Kenya	10,701,846	-	-	-	10,701,846	-	-	-	-
Items in the course of collection	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	-	-	-	-
Loans and advances to customers	141,543,126	-	-	-	141,543,126	-	-	-	-
Due from group companies	1,200,414	-	-	-	1,200,414	-	-	-	-
Other assets	-	1,257,421	-	-	1,257,421	-	-	-	-
	213,475,003	**16,928,916**	**13,697,717**	-	**244,101,636**	**43,516,346**	**514,876**	**4,426,891**	**48,458,113**
Financial liabilities									
Deposits from banks	-	-	-	436,270	436,270	-	-	-	-
Deposits from customers	-	-	-	195,404,638	195,404,638	-	-	-	-
Due to group companies	-	-	-	1,211,356	1,211,356	-	-	-	-
Long term borrowings	-	-	-	3,115,727	3,115,727	-	-	-	-
Subordinated debt	-	-	-	2,830,389	2,830,389	-	-	-	-
Other liabilities	-	-	-	3,393,244	3,393,244	-	-	-	-
	-	-	-	**206,391,624**	**206,391,624**	-	-	-	-

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

8. INTEREST INCOME

	2020 KShs '000	2019 KShs '000
(a) Group		
Loans and advances to customers	18,480,074	19,232,792
Loans and advances to banks	256,329	560,620
Investment securities:-		
- At amortised cost	2,921,396	2,384,215
- FVOCI - Debt instruments	1,919,584	1,110,616
	23,577,383	**23,288,243**
(b) Company		
Loans and advances to customers	16,766,012	17,513,573
Loans and advances to banks	241,301	559,429
Investment securities:-		
- At amortised cost	2,450,228	1,931,490
- FVOCI - Debt instruments	1,919,584	1,110,616
	21,377,125	**21,115,108**

9. INTEREST EXPENSE

	2020 KShs '000	2019 KShs '000
(a) Group		
Deposits from customers	9,754,274	9,265,228
Deposits from banks	157,195	193,252
Long term debt	203,343	416,581
Subordinated debt	214,933	223,265
Lease liabilities (Note 32)	127,650	147,617
	10,457,395	**10,245,943**
(b) Company		
Deposits from customers	9,085,250	8,682,835
Deposits from banks	77,186	109,838
Long term debt	124,538	294,766
Subordinated debt	156,905	147,280
Lease liabilities (Note 32)	111,377	135,724
	9,555,256	**9,370,443**

10. NET FEE AND COMMISSION INCOME

	2020 KShs '000	2019 KShs '000
(a) Group		
Fee and commission income		
Commissions	2,782,322	2,612,518
Service fees	999,173	1,004,409
	3,781,495	**3,616,927**
Fees and commission expense		
Interbank transaction fees	(65,050)	(73,004)
Other	(78,068)	(104,860)
	(143,118)	**(177,864)**
Net fee and commission income	**3,638,377**	**3,439,063**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

10. NET FEE AND COMMISSION INCOME (Continued)

		2020 KShs '000	2019 KShs'000
(b)	**Company**		
	Fee and commission income		
	Commissions	2,462,370	2,213,004
	Service fees	868,291	1,004,444
		3,330,661	**3,217,448**
	Fees and commission expense		
	Interbank transaction fees	(55,488)	(65,068)
	Other	(76,160)	(102,410)
		(131,648)	**(167,478)**
	Net fee and commission income	**3,199,013**	**3,049,970**

11. NET TRADING INCOME

(a)	**Group**		
	Income from foreign exchange dealings	**1,307,245**	**2,214,834**
	Net income on financial assets at fair value through profit or loss (FVTPL)	**1,986,392**	**1,251,705**
		3,293,637	**3,466,539**
(b)	**Company**		
	Income from foreign exchange dealings	1,162,754	2,076,866
	Net income on financial assets at fair value through profit or loss (FVTPL)	1,986,392	1,251,705
		3,149,146	**3,328,571**

12. OTHER OPERATING INCOME

(a)	**Group**		
	(i) Other income		
	Profit on sale of property and equipment	1,426	1,515
	Management fees income	54,260	38,447
	Other income	60,649	117,630
		116,335	**157,592**
(b)	**Company**		
	(i) Other income		
	Profit on sale of property and equipment	1,426	1,376
	Management fees	54,260	92,915
	Other income	54,204	108,377
		109,890	**202,668**
	(i) Dividend income		
	Dividend income-I&M Bank (T) Limited	68,640	48,759
	Dividend income-I&M Insurance Agency Limited	47,500	-
		116,140	**48,759**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

13. OPERATING EXPENSES

		2020 KShs '000	2019 KShs '000
(a)	**Group**		
	Staff costs		
	Salaries and wages	2,926,948	2,882,173
	Contribution to defined benefit and contribution plan	170,988	150,443
	Statutory contribution	43,283	36,618
	Other staff costs	407,757	517,988
		3,548,976	**3,587,222**
	Premises and equipment costs		
	Service charge	136,172	121,157
	Utilities	131,589	94,022
	Other premises and equipment costs	131,687	170,920
		399,448	**386,099**
	General administrative expenses		
	Deposit protection insurance contribution	313,141	264,564
	Loss on disposal of property and equipment	-	-
	Other general administrative expenses	2,315,378	2,019,394
		2,628,519	**2,283,958**
	Depreciation and amortisation		
	Depreciation on property and equipment (Note 25)	660,730	591,361
	Amortisation of intangible assets (Note 26)	375,209	213,198
		1,035,939	**804,559**

The average number of employees employed by the Group are as follows:

	2020	2019
Management	1,107	1,105
Others	239	225
	1,346	**1,330**

		2020 KShs '000	2019 KShs '000
(b)	**Company**		
	Staff costs		
	Salaries and wages	2,538,755	2,510,827
	Contribution to defined benefit and contribution plan	168,775	148,374
	Statutory contribution	2,608	2,492
	Other staff costs	306,512	413,402
		3,016,650	**3,075,095**
	Premises and equipment costs		
	Service charge	136,172	121,157
	Utilities	101,042	81,547
	Other premises and equipment costs	122,110	146,064
		359,324	**348,768**
	General administrative expenses		
	Deposit protection insurance contribution	289,432	242,519
	Other general administrative expenses	1,967,338	1,705,947
		2,256,770	**1,948,466**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

13. OPERATING EXPENSES (Continued)

	2020 KShs '000	2019 KShs '000
(b) Company - continued		
Depreciation and Amortisation		
Depreciation on property and equipment (Note 25)	563,913	512,267
Amortisation of intangible assets (Note 26)	308,692	173,912
	872,605	**686,179**

The average number of employees employed by the Company are as follows:

	2020	2019
Management	920	919
Others	223	205
	1,143	**1,124**

14. PROFIT BEFORE INCOME TAX

	2020 KShs'000	2019 KShs'000
(a) Group		
Profit before income tax is arrived at after charging:		
Depreciation	660,730	591,361
Amortisation of intangible assets	375,209	213,198
Directors' emoluments: -fees	31,325	16,949
Directors' emoluments: -other	133,277	107,430
Auditor's remuneration	26,842	16,894
Net profit on sale of property and equipment	1,426	1,515
(b) Company		
Profit before income tax is arrived at after charging:		
Depreciation	563,913	512,267
Amortisation of intangible assets	308,692	173,912
Directors' emoluments: -fees	30,942	16,578
Directors' emoluments: -other	133,277	107,430
Auditor's remuneration	9,430	9,680
Net profit on sale of property and equipment	1,425	1,376

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

15. INCOME TAX EXPENSE AND TAX PAYABLE

(a) Income tax expense

	2020 KShs'000	2019 KShs'000
(i) Group		
Current tax		
Current year's tax	3,530,015	4,380,496
Under provision in prior year	(96,756)	237,326
	3,433,259	**4,617,822**
Deferred tax (Note 27)		
Current year	(1,501,523)	(783,369)
Prior year adjustment	253,460	(400,030)
	(1,248,063)	**(1,183,399)**
Income tax expense	**2,185,196**	**3,434,423**

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

	2020 KShs'000	2019 KShs'000
Accounting profit before tax	**10,698,178**	**12,455,876**
Computed tax using the applicable corporation tax rate at 25% (2019 - 30%)	2,674,545	3,736,763
Effect of change in tax rate	(239,162)	-
Under provision in prior year	(96,756)	237,326
Effect on non-deductible costs/non-taxable income	(406,891)	(139,636)
Over provision in prior year - deferred tax	253,460	(400,030)
	2,185,196	**3,434,423**

	2020 KShs'000	2019 KShs'000
(ii) Company		
Current tax		
Current year's tax at 25% (2019 - 30%)	3,293,709	4,185,887
Under provision in prior year	(97,104)	235,750
	3,196,605	**4,421,637**
Deferred tax (Note 27)		
Current year	(1,421,619)	(748,169)
Prior year adjustment	252,288	(399,995)
	(1,169,331)	**(1,148,164)**
Income tax expense	**2,027,274**	**3,273,473**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

15. INCOME TAX EXPENSE AND TAX PAYABLE (Continued)

(a) Income tax expense - Continued

(ii) Company - Continued

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

	2020 KShs'000	2019 KShs'000
Accounting profit before tax	10,289,031	12,012,342
Computed tax using the applicable corporation tax rate at 25% (2019 - 30%)	2,572,258	3,603,703
Effect of change in tax rate	(236,936)	-
Under provision in prior year	(97,104)	235,750
Effect on non-deductible costs /non-taxable income	(463,232)	(165,985)
Under provision in prior year - deferred tax	252,288	(399,995)
	2,027,274	3,273,473

(b) Tax (recoverable)/payable

	2020 KShs'000	2019 KShs'000
(i) Group		
At 1 January	859,260	(52,793)
Income tax expense (Note 15(a)(i))	3,433,259	4,617,822
Effect of tax in foreign jurisdiction	2,036	2,385
Tax paid (Note 36(a))	(4,309,110)	(3,708,154)
At 31 December	(14,555)	859,260
Tax recoverable	(72,535)	(8,927)
Tax payable	57,980	868,187
	(14,555)	859,260
(ii) Company		
At 1 January	845,413	(64,449)
Income tax expense (Note 15(a)(ii))	3,196,605	4,421,637
Tax paid (Note 36(c))	(4,121,990)	(3,511,775)
At 31 December	(79,972)	845,413

16. EARNINGS PER SHARE

	Group		Company	
	2020	2019	2020	2019
Net profit after tax attributable to owners of the company (KShs '000')	8,431,558	8,942,877	8,261,757	8,738,869
Weighted average number of ordinary shares in issue during the year ('000)	29,800	29,800	29,800	29,800
Earnings per share (KShs)	282.94	300.10	277.24	293.25

There were no potentially dilutive shares outstanding at 31 December 2020 (2019 – Nil).

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

17. DIVIDEND PER SHARE

	2020 KShs'000	2019 KShs'000
The calculation of dividend per share is based on:		
Final dividend proposed during the year (KShs'000)	2,478,527	1,937,000
	2,478,527	1,937,000
Number of ordinary shares in issue as at 31 December ('000)	29,800	29,800
Final dividend per share (KShs.)	83.17	65.00

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

	2020 KShs'000	2019 KShs'000
(a) Group		
Cash on hand	3,353,303	1,782,558
Balances with central banks:		
- Restricted balances (Cash reserve ratio)	10,050,255	9,357,369
- Unrestricted balances	2,657,500	922,235
	16,061,058	12,062,162
(b) Company		
Cash on hand	2,533,387	1,501,493
Balances with Central Bank of Kenya:		
- Restricted balances (Cash reserve ratio)	9,148,260	8,429,091
- Unrestricted balances	2,064,040	771,262
	13,745,687	10,701,846

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 2020, the cash ratio requirement was 4.25% (2019 – 5.25%) in Kenya and, 7.0% (2019 – 7.0%) in Tanzania of eligible deposits. These funds are available for use by the Company(I&M Bank LIMITED) 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 4.25% (2019-5.25%)

19. ITEMS IN THE COURSE OF COLLECTION

	2020 KShs'000	2019 KShs'000
(a) Group		
Assets	622,994	536,459
(b) Company		
Assets	619,833	530,507

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 2020

20. LOANS AND ADVANCES TO BANKS

		2020 KShs'000	2019 KShs'000
(a)	**Group**		
	Due within 90 days	**14,109,377**	**40,573,680**
(b)	**Company**		
	Due within 90 Days	**13,504,068**	**40,573,680**

21. LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

		2020 KShs'000	2019 KShs'000
(i)	**Group**		
	Overdrafts	48,591,434	49,806,626
	Loans	122,552,337	112,012,831
	Bills discounted	1,013,360	1,114,867
	Finance leases	4,774,638	4,381,373
	Gross loans and advances	**176,931,769**	**167,315,697**
	Less: Impairment losses on loans and advances	(12,154,805)	(10,546,951)
	Net loans and advances	**164,776,964**	**156,768,746**
(ii)	**Company**		
	Overdrafts	43,757,654	44,157,876
	Loans	111,119,396	101,573,706
	Bills discounted	1,013,360	1,114,867
	Finance leases	4,774,638	4,381,373
	Gross loans and advances	**160,665,048**	**151,227,822**
	Less: Impairment losses on loans and advances	(10,989,984)	(9,684,696)
	Net loans and advances	**149,675,064**	**141,543,126**

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 2020

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(b) Impairment losses on loans and advances - Group

	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
2020:					
Net remeasurement of loss allowance	1,810,179	11,326	1,821,505	3,316	1,824,821
New financial assets originated or purchased	120,161	22,392	142,553	-	142,553
	1,930,340	**33,718**	**1,964,058**	**3,316**	**1,967,374**
Recoveries and impairment no longer required	(66,605)	(12,673)	(79,278)	-	(79,278)
Recoveries of loans and advances previously written off	(66,086)	-	(66,086)	-	(66,086)
Amounts directly written off during the year	35,267	-	35,267	-	35,267
	1,832,916	**21,045**	**1,853,961**	**3,316**	**1,857,277**
2019:					
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 2020

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(b) Impairment losses on loans and advances – Company

2020:	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	1,555,726	(1,950)	1,553,776
New financial assets originated or purchased	119,255	19,821	139,076
	1,674,981	**17,871**	**1,692,852**
Recoveries and impairment no longer required	(46,684)	(12,418)	(59,102)
Recoveries of loans and advances previously written off	(67,339)	-	(67,339)
Amounts directly written off during the year	35,267	-	35,267
	1,596,225	**5,453**	**1,601,678**

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**

(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

	2020 KShs'000	2019 KShs'000
Interest on impaired loans and advances which has not yet been received in cash	**1,372,501**	**1,277,275**

(ii) Company

	2020 KShs'000	2019 KShs'000
Interest on impaired loans and advances which has not yet been received in cash	**775,077**	**926,201**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(d) Loans and advances concentration by sector

(i) Group

	2020 KShs'000	2020 %	2019 KShs'000	2019 %
Manufacturing	48,185,685	27%	46,233,911	28%
Wholesale and retail trade	31,988,444	18%	30,841,132	18%
Building and construction	11,047,856	6%	10,720,747	6%
Agriculture	5,843,871	3%	3,653,851	2%
Real estate	36,524,219	21%	33,501,959	20%
Transport and communication	9,988,921	6%	7,157,681	4%
Business services	9,548,173	5%	13,201,078	8%
Electricity and water	364,227	-	543,889	-
Finance and insurance	3,324,456	2%	4,496,192	3%
Mining and quarrying	1,456,910	1%	1,131,892	1%
Others	18,659,007	11%	15,833,365	10%
	176,931,769	**100%**	**167,315,697**	**100%**

(ii) Company

	2020 KShs'000	2020 %	2019 KShs'000	2019 %
Manufacturing	44,915,580	28%	42,566,079	28%
Wholesale and retail trade	29,606,952	18%	28,528,625	19%
Building and construction	10,755,535	7%	10,380,758	7%
Agriculture	5,227,882	3%	3,051,544	2%
Real estate	32,359,308	20%	29,640,373	20%
Transport and communication	9,266,417	6%	6,383,638	4%
Business services	7,950,745	5%	10,900,832	7%
Electricity and water	364,227	-	543,889	-
Finance and insurance	3,324,456	2%	4,496,192	3%
Mining and quarrying	988,718	1%	724,772	0%
Others	15,905,228	10%	14,011,120	10%
	160,665,048	**100%**	**151,227,822**	**100%**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(e) Finance leases

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

	2020 KShs'000	2019 KShs'000
(i) Group		
Receivable no later than 1 year	399,879	387,150
Receivable later than 1 year and no later than 5 years	4,362,357	3,994,223
Receivable later than 5 year	12,402	-
	4,774,638	**4,381,373**
(ii) Company		
Receivable no later than 1 year	399,879	387,150
Receivable later than I year and no later than 5 years	4,362,357	3,994,223
Receivable later than 5 year	12,402	-
	4,774,638	**4,381,373**

22. FINANCIAL ASSETS

(a) Financial assets at fair value through profit or loss (FVTPL)

	2020 KShs'000	2019 KShs'000
***(i)* Group**		
Derivative assets	-	1,874,389
Government securities (Non Liquid)	11,798,434	11,823,328
	11,798,434	**13,697,717**
***(ii)* Company**		
Derivative assets	-	1,874,389
Government securities (Non Liquid)	11,798,434	11,823,328
	11,798,434	**13,697,717**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

22. FINANCIAL ASSETS (Continued)

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

	2020 KShs'000	2019 KShs'000
(i) Group		
Equity investment	448,857	559,569
Preference shares investment in I&M Realty Limited*	4,408,750	4,132,118
Government securities (Non Liquid)	36,606,922	10,729,728
	41,464,529	**15,421,415**
(ii) Company		
Equity investment	401,120	514,876
Preference shares investment	4,870,719	4,426,891
Government securities (Non Liquid)	36,606,922	10,729,728
	41,878,761	**15,671,495**

* 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

	2020 KShs'000	2019 KShs'000
(i) Group		
Government securities (Non Liquid)	41,593,094	23,573,966
Trade receivables	72,196	55,474
	41,665,290	**23,629,440**
(ii) Company		
Government securities (Non Liquid)	**36,732,012**	**18,925,430**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

22. FINANCIAL ASSETS (Continued)

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

Group	Financial assets at fair value through profit or loss (FVTPL)	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	Total KShs'000
31 December 2020						
At 1 January 2020	13,697,717	23,573,966	10,729,728	4,132,118	559,569	52,693,098
Additions	22,706,067	40,442,134	30,235,774	-	-	93,383,975
Disposals and maturities	(24,382,914)	(23,390,068)	(5,066,549)	-	-	(52,839,531)
Changes in fair value	40,211	-	276,549	276,632	(114,908)	478,484
Amortisation of discounts and premiums, unearned interest and interest receivable	(262,647)	650,870	431,420	-	1,152	820,795
Translation reserve	-	316,192	-	-	3,044	319,236
At 31 December 2020	**11,798,434**	**41,593,094**	**36,606,922**	**4,408,750**	**448,857**	**94,856,057**
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**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

22. FINANCIAL ASSETS (Continued)

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

Company	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	Total KShs'000
31 December 2020						
At 1 January 2020	13,697,717	18,925,430	10,729,728	4,426,891	514,876	48,294,642
Additions	22,706,067	37,255,220	30,235,774	-	-	90,197,061
Disposals and maturities	(24,382,914)	(19,900,689)	(5,066,549)	-	-	(49,350,152)
Changes in fair value	40,211	-	276,549	443,828	(114,908)	645,680
Amortisation of discounts and premiums, unearned interest and interest receivable	(262,647)	452,051	431,420	-	1,152	621,976
At 31 December 2020	**11,798,434**	**36,732,012**	**36,606,922**	**4,870,719**	**401,120**	**90,409,207**
31 December 2019						
At 1 January 2019	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**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

23. HELD FOR SALE ASSETS

		2020 KShs'000	2019 KShs'000
(a)	**Group**		
	Held for sale assets	**1,020,401**	**631,334**
(b)	**Company**		
	Held for sale assets	**1,020,401**	**631,334**

Assets held for sale are assets foreclosed by the Group in the normal course of business and are primarily recovered through sale.

24. INVESTMENT IN SUBSIDIARIES

	Country of incorporation	Sector	2020 KShs'000	2020 % Ownership	2019 KShs'000	2019 % 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%
At 1 January and 31 December			**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;

		Revenue KShs'000	Expenses KShs'000	Profit before tax KShs'000	Profit after tax KShs'000
Entity		a	b	c=(a-b)	d
	Year				
I&M Bank Tanzania Limited	2020	1,707,941	(1,321,976)	**385,965**	**274,896**
	2019	1,676,558	(1,285,695)	**390,863**	**265,281**
I&M Insurance Agency Limited	2020	261,136	(73,039)	**188,097**	**141,498**
	2019	185,191	(78,960)	**106,231**	**69,679**
Youjays Insurance Brokers Limited	2020	1,139	88	**1,227**	**973**
	2019	700	3,904	**4,604**	**5,789**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

25. PROPERTY AND EQUIPMENT

(a) Group

2020:	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	1,292,236	1,156,086	908,738	120,387	1,732,585	417,861	5,627,893
Additions	53,482	87,318	17,920	29	542,704	1,018,641	1,720,094
Disposals	(71)	(2,993)	(6,688)	(4,840)	(6,451)	-	(21,043)
Reclassification/internal transfers	652,986	83,487	11,968	4,771	-	(753,212)	-
Translation differences	11,965	17,191	2,283	1,138	12,182	182	44,941
At 31 December	**2,010,598**	**1,341,089**	**934,221**	**121,485**	**2,281,020**	**683,472**	**7,371,885**
Depreciation							
At 1 January	965,547	748,688	669,838	77,470	303,178	-	2,764,721
Charge for the year	130,021	91,230	134,174	17,375	287,930	-	660,730
On disposal	(71)	(1,904)	(6,128)	(4,838)	3,249	-	(9,692)
Translation differences	7,295	8,820	1,896	939	3,573	-	22,523
At 31 December	**1,102,792**	**846,834**	**799,780**	**90,946**	**597,930**	**-**	**3,438,282**
Net book value at 31 December	**907,806**	**494,255**	**134,441**	**30,539**	**1,683,090**	**683,472**	**3,933,603**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

25. PROPERTY AND EQUIPMENT (Continued)

(a) Group (Continued)

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	1,676,909	68,284	4,686,786
Additions	28,934	111,090	16,899	19,854	55,676	398,777	631,230
Disposal	-	(553)	(214)	(7,518)	-	-	(8,285)
Reclassification/internal transfers	33,416	7,499	328,612	-	-	(369,527)	-
Transfer 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
Disposals	-	(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 2020

25. PROPERTY AND EQUIPMENT (Continued)

(b) Company

2020:	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	1,121,247	857,597	954,561	103,706	1,553,693	396,840	4,987,644
Additions	43,668	52,497	16,066	29	478,140	1,016,570	1,606,970
Disposals	-	(2,634)	(651)	(4,839)	-	-	(8,124)
Reclassification/internal transfers	652,986	80,017	11,968	4,771	-	(749,742)	-
At 31 December	**1,817,901**	**987,477**	**981,944**	**103,667**	**2,031,833**	**663,668**	**6,586,490**
Depreciation							
At 1 January	867,705	611,575	662,013	64,401	271,399	-	2,477,093
On disposals	-	(1,779)	(90)	(4,840)	-	-	(6,709)
Charge for the year	110,743	61,278	131,991	15,881	244,020	-	563,913
At 31 December	**978,448**	**671,074**	**793,914**	**75,442**	**515,419**	**-**	**3,034,297**
Net book value at 31 December	**839,453**	**316,403**	**188,030**	**28,225**	**1,516,414**	**663,668**	**3,552,193**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

25. PROPERTY AND EQUIPMENT (Continued)

Company (continued)

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	1,498,017	50,618	4,103,182
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**

Assets that are fully depreciated amounted to KShs 1,795,549,458 (2019 – KShs 1,647,007,078). If depreciation had been charged during the year on the cost of these assets at a nominal rate, it would have amounted to KShs 276,371,516 (2019 – KShs 250,847,786).

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

26. INTANGIBLE ASSETS

(a) Goodwill

The key judgements required in the determination of whether or not a goodwill balance is impaired:

- the level at which goodwill is allocated – consistent with prior periods the Cash Generated Units (CGUs) to which goodwill is allocated are the Group's revenue generating segments that benefit from relevant historical business combinations generating goodwill.
- determination of the carrying amount of each CGU which includes an allocation, on a reasonable and consistent basis of corporate assets and liabilities that are not directly attributable to the CGUs to which goodwill is allocated.
- assessment of the recoverable amount of each CGU used to determine whether the carrying amount of goodwill is supported is based on judgements including:

• selection of the model used to determine the fair value – the Group has used the market multiple approach to estimate the fair value; and

• selection of the key assumptions in respect of future maintainable earnings, the P/E multiple applied, including selection of an appropriate comparator group and determination of an appropriate control premium, and costs of disposal as described above.

The assessment of the recoverable amount of each CGU has been made within the context of the ongoing impact of COVID-19 on both earnings and asset prices, and reflects expectations of future events that are believed to be reasonable under the circumstances. The rapidly evolving consequences of COVID-19 and government, business and consumer responses create heightened uncertainty in these estimates and any variations could have a positive or adverse impact on the determination of recoverable amounts.

	2020 KShs'000	2019 KShs'000
(i) Group		
I&M Bank (T) Limited	505,276	473,061
Youjays Insurance Brokers Limited	232,284	232,284
Balance as 31 December	**737,560**	**705,345**
(ii) Movement of Goodwill		
At 1 January	705,345	707,729
Exchange differences	32,215	(2,384)
At 31 December	**737,560**	**705,345**

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 3.454 billion (2019 – KShs 3.002 billion) for I&M Bank (T) Limited. No impairment losses were recognised during 2020 (2019 – Nil), because the recoverable amounts of these CGUs were determined to be higher than their carrying amounts. Applying a discount rate of 23% or 26% on the modified free cash flows, there is no impairment sighted.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

26. INTANGIBLE ASSETS (Continued)

(a) Goodwill (Continued)

The key assumptions used in the calculation of value in use were as follows:

	I&M Bank (T) Limited 2020
5 year risk free rate	9.10%
Risk premium	10.83%
Terminal growth rate	3.00%
Discount rate	20.00%
Exchange rate	KShs 1 = TZs 21.24
	2019
5 year risk free rate	11.95%
Risk premium	9.94%
Terminal growth rate	3.00%
Discount rate	20.00%
Exchange rate	KShs 1 = TZs 22.68

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 5 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 2020

26. INTANGIBLE ASSETS (Continued)

(b) Computer software

(i) Group

2020:	Computer Software	Capital work in progress	Total
Cost	KShs'000	KShs'000	KShs'000
At 1 January	2,607,313	89,482	2,696,795
Additions	422,946	381,924	804,870
Reclassification from capital work in progress	48,217	(48,217)	-
Disposals	(39,353)	-	(39,353)
Translation differences	29,095	-	29,095
At 31 December	**3,068,218**	**423,189**	**3,491,407**
Amortisation			
At 1 January	1,274,513	-	1,274,513
Amortisation for the year	375,209	-	375,209
On disposals	(39,353)	-	(39,353)
Translation differences	10,950	-	10,950
At 31 December	**1,621,319**	**-**	**1,621,319**
Carrying amount at 31 December	**1,446,899**	**423,189**	**1,870,088**

2019:	Computer Software	Capital work in progress	Total
Cost	KShs'000	KShs'000	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**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

26. INTANGIBLE ASSETS (Continued)

(b) Computer software (Continued)

(ii) Company

2020:	Computer Software	Capital work in progress	Total
Cost	KShs'000	KShs'000	KShs'000
At 1 January	2,203,636	35,977	2,239,613
Additions	401,686	381,924	783,610
Reclassification from capital work in progress	48,217	(48,217)	-
At 31 December	**2,653,539**	**369,684**	**3,023,223**
Amortisation			
At 1 January	1,107,055	-	1,107,055
Amortisation for the year	308,692	-	308,692
At 31 December	**1,415,747**	**-**	**1,415,747**
Carrying amount at 31 December	**1,237,792**	**369,684**	**1,607,476**

2019:	Computer Software	Capital work in progress	Total
Cost	KShs'000	KShs'000	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**

The Company's computer software with a gross value of KShs 782,101,474 (2019 – KShs 747,049,298) are fully amortised but still in use. If amortisation had been charged during the year on the cost of these assets at a nominal rate, it would have amounted to KShs 156,420,295 (2019- KShs 150,779,795).

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

27. DEFERRED TAX ASSETS

Deferred tax assets at 31 December 2020 and 31 December 2019 are attributable to the following:

(a) Group

2020:	Balance at 1 January 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	59,228	(2,285)	-	(1,607)	16,755	72,091
Right of use asset	16,580	(25,800)	-	395	(16,092)	(24,917)
General provisions	1,024,926	43,633	-	20,794	133,760	1,223,113
Impairment allowances	2,269,823	(269,008)	-	-	1,367,100	3,367,915
Fair value reserves	15,638	-	(131,482)	(320)	-	(116,164)
	3,386,195	**(253,460)**	**(131,482)**	**19,262**	**1,501,523**	**4,522,038**

2019:	Balance at 1 January 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**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

27. DEFERRED TAX ASSETS (Continued)

(b) Company

2020:	Balance at 1 January 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	71,174	(1,275)	-	14,852	84,751
Right of use asset	16,580	(25,800)	-	(17,555)	(26,775)
General provisions	773,511	43,633	-	57,722	874,866
Impairment allowances	2,249,619	(268,846)	-	1,366,600	3,347,373
Fair value reserves	14,456	-	(181,641)	-	(167,185)
	3,125,340	**(252,288)**	**(181,641)**	**1,421,619**	**4,113,030**

2019:	Balance at 1 January 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**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

28. (a) DUE FROM RELATED PARTY

(i) *Group*

	2020 KShs'000	2019 KShs'000
I&M Realty Limited	798,807	832,885
I&M Bank (Rwanda) PLC	7,528	-
	806,335	**832,885**

(ii) *Company*

	2020 KShs'000	2019 KShs'000
I&M Realty Limited	798,807	832,885
I&M Bank (T) Limited	218,467	367,529
I&M Bank (Rwanda) PLC	7,528	-
	1,024,802	**1,200,414**

(b) DUE TO RELATED PARTY

(i) *Group*

	2020 KShs'000	2019 KShs'000
Giro Limited	179,401	179,789
I&M Holdings PLC	446,059	79,277
I&M Realty Limited	82,856	264,643
I&M Bank (Rwanda) PLC	217,992	461,343
I&M Burbidge Capital Limited	17,995	2,087
I&M Capital Limited	7,012	6,735
	951,315	**993,874**

(ii) *Company*

	2020 KShs'000	2019 KShs'000
Giro Limited	179,401	179,789
I&M Holdings PLC	446,059	79,277
I&M Realty Limited	82,856	264,643
I&M Bank (T) Limited	86,420	99,326
I&M Bank (Rwanda) PLC	217,992	461,343
I&M Insurance Agency Limited	169,254	118,156
Youjays Insurance Brokers Limited	5,587	-
I&M Burbidge Capital Limited	17,995	2,087
I&M Capital Limited	7,012	6,735
	1,212,576	**1,211,356**

Mostly relates to deposits and balances held with the Bank

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

29. OTHER ASSETS

	2020 KShs'000	2019 KShs'000
(a) Group		
Prepayments	507,691	358,313
Other receivables	1,120,581	1,129,677
	1,628,272	**1,487,990**
(b) Company		
Prepayments	428,027	301,262
Other receivables	1,038,034	956,159
	1,466,061	**1,257,421**

30. DEPOSITS FROM BANKS

	2020 KShs'000	2019 KShs'000
(a) Group		
Due within 90 days	629,092	2,434,801
Due after 90 days	651,141	2,482
	1,280,233	**2,437,283**
(b) Company		
Due within 90 days	363,323	433,788
Due after 90 days	651,141	2,482
	1,014,464	**436,270**

31. DEPOSITS FROM CUSTOMERS

	2020 KShs'000	2019 KShs'000
(a) Group		
Government and Parastatals	651,932	644,073
Private sector and individuals	234,654,226	208,381,128
	235,306,158	**209,025,201**
(b) Company		
Government and Parastatals	585,784	582,142
Private sector and individuals	217,567,079	194,822,496
	218,152,863	**195,404,638**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

32. OTHER LIABILITIES

	2020 KShs'000	2019 KShs'000
(a) Group		
Accruals	1,485,519	1,467,815
Other accounts payables	620,802	702,217
Lease liability	1,593,697	1,389,567
Provisions for loan commitments*	186,292	164,582
Bankers cheques payable	139,569	173,292
Derivative liabilities	36,167	-
	4,062,046	**3,897,473**

	2020 KShs'000	2019 KShs'000
(b) Company		
Accruals	1,412,378	1,400,082
Other accounts payables	412,415	419,644
Lease liability	1,427,164	1,251,562
Provisions for loan commitments*	167,917	162,464
Bankers cheques payable	124,980	159,492
Derivative liabilities	36,167	-
	3,581,021	**3,393,244**

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

(c) Lease liability

Below is the analysis of the lease liabilities during the year:

	2020 KShs'000	2019 KShs'000
Group		
Expected to be settled within 12 months after the year end	437,675	437,675
Expected to be settled more than 12 months after the year end	1,156,022	951,892
	1,593,697	**1,389,567**
Company		
Expected to be settled within 12 months after the year end	437,675	437,675
Expected to be settled more than 12 months after the year end	989,489	813,887
	1,427,164	**1,251,562**

The total cash outflow for leases in the year was:

	2020 KShs'000	2019 KShs'000
Group		
Payments of principal portion of the lease liability	314,132	252,494
Interest paid on lease liabilities	127,650	147,617
	441,782	**400,111**
Company		
Payments of principal portion of the lease liability	280,187	216,131
Interest paid on lease liabilities	111,377	135,724
	391,564	**351,855**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

32. OTHER LIABILITIES (Continued)

(c) Lease liability (continued)

Lease liability movement

	2020 KShs'000	2019 KShs'000
Group		
Balance at 1 January	1,389,567	1,586,481
Additions	455,789	55,676
Interest expense	127,650	147,617
Lease payments	(441,782)	(400,111)
Translation difference	62,473	(96)
Balance at 31 December	**1,593,697**	**1,389,567**
Company		
Balance at 1 January	1,251,562	1,412,017
Additions	455,789	55,676
Interest expense	111,377	135,724
Lease payments	(391,564)	(351,855)
Balance at 31 December	**1,427,164**	**1,251,562**

Amount recognized in profit or loss

	2020 KShs'000	2019 KShs'000
Group		
Interest on lease liabilities (Note 9)	127,650	147,617
Depreciation of right to use asset (Note 25)	287,930	303,258
	415,580	**450,875**
Company		
Interest on lease liabilities (Note 9)	111,377	135,724
Depreciation of right to use asset (Note 25)	244,020	271,399
	355,397	**407,123**

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.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

33. LONG TERM BORROWINGS

(a) Group

	2020 KShs'000	2019 KShs'000
Less than one year	2,839,442	1,749,603
One to five years	3,142,412	3,020,825
	5,981,854	**4,770,428**

The Group's long term borrowings constituted those in Note 33(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 16 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.

(b) Company

	2020 KShs'000	2019 KShs'000
Less than one year	2,839,442	1,738,901
One to five years	1,393,714	1,376,826
	4,233,156	**3,115,727**

The Company's borrowings constituted the following:

(i) 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.

(ii) 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.

(iii) 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.

(iv) USD 25,000,000 facility granted on 2 December 2020 by FMO repayable semi-annually over 4 and a half years after an initial half year grace period

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

33. LONG TERM BORROWINGS (Continued)

Loan movement schedule

(i) Group

	2020 KShs'000	2019 KShs'000
At 1 January	4,770,428	7,619,933
Funds received	3,278,117	-
Payments on principal and interest	(2,269,824)	(3,010,616)
Interest payable	94,430	209,807
Translation differences	108,703	(48,696)
At 31 December	**5,981,854**	**4,770,428**

(ii) Company

	2020 KShs'000	2019 KShs'000
At 1 January	3,115,727	5,612,229
Funds received	2,730,000	-
Payments on principal and interest	(1,611,688)	(2,488,868)
Interest payable	11,621	12,505
Translation differences	(12,504)	(20,139)
At 31 December	**4,233,156**	**3,115,727**

34. SUBORDINATED DEBT

(a) Group

	2020 KShs'000	2019 KShs'000
Less than one year	86,007	207,587
One to five years	3,294,040	3,437,660
	3,380,047	**3,645,247**

The Group's subordinated debts constitute that in Note 34(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.

(b) Company

	2020 KShs'000	2019 KShs'000
Less than one year	86,007	203,927
One to five years	2,964,740	2,626,462
	3,050,747	**2,830,389**

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.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

35. SHARE CAPITAL AND RESERVES

(a) Share capital

	Group and Company	
	2020 KShs'000	2019 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 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.

(b) Major shareholders and share premium

The major shareholders at 31 December 2020 and 2019 were as follows:

	%	Number of shares	Share Capital KShs'000	Share Premium KShs'000
I&M Holdings PLC (2020)	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 (2019)	100	29,800,000	2,980,000	5,531,267
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 55-58.

(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 55-58.

(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 55-58.

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

36. NOTES TO THE STATEMENT OF CASH FLOWS

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

	Note	2020 KShs'000	2019 KShs'000
Profit before income tax		10,698,178	12,455,876
Adjustments for:			
Depreciation on property and equipment	25(a)	372,800	288,103
Depreciation on right of use asset	25(a)	287,930	303,258
Amortisation of intangible asset	26(b)(i)	375,209	213,198
Interest on lease liabilities	9(a)	127,650	147,617
Profit on sale of property and equipment		(1,426)	(1,515)
Net income on financial assets at fair value through profit or loss (FVTPL)	11(a)	(1,986,392)	(1,251,705)
Exchange reserves		178,343	(24,580)
		10,052,292	**12,130,252**
(Increase)/decrease in operating assets			
Movement in loans and advances to customers		(8,008,218)	(9,145,237)
Financial assets at fair value through profit or loss (FVTPL)		3,885,675	698,366
Financial assets measured at fair value through other comprehensive income (FVOCI)		(25,604,841)	(1,120,841)
Other financial assets at amortised cost		(18,035,850)	(892,713)
Held for sale assets		(389,067)	(631,334)
Cash and balances with Central Banks:			
– Cash Reserve Ratio		(692,886)	(321,057)
Due from group companies		26,550	20,300
Other assets		(140,282)	(155,722)
		(48,958,919)	**(11,548,238)**
Increase/(decrease) in operating liabilities			
Customer deposits		26,280,957	17,691,053
Deposits from banks		648,659	(10,115)
Long term borrowings		1,211,426	(2,844,896)
Due to group companies		(42,561)	(1,075,737)
Other liabilities		(62,906)	70,439
		28,035,575	**13,830,744**
Cash flows generated from operating activities		**(10,871,052)**	**14,412,758**
Tax paid	15(b)(i)	(4,309,110)	(3,708,154)
Interest on lease liabilities		(127,650)	(147,617)
Net cash flows generated from operating activities		**(15,307,812)**	**10,556,987**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

36. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

(b) Analysis of cash and cash equivalents – Group

	Note	2020 KShs'000	2019 KShs'000	Change KShs'000
Cash and balances with central banks – excluding CRR	18(a)	6,010,803	2,704,793	3,306,010
Items in the course of collection	19(a)	622,994	536,459	86,535
Loans and advance to banks	20(a)	14,109,377	40,573,680	(26,464,303)
Deposits from banks	30(a)	(629,092)	(2,434,801)	1,805,709
		20,114,082	**41,380,131**	**(21,266,049)**

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

	Note	2020 KShs'000	2019 KShs'000
Cash flows from operating activities			
Profit before income tax		10,289,031	12,012,342
Adjustments for:			
Depreciation on property and equipment	25(b)	319,893	240,868
Depreciation on right of use asset	25(b)	244,020	271,399
Amortisation of intangible asset	26(b)(ii)	308,692	173,912
Interest on lease liabilities	9(b)	111,377	135,724
Profit on sale of property and equipment		(1,426)	(1,376)
Net income on financial assets at fair value through profit or loss (FVTPL)	11(b)	(1,986,392)	(1,251,705)
Dividend income	12(b)(ii)	(116,140)	(48,759)
		9,169,055	**11,532,405**
Increase/(decrease) in operating assets			
Movement in loans and advances to customers		(8,131,938)	(9,223,867)
Financial assets at fair value through profit or loss (FVTPL)		3,885,675	698,366
Financial assets measured at fair value through other comprehensive income (FVOCI)		(25,601,797)	(1,120,614)
Other financial assets at amortised cost		(17,806,582)	(618,729)
Held for sale assets		(389,067)	(390,948)
Due from group companies		175,612	463,382
Cash and balances with Central Bank of Kenya:			
– Cash Reserve Ratio		(719,169)	(546,072)
Other assets		(208,643)	(279,524)
		(48,795,909)	**(11,018,006)**
Increase/(decrease) in operating liabilities			
Customer deposits		22,748,225	18,651,127
Balances due to group companies		1,220	(962,498)
Deposits from banks		648,659	(10,115)
Long-term borrowings		1,129,933	(2,476,363)
Other liabilities		(22,677)	(69,651)
		24,505,360	**15,132,500**
Cash flows generated from operating activities		**(15,121,494)**	**15,646,899**
Tax paid	15(b)(ii)	(4,121,990)	(3,511,775)
Interest on lease liabilities		(111,377)	(135,724)
Net cash flows generated from operating activities		**(19,354,861)**	**11,999,400**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

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

(d) Analysis of cash and cash equivalents – Company

	Note	2020 KShs'000	2019 KShs'000	Change KShs'000
Cash and balances with Central Bank of Kenya – excluding CRR	18(b)	4,597,427	2,272,755	2,324,672
Items in the process of collection	19(b)	619,833	530,507	89,326
Loans and advances to banks	20(b)	13,504,068	40,573,680	(27,069,612)
Deposits from banks	30(b)	(363,323)	(433,788)	70,465
		18,358,005	**42,943,154**	**(24,585,149)**

37. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Group at 31 December 2020. 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:

	2020 KShs'000	2019 KShs'000
Group		
Contingencies related to:		
Letters of credit	36,103,840	26,545,306
Guarantees	21,262,042	16,056,807
Other credit commitments	22,537,789	15,277,862
	79,903,671	**57,879,975**
Commitments related to:		
Outstanding spot/forward contracts	7,409,365	56,691,811
	87,313,036	**114,571,786**
Company		
Contingencies related to:		
Letters of credit	34,952,943	25,298,554
Guarantees	16,598,873	13,611,349
Other credit commitments	21,000,723	14,761,957
	72,552,539	**53,671,860**
Commitments related to:		
Outstanding spot/forward contracts	7,409,365	56,691,811
	79,961,904	**110,363,671**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

37. 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.

38. 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 matter was subsequently referred to the Tax Appeal Tribunal (Tribunal) by the High Court. The Tribunal issued its judgement and ruled partly in favour of the Bank and partly for the KRA for the various items assessed. The potential liability arising as a result of the Tribunal's decision amounts to KShs 34,679,257. The Bank has lodged an appeal against the Tribunal's ruling at the High Court. Based on the prevailing Tax Procedure Act that defines, inter alia, timeframes in conduct of tax assessments, the directors in consultation with the bank's 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. The matter was heard on 16 February 2021, and the Bank is awaiting the decision of the Tribunal. No provision for tax payable has been made in respect of the Excise Duty Assessment.

39. ASSETS PLEDGED AS SECURITY

The below are government securities held under lien in favour of the Central Banks.

	2020 KShs'000	2019 KShs'000
Group	**1,714,178**	**3,086,587**
Company	**1,620,000**	**1,136,000**

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

40. 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 at market interest rates. There were no provisions held towards impairment of any of the advances to related parties.

		2020 KShs'000	2019 KShs'000
(a)	**Transactions with directors/shareholders**		
(i)	Loans to directors/shareholders	11,466	13,487
	Interest Income from loans to directors/shareholders	1,576	483
(ii)	Deposits from directors/shareholders	657,604	843,887
	Interest expense on deposits from directors/shareholders	32,087	65,788
(b)	**Transactions with related companies**		
(i)	Loans to related companies	1,455,872	1,452,838
	Interest income from loans to related companies	189,766	180,188
(ii)	Deposits from related companies	2,501,880	1,034,781
	Interest expense on deposits from related companies	104,833	47,726
(iii)	Amounts due from group companies subsidiaries	23,729	62,840
	Interest income on amounts due from subsidiaries	-	-
(iv)	Amounts due to group companies subsidiaries	1,212,576	1,211,356
	Interest expense on amounts due from subsidiaries	-	-
(v)	Preference shares in I&M Realty Limited	3,800,000	3,800,000
(vi)	Preference shares I&M Insurance Agency Limited	275,000	275,000
(c)	**Transactions with employees**		
	Staff loans	1,430,239	1,233,631
	Interest earned on these loans was KShs	87,797	91,118
(d)	**Management fees received**	54,260	92,915
(e)	**Management compensation**	132,277	101,359

(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.

41. CAPITAL COMMITMENTS

	2020 KShs'000	2019 KShs'000
Group	3,125,034	4,392,843
Company	2,547,000	3,630,405

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

42. 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.

OUR FINANCIALS

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2020

43. OTHER DISCLOSURES (Continued)

(b) Compliance and regulatory risk

Compliance and regulatory risk includes the risk of bearing the consequences of non-compliance with regulatory requirements. The compliance function is responsible for establishing and maintaining an appropriate framework of Group compliance policies and procedures. Compliance with such policies and procedures is the responsibility of all managers.

(c) Environmental and social risks

Environmental and social risks are the risks that the Group could bear the consequences of socio-environmental fall-out of transactions. Such risks could arise from failure of the 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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