I&M Bank LIMITED Annual Report and Consolidated Financial Statements 2021

Committed to our customers' success.
Driven by sustainable and efficient growth.

Like any forward-thinking organisation, we do business today with our eye on tomorrow. It is our intent to create a sustainable organisation by minimising wastage of resources and investing in systems that will make us more efficient in how we operate and cementing our brand promise that "We are on your side". We are driven by offering you tailor made solutions that are guaranteed to put you first so as to enjoy a seamless banking/ partnership experience.

COMMITTED TO OUR CUSTOMERS' SUCCESS. DRIVEN BY SUSTAINABLE AND EFFICIENT GROWTH

OUR BUSINESS

OUR FINANCIALS

THE BANK'S UNDOUBTED RESILIENCE DURING THE PERIOD UNDER REVIEW DELIVERED A STRONG AND CONSISTENT SET OF RESULTS FOR 2021.

Abbreviations

In this document we have used the following abbreviations;

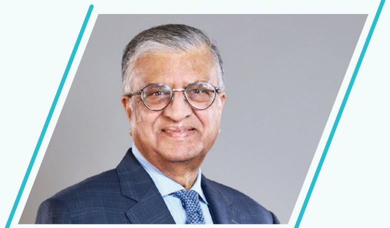
ACL	Allowance for Credit Losses
AGM	Annual General Meeting
ALCO	Assets and Liabilities Committee
BAC	Board Audit Committee
BCC	Board Credit Committe
BNRC	Board Nominations and Remuneration Committee
BPC	Board Procurement Committee
BRMC	Board Risk Management Committee
BSTC	Board Share Transfers Committee
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
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
IMBIL	I&M Bancassurance Intermediary Limited
IMGP	I&M Group PLC (Formerly I&M Holdings PLC)
INED	Indipendent non Executive Director
NED	Non Executive Director
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 BUSINESS

Board of Directors

Oliver Fowler
Chairman

Sarit S Raja Shah
Group Executive Director



Suresh B R Shah, MBS
Non-Executive Director
Chairman, Emeritus

Sachit S Raja Shah
Non-Executive Director

M Soundararajan
Independent Director

Dr. A Nyambura Koigi
Independent Director

Nikhil R Hira
Independent Director

Edward M Wambugu, MBS
Independent Director

Kihara Maina
Chief Executive Officer

Alan J Dodd
Independent Director

Maximilian Biswanger
Non-Executive Director

OUR BUSINESS (Continued)

Senior management

AV Chavda
Director Credit

Bhartesh Shah
Group Chief Operations Officer

L A Sivaramakrishnan
Divisional Head, Business Development

Zipporah Gitau
Group Chief Risk Officer

Ruma Shah
Group GM, Internal Audit

Amit Budhdev
Group Chief Finance Officer

Gauri Gupta
Group GM, Corporate Advisory

Sandeep Sinha
Group GM, Credit

Rohit Gupta
Group GM, ICT

OUR BUSINESS (Continued)

Senior management (Continued)

Josephine Mwaniki
Group GM, Human Resources

Suprio Sen Gupta
Group GM, Marketing

Kennedy Makale
Group GM, Shared Services

Shameer Patel
GM Premium, Personal & Business Banking

Henry Kirimania
GM, Treasury

Joseph Njomo
GM, Business Support

Winnie Hunja
GM, Corporate Banking

Michael Mwangi
GM, Digital Business

Stella Gacharia-Kariuki
Company Secretary

OUR BUSINESS (Continued)
Corporate information

Board of Directors

Oliver Fowler	(Chairman – appointed as Chairman on 18 March 2021)
Sarit S Raja Shah	(Group Executive Director)
Suresh B R Shah, MBS	(Retired as Chariman on 18 March 2021)
Sachit S Raja Shah	
M Soundararajan*	
Dr. A Nyambura Koigi	
Nikhil R Hira	
Edward M Wambugu, MBS	
Kihara Maina	(Chief Executive Officer)
Alan J Dodd	(Appointed on 10 February 2021)
Maximilian Biswanger**	(Appointed on 8 June 2021)

* Indian
** British

Company secretary
Stella W Gacharia (CS Kenya)
1 Park Avenue
1st Parklands Avenue
PO Box 101499-00101
Nairobi, 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
Citibank NA London
Commerzbank AG
DFCU Bank Limited
HDFC Bank Ltd
Habib AG Zurich
I&M Bank (Rwanda) PLC
I&M Bank (T) Limited
I&M Bank (Uganda) Limited
Industrial Credit and Investment Corporation of India Bank
JP Morgan London
JP Morgan New York
Standard Chartered Bank New York
Standard Chartered Bank Hong Kong
Standard Chartered Bank Dubai
Standard Bank of South Africa

OUR BUSINESS (Continued)
Corporate information (Continued)

Branches

I&M Bank House 2nd Ngong Avenue PO Box 30238 00100 Nairobi GPO	**I&M Bank Tower** Kenyatta Avenue PO Box 30238 00100 Nairobi GPO	**Sarit Centre** Karuna Road Westlands PO Box 30238 00100 Nairobi GPO	**Ansh Plaza** Biashara Street PO Box 30238 00100 Nairobi GPO
Biashara Bank Building Nyerere Avenue PO Box 86357 80100 Mombasa	**KCC Building** Changamwe Road PO Box 30238 00500 Nairobi	**Bon Accord House** Oginga Odinga Street PO Box 424 40100 Kisumu	**Karen Office Park** Langata Road PO Box 30238 00100 Nairobi GPO
Panari Centre Mombasa Road PO Box 30238 00100 Nairobi GPO	**1 Park Avenue** 1st Parklands Avenue PO Box 30238 00100 Nairobi GPO	**Wilson Airport** Pewin House PO Box 30238 00100 Nairobi GPO	**Ongata Rongai** Maasai Mall PO Box 30238 00100 Nairobi GPO
South C Shopping Centre South C PO Box 30238 00100 Nairobi GPO	**Nyali Cinemax** Main Nyali Road PO Box 86357 80100 Mombasa	**Langata Link Complex** Langata South Road PO Box 30238 00100 Nairobi GPO	**Kenol Kobil Valley Arcade** Gitanga Road PO Box 30238 00100 Nairobi GPO
Imperial Court Uganda Road PO Box 9362 30100 Eldoret	**Polo Centre** Kenyatta Avenue PO Box 18445 20100 Nakuru	**14 Riverside Drive** Riverside PO Box 30238 00100 Nairobi GPO	**Royal Towers** Hospital Road PO Box 4474 40200 Kisii
Airport Centre Mall North Airport Road PO Box 86357 80100 Mombasa	**Sabaki Centre** Lamu Road PO Box 1125 80200 Malindi	**Hopewell Place** Gakere Road PO Box 747 301 Nyeri	**80, West Place** Kenyatta Highway PO Box 1207 01000 Thika
Gigiri Square United Nations Avenue PO Box 30238 00100 Nairobi GPO	**Lavington Mall** James Gichuru Road PO Box 3023 00100 Nairobi GPO	**Mega Centre Mall** Makasembo Road PO Box 2278 30200 Kitale	**Lunga Lunga** Lunga Lunga Square PO Box 30238 00100 Nairobi GPO
Yaya Centre Argwings Kodhek Road PO Box 30238 00100 Nairobi GPO	**Gateway Mall** Mombasa road PO Box 30238 00100 Nairobi GPO	**Garden City Mall** Thika Road PO Box 30238 Nairobi GPO	**Cross Road** Off River Road PO 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	

OUR BUSINESS (Continued)

Chairman's Statement

Oliver Fowler

Introduction

I have the pleasure of presenting the I&M Bank LIMITED Annual Report for the year 2021 on behalf of the Board of Directors.

Although 2021 was a difficult year for the industry, the banking industry remained strong and resilient in providing the much-needed driving force to steer economic recovery following the COVID-19 pandemic.

This was the second year of the pandemic and we witnessed a gradual rebound of the global and local economies despite the various measures put in place to mitigate the spread of the virus.

The Bank's undoubted resilience during the period under review delivered a strong and consistent set of results for 2021.

Kenya 2021 economic performance

The Central Bank of Kenya in its October to December 2021 Quarterly Economic Review stated that the Kenyan economy rebounded strongly in 2021, attributed to increased activity in manufacturing and services sectors following the easing of COVID-19 restrictions. The economy grew by an average of 7.8 percent in the first three quarters of 2021 compared to a contraction of 0.8 percent in a similar period of 2020.

Real GDP grew by 9.9 percent in the third quarter of 2021, compared to a contraction of 2.1 percent in the third quarter of 2020. Some of the sectors that supported overall growth included manufacturing (9.5%), education (64.7%), transportation and storage (13.0%), accommodation and food serving activities (24.8%) and financial and insurance activities (6.7%). Meanwhile, the agricultural sector underperformed, contracting 1.8%, due to unfavorable weather conditions experienced in most parts of the country.

Overall, inflation declined to 6.0 percent in the fourth quarter of 2021, from 6.7 percent in the third quarter of 2021. Food inflation declined, owing to improved weather conditions. Although fuel inflation remained elevated, it declined marginally owing to Government interventions to stabilise pump prices. Non-food Non-fuel (NFNF) inflation declined, reflective of muted demand pressures in the economy.

The banking sector remained stable and resilient in the fourth quarter of 2021. Total net assets increased by 3.2 percent to KShs 6,008.0 billion in December 2021, The deposit base also increased by 2.2 percent to KShs 4,441.9 billion in the fourth quarter of 2021, while the sector remained well-capitalized with capital adequacy of 19.6 percent.

OUR BUSINESS (Continued)

Chairman's Statement (Continued)

Kenya 2021 economic performance (Continued)

The sector remained profitable in the fourth quarter of 2021, with quarterly profit before tax of KShs 49.3 Billion. Credit risk remained elevated but easing with gross non-performing loans (NPLs) to gross loans ratio standing at 13.1 percent in the fourth quarter of 2021.

Kenya economic outlook 2022

The Kenyan economy is expected to recover and gradually return to growth of above 5 percent following the easing of Government restrictions designed to mitigate the spread of COVID-19.

The country has made significant political and economic reforms that have contributed to sustained economic growth, social development and political stability gains over the past decade. However, its key development challenges still include poverty, inequality, transparency and accountability, climate change, continued weak private sector investment and the vulnerability of the economy to internal and external shocks.

GDP growth is projected at 5.0% – 5.9% in 2022. The rebound assumes that economic activity will normalise due to a full reopening of the economy, the Kenya COVID-19 Economic Recovery Strategy being successfully implemented, Kenya capitalising on an expected improvement in external liquidity and benefiting from initiatives to meet its external financing needs. The external financing initiatives could include debt refinancing, restructuring and debt service relief and additional concessional loans.

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.

Downside risks to the economic outlook could emanate from delays in the full reopening of the economy, failure to secure external financing to execute the budget, a slowdown in global growth, and disruptive social conditions during the run-up to the 2022 elections. The Russia-Ukraine conflict and the resulting global supply concerns have made navigating the African markets even more difficult, especially amid the spiraling inflation brought on by supply chain constraints impacting food and fuel prices.

Financial performance

During the period under review, the balance sheet size grew by 8.55% to close at Kshs. 307.80 billion. Customer deposits grew from Kshs. 218.15 billion to close at Kshs. 228.03 billion representing a 4.53% increase.

The Bank's lending has recorded a modest growth of 8.33% compared to December 2020. The Bank has experienced a significant improvement in its Non-Performing Assets compared to a similar period last year to stand at Kshs 18.56bn (2020 – 20.18bn).

Profit before tax for the period was Kshs 10.587bn, (2020 – 10.289bn) representing a 2.90% increase year on year.

Non-Funded Income decreased by 4.50% compared to a similar period in 2020 whilst interest income increased significantly by 15.14%. Interest expense however decreased by 6.36%, largely due to lower funding costs.

Imara 2.0 strategy implementation

The year marked the beginning of our journey in implementation of phase 2 of our corporate strategy, iMara 2.0. This phase has enabled the Bank to place digitisation at the heart of its operations and product development. Worth noting, is that iMara 2.0 focuses on three key strategic pillars: driving business growth, building resilience and optimising operations. The business growth pillar focuses on diversification into new segments such as MSME banking, entrenchment of the sales processes to ensure optimum wallet share and improvement of our digital platforms to provide clients the right solutions. The building resilience pillar looks to strengthen our liquidity and funding against emerging operational, cyber and credit risks, whilst also ensuring we remain a good corporate citizen by embracing Environmental, Social and Governance (ESG) principles. The optimisation pillar focuses on optimising business by putting in place robust platforms to support our growth strategies, re-engineering our processes so as to improve efficiency and leveraging on the Group's synergies.

Market driven solutions

During the period under review, I&M Bank LIMITED launched the Wealth Management and Advisory Services unit, under I&M Capital LIMITED. The objective is to diversify revenues by providing holistic financial solutions to our clients. The offering comprises of customised investment solutions, asset management, retirement income and financial planning. It seeks to help clients diversify their assets in order to balance their financial risks.

Additionally, the Bank launched I&M On The Go, through a partnership with Backbase which is the world's leading mobile and internet banking platform provider. The platform looks to accelerate digital transformation by transforming the customer experience when interacting with the Bank.

OUR BUSINESS (Continued)

Chairman's Statement (Continued)

Market driven solutions (Continued)

The Bank also conducted a successful pilot for the unsecured lending solution last year and subsequently launched it in early 2022. The solution aims to make it more convenient and quicker for customers to access unsecured loans through an automated platform. The solution will soon be availed on I&M On The Go.

In addition, the Bank rolled out the Brisk intercountry product, which gives customers access to their bank accounts to withdraw, deposit and transfer funds at any I&M Bank branch in Kenya, Rwanda, and Tanzania.

The Bank, in its bid to penetrate new segments for revenue diversification, also setup the MSME banking portfolio services in 2021. This offers flexible working capital solutions, business insurance related solutions and supply chain stock financing among others.

The Bank has invested in advanced data analytics to guide data-driven decision making in development of the right solutions for our customers. This is complemented by investment in an Electronic Data Warehouse that will provide structured data sets which will underpin data analysis.

Building resilience

The Bank ramped up its efforts to build resilience against emerging risks in its liquidity and funding in 2021. Key to note is that I&M Bank LIMITED made a significant investment in an upgraded Anti-Money Laundering System so as to enhance its capabilities to better manage financial crime risks. The system has helped the Bank make predictions based on transaction data and this makes it easier to identify complex money laundering patterns through data analytics.

During the period under review, the Bank also began the set-up of an Operational Risk Management system to provide better monitoring of operational risk, through improved operational risk management processes, improved risk reporting, improved organisational risk culture and productivity aligned with best practices in the industry.

The Central Bank of Kenya also released guidelines on Climate-related Risk management for financial institutions. These guidelines will be well-incorporated into the expansive ESG Framework which is under formulation with the assistance of expert consultants engaged to guide us on this increasingly important focus area for investors, regulators and consumers. The framework will guide our strategy and initiatives around ESG and will position us better to meet regulatory requirements. Worth noting is that the Nairobi Securities Exchange has also released guidelines on ESG reporting for listed institutions.

Shared value

On shared value, the Bank through the I&M Foundation continued to support various interventions aimed at promoting socio-economic prosperity amongst vulnerable communities. The Foundation continued its partnership with the Kenya Community Development Foundation to promote sustainable environments in Narok and Kilifi counties. Additionally, the Foundation supported the Shamas Rugby Foundation through its key pillar on Education and Skills Development with a Kshs 17 million grant to support the Foundation's Take Control programme. The programme looks to train over 5,000 children (ages 10 to 15) in informal settlements such as Kibera, Mathare, Kangemi, Eastlands, Korogocho and Ruiru on life skills education and mentorship programmes for a period of 3 years. The Foundation also continued its support for education scholarships and mentorship programmes at the Palmhouse Foundation, Strathmore University and St. Ann Suresh Raja Shah Secondary School in Kairi amongst other initiatives. The Foundation donated in-kind and in-cash towards various interventions aimed at easing the impact of COVID-19 on the vulnerable in society through its Enabling Giving pillar.

The I&M Group rebrand

2021 marked the completion of the I&M Group rebrand which began in late 2020. This was a major milestone for the Bank which represented the desired shift in how customers perceive I&M Bank LIMITED. It gave the Bank an opportunity to be more customer centric by living the brand values that flow from our purpose, "Empowering Your Prosperity". Worth noting is that the new brand represents a change in the full customer experience, driven by quality customer service standards and financial solutions and our ability to deliver on our brand promise – We are on Your Side.

Technology investments

Last year, I&M Bank LIMITED progressed its set up of the new Cards Management System. The project was initiated through a partnership with OpenWay to modernise the Bank's cards payments infrastructure, in a bid to maintain its market position in service excellence, operational efficiency and product quality. The new card payments system now provides more stability, flexibility in product configuration and faster time-to-market. The system is envisaged to improve quality of card transactions and will allow for greater versatility of the Bank's card products suite. Through this system, the Bank looks to roll out advanced product features such as instalment payments, ePins, multi-currency and virtual cards.

OUR BUSINESS (Continued)

Chairman's Statement (Continued)

Future outlook

2022 comes with a lot of optimism despite the continued threat of COVID-19, the rising geo-political tensions emanating from the Russia-Ukraine war and the upcoming general elections. As a financial institution, we are confident that our iMara 2.0 strategy is robust and has positioned us well for future growth despite the challenges impacting the operating environment.

Our major focus is to accelerate the digital transformation journey through implementation of the Digital strategy, rolling out of the future state enterprise infrastructure programme and embedding digital channels to ensure that we deliver the right financial solutions for our customers. Other key focus areas are to continue building the Bank's resilience to manage the intersection between cyber risk and financial crime, fast tracking our ESG initiatives to boost our citizenship and sustainability efforts, as well as to grow our business through diversification of revenue streams by providing holistic financial solutions for our target market segments.

From a business performance perspective, we look to grow our balance sheet from a combination of deepening connections with our existing customers banking with us and penetrating existing and new market segments to extend our solutions to potential customers and grow our customer base. Additionally, we envisage to improve our cost-income ratio by managing our costs better as we drive up our revenues. We also look to grow our Non-Funded Income portfolio and boost our total net revenue through increasing our digitally active customers.

Acknowledgment

I take this opportunity to share my gratitude with the different parties who contributed significantly to ensuring that 2021 remained a success despite the continued threat of COVID-19.

1. To our customers: As always, we are grateful for your continued patronage with I&M Bank LIMITED. Your belief in our solutions and insights does not go unappreciated. Premised on our stated purpose - Empowering Your Prosperity, we remain committed to ensuring that we deliver the right solutions as we walk with you in every stage of your life.

2. To our shareholders: We appreciate your continued trust in our investment decisions. We commit to learn the lessons from 2021 and take advantage of opportunities in 2022 to enhance your shareholder value with us.

3. To our staff: Your persistence and resilience in a very difficult year, which was the second year of the pandemic, is highly appreciated. In the true I&M Way, you executed for our customers and shareholders with utmost professionalism and quality service delivery standards. Your continued resolve, diligence and sense of purpose is highly appreciated.

4. To my fellow Directors: Your wise counsel, support and guidance in providing strategic direction for this organisation is highly appreciated.

5. To our regulators (Central Bank of Kenya, Capital Markets Authority and Insurance Regulatory Authority): We remain appreciative of the support and guidance provided to the Bank in all its key milestones achieved throughout the year.

I extend my best wishes to all on behalf of the Board and the Bank for a prosperous year ahead.

Oliver Fowler
Chairman
25 March 2022

OUR BUSINESS (Continued)

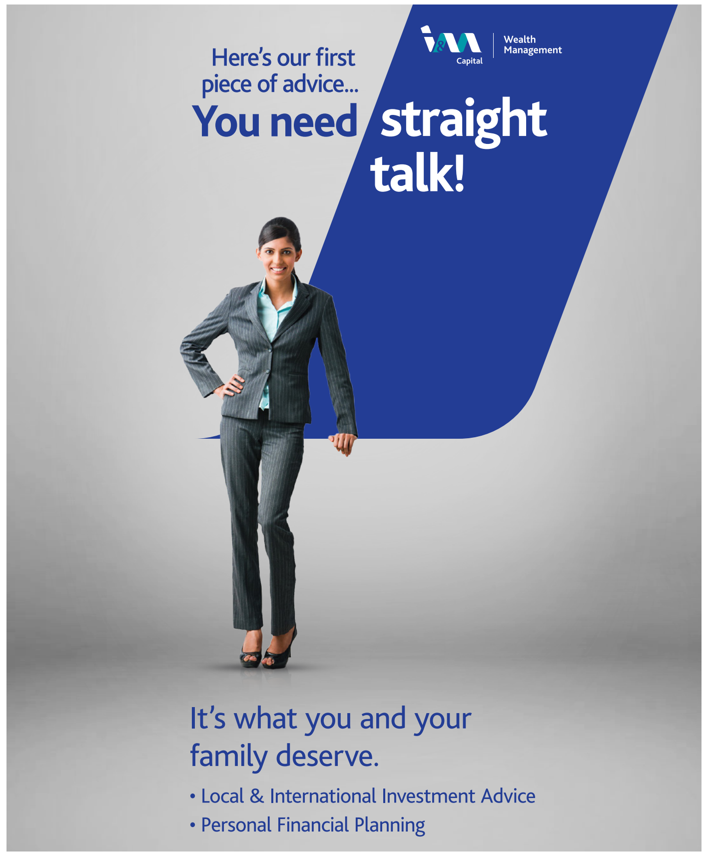
I&M News

I&M Bank LIMITED long-serving Chairman retires after serving for 47 years; new chairman appointed

I&M Bank LIMITED announced the retirement of its Chairman Mr. Suresh Bhagwanji Raja (SBR) Shah. However, he has since remained on the Board as a Non-Executive Director. The Bank subsequently appointed Mr. Oliver Fowler to serve as the Chairman of the Board effective March 2021.

Founder and Chair since its inception in 1974, Mr. SBR Shah is a seasoned career banker. He led the I&M Bank through a myriad of milestones such as acquisitions of Biashara Bank, Giro Bank, and Youjays Insurance LIMITED in Kenya. He also oversaw the development of the Bank into a Financial Services Group that provides diverse solutions such as Real-estate, Financial Advisory and Bancassurance.

His successor, Mr. Oliver Fowler had served on the I&M Group PLC Board since August 2015 and took over the mantle to lead strategic direction for I&M Bank. His experience encompasses commercial work, particularly financial, corporate and taxation matters, and he has been extensively involved in project finance, capital markets, banking, and foreign investments sectors.



I&M Bank unveils Wealth Management and Advisory Services

I&M Bank LIMITED unveiled its Wealth Management and Advisory Business in a move to drive business growth through revenue diversification. The service, targeting high net worth and premium customers and potential customers, is offered through I&M Capital, a subsidiary of the I&M Group PLC and is licensed as a fund manager by the Capital Markets Authority.

The offering comprises of customised investment solutions, asset management, retirement income and financial planning and seeks to help clients diversify their assets in order to balance their financial risks.

It entails a tailor-made investment strategy that comes with a wide range of products such as fixed income securities, portfolio restructuring and optimisation, investment loans for Government Securities, insurance products, equities and offshore Investments offered in collaboration with Bank One Mauritius, a subsidiary of I&M Group PLC. The personalised investment strategy is developed through a consultative process with the client and the Bank's Wealth Management Advisors and is tailored and scaled to the clients' risk tolerance, time horizon and unique investment needs.

OUR BUSINESS (Continued)

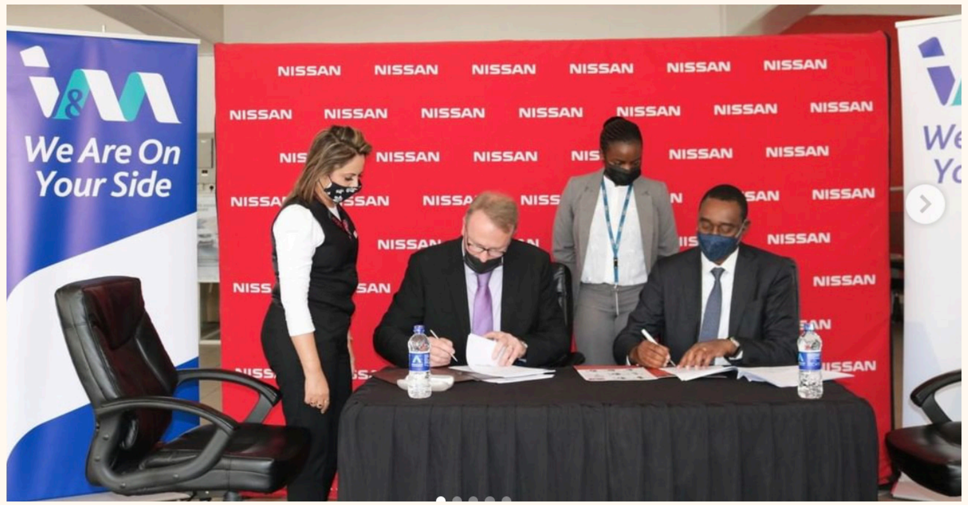
I&M News (Continued)

I&M Bank LIMITED and Crown Motors Group ink deal on Asset Financing

In a move to drive business growth through diversification of various revenue streams, I&M Bank LIMITED and Crown Motors Group Ltd entered into a Vehicle Asset Financing partnership agreement for the Bank to finance Crown Motors range of passenger cars and light commercial vehicles.

The partnership has seen the Bank provide up to 100% Asset Financing to its customers. Under the agreement, customers have been enjoying competitive interest rates at extended repayment periods of up to 5 years. The Bank, through the Bancassurance arm, has been providing an enriched comprehensive motor insurance package at a discounted premium rate through this Asset Finance option.

In addition, the Bank has been providing insurance premium financing for this arrangement, allowing customers to make premium payments in affordable instalments with a two-month repayment holiday.



The partnership has seen the Bank provide up to

100%

Asset Financing

IFC and FMO partners with I&M Bank LIMITED to support SMEs amidst ongoing COVID-19 fallout in Kenya

Industrial Finance Corporation (IFC) and FMO, the Dutch entrepreneurial development bank, extended a total funding line worth $50 million to I&M Bank LIMITED in a bid to help smaller businesses across a range of sectors in Kenya to access finance for working capital, expansion, and to weather the effects of COVID-19.

This loan has strengthened I&M Bank LIMITED'S regulatory capital position and ability to support economic activity in the country. The Bank has been utilising this funding line to lend to small and medium-sized enterprises mainly in the trade, manufacturing, and construction sectors.

Additionally, the partnership entails training the Bank's staff on green financing, so as to better equip the Bank to support green investments, including renewable energy and climate-smart agriculture.

I&M Bank Kenya partners with global banking software provider Backbase to launch omni-channel platform for digital banking

As part of its strategic intent to bolster its customers' access to digital banking services, I&M Bank LIMITED partnered with global digital banking software provider Backbase to leverage on the award winning omni channel digital banking platform to enhance the Bank's digital banking offerings. Dubbed I&M On The Go (OTG), the solution enables customers to access the Bank's services in real-time, through mobile banking and internet banking giving them a delightful customer journey experience.

In line with the Bank's efforts to continue delivering innovative digital solutions that enhance customers' banking experience, the Bank will focus on maximising on the new system's capabilities to roll out additional digital services such as digital lending for personal and MSME clients.

OUR BUSINESS (Continued)
I&M News (Continued)

I&M Bank LIMITED launches solution for seamless banking across East Africa

I&M Bank LIMITED launched the BRISK intercountry service. This service gives customers free access to withdraw, deposit and transfer funds from their I&M account at any I&M Bank branch in Kenya, Rwanda, and Tanzania. This will be of great convenience to customers who have cross-border regional import or export transactions or to those who travel within the region frequently.

I&M Bank LIMITED completes rebrand exercise

2021 marked the completion of the Rebrand exercise in I&M Bank, Kenya and across the Group. The initiative re-affirmed the Bank's Brand Promise – We are On Your Side, to our customers. The new brand visual identity adds more vibrancy to our corporate image and endeavors to build the I&M Brand Value to reflect a modern progressive organisation based on solid values. The new logo for the Group draws inspiration from a DNA strand, representing continuity as well as modernity.

I&M corporate golf day makes a comeback

I&M Bank LIMITED hosted the I&M Corporate Golf Day after a year's hiatus. The event was well attended and gave the Bank an opportunity to build its brand visibility and loyalty amongst customers, while enlightening them on the newly launched Wealth Management Services, which themed the event. The event targeted Premium, Corporate and Business banking customers.

OUR BUSINESS (Continued)
I&M News (Continued)

I&M Bank LIMITED hosts tax webinar

The Bank held a successful webinar in partnership with Anjarwalla and Khanna, one of the leading Corporate Law firms in Eastern Africa, on tax policies. The event attracted a good number of our Corporate, Business and Premium customers and provided a platform to enlighten them on the latest tax trends and tax optimisation opportunities for businesses and individuals.

The forum gave customers a better understanding of the various new taxation proposals, especially those that look to support the countries' economic recovery from the effects of COVID-19.

I&M Bank LIMITED hosts webinar on estate succession planning

I&M Bank LIMITED conducted a webinar on estate succession planning for our Corporate, Business and Premium Banking customers. The webinar, themed the highlighted section should be in italics and within open and closing single speech marks, looked to help our customers' businesses prosper by focusing on wealth conservation through succession planning in the event of unexpected tragedy. The webinar also guided customers on how to avoid complexities that may arise after unexpected tragedy which may hinder long term success for their businesses. The event was held in conjunction with Anjarwalla and Khanna, one of the leading Corporate Law firms in Eastern Africa.

I&M Bank LIMITED hosts young savers for financial literacy webinar

The Bank hosted the Young Savers account holders to a webinar on financial literacy in partnership with Centonomy, a financial training organisation in Kenya that focuses on Savings and Investments for individuals of all ages. The webinar looked to nurture creativity and talent amongst the young savers, while providing key learnings on financial management. The event incorporated competitive puzzles that enabled kids to apply their learnings from the webinar on money and savings.

Our Business
Our Financials

OVERALL, OUR REGIONAL MARKETS REMAINED VERY COMPETITIVE, WITH PRICES COMING UNDER PRESSURE ACROSS ALL SEGMENTS

OUR FINANCIALS
Report of the directors for the year ended 31 December 2021

Net profit closed at KShs 7.45 billion

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2021, 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 Bancassurance Intermediary 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 are regulated by Central Bank of Kenya and Bank of Tanzania respectively. I&M Bancassurance Intermediary Limited on the other hand provide insurance agency services as defined by the Insurance Act.

2. Results/business review

The consolidated results for the year are as follows:

	2021 KShs'000	2020 KShs'000
Profit before income tax	11,235,121	10,698,178
Income tax expense	(3,788,103)	(2,185,196)
Net profit for the year after tax	**7,447,018**	**8,512,982**

Net profit closed at KShs 7.45 billion, a 12.52% decrease due to significant increase in loan loss provisions and decrease in trading income. Net operating income increased by KShs 2.34 billion while operating expenses increased by KShs 1.8 billion.

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

3. Dividend

The Directors recommend payment of a final dividend of KShs 134 per share amounting to KShs 4,000,000,000 for the year ended 31 December 2021 (2020 – Kshs 2,478,526,682).

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 7 and 10. The Company provides professional indemnity for all the Directors.

OUR FINANCIALS (Continued)
Report of the directors for the year ended 31 December 2021 (Continued)

Net operating income increased by KShs 2.34 billion while operating expenses increased by KShs 1.8 billion.

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 25 March 2022.

BY ORDER OF THE BOARD

Secretary
Date: 25 March 2022.

OUR FINANCIALS (Continued)
Statement on corporate governance

Governance framework

The Board of Directors of I&M Bank LIMITED (Bank, Company or 'I&M') is committed to ensuring that the Bank conducts its business with the highest 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 has applied the principles of sound Corporate Governance as mandated in the Central Bank of Kenya Guidelines on Corporate Governance.

The Board of Directors – Roles and responsibilities

The Board has put in place the necessary mechanisms to enable it effectively discharge its roles and responsibilities. The specific roles and responsibilities to be discharged by the Board, its Committees and Directors individually and collectively are outlined in the Board Charter. The Board Charter is reviewed every two years to ensure relevance amidst changes in the Bank's operating environment.

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 all its stakeholders. This entails approval and oversight of the implementation of the Bank's strategic objectives, risk management 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.

Board & Board committee structure

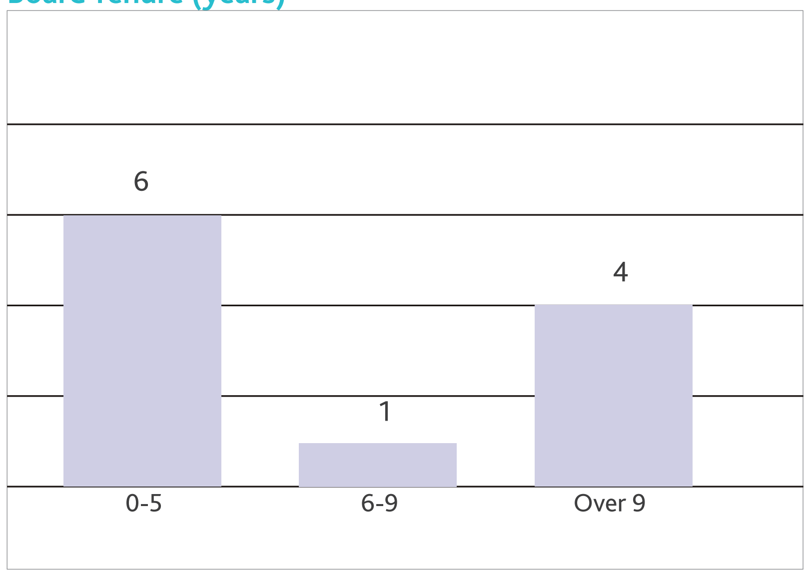
The Board

The Bank's Articles of Association provide that the Board shall consist of not less than five (5) and not more than twelve (12) directors. During the year under review, the Board consisted of eleven (11) members led by the Chairman, Mr Oliver Fowler.Independent Directors constituted 55% of the Board well above the requirement in the Bank's corporate governance policy. The policy stipulates that the Board shall at all times have at least one third of its members as independent Directors.

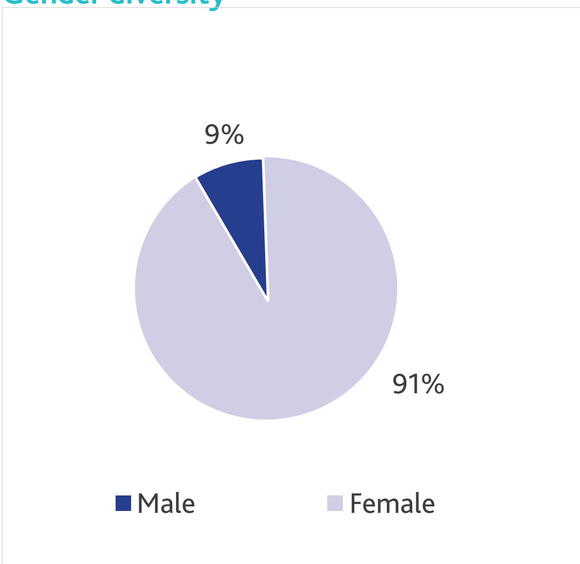
The tenure of independent Directors is set at a maximum of 9 years save for exceptional circumstances where the tenure of a Director may be extended by the shareholders. Further the term of office of various Directors is organized in a manner that ensures a smooth transition. The Board also ensures that the functions of the Chairperson and the CEO are not exercised by the same individual.

The Board, collectively has vast experience stemming out of the individual Director's varied backgrounds across a multitude of disciplines. During the year under review, the Board undertook a skills assessment exercise culminating in preparation of a Board Skills Matrix. Following this exercise, it was concluded that the Board is well balanced and has the relevant skills and experience required to drive the organization forward. Gender diversity was noted as an area that presents an opportunity for review at the opportune time.

Board Tenure (years)



Gender diversity



OUR FINANCIALS (Continued)
Statement on corporate governance (Continued)
Board of Directors

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
	**Suresh B R Shah, MBS** Non - Executive Director Mr. Suresh Bhagwanji Raja Shah is a founder member and immediate past Chairman of the Board. 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** Group 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 Group PLC (Formerly I&M Holdings PLC) subsidiaries and associates such as: I&M Bank LIMITED, I&M Bank (T) Limited and GA Insurance Limited.

OUR FINANCIALS (Continued)
Statement on corporate governance (Continued)
Board of Directors (Continued)

Director | Profile

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 joined the board as an independent non-executive director in 2009 after a successful commercial and investment banking career spanning 37 years in India, United States and Kenya. He held senior executive and leadership positions in Commercial Bank of Africa (now NCBA) as director, corporate banking, CFC Financial Services (now SBG Securities) as its first Managing Director and CFC Bank as Managing director before its acquisition by Stanbic Bank in 2008. Mr Soundararajan sits on the boards of GA Insurance, GA Life Assurance, GA Insurance, Tanzania, I&M Bank Rwanda and Car & General (Kenya) Plc. He served on the board of Central Depositary & Settlement Corporation (CDSC) for four years from 2004 to 2008. Mr Soundararajan holds a Master of Arts degree from Madras University, India and holds a Certificate in International Banking from New York University. He currently heads MTC Trust & Corporate Services, a professional fiduciary practice.

Dr. A Nyambura Koigi, MBS

Independent Non - Executive Director

Dr. Nyambura Koigi joined the Board in April 2015. Former Managing Director, Postbank, 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 in Business Administration from the Nelson Mandela Metropolitan University, an MBA and a BA both from the University of Nairobi. She is a fellow of the Institute of Certified Public Secretaries of Kenya and the Kenya Institute of Management. She sits on the boards of several companies.

Nikhil R 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.

OUR FINANCIALS (Continued)
Statement on corporate governance (Continued)
Board of Directors (Continued)

Director | Profile

Edward M 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.

Sachit S Raja 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, including 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.

Maximilian Biswanger

Non-Executive Director

Mr. Maximilian Biswanger joined the Board in June 2021 as a representative of CDC Group Plc. He is an Investment Director at CDC's Financial Services Group, Equity and leads the group's equity investment activities in Digital Financial Services. He is also is a member of the Board of Directors at M-Kopa, Africa's leading connected asset financing company, and acts as Board Observer for Indifi, a digitally-enabled MSME lender in India. Prior to joining CDC, he worked in mergers and acquisitions at Rothschild & Co. He holds a degree in International Business Science from the European School of Business, Germany and Universidad Pontificia Comillas - ICADE, Spain and a MLitt in Peace & Conflict Studies/International Relations from University of St Andrews, UK. He has a wealth of experience in private equity / development finance investments in financial services companies across Africa and South Asia.

OUR FINANCIALS (Continued)
Statement on corporate governance (Continued)
Board of Directors (Continued)

Board succession planning

The Board, through the Board Nomination & Remuneration 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 steer the Bank effectively 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. During the induction session, they are provided with a comprehensive induction and information pack containing a presentation on the affairs, strategy, Governance structure & conduct of meetings, the Director's duties & responsibilities, the Bank's constitutive documents and such other useful documents. In addition, as part of the induction process, incoming Directors have one-on-one sessions with senior management and visit some of the key branches and departments to better understand the operations of the Bank.

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 through the Group Executive Director and Chief Executive Officer, have access to senior management 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.

Furthermore, 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 its Board members, up-skilling and continuous development programs in order to enhance Governance practices within the Board itself. Tabulated below are the programs held during the year. To ease training for Directors and in keeping with the Government recommended protocols during the COVID-19 pandemic, the Bank provided an online portal to allow Directors to undertake virtual self-study on various topics of interest.

Program	Date
Training on Emerging Laws and Legislations	21 May 2021
Audit and Risk Conference on future proofing resilience, embedding ESG into the risk management process and climate change	13 October 2021 and 14 October 2021

Board evaluation

The Board has established mechanisms to evaluate annually 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, as well as the performance of the Chairperson, individual directors, and Company Secretary. The feedback is shared with the Board, Board Committees and respective individuals and actions agreed to enhance performance. These are tracked throughout the year to closure through the Board Nomination and Remuneration Committee.

Board meetings

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

OUR FINANCIALS (Continued)
Statement on corporate governance (Continued)
Board meetings (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-2021	24-Jun-2021	20-Sep-2021	9-Dec-2021	Total Board meetings attended in 2021
Oliver M Fowler (Chairman)	√	√	√	√	100%
Suresh B R Shah (Chairman Emeritus)	√	√	√	√	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%
Alan J Dodd	√	√	√	√	100%
Maximilian Biswanger	N/A	√	√	√	100%

√ Attended
X Not Attended
N/A Either resigned or not yet appointed to Board

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

OUR FINANCIALS (Continued)
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 Nomination & Remuneration Committee	Board Share Transfers Committee
Structure	▪ 4 Independent Non-Executive Directors (INED) including the Chairman ▪ Company Secretary	▪ 3 INED including the Chairman ▪ 1 Non-Executive Director (NED) ▪ Group Executive Director ▪ CEO ▪ Company Secretary	▪ 3 INED including the Chairman ▪ 1 NED ▪ Group Executive Director ▪ CEO ▪ Company Secretary	▪ 3 INED including the Chairman ▪ 1 NED ▪ Group Executive Director ▪ CEO ▪ Group COO ▪ Group CFO ▪ Company Secretary	▪ 3 INED including the Chairman ▪ Group Executive Director ▪ Company Secretary	▪ 2 NED including the Chairman ▪ 1 Executive Director ▪ 1 Group Executive Director ▪ Company Secretary
Composition	▪ Nikhil Hira ▪ Nyambura Koigi ▪ M Soundararajan ▪ Alan Dodd	▪ Nyambura Koigi ▪ M Soundararajan ▪ Muchemi Wambugu ▪ Sachit S Shah ▪ Sarit S Raja Shah ▪ Kihara Maina	▪ M Soundararajan ▪ Nikhil Hira ▪ Sachit S Shah ▪ Sarit S Raja Shah ▪ Alan Dodd ▪ Kihara Maina	▪ Muchemi Wambugu ▪ M. Soundararajan ▪ Sarit S Raja Shah ▪ Alan Dodd ▪ Kihara Maina ▪ Bhartesh Shah ▪ Amit Budhdev	▪ M Soundararajan Chairman ▪ Nikhil Hira ▪ Alan Dodd ▪ Sarit S Raja Shah	▪ SBR Shah ▪ Sarit S Raja Shah ▪ Sachit S Shah
Regular Invitees	▪ Chief Audit Executive ▪ Group Chief Audit Executive ▪ Group Executive Director ▪ CEO ▪ Group Chief Operating Officer ▪ Company Secretary	▪ Group Chief Operating Officer ▪ Group Chief Risk Officer ▪ Head of Compliance ▪ Group Chief Information Security Officer ▪ Group Chief Audit Executive ▪ Chief Audit Executive ▪ Company Secretary	▪ Divisional Head-Business Development ▪ Group General Manager Credit ▪ Assistant General Manager Credit ▪ Assistant General Manager, Debt Recovery Unit ▪ Company Secretary	▪ Senior Manager Procurement ▪ Group Chief Information Officer ▪ General Manager, Projects ▪ Company Secretary	▪ CEO ▪ Group Chief Operating Officer ▪ Group General Manager HR ▪ Company Secretary	▪ ▪ A member of senior management at the discretion of the Committee

OUR FINANCIALS (Continued)
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	Bi-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 and CEO ▪ Set remuneration policies and strategic objectives of Board, GED and CEO. ▪ Policies in relation to the ESOP Scheme and provide requisite guidance to Scheme Trustee.

OUR FINANCIALS (Continued)
Statement on corporate governance (Continued)
Board committees (Continued)

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

OUR FINANCIALS (Continued)
Statement on corporate governance (Continued)
Board 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.

OUR FINANCIALS (Continued)
Statement on corporate governance (Continued)
Board committees (Continued)

	Making Banking Great Steering Committee	Human Resources 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)
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 ▪ 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)
Frequency of meetings	Once every 6 weeks	Once every 2 months	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.	▪ 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.

OUR FINANCIALS (Continued)
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 as well as 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 characterised 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. This 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.

The Bank has recognized ESG (Environment, Social, Governance) as a key risk with the growing emphasis on climate change. The Bank's risk management framework has been aligned to ensure formulation and implementation of an ESG framework to focus on this risk in line with international best practice and the guidance on climate-related risk management issued by the Central Bank of Kenya.

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 is committed to follow 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 Bank's independent compliance function continuously monitors the Bank's compliance with applicable laws, rules and regulations, codes and standards and provides an assurance in this respect to the Board on a quarterly basis.

All policies and procedures are tailored to ensure that the Bank's processes are fully compliant with all relevant laws and regulations. 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 Committees. This is undertaken through an 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 an 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.

OUR FINANCIALS (Continued)
Statement on corporate governance (Continued)
Risk management, internal controls & compliance (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 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 are incorporated if necessary.

Conflicts of interest

The Board has in place a policy to provide guidance on what constitutes a conflict of interest. The Board expects its members, both individually and collectively, to act ethically and in a manner consistent with the values of the business. Each Director is obligated to, 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.

OUR FINANCIALS (Continued)
Statement on corporate governance (Continued)
Ethics & social responsibility (Continued)

Insider trading & related party transactions (Continued)

Through the Group, the Bank has also adopted a related party policy that outlines how to deal with related parties in a transparent manner and at arm’s length on related party transactions. Related parties, whether body corporate or natural persons, fall into two main groups:

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

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

OUR FINANCIALS (Continued)

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 42 to 161 which comprise the consolidated and company statements of financial position as at 31 December 2021, 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 **25 March 2022.**

Nikhil R Hila **Director**	Sarit Raja Shah **Director**	Kihara Maina **Director**

Date: 25 March 2022.

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") as set out on pages 42 to 161, which comprise the consolidated and company statements of financial position as at 31 December 2021, 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 2021, 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 the 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 for the year ended 31 December 2021,* 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, other than that prescribed by the Kenyan Companies Act, 2015, as set out below.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, 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)

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

Directors' responsibilities for the consolidated and separate financial statements

Directors are responsible for the preparation of 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 misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the 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 or to cease operations, or have 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 the 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 the 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 the Company to cease to continue as a going concern.

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated 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 22 and 23 is consistent with the consolidated and separate financial statements.

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

For and on behalf of:

KPMG Kenya
Certified Public Accountants
PO Box 40602 - 00100
Nairobi

Date: 25 March 2022

OUR FINANCIALS (Continued)
Consolidated statement of profit or loss and other comprehensive Income
For the year ended 31 December 2021

	Note	2021 KShs'000	2020 KShs'000
Interest income	8(a)	27,120,691	23,577,383
Interest expense	9(a)	(9,926,439)	(10,457,395)
Net interest income		**17,194,252**	**13,119,988**
Fee and commission income	10(a)	4,120,463	3,781,495
Fee and commission expense	10(a)	(204,181)	(143,118)
Net fee and commission income	10(a)	**3,916,282**	**3,638,377**
Revenue		**21,110,534**	**16,758,365**
Net trading income	11(a)	2,796,500	3,293,637
Other operating income	12(a)	108,547	116,335
Net operating income before change in expected credit losses and other credit impairment charges		**24,015,581**	**20,168,337**
Net impairment losses on financial assets	21(b)	(3,362,703)	(1,857,277)
Net operating income		**20,652,878**	**18,311,060**
Staff costs	13(a)	(4,466,804)	(3,548,976)
Premises and equipment costs	13(a)	(405,174)	(399,448)
General administrative expenses	13(a)	(3,217,148)	(2,628,519)
Depreciation and amortisation	13(a)	(1,328,631)	(1,035,939)
Operating expenses		**(9,417,757)**	**(7,612,882)**
Profit before income tax	14(a)	**11,235,121**	**10,698,178**
Income tax expense	15(a)(i)	(3,788,103)	(2,185,196)
Net profit for the year after tax		**7,447,018**	**8,512,982**

(Continued Page 43)

The notes set out on page 53 to 161 form an integral part of these financial statements.

OUR FINANCIALS (Continued)
Consolidated statement of profit or loss and other comprehensive income (Continued)
For the year ended 31 December 2021 (Continued)

	Note	2021 KShs'000	2020 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	(269,358)	161,724
Deferred tax on fair value of FVOCI financial assets - Equity instruments		80,807	(48,517)
Items that are or may be reclassified to profit or loss:			
Net change in fair value of FVOCI financial assets- Debt instruments	22	(828,461)	276,549
Deferred tax on fair value of FVOCI financial assets - Debt instruments		248,540	(82,965)
Foreign currency translation differences		194,628	269,437
Total other comprehensive income for the year		**(573,844)**	**576,228**
Total comprehensive income for the year		**6,873,174**	**9,089,210**
Profit attributable to:			
Equity holders of the company		7,372,029	8,431,558
Non-controlling interest		74,989	81,424
		7,447,018	**8,512,982**
Comprehensive income attributable to:			
Equity holders of the company		6,755,444	8,935,034
Non-controlling interest		117,730	154,176
		6,873,174	**9,089,210**
Basic and diluted earnings per share - (KShs)	16	**247.38**	**282.94**

The notes set out on pages 53 to 161 form an integral part of these financial statements.

OUR FINANCIALS (Continued)

Company statement of profit or loss and other comprehensive income (Continued)

For the year ended 31 December 2021 (Continued)

	Note	2021 KShs'000	2020 KShs'000
Interest income	8(b)	24,614,610	21,377,125
Interest expense	9(b)	(8,947,180)	(9,555,256)
Net interest income		**15,667,430**	**11,821,869**
Fee and commission income	10(b)	3,598,068	3,330,661
Fee and commission expense	10(b)	(194,958)	(131,648)
Net fee and commission income	10(b)	**3,403,110**	**3,199,013**
Revenue		**19,070,540**	**15,020,882**
Net trading income	11(b)	2,643,895	3,149,146
Other operating income	12(b)(i)	134,325	109,890
Dividend income	12(b)(ii)	27,500	116,140
Net operating income before change in expected credit losses and other credit impairment charges		**21,876,260**	**18,396,058**
Net impairment losses on financial assets	21(b)	(3,098,467)	(1,601,678)
Net operating income		**18,777,793**	**16,794,380**
Staff costs	13(b)	(3,829,782)	(3,016,650)
Premises and equipment costs	13(b)	(364,084)	(359,324)
General administrative expenses	13(b)	(2,846,313)	(2,256,770)
Depreciation and amortisation	13(b)	(1,150,167)	(872,605)
Operating expenses		**(8,190,346)**	**(6,505,349)**
Profit before income tax	14(b)	**10,587,447**	**10,289,031**
Income tax expense	15(a)(ii)	(3,581,766)	(2,027,274)
Net profit for the year after tax		**7,005,681**	**8,261,757**
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	(78,065)	328,920
Deferred tax on fair value of FVOCI financial assets - Equity instruments		23,420	(98,676)
Items that are or may be reclassified to profit or loss:			
Net change in fair value of FVOCI financial assets	22	(822,573)	276,549
Deferred tax on fair value of FVOCI financial assets		246,771	(82,965)
Total other comprehensive income for the year		**(630,447)**	**423,828**
Total comprehensive income for the year		**6,375,234**	**8,685,585**
Basic and diluted earnings per share - (KShs)	16	**235.09**	**277.24**

The notes set out on pages 53 to 161 form an integral part of these financial statements.

OUR FINANCIALS (Continued)

Consolidated statement of financial position

At 31 December 2021

	Note	2021 KShs '000	2020 KShs '000
ASSETS			
Cash and balances with central banks	18(a)	17,539,247	16,061,058
Items in the course of collection	19(a)	654,632	622,994
Loans and advances to banks	20(a)	6,005,054	14,109,377
Loans and advances to customers	21(a)(i)	179,559,148	164,776,964
Financial assets at fair value through profit or loss (FVTPL)	22(a)(i)	15,932,960	11,798,434
Financial assets measured at fair value through other comprehensive income (FVOCI)	22(b)(i)	62,538,424	41,464,529
Other financial assets at amortised cost	22(c)(i)	36,177,880	41,665,290
Held for sale assets	23(a)	1,001,430	1,020,401
Property and equipment	25(a)	3,853,538	3,933,603
Intangible assets - goodwill	26(a)(i)	758,788	737,560
Intangible assets - software	26(b)(i)	2,144,297	1,870,088
Tax recoverable	15(b)(i)	126,054	72,535
Deferred tax asset	27(a)	4,876,653	4,522,038
Due from group companies	28(a)(i)	790,849	806,335
Other assets	29(a)	2,016,943	1,628,272
TOTAL ASSETS		333,975,897	305,089,478
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	30(a)	11,990,628	1,280,233
Deposits from customers	31(a)	249,434,667	235,306,158
Due to group companies	28(b)(i)	1,792,385	951,315
Tax payable	15(b)(i)	29,310	57,980
Other liabilities	32(a)	3,640,510	4,062,046
Long term debt	33(a)	3,964,050	5,981,854
Subordinated debt	34(a)	8,924,816	3,380,047
		279,776,366	**251,019,633**
Shareholders' equity (Page 49-50)			
Share capital	35(a)	2,980,000	2,980,000
Share premium	35(b)	5,531,267	5,531,267
Retained earnings		37,975,789	39,278,973
Statutory credit risk reserve	35(c)	7,281,534	5,179,151
Fair value reserve	35(e)	(536,377)	183,218
Translation reserve	35(d)	(100,160)	(252,101)
Equity attributable to owners of the company		**53,132,053**	**52,900,508**
Non- controlling interest		1,067,478	1,169,337
Total shareholders' equity		**54,199,531**	**54,069,845**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**333,975,897**	**305,089,478**

The financial statements set out on pages 42 to 161 were approved and authorised for issue by the Board of Directors on **25 March 2022** and were signed on its behalf by:

Nikhil R Hila **Director**	Sarit Raja Shah **Director**	Kihara Maina **Director**	Stella W Gacharia **Secretary**

The notes set out on pages 53 to 161 form an integral part of these financial statements.

OUR FINANCIALS (Continued)

Company statement of financial position

At 31 December 2021

	Note	2021 KShs '000	2020 KShs '000
ASSETS			
Cash and balances with Central Bank of Kenya	18(b)	13,931,296	13,745,687
Items in the course of collection	19(b)	648,914	619,833
Loans and advances to banks	20(b)	4,990,799	13,504,068
Loans and advances to customers	21(a)(ii)	162,145,643	149,675,064
Financial assets at fair value through profit or loss (FVTPL)	22(a)(ii)	15,932,960	11,798,434
Financial assets measured at fair value through other comprehensive income (FVOCI)	22(b)(ii)	62,838,955	41,878,761
Other financial assets at amortised cost	22(c)(ii)	30,605,205	36,732,012
Held for sale assets	23(b)	1,001,430	1,020,401
Investment in subsidiaries	24	3,057,685	2,750,753
Property and equipment	25(b)	3,492,610	3,552,193
Intangible assets - software	26(b)(ii)	1,916,636	1,607,476
Tax recoverable	15(b)(ii)	125,958	79,972
Deferred tax asset	27(b)	4,408,125	4,113,030
Due from group companies	28(a)(ii)	839,071	1,024,802
Other assets	29(b)	1,866,978	1,466,061
TOTAL ASSETS		**307,802,265**	**283,568,547**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	30(b)	11,572,476	1,014,464
Deposits from customers	31(b)	228,030,619	218,152,863
Due to group companies	28(b)(ii)	1,773,808	1,212,576
Other liabilities	32(b)	3,148,494	3,581,021
Long term debt	33(b)	2,431,625	4,233,156
Subordinated debt	34(b)	8,924,816	3,050,747
		255,881,838	**231,244,827**
Shareholders' equity (page 51-52)			
Share capital	35(a)	2,980,000	2,980,000
Share premium	35(b)	5,531,267	5,531,267
Retained earnings		36,937,303	38,925,990
Statutory credit risk reserve	35(c)	6,747,297	4,580,387
Fair value reserve	35(e)	(275,440)	306,076
		51,920,427	**52,323,720**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**307,802,265**	**283,568,547**

The financial statements set out on pages 42 to 161 were approved and authorised for issue by the Board of Directors on 25 March 2022 and were signed on its behalf by:

Nikhil R Hila	Sarit Raja Shah	Kihara Maina	Stella W Gacharia
Director	**Director**	**Director**	**Secretary**

The notes set out on pages 53 to 161 form an integral part of these financial statements.

OUR FINANCIALS (Continued)

Consolidated statement of cash flows

For the year ended 31 December 2021

	Note	2021 KShs'000	2020 KShs'000
Net cash flows generated from operating activities	36(a)	**(12,622,036)**	**(15,307,812)**
Cash flows from investing activities			
Purchase of property and equipment (excluding right of use assets)	25(a)	(613,337)	(1,177,390)
Purchase of intangible assets	26(b)(i)	(738,593)	(804,870)
Proceeds from disposal of property and equipment		12,831	12,776
Rights issue - I&M Bank (T) Limited		35,039	-
Net cash used in/(from) investing activities		**(1,304,060)**	**(1,969,484)**
Cash flows from financing activities			
Payment of lease liabilities	32(c)	(351,297)	(314,132)
Net inflow/(outflow) of subordinated debt		5,544,769	(265,200)
Dividend paid to shareholders of the company		(6,778,527)	(3,377,000)
Dividend paid to non-controlling interest		-	(32,421)
Net cash flow used in financing activities		**(1,585,055)**	**(3,988,753)**
Net increase in cash and cash equivalents		**(15,511,151)**	**(21,266,049)**
Cash and cash equivalents at start of the year		**20,114,082**	**41,380,131**
Cash and cash equivalents at end of the year	36(b)	**4,602,931**	**20,114,082**

The notes set out on pages 53 to 161 form an integral part of these financial statements.

OUR FINANCIALS (Continued)
Company statement of cash flows
For the year ended 31 December 2021

	Note	2021 KShs'000	2020 KShs'000
Net cash flows generated from operating activities	36(c)	**(14,050,987)**	**(19,354,861)**
Cash flows from investing activities			
Purchase of property and equipment (excluding right of use assets)	25(b)	(541,669)	(1,128,830)
Purchase of intangible assets	26(b)(ii)	(712,035)	(783,610)
Proceeds from disposal of property and equipment		12,831	2,841
Purchase of additional shares in a subsidiary - I&M Bank (T) Limited	24	(306,932)	-
Dividends received	12(b)(ii)	27,500	116,140
Net cash used in investing activities		**(1,520,305)**	**(1,793,459)**
Cash flows from financing activities			
Payment of lease liabilities	32(c)	(320,764)	(280,187)
Net outflow of subordinated debt		5,874,069	220,358
Dividend paid		(6,778,527)	(3,377,000)
Net cash outflow from financing activities		**(1,225,222)**	**(3,436,829)**
Net increase in cash and cash equivalents		**(16,796,514)**	**(24,585,149)**
Cash and cash equivalents at start of the year		**18,358,005**	**42,943,154**
Cash and cash equivalents at end of the year	36(d)	**1,561,491**	**18,358,005**

The notes set out on pages 53 to 161 form an integral part of these financial statements.

OUR FINANCIALS (Continued)
Consolidated statement of changes in equity
For the year ended 31 December 2021

2021:	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
As previously stated at 1 January 2021	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
Correction of prior year error (Note 42)									
Fair value revaluation prior year reversal	-	-	(69,901)	-	69,901	-	-	-	-
Deferred tax - fair value reval prior year reversal	-	-	20,970	-	(20,970)	-	-	-	-
At 1 January 2021 restated	2,980,000	5,531,267	39,230,042	5,179,151	232,149	(252,101)	52,900,508	1,169,337	54,069,845
Comprehensive income for the year									
Net profit after tax	-	-	7,372,029	-	-	-	7,372,029	74,989	7,447,018
Total comprehensive income for the year	-	-	7,372,029	-	-	-	7,372,029	74,989	7,447,018
Total comprehensive income for the year	-	-	7,372,029	-	-	-	7,372,029	74,989	7,447,018
Other comprehensive income									
Translation reserve	-	-	-	-	-	151,941	151,941	42,687	194,628
Fair value reserve	-	-	-	-	(1,097,896)	-	(1,097,896)	77	(1,097,819)
Deferred tax - fair value reserve	-	-	-	-	329,370	-	329,370	(23)	329,347
Statutory credit risk reserve	-	-	(2,036,982)	2,036,982	-	-	-	-	-
Total other comprehensive income	-	-	(2,036,982)	2,036,982	(768,526)	151,941	(616,585)	42,741	(573,844)
Total comprehensive income	-	-	5,335,047	2,036,982	(768,526)	151,941	6,755,444	117,730	6,873,174
Transactions with owners, recorded directly in equity									
Rights issue - I&M Bank (T) Limited	-	-	189,227	65,401	-	-	254,628	(219,589)	35,039
Special dividend - 2021	-	-	(4,300,000)	-	-	-	(4,300,000)	-	(4,300,000)
Final dividend - 2020	-	-	(2,478,527)	-	-	-	(2,478,527)	-	(2,478,527)
Total transactions with owners for the year	-	-	(6,589,300)	65,401	-	-	(6,523,899)	(219,589)	(6,743,488)
Balance as at 31 December 2021	2,980,000	5,531,267	37,975,789	7,281,534	(536,377)	(100,160)	53,132,053	1,067,478	54,199,531

The notes set out on pages 53 to 161 form an integral part of these financial statements.

OUR FINANCIALS (Continued)
Consolidated statement of changes in equity
For the year ended 31 December 2021 (Continued)

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
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 53 to 161 form an integral part of these financial statements.

OUR FINANCIALS (Continued)
Company statement of changes in equity
For the year ended 31 December 2021

2021:	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
As previously stated at 1 January 2021	2,980,000	5,531,267	38,925,990	4,580,387	306,076	52,323,720
Correction of prior year error (Note 42)						
Fair value revaluation prior year reversal	-	-	(69,901)	-	69,901	-
Deferred tax - fair value reval prior year reversal	-	-	20,970	-	(20,970)	-
At 1 January 2021 restated	2,980,000	5,531,267	38,877,059	4,580,387	355,007	52,323,720
Comprehensive income for the year						
Net profit after tax	-	-	7,005,681	-	-	7,005,681
	-	-	7,005,681	-	-	7,005,681
Other comprehensive income						
Statutory credit reserve	-	-	(2,166,910)	2,166,910	-	-
Fair value reserve	-	-	-	-	(900,638)	(900,638)
Deferred tax - fair value reserve	-	-	-	-	270,191	270,191
Total other comprehensive income	-	-	(2,166,910)	2,166,910	(630,447)	(630,447)
Total comprehensive income	-	-	4,838,771	2,166,910	(630,447)	6,375,234
Transactions with owners recorded directly in equity						
Special dividend - 2021	-	-	(4,300,000)	-	-	(4,300,000)
Final dividend - 2020	-	-	(2,478,527)	-	-	(2,478,527)
Total transactions with owners for the year	-	-	(6,778,527)	-	-	(6,778,527)
Balance as at 31 December 2021	2,980,000	5,531,267	36,937,303	6,747,297	(275,440)	51,920,427

The notes set out on pages 53 to 161 form an integral part of these financial statements.

OUR FINANCIALS (Continued)
Company statement of changes in equity (Continued)
For the year ended 31 December 2021 (Continued)

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 risk 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 53 to 161 form an integral part of these financial statements.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021

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 77.80% shareholding in I&M Bank (T) Limited (2020 – 70.38%) and 100% shareholding in I&M Bancassurance Intermediary Limited (IMBIL) (incorporated on 23 July 2014). IMBIL 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 2021 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.

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).

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

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.

(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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

3. Significant accounting policies (Continued)

(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.

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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

3. Significant accounting policies (Continued)

(d) Income recognition (Continued)

(ii) Net fee and commission income (Continued)

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

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

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

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

(iv) Other operating income

Other operating income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and foreign exchange differences. It also includes rental income and gain on disposal of property and equipment.

(v) Rental income – other operating income

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

(vi) Dividend income

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

(e) Income tax expense

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

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

Deferred tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for:

- 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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

3. Significant accounting policies (Continued)

(f) Financial assets and financial liabilities

(i) Recognition

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

A financial asset (unless it is a trade receivable without a significant financing component) or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue. Subsequent to initial recognition, financial liabilities (deposits and debt securities) are measured at their amortized cost using the effective interest method.

(ii) Classification

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

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

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 dDecember 2021 (Continued)

3. Significant accounting policies (Continued)

(f) Financial assets and financial liabilities (Continued)

(ii) Classification – (Continued)

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

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 atperiodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty.

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

Debt instruments measured at amortised cost

Debt instruments are measured at amortized cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortized cost. Interest income on these instruments is recognized in interest income using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortized cost is calculated by taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate.

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

Debt instruments measured at FVOCI

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

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

3. Significant accounting policies (Continued)

(f) Financial assets and financial liabilities (Continued)

(ii) Classification – (Continued)

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.

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) Impairment on financial assets

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

- Financial assets (amortised cost and FVOCI) including debt instruments, loans and advances and trade receivables from Bancassurance.
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognised on equity investments.

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

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

3. Significant accounting policies (Continued)

(f) Financial assets and financial liabilities (Continued)

(iii) Impairment on financial assets – (Continued)

- 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'.

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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

3. Significant accounting policies (Continued)

(f) Financial assets and financial liabilities (Continued)

(iii) Impairment on financial assets – (Continued)

Measure 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.

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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

3. Significant accounting policies (Continued)

(f) Financial assets and financial liabilities (Continued)

(iii) Impairment of financial assets (Continued)

Presentation of allowance for ECL in the statement of financial position

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

- *financial assets measured at amortised cost:* as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts:* generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component:* the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI:* no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Financial assets at both amortised and FVOCI are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(iv) De-recognition

Financial assets

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

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

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

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

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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

3. Significant accounting policies (Continued)

(f) Financial assets and financial liabilities (Continued)

(v) Modifications of financial assets and financial liabilities

Financial assets

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

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

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

Financial liabilities

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

(vi) Offsetting of financial assets and financial liabilities

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

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

(g) Fair value measurement

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

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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

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

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

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

3. Significant accounting policies (Continued)

g) Fair value measurement (Continued)

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

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

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

h) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows in the financial statements, cash and cash equivalents' include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(i) Property and equipment

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

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

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

• Leasehold 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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

3. Significant accounting policies (Continued)

(j) Intangible assets (Continued)

(i) Computer software (Continued)

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.

(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 azrevised 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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

3. Significant accounting policies (Continued)

(k) Leases (Continued)

Short-term leases and leases of low-value assets

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

(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.

(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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

3. Significant accounting policies (Continued)

(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 financialn 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 2021, including consequential amendments to other standards with the date of initial application by the Company being 1 January 2021. The nature and neffects of the changes are as explained here in.

New standards or amendments	Effective for annual period beginning or after
— Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2021
— COVID-l 9-Related Rent Concessions (Amendments to IFRS 16)	1 June 2020

- *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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

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)

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

The Financial Stability Board has initiated a fundamental review and reform of the major interest rate benchmarks used globally by financial market participants. This review seeks to replace existing interbank offered rates (IBORs) with alternative risk-free rates (ARRs) to improve market efficiency and mitigate systemic risk across financial markets. During the 2021 financial year, the LIBOR's administrator, the Intercontinental Exchange Benchmark Administration Limited, announced it would no longer publish EUR, CHF, JPY and GBP related LIBOR rates for all tenors after 31 December 2021. The IBA has adopted a two-stage approach for the cession of the USD LIBOR rates with the 1 week and 2 month USD LIBOR rates no longer being published after 31 December 2021 and the remaining being the overnight, 1 month, 3 month, 6 month and 12 month rates no longer being published after 30 June 2023. The LIBOR rates which the bank is exposed to will be replaced by secured overnight financing rate (SOFR). Whilst there are plans to replace Johannesburg Interbank Average Rate (JIBAR), there is currently no indication of when the designated successor rate will be made available. Given that the LIBOR rates and ARRs are calculated on a different basis, adjustments may be made to contracts that are transitioned from LIBOR to ARRs, to ensure economic equivalence. The bank has several LIBOR linked contracts that extend beyond 2021. The bank ceased booking new LIBOR linked exposures from 1 Janury 2022, apart from in limited circumstances to align with industry guidance and best practice. From this date, new exposure will be booked using the SOFR. In certain instances, other suitable rates may be used, such as Central Bank policy rates. The bank has established a steering committee and within Assets and Liability Committee (ALCO) to manage the transition to ARRs.

The objectives of the committee and working group include evaluating the extent to which loans advanced and liabilities reference IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The committee is working closely with business teams across the bank to establish pricing for new lending products indexed to the ARR in impacted jurisdictions.

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

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

As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. 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.

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.

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 2021

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2021, and have not been applied in preparing these financial statements.

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

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

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 2021 (Continued)

New standards or amendments	Effective for annual period beginning or after
• 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
• IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts	1 January 2023
• Classification of Liabilities as current or non-current (Amendments IAS 1)	1 January 2023
• Disclosure of Accounting Policy (Amendments to IAS 1 and IFRS Practice Statement 2	1 January 2023
• Definition of Accounting Estimate (Amendments to IAS 8)	1 January 2023
• Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes	1 January 2023
• Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	1 January 2022 (Optional)

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the entity).

- *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 Company's consolidated financial statements.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

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 2021 (Continued)

• *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.

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.

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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

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 2021 (Continued)

• *IFRS 17 Insurance Contracts*

IFRS 17 Insurance Contracts sets out the requirements that an entity should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. An entity shall apply IFRS 17 Insurance Contracts to:

(a) insurance contracts, including reinsurance contracts, it issues;
(b) reinsurance contracts it holds; and
(c) investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

IFRS 17 requires an entity that issues insurance contracts to report them on the statement of financial position as the total of:

(a) the fulfilment cash flows—the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and

(b) the contractual service margin—the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided.

IFRS 17 requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the Company expects to recognise in the future. IFRS 17 requires an entity to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts are accounted for in profit or loss as soon as the Company determines that losses are expected. IFRS 17 requires the entity to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates. The entity:

(a) accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and

(b) chooses where to present the effects of some changes in discount rates—either in profit or loss or in other comprehensive income.

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

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.

• *Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes*

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

The Group accounts for deferred tax on leases applying the 'integrally linked' approach, resulting in a similar outcome to the amendments, except that the deferred tax impacts are presented net in the statement of financial position. The group is still carrying out the assessment. No impact is expected on retained earnings on adoption of the amendments.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

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 2021 (Continued)

• *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 2021.

4. Impact of COVID-19

The COVID-19 pandemic and its effect on the global economy has impacted our customers, operations and Group performance. 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.

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 2021 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 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.

5. Financial risk management

This section provides details of the Group's exposure to risk and describes the methods used by management to control risk.

Financial risk

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

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position. In the case of credit derivatives, the Group is also exposed to or protected from the risk of default of the underlying entity referenced by the derivative. With gross-settled derivatives, the Group is also exposed to a settlement risk, being the risk that the Group honours its obligation but the counterparty fails to deliver the counter-value.

Credit-related commitment risks

The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a) Credit risk (Continued)

Credit-related commitment risks (Continued)

The Board of Directors of the individual Group entities have delegated responsibility of the management of credit risk to their respective Board Credit Committees. Further, each entity has its own and separate Credit Risk Management Committee that reports to its Board Credit Committee. The Group's credit exposure at the reporting date from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the statement of financial position.

The risk that the counter-parties to trading instruments might default on their obligation is monitored on an on-going basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments over their remaining life.

To manage the level of credit risk, the Group deals with counter parties of good credit standing wherever possible and when appropriate, obtains collateral.

An assessment of the extent to which fair values of collaterals cover existing credit risk exposure on loans and advances to customers is highlighted below.

The Group also monitors concentrations of credit risk that arise by industry and type of customer in relation to Group loans and advances to customers by carrying a balanced portfolio. The Group has no significant exposure to any individual customer or counter-party.

To determine impairment of loans and advances, the Group assesses whether it is probable that it will be unable to collect all principal and interest according to the contractual terms of the loans and advances.

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.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a) Credit risk (Continued)

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

Group

2021:

Risk classification	12 month ECL (Stage 1) *KShs'000*	Lifetime ECL Not Credit Impaired (Stage 2) *KShs'000*	Lifetime ECL Credit Impaired (Stage 3) *KShs'000*	Total 31 December *KShs'000*
Loans and advances to Customers at amortised cost				
Normal (Stage 1)	150,305,669		-	150,305,669
Watch (Stage 2)	-	20,454,590	-	20,454,590
Non-performing loans (Stage 3)	-	-	20,253,197	20,253,197
Gross carrying amount	**150,305,669**	**20,454,590**	**20,253,197**	**191,013,456**
Loss allowance	(492,037)	(1,739,504)	(9,222,767)	(11,454,308)
Carrying amount	**149,813,632**	**18,715,086**	**11,030,430**	**179,559,148**

2020:

Risk classification	12 month ECL (Stage 1) KShs'000	Lifetime ECL Not Credit Impaired (Stage 2) KShs'000	Lifetime ECL Credit Impaired (Stage 3) KShs'000	Total 31 December 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**

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a)Credit risk (Continued)

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

Company

2021:

Risk classification	12 month ECL (Stage 1) *KShs'000*	Lifetime ECL Not Credit Impaired (Stage 2) *KShs'000*	Lifetime ECL Credit Impaired (Stage 3) *KShs'000*	Total 31 December *KShs'000*
Loans and advances to Customers at amortised cost				
Normal (Stage 1)	138,494,011	-	-	138,494,011
Watch (Stage 2)	-	15,557,819	-	15,557,819
Non-performing loans (Stage 3)	-	-	18,563,142	18,563,142
Gross carrying amount	**138,494,011**	**15,557,819**	**18,563,142**	**172,614,972**
Loss allowance	(476,930)	(1,463,493)	(8,528,906)	(10,469,329)
Carrying amount	**138,017,081**	**14,094,326**	**10,034,236**	**162,145,643**

2020:

Risk classification	12 month ECL (Stage 1) *KShs'000*	Lifetime ECL Not Credit Impaired (Stage 2) *KShs'000*	Lifetime ECL Credit Impaired (Stage 3) *KShs'000*	Total 31 December *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**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a) Credit risk (Continued)

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

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

Group: Loans and advances to customers	2021 KShs'000	2020 KShs'000
Identified impairment:		
Grade 3: Substandard	707,797	3,977,319
Grade 4: Doubtful	14,677,495	15,002,912
Grade 5: Loss	4,867,905	3,804,914
	20,253,197	**22,785,145**
Specific allowances for impairment	(9,222,767)	(10,655,610)
Carrying amount	**11,030,430**	**12,129,535**
Unidentified impairment:		
Grade 2: Watch	20,454,590	19,650,983
Grade 1: Normal	150,305,669	134,495,641
	170,760,259	**154,146,624**
Portfolio allowances for impairment	(2,231,541)	(1,499,195)
Carrying amount	**168,528,718**	**152,647,429**
Total carrying amount	**179,559,148**	**164,776,964**

Company: Loans and advances to customers	2021 KShs'000	2020 KShs'000
Identified impairment:		
Grade 3: Substandard	598,917	3,646,549
Grade 4: Doubtful	14,628,732	14,319,543
Grade 5: Loss	3,335,493	2,211,439
	18,563,142	**20,177,531**
Specific allowance for impairment	(8,528,906)	(9,540,371)
Carrying amount	**10,034,236**	**10,637,160**
Unidentified impairment:		
Grade 2: Watch	15,557,819	16,636,736
Grade 1: Normal	138,494,011	123,850,781
	154,051,830	**140,487,517**
Portfolio impairment provision	(1,940,423)	(1,449,613)
Carrying amount	**152,111,407**	**139,037,904**
Total carrying amount	**162,145,643**	**149,675,064**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a) Credit risk (Continued)

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

Group:	Gross KShs'000	Net KShs'000
Identified impairment:		
31 December 2021		
Grade 3: Substandard	707,797	584,920
Grade 4: Doubtful	14,677,495	8,229,486
Grade 5: Loss	4,867,905	2,216,024
	20,253,197	**11,030,430**
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**
Unidentified impairment:		
31 December 2021		
Grade 1: Normal	150,305,669	149,813,632
Grade 2: Watch	20,454,590	18,715,086
	170,760,259	**168,528,718**
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**

Company:	Gross KShs'000	Net KShs'000
Identified impairment:		
31 December 2021		
Grade 3: Substandard	598,917	499,675
Grade 4: Doubtful	14,628,732	8,217,227
Grade 5: Loss	3,335,493	1,317,334
	18,563,142	**10,034,236**
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**
Unidentified impairment:		
31 December 2021		
Grade 1: Normal	138,494,011	138,017,081
Grade 2: Watch	15,557,819	14,094,326
	154,051,830	**152,111,407**
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**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a) Credit risk (Continued)

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

(i) 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.

2021:	Gross KShs'000	Impairment KShs'000	Net KShs'000	Credit impaired
Current	7,572	948	6,624	No
Past due:				
30-90 days	11,470	1,546	9,924	No
91-180 days	11,129	4,926	6,203	Yes
180-360 days	21,011	8,292	12,719	Yes
Over 360 days	17,597	17,597	-	Yes
	68,779	**33,309**	**35,470**	

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a) Credit risk (Continued)

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

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**	

Impairment loss movement on trade receivables

	2021 KShs'000	2020 KShs'000
At 1 January	23,625	20,309
Charge for the year	9,684	3,316
At 31 December	**33,309**	**23,625**

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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a) Credit risk (Continued)

(iii) Credit quality analysis – other assets

The Group has estimated that the ECL for the following financial assets is not material as at 31 December 2021. 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	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Balances with central banks (Note 18)	13,400,138	12,707,755	11,150,689	11,212,300
Items in the course of collection (Note 19)	654,632	622,994	648,914	619,833
Loans and advances to banks (Note 20)	6,005,054	14,109,377	4,990,799	13,504,068
Financial assets at fair value through other comprehensive income (FVOCI) - Debt instruments (Note 22)	62,538,424	41,464,529	62,838,955	41,878,761
Other financial assets at amortised cost; Government securities (Note 22)	36,142,410	41,593,094	30,605,205	36,732,012
Due from group companies (Note 28)	790,849	806,335	839,071	1,024,802
	119,531,507	**111,304,084**	**111,073,633**	**104,971,776**

(iv) Collateral and other security enhancements

The Group holds collaterals against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimate of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowings activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2021 or 2020.

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

Loans and advances to customers	2021	2020
Group	KShs'000	KShs'000
Fair value of collateral held – against impaired loans	**11,030,430**	**22,785,145**
Company		
Fair value of collateral held - against impaired loans	**10,034,236**	**10,637,160**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a)Credit risk (Continued)

(v) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3(f)(iii).

Significant increase in credit risk

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

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Credit risk grading

Other than for loans and advances to banks and investment securities where the Group relies on internal credit rating models, the Group relies substantially on the prudential guidelines applicable in the market it operates in for credit risk grading that reflect its assessment of the probability of default of individual counterparties.

In addition, the prudential guidelines are supplemented

- By Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures.
- External data such as credit bureau scoring information on individual borrowers.
- Expert judgement from the Credit Risk Officer to be fed into the final credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Generating the term structure of PD (Continued)

Based on advice from the Risk Committees and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

The Group has applied a simpler methodology (lifetime ECL) for its other exposures including lease receivables and trade receivables.

Modified financial assets

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

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

- its remaining lifetime PD at the reporting date based on the modified terms;
- 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.

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).

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 2021 of all loans that have been modified (both substantial and non-substantial modifications):

OUR FINANCIALS (Continued)
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For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Modified financial assets (Continued)

	2021		2020	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Assistance package category				
Loan deferral package				
Seg:Corporate & Institutional Banking	14,946,819	13,622,625	8,130,304	2,957,986
Seg:Business Banking	2,431,778	2,431,778	408,290	408,290
Seg:Premium Banking	247,053	247,053	100,164	100,164
Seg:Personal Banking	21,667	21,667	129,141	-
Interest only				
Seg:Corporate Institutional Banking	28,641	-	579,944	-
Seg:Business Banking	-	-	213,475	213,475
Seg:Premium Banking	-	-	-	-
Seg:Personal Banking	-	-	16,345	-
Term extensions				
Seg:Corporate Institutional Banking	-	-	12,109,924	12,109,924
Seg:Business Banking	-	-	4,156,435	4,156,435
Seg:Premium Banking	-	-	1,175,221	1,175,221
Seg:Personal Banking	-	-	199,624	199,624
Total				
Seg:Corporate Institutional Banking	**14,975,460**	**13,622,625**	**20,820,172**	**15,067,910**
Seg:Business Banking	**2,431,778**	**2,431,778**	**4,778,200**	**4,778,200**
Seg:Premium Banking	**247,053**	**247,053**	**1,275,385**	**1,275,385**
Seg:Personal Banking	**21,667**	**21,667**	**345,110**	**199,624**
	17,675,958	16,323,123	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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Modified financial assets (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, supra-national organisations such as the International Monetary Fund (IMF), World Bank and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the banking subsidiaries carry out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The banking subsidiaries have identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables, credit risk and credit losses.

In each country, the Banking Industry non-performing loans (NPL%) was a reasonable approximation to the default risk. The correlation between the Banking Industry non-performing loans (NPL%) with the macroeconomic factors was then inferred to the Bank's predicated Probabilities of Default.

Further, in determining the economic scenarios to be applied, each of the economic variable was adjusted either upside or downside using the historical standard deviation.

In determining the likelihood of each of the macroeconomic scenarios based on sectors, a weighting of 91% (base case), 8% (upside case) and 1% (downside case) was applied for Kenya.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

COVID-19 considerations for the year ended 31 December 2021

As at 31 December 2021, 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 2021 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 2021 included the following ranges of key indicators based on sectors;

Building and construction		Weighting		
	Coefficients	Base	Upside	Downside
		91%	8%	1%
Public debt to GDP	0.14955	54.24%	53.51%	54.97%
Deposit	(1.41220)	6.35%	6.41%	6.30%
Constant	0.12088	-	-	-

Trade		Weighting		
	Coefficients	Base	Upside	Downside
		91%	8%	1%
Public debt to GDP	0.14014	54.24%	53.51%	54.97%
Deposit	(0.87030)	6.35%	6.41%	6.30%
Constant	0.05072	-	-	-

Personal and household		Weighting		
	Coefficients	Base	Upside	Downside
		91%	8%	1%
Deposit	(1.78440)	6.35%	6.41%	6.30%
Constant	0.22005	-	-	-

Some sectors did not have correlations with macro-economic factors. These include: Agriculture, Energy & Water, Mining & Quarrying, Financial Services, Manufacturing, Real Estate, Transport & Communication and Tourism Restaurant & Hotels. For these sectors, either NPL ratios were noted as 0% or models failed to meet the predetermined thresholds. In view of this, management judgements were applied by taking a minimum PD of 0.01% for purposes of ECL calculation and adjusting by the average macro adjustments from Transport sector respectively.

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.

In determining the likelihood of each of the macroeconomic scenarios based on sectors, a weighting of 95% (base case), 3% (upside case) and 3% (downside case) was applied for Tanzania.

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Incorporation of forward-looking information (Continued)

Building and construction		Weighting		
	Coefficient/ sensitivity	Base	Upside	Downside
		%	%	%
		95%	**3%**	**3%**
Reverse REPO	(1.3590)	6.17%	9.57%	2.76%
91 Day T-Bills	(8.9820)	6.69%	7.12%	6.26%
Inflation	(2.5400)	3.90%	4.63%	3.00%
Deposit	(5.9970)	6.93%	7.21%	7.00%
Housing price index	(2.3440)	-0.19%	0.17%	-0.54%
Constant	1.5290	-	-	-

Energy and Water		Weighting		
	Coefficient/ sensitivity	Base	Upside	Downside
		%	%	%
		95%	**3%**	**3%**
Interbank	0.4302	4.17%	3.18%	5.16%
Deposit	1.6541	6.93%	6.64%	7.21%
Constant	(0.1317)	-	-	-

Personal and household		Weighting		
	Coefficient/ sensitivity	Base	Upside	Downside
		%	%	%
		95%	**3%**	**3%**
91 Day T-Bills	0.9753	6.69%	6.26%	7.12%
Central Bank Rate	(2.8373)	6.83%	7.29%	6.37%
Deposit	(1.3227)	6.93%	7.21%	6.64%
Lending	0.3628	12.09%	10.72%	13.46%
Constant	0.2508	-	-	-

Real Estate		Weighting		
	Coefficient/ sensitivity	Base	Upside	Downside
		%	%	%
		95%	**3%**	**3%**
Reverse REPO	(0.1763)	6.72%	10.13%	3.32%
Central Bank Rate	(2.2284)	6.83%	7.29%	6.37%
Deposit	(2.1285)	6.93%	7.21%	6.64%
Constant	0.3948	-	-	-

OUR FINANCIALS (Continued)

Notes to the consolidated and separate financial statements

For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Incorporation of forward-looking information (Continued)

Trade		Weighting		
	Coefficient/ sensitivity	Base	Upside	Downside
		%	%	%
		66%	**33%**	**1%**
91 Day T-Bills	1.1520	6.69%	6.26%	7.12%
Central Bank Rate	(0.9119)	6.83%	7.29%	6.37%
Deposit	(1.1587)	6.93%	7.21%	6.64%
Public debt to GDP	0.5706	63.00%	60.45%	65.55%
Constant	(0.2361)	-	-	-

Transport		Weighting		
	Coefficient/ sensitivity	Base	Upside	Downside
		%	%	%
		54%	**12%**	**25%**
GDP	(4.5188)	5.10%	5.18%	5.02%
Public debt to GDP	0.8503	38.92%	36.93%	40.90%
Constant	0.0696	-	-	-

Some sectors did not have an intuitive relationship with macro-economic factors and had weak correlations. These include: Housing, Transport & Communication, Mining & Quarrying, Other Services, Tourism, Agriculture, Education and Hotels & Restaurants. For these sectors, an average adjustment of sectors with intuitive relationship with macroeconomic factors and credit conversion 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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Measurement of ECL (Continued)

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

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

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

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

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

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

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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

ECL Sensitivity analysis (Continued)

The table below illustrates the sensitivity of collectively assessed ECL to key factors used in determining it as at 31 December 2021:

Group	2021 ECL KShs'000	2021 Impact KShs'000	2020 ECL KShs'000	2020 Impact KShs'000
If 1% of stage 1 facilities were included in Stage 2	2,358,125	181,185	1,754,918	94,398
If 1% of stage 2 facilities were included in Stage 1	2,162,496	(14,445)	1,649,438	(11,082)
100% upside scenario	2,157,525	(19,415)	1,184,200	(502,446)
100% base scenario	2,170,928	(6,012)	1,683,016	22,496
100% downside scenario	2,246,404	(75,504)	2,154,016	493,497

Company	2021 ECL KShs'000	2021 Impact KShs'000	2020 ECL KShs'000	2020 Impact KShs'000
If 1% of stage 1 facilities were included in Stage 2	2,331,084	181,435	1,685,636	93,074
If 1% of stage 2 facilities were included in Stage 1	2,135,140	(14,509)	1,581,703	(10,860)
100% upside scenario	2,126,662	(22,987)	1,103,180	(489,382)
100% base scenario	2,143,362	(6,287)	1,612,989	20,426
100% downside scenario	2,222,133	(72,484)	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).

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Loans and advances to customers at amortised cost

Group	Provisions (ECL allowance)				Exposure (Gross balance)			
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000
Balance at 1 January 2021	**403,666**	**1,095,529**	**10,655,610**	**12,154,805**	**134,495,641**	**19,650,983**	**22,785,145**	**176,931,769**
Transfer from 12 months ECL (Stage 1)	(8,684)	8,093	591	-	(7,130,628)	6,869,371	261,257	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	130,380	(378,573)	248,193	-	6,264,390	(9,754,229)	3,489,839	-
Transfer from Lifetime ECL credit impaired (Stage 3)	21,849	421,970	(443,819)	-	57,536	1,368,683	(1,426,219)	-
Net remeasurement of loss allowance	(92,587)	586,886	2,626,388	**3,120,687**	6,513,004	1,847,132	(624,939)	**7,735,197**
New financial assets originated or purchased	45,844	6,613	187,772	**240,229**	14,138,644	863,175	242,698	**15,244,517**
Financial assets derecognised	(8,649)	(2,652)	-	**(11,301)**	(4,480,148)	(517,165)	(81)	**(4,997,394)**
Write off	-	-	(4,104,092)	**(4,104,092)**	-	-	(4,584,058)	**(4,584,058)**
Translation difference	218	1,638	52,124	**53,980**	447,230	126,640	109,555	**683,425**
Balance at 31 December 2021	**492,037**	**1,739,504**	**9,222,767**	**11,454,308**	**150,305,669**	**20,454,590**	**20,253,197**	**191,013,456**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Loans and advances to customers at amortised cost (Continued)

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

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Loans and advances to customers at amortised cost (Continued)

Company	Provisions (ECL allowance)				Exposure (Gross balance)			
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000
Balance at 1 January 2021	**382,838**	**1,066,775**	**9,540,371**	**10,989,984**	**123,850,781**	**16,636,736**	**20,177,531**	**160,665,048**
Transfer from 12 months ECL (Stage 1)	(7,903)	7,322	581	-	(5,297,874)	5,040,810	257,064	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	101,731	(349,924)	248,193	-	5,765,154	(9,238,937)	3,473,783	-
Transfer from Lifetime ECL credit impaired (Stage 3)	21,849	169,179	(191,028)	-	27,112	880,820	(907,932)	-
Net remeasurement of loss allowance	(58,732)	566,092	2,373,385	**2,880,745**	5,896,667	2,336,219	(687,946)	**7,544,940**
New financial assets originated or purchased	43,919	6,529	184,684	**235,132**	12,181,109	396,855	218,411	**12,796,375**
Financial assets derecognised	(6,772)	(2,480)	-	**(9,252)**	(3,928,938)	(494,684)	-	**(4,423,622)**
Write off	-	-	(3,627,280)	**(3,627,280)**	-	-	(3,967,769)	**(3,967,769)**
Balance at 31 December 2021	**476,930**	**1,463,493**	**8,528,906**	**10,469,329**	**138,494,011**	**15,557,819**	**18,563,142**	**172,614,972**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Loans and advances to customers at amortised cost (Continued)

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

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Loan commitments and financial guarantee contracts

Group	Provisions (ECL allowance)				Exposure (Gross balance)			
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000
Balance at 1 January 2021	**107,666**	**53,657**	**24,969**	**186,292**	**75,861,785**	**3,312,438**	**729,448**	**79,903,671**
Transfer from 12 months ECL (Stage 1)	2,373	(2,373)	-	-	(305,636)	186,097	119,539	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	50,832	(50,832)	-	-	3,168,938	(3,168,938)	-	-
Transfer from Lifetime ECL credit impaired (Stage 3)	14,524	-	(14,524)	-	698,462	-	(698,462)	-
Net remeasurement of loss allowance	92	11,730	-	**11,822**	214,315	286,429	(2,909)	**497,835**
New financial assets originated or purchased	67,066	5	-	**67,071**	17,617,891	14,574	7,500	**17,639,965**
Financial assets derecognised	(13,456)	(359)	(10,445)	**(24,260)**	(10,433,404)	(24,055)	(30,985)	**(10,488,444)**
Translation difference	291	340	-	**631**	306,704	2,144	-	**308,848**
Balance at 31 December 2021	**229,388**	**12,168**	**-**	**241,556**	**87,129,055**	**608,689**	**124,131**	**87,861,875**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Loan commitments and financial guarantee contracts (Continued)

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

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Loan commitments and financial guarantee contracts (Continued)

Company	Provisions (ECL allowance)				Exposure (Gross balance)			
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000
Balance at 1 January 2021	**91,755**	**51,195**	**24,967**	**167,917**	**68,561,689**	**3,261,402**	**729,448**	**72,552,539**
Transfer from 12 months ECL (Stage 1)	(187)	187	-	-	(446,603)	327,064	119,539	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	50,832	(50,832)	-	-	3,168,938	(3,168,938)	-	-
Transfer from Lifetime ECL credit impaired (Stage 3)	14,524	-	(14,524)	-	698,462	-	(698,462)	-
Net remeasurement of loss allowance	29,106	242	-	**29,348**	(638,657)	153,622	(2,909)	**(487,944)**
New financial assets originated or purchased	56,411	5	-	**56,416**	14,000,581	14,574	7,500	**14,022,655**
Financial assets derecognised	(13,082)	(360)	(10,443)	**(23,885)**	(5,657,407)	(24,055)	(30,985)	**(5,712,447)**
Balance at 31 December 2021	**229,359**	**437**	**-**	**229,796**	**79,687,003**	**563,669**	**124,131**	**80,374,803**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Loan commitments and financial guarantee contracts (Continued)

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

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(b) Liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by Asset and Liabilities Committee. The Asset and Liabilities Committee (ALCO) also monitors the liquidity gap and at first instance would source funds from market using interbank borrowings and as a last resort, use repo and reverse repo arrangements with the central banks. The Group has also arranged for long term funding as disclosed under Note 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	
	2021	2020	2021	2020
At 31 December	48%	50%	31%	29%
Average for the period	47%	48%	27%	25%
Highest for the period	49%	50%	32%	29%
Lowest for the period	44%	46%	24%	23%

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2021 and 2020. The amounts are gross and undiscounted.

Group 31 December 2021	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	329,892	8,453,956	3,040,031	477,529	-	12,301,408
Deposits from customers	73,674,189	93,685,180	82,730,758	3,322,905	102,208	253,515,240
Due to group companies	1,998,418	-	-	-	-	1,998,418
Other liabilities	733,944	2,755,806	150,759	-	-	3,640,509
Long term debt	-	-	1,679,216	2,791,819	-	4,471,035
Subordinated debt	-	69,118	109,897	7,291,709	3,917,819	11,388,543
Contractual off-balance sheet financial liabilities	-	-	109,566,158	-	-	109,566,158
Capital commitments	-	-	2,012,878	-	-	2,012,878
Lease liabilities	42,082	125,526	270,067	1,598,922	395,303	2,431,900
At 31 December 2021	**76,778,525**	**105,089,586**	**199,559,764**	**15,482,884**	**4,415,330**	**401,326,089**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(b) Liquidity 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	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	611,645	3,283,347	167,054	-	-	4,062,046
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
Leases	42,082	125,526	270,067	1,598,922	395,303	2,431,900
At 31 December 2020	**67,135,967**	**110,004,597**	**159,148,969**	**12,792,981**	**395,303**	**349,477,817**

Company 31 December 2021	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	329,892	8,052,159	3,040,031	477,529	-	11,899,611
Deposits from customers	68,689,944	88,410,523	74,053,172	243,506	-	231,397,145
Due to group companies	1,780,607	-	-	-	-	1,780,607
Other liabilities	511,684	2,636,809	-	-	-	3,148,493
Long term debt	-	-	1,679,216	941,569	-	2,620,785
Subordinated debt	-	69,118	109,897	7,291,709	3,917,819	11,388,543
Contractual off-balance sheet financial liabilities	-	-	102,079,086	-	-	102,079,086
Capital commitments	-	-	1,619,700	-	-	1,619,700
Lease liabilities	42,082	125,526	270,067	1,598,922	395,303	2,431,900
At 31 December 2021	**71,354,209**	**99,294,135**	**182,851,169**	**10,553,235**	**4,313,122**	**368,365,870**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(b) Liquidity risk (Continued)

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
Leases	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**

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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)
5. Financial risk management (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk (Continued)

Group 31 December 2021	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	-	-	-	-	-	17,539,247	17,539,247
Items in the course of collection	-	-	-	-	-	654,632	654,632
Loans and advances to banks	4,636,155	1,053,561	315,338	-	-	-	6,005,054
Loans and advances to customers	2,041,867	162,636,934	1,786,156	5,422,136	7,672,055	-	179,559,148
Financial assets at fair value through profit or loss (FVTPL)	-	-	197,776	2,334,693	13,400,491	-	15,932,960
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	3,862,212	11,980,177	6,755,714	39,687,589	252,732	62,538,424
Other financial assets at amortised cost	97,112	7,510,181	9,850,343	13,916,738	4,803,506	-	36,177,880
Due from group companies	-	-	-	-	-	790,849	790,849
Other assets	-	-	-	-	-	2,016,943	2,016,943
31 December 2021	**6,775,134**	**175,062,888**	**24,129,790**	**28,429,281**	**65,563,641**	**21,254,403**	**321,215,137**
LIABILITIES							
Deposits from banks	348,064	8,321,607	2,921,351	399,606	-	-	11,990,628
Deposits from customers	69,089,707	92,620,050	80,418,719	2,919,952	83,096	4,303,143	249,434,667
Due to group companies	-	-	-	-	-	1,792,385	1,792,385
Other liabilities	-	79,596	150,759	-	-	3,410,155	3,640,510
Long term debt	-	-	2,431,625	1,532,425	-	-	3,964,050
Subordinated debt	-	8,924,816	-	-	-	-	8,924,816
31 December 2021	**69,437,771**	**109,946,069**	**85,922,454**	**4,851,983**	**83,096**	**9,505,683**	**279,747,056**
Interest rate gap	**(62,662,637)**	**65,116,819**	**(61,792,664)**	**23,577,298**	**65,480,545**	**11,748,720**	**41,468,081**

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OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)
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**

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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)
5. Financial risk management (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk(Continued)

The Group's operations are subject to the risk of interest rate fluctuations to the extent that the interest earning assets (including investments) and interest bearing liabilities mature or re-price at different times or in differing amounts. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Group's business strategies.

Company 31 December 2021	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	-	-	-	-	-	-	13,931,296	**13,931,296**
Items in the course of collection	-	-	-	-	-	-	648,914	**648,914**
Loans and advances to banks	1.1%	4,610,973	64,488	315,338	-	-	-	**4,990,799**
Loans and advances to customers	11.1%	-	159,714,951	641,590	732,650	1,056,452	-	**162,145,643**
Financial assets at fair value through profit or loss (FVTPL)	-	-	-	197,776	2,334,693	13,400,491	-	**15,932,960**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	3,862,212	12,533,440	6,755,714	39,687,589	-	**62,838,955**
Other financial assets at amortised cost		-	6,560,580	8,736,270	12,307,556	3,000,799	-	**30,605,205**
Due from group companies	-	-	-	-	-	-	839,071	**839,071**
Other assets	-	-	-	-	-	-	1,866,978	**1,866,978**
31 December 2021		**4,610,973**	**170,202,231**	**22,424,414**	**22,130,613**	**57,145,331**	**17,286,259**	**293,799,821**
LIABILITIES								
Deposits from banks	5.9%	328,115	7,923,404	2,921,351	399,606	-	-	**11,572,476**
Deposits from customers	3.7%	68,427,638	87,405,362	71,983,642	213,977	-	-	**228,030,619**
Due to group companies	-	-	-	-	-	-	1,773,808	**1,773,808**
Other liabilities	-	-	-	-	-	-	3,148,494	**3,148,494**
Long term debt	-	-	-	2,431,625	-	-	-	**2,431,625**
Subordinated debt	12.5%	-	8,924,816	-	-	-	-	**8,924,816**
31 December 2021		**68,755,753**	**104,253,582**	**77,336,618**	**613,583**	**-**	**4,922,302**	**255,881,838**
Interest rate gap		**(64,144,780)**	**65,948,649**	**(54,912,204)**	**21,517,030**	**57,145,331**	**12,363,957**	**37,917,983**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk (Continued)

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

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk (Continued)

Customer deposits up to three months represent current, savings and call deposit account balances, which past experience has shown to be stable and of a long term nature.

The Group's operations are subject to the risk of interest rate fluctuations to the extent that the interest earning assets (including investments) and interest bearing liabilities mature or re-price at different times or in differing amounts. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Group's business strategies.

Sensitivity analysis

A change of 200 basis points in interest rates at the reporting date would have increased/decreased equity and profit or loss by the amounts shown below. The analysis assumes that all other variables in particular foreign currency exchange rates remain constant.

Group

31 December 2021 200 basis points	Profit or loss Increase/decrease in basis points (KShs'000)	Equity net of tax Increase/decrease in basis points (KShs'000)
Assets	5,999,215	4,199,451
Liabilities	(5,404,827)	(3,783,379)
Net position	**594,388**	**416,072**

31 December 2020	Profit or loss	Equity net of tax
Assets	5,475,337	3,832,736
Liabilities	(4,860,602)	(3,402,421)
Net position	**614,735**	**430,315**

Company

31 December 2021 200 basis points	Profit or loss Increase/decrease in basis points (KShs'000)	Equity net of tax Increase/decrease in basis points (KShs'000)
Assets	5,530,271	3,871,190
Liabilities	(5,019,191)	(3,513,434)
Net position	**511,080**	**357,756**

31 December 2020	Profit or loss	Equity net of tax
Assets	5,071,767	3,550,237
Liabilities	(4,529,025)	(3,170,318)
Net position	**542,742**	**379,919**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(c) Market risk (Continued)

Currency rate risk

The Group is exposed to currency risk through transactions in foreign currencies. The Group's transactional exposure gives rise to foreign currency gains and losses that are recognised in the profit or loss. In respect of monetary assets and liabilities in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. The table below analyses the currencies which the Group is exposed to as at 31 December 2021 and 31 December 2020.

Group

At 31 December 2021	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with central banks	5,255,586	2,318,924	890,774	336,308	**8,801,592**
Items in the course of collection	44,276	-	825	-	**45,101**
Loans and advances to banks	375,311	-	-	-	**375,311**
Loans and advances to customers	65,532,149	3,988,648	3,847,242	-	**73,368,039**
Other financial assets at amortised cost	16,679,027	-	-	-	**16,679,027**
Due from group companies	44,778	-	-	13,117	**57,895**
Other assets	434,487	13,253	5,260	18,360	**471,360**
At 31 December 2021	**88,365,614**	**6,320,825**	**4,744,101**	**367,785**	**99,798,325**
LIABILITIES					
Deposits from banks	3,357,433	18,615	81,189	1,601	**3,458,838**
Deposits from customers	74,937,978	8,254,724	2,644,399	237,693	**86,074,794**
Other liabilities	2,722,509	18,877	11,285	29,242	**2,781,913**
Long-term debt	3,811,820	-	-	-	**3,811,820**
Subordinated debt	8,924,816	-	-	-	**8,924,816**
At 31 December 2021	**93,754,556**	**8,292,216**	**2,736,873**	**268,536**	**105,052,181**
Net on statement of financial position	**(5,388,942)**	**(1,971,391)**	**2,007,228**	**99,249**	**(5,253,856)**
Net notional off balance sheet position	**3,883,063**	**1,991,038**	**(2,031,251)**	**33,050**	**3,875,900**
Overall net position – 2021	**(1,505,879)**	**19,647**	**(24,023)**	**132,299**	**(1,377,956)**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(c) Market risk (Continued)

Currency rate risk (Continued)

Group (Continued)

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)**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(c) Market risk (Continued)

Currency rate risk (Continued)

Company

At 31 December 2021	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with Central Bank of Kenya	3,239,876	2,249,214	838,555	327,066	**6,654,711**
Items in the course of collection	37,940	-	825	-	**38,765**
Loans and advances to banks	375,311	-	-	-	**375,311**
Loans and advances to customers	54,610,311	3,988,648	3,847,242	-	**62,446,201**
Other financial assets at amortised cost	16,679,027	-	-	-	**16,679,027**
Due from group companies	44,778	-	-	13,117	**57,895**
Other assets	431,298	13,245	5,260	-	**449,803**
At 31 December 2021	**75,418,541**	**6,251,107**	**4,691,882**	**340,183**	**86,701,713**
LIABILITIES					
Deposits from banks	3,357,433	18,615	81,189	1,601	**3,458,838**
Deposits from customers	65,896,998	8,191,359	2,589,779	237,693	**76,915,829**
Other liabilities	154,318	12,520	14,882	28,236	**209,956**
Long-term debt	2,431,626	-	-	-	**2,431,626**
Subordinated debt	8,924,816	-	-	-	**8,924,816**
At 31 December 2021	**80,765,191**	**8,222,494**	**2,685,850**	**267,530**	**91,941,065**
Net on statement of financial position	**(5,346,650)**	**(1,971,387)**	**2,006,032**	**72,653**	**(5,239,352)**
Net notional off balance sheet position	**3,883,063**	**1,991,038**	**(2,031,251)**	**33,050**	**3,875,900**
Overall net position – 2021	**(1,463,587)**	**19,651**	**(25,219)**	**105,703**	**(1,363,452)**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(c) Market risk (Continued)

Currency rate risk (Continued)

Company (Continued)

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)**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(c) Market risk (Continued)

Currency rate risk (Continued)

Sensitivity analysis

A reasonable possible strengthening or weakening of the USD, GBP, EUR against the Kenya shilling (KShs) would have affected the measurement of financial instruments denominated in foreign currency and effected equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates remain constant.

Group:

At 31 December 2021	**Profit or loss strengthening/ weakening of currency KShs'000**	**Equity net of tax strengthening/ weakening of currency KShs'000**
USD (± 2.5% movement)	(37,647)	(26,353)
GBP (± 2.5% movement)	491	344
EUR (± 2.5% movement)	(601)	(420)

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

Company:

At 31 December 2021	**Profit or loss strengthening/ weakening of currency KShs'000**	**Equity net of tax strengthening/ weakening of currency KShs'000**
USD (± 2.5% movement)	(36,590)	(25,613)
GBP (± 2.5% movement)	491	344
EUR (± 2.5% movement)	(630)	(441)

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

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(d) Capital management

The Group's policy is to maintain a strong capital base so as to maintain regulatory, investor, creditor and market confidence and to sustain future development of business. The impact of the level of capital of shareholders' return is also recognized in addition to recognizing the need to maintain a balance between the higher returns that may be possible with greater gearing and the advantages and security afforded by sound capital position.

Regulatory capital – Kenya

The Central Bank of Kenya sets and monitors capital requirements for banking industry in Kenya.

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

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

In implementing current capital requirements, the Central Bank of Kenya requires banks to maintain a prescribed ratio of total capital to total risk-weighted assets. Banks are expected to assess the credit risk, market risk and operational risk of the risk weighted assets to derive the ratios. The Capital adequacy and use of regulatory capital are monitored regularly by management employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Kenya for supervisory purposes.

The Central Bank of Kenya requires a bank to maintain at all times:

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

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

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

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

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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(d) Capital management (Continued)

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

		2021	2020
Company:		**KShs'000**	**KShs'000**
Core capital (Tier 1)			
Share capital		2,980,000	2,980,000
Share premium		5,531,267	5,531,267
Retained earnings		32,937,303	36,447,470
		41,448,570	**44,958,737**
Less: Deferred tax		(66,019)	-
Investment in subsidiary		(3,057,585)	(2,750,653)
Total Core capital		**38,324,966**	**42,208,084**
Supplementary capital (Tier 2)			
Term subordinated debt		7,778,208	2,546,106
Statutory loan loss reserve		6,747,297	4,580,387
		14,525,505	**7,126,493**
Total capital		**52,850,471**	**49,334,577**
Risk weighted assets			
Credit risk weighted assets		195,827,487	181,977,999
Market risk weighted assets		17,800,488	12,306,196
Operational risk weighted assets		33,513,810	29,691,747
Total risk weighted assets		**247,141,784**	**223,975,941**
Deposits from customers		**232,110,990**	**219,831,712**
Capital ratios	Minimum*		
Core capital/Total deposit liabilities	**8.0%**	**16.51%**	**19.20%**
Core capital /Total risk weighted assets	**10.5%**	**15.51%**	**18.84%**
Total capital /Total risk weighted assets	**14.5%**	**21.38%**	**22.03%**

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

Regulatory capital – Tanzania

The Bank of Tanzania sets and monitors capital requirements for the Tanzania banking industry. The Bank of Tanzania has set among other measures, the rules and ratios to monitor adequacy of a bank's capital. In implementing current capital requirements, The Bank of Tanzania requires Banks to maintain a prescribed ratio of total capital to total risk-weighted assets. The Bank's regulatory is analysed in two tiers:

- Tier 1 capital: This includes ordinary share capital, share premium, retained earnings, after deductions for prepaid expenses, goodwill, other intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital: This includes qualifying subordinated liabilities, collective impairment allowances and the element of fair value reserve relating to unrealized gains on equity instruments classified as available for sale.

Various limits are applied to elements of the capital base such as qualifying Tier 2 capital cannot exceed Tier 1 capital and qualifying subordinated debt may not exceed 50 percent of Tier 1 capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of Tier 2 capital. Tier 1 capital is also subjected to various limits such as Tier 1 capital should not be less than 10 percent of the risk weighted assets and premises investments should not exceed 50 percent of the core capital and movable assets should not exceed 20% of core capital.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

5. Financial risk management (Continued)

(d) Capital management (Continued)

Regulatory capital – Tanzania (Continued)

		2021	2020
		TZS'000	TZS'000
Total risk weighted assets		**455,203,329**	**398,392,315**
Capital ratios	Minimum*		
Core capital /Total risk weighted assets	**10.0%**	**16.02%**	**13.80%**
Total capital /Total risk weighted assets	**12.0%**	**19.55%**	**20.46%**

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

(e) Climate related risk

Climate-related risks' are potential negative impacts on the Group arising from climate change. Climate-related risks have an impact on the principal risk categories discussed above (i.e. credit, liquidity, market and operational risks), but due to their pervasive nature, they have been identified and managed by the Group on an overall basis.

The Group distinguishes between physical risks and transition risks. Physical risks arise as result of acute weather events such as hurricanes, floods and wildfires, and longer-term shifts in climate patterns, such as sustained higher temperatures, heat waves, droughts and rising sea levels. Transition risks arise as a result of measures taken to mitigate the effects of climate change and transition to a low-carbon economy – e.g. changes to laws and regulations, litigation due to failure to mitigate or adapt, and shifts in supply and demand for certain commodities, products and services due to changes in consumer behaviour and investor demand.

The Group has set up a Board Risk Committee, which is responsible for developing group-wide policies, processes and controls to incorporate climate risks in the management of principal risk categories.

The Group has developed a climate risk framework for:

- identifying risk factors and assessing their potential impact on the Group's financial statements; and
- allocating responsibilities for managing each identified risk factor. The Group has also set out principles on how to incorporate climate-related risk into stress test scenarios

The Group has identified the following climate-related risk factors as having an impact on the Group's financial instruments and included them in its principal risk management processes.

- Industries exposed to increased transition risks: The Group has identified industries that are subject to increased risk of climate regulation negatively affecting their business model. The Group Credit Committee has set overall lending limits for these industries. – Physical risk to real estate: The Group has identified areas in which it operates that are exposed to increased physical risk such as hurricanes or floods. Heightened physical risk is considered in valuing collateral, such as real estate, plant or inventory.

In addition, the Group is in the process of developing models that aim to assess how borrowers' performance is linked to climate change. The Group plans to use these models in pricing credit risk and in calculating ECLs.

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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

6. Use of estimates and judgement (Continued)

(a) Allowance for credit losses (Continued)

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

(b) Income taxes

Significant estimates are required in determining the liability for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax balances and deferred tax liability in the period in which such determination is made.

(c) 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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

7. Fair value heirarchy for assets carried at fair value (Continued)

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.

Accounting classifications at carrying amounts and fair values

Group 31 December 2021	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
Financial assets									
Cash and balances with central banks	17,539,247	-	-	-	17,539,247	-	-	-	-
Items in the course of collection	654,632	-	-	-	654,632	-	-	-	-
Loans and advances to banks	6,005,054	-	-	-	6,005,054	-	-	-	-
Loans and advances to customers	179,559,148	-	-	-	179,559,148	-	-	-	-
Financial assets at fair value through profit or loss (FVTPL)	-	-	15,932,960	-	15,932,960	15,932,960	-	-	15,932,960
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	62,538,424	-	-	62,538,424	57,550,617	4,987,807	-	62,538,424
Other financial assets at amortised cost	36,177,880	-	-	-	36,177,880	36,177,880	-	-	36,177,880
Due from group companies	790,849	-	-	-	790,849	-	-	-	-
Other assets	2,016,943	-	-	-	2,016,943	-	-	-	-
	242,743,753	62,538,424	15,932,960	-	321,215,137	109,661,457	4,987,807	-	114,649,264
Financial liabilities									
Deposits from banks	-	-	-	11,990,628	11,990,628	-	-	-	-
Deposits from customers	-	-	-	249,434,667	249,434,667	-	-	-	-
Due to group companies	-	-	-	1,792,385	1,792,385	-	-	-	-
Long term borrowings	-	-	-	3,964,050	3,964,050	-	-	-	-
Subordinated debt	-	-	-	8,924,816	8,924,816	-	-	-	-
Other liabilities	-	-	-	3,640,510	3,640,510	-	-	-	-
	-	-	-	279,747,056	279,747,056	-	-	-	-

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

7. Fair value heirarchy for assets carried at fair value (Continued)

Accounting classifications at carrying amounts and fair values (Continued)

Group 31 December 2020	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
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**	37,055,779	4,408,750	-	41,464,529
Other financial assets at amortised cost	41,665,290	-	-	-	**41,665,290**	23,792,911	-	-	23,792,911
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**	**72,647,124**	**4,408,750**	**-**	**77,055,874**
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**	**-**	**-**	**-**	**-**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

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

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

7. Fair value heirarchy for assets carried at fair value (Continued)

Accounting classifications at carrying amounts and fair values (Continued)

Company 31 December 2021	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
Financial assets									
Balances with Central Bank of Kenya	13,931,296	-	-	-	**13,931,296**	-	-	-	-
Items in the course of collection	648,914	-	-	-	**648,914**	-	-	-	-
Financial assets at fair value through profit or loss (FVTPL)	-	-	15,932,960	-	**15,932,960**	15,932,960	-	-	**15,932,960**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	62,838,955	-	-	**62,838,955**	57,297,886	295,012	5,246,057	**62,838,955**
Other financial assets at amortised cost	30,605,205	-	-	-	**30,605,205**	30,605,205	-	-	**30,605,205**
Loans and advances to banks	4,990,799	-	-	-	**4,990,799**	-	-	-	-
Loans and advances to customers	162,145,643	-	-	-	**162,145,643**	-	-	-	-
Due from group companies	839,071	-	-	-	**839,071**	-	-	-	-
Other assets	-	1,866,978	-	-	**1,866,978**	-		-	-
	213,160,928	**64,705,933**	**15,932,960**	**-**	**293,799,821**	**103,836,051**	**295,012**	**5,246,057**	**109,377,120**
Financial liabilities									
Deposits from banks	-	-	-	11,572,476	**11,572,476**	-	-	-	-
Deposits from customers	-	-	-	228,030,619	**228,030,619**	-	-	-	-
Due to group companies	-	-	-	1,773,808	**1,773,808**	-	-	-	-
Long term borrowings	-	-	-	2,431,625	**2,431,625**	-	-	-	-
Subordinated debt	-	-	-	8,924,816	**8,924,816**	-	-	-	-
Other liabilities	-	-	-	3,148,494	**3,148,494**	-	-	-	-
	-	**-**	**-**	**255,881,838**	**255,881,838**	**-**	**-**	**-**	**-**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

7. Fair value heirarchy for assets carried at fair value (Continued)

Accounting classifications at carrying amounts and fair values (Continued)

Company 31 December 2020	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
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**	37,008,042	-	4,870,719	**41,878,761**
Other financial assets at amortised cost	36,732,012	-	-	-	**36,732,012**	19,088,901	-	-	**19,088,901**
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**	**67,895,377**	**-**	**4,870,719**	**72,766,096**
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**	**-**	**-**	**-**	**-**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

8. Interest income

		2021 KShs '000	2020 KShs'000
(a)	**Group**		
	Loans and advances to customers	19,562,841	18,480,074
	Loans and advances to banks	79,364	256,329
	Investment securities:-		
	- At amortised cost	3,297,426	2,921,396
	- FVOCI - Debt instruments	4,181,060	1,919,584
		27,120,691	**23,577,383**
(b)	**Company**		
	Loans and advances to customers	17,637,510	16,766,012
	Loans and advances to banks	39,049	241,301
	Investment securities:-		
	- At amortised cost	2,772,140	2,450,228
	- FVOCI - Debt instruments	4,165,911	1,919,584
		24,614,610	**21,377,125**

9. Interest expense

		2021 KShs '000	2020 KShs'000
(a)	**Group**		
	Deposits from customers	9,007,399	9,754,274
	Deposits from banks	254,876	157,195
	Long term debt	207,975	203,343
	Subordinated debt	351,208	214,933
	Lease liabilities (Note 32)	104,981	127,650
		9,926,439	**10,457,395**
(b)	**Company**		
	Deposits from customers	8,144,915	9,085,250
	Deposits from banks	240,673	77,186
	Long term debt	135,406	124,538
	Subordinated debt	339,015	156,905
	Lease liabilities (Note 32)	87,171	111,377
		8,947,180	**9,555,256**

10. Net fee and commission income

		2021 KShs '000	2020 KShs'000
(a)	**Group**		
	Fee and commission income		
	Commissions	2,968,364	2,782,322
	Service fees	1,152,099	999,173
		4,120,463	**3,781,495**
	Fees and commission expense		
	Interbank transaction fees	(95,389)	(65,050)
	Other	(108,792)	(78,068)
		(204,181)	**(143,118)**
	Net fee and commission income	**3,916,282**	**3,638,377**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

10. Net fee and commission income (Continued)

		2021 KShs '000	2020 KShs'000
(b)	**Company**		
	Fee and commission income		
	Commissions	2,544,401	2,462,370
	Service fees	1,053,667	868,291
		3,598,068	**3,330,661**
	Fees and commission expense		
	Interbank transaction fees	(88,737)	(55,488)
	Other	(106,221)	(76,160)
		(194,958)	**(131,648)**
	Net fee and commission income	**3,403,110**	**3,199,013**

11. Net trading income

		2021 KShs '000	2020 KShs'000
(a)	**Group**		
	Income from foreign exchange dealings	1,162,898	1,307,245
	Net income on financial assets at fair value through profit or loss (FVTPL)	1,633,602	1,986,392
		2,796,500	**3,293,637**
(b)	**Company**		
	Income from foreign exchange dealings	1,010,293	1,162,754
	Net income on financial assets at fair value through profit or loss (FVTPL)	1,633,602	1,986,392
		2,643,895	**3,149,146**

12. Other operating income

		2021 KShs '000	2020 KShs'000
(a)	**Group**		
(i)	***Other income***		
	Profit on sale of property and equipment	5,868	1,426
	Management fees income	56,728	54,260
	Other income	45,951	60,649
		108,547	**116,335**
(b)	**Company**		
(i)	***Other income***		
	Profit on sale of property and equipment	5,869	1,426
	Management fees	106,561	54,260
	Other income	21,895	54,204
		134,325	**109,890**
(ii)	***Dividend income***		
	Dividend income-I&M Bank (T) Limited	-	68,640
	Dividend income-I&M Bancassurance Intermediary Limited	27,500	47,500
		27,500	**116,140**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

13. Operating expenses

		2021 KShs '000	2020 KShs'000
(a)	**Group**		
	Staff costs		
	Salaries and wages	3,834,317	2,926,948
	Contribution to defined benefit and contribution plan	203,578	170,988
	Statutory contribution	47,381	43,283
	Other staff costs	381,528	407,757
		4,466,804	3,548,976
	Premises and equipment costs		
	Service charge	148,193	136,172
	Utilities	181,197	131,589
	Other premises and equipment costs	75,784	131,687
		405,174	399,448
	General administrative expenses		
	Deposit protection insurance contribution	355,399	313,141
	Loss on disposal of property and equipment	-	-
	Other general administrative expenses	2,861,749	2,315,378
		3,217,148	2,628,519
	Depreciation and amortisation		
	Depreciation on property and equipment (Note 25)	854,141	660,730
	Amortisation of intangible assets (Note 26)	474,490	375,209
		1,328,631	1,035,939

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

	2021	2020
Management	1,081	1,107
Others	294	239
	1,375	1,346

		2021 KShs '000	2020 KShs'000
(b)	**Company**		
	Staff costs		
	Salaries and wages	3,301,877	2,538,755
	Contribution to defined benefit and contribution plan	200,440	168,775
	Statutory contribution	2,621	2,608
	Other staff costs	324,844	306,512
		3,829,782	3,016,650
	Premises and equipment costs		
	Service charge	148,193	136,172
	Utilities	171,988	101,042
	Other premises and equipment costs	43,903	122,110
		364,084	359,324
	General administrative expenses		
	Deposit protection insurance contribution	329,281	289,432
	Other general administrative expenses	2,517,032	1,967,338
		2,846,313	2,256,770

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

13. Operating expenses (Continued)

		2021 KShs '000	2020 KShs'000
(b)	**Company (Continued)**		
	Depreciation and Amortisation		
	Depreciation on property and equipment (Note 25)	747,292	563,913
	Amortisation of intangible assets (Note 26)	402,875	308,692
		1,150,167	872,605

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

	2021	2020
Management	894	920
Others	278	223
	1,172	1,143

14. Profit before income tax

		2021 KShs'000	2020 KShs'000
(a)	**Group**		
	Profit before income tax is arrived at after charging:		
	Depreciation	854,141	660,730
	Amortisation of intangible assets	474,490	375,209
	Directors' emoluments: -fees	26,736	31,338
	-other	198,204	133,277
	Auditor's remuneration	26,919	26,842
	Net profit on sale of property and equipment	5,868	1,426
(b)	**Company**		
	Profit before income tax is arrived at after charging:		
	Depreciation	747,292	563,913
	Amortisation of intangible assets	402,875	308,692
	Directors' emoluments: -fees	25,612	30,942
	-other	198,204	133,277
	Auditor's remuneration	10,043	9,430
	Net profit on sale of property and equipment	5,868	1,425

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

15. Income tax expense and tax payable

(a) Income tax expense

(i) Group

	2021 KShs'000	2020 KShs'000
Current tax		
Current year's tax	3,781,264	3,530,015
Under provision in prior year	22,582	(96,756)
	3,803,846	**3,433,259**
Deferred tax (Note 27)		
Current year	30,633	(1,501,523)
Prior year adjustment	(46,376)	253,460
	(15,743)	**(1,248,063)**
Income tax expense	**3,788,103**	**2,185,196**

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

	2021 KShs'000	2020 KShs'000
Accounting profit before tax	**11,235,121**	**10,698,178**
Computed tax using the applicable corporation tax rate at 30% (2020 - 25%)	3,370,536	2,674,545
Effect of change in tax rate	-	(239,162)
Under provision in prior year	22,582	(96,756)
Effect on non-deductible costs/non-taxable income	441,361	(406,891)
Over provision in prior year - deferred tax	(46,376)	253,460
	3,788,103	**2,185,196**

(ii) Company

	2021 KShs'000	2020 KShs'000
Current tax		
Current year's tax at 30% (2020 - 25%)	3,580,146	3,293,709
Under provision in prior year	26,524	(97,104)
	3,606,670	**3,196,605**
Deferred tax (Note 27)		
Current year	21,472	(1,421,619)
Prior year adjustment	(46,376)	252,288
	(24,904)	**(1,169,331)**
Income tax expense	**3,581,766**	**2,027,274**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

15. Income tax expense and tax payable (Continued)

(a) Income tax expense (Continued)

(i) Company (Continued)

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

	2021 KShs'000	2020 KShs'000
Accounting profit before tax	**10,587,447**	**10,289,031**
Computed tax using the applicable corporation tax rate at 30% (2020 - 25%)	3,176,234	2,572,258
Effect of change in tax rate	-	(236,936)
Under provision in prior year	26,524	(97,104)
Effect on non-deductible costs /non-taxable income	425,384	(463,232)
Under provision in prior year - deferred tax	(46,376)	252,288
	3,581,766	**2,027,274**

(b) Tax (recoverable)/payable

	2021	2020
(i) Group		
At 1 January	(14,555)	859,260
Income tax expense (Note 15(a)(i))	3,803,846	3,433,259
Effect of tax in foreign jurisdiction	841	2,036
Tax paid (Note 36(a))	(3,886,876)	(4,309,110)
At 31 December	**(96,744)**	**(14,555)**
Tax recoverable	(126,054)	(72,535)
Tax payable	29,310	57,980
	(96,744)	(14,555)
(ii) Company		
At 1 January	(79,972)	845,413
Income tax expense (Note 15(a)(ii))	3,606,670	3,196,605
Tax paid (Note 36(c))	(3,652,656)	(4,121,990)
At 31 December	**(125,958)**	**(79,972)**

16. Earnings per share

	Group		Company	
	2021	2020	2021	2020
Net profit after tax attributable to owners of the company (KShs '000')	**7,372,029**	**8,431,558**	**7,005,681**	**8,261,757**
Weighted average number of ordinary shares in issue during the year ('000)	**29,800**	**29,800**	**29,800**	**29,800**
Earnings per share (KShs)	**247.38**	**282.94**	**235.09**	**277.24**

There were no potentially dilutive shares outstanding at 31 December 2021 (2020 – Nil).

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For the year ended 31 December 2021 (Continued)

17. Dividend per share

	2021 KShs'000	2020 KShs'000
The calculation of dividend per share is based on:		
Final dividend proposed during the year (KShs'000)	4,000,000	2,478,527
	4,000,000	2,478,527
Number of ordinary shares in issue as at 31 December ('000)	29,800	29,800
Final dividend per share (KShs.)	134.23	83.17

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

		2021 KShs'000	2020 KShs'000
(a)	**Group**		
	Cash on hand	4,139,109	3,353,303
	Balances with central banks:		
	-Restricted balances (Cash reserve ratio)	10,610,992	10,050,255
	-Unrestricted balances	2,789,146	2,657,500
		17,539,247	16,061,058
(b)	**Company**		
	Cash on hand	2,780,607	2,533,387
	Balances with Central Bank of Kenya:		
	-Restricted balances (Cash reserve ratio)	9,442,660	9,148,260
	-Unrestricted balances	1,708,029	2,064,040
		13,931,296	13,745,687

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% (2020 – 4.25%) in Kenya and, 7.0% (2020 – 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% (2020-4.25%)

19. Items in the course of collection

		2021 KShs'000	2020 KShs'000
(a)	**Group**		
	Assets	654,632	622,994
(b)	**Company**		
	Assets	648,914	619,833

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

OUR FINANCIALS (Continued)
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For the year ended 31 December 2021 (Continued)

20. Loans and advances to banks

		2021 KShs'000	2020 KShs'000
(a)	**Group**		
	Due within 90 days	5,689,716	14,109,377
	Due after 90 days	315,338	-
		6,005,054	14,109,377
(b)	**Company**		
	Due within 90 Days	4,675,461	13,504,068
	Due after 90 days	315,338	-
		4,990,799	13,504,068

21. Loans and advances to customers

(a) **Classification**

		2021 KShs'000	2020 KShs'000
(i)	**Group**		
	Overdrafts	50,716,621	48,591,434
	Loans	132,240,205	122,552,337
	Bills discounted	1,366,301	1,013,360
	Finance leases	6,690,329	4,774,638
	Gross loans and advances	**191,013,456**	**176,931,769**
	Less: Impairment losses on loans and advances	(11,454,308)	(12,154,805)
	Net loans and advances	**179,559,148**	**164,776,964**
(ii)	**Company**		
	Overdrafts	44,998,254	43,757,654
	Loans	119,560,088	111,119,396
	Bills discounted	1,366,301	1,013,360
	Finance leases	6,690,329	4,774,638
	Gross loans and advances	**172,614,972**	**160,665,048**
	Less: Impairment losses on loans and advances	(10,469,329)	(10,989,984)
	Net loans and advances	**162,145,643**	**149,675,064**

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

OUR FINANCIALS (Continued)
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For the year ended 31 December 2021 (Continued)

21. Loans and advances to customers (Continued)

(b) Impairment losses on loans and advances - Group

2021:	Loans and advances to customers at amortised cost KShs'000	Loan commitments and financial guarantee contracts KShs'000	Total banking KShs'000	Trade receivable KShs'000	Total KShs'000
Net remeasurement of loss allowance	3,120,687	11,822	3,132,509	9,684	3,142,193
New financial assets originated or purchased	240,229	67,071	307,300	-	307,300
	3,360,916	**78,893**	**3,439,809**	**9,684**	**3,449,493**
Recoveries and impairment no longer required	(11,301)	(24,260)	(35,561)	-	(35,561)
Recoveries of loans and advances previously written off	(410,526)	-	(410,526)	-	(410,526)
Amounts directly written off during the year	359,297	-	359,297	-	359,297
	3,298,386	**54,633**	**3,353,019**	**9,684**	**3,362,703**

2020:	Loans and advances to customers at amortised cost KShs'000	Loan commitments and financial guarantee contracts KShs'000	Total banking KShs'000	Trade receivable KShs'000	Total KShs'000
Net remeasurement of loss allowance	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**

OUR FINANCIALS (Continued)
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For the year ended 31 December 2021 (Continued)

21. Loans and advances to customers (Continued)

(b) Impairment losses on loans and advances – Company

2021:	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	2,880,745	29,348	2,910,093
New financial assets originated or purchased	235,132	56,416	291,548
	3,115,877	**85,764**	**3,201,641**
Recoveries and impairment no longer required	(9,252)	(23,885)	(33,137)
Recoveries of loans and advances previously written off	(410,526)	-	(410,526)
Amounts directly written off during the year	340,489	-	340,489
	3,036,588	**61,879**	**3,098,467**

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**

(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).

	2021 KShs'000	2020 KShs'000
(i) Group		
Interest on impaired loans and advances which has not yet been received in cash	1,132,406	1,372,501
(ii) Company		
Interest on impaired loans and advances which has not yet been received in cash	518,206	775,077

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21. Loans and advances to customers (Continued)

(d) Loans and advances concentration by sector

(i) Group

	2021 KShs'000	2021 %	2020 KShs'000	2020 %
Manufacturing	51,734,960	27%	48,185,685	27%
Wholesale and retail trade	36,492,342	19%	31,988,444	18%
Building and construction	11,747,154	6%	11,047,856	6%
Agriculture	5,697,374	3%	5,843,871	3%
Real estate	33,516,426	18%	36,524,219	21%
Transport and communication	10,915,448	6%	9,988,921	6%
Business services	8,434,117	4%	9,548,173	5%
Electricity and water	851,362	0%	364,227	0%
Finance and insurance	4,761,963	2%	3,324,456	2%
Mining and quarrying	1,642,446	1%	1,456,910	1%
Others	25,219,864	14%	18,659,007	11%
	191,013,456	**100%**	**176,931,769**	**100%**

(ii) Company

	2021 KShs'000	2021 %	2020 KShs'000	2020 %
Manufacturing	47,513,938	28%	44,915,580	28%
Wholesale and retail trade	33,867,887	20%	29,606,952	18%
Building and construction	11,082,606	6%	10,755,535	7%
Agriculture	5,013,123	3%	5,227,882	3%
Real estate	29,199,154	17%	32,359,308	20%
Transport and communication	10,205,475	6%	9,266,417	6%
Business services	8,037,461	5%	7,950,745	5%
Electricity and water	851,362	0%	364,227	0%
Finance and insurance	4,761,963	3%	3,324,456	2%
Mining and quarrying	1,177,858	1%	988,718	1%
Others	20,904,145	11%	15,905,228	10%
	172,614,972	**100%**	**160,665,048**	**100%**

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21. Loans and advances to customers (Continued)

(e) Finance leases

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

(i) Group

	2021 KShs'000	2020 KShs'000
Receivable no later than 1 year	561,842	399,879
Receivable later than 1 year and no later than 5 years	4,973,236	4,362,357
Receivable later than 5 year	1,155,251	12,402
	6,690,329	**4,774,638**

(ii) Company

	2021 KShs'000	2020 KShs'000
Receivable no later than 1 year	561,842	399,879
Receivable later than I year and no later than 5 years	4,973,236	4,362,357
Receivable later than 5 year	1,155,251	12,402
	6,690,329	**4,774,638**

22. Financial assets

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

	2021 KShs'000	2020 KShs'000
(i) Group		
Derivative assets	179,138	-
Government securities (Non Liquid)	15,753,822	11,798,434
	15,932,960	**11,798,434**
(ii) Company		
Derivative assets	179,138	-
Government securities (Non Liquid)	15,753,822	11,798,434
	15,932,960	**11,798,434**

OUR FINANCIALS (Continued)
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For the year ended 31 December 2021 (Continued)

22. Financial assets (Continued)

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

		2021 KShs'000	2020 KShs'000
(i)	**Group**		
	Equity investment	476,414	448,857
	Preference shares investment in related parties*	4,692,795	4,408,750
	Corporate bonds	295,012	-
	Government securities (Non Liquid)	57,074,203	36,606,922
		62,538,424	**41,464,529**
(ii)	**Company**		
	Equity investment	426,671	401,120
	Corporate bonds	295,012	-
	Preference shares investment	5,246,057	4,870,719
	Government securities (Non Liquid)	56,871,215	36,606,922
		62,838,955	**41,878,761**

* 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.

* On 17 June 2021, Giro Limited issued 9,000,000 5% non-cumulative preference shares of a par value of KShs 30 each but issued at KShs 60 each to the value of KShs 540,000,000 redeemable after a period of 5 years but before the expiry of 10 years at the discretion of the issuer, which were fully subscribed to by I&M Bank LIMITED.

(c) Other financial assets at amortised cost

		2021 KShs'000	2020 KShs'000
(i)	**Group**		
	Government securities (Non Liquid)	36,142,410	41,593,094
	Trade receivables	35,470	72,196
		36,177,880	**41,665,290**
(ii)	**Company**		
	Government securities (Non Liquid)	**30,605,205**	**36,732,012**

OUR FINANCIALS (Continued)
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For the year ended 31 December 2021 (Continued)

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	Corporate bond KShs'000	Total KShs'000
31 December 2021							
At 1 January 2021	11,798,434	41,593,094	36,606,922	4,408,750	448,857	-	94,856,057
Additions	13,009,290	20,518,434	45,663,639	540,000	-	288,860	80,020,223
Disposals and maturities	(9,182,773)	(27,938,602)	(25,116,129)	-	-	-	(62,237,504)
Changes in fair value	201,884	-	(828,461)	(255,955)	(13,334)	(69)	(895,935)
Amortisation of discounts and premiums, unearned interest and interest receivable	106,125	1,715,509	748,579	-	38,885	6,221	2,615,319
Translation reserve	-	253,975	(347)	-	2,006	-	255,634
At 31 December 2021	**15,932,960**	**36,142,410**	**57,074,203**	**4,692,795**	**476,414**	**295,012**	**114,613,794**
	-	-	-	-	-	-	-
31 December 2020							
At 1 January 2020	13,697,717	23,573,966	10,729,728	4,132,118	559,569	-	52,693,098
Reclassification	-	-	-	-	-	-	-
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**

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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	Corporate bond KShs'000	Total KShs'000
31 December 2021							
At 1 January 2021	11,798,434	36,732,012	36,606,922	4,870,719	401,120	-	90,409,207
Additions	13,009,290	18,500,000	45,468,514	540,000	-	288,860	77,806,664
Disposals and maturities	(9,182,773)	(26,050,018)	(25,116,129)	(100,000)	-	-	(60,448,920)
Changes in fair value	201,884	-	(822,573)	(64,662)	(13,334)	(69)	(698,754)
Amortisation of discounts and premiums, unearned interest and interest receivable	106,125	1,423,211	734,481	-	38,885	6,221	2,308,923
At 31 December 2021	**15,932,960**	**30,605,205**	**56,871,215**	**5,246,057**	**426,671**	**295,012**	**109,377,120**
	-	-	-	-	-	-	-
31 December 2020							
At 1 January 2020	13,697,717	18,925,430	10,729,728	4,426,891	514,876	-	48,294,642
Reclassification	-	-	-	-	-	-	-
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**

OUR FINANCIALS (Continued)
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23. Held for sale assets

		2021 KShs'000	2020 KShs'000
(a)	**Group**		
	Held for sale assets	1,001,430	1,020,401
(b)	**Company**		
	Held for sale assets	1,001,430	1,020,401

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	2021 KShs'000	2021 % Ownership	2020 KShs'000	2020 % Ownership
I&M Bank (T) Limited	Tanzania	Banking	3,057,585	77.80%	2,750,653	70.38%
I&M Bancassurance Intermediary Limited	Kenya	Insurance	100	100%	100	100%
At 1 January and 31 December			**3,057,685**		**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) to get to 70.38%. During the year,the group subscribed to rights issue and also took up shares renounced by Proparco and Microfinance East Africa Limited which saw the group stake in the subsidiary increase to 77.80%.

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

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24. Investment in subsidiaries (Continued)

A summary of the subsidiaries performance is shown below;

Entity	Year	Revenue KShs'000 a	Expenses KShs'000 b	Profit before tax KShs'000 c=(a-b)	Profit after tax KShs'000 d
I&M Bank (T) Limited	2021	1,988,310	(1,495,932)	**492,378**	**337,788**
	2020	1,707,941	(1,321,976)	**385,965**	**274,896**
I&M Bancassurance Intermediary Limited	2021	264,304	(78,531)	**185,773**	**134,076**
	2020	261,136	(73,039)	**188,097**	**140,759**
Youjays Insurance Brokers Limited	2021	516	246	**762**	**712**
	2020	1,139	88	**1,227**	**973**

	Bank 2021 KShs'000	Bank 2020 KShs'000
At 1 January	2,750,753	2,750,753
Additional investment in I&M Bank (T) Limited	306,932	-
At 1 January and 31 December	**3,057,685**	**2,750,753**

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25. Property and equipment

(a) Group

2021:

	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	2,010,598	1,341,089	934,221	121,485	2,281,020	683,472	7,371,885
Additions	58,059	166,021	32,278	8,603	153,002	348,376	766,339
Disposals	-	(4,869)	(677)	(8,870)	-	(6,059)	(20,475)
Reclassification/internal transfers	53,919	154,713	667,085	-	-	(875,717)	-
Translation differences	8,098	13,066	1,677	820	9,823	293	33,777
At 31 December	**2,130,674**	**1,670,020**	**1,634,584**	**122,038**	**2,443,845**	**150,365**	**8,151,526**
Depreciation							
At 1 January	1,102,792	846,834	799,780	90,946	597,930	-	3,438,282
Reclassification	-	485	(485)	-	-	-	-
Charge for the year	211,563	120,480	156,121	18,422	347,555	-	854,141
On disposal	-	(4,161)	(677)	(8,674)	-	-	(13,512)
Translation differences	5,539	7,147	1,261	680	4,450	-	19,077
At 31 December	**1,319,894**	**970,785**	**956,000**	**101,374**	**949,935**	**-**	**4,297,988**
Net book value at 31 December	**810,780**	**699,235**	**678,584**	**20,664**	**1,493,910**	**150,365**	**3,853,538**

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25. Property and equipment (Continued)

(a) Group (Continued)

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
Disposal	(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
Disposals	(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**

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25. Property and equipment (Continued)

(b) Company

2021:	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	1,817,901	987,477	981,944	103,667	2,031,833	663,668	6,586,490
Additions	57,937	113,102	29,105	5,200	153,002	336,325	694,671
Disposals	-	(4,493)	(677)	(8,869)	-	(6,059)	(20,098)
Reclassification/internal transfers	53,920	162,275	657,338	-	-	(873,533)	-
At 31 December	**1,929,758**	**1,258,361**	**1,667,710**	**99,998**	**2,184,835**	**120,401**	**7,261,063**
Depreciation							
At 1 January	978,448	671,074	793,914	75,442	515,419	-	3,034,297
On disposals	-	(3,785)	(677)	(8,674)	-	-	(13,136)
Charge for the year	196,302	86,972	151,004	17,033	295,981	-	747,292
At 31 December	**1,174,750**	**754,261**	**944,241**	**83,801**	**811,400**	**-**	**3,768,453**
Net book value at 31 December	**755,008**	**504,100**	**723,469**	**16,197**	**1,373,435**	**120,401**	**3,492,610**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

25. Property and equipment (Continued)

(b) Company (Continued)

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**

Assets that are fully depreciated amounted to KShs 1,882,798,971 (2020 – KShs 1,795,549,458). If depreciation had been charged during the year on the cost of these assets at a nominal rate, it would have amounted to KShs 340,701,368 (2020 – KShs 276,371,516).

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

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 judge ments including:
  - o selection of the model used to determine the fair value – the Group has used the market multiple approach to estimate the fair value; and
  - o 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.

	2021 KShs'000	2020 KShs'000
(i) Group		
I&M Bank (T) Limited	526,504	505,276
Youjays Insurance Brokers Limited	232,284	232,284
Balance as 31 December	**758,788**	**737,560**
(ii) Movement of Goodwill		
At 1 January	737,560	705,345
Exchange differences	21,228	32,215
At 31 December	758,788	737,560

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 4.318 billion (2020 – KShs 3.454 billion) for I&M Bank (T) Limited. No impairment losses were recognised during 2021 (2020 – 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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

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 2021
5 year risk free rate	11.9%
Risk premium	9.94%
Terminal growth rate	3.00%
Discount rate	21.00%
Exchange rate	KShs 1 = TZs 20.86

	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

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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

26. Intangible assets (Continued)

(b) Computer software

(i) Group

2021:	Computer Software KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost			
At 1 January	3,068,218	423,189	3,491,407
Additions	325,777	412,816	738,593
Reclassification from capital work in progress	354,831	(354,831)	-
Translation differences	19,326	-	19,326
At 31 December	**3,768,152**	**481,174**	**4,249,326**
Amortisation			
At 1 January	1,621,319	-	1,621,319
Amortisation for the year	474,490	-	474,490
Translation differences	9,220	-	9,220
At 31 December	**2,105,029**	**-**	**2,105,029**
Carrying amount at 31 December	**1,663,123**	**481,174**	**2,144,297**

2020:	Computer Software KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost			
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
Translation differences	(28,403)	-	(28,403)
At 31 December	**1,621,319**	**-**	**1,621,319**
Carrying amount at 31 December	**1,446,899**	**423,189**	**1,870,088**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

26. Intangible assets (Continued)

(b) Computer software (Continued)

(ii) Company

2021:	**Computer Software KShs'000**	**Capital work in progress KShs'000**	**Total KShs'000**
Cost			
At 1 January	2,653,539	369,684	3,023,223
Additions	299,219	412,816	712,035
Reclassification from capital work in progress	354,831	(354,831)	-
At 31 December	**3,307,589**	**427,669**	**3,735,258**
Amortisation			
At 1 January	1,415,747	-	1,415,747
Amortisation for the year	402,875	-	402,875
At 31 December	**1,818,622**	**-**	**1,818,622**
Carrying amount at 31 December	**1,488,967**	**427,669**	**1,916,636**

2020:	**Computer Software KShs'000**	**Capital work in progress KShs'000**	**Total KShs'000**
Cost			
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**

The Company's computer software with a gross value of KShs 815,729,692 (2020 – KShs 782,101,474) 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 163,145,938 (2020- KShs 156,420,295).

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

27. Deferred tax assets

Deferred tax assets at 31 December 2021 and 31 December 2020 are attributable to the following:

(a) Group

2021:	**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	72,091	13,873	-	(1,253)	(28,766)	55,945
Right of use asset	(24,917)	32,503	-	300	(27,512)	(19,626)
General provisions	1,223,113	-	-	10,691	185,930	1,419,734
Impairment allowances	3,367,915	-	-	-	(160,285)	3,207,630
Fair value reserves	(116,164)	-	329,347	(213)	-	212,970
	4,522,038	**46,376**	**329,347**	**9,525**	**(30,633)**	**4,876,653**

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**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

27. Deferred tax assets (Continued)

(b) Company

	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
2021:					
Equipment	84,751	13,873	-	(30,734)	67,890
Right of use asset	(26,775)	32,503	-	(9,685)	(3,957)
General provisions	874,866	-	-	179,498	1,054,364
Impairment allowances	3,347,373	-	-	(160,551)	3,186,822
Fair value reserves	(167,185)	-	270,191	-	103,006
	4,113,030	46,376	270,191	(21,472)	4,408,125
2020:					
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

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

28. (a) Due from related party

(i) Group

	2021 KShs'000	2020 KShs'000
I&M Realty Limited	720,230	798,807
I&M Bank (Rwanda) PLC	3,189	7,528
I&M Group PLC (formerly I&M Holdings PLC)	60,242	-
Giro Limited	7,188	-
	790,849	806,335

(ii) Company

	2021 KShs'000	2020 KShs'000
I&M Realty Limited	720,230	798,807
I&M Bank (T) Limited	48,222	218,467
I&M Bank (Rwanda) PLC	3,189	7,528
I&M Group PLC (formerly I&M Holdings PLC)	60,242	-
I&M Bank (Uganda) Limited (formerly Orient Bank Limited)	7,188	-
	839,071	1,024,802

(b) DUE TO RELATED PARTY

(i) Group

	2021 KShs'000	2020 KShs'000
Giro Limited	217,177	179,401
I&M Group PLC (formerly I&M Holdings PLC)	828,926	446,059
I&M Realty Limited	96,787	82,856
I&M Bank (Rwanda) PLC	204,152	217,992
I&M Burbidge Capital Limited	10,942	17,995
I&M Capital Limited	28,181	7,012
I&M Bank (Uganda) Limited (formerly Orient Bank Limited)	406,220	-
	1,792,385	951,315

(ii) Company

	2021 KShs'000	2020 KShs'000
Giro Limited	217,177	179,401
I&M Group PLC (formerly I&M Holdings PLC)	828,926	446,059
I&M Realty Limited	96,787	82,856
I&M Bank (T) Limited	70,695	86,420
I&M Bank (Rwanda) PLC	55,143	217,992
I&M Bancassurance Intermediary Limited	56,826	169,254
Youjays Insurance Brokers Limited	2,911	5,587
I&M Burbidge Capital Limited	10,942	17,995
I&M Capital Limited	28,181	7,012
I&M Bank (Uganda) Limited (formerly Orient Bank Limited)	406,220	-
	1,773,808	1,212,576

The balances mostly relates to deposits and balances held with I&M Bank LIMITED

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

29. Other assets

	2021 KShs'000	2020 KShs'000
(a) Group		
Prepayments	462,458	507,691
Other receivables	1,554,485	1,120,581
	2,016,943	**1,628,272**
(b) Company		
Prepayments	376,919	428,027
Other receivables	1,490,059	1,038,034
	1,866,978	**1,466,061**

30. Deposits from banks

	2021 KShs'000	2020 KShs'000
(a) Group		
Due within 90 days	8,669,672	629,092
Due after 90 days	3,320,956	651,141
	11,990,628	**1,280,233**
(b) Company		
Due within 90 days	8,251,520	363,323
Due after 90 days	3,320,956	651,141
	11,572,476	**1,014,464**

31. Deposits from customers

	2021 KShs'000	2020 KShs'000
(a) Group		
Government and Parastatals	582,857	651,932
Private sector and individuals	248,851,810	234,654,226
	249,434,667	**235,306,158**
(b) Company		
Government and Parastatals	582,857	585,784
Private sector and individuals	227,447,762	217,567,079
	228,030,619	**218,152,863**

32. Other liabilities

	2021 KShs'000	2020 KShs'000
(a) Group		
Accruals	1,154,472	1,485,519
Other accounts payables	738,815	620,802
Lease liability	1,400,775	1,593,697
Provisions for loan commitments*	241,556	186,292
Bankers cheques payable	104,892	139,569
Derivative liabilities	-	36,167
	3,640,510	**4,062,046**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

32. Other liabilities (Continued)

	2021 KShs'000	2020 KShs'000
(b) Company		
Accruals	1,067,524	1,412,378
Other accounts payables	505,641	412,415
Lease liability	1,255,902	1,427,164
Provisions for loan commitments*	229,796	167,917
Bankers cheques payable	89,631	124,980
Derivative liabilities	-	36,167
	3,148,494	**3,581,021**

*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:

	2021 KShs'000	2020 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	963,100	1,156,022
	1,400,775	**1,593,697**
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	818,227	989,489
	1,255,902	**1,427,164**

The total cash outflow for leases in the year was:

	2021	2020
Group		
Payments of principal portion of the lease liability	351,297	314,132
Interest paid on lease liabilities	104,981	127,650
	456,278	**441,782**
Company		
Payments of principal portion of the lease liability	320,764	280,187
Interest paid on lease liabilities	87,171	111,377
	407,935	**391,564**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

32. Other liabilities (Continued)

(c) Lease liability (continued)

Lease liability movement

Group	2021 KShs'000	2020 KShs'000
Balance at 1 January	1,593,697	1,389,567
Additions	149,502	455,789
Interest expense	104,981	127,650
Lease payments	(456,278)	(441,782)
Translation difference	8,873	62,473
Balance at 31 December	**1,400,775**	**1,593,697**

Company		
Balance at 1 January	1,427,164	1,251,562
Additions	149,502	455,789
Interest expense	87,171	111,377
Lease payments	(407,935)	(391,564)
Balance at 31 December	**1,255,902**	**1,427,164**

Amount recognized in profit or loss

Group		
Interest on lease liabilities (Note 9)	104,981	127,650
Depreciation of right to use asset (Note 25)	347,555	287,930
	452,536	**415,580**

Company		
Interest on lease liabilities (Note 9)	87,171	111,377
Depreciation of right to use asset (Note 25)	295,981	244,020
	383,152	**355,397**

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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

33. Long term borrowings

(a) Group

	2021 KShs'000	2020 KShs'000
Less than one year	1,623,410	2,839,442
One to five years	2,340,640	3,142,412
	3,964,050	**5,981,854**

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 13 August 2018 by Tanzania Mortgage Refinance Company Limited (TMRC). The interest on the facility repayable quarterly over 3 years with redemption on maturity.

USD 12 million granted on 16 March 2016 by Nenderlands 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 was made on 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.

USD 5 million granted on 16 October 2020 by FMO as a senior debt for a tenor of 3 years.Interst payable on quarterly basis. Effective interest rate 3.43%.

(b) Company

	2021 KShs'000	2020 KShs'000
Less than one year	1,623,410	2,839,442
One to five years	808,215	1,393,714
	2,431,625	**4,233,156**

The Company's borrowings constituted the following:

(i) 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.
(ii) 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

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

33. Long term borrowings (Continued)

Loan movement schedule

(i) **Group**

	2021 KShs'000	2020 KShs'000
At 1 January	5,981,854	4,770,428
Funds received	456,524	3,278,117
Payments on principal and interest	(2,790,268)	(2,269,824)
Interest payable	6,882	94,430
Translation differences	309,058	108,703
At 31 December	**3,964,050**	**5,981,854**

(ii) **Company**

	2021 KShs'000	2020 KShs'000
At 1 January	4,233,156	3,115,727
Funds received	-	2,730,000
Payments on principal and interest	(2,057,510)	(1,611,688)
Interest payable	6,982	11,621
Translation differences	248,997	(12,504)
At 31 December	**2,431,625**	**4,233,156**

34. Subordinated debt

(a) **Group**

	2021 KShs'000	2020 KShs'000
Less than one year	172,663	86,007
One to five years	5,923,403	3,294,040
Over five years	2,828,750	-
	8,924,816	**3,380,047**

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**

	2021 KShs'000	2020 KShs'000
Less than one year	172,663	86,007
One to five years	5,923,403	2,964,740
Over five years	2,828,750	-
	8,924,816	**3,050,747**

The Company's subordinated debt constituted the following:

(iii) USD 27,350,000,000 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.

(iv) USD 50,000,000 subordinated facility issued on 28 June 2021 for a tenor of 6 years 9 months with redemption in four consequtive approximately equal instalments starting 15 Sept 2026 and on each interest payment date thereafter until and including 15 Mar 2028.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

35. Share capital and reserves

(a) Share capital

	Group and Company	
	2021 KShs'000	2020 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 2021 and 2020 were as follows:

	%	Number of shares	Share Capital KShs'000	Share Premium KShs'000
I&M Group PLC (formerly I&M Holdings PLC) (2021)	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 Group PLC (formerly 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

(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 49-52.

(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 49-52.

(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 49-52.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

36. Notes to the statement of cash flows

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

	Note	2021 KShs'000	2020 KShs'000
Profit before income tax		11,235,121	10,698,178
Adjustments for:			
Depreciation on property and equipment	25(a)	506,586	372,800
Depreciation on right of use asset	25(a)	347,555	287,930
Amortisation of intangible asset	26(b)(i)	474,490	375,209
Interest on lease liabilities	9(a)	104,981	127,650
Profit on sale of property and equipment		(5,869)	(1,426)
Net income on financial assets at fair value through profit or loss (FVTPL)	11(a)	(1,633,602)	(1,986,392)
Exchange reserves		454,396	178,343
		11,483,658	**10,052,292**
(Increase)/decrease in operating assets			
Movement in loans and advances to customers		(14,782,184)	(8,008,218)
Financial assets at fair value through profit or loss (FVTPL)		(2,500,924)	3,885,675
Financial assets measured at fair value through other comprehensive income (FVOCI)		(22,171,768)	(25,604,841)
Other financial assets at amortised cost		5,487,410	(18,035,850)
Held for sale assets		18,971	(389,067)
Loans and advances to Banks		(315,338)	-
Cash and balances with Central Banks:			
– Cash Reserve Ratio		(560,737)	(692,886)
Due from group companies		15,486	26,550
Other assets		(388,671)	(140,282)
		(35,197,755)	**(48,958,919)**
Increase/(decrease) in operating liabilities			
Customer deposits		14,128,509	26,280,957
Deposits from banks		2,669,815	648,659
Long term borrowings		(2,333,744)	1,211,426
Due to group companies		841,070	(42,561)
Other liabilities		(221,732)	(62,906)
		15,083,918	**28,035,575**
Cash flows generated from operating activities		**(8,630,179)**	**(10,871,052)**
Tax paid	15(b)(i)	(3,886,876)	(4,309,110)
Interest on lease liabilities		(104,981)	(127,650)
Net cash flows generated from operating activities		**(12,622,036)**	**(15,307,812)**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

36. Notes to the statement of cash flows (Continued)

(b) Analysis of cash and cash equivalents – Group

	Note	2021 KShs'000	2020 KShs'000	Change KShs'000
Cash and balances with central banks – excluding CRR	18(a)	6,928,255	6,010,803	917,452
Items in the course of collection	19(a)	654,632	622,994	31,638
Loans and advance to banks	20(a)	5,689,716	14,109,377	(8,419,661)
Deposits from banks	30(a)	(8,669,672)	(629,092)	(8,040,580)
		4,602,931	**20,114,082**	**(15,511,151)**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

36. Notes to the statement of cash flows (Continued)

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

	Note	2021 KShs'000	2020 KShs'000
Cash flows from operating activities			
Profit before income tax		10,587,447	10,289,031
Adjustments for:			
Depreciation on property and equipment	25(b)	451,311	319,893
Depreciation on right of use asset	25(b)	295,981	244,020
Amortisation of intangible asset	26(b)(ii)	402,875	308,692
Interest on lease liabilities	9(b)	87,171	111,377
Profit on sale of property and equipment		(5,869)	(1,426)
Net income on financial assets at fair value through profit or loss (FVTPL)	11(b)	(1,633,602)	(1,986,392)
Dividend income	12(b)(ii)	(27,500)	(116,140)
		10,157,814	**9,169,055**
Increase/(decrease) in operating assets			
Movement in loans and advances to customers		(12,470,579)	(8,131,938)
Financial assets at fair value through profit or loss (FVTPL)		(2,500,924)	3,885,675
Financial assets measured at fair value through other comprehensive income (FVOCI)		(21,881,802)	(25,601,797)
Other financial assets at amortised cost		6,126,807	(17,806,582)
Held for sale assets		18,971	(389,067)
Loans and advances to Banks		(315,338)	-
Due from group companies		185,731	175,612
Cash and balances with Central Bank of Kenya:			
– Cash Reserve Ratio		(294,400)	(719,169)
Other assets		(400,917)	(208,643)
		(31,532,451)	**(48,795,909)**
Increase/(decrease) in operating liabilities			
Customer deposits		9,877,756	22,748,225
Balances due to group companies		561,232	1,220
Deposits from banks		2,669,815	648,659
Long-term borrowings		(2,057,510)	1,129,933
Other liabilities		12,184	(22,677)
		11,063,477	**24,505,360**
Cash flows generated from operating activities		**(10,311,160)**	**(15,121,494)**
Tax paid	15(b)(ii)	(3,652,656)	(4,121,990)
Interest on lease liabilities		(87,171)	(111,377)
Net cash flows generated from operating activities		**(14,050,987)**	**(19,354,861)**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

36. Notes to the statement of cash flows (Continued)

(d) Analysis of cash and cash equivalents – Company

	Note	2021 KShs'000	2020 KShs'000	Change KShs'000
Cash and balances with Central Bank of Kenya – excluding CRR	18(b)	4,488,636	4,597,427	(108,791)
Items in the process of collection	19(b)	648,914	619,833	29,081
Loans and advances to banks	20(b)	4,675,461	13,504,068	(8,828,607)
Deposits from banks	30(b)	(8,251,520)	(363,323)	(7,888,197)
		1,561,491)	**18,358,005)**	**(16,796,514)**

37. Off balance sheet contingencies and commitments

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Group at 31 December 2021. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

(b) Contractual off-balance sheet financial liabilities

In the ordinary course of business, the Group conducts business involving guarantees, acceptances and letters of credit. These facilities are offset by corresponding obligations of third parties. At the year end, the contingencies were as follows:

Group	2021 KShs'000	2020 KShs'000
Contingencies related to:		
Letters of credit	43,175,580	36,103,840
Guarantees	19,648,325	21,262,042
Other credit commitments	25,037,970	22,537,789
	87,861,875	**79,903,671**
Commitments related to:		
Outstanding spot/forward contracts	21,704,283	7,409,365
	109,566,158	**87,313,036**
Company		
Contingencies related to:		
Letters of credit	41,345,814	34,952,943
Guarantees	15,665,809	16,598,873
Other credit commitments	23,363,180	21,000,723
	80,374,803	**72,552,539**
Commitments related to:		
Outstanding spot/forward contracts	21,704,283	7,409,365
	102,079,086	**79,961,904**

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

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 lodged an appeal against this assessment to the Tax Appeal Tribunal. The matter was heard on 16 February 2021 and the tribunal ruled in favour of the bank on 4 March 2022.

39. Assets pledged as security

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

	2021 KShs'000	2020 KShs'000
Group	1,620,000	1,714,178
Company	1,620,000	1,620,000

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

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.

		2021 KShs'000	2020 KShs'000
(a)	**Transactions with directors/shareholders**		
(i)	Loans to directors/shareholders	5,428	11,466
	Interest Income from loans to directors/shareholders	989	1,576
(ii)	Deposits from directors/shareholders	1,003,507	657,604
	Interest expense on deposits from directors/shareholders	39,494	32,087
(b)	**Transactions with related companies**		
(i)	Loans to related companies	1,661,832	1,455,872
	Interest income from loans to related companies	213,467	189,766
(ii)	Deposits from related companies	1,545,159	2,501,880
	Interest expense on deposits from related companies	81,043	104,833
(iii)	Amounts due from group companies subsidiaries	21,122	23,729
	Interest income on amounts due from subsidiaries	-	-
(iv)	Amounts due to group companies subsidiaries	1,773,679	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 Bancassurance Intermediary Limited	175,000	275,000
(vii)	Preference shares Giro Limited	540,000	-
(c)	**Transactions with employees**		
	Staff loans	1,890,238	1,430,239
	Interest earned on these loans was KShs	121,929	87,797
(d)	**Management fees received**	115,160	54,260
(e)	**Management compensation**	168,043	132,277

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

40. Related party transactions (Continued)

(f) I&M Bank (T) Limited – Tanzania

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

41. Capital commitments

	2021 KShs'000	2020 KShs'000
Group	2,012,878	3,125,034
Company	1,619,700	2,547,000

This is capital commitments on leasehold improvements and digitization initiatives being adopted by the Group.

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.

(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.

OUR FINANCIALS (Continued)
Notes to the consolidated and separate financial statements
For the year ended 31 December 2021 (Continued)

42. Other disclosures (Continued)

(c) Environmental and social risks

Environmental and social risks are the risks that the Group could bear the consequences of socio-environmental fall-out of transactions. Such risks could arise from failure of the bank to assess the impacts of activities (of both the group and its clients) which could harm the environment or have negative social impact.

The Group is aware that it has a responsibility to ensure that its internal practice and its lending activities do not have negative environmental and social impacts and is thus committed to ensure that such risks are sufficiently managed through its environmental and social management policy and by adopting the country's labour and environmental laws. The Group also adheres to international best practice (IFC performance standards and ILO standards as ratified by the Kenya Government).

An environmental and social management system is being put in place to ensure due diligence and monitoring of the environmental and social risk is done efficiently. Compliance to these laws is monitored by the compliance function.

The Directors are responsible for selection and disclosure of the Bank's critical accounting policies and estimates and the application of these policies and estimates.

(d) Climate-related risks

Climate-related risks' are potential negative impacts on the I&M Group arising from climate change. Climate-related risks have an impact on the principal risk categories discussed above (i.e. credit, liquidity, market and operational risks), but due to their pervasive nature, they have been identified and will be managed by the Group on an overall basis. The Group distinguishes between physical risks and transition risks. Physical risks arise as result of acute weather events such as hurricanes, floods and wildfires, and longer-term shifts in climate patterns, such as sustained higher temperatures, heat waves, droughts and rising sea levels.

Transition risks arise as a result of measures taken to mitigate the effects of climate change and transition to a low-carbon economy – e.g. changes to laws and regulations, litigation due to failure to mitigate or adapt, and shifts in supply and demand for certain commodities, products and services due to changes in consumer behavior and investor demand.

The Group Board Risk Committee is responsible for developing group-wide policies, processes and controls to incorporate climate risks in the management of principal risk categories. The Group has developed an Environment, Social and Governance (ESG) framework that incorporates a climate risk management strategy. The framework sets out an approach for: – identifying climate risk factors and assessing their potential impact on the Group's financial statements; and – allocating responsibilities for managing and communicating each identified risk factor.


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