Holdings

I&M HOLDINGS PLC INTEGRATED REPORT & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Rebuilding and moving forward

WE EXIST BECAUSE OF YOU

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

Rebuilding and moving forward

OUR PROMISE

PUTTING THE CUSTOMER FIRST

Our dedication is to build mutual respect, lead by fairness and foster growth through innovation to help you reach your bold ambitions.

RELEVANT SOLUTIONS

We are committed to always deliver appropriate tailor-made solutions that drive you forward in every facet of your life.

OPERATIONAL EXCELLENCE

We maintain the highest standards of operational efficiency to ensure our customers enjoy a seamless banking experience.

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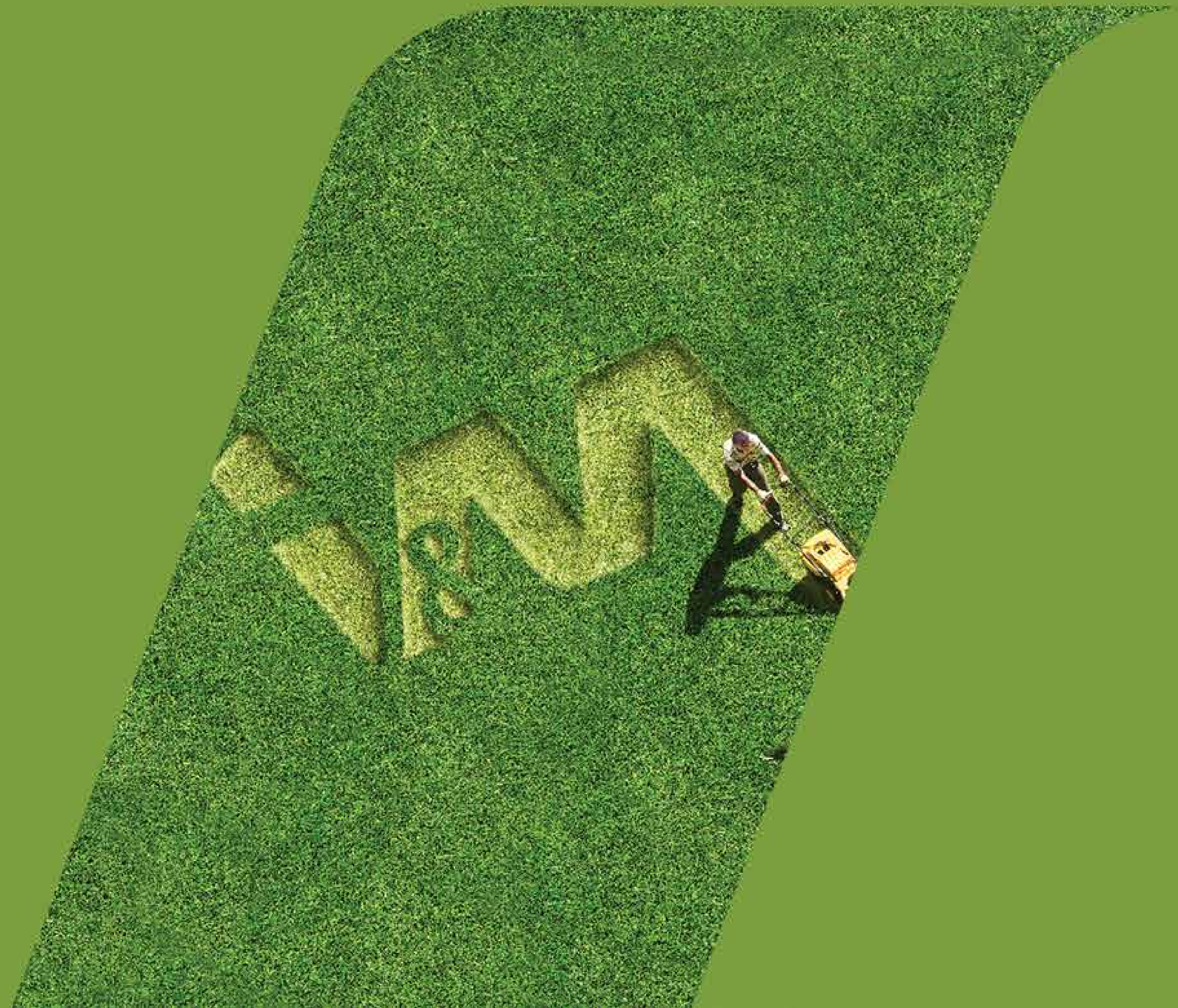

1. About this report

This is the second Annual Integrated Report of I&M Holdings Plc ("I&M" or " the Group") covering the Group's banking and non-banking subsidiaries and investments. It sets out I&M's long-standing commitment to sustainable growth and the principles of Integrated Thinking. The report aims to help readers better understand how I&M defines and measures the value it provides to the community as a result of its innovative market driven solutions that support lifestyle as well as financial needs and aspirations.

Primarily intended to address the information requirements of the Group's long-term investors (including equity shareholders, bondholders and prospective investors), this report also presents information relevant to other stakeholders interested in learning more about the way I&M creates value for staff, clients, regulators and society as a whole.

This report presents the consolidated operations of the Group, with a greater focus on I&M Bank LIMITED in Kenya which represents 70% by asset value. The report provides material information relating to the Group's strategy and business model, operating context, material risks, stakeholder interests, performance, prospects and governance for the period 1 January 2020 to 31 December 2020.

Reporting framework, principles and assurance: The integrated reporting process and the content of this report are guided by the principles and requirements of the International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC), as well as the International Financial Reporting Standards (IFRS). As a non-operating holding company listed on the Nairobi Securities Exchange (NSE) and licensed and regulated by the Central Bank of Kenya, I&M complies with the NSE and Capital Markets Authority (CMA) Listing Requirements, the Kenya Companies Act of 2015, Corporate Governance Guidelines and Codes of Conduct prescribed by the Central Bank of Kenya (CBK) and to The Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 issued by CMA.

I&M employs a combined assurance model to optimize the effectiveness of its business operations, including elements of external reporting. These assurances are provided by the management, the Board, and its independent external auditors, KPMG Kenya, on the true and fair presentation of the annual financial statements included in this report.

Materiality: I&M applies the principle of materiality in assessing which information should be included in the integrated report. This report therefore focuses on issues, opportunities and challenges that have a material impact on I&M and its ability to be a business capable of delivering sustainable value to shareholders and key stakeholders. The material matters contained in this report on pages (18 to 27) influence I&M 's strategy and inform the contents of this report.

Approval and accountability: The Board of Directors is ultimately responsible for ensuring the integrity and completeness of this integrated report. It is the Board opinion that this report presents a fair and balanced view of I&M's performance. The Board approved this Integrated Report on 30 March 2021.

Contact for inquiries and feedback on this report
invest@imbank.co.ke

Introduction from our Group Executive Director

Sarit Raja-Shah
Group Executive Director

2020 was undoubtedly an extraordinary year when we faced the reality and felt the impact of the coronavirus pandemic. As I pen this note to express our gratitude to you for your continued confidence in the Group during these uncertain times, I pray and hope that you and your loved ones are keeping healthy and safe.

Around the world, the pandemic has adversely affected economies and social support structures; indeed, financial institutions were not spared from this. For I&M Group, we entered the pandemic well-capitalized, financially stable and with robust systems; this has enabled the Group to absorb the economic shocks it faced and I am pleased to note that we have continued to serve and support our customers in an efficient and seamless manner.

The Group has responded well to the new requirements brought about by the pandemic. Our significant investments in people, technology and processes proved resilient when it came to initiating business continuity plans during the lockdown periods in our different countries of operations. Further the business has continued to operate smoothly, with sections of staff members being supported to work from home while we created room for social distancing for those who had to operate from the offices.

The Banking entities within the Group have been involved in collaborative programs with government agencies to provide support to keep our customers' businesses running amid the slow-down of the economies. Through the I&M Foundation, I am proud and humbled to note that the Group continues to provide a coordinated response through charitable assistance to those who were hard hit by the effects of the lockdown and the public health requirements.

Financial Performance and Operations

Overall, our financial performance for 2020 demonstrates the Group's resilience and focus in delivering value to you our shareholders. The Group reported a Profit after Tax of KES 8.4 B, being 22% lower than 2019 which is reflective of the market conditions faced during the year.

On the revenue side, fees and commissions were up to KShs. 8.6 B for the year (2019: KShs. 8.3 B). On the cost side, the Group aimed and succeeded in keeping our overall costs in check, seeking to make savings where possible with overall, administrative and other expenses closing at KShs. 10.1 B for the year (2019: KShs. 9.5B).

The slowdown in economies propelled by the pandemic also saw low levels of recoveries of non-performing loans. We continue to emphasize good quality assets and reduce risks in lending to keep the non-performing asset ratio at acceptable levels.

Kenya

Kenya's economy like many other global economies was hit hard by the COVID-19 pandemic. Supply chain disruptions brought about by total/partial lockdowns and other COVID-19 related directives reduced consumption and investment, hampering both domestic and international trade. The local currency weakened by 8.9% to the dollar in comparison to 2019. Approximately, 2 million people are estimated to have fallen into poverty, and nearly 900,000 lost their jobs. The Kenyan Government, however, rolled out an economic stimulus package valued at KShs. 54 billion, to help cushion the impact of the pandemic and aid in boosting economic recovery.

I&M Bank in Kenya recorded a growth of 11.5% closing its balance sheet at KShs. 284 billion on the strength of growth in Customer deposits which increased from

KShs. 195 billion in 2019 to KShs. 218 billion in 2020. The Bank's lending recorded a modest growth of 5.7% and was accompanied by an increase in non-performing assets from KShs. 18.8 billion in 2019 to KShs. 20.2 billion in 2020.

The Central Bank of Kenya implemented a raft of measures to facilitate use of alternate banking channels aimed at reducing the spread of the coronavirus. To drive adoption of digital channels by customers, I&M Bank in Kenya extended concessions on transactions done through the digital channels and additional interest rates was paid on deposits initiated through the channels. This challenging operating environment resulted in a drop in profitability during the year with profit after tax declining by 5% to KShs. 8.3 billion as compared to 2019.

The Kenyan Bank continued on its digital transformation journey, with significant investments in future-state ICT infrastructure projects aimed at the development of innovative market-driven solutions and enhancing operational efficiencies. The Bank initiated a series of initiatives to encourage its customers to take advantage of alternate delivery channels (non-branch) as a means to mitigating the adverse impacts of COVID-19 on availability of banking staff. Key amongst these were the (i) rollout of the pilot phase of I&M On-the-Go internet banking platform for Corporate and Business Customers, and (ii) launch of the I&M Web-Pay Divert, an e-commerce solution facilitating online sales by allowing businesses to accept payments from their customers through VISA, MasterCard and Union Pay cards.

Rwanda

The lockdown in Rwanda in the first half of the year resulted in a profound impact on the economy as well as the performance of I&M Bank in Rwanda during 2020. During this and following the Rwandan government proactively implemented policy changes to prevent the spread of the virus to vulnerable populations - these included promoting the use of digital platforms to avoid people paying for goods and services with currency notes.

During this time the Bank prioritized the wellbeing and safety of its staff and customers and showing solidarity with the community. The Bank put in place a comprehensive support scheme for individuals and businesses in general, including interest rate reductions, loan repayment holidays, online charges waiver, and loan extension facilities. The Bank approved nearly more than 1,700 applications for loan deferment.

Furthermore, the number of customers actively transacting on the Bank's digital channels doubled from 35% in 2019 to 72% as of the end of December 2020.

Underpinned by our customer diversification strategy, the Bank's total income grew by 13%, supported by the growth of its non-interest income by 34%. A combination of cost-saving programs and lower discretionary spending due to the COVID-19 pandemic resulted in a cost-to-income ratio before impairment of 57% versus 65% reported the previous year.

Overall, the Bank delivered FRW 7.8 billion (KShs. 855 million) of reported profit before tax, down 13% from FRW 9.0 billion (KShs. 994 million) reported in 2019.

Tanzania

The Tanzania economy slowed down in 2020 compared to 2019 attributed to the effects of the COVID-19 pandemic, with overall growth dropping to 4.5% by Q3-2020 as compared to 7.3% registered in the corresponding period in 2019. The key macro-economic indicators (Inflation, Money Supply, Interest Rates, and Exchange Rate) depicted a stable and positive outlook towards the last quarter of the year, largely contributed by the support on accommodative monetary policies instituted by the Bank of Tanzania to provide stimulus to the economy.

Despite the challenges, the Tanzanian bank demonstrated strong resilience, reporting a stable performance with Profit before Tax of TZS 8.5 billion (KShs. 386 million), marginally below TZS 8.8 billion (KShs. 391 million) in 2019. The Bank sustained its Balance Sheet growth, closing at TZS 513 billion (KShs. 24.1 billion) as of December 2020 compared to TZS 510 billion (KShs. 22.5 billion) the previous year.

The Bank worked to develop its medium-term strategy (iMara 2.0) and progressed well on various initiatives aimed at (i) enhancing its market share and brand positioning; and (ii) driving the growth in corporate and retail banking by improving its customer value proposition, the introduction of innovative products and services accompanied by a focus on digitization and simplifying the customer journey through optimization of systems and processes.

Mauritius

A combination of the coronavirus pandemic and the impact of two significant frauds in the UAE made 2020 a particularly difficult year for Bank One. However, some excellent work has taken place and the business now has historically high levels of capital and liquidity. The FATF "Greylist" and EU Blacklist added to international difficulties, though the Mauritian government responded resolutely with significant legal and regulatory enhancements to meet FATF requirements. Border controls and quarantine came into effect in March last year and to a large extent insulated Mauritius from the worst health effects of the pandemic. Economically, the impact was most felt by the tourism sector, which represents 25% of the country's GDP. The Mauritian bank worked with the Government and Bank of Mauritius' COVID-19 support programmes to assist its customers in the worst impacted sectors of the Mauritian economy in line with the measures introduced by the Bank of Mauritius to support the businesses and people impacted by the pandemic.

Non-Banking Entities

I am pleased to note that each of the three operational non-banking entities performed well despite the challenges. I&M Realty, the Group's real estate holding company recorded a 15% growth in revenue and marginally increased its total assets by 1.7% to close at KShs. 5.9 billion Its profitability, however, dropped by 33% on account of the rent concessions granted to several tenants as a form of relief to shield them from the adverse impact of the pandemic and lower fair value gain than prior year by 60 Million.

Also I&M Realty completed the construction of the Group's new headquarters located in Parklands and aptly named '1 Park Avenue'. The new 130,509 sq. feet building embodies the Group's commitment to reducing its environmental footprint and is one of the largest state-of-the-art green design buildings in East Africa. The roof is installed with integrated photovoltaic glass, making it one of a kind in East and Central Africa - through this innovation, the building is expected to generate an estimated 100 kWh per year, which will cover the majority of its consumption.

The Group's Bancassurance subsidiary, I&M Bancassurance Intermediary Ltd, reported a 12% growth in its Profit before Tax on the back of a 77% growth in Revenue.

I&M Burbidge Capital Limited, the Group's financial services subsidiary recorded a significant jump of 5 times in its Profit before Tax on the back of a 16.6% growth in revenue.

iMara 2.0

Building on the achievements of the initial iMara Strategy and taking into consideration the changing business environment, the Group undertook a strategy refresh exercise in the second half of 2020. The iMara 2.0 strategy shifts the balance of focus to growing emerging businesses to become "Eastern Africa's Leading Financial Partner for Growth".

The refreshed strategy is anchored on 3 key pillars:

(i) **Driving Business Growth** - expanding into new markets in Eastern Africa while at the same time diversifying the key sectors of business under the Corporate, MSME and Premium Banking segments.

(ii) **Building a resilient Organization** - investing in enhanced risk management practices, advanced analytics and cyber security.

(iii) **Optimizing the operation model** - radically improving operational efficiency by automating end-to-end customer processes and building centres of excellence across the region supported by a central shared service centre.

Group Structure

During the year, I&M revamped its Group Operations and implemented a new organizational structure to oversee the Group's regional footprint. With the operationalization of the structure now complete, it is expected to further improve customer experience by unlocking synergies through greater integration with subsidiaries, driving quality controls for capital expenditure and improving governance through standardization of reporting. We also added the role of the Group Chief Operations Officer who oversees the operations of all Banking entities.

Outlook

With the strained global and regional economies exacerbated by the COVID-19 pandemic, businesses are likely to face very challenging times in the year ahead. The implementation of the refreshed strategy and your continued support gives us confidence that the Group will deliver on its promises to all its stakeholders.

I take this opportunity to thank all our stakeholders for your continued trust and confidence as your financial partner of choice!

Sarit Raja-Shah
Group Executive Director

OUR BUSINESS

Group Performance Highlights December 2020

Profit Before Tax
10,952m
-25%

Net Interest Income
15,600m
+1%

Non Interest Income
8,638M
+4%

Fee (less LPF) Income
28%
Absolute +1%

Customer Deposits
262.7bn
+14%

Loans & Advances (Gross)
187.4bn
+7%

Cost/Income Ratio
42%
Absolute +1%

Return on Capital
13%
Absolute -3%

Fee (Less LPF) Cost
85%
Absolute -6%

Return on Assets
3%
Absolute -0.4%

Non-Financial Highlights December 2020

Cyber Risk Maturity Score
2020: 75%
2019: 65%

Number of Unique Innovation
2020: 7
2019: Nil

Transactions Done on Digital Channels
2020: 74%
2019: 64%

Number of Employees
2020: 2172
2019: 2126

Workforce Gender Ratio
2020: 50:50
2019: 49:51

System Uptime Performance
2020: 99.6%
2019: 99.8%

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OUR BUSINESS

47 YEARS OF EXISTENCE

1974 I&M Incorporated

1996 I&M licensed as a Commercial Bank

2002 I&M acquired Biashara Bank of Kenya

2006 I&M Bank implemented payment systems

2007 Two leading European DFIs- Proparco and DEG became shareholders

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

2010 Acquisition of 55% stake in I&M Bank (T) Limited (Formerly known as CF Union Bank Ltd.)

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

2013 Set up of I&M Holdings as a non-operating holding company, listed on the NSE
Additional Tier II capital raise

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

2015 I&M Bank ventured into Agency Banking

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

2017 Acquired 100% stake in Giro Commercial Bank Limited

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

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

2020 I&M Group moved to it's new office at 1 Park Avenue

OUR BUSINESS

2. Business at a Glance

2.1 Who We Are

The Group has a long-standing presence in the Kenyan market as a provider of a wide range of financial and real-estate services. Incorporated on 16th August 1950 under the name, City Trust Limited, it is one of the oldest companies to list on the Nairobi Securities Exchange (NSE). I&M Bank was founded in 1974 as a financial services company, and later converted into a commercial bank in 1996. I&M Bank undertook a reverse acquisition of City Trust Limited in 2013 and renamed the entity to I&M Holdings Plc.

Over the years, we have expanded successfully throughout Kenya and the region. This is largely attributed to our hallmark focus on sustaining excellent customer relationships. Steady and positive returns to investors have been a direct result of our customer-focused strategy. Today, we operate in five countries – Kenya, Tanzania, Rwanda, Uganda and Mauritius - through subsidiaries, affiliates and joint venture investments in each of these countries.

2.2 What We Do

Products and Services

The Group provides the following services:

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

Commercial banking represents the largest portion of the Group's assets with presence throughout the East Africa region. The products and services are segmented to meet the needs of each customer base and which in turn stems from our strategic goals of being the best bank for our customers. This now includes increased convenience through the digitization of our services.

Customer Segments

Corporate Banking: Providing an array of financial solutions for large corporates.

Business Banking: Providing financial solutions across medium, small and micro businesses.

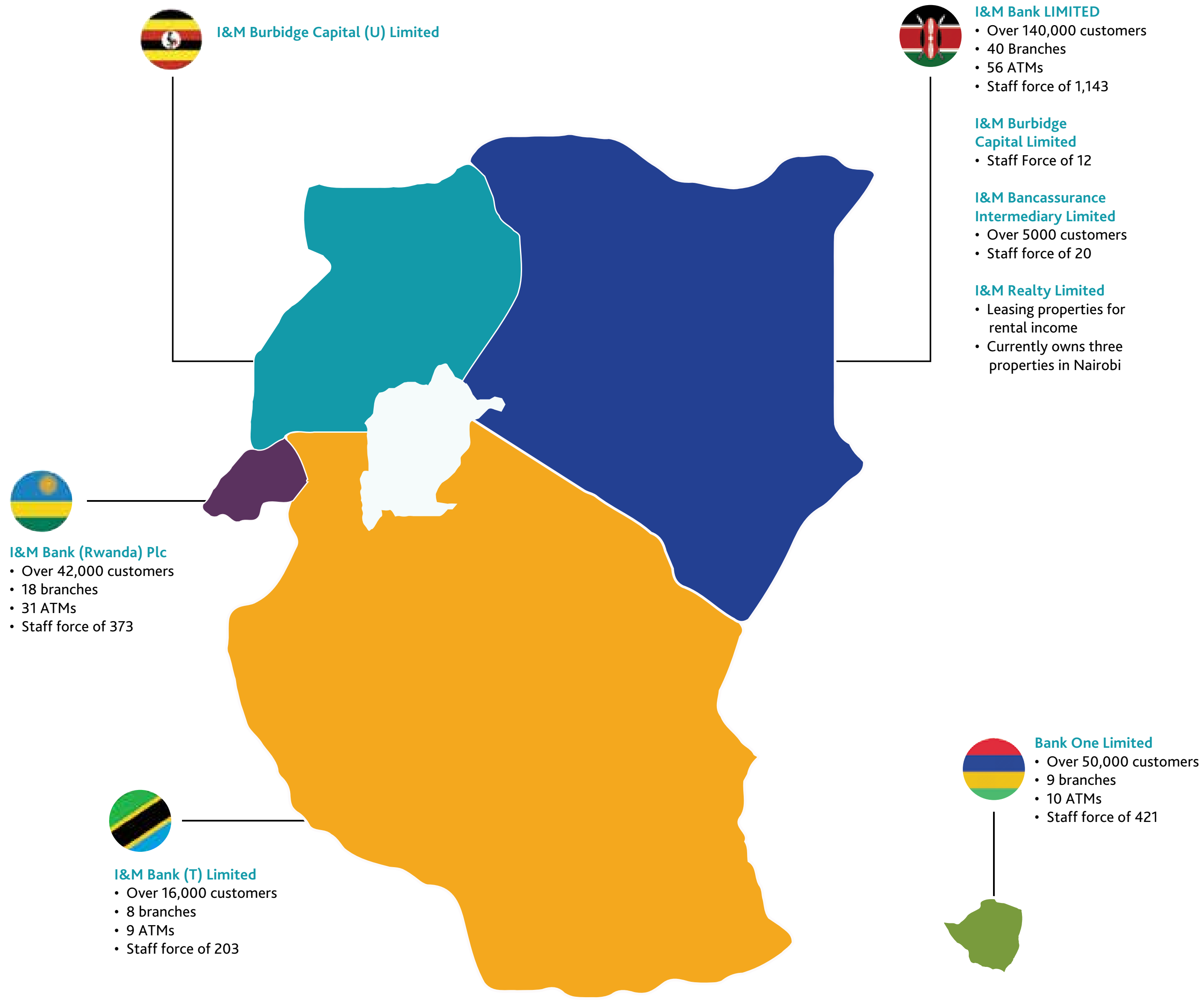
Premium: Offering top notch services to high networth individuals.

Personal Banking: Delivering the highest level of personal financial services.

2.3 Where We Operate

Our Geographical Footprint

The Group, through its subsidiaries and joint venture investments operates in five countries – Kenya, Tanzania, Rwanda, Uganda and Mauritius. Approximately 70% of the Group's asset value stems from its Kenyan operations, I&M Bank LIMITED.



2.4 What Drives Us

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

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

3 Our Strategic Aspiration
Eastern Africa's Leading Financial Partner for Growth.

4 Our Culture
To "nurture a culture of fairness to our partners" with respect to three key relationships:
Employee » Employer | Customer » Bank | Shareholder » Bank

5 We strive to achieve this through Our Core Values
- Mutual Respect
- Fairness
- Innovativeness

iMara 2.0 Strategy

Driving Business Growth

Building a resilient organization

Optimizing the operating model

3. Our Material Matters

Definitions and Materiality Identification Process

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

In preparation of last year's inaugural Integrated Report, we relied upon stakeholder engagements held throughout the year to review the topics and concerns most frequently raised to identify our material matters. We then went through an internal process of engaging with our staff, senior management and the Board, to narrow down a list of key concerns for I&M.

This year, we reviewed the material matters through an internal process which included engagement and sign off by the Board. The matters identified remain valid to I&M Holdings over time, and if anything, the emergence of the Covid-19 pandemic further demonstrated the urgency associated with many of them. Our response to the material matters is covered in our strategy, policies and procedures.

Moving forward, we will continue to determine our material matters through a collaborative process of identifying and engaging, ranking and prioritizing, and applying and reviewing to ensure our corporate strategy and action plans correspond to the matters identified.

Material Matters Process

Identify/Engage

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

Rank/Prioritise

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

Apply/Review

Material matters are regularly considered and inform I&M's short to long-term strategy. They also change over time. We therefore review them annually to ensure our focus is directed to the most current industry trends affecting our business.

For I&M Holdings, and the industry at large, the challenges at the forefront of informing our consumer-driven strategy can be broadly grouped into the following areas:

- Macroeconomic and regulatory environments;
- Digitization and changing consumer preferences; and
- Maintaining value and relevance to society.

Macroeconomic and Regulatory Environment

Unpredictable Macroeconomic and Political Environment and External Shocks

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

According to World Bank data, the global economy contracted at a rate of 5% in 2020 with developing economies contracting at a rate of 7% as a result of the impacts of the Covid-19 pandemic.

No country in the Africa region was spared the economic downturn as Africa's regional growth contracted by 3% in 2020, the worst outcome on record, according to IMF data.

In step with that trend, according to both World Bank and Central Bank of Kenya data, Kenya's economy contracted by 0.1% in 2020, having been depressed by slowdown of the economy due to Covid-19 containment measures.

Although the Kenyan economy has been resilient, the road to recovery is likely to be slow. Recovery in 2021 will be largely dependent on the ability of governments and key stakeholders to enact policies that maintain and create employment and build confidence.

Strategic Response: As a financial institution that has been around for over 45 years, I&M has focused on creating a balanced portfolio that considers short, medium and long term risks and returns. Whilst not immune from the economic conditions prevalent in the market, our prudent risk management and governance strategies have enabled us to fare well during economic slumps, as well as thrive during times of economic boom. We will continue to rely upon our sound risk management practices and policies, while progressing with our growth and expansion strategies for a well-diversified and balanced portfolio regionally and across the financial services sector. The year of the pandemic also demonstrated the value of our relationship-based business model. Due to our close connections with our clients, the Bank was able to extend effective support to enable our clients to weather the storm and emerge from the crisis.

Macroeconomic and Regulatory Environment (Continued)

How we measure success in managing this matter: I&M's consistent, positive, long-term financial performance – illustrated by its average return on equity levels of 17% in the last five years and growing profit before tax to levels within the top five in the market over the period, coupled with an excellent governance track record – is a testimony to its solid and sustainable business model. Our corporate strategy captures this in its aspiration to be "East Africa's leading Financial Partner for Growth" through its key strategic pillars of:

- Driving Business Growth,
- Building a Resilient Organisation and
- Optimising Our Operating Model.

The strategic performance in these areas are measured in terms of profit before tax and return on equity.

Existence of Illicit Financial Flows and Unethical Conduct

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

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

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

How we measure success in managing this matter: The Group has robust monitoring and reporting structures for tracking bribery and corruption incidents. As a result, the Group has not witnessed incidents of bribery and corruption, nor any negative media coverage in relation to ethical conduct of any of its officials. With respect to measuring risk appetite, the Group operates within the internal operational loss threshold and no penalties nor breaches have been incurred due to non-compliance related to proceeds of crime and money laundering, prudential or banking act requirements.

Demands on Governance and Regulatory Compliance in the Banking Sector

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

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

While we support the intention of regulations to protect our customers and stakeholders, the East African banking industry finds itself currently hampered by a host of new regulations that have come into force over the past two years. Although well intended, we must now take into consideration and navigate within these new regulations to maintain our operational standards to avoid disruption to the services we provide our customers.

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

How we measure success in managing this matter: We measure this through number of industry engagements we have supported throughout the year for the development of sound banking industry regulations and governance.

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Consolidation of the Banking Industry

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

The optimum number of banks in any country is and will remain a moot point but there is no doubt that while increased choice often means stiff competition, larger entities have more disposable funding available to invest in capital intensive research and product development necessary in today's high-tech environment. Greater reach and advertising budgets necessary to attract new clientele, further place larger entities at an advantage.

Strategic Response: In addition to I&M's strong organic growth, we have, for over a decade, opted to grow inorganically through mergers and acquisitions to increase our regional presence having successfully acquired and integrated banking entities starting with Mauritius in 2008, Tanzania in 2010, Rwanda in 2012 and Kenya in 2017.

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

How we measure success in managing this matter: We measure success through the performance trajectory and value added of our new acquisitions in the context of Group performance. Our corporate strategy captures this through its goal of increasing Strategic Partnerships. Performance in this area is measured in terms of Percentage growth of new business revenue.

Changing Consumer Preferences and Digitization

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

One of the greatest changes we have seen in the banking industry over the past decade is the emergence of fintechs and their use of innovative information and automation technology to enhance sector offerings. It is no longer enough to simply offer traditional banking services through brick and mortar establishments. Banks have been forced to adapt and embrace new technologies, alternate distribution channels and work through their operating platform all at an enormous learning curve. This has led banks and financial institutions to collaborate with fintechs to support their journey of transformation to become digitally enabled. Thanks to this collaboration, today, most banking customers are able to use their mobile phones to transact at their convenience without stepping foot in a bank.

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

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

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

How we measure success in managing this matter: Our corporate strategy captures the customer experience in its design and delivery prioritizing the customer needs and expectation. The strategy further encompasses a cultural transformation to a digital and agile culture. Performance is measured through targets of at least 80% digitally active customers and achievement of a Net Promoter Score of above 55%.

Emergence of Cyber Risk

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

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

We believe training and awareness of our staff is critical to proactively manage cyber risk. We have therefore rolled out cyber risk e-learning for all employees and applicable partners. All this has enabled I&M to detect cyber-crime attempts before they materialize (zero successful cases since 2018) and prevent malicious actors' activities (from thousands of phishing emails to zero). Moving forward, I&M will continue to prioritize ensuring a secure digital experience for all our clients.

How we measure success in managing this matter: One of our key performance indicators measures the successful prevention of incidents of cyber-attacks and fraud measured through our Cyber Risk Maturity Score with a minimum target of 82% for 2021. Efforts to manage cyber risk are replicated across the Group and we continue to enhance our cyber maturity by setting annual key performance indicators on the following components:

- Management & oversight
- Cyber security controls
- External dependencies
- Incident management & resilience
- Threat intelligence

Evolution of Human Resource Needs

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

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

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

How we measure success in managing this matter: I&M's human resource performance is measured through its training programs, gender ratio and diversity. These targets are measured separately as well as collectively through our Employee Engagement score, with a target result of above 90%.

Maintaining Value and Relevance to Society

Balancing Consumer Protection and Public Perception in the Banking Sector

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

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

How we measure success in managing this matter: Brand recognition and appreciation and customer satisfaction are measured through a number of indicators, including number of complaints, turnaround time, as well as collectively through our Net Promoter Score with an improvement target of above 55%.

Equitable Economic Growth

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

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

Equitable Economic Growth (Continued)

How we measure success in managing this matter: We measure our contribution to equitable economic growth through our core business and our role in sustainable allocation of capital, including volume/% of portfolio financing for micro, small and medium sized enterprises, our sustainability strategy, our responsible lending practices and consumer protection guidelines. At present, the Group upholds 100% compliance with relevant guidelines and regulations. We also measure success though the work of our Foundation with an annual 2% contribution of net profits to the I&M Foundation and a targeted 100% of I&M Foundation budget spend annually.

Climate Change, Environmental Degradation and Resource Constraints

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

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

How we measure success in managing this matter: As a business, we measure our success through our compliance with environmental and sustainability screening requirements and increase in green loans in our portfolio. Core to our strategy is Data-driven decision making, which includes data and risk analysis related to climate change and other environmental and social trends.

We also measure success through the work of our Foundation with an annual contribution of 2% of net profits to the I&M Foundation and a targeted 100% of I&M Foundation budget spend annually.

4. How We Create Value

As a financial services provider, I&M plays a crucial role in facilitating the required economic activity to enable sustainable growth and development by moving capital from where it is to where it is required. We are intrinsically connected to society at large as we are to our individual customers and employees. As a result, our decision making is based upon the desire for not only short-term results, but also long-term value creation. I&M's focus on customer centricity, long-term thinking and financial strength enables it to create shared value.

Our value creation process

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

Our capitals and relationships

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

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

CUSTOMERS
Over 250,000 corporate and private bank customers across the region
Our customers-both private and corporate-demand a superb personal and digital experience. They choose I&M because of our integrity as well as our efficiency.

EMPLOYEES
****2,172 employees**
Our employees are the heart of our operations. We have worked to create a fair and responsible workplace to create a conducive environment to promote employee empowerment and satisfaction.

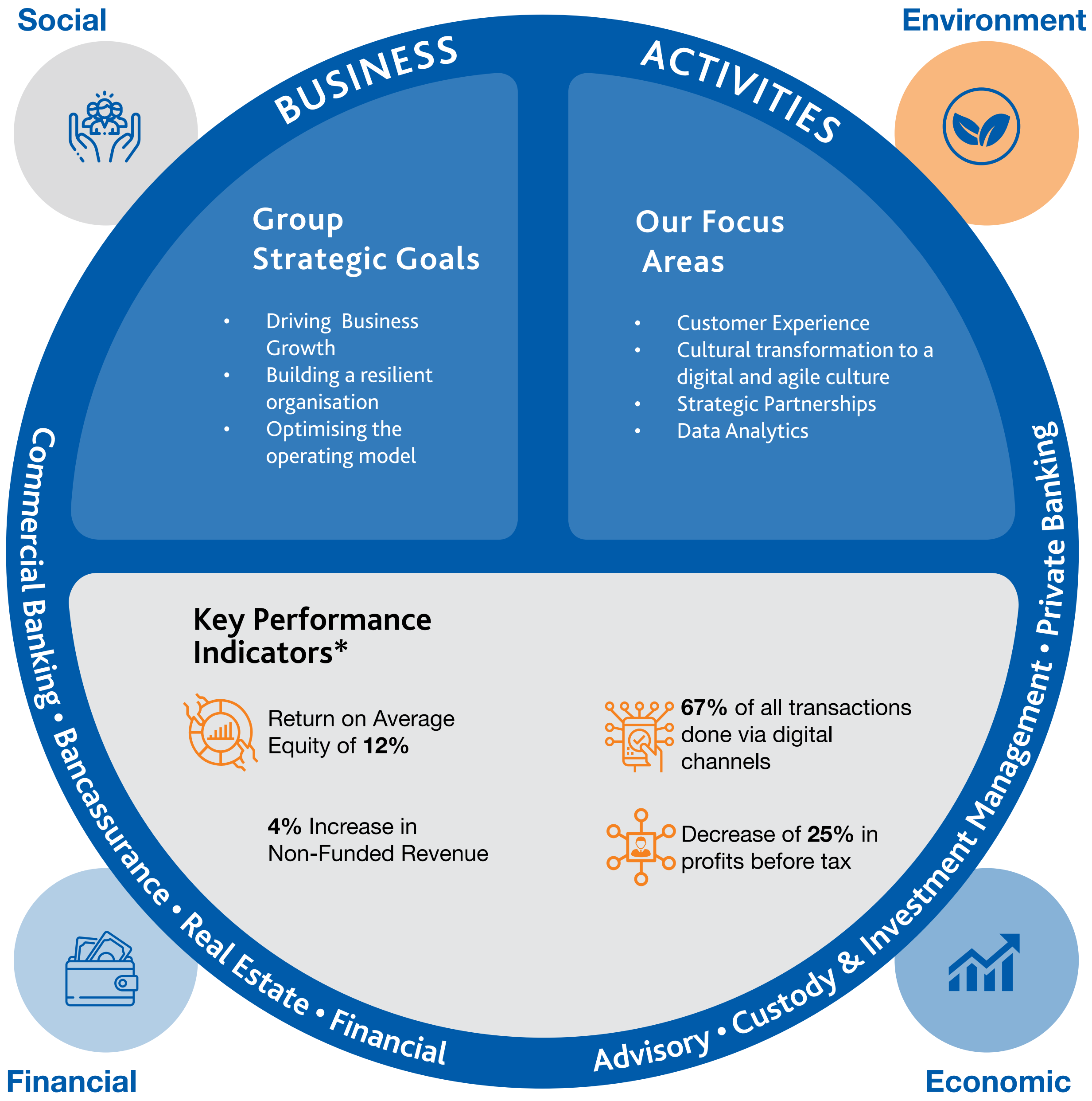
REGULATORS
Regulators work to ensure industry standards and protect consumers. I&M enjoys robust relationships with regulators to deliver upon its commitments to society.

SHAREHOLDERS
Long-term shareholders and market capitalisation of KShs 37.2bn
Shareholders expect a competitive and sustainable return on their capital. I&M employs a strong risk management strategy consisting of social, environment and governance considerations to ensure long term growth.

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

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

** Data includes Bank One Limited number of employees



	Change since previous year	
CUSTOMERS		
Net Loans Advances - KShs 187bn	7%	▲
Interest Paid to Customers - KShs 12.3bn	21%	▲
Application Systems Uptime - 99.6%	-0.2%	▼
EMPLOYEES		
Salaries and Benefits - KShs 4.6bn	-3%	▼
*Workforce Gender Ratio (Female: Male) - 50:50		▲
Employee Engagement Score - 75%	-2%	▼
REGULATORS		
Compliance with all regulatory requirements and smooth implementation of new regulations		
Regulatory Fees Paid - KShs 53mn	2%	▲
Government Taxes Paid - KShs 2.5mn	-34%	▼
SHAREHOLDERS		
Share Price Change - KShs 45 per share	-15%	▼
Full-year Dividend - KShs 1.9bn	-11%	▼
Return on Average Equity -12%	-7%	▼
SOCIETY		
Projects supported through I&M Foundation - KShs 240mn		
SERVICE PROVIDERS AND SUPPLIERS		
*Contracts awarded to local suppliers-95%	-3%	▼

* Data for I&M Bank LIMITED

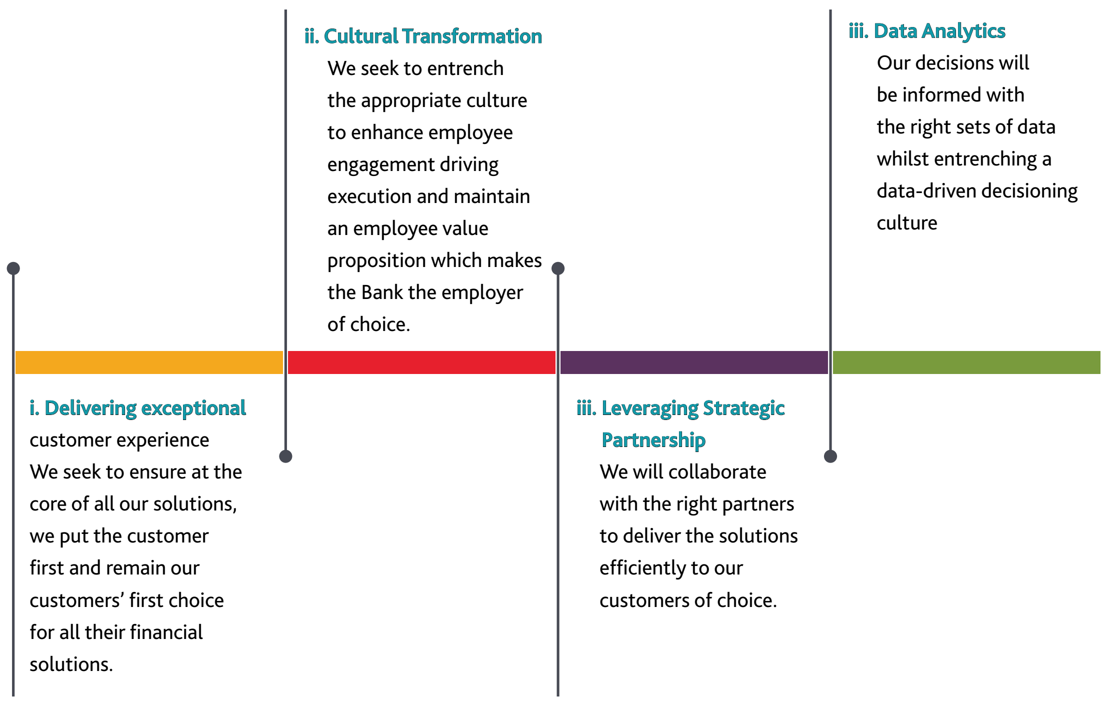
5. Our Strategy at a glance

5.1 I&M Holdings strategy at a glance

As the Group continues to grow in an increasingly competitive environment and industry, we are presented with unique challenges as well as exciting and valuable opportunities. In 2020, on the back of a successful phase one of our iMara strategy implementation, considering our market context, and the material dynamic changes within the environment, we refreshed our strategy, dubbed iMara 2.0 which identifies three distinct growth opportunities supported by four key enablers to propel our growth.

1	**Driving Business Growth:** The Group will focus on growing its business through geographical expansion, diversification into new segments, entrenchment of its sales processes and improving its digital platforms to provide clients the right solutions.
2	**Building a Resilient Organisation:** The year 2020 highlighted the need for resilience for business growth in light of the ever changing operating environment. The Group will seek to ensure it is resilient in its liquidity and funding, against emergent operational, cyber and credit risk, whilst also ensuring it remains a good corporate citizen by embracing its environmental, social and governance responsibility.
3	**Optimising the Operating Model:** The revised strategy is focused on improving core IT infrastructure resilience, process efficiency through business process reengineering and standardization, as well as leveraging Group synergies for growth.

Underpinning these goals are four key enablers:



Successful strategy implementation will be evaluated through six major key performance indicators:

- Percentage growth of new business revenue
- Increased profit before tax
- Improvement in return on equity
- Growth in our digitally active customers
- Improvement of net promoter score
- Employee engagement

5.2 Bank Strategy Execution within the Group: Wrapping up "iMara 1.0" and supporting our customers during the COVID-19 pandemic

This section shares examples of the Group strategy execution by I&M Bank Kenya which contributes over 70% of Group total assets.

I&M Bank's COVID-19 response helped our customers make a resilient recovery

The past year was difficult for customers across the region. All sectors were impacted by the effects of the COVID-19 pandemic as a result of international travel bans, periods of physical operational lockdown, as well as a subdued demand for products.

Customers in our retail segment were faced with job losses and salary cuts.

By the end of March, business activities came to a grinding halt for many of our customers. Some sectors were affected more than others, such as tourism and hospitality, horticulture, transport and logistics. But at the same time, many sectors, including manufacturing and real estate, were also impacted. Small businesses were hit particularly hard.

In response to this, I&M leapt into action to swiftly support its customers across all segments. We immediately engaged our customers to understand the key challenges they were facing. Relief was provided in two main forms in line with Central Bank of Kenya guidelines:

- Relief to customers on repayment obligations in the form of a 3 to 6 month payment holiday with potential extension; and
- Additional short-term working capital facilities to compensate for lost cashflows and enable operational continuity.

In addition, through webinars organised during a two-month period together with partner development finance institutions, the Bank provided guidance to over 800 clients. The weekly webinars discussed strategies for coping with the crisis, including revision of business strategies and activities to help better manage their businesses during these extraordinary times. I&M Bank's support measures continue to be available to help our clients weather this storm.

By the fourth quarter of the year, we witnessed a near return to normal in business activity and transactions. At the same time, we also saw many customers rebuilding staff levels.

The pandemic has taught us that the world is becoming more complex. Social and environmental issues such as pandemics, other health scares, and climate change are likely scenarios for which, as businesses, we must anticipate and prepare mitigation strategies accordingly. Above all, it has become clear the importance businesses should place on making available safety cushions to support clients in times of crises. Development of products in the insurance space is one example which can help cover such losses going forward.

In the end, it was I&M's client-focused philosophy that helped us respond to the needs of our clients quickly, which enabled us to fare comparatively well during such a trying year. Our unique understanding of our clients and their needs enabled us to rapidly and confidently extend the necessary support.

In line with I&M's strategy and plan, our SME segment launched products targeting the agricultural sector as well as those aimed at supporting renewable energy solutions. Both gained ground during the year as we expanded our client network, venturing into new territories.

Meanwhile, our diversified product offering in the wealth management space, including global investment products, further helped support resilience in the segment.

In addition to relying upon our personalised digital services, our physical branches continued to operate in accordance with COVID-19 safety measures to ensure an optimal customer experience. Designated Premium Centres remained open at our Riverside Drive and Sarit Center branches.

Looking at the year ahead, we will continue to implement our new iMara 2.0 strategy which aims to further improve our Customer Value Propositions in line with market trends and customer needs. We continue to listen to and better understand our clients. As a result, our full-fledged digital retail, corporate and transactional banking omni channel will be in place by the end of this year. This will streamline the digital channels in one platform, transforming the Group's infrastructure and culture with the aim of building a data driven business. The omni channel is based on latest technology and geared to improve the digital experience for customers using human centred design principles.

5.3 Digitizing the Business

In line with the Group's Digital Strategy, we have focused on redesigning current digital channels through innovation and FinTech partnerships and by leveraging advanced analytics to drive the digital transformation.

As part of redesigning the digital journey, I&M invested, in Kenya, in a state-of-the-art digital banking platform. The platform provides an architecture that is based on a stateless, decoupled set of microservices. The front end of the solution employs a set of decoupled widgets that allows easy reuse across the different digital channels. Additionally, the platform allows us to provide to our customers a personalized and customized user journey based on deep user research and behavioural customer data.

Over the past year we have also seen traction and success after launching an innovation framework which has resulted in several proof-of-concepts. These have enabled us to provide value-added services to current customers, and most importantly to grow and diversify our customer base.

I&M has also been able to leverage advanced analytics to provide timely and useful insights for customer retention, deeper understanding of customer needs and improving product development.

6. Our Sustainability Action Plan

Our sustainability strategy is based on the four pillars of social, environmental, economic and financial sustainability; considerations that are central to the long-term commercial success of our business. We are committed to integrating these factors into all our subsidiaries' business activities through a phased approach. The Group is very much aware of its responsibility towards the community and the environment and remains committed to mitigate direct social and environmental impacts, as well as manage indirect impacts, while continuously working to integrate environmental, social and broader governance factors into its core business operations across all its subsidiaries

I&M has a guiding approach through which it seeks to apply best practices:

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

The Group has further put in place guidelines that aid in carrying out its corporate social responsibility (CSR) mandate at each entity level. The Group, through each of its entities, seeks to deepen its relationship with various stakeholders while providing opportunities to its staff members to participate in various CSR activities which are focused on health, education and the environment while our sustainability strategy is currently implemented through four focus areas:

Robust Social Environmental Management System, including continuous staff training

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

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

Environmental, social (E&S) and financial risk is addressed through our existing risk management framework, in line with the Board-approved risk appetite and the Group environmental and social strategy. This is evidenced in our robust E&S policy, procedures and management information system that is reviewed regularly to capture the rapidly evolving issues around environmental and social risks relating to the Group's business.

The COVID-19 pandemic necessitated movement and distancing restrictions forced a desk assessment approach where there were less client visits and more desk reviews on client compliance. The hands on client support was therefore reduced but communication technology was leveraged on to engage with and continue supporting the clients.

Training of staff also shifted to online platforms forcing creativity in methods for active trainee engagement. An ongoing process is in place to have 100% of client facing staff retrained on E&S risk in 2021.

Achievements in 2020 included:

- **E&S screening** of 267 transactions with an aggregate value of Kshs 130 billion, representing the entire portion of the portfolio with such screening requirements;
- **Corrective action plans:** Undertaken for four accounts in Kenya and Rwanda to align with national environmental law on high risk projects and businesses; spread between high risk category projects: building & construction, steel manufacturing, cement manufacturing, mining and premises in sensitive habitats; and
- **Staff training:** Provided E&S risk mangament training to 40 client facing staff in Kenya and two E&S management staff in Rwanda.

Green Products

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

In 2021, we will implement a classification and monitoring system to capture how much of our portfolio is vulnerable to climate change risk. This will enable us, for example, to target lending for the development of green infrastructure, resource efficient and lean manufacturing upgrades, renewable energy installations, water efficiency and climate smart

[1] *IFC's Environmental and Social Performance Standards define responsibilities for managing environmental and social risks and are used by many institutions as the benchmark for international best practices.*

agriculture measures. Such solutions and innovations are increasingly part of cost-efficient and sound business practices that can benefit our clients and society at large.

Achievements in 2020 included development and launch of the new green and sustainability loan products: The "green project" tracking system (in the credit information template) was further developed and integrated into the internal credit process, and is ready for launch in 2021.

Reducing Our Environmental Footprint

I&M is committed to reducing its environmental footprint. This is embodied in our newly pioneered I&M headquarters, which opened in 2020. It is one of the largest state-of-the-art green design buildings with integrated photo-voltaic glass installations, making it one of a kind in East and Central Africa. The building is expected to generate an estimated 100 kWh per year, which will cover the majority of its consumption through the use of photo-voltaic solar, via a thin film integrated into the glass of the roof atrium and modern resource efficient features.

Achievements related to resource footprint management in Bank operations include continuously taking steps to reduce our own carbon footprint. During 2020, we shifted from single use plastics (cups, bottles) as a positive step in the sustainability journey. The next area of focus is energy management which has not been consistently tracked over the years. Work continued in 2020 to improve on this, in particular monitoring of the new premises at 1 Park Avenue, for future tracking and reporting. Additional targets are being set across the Group in other areas of consumption. As an example such as Kenya's target for reduction in paper usage by 30% in 2020 as compared to the previous year was successfully achieved.

I&M Foundation and Subsidiaries' CSR programs

I&M Foundation is the social arm of the Group with the goal to deliver positive impact to society through social investment programs. The Foundation's program approach is to work through implementing partners to deliver the objectives of the Foundation by seeking to leverage and complement resources, skills, experiences, knowledge and track records of partner organizations in a catalytic and value adding manner.

The Foundation is guided by the following:

Vision	Mission	Core Values
Our vision is to positively transform the physical, social and economic environments of communities in Kenya.	Our mission is to deliver positive impact to society through lasting solutions by engaging planet, people and profit to create shared value for our stakeholders.	Our core values are: • Trust • Integrity • Respect • Innovation

Strategic Thematic Focus Areas

To deliver impactful and sustainable community investments with desirable benefits, the Foundation works through partners to support initiatives in the following thematic focus areas:

1. **Environmental conservation** – We aim to preserve, protect, and restore the environment and promote sustainable use of ecosystems.
2. **Education and skills development** – We aim to enhance education outcomes that ensure inclusive and equitable quality education, self-reliance, and gainful livelihoods for Kenyans.
3. **Economic empowerment** – We aim to promote sustainable economic growth, productive employment, and decent work for Micro, Small and Medium enterprises.
4. **Enabling giving** – We aim to strengthen partnerships for sustainable community development.

7. Relationships: We are on your side!

I&M recognises and appreciates that engagement with, and active cooperation of, its stakeholders is essential not only for the Group's strong business performance on a sustainable basis, but for achieving and maintaining public trust and confidence as well. Our stakeholder management policy is founded on the principles of transparency, active listening and equitable treatment that favours a consultative and collaborative engagement with all stakeholders.

Mode and Purpose of Our Stakeholder Engagement

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

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

Stakeholder engagement is decentralised within I&M. All I&M Group employees are accountable for managing relationships and meeting expectations of stakeholders within their areas of responsibility. Should a stakeholder not be satisfied with the service or assistance they receive, there are a number of channels to ensure they can voice their concerns. These include our client call centre, our social media pages or our Bank email addresses. All available channels are clearly indicated on the "Contact us page" available on the Group's corporate website. Concerns raised by stakeholders are monitored annually for compliance by the Group Risk and Compliance Team and by the Board Audit and Risk Management Committee. I&M has identified the following stakeholders and methods of engagement, including the various channels and means of communications reliant on each specific stakeholder group.

7. Relationships: We are on your side! (Continued)

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

7. Relationships: We are On Your Side! (Continued)

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

7. Relationships: We are On Your Side! (Continued)

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

OUR BUSINESS

What Our Customers Say about I&M

Country	Verbatim
Tanzania	• *I&M team you are actually changing the game and making business an art. Kudos.* • *Very friendly and efficient service.* • *You have good customer service. I have never reached a frustration point ever since I started banking with your bank.* • *Prompt and friendly service. Amiable and cooperative staff.* • *Prompt customer service, makes me feel valuable.*
Kenya	• *I&M Bank have good relationship management, effective communication, many branches in which while there you feel nice and relaxed, are fast in communication and they negotiate for forex rates on our behalf.* • *They offer a very wide range of products and services and also the relationship manager is very close to our company, thus very advantageous to us.* • *I love I&M BANK. I have banked everywhere, but joining you was a revolutionary experience for me. The staff is amazing. No bank queues. It's a personalized bank like the old style way of banking.* • *I love the swift service they provide. There is no delay in communications. Any query is solved fast. Staff are very friendly. Online banking is superb. I hold three accounts with I&M Bank and I get five star service. The forex trade rates are good.* • *Quick turnaround time when I raise issues.*
Rwanda	• *Thank you so much, May God bless! I really appreciate your quick service.* • *I went through my account history and until now I have not yet noticed any abnormal transaction. Thanks for the support.* • *I really appreciate. You deserve being a Customer Service Manager.* • *This is a poem which I composed for I&M bank as a recognition for the best customer service entrusted to me and others:* *'Ideal institution and home for financial stability'* *'Made for your progress'* *'Bank of ability and Certitude'* *'Aimed at helping you Nourish your enterprise in Kigali city and abroad'*
Bank One	• *Many thanks for your visit today. We really appreciate that you drove that long distance so that my mother could sign the documents* • *Thanks for your support and input on last week's transfer of funds issue.* • *Very professional despite the complications with Covid-19. The service was very rapid.* • *Thank you very much again for your prompt action and excellent service provided.* • *From my end, I am fully satisfied and we receive a very good service from Bank One all the time. I am very happy and will surely continue to recommend clients to this team.*

Our Employees

Our staff are our most important resource and we are proud to say that they have the knowledge, skills and competencies to drive I&M's strategy forward.

Annual business activities were unduly interrupted by the Covid-19 pandemic. In line with our tagline, 'We are on your side,' we calibrated the work programmes and operations to ensure maximum safety of our staff members, customers and suppliers who frequent the Bank's premises.

The business remained fully compliant with occupational safety and health regulations. Vigilance and observance of all new Covid-19 protocols advised by the Ministry of Health were maintained throughout the year as I&M initiated the following safety precautions. In accordance with these, I&M:

- Split critical operations into Team A and B each operating from a different location.
- Introduced a work schedule shift programme for each branch;
- Required staff work from dispersed locations and observe the social distancing rule in all work stations;
- Provided sanitizers at all points of entry, masks to all staff, and gloves to cashiers;
- Sanitized all work stations on an ongoing basis;
- Detected elevated body temperatures with thermal guns at all high traffic locations;
- Set aside isolation rooms for suspected cases; and
- Responded rapidly where infection cases were confirmed. This included facilitating testing for groups of staff, hospital appointments where required, fumigation of premises, enforcing quarantine orders in liaison with attending doctors and deploying relief teams to ensure operations were not unduly interrupted.

By the end of December, a total of 76 staff had been infected out of a total staff force of 2172. Internal protocols require infected staff to resume duty only after a second re-test (or more as needed) to confirm the individual tests negative. All cases confirmed positive as at December have recovered successfully.

Elaborate mental health and wellness awareness programmes were offered to staff by an approved provider. A contingency of staff from various branches and head office departments were trained in occupational safety and health to reinforce approved Bank-wide Occupational Safety and Health Administration (OSHA) programmes . The interventions were well received by staff members.

Staff training was prioritized during the year with over 93% of staff completing curated compulsory programmes designated for various business functions as at October. The utilization level of the eLearning platform (I&M e-Academy) was the highest in the Group this year with an average of 97%. The total number of learning hours across the Group was 15,645 hours as at November 2020.

The annual budget spent on training was significantly lower compared to previous years following the suspension of classroom-based and offshore training programmes.

Our Community

The key to achieving sustainable development lies in the health of three facets: society, environment and the economy.

All three are interdependent. As a result, the failure of one has a direct and adverse impact on the other two.

I&M believes that the prosperity of business and society is inextricably linked and investing in society generates a positive multiplier effect that will benefit society, the economy and the environment. I&M has to this end, supported community projects that help in removing social, environmental and economic barriers. Further, to create shared value and positive impact for societies, I&M through I&M Foundation in Kenya and other CSR initiatives in Rwanda, Tanzania and Mauritius seeks to deliver programs in four strategic thematic areas namely, Environmental conservation, Education and skills development, Economic empowerment, and Enabling giving.

Environmental Conservation

"Preserving, protecting, and restoring the environment and promoting sustainable use of ecosystems."

Partnership with Kenya Community Development Foundation (KCDF)

I&M Foundation partnered with the Kenya Community Development Foundation (KCDF) to inculcate a culture of environmental conservation and sustainable management of resources among children and youth in 172 learning institutions in four sub-counties within Kenya's Narok and Kilifi counties. The project, to be implemented over three years, is expected to benefit over 5,000 households in the two counties. Interventions include capacity building activities such as: tree growing, solar energy and water harvesting installations, waste management and use of clean energy such as biogas in learning institutions amongst others.

Mr. Sarit Raja-Shah, I&M Foundation Trustee and Ms. Janet Mawiyoo, Executive Director, KCDF, signing the agreement

Partnership with Rotary Club of Karen

I&M Foundation in partnership with Rotary Club of Kenya is addressing environmental degradation through planting trees at Ngong Road Forest Sanctuary and maintaining them until maturity. The Foundation is sponsoring the planting of over 1,250 trees to assist Rotary Club of Karen reach their goal of planting and maintaining at least 3,000 trees in three years.

I&M Bank staff, Joy Muthong'a, planting a tree

Education and skills development

"Enhancing educational outcomes that ensure inclusive and equitable quality education, self-reliance, and gainful livelihoods"

Strathmore University

I&M Foundation partnered with Strathmore University in Nairobi to sponsor 15 bright and needy students to reach their dream careers by financing their undergraduate degree programs in law, commerce, financial engineering, financial economics, actuarial science, informatics and computer science; and communication. These students will also undertake a community project during the four-year period they are at the university enabling them to give back to the community that supported them.

Dr. Vincent Ogutu, Vice Chancellor Designate, Strathmore University and Mr SBR Shah, Chairman, I&M Foundation exchange the signed agreements

Distribution of School Materials to unprivileged children of Pointe Aux Sables

Bank One Limited collaborated with various social workers, all of whom reside in the region of Pointe Aux Sables, Mauritius, to provide school materials to 250 underprivileged children aged 5-11 years from across the region. The distribution of school materials event was held at Pere Henri Souchon Government School located at Pointe Aux Sables.

Palmhouse Foundation

As part of its vision to sow seeds of opportunity, I&M Bank, in partnership with Palmhouse Foundation, has empowered another 20 bright but needy students to enable them realize their dreams through financing their secondary education and providing mentorship. These twenty students will join national or extra-county secondary schools all over Kenya. This raises the total number of students supported by I&M Bank through its partnership with Palmhouse Foundation to 160.

Teule Kenya

I&M Foundation working through Teule Kenya continued to sponsored 12 students in Form Two to Form Four in various schools by paying the fees directly to the schools. It is a success story we are proud of as none of the parents of these students received higher than a primary level of education. Teule Kenya has therefore provided a way for these children to double the amount of education their parents attained. To date, some 64 students have been supported through this program.

Edified Generation Rwanda

I&M Bank in Rwanda partnered with Edified Generation Rwanda, a local non-profit organization with a mission to improve the lives of youth and children from low-income households in Rwanda, to pay annual school fees for three students amounting to RWF3,000,000 (USD 3,135).

OUR BUSINESS

Economic Empowerment

"Promoting sustainable economic growth, productive employment, and decent work for micro, small and medium enterprises"

The Maa Trust

I&M Foundation formed a partnership with The Maa Trust to support Maa Beadwork program. The Maa Beadwork up-skills 579 Maasai women in their traditional handicraft – beadwork – and develops markets for the beaded products thus enhancing their environmentally sustainable livelihoods. Maa Beadwork program aims to diversify and increase household income streams and to contribute towards the reduction of gender inequality through women's empowerment, thus lifting families out of poverty. The program will reduce household environmental impacts, and improve perceptions of conservation and wildlife.

Maa Beadwork programme Maasai women at work.

A free training on entrepreneurship and financial management

In support of overcoming the struggles of small entrepreneurs and youth who are unemployed, I&M Bank in Tanzania, developed an initiative dubbed 'IM FOR YOU' that aims to utilize the Bank's internal resources to offer free knowledge and skills transfer to the community. The Bank staff from various departments visited the Yombo Vituka group of women engaging in small entrepreneurship and offered them free training on financial management, personal savings, and entrepreneurship skills though modern cooking techniques. In addition to the skills offered, the team handed over various items donated by the entire I&M staff, such as clothes, shoes, food and soap, in support of the women who are caring for orphans and handicapped children.

I&M Bank employees (in blue t-shirts) collaborating with some of the women from Yombo Vituka engaging in modern cooking techniques for making honey buns (buns mixed with honey and milk) to support their entrepreneurship skills and creating opportunities for self-employment.

Bank One supports Women empowerment programme at Solitude

Bank One in Mauritius, with the support of NGO LaCaz Lespwar (also known as Caritas Solitude), continued to work with a women's empowerment programme to support five women from poor backgrounds who lacked adequate financial support and technical guidance to achieve their entrepreneurial ambitions. Bank One provided financial grants to these women in order to kick start their small businesses and also provided non-financial support to empower the women to succeed.

Empowering the underprivileged – Connect Rwanda Campaign

I&M Bank in Rwanda donated 1,000 smart phones amounting to RWF 25,000,000 (USD 26,128) towards the Connect Rwanda Campaign that was initiated by MTN Rwandacell Limited in partnership with Ministry of ICT and Innovation whereby individuals and corporations donated smartphone devices to underprivileged individuals that would benefit from being connected through a smartphone device.

Bank CEO, Robin Bairstow donating a thousand smart phones

Responding to community – Rebuilding and moving forward

In response to the wishes of vulnerable communities, I&M Bank, driven by its call, 'We are on your side', supported a number of additional initiatives that fell outside its thematic focus areas, typically in response to urgent needs. Some of the initiatives supported in 2020 included:

Donation of Boots for cleaning initiative at la Falaise Rouge, Mahebourg

Following the wreckage of the MV Wakashio at Pointe D'Esny in the south of Mauritius in July 2020, the oil spillage set an unprecedented ecological disaster in the southeast costal region of the island. As part of the massive cleaning movement led by volunteers from all around Mauritius, Bank One donated 250 pairs of boots for the cleaning initiative held at La Falaise Rouge, Mahebourg. Moreover, many Bank One volunteers were also involved in the construction of artisanal brooms to limit oil spillage in the lagoon and sea shores.

Leaflet for Hearing Impaired Customers at Bank One

On 3rd December 2020, the International Day for People with Disabilities, Bank One, in collaboration with NGO Global Rainbow Foundation, launched a leaflet to ease communication with hearing impaired customers. Written in English, French and Creole, this leaflet aims to improve communication between the staff of Bank One and clients from the hearing impaired community. This initiative was designed and developed by young adults with hearing impairment and brought forward by Bank One to better serve people with disabilities.

Christmas Party for children of Jean Blaise Community in Pointe Aux Sables

Bank One continued its tradition to support an unprivileged community during the end of year festive season. For this year, Bank One teamed up with the NGO "Association Les Freres Auxiliares" to organise a Christmas party for 70 children of the Jean Blaise Community situated in the region of Pointe Aux Sables in the capital of Port Louis. The NGO primarily provides after-school support and guidance for these children who face learning and social difficulties. The event was held at the Jean Blaise Learning Centre on the 20th December 2020.

AEGIS Trust Partnership

I&M Bank in Rwanda is a member of the Rwanda Chapter of the Aegis White Rose Society, providing support for Aegis' local peacebuilding programmes in Rwanda in ensuring development of the provision of psychological support for survivors against the Tutsi. The total amount contributed was RWF 14,000,000 (USD 14,632).

Support for Communities during the COVID-19 outbreak

The consequences of the Covid-19 outbreak deeply affected the economic and social landscape around the world with vulnerable communities being the most affected by the crises. In line with our tagline, 'We are on your side', I&M Bank reached out to ensure continuous financial and non-financial support to communities in need.

Donation of Water tanks and sanitizers during COVID-19

In a bid to support hygiene to avoid transmission of COVID-19, especially in densely populated areas, I&M Bank in Tanzania supported the government of Tanzania by donating hand-washing tanks and soaps to the Ministry of Health Community Development, Gender, Elderly and Children. The tanks with hand sanitizers were located at the concentrated areas such as big hospitals and schools in Dar-es-Salaam region to ensure hygiene was given the highest priority.

Bank CEO, Baseer Mohammed speaking in front of media when handing over hand washing tanks and sanitizers to Prof. Abel Makubi from the Ministry of Health Community Development, Gender, Elderly and Children office, on the right is Head of Retail Banking, Lilian Mtali.

Donation to COVID-19 Mauritius National Solidarity Fund

In the midst of the national lockdown in Mauritius due to COVID-19, Bank One supported the Government in its action to help vulnerable families impacted by COVID-19. A Donation of MUR 150,000 was made to the Covid-19 National Solidarity Fund. In addition, for each contactless, internet banking and mobile banking transaction, Bank One donated MUR 2 to the Covid-19 Solidarity Fund to help those most impacted by the pandemic. This initiative resulted in an additional MUR 100,000 being donated to the National Solidarity Fund.

Partnership with St. Ann Suresh Raja Girls High School

To enable students quickly adjust to the 'new normal,' I&M Foundation partnered with St. Ann Suresh Raja Girls High School to continue to provide academic and moral mentorship to their students during the COVID-19 pandemic. The Foundation provided a grant to acquire data bundles to benefit 62 needy students, enabling them to participate with their classmates in online studies. The funds were also used to sustain the school's 21 teaching and non-teaching staff, enabling them to support the students academically and provide mentorship during this period till schools open. In addition, I&M Bank staff facilitated a life skills weekly mentorship program.

Mentoring session at St Ann Suresh Raja Girls High School

Joining Shamas Rugby Foundation in Food Distribution

Following measures put in place by the government to curb the spread of COVID-19, many families were affected and many people lacked food to feed their families. I&M Foundation joined hands with other partners to support Shamas Rugby Foundation to deliver food to 2,000 families from financially constrained backgrounds across various regions such as Kibera, Mathare, Eastlands, Kangemi, Tatu City and Ngewe in Kenya.

Food distribution – Kibera, Kenya

KNNCI - Response to COVID-19

I&M Foundation purchased food items to the tune of Kshs 1,000,000 to support the Emergency Household Relief and Nutrition Support Program of Mombasa, Kenya, as requested by the Kenya National Chamber of Commerce and Industry, Mombasa Branch. The food donation was handed over to the Mombasa Governor.

Mombasa County Governor Hon. Hassan Ali Joho, accompanied by representatives from the Mombasa County Government office, receive food donations from the I&M Bank LIMITED's team, to cushion vulnerable persons in the County from the effects of the COVID 19 pandemic.

Partnering with Care Packages Limited

I&M Foundation, together with other organizations, partnered with Care Packages Limited to donate food packages to vulnerable families of Majengo, Kibera and also to support Kenya athletes negatively impacted by the COVID-19 pandemic

Food distribution in Kibera with Sauti Sol

James Gatere, Head of I&M Foundation giving food donations to Judith Auma of Kenya Lioness at Nyayo National Stadium

Support to the Government of Rwanda

The Board, management and staff of I&M Bank in Rwanda contributed RWF153.4 million (USD160,326) to boost the fight against COVID-19 in Rwanda. The donation provided significant and much-needed financial support to the collective efforts of the Government of Rwanda to ensure an effective response to the fight against the pandemic.

Book Mobile Initiative

I&M Bank in Rwanda sponsored the Rwanda Book Mobile Initiative with RWF 45,000,000 (USD 47,031). The Initiative's Reading Aloud Campaign promotes the love for reading and storytelling amongst children aged between 3-12 years who were learning from home due to the COVID-19 pandemic outbreak. This initiative complemented the school education, stimulating creativity and happiness amidst the global crisis.

Robin Bairstow, CEO - I&M Bank, Rwanda, Alice Nkulikiyinka, Board Member - I&M Bank and Shannon Porthault Founder of Rwanda Bookmobile Initiative during the event.

#Mask4All Campaign

I&M Bank in Rwanda joined other private sector stakeholders on the official virtual launch of the #Masks4All campaign aimed at giving access to barrier face masks to the vulnerable in order to prevent them from contracting COVID-19. The amount contributed was RWF500,000 (USD 522.57).

Post-COVID-19 Recovery

It has become clear that the COVID-19 pandemic is going to be with us for a longer time than earlier thought. It's also clear emergency responses cannot be sustained for long, and the need to enable communities to quickly adjust to the 'new normal' is becoming critical.

Partnership with Kenya Community Development Foundation (KCDF)

As part of its strategy to assist communities to build back better, I&M Foundation partnered with KCDF to support 14 community-based organizations, in ten counties in Kenya, to enhance vulnerable communities' ability to rebuild and learn to cope with the new normal, while avoiding infections. This intervention will result in over 400 households supported and practicing subsistence agriculture and rural-based enterprises and over 350 households supported with reengineered urban and peri-urban businesses and value chains, with particular emphasis on small and medium enterprises, which have adapted to COVID-19 disruptions.

All activities were held in adherence to the COVID-19 protocols prescribed by the different countries' health authorities.

8. Overview of I&M Group

Kenya
Economic Review

Kenya's GDP was estimated to contract by 0.1 percent in 2020 due to the effects of the COVID-19 pandemic. A strong rebound had been forecasted at 7.6% growth of GDP assuming the weakening of the coronavirus by the first half of 2021 as the vaccination program rolled out. However, by the end of the first quarter 2021, the country found itself amidst a third wave of the pandemic with partial lockdown imposed on the capital city and surrounding counties. The future of businesses remains uncertain as operations continue to be affected by the impact of the pandemic.

The COVID-19 pandemic has led to significant changes in the balance sheets and profit and loss positions of financial institutions, however, the Kenya banking system remains sound and stable. Six months into the pandemic, the Kenyan shilling had depreciated by 6.9% against the dollar. Relevant policy measures were instituted by the Central Bank to remedy the situation and reinstate its stability.

Meanwhile, the industry's loan-to-deposit ratio recovered after a decline in the first half of the year as banks adjusted their operating strategies to better navigate the profitability – liquidity trade-offs.

Bank Financial and Non-financial Performance Highlights for 2020

Profit before tax for the period was Kshs 10.29 billion, denoting a 14.3% decrease year-on-year. Non funded income decreased by 1.3% compared to 2019. Interest income increased marginally by 1.2%, while interest expense increased by 2.0%, primarily due to the growth in deposit base. Meanwhile, the balance sheet closed at Kshs 283.57 billion, which denotes 11.5% growth over same period last reporting year.

The Bank's lending recorded a modest growth of 5.7% compared to December 2019.The ongoing COVID-19 pandemic has caused major disruptions to community health and economic activity with wide-ranging impacts across many business sectors in Kenya and globally. Additionally, many of the Bank's customers have been impacted by the COVID-19 pandemic.

As a result, during the year, the Bank launched support packages for retail and commercial customers in Kenya, including the option of an up to six-month loan repayment deferral. The Bank is continuing to work with customers impacted by COVID-19 to restructure loans. In some circumstances, it will provide an extension to loan repayment deferrals for a further period.

Particulars - KES (Billions)	2020 December	2019 December
ASSETS		
Net advances	149.7	141.5
Total Assets	283.6	254.3
EQUITY & LIABILITIES		
Customer deposits	218.2	195.4
Shareholders' Funds	52.3	47.0
Net Interest Income	11.8	11.7
Total Non-Interest Income	6.7	6.8
Loan Loss Provisions	1.6	0.3
Total Expenses	6.6	6.2
PBT	10.3	12.0

Future Outlook

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

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

The Bank shall also continue to support our clients' businesses and the vulnerable in community through our shared value agenda.

Rwanda

Economic Review

Rwanda registered a 12.4% GDP contraction in the first half of 2020, mainly due to the ongoing pandemic crisis. The service sector continued to lead the economy, contributing 45% to the GDP. In the first ten months of 2020, the Rwandan Franc depreciated by 4.4% against the USD, slightly higher than the 4% percent recorded in the same period of 2019.

Operations

The global health crisis reinforced the relevance of Bank priorities. The Bank prioritized the wellbeing, safety and security of staff; supporting customers and showing solidarity with the community. In this regard, the Bank put in place a comprehensive support scheme for individuals and businesses, including interest rate reductions, loan repayment holidays, waivers on online transaction charges and loan extension facilities. The Bank demonstrated its support to customers by enhancing its risk identification and monitoring approaches enabling it to identify clients with higher vulnerability to primary and secondary effects of the COVID-19 outbreak.

At the same time, the Bank strengthened its corporate and social responsibility plan to support government efforts to cushion the economic impact of the pandemic. This saw the Bank contribute RWF 153.4 million in support of the government's initiatives in the fight against COVID-19.

On the business side, the Bank remains at the forefront of innovation. The Bank enhanced its retail lending processes aimed at significantly reducing the approval process to less than 48 hours. The Bank's digital penetration doubled over the year from 35% digitally active customers in 2019 to 72% by the end of December 2020. The Bank launched MasterCard credit cards for businesses catering for SMEs and corporate customers. As a result, card penetration within retail customers increased to 70%.

Bank Financial and Non-financial Performance Highlights for 2020

In 2020, the Bank completed two noteworthy corporate actions: a bonus share issue in July 2020 and a rights issue in October 2020 which culminated in a transaction of about RWF 8 billion that saw an oversubscription at 112% - highlighting shareholders' confidence in the Bank's vision.

The overall financial performance for 2020 was within the year's targets on most key indices. Notably, the loan portfolio increased by 19% year-on-year to RWF 205 billion. The quality of the credit loan portfolio remains resilient at 3.57% as at December 2020, marginally down from 2.56% at the end of 2019.

Customers and other financial institution deposits reached FRW 248 billion, recording an increase of 30% from the beginning of the year as the Bank focused on attracting low-cost deposits through efficient outflow management by banking beneficiaries of its major customers and expanding reach by attracting new clients. The loans-to-deposit ratio closed at 83%.

Meanwhile, the Bank recorded a decline of 16% in bottom line profitability adversely impacted by the increase in credit impairment provisions reflective of the challenging macroeconomic environment.

The Bank further reported an improvement in capital adequacy ratios, alongside maintaining healthy funding and liquidity positions, thus maintaining robust foundations for the achievement of sound and sustainable business growth.

Particulars - KES (Billions)	2020 December	2019 December
ASSETS		
Net advances	22.6	18.6
Total Assets	46.0	34.3
EQUITY & LIABILITIES		
Customer deposits	27.4	20.7
Shareholders' Funds	6.0	4.6
Net Interest Income	2.4	2.4
Total Non-Interest Income	1.1	0.7
Loan Loss Provisions	0.6	0.1
Total Expenses	2.0	2.0
PBT	0.9	1.0

Our Business
Our Governance
Our Financials

I&M Tanzania Limited

Economic Update

Tanzania's economic growth slowed in 2020 compared to 2019, primarily as a result of the impact of the COVID-19 pandemic. The tourism sector was the most affected in comparison to other sectors. The overall GDP growth rate slowed to 4.5% by Q3-2020, compared to 5.7% registered in Q1-2020. The key macro-economic indicators including inflation, money supply, interest rates, and exchange rate depicted a positive outlook towards the last quarter of the year 2020, largely contributed by the support on accommodative monetary policies instituted by the Central Bank to provide stimulus to the economy amidst the COVID-19 pandemic. The economic outlook remains positive in 2021 as the recovery continues to gather momentum, albeit marginally.

The Tanzanian Shilling remained stable in the last quarter of the year 2020. In the six months to December 2020, the Shilling appreciated by 0.8% against the US dollar.

The banking sector registered an improved performance coupled with reduced impairment levels due to various accommodative and supportive policies of the Bank of Tanzania to strengthen the banking system in the industry. However, Liquidity remained disproportionately skewed towards tier I banks prompting the Central Bank to invoke a range of monetary policy measures in a bid to shore up depositor confidence. The industry witnessed some key statutory and regulatory changes, including the implementation of IFRS 16, reduction of the statutory minimum reserve ratio, abolishment of the 1% general provisions for loans categorized as current, and exclusion of investment in computer software in computation of regulatory capital provided stimulus to the industry.

Operations

The Bank reviewed its medium term strategy in line with the transition to its iMara 2.0 strategy. This required some reorganization that saw the institution of a new role of Chief Operating Officer who is tasked to oversee the entire Bank's Operations and Technology functions.

Several initiatives were undertaken in the year. One notable initiative was the integration with the Government Electronic Payment Gateway. This integration has enabled the Bank to become one of the few banks licensed to collect government revenues.

Efforts towards staff safety and preventive care against transmission of COVID-19 continues with increased awareness through frequent communications on the outbreak of COVID-19 and providing necessary protective gear. Our business continuity plan was activated, which included instituting shift work, allowing staff to work on rotation, while others were enabled to work from home. Customers were consistently encouraged to access banking services through digital channels thereby ensuring social distance and continuity of banking services.

The Bank also supported an initiative to reduce the spread and transmission of the Corona Virus by donating water tanks and hand sanitizer to the government to encourage proper hygiene in areas of water scarcity.

Financial Performance

The Bank demonstrated stable performance amidst the tight liquidity conditions in the market with a total revenue of TZS 37.4 billion (2019: TZS 37.9 billion) and profit before tax of TZS 8.5 billion, albeit marginally lower compared to the TZS 8.8 billion reported in 2019. The Bank sustained its balance sheet size growth, closing with TZS 513 billion as at December 2020, compared to TZS 510 billion as at December 2019. The growth was mainly brought by the significant increase on customer deposits by 17.91% to TZS 364 billion from TZS 309 billion as the Bank continued to create a stable and cost-effective deposit base. There was however, a net decrease in loans and advances by 7% to TZS 321 billion in 2020 from TZS 345 billion, mainly on account of cautious growth in the loan book due to the general slowdown in lending during the year.

Highlights of 2020 Performance

Particulars - KES (Billions)	2020 December	2019 December
ASSETS		
Net advances	15.1	15.2
Total Assets	24.1	22.5
EQUITY & LIABILITIES		
Customer deposits	17.2	13.6
Shareholders' Funds	3.9	3.5
Net Interest Income	1.3	1.3
Total Non-Interest Income	0.4	0.4
Loan Loss Provisions	0.3	0.3
Total Expenses	1.1	1.0
PBT	0.4	0.4

Future Outlook

The current economic outlook is positive. A protracted global health crisis continuing through 2021 could undermine global demand, and thus, the Tanzanian economy. Even if the global health crisis is contained, additional trade and logistics restrictions could continue disrupting global trade during the recovery. A full recovery of the economy in 2021 will require government attention to reforms in improving the business environment as a key input to bolster recovery of the private sector.

Looking ahead, there are great opportunities to deepen the financial sector by expanding the uptake and utilization of financial solutions and financial inclusion in the country. The drive for improved financial inclusion will need to consider appropriateness of solutions proposed.

Bank One Mauritius

Economic Review

The Mauritian economy contracted by some 14.3% in 2020 as measured by GDP. This was largely driven by the global pandemic, the collapse in tourism with the closure of international borders, and to some certain extent, by the impact of the EU blacklist on new business flows.

There are positive expectations for the tourism sector in 2021, with the roll out of a national vaccination programme in January 2021. The government is targeting to vaccinate 60% of the population by July 2021. According to a report by the UN World Tourism Organisation, it will take between 2.5 to 4 years for tourism numbers to recover to 2019 levels.
Government finances remain under extreme pressure. During the period between March and July 2020, public expenditure rose by 53% attributable to the rise in grants, wage assistance schemes and social spending, compared to the same period in 2019. At the same time, tax revenues dropped sharply. As a consequence, the budget deficit rose from MUR 5.1 billion for the same period in 2019 to MUR 43.9 billion. In line with this deterioration, public sector debt has seen a sharp upturn and debt to GDP in June 2020 was 69.1%. That said, as a result of some additional external borrowings, foreign exchange reserves still remain comfortable.

Financial Performance

The Bank closed at a loss of MUR 661 million attributable to the high level of impairment, which was principally as a result of a one-off provision on overseas loans. We do not anticipate similar provisions in 2021. Our various business lines have shown great resilience and our joint venture has maintained its strong position in the local and regional markets. The Board has put appropriate structures in place to ensure that credit risk is well managed at acceptable levels.

Particulars - KES (Billions)	2020 December	2019 December
ASSETS		
Net advances	51.3	63.6
Total Assets	157.2	154.2
EQUITY & LIABILITIES		
Customer deposits	132.2	133.5
Shareholders' Funds	9.4	9.8
Net Interest Income	2.6	3.1
Total Non-Interest Income	2.4	2.3
Loan Loss Provisions	3.0	0.3
Total Expenses	3.5	3.2
(Loss)/profit before tax	(1.6)	1.9

Future Outlook

Mauritius faces a difficult and uncertain future, but the gradual opening of the borders and the vaccination program brings hope for semblance of normality within the year. The economic damage of the pandemic on the economy and key sectors such as tourism, will however, take longer to recover. The Bank remains committed to supporting customers in line with its strategy.

Non – Banking Entities

I&M Burbidge Capital Ltd

The advisory business reported a 16.6% increase in revenues despite the pandemic shifting modes of operations for many, if not all institutions.

The Company hosted its Annual Capital Raising Seminar via webinar in partnership with ISBI Institute, Strathmore University Business School. The Company also managed to host a roundtable discussion based on COVID-19 valuations and deal structures in partnership with the East Africa Venture Capital Association.

I&M Realty Limited

The new Group headquarters – 1 Park Avenue -located at the corner of Limuru road and 1st Parklands Avenue was completed and staff teams commenced relocation into the new building in July 2020. The building generates an estimated 100 kWh per year, which covers a portion of its consumption through the use of photo-voltaic solar in-line with the Group's sustainability objective. During the year 2020, the Company offered tenants rent concessions as a relief from the impact of COVID-19 pandemic.

I&M Bancassurance Intermediary Ltd

The Company contributed KShs. 188 million to the Group profitability.
The agency is continually partnering with underwriters to develop customized products in agriculture, ordinary life assurance, group life and pension.

I&M Capital Limited

The Company has been dormant and is currently in the process of acquiring a fund management license.

Investment & Mortgages Nominees Ltd

This is an investment intermediary that supports I&M Bank customers in making investments. The Company was previously a wholly owned subsidiary of GA Investments Ltd and was acquired by the Group in 2020.

Giro Limited

Formerly Giro Commercial Bank Limited, it was a full-fledged commercial bank licensed by the CBK and acquired by I&M Group in February 2017. The Company is currently in the process of being revived to provide asset finance facilities.

9. Our Performance Trends - Management Discussion and Analysis and Performance Highlights

9.1 Overview of Operating Environment

I&M Holdings PLC, recorded a 14% year on year growth in its Balance Sheet size as per the full year 2020 Financial Results, bolstered by a growth in customer deposits and a modest growth in customer lending.

During the period under review, the Group, in line with its Brand Promise of We Are On Your Side, instituted a raft of measures aimed at cushioning its customers from the COVID 19 crisis. Key among them was increased financing to businesses supporting COVID-19 mitigation measures, waiver of fees on selected products such as Mortgages and loan repayment holidays for its borrowing customers.

The pandemic, that has ravaged the global economies and in particular the geographies we operate in, posed challenges to our loan book. The support we showed our customers who would have fallen behind in their various obligations resulted in a better quality interest earning asset. This in turn enhanced our management of various portfolios and improved customer satisfaction.

In an effort to ensure that clients receive the best solutions based on their financial needs and requirements, the Group made a strategic effort to optimize its operating model across its entities in key areas such as decision making aided by enhanced data analytics. Additionally, the Group made an effort to encourage customers to use its alternate banking channels by providing concessions for their banking transactions.

The Group continues to make investments in digitization and its ICT infrastructure so as to support its innovation for market driven solutions and to also improve operational efficiencies.

Business performance

A 14% rise in customer deposits year on year (KShs. 33B) and 7% growth in customer lending (KShs. 12B) reflects on the strength of the institution despite the challenging environment.

Operating Income prior to credit provisions showed a slight growth of 2% compared to the prior year. However, quadrupling of the credit provisions adversely impacted the profit before tax. Operating costs rose in line with inflation and reflecting the various investments undertaken as part of the iMara strategy instituted by the bank in 2017. The cost to income ratio rose marginally to 41% (from 40% in 2019) partly due to the Group's drive to leverage on technology in delivering service to customers.

Despite the growth in balance sheet and improved non-interest income, the Group posted a 25% decline in profit before tax year-on-year. The Kenyan subsidiary contributed 95% of the total profit before tax, while Rwanda, Tanzania and Mauritius contributed the remaining 5%.

The Group's capital base has grown steadily to KShs. 68B (KShs. 61B in 2019). Operating within a capital-intensive sector, a large portion of the revenues generated are reinvested in the subsidiaries to support future business expansion. This is in line with the Group's Internal Capital Adequacy Assessment Policy to ensure the business is adequately capitalized.

The management continues to ensure shareholders receive the best possible returns and proposed a dividend of KShs. 2.25 (KShs. 2.55 in 2019) per share which was approved by the Directors. On the regulatory front, each subsidiary is in compliance with the set prudential ratios.

OUR BUSINESS

Outlook

World economies are still reeling from the impact of COVID-19 pandemic. While there are concerted efforts to deliver vaccines to the world populace and increase vaccination rate, with the world's main economies leading in the vaccination drives, majority of the other countries lag far behind.

Across our region of operations we have seen a new wave of rising infections and fatalities. The Governments of Kenya, Rwanda and Mauritius have instituted further lock down measures to reduce the infection rate; however, against this backdrop, there is a possibility of dampened business outlook for 2021. The Group is closely monitoring the impact of the pandemic on its customers with a view of providing further assistances where possible and minimize adverse effects.

Despite the pandemic impacting the 2020 results, the Group emerged strong in terms of regulatory capital requirements as a result of proactive capital planning and management. The Group remains adequately capitalized to support its customers while meeting the statutory capital requirements. The Groups DFI partners are keen to support and inject capital where needed.

The Group's commitment to growth has led to its acquisition of Orient Bank in Uganda thereby expanding its presence in East Africa.

Additional focus in 2021 and beyond will be on building a more resilient financial institution whilst maintaining its liquidity and funding position against emerging operational, cyber and credit risks. The Group also aims to ensure that it remains a good corporate citizen by embracing its Environmental, Social and Governance Responsibility. In parallel and key to steady growth in these unprecedented times, will be the continued focus on customer centricity, supported by increased digitization and a commitment to the highest service delivery standards.

9.2 Overview of performance against our Key Performance Indicators

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

KPIs

FINANCIAL KPIs	2020	2019	2018	2017
Profit before Tax (KShs bn)	11.0	14.6	11.5	9.9
Profit after Tax (KShs bn)	8.4	10.8	8.5	7.3
Non Funded Income (KShs bn)	8.6	8.3	7.6	5.8
Total revenue (KShs bn)	23.9	23.5	22.9	21.1
Total assets (KShs bn)	358.1	315.3	288.5	240.1
Customer deposits (KShs bn)	262.7	229.7	213.1	169.3
Net loans and advances (KShs bn)	187.4	175.3	166.7	153
Return on average equity (%)	12	19	17	17
Cost to income ratio (%)	41	40	37	37
*Balance Sheet Impact from Group Referrals ($ M)	99.9	N/A		

NON FINANCIAL KPIs	2020	2019	2018	2017
Customer Satisfaction Index (%)	81	81	83	82
*Transactions on digital channels/total bank transactions (%)	74	64	64	61
*Number of unique Innovations	7	0		
*Cyber Risk Maturity Score (%)	75.0	65.0		
*Key Services delivered within stipulated Turn-Around Time (%)	81.0	72.0		
Number of employees	2172	2126	1955	1765
Salaries and benefits paid to employees (KShs bn)	4.6	4.7	4.1	3.7
Revenue per staff (KShs bn)	7.2	7.8	5.9	0
Staff Engagement Score (OHI) (%)	75	77	75	73
Workforce gender ratio Female:Male	50:50	49:51	49:51	49:51
Women in Leadership positions (%)	29	32	29	49
Average staff training days	3	1.5	1.3	1.1
*Loan book to SMEs (%)	21.3	17	15	14
Incidents of non-compliance with bribery and corruption policy	Nil	Nil	Nil	Nil
*System uptime performance (%)	99.62	99.8	99.3	99.6
*Contracts awarded to local contractor and suppliers (%)	95	98	98	98

*Data for I&M Bank LIMITED

** Data representing initiative by I&M Foundation

ENVIRONMENTAL & SUSTAINABILITY KPIS	2020	2019	2018	2017
**Financial commitment to I&M Foundation (KShs mn)	240.2	174.5	150.3	173
**Survival rate of trees planted at Karura Forest (%)	93	93	92	92
**Number of students supported	105	86	104	102
*Business and corporate loan portfolio subjected to E&S risk assessment and continuous monitoring portfolio (%)	100	100	100	100
Number of employees trained on KBA SFI principles/green finance (cumulative)	1018	938	884	834
*Reduction in paper Consumption (%)	30	12	-	-

*Data for I&M Bank LIMITED

** Data representing initiatives by I&M Foundation

COMPARATIVE REGIONAL PERFORMANCE Kshs (Millions)	Kenya	Rwanda	Tanzania	Mauritius
Profit before tax 2019	12,012	994	390	905
Profit/(loss) before tax 2020	10,289	855	386	(1,468)
Total Assets 2019	254,252	34,150	22,546	4,915
Total Assets 2020	283,569	45,972	24,144	157,195
% Profit before tax 2019	84%	7%	3%	(6%)
% Profit before tax 2020	94%	8%	4%	(6%)

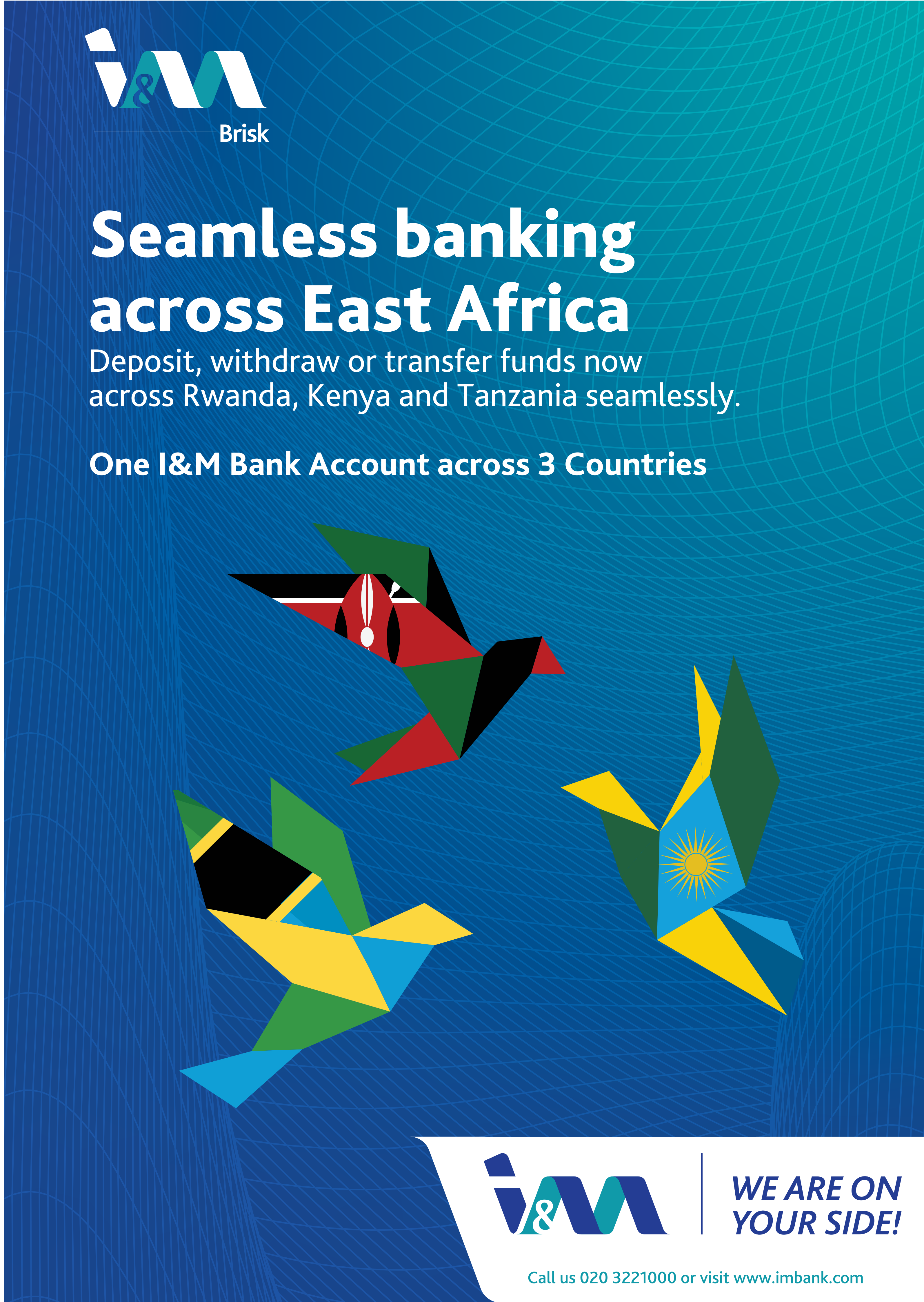
Our Performance Trends

FIVE YEAR REVIEW

	2016 Kshs Mn Audited	2017 Kshs Mn Audited	2018 Kshs Mn Audited	2019 Kshs Mn Audited	2020 Kshs Mn Audited
ASSETS					
Government and other securities	49,343	55,935	56,692	59,323	101,711
Loans & Advances (net)	134,675	153,018	166,737	175,329	187,391
Property & equipment (tangible + intangible)	5,601	9,102	11,843	15,309	17,714
Other Assets	20,923	22,056	53,250	65,330	51,284
Total Assets	**210,542**	**240,111**	**288,522**	**315,291**	**358,100**
Customer Deposits	146,514	169,282	213,139	229,737	262,681
Borrowings	13,306	12,662	13,756	10,856	14,773
Other Liabilities	11,216	11,151	10,753	13,836	12,582
Total Liabilities	**171,036**	**193,095**	**237,648**	**254,429**	**290,037**
Total Equity	**39,506**	**47,016**	**50,874**	**60,862**	**68,063**
Total Liabilities and Equity	**210,542**	**240,111**	**288,522**	**315,291**	**358,100**

Value Added Statement

VALUE ADDED	2016 KShs Millions		2017 KShs Millions		2018 KShs Millions		2019 KShs Millions		2020 KShs Millions	
Interest income, fees commission and other revenues	29,241		29,960		33,338		35,135		36,158	
Interest paid to depositors and cost of other services	(13,451)		(14,653)		(15,965)		(12,891)		(17,189)	
Interest paid on borrowings	(937)		(926)		(1,019)		(1,572)		(1,696)	
Wealth Created	**14,853**		**14,381**		**16,354**		**20,672**		**17,273**	
Distribution of Wealth										
Employees - salaries, wages and other benefits	3,595	24.2%	3,752	26.1%	4,109	25.1%	4,728	22.9%	4,555	26.4%
Government - Tax	2,843	19.1%	2,630	18.3%	2,994	18.3%	3,834	18.5%	2,539	14.7%
Shareholder's dividends	1,447	9.7%	1,447	10.1%	1,612	9.9%	2,108	10.2%	1,860	10.8%
Retention to support future business growth										
Retained earnings	6,312	42.5%	5,817	40.4%	6,892	42.1%	8,661	41.9%	6,553	37.9%
Depreciation and amortization	489	3.3%	562	3.9%	597	3.7%	1,166	5.6%	1,526	8.8%
Social Capital - I&M Foundation	167	1.1%	173	1.2%	150	0.9%	175	0.8%	240	1.4%
Wealth Distributed	**14,853**	**100%**	**14,381**	**100%**	**16,354**	**100%**	**20,672**	**100%**	**17,273**	**100%**



OUR GOVERNANCE

Chairman's Statement

Daniel Ndonye
Chairman

2020 was a year of significant challenges both socially and economically with the COVID-19 pandemic, said to be the defining global health crisis of our time. Around the globe, financial structures and health systems have been tested to extremes and this has continued into 2021 with little respite.

As we navigate these uniquely challenging times, I wish to extend my gratitude to the Boards and Management teams of each of the entities within the Group, for their expert leadership through this pandemic. As the Group Board, we are very proud of how each of the banking entities responded by providing support to their employees enabling safe working environments through social distancing and home working, supporting customers through credit accommodations and restructuring of facilities and participation in coordinated charity donations in support of the community.

I want to take this opportunity to convey a special note of thanks to I&M's founder – Mr. Suresh B Raja Shah following his retirement as the Board Chairman of I&M Bank LIMITED Kenya. He however remains a member of the Board of the Bank as well as the Company as a Non-Executive Director. We greatly appreciate and are grateful to him for his valuable contribution having overseen the growth of the Bank into a Financial Services Group providing diverse solutions such as Real-estate, Financial Advisory and Bancassurance. Mr. Shah's commercial acumen and stewardship have been invaluable in nurturing relationships with some of Kenya's fastest growing corporate organizations and driving the steady growth of I&M Bank Kenya's asset base to its current Kshs 305 billion. During his tenure the Bank moved from a Tier 3 bank to a Tier 1 bank making it one of the top profitable banks in Kenya. We appreciate his devotion and selfless service to the Group.

Performance

Until the onset of the pandemic in March 2020 the Group was seeing a positive growth trend in its profit after tax, and subsequently a stable return on equity for its shareholders. With the slowdown of economies and uncertain financial positions for our customers, the Group closed the year with profits after tax at 22% below the 2019 performance and a return on equity of 12%.

The Group's banking entities collaborated with the different countries' regulators and implemented the necessary emergency measures to support our customers' businesses. Some of these measures meant reduced revenue and fees for the banks; however, we remain committed to supporting our partners.

Through the I&M Foundation, the Group partnered with reputable institutions in Kenya to participate in coordinated activities to support vulnerable communities that were deeply affected by the pandemic. Across the Group we remain empathetic to the needs of the society and our subsidiaries have continuously engaged in activities that have a sustainable impact on society.

Regional Expansion

In our vision to grow the Group operations through regional expansion, your Company entered into a Sale and Purchase Agreement with the shareholders of Orient Bank Limited (OBL), Uganda for the acquisition of the 90% shareholding in OBL. As is customary with such transactions, this is subject to the relevant regulatory approvals and satisfaction of conditions precedent as per the SPA before finalizing the transaction. I am pleased to note that we are hopeful of fulfilling all the requirements and closing the transaction in the second quarter of 2021. Through this acquisition, we are confident that it will contribute positively in enabling the Company to maximize shareholder value by drawing synergies across the Group as we endeavour to support our customers across the region.

Strategy Refresh

All banking entities within the Group underwent a strategy refresh process in the second half of 2020, transitioning from iMara Phase 1 to iMara 2.0. The transition will see banking entities focusing on growing emerging businesses through diversification into new/key business sectors within the region, improving operational efficiencies and optimizing the operational model through leveraging Group synergies. The Board and Management are committed to the implementation and delivery of the initiatives under the strategy that will see the Group as a whole achieve regional expansion, diversification of its investments and sustained growth value generation for all stakeholders.

Capitalization

The Group remains well capitalized to meet the requirements of the regulators and all other stakeholders, with sufficient buffers for any adverse conditions. In the year, the Group invested additional capital in I&M Rwanda Plc for an amount of RWF 4.4 billion (c.KES 480 million) during a rights issue to achieve an optimal capital mix and boost its Tier I Capital ratios. Furthermore, the Group supported Bank One, the Group's joint venture in Mauritius, through an additional capital injection of MUR 150 million (Kshs 405 million). The joint venture in Mauritius faced challenging times during the period under review having closed at a loss of MUR 661 Million (KES 1.5Billion) as a direct consequence of the major credit losses sustained by the Bank in 2020. Necessary action has been taken and factored in during the strategic planning process to reverse the loss.

Governance

I am pleased to share that the Capital Markets Authority commended your company for achieving a Leadership rating in this area, with an overall score of 84%. As part of its commitment to work towards improvement of its Corporate Governance framework, the Company subjected itself to an independent Governance Audit as well as an independent Legal and Compliance Audit. Outcomes of both these audits have confirmed that the Corporate Governance Framework remains solid, as guided by local regulations and international best practices.

Dividends

The Board has resolved to pay a dividend of KES 2.25 per share (2019: KES 2.55). Careful consideration has been taken in making this decision, including the risk of the potential variables attached to Covid-19, the outlook for future growth and profitability as well as the views of key stakeholders, including regulators and shareholders. The dividend is subject to approval at the Annual General Meeting.

Furthermore, the Board has resolved to recommend the issuance of a bonus share of one (1) new fully paid-up bonus share of a par value KShs 1.00 for every one (1) ordinary share of par value KShs 1.00. The bonus shares are subject to approval by the Shareholders at the Annual General Meeting.

Board Changes

Mr. Allan Christopher Michael Low was appointed to the board of I&M Holdings Plc as the Regional Director in replacement of Mr. Vincent De Brouwer who resigned with effect from 31st July 2020. Mr. Oliver Fowler resigned from the board effective March 18th, 2021 following his appointment as an Independent Director and Chairman of I&M Bank LIMITED Kenya. I take this opportunity to congratulate Mr. Fowler on his appointment as the Chairman of I&M Bank LIMITED, Kenya. Also I welcome Mr. Low and we look forward to working with him. On behalf of the Board, I would like to acknowledge Mr. De Brouwer for his contribution to the Board and the Board Committees he served on and wish him the very best in his future endeavours.

Future Outlook

With the resurgence of the third wave of COVID-19 the economic environment remains uncertain. Collaboration between the private and public sectors is much needed to mitigate the adverse effects of the impact of the pandemic on economies and its citizens. The Board of I&M Holdings and its entities alike remain committed to cooperating with the regulatory authorities to alleviate these conditions

The Group continues to invest in the future with the implementation of technology platforms and review of processes that will enable remote operation and continued access to services to all our stakeholders in preparation for any likely disruptions.

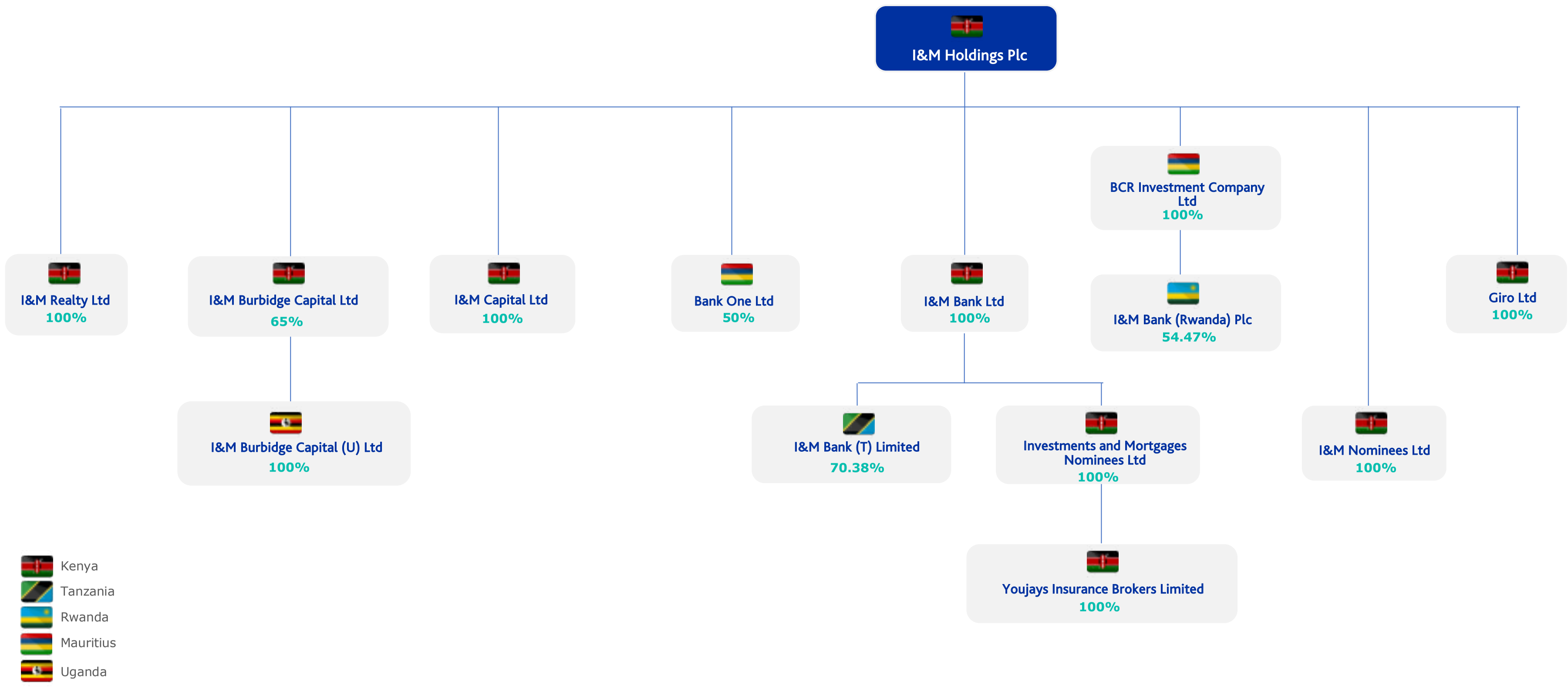
Appreciation

In concluding, I would like to thank all of you for your unwavering support during these turbulent times. A special appreciation goes to each one of the I&M employees and partners for their swift response and resilience to operate in a very adverse environment. Your talents, passion and enthusiasm enabled the Group's success to this point. I wish to acknowledge our regulators for their guidance, support and collaboration. And last but not least, I wish to extend my appreciation to my fellow Board members and members of the Board of every entity in the Group for their dynamic leadership and guidance

I am honoured to serve as your Chairman!

Daniel Ndonye
Chairman
30 March 2021

I&M Holdings PLC (IMHP) Structure



10. Our Board

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

The Board has put in place the necessary mechanisms to enable it to effectively discharge its roles and responsibilities. It

Daniel Ndonye
Independent Chairman

Tenure on Board:
Appointed on 14 June 2013

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

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

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

Suresh B R Shah, MBS
Non Executive Director

Tenure on Board:
Appointed on 14 June 2013

Independent Committee membership:
- None

Qualification:
- Founding member

Profile:
Mr. Suresh Bhagwanji Raja Shah is a founding member and former Chairman of I&M Bank LIMITED. He has vast experience in the banking industry and in business. In December 2002, he was bestowed the Honour of a Moran of the Order of the Burning Spear. He sits on the boards of several companies.

Sarit Raja-Shah
Group Executive Director

Tenure on Board:
Appointed on 14 June 2013

Independent Committee memberships:
- Board Nomination, Remuneration and Governance Committee
- Board Strategy Steering Committee
-

Qualification:
- Masters' Degree in Internal Audit and Management from City University London

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

Michael Turner
Independent Director

Tenure on Board
Appointed on 1 August 2014

Independent Committee membership:
- Board Audit and Risk Management Committee
- Board Nomination, Remuneration and Governance Committee (Chair)

Qualifications:
- Bachelor of Science Degree in Civil Engineering from the University of Southampton
- Fellow of the Institute of Chartered Accountants in England and Wales

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

Sachit S Raja Shah
Non Executive Director

Tenure on Board
Appointed on 10 July 2015

Independent Committee membership:
- None

Qualification:
- Bachelors of Science degree in Banking and Finance from City University London

Profile
Mr. Sachit S Raja Shah is the Executive Director of GA Insurance Limited. He previously worked with AMP Asset management in London and HSBC Bank PLC London. He sits on the Boards of various Companies.

Dr. Nyambura Koigi
Independent Director

Tenure on Board:
Appointed on 28 October 2015

Independent Committee membership:
- Board Audit and Risk Management Committee

Qualifications:
- Doctorate of Business Administration from the Nelson Mandela Metropolitan University
- Masters' of Business Administration and Bachelor of Arts Degree both from the University of Nairobi
- Fellow of the Institute of Certified Secretaries of Kenya and the Kenya Institute of Management

Profile
Dr. Nyambura has worked in various capacities in the financial sector including banking, business development, and information technology. She was also the Managing Director at Postbank for nine years. Nyambura is trained in the management of pensions funds, is a certified trainer in corporate governance and a certified mediator. She sits in several private

Suleiman Kiggundu Jr

Independent Director

Tenure on Board:
Appointed on 5 June 2018

Independent Committee membership:
- Board Strategy Steering Committee (Chair)

Qualification:
- Electrical engineer and economist from Yale University

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

Rose Wanjiru Kinuthia

Independent Director

Tenure on Board
Appointed on 3 March 2020

Independent Committee membership:
- Board Audit and Risk Management Committee (Chair)

Qualifications:
- Master of Science in Risk Management from New York University, New York
- Master of Business Administration from Adelphi University, New York
- Bachelor of Arts from the University of Nairobi

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

Chris Low

Regional Director

Tenure on Board
Appointed on 15 January 2021

Independent Committee memberships:
- Board Audit and Risk Management Committee
- Board Nomination, Remuneration and Governance Committee
- Board Strategy Steering Committee

Qualifications:
- MA. From Oxford University
- Fellow of the Institute of Chartered Accountants in England and Wales

Profile
Mr. Chris Low is the Regional Director of the Group. He brings on board a vast wealth of experience having served as the Group Chief Executive Officer at Letshego Holdings Limited, one of Botswana's largest publicly listed and multinational groups, operating financial services businesses across eleven countries in Sub-Saharan Africa. He has experience in international banking, digital transformation, risk management and financial inclusion.

11. Our Leadership Teams

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

- observe high standards of ethical and moral behaviour;
- act in the best interests of shareholders;
- ensure that the Company acts as a good corporate citizen;

Group Leadership Team

Sarit Raja-Shah
Group Executive Director,

Chris Low
Regional Director

Kihara Maina
CEO,
I&M Bank LIMITED, Kenya

Robin Bairstow
Managing Director,
I&M Bank Rwanda PLC

Baseer Mohammed
CEO.
I&M Bank (T) Limited, Tanzania

Watkinson Mark Redmayne Pike
Chief Executive Officer

Edward Burbidge
CEO,
I&M Burbidge Capital, Kenya

Our Business
Our Governance
Our Financials

Group Management Team


Bhartesh Shah
Group Chief Operations Officer


Amit Budhdev
Group Chief Finance Officer


Dancan Okun
Group Chief Risk Officer


Gauri Gupta
Group GM, Corporate Advisory


Priscilla Ndonga
Group GM, Human Resources


Shameer Patel
Group GM, Strategy and Transformation


Rohit Gupta
Group, Chief Information Officer


Suprio Sen Gupta
Group GM, Marketing and Communication


Ruma Shah
Group GM, Internal Audit


Kennedy Makale
Group GM, Shared Services


Sandeep Sinha
Group GM, Credit


Bilha Wanjiru Mwangi
Company Secretary

Subsidiary Boards and Management Teams

I&M Bank LIMITED

Board of Directors


Oliver Fowler
Independent Chairman


Suresh B R Shah, MBS
Non-Executive Director


Sarit Raja-Shah
Group Executive Director


Kihara Maina
Chief Executive Officer


Dr. Nyambura Koigi
Independent Director


E Muchemi Wambugu
Independent Director


Alan James Dodd
Independent Director


M Soundararajan
Independent Director


Nikhil Rustam Hira
Independent Director


Sachit S Raja Shah
Non-Executive Director

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

I&M Bank LIMITED

Senior Management

AV Chavda
Director, Credit

Chris Low
Regional Director

Bhartesh Shah
Group Chief Operations Officer

L A Sivaramakrishnan
Divisional Head, Business Development

Lucy Thegeya
Divisional Head, Business Support

Dancan Okun
Group Chief Risk Officer

Amit Budhdev
Group Chief Finance Officer

Shameer Patel
Group GM Strategy and Transformation

Sandeep Sinha
Group GM, Credit

Rohit Gupta
Group GM, ICT

Priscilla Ndonga
Group GM, Human Resources

Suprio Sen Gupta
Group GM, Marketing

OUR GOVERNANCE

I&M Bank LIMITED

Senior Management (Continued)

Kennedy Makale
Group GM, Shared Services

Gauri Gupta
Group GM, Corporate Advisory

Henry Kirimania
GM, Treasury

Joseph Njomo
GM, Operations

Winnie Hunja
GM, Corporate Banking

Enodious Makiwa
GM, Personal & Business Banking

Chhanda Mishra
GM, Projects

Stella Kariuki
Company Secretary

I&M Bank (Rwanda) PLC

Board of Directors


Bonventure Niyibizi
Independent Chairman


William Irwin
Independent Chairman


Robin Bairstow
Managing Director


Paul Simon Morris
Independent Director


Crystal Rugege
Independent Director


M Soundararajan
Independent Director


Alice Nkulikiyinka
Independent Director


Nikhil Hira
Independent Director


Arun S. Mathur
Non-Executive Director


Julius Tichelaar
Non-Executive Director


Chris Low
Non-Executive Director

The Bank welcomed Mr. Bonventure Niyibizi and Mr. Chris Low to the Board as Chairman and Non-Executive Director, respectively. Together, they bring a wealth of experience from the financial sector in the region. We would like to thank Mr. William Irwin for his service to the Bank as the Chairman of the Board until his resignation on 31st December 2020.

I&M Bank (Rwanda) PLC

Senior Management


Robin Bairstow
Managing Director


Paul Sagnia
Chief Operating Officer


Lise Mugisha
Chief Risk Officer


Anita Umulisa
Chief Finance Officer


Dederi Wimana
Chief Internal Auditor


Alfred Baguma
Head of Credit


Yvon Abane
Head of Treasury


Nicolas Uwimana
Head of Legal


Cynthia Rwamamara
Head of Internal Control and Compliance


John Gatasha
Head of Projects


Diana Kwarisiima
Head of Human Resources


Iddy Rugamba
Company Secretary

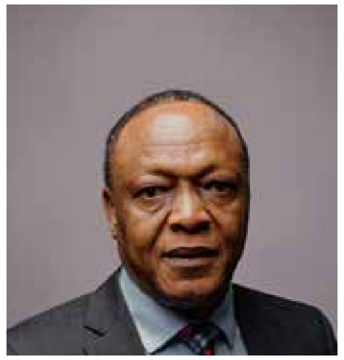
Our Business
Our Governance
Our Financials

I&M Bank (T) Limited

Board of Directors

Sarit Raja-Shah
Chairman

Thierry Hugnin
Non-Executive Director



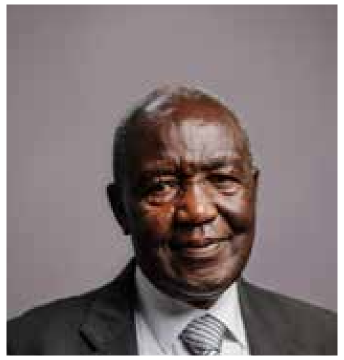
Alan Mchaki
Independent Director

Pratul H D Shah
Independent Director

Ambassador Bertha E Semu-Somi
Independent Director

Riyaz Takim
Independent Director

Shameer Patel
Non-Executive Director



Michael N. Shirima
Non-Executive Director

Over the past year, we welcomed Mr. Riyaz Takim to the Board as an Independent Director. He brings a wealth of experience from the financial sector. We would also like to thank Mr. Bharat K Ruparelia who resigned on 30th September 2020

I&M Bank (T) Limited

Senior Management

Baseer Mohammed
Chief Executive Office

Donald Aswani Mate
Chief Operating Officer

Patrick Richard Kapella
Head of Treasury

Alan Mbangula
Head of ICT

Veronica Pascal Magongo
Head of Finance

Aimtonga Adolph
Head of Internal Audit

Lilian Kidee Mtali
Head of Retail Banking

Krishnan Ramachandran
Head of Corporate Banking

Clement John Kagoye
Acting Head of Credit

Ms. Erica William Mboya
Head of HR

Hamida Sheikh
Company Secretary

Our Business
Our Governance
Our Financials

Bank One Limited, Mauritius

Board of Directors

Sandra Martyres
Independent Chairperson

Watkinson Mark Redmayne Pike
Chief Executive Officer

Nikhil Treeboohun
Independent Director

L A Sivaramakrishnan
Non-Executive Director

Leonard C Mususa
Independent Director

Ignacio Serrahima Arbestain
Independent Director

Marc-Emmanuel Vives
Non-Executive Director

Gauri Gupta
Non-Executive Director

Paul E Leech
Non-Executive Director

Bank One Limited, Mauritius

Senior Management

Watkinson Mark Redmayne Pike
Chief Executive Officer

Hautefeuille Eric René Gilbert
Chief Operations Officer

Ranjeeve Gowreesunkur
Chief Financial Officer

Stephen Vlok
Chief Risk Officer

Priscilla Mutty
Head of Human Resources

Rishyraj Lutchman
Head of Treasury

Carl Stephen Chirwa
Head of International Banking

Guillaume Passebecq
Head of Private Banking and Wealth Management

Valerie Duval
Head of Legal and Regulatory Affairs

Shehryar Bakht Ali
Head of Retail Banking

Soobadar Sheik Fareed
Head of Corporate Banking

Kareen Ng.
Company Secretary

I&M Burbidge Capital Limited

Directors


Michael Turner
Independent Chairman


Edward Burbidge
Chief Executive Officer


Pratul H. D. Shah
Independent Director


Arun S Mathur
Non Executive Director


Gauri Gupta
Non Executive Director

I&M Burbidge Capital (U) Limited

Directors


Dr. William Kalema
Independent Chairman


Edward Burbidge
Non-Executive Director

I&M Realty Limited


Arun S Mathur
Chairman


Gauri Gupta
Director

I&M Bancassurance Intermediary Ltd


Kihara Maina
Chairman


L A Sivaramakrishnan
Non-Executive Director


Bhartesh Shah
Non- Executive Director With effect from 7th October 2020

I&M Capital Limited


Daniel Ndonye
Independent Chairman


Arun S Mathur
Non-Executive Director


Gauri Gupta
Non-Executive Director

Investments and Mortgages Nominees Ltd.

Suresh B R Shah, MBS
Chairman

Sarit Raja-Shah
Non-Executive Director

Sachit S Raja Shah
Non-Executive Director

Giro Limited

Sarit Raja-Shah
Director

Kihara Maina
Director

12. Our Shareholders

The Company is listed on the Nairobi Securities Exchange and had 2,933 Shareholders as at 31 December 2020. The top ten shareholders of the Company listed below hold 77.9% of the shares.

Name	No. of Shares	% Holding
Minard Holdings Limited	178,517,932	21.6
Tecoma Limited	152,089,616	18.4
Ziyungi Limited	147,096,000	17.8
Standard Chartered Kenya Nominees Ltd A/C Ke002796	83,763,000	10.1
Bhagwanji Raja Charitable Foundation The Registered Trustees	21,135,060	2.6
Investments & Mortgages Nominees Ltd A/C 0001229	16,958,572	2.1
Investments & Mortgages Nominees Ltd A/C 0004047	16,790,936	2.0
Investments & Mortgages Nominees Ltd A/C 002983	11,000,000	1.3
Blanford Investments Limited	9,157,204	1.1
Lombard Holdings Limited	7,372,724	0.9
Others (2,923 shareholders not holding more than 5% individually)	182,929,694	22.1
Total	**826,810,738**	**100.00**

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

Range	Shares	Shares %	Shareholders	Shareholders %
1 - 500	113,128	0.01	688	21.22
501 - 5000	1,376,619	0.17	660	20.36
5001 - 10000	2,448,857	0.30	336	10.36
10001 - 100000	31,603,236	3.82	981	30.26
100001 - 1000000	78,581,892	9.50	233	7.19
>1000000	712,687,006	86.20	35	1.08
	826,810,738	100.00	2,933	100.00

Shareholder Relations & Communication

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

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

Event/communication	Date
Financial year end	31 December
Announcement on Director appointment	17 March 2020
Release of full year results	25 March 2020
Investor briefing full year 2019 results	8 April 2020
Announcement of the Annual General Meeting	4 June 2020
Annual General Meeting	26 June 2020
Release of Quarter 1 financial results	28 May 2020
Announcement on Change of Registered Office	9 July 2020
Announcement on proposed acquisition of 90% of issued share capital of Orient Bank Limited, Uganda	17 July 2020
Announcement on Director resignation	25 August 2020
Release of half year financial results	26 August 2020
Investor briefing Half Year 2020 results	11 September 2020
Announcement of the Extraordinary General Meeting	3 November 2020
Release of 3rd quarter results	27 November 2020
Extraordinary General Meeting	2 December 2020
Announcement on the impact of COVID-19 pandemic on the business	4 December 2020
Announcement on acquisition of all the issued share capital of Investment and Mortgages Nominees Limited	23 December 2020

13. Our Governance Framework

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

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

During the year 2020, the company was commended for achieving a leadership rating during the annual review by the Capital Markets Authority ('CMA' or 'Authority') of the corporate governance practices of the Company. The Company was also appreciated for good corporate governance practices and standards adopted by the Board and requested to continue improving on the same. The Company has ensured that it fully complied with the requirements of the Code with enhancements in its governance framework, including introduction of new policy statements.

Additionally, following the COVID-19 pandemic and the government directives aimed at containment of the pandemic, the Group activated its business continuity plans, which were geared towards safeguarding its staff, customers, shareholders and all other stakeholders through various initiatives including enhanced hygiene at the workplace, limiting physical interactions and encouraging virtual meetings, amongst others.

Board Governance and Committees

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

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

The Board Charter defines the governance parameters within which the Board exists and operates. It also sets out specific responsibilities to be discharged by the Board, its committees and directors collectively, as well as certain roles and responsibilities binding upon the directors as individuals. The tenure of independent directors is set so as not to exceed a cumulative term of nine years. The term of office for directors is organized in a manner that ensures a smooth transition. To facilitate this, the Board develops an annual work plan and calendar of meetings to guide its activities for the year.

Board Committees

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

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

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

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

The BNRGC consists of two independent directors and one non-executive director. It is chaired by an independent director. The BNRGC assists the Board in fulfilling its responsibilities by undertaking structured assessment of candidates for membership of the Board and board committees and the establishment of an appropriate framework for remuneration of the Board and board committees, in line with clearly defined remuneration principles. In addition, the Committee provides oversight in relation to the development and implementation of governance related policies at the Group level and ensures compliance with the prevailing corporate governance regulations and principles. The Board, through the Board Nomination, Remuneration and Governance Committee, is responsible for nominating members to the Board and for filling vacancies on the Board that occur between annual meetings of shareholders. In considering potential directors, the Board seeks to not only identify candidates with appropriate skills, knowledge and experience to contribute to effective direction of the Group, but to also ensure achievement of diversity in its composition as set out in the Board Succession Policy. All directors receive formal letters of appointment setting out the main terms and conditions of their appointment.

(iii) Board Strategy Steering Committee (BSSC)

The BSSC consists of one independent director, an executive director and four members. The BSSC assists and provides guidance to the Board in fulfilling its responsibilities by considering matters pertaining to the Group's overall long-term strategic direction, as well as corporate objectives. The BSSC assists the Board in review of the optimum level of the Group's capital structure to support the Group's strategic and financial goals and review the Group's major strategic and investment decisions (including merger & acquisition transactions).
During the year, the Company sought and received from the Capital Markets Authority an exemption in terms of the requirement to have three Independent Directors sit on the BARMC and BNRGC.

Induction, Orientation & Continuous Professional Development

All new directors are appropriately introduced to the business of the Company and the Group. They are provided with a comprehensive induction and information pack containing a brief presentation on Group affairs, its governance and meeting structures, the director's duties and responsibilities, the Company's Constitution, and other useful documents. All directors have access to the advice and services of the Company Secretary, who is responsible for providing guidance to the directors as to their duties, responsibilities and powers. Directors also have access to senior executives to obtain information on items to be discussed at board meetings or meetings of board committees or on any other area they consider to be appropriate. The Board and its Committees also have the authority to obtain such outside or other independent professional advice as they consider necessary to carry out their duties.

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

Tabulated below are the programs held during the year

Training on Taxation	12 October 2020
Training on Restructuring	13 October 2020
Training on IFRS 9 & 16	6 November 2020
Regional Conference on the Role of Risk and Audit in Supporting Strategy Execution	2 November 2020 & 3 November 2020

Board Meetings

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

Board Evaluation

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

OUR GOVERNANCE

OUR GOVERNANCE

Board Attendance

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

	16-Jan-20	23-Mar-20	26 Jun-20***	9-Jul-20	15-Oct-20	Total Board meetings attended in 2020
Directors						
Daniel Ndonye	√	√	√	√	√	100%
Suresh B R Shah	√	√	X	√	√	80%
Sarit S Raja Shah	√	√	√	√	√	100%
Michael Turner	√	√	√	√	√	100%
Oliver Fowler	X	√	√	√	√	80%
Sachit S Raja Shah	√	√	√	√	√	100%
Nyambura Koigi	√	√	√	√	√	100%
Suleiman Kiggundu	√	√	√	√	√	100%
Rose Kinuthia*	N/A	√	√	√	√	100%
Vincent De Brouwer**	√	√	√	X	N/A	75%

*Appointed on 3 March 2020
** Resigned on 31 July 2020
*** Special Board meeting

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

In cases where a director was unable to attend a scheduled Board or Board Committee meeting, an acceptable apology had been received by the Chairman well in advance of the scheduled meeting.

Management Delegations & Accountability

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

The Group Executive Office is headed by the Group Executive Director (GED). He is ably supported by the Regional Director, Group Nominated Directors and other team members in the Group Executive Office. In addition and for purposes of co-ordinating and discharging its mandate, the Board, through the GED and the Group Nominated Directors, receives regular structured and timely reports from the respective entity level boards. Each entity in the Group has various Board and Management Committees to oversee the effective conduct of its business.

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

Board Audit Committee (BAC)

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

Board Risk Management Committee (BRC)

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

Board Credit Committee (BCC)

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

Board Procurement Committee (BPC)

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

Management Committees

In addition to the Board Committees, each of the banking subsidiaries have set up several management committees as set out below to support and assist it in discharge of its roles and responsibilities.

Executive/Management Committee (EXCO/MANCO)

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

Assets & Liabilities Committee (ALCO)

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

Credit Risk Management Committee (CRMC)

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

Transformation Office Steering Committee (TO SteerCo)

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

Making Banking Great Steering Committee (MBGSC)

MBGSC is responsible for the alignment of the digital strategy with the Group's strategy. It provides oversight for all digital projects from inception to commercialisation across Group entities. The committee is responsible for approving business cases of all digital projects proposed for approval by the Board Procurement Committee. Overall, the MBGSC is responsible for ensuring successful execution of the digital strategy, and for monitoring all material digital projects by assessing scope, timelines, deliverables, risks, assumptions, issues and, dependencies.

Risk & Compliance Management Committee (RISKCO)

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

Human Resources Committee (HRC)

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

Management Procurement Committee (MPC)

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

IT Steering Committee (ITSC)

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

14. Key Policies

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

Risk Management, Internal Controls and Compliance

The Group has an integrated risk management framework in place to identify, assess, manage and report risks and risk adjusted returns on a consistent and reliable basis. Further, the Group maintains a keen focus on ensuring that the risk management framework at a Group level is robust enough to safeguard the business processes and products of each entity. See further in the Risk Management Report on page 98.

Risk Based Internal Audit and Assurance

While the Board is responsible for the overall risk management and internal control systems, oversight of the Group's risk management process has been delegated to the Board Audit and Risk Management Committee. Every banking and regulated entity within the Group has established an independent Internal Audit function. The respective Boards and Management set out the mandate for Internal Audit, defining its purpose, authority and responsibilities. The respective Boards ensure that the Chief Audit Executive in each entity is not responsible for any other function in the entity and reports directly to its Board Audit Committee.

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

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

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

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

External Auditors

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

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

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

Ethics and Sustainability

Code of Ethics

The Group has in place a Code of Conduct and Code of Ethics that binds all its Directors and staff to ensure that business is carried out in an ethical, fair and transparent manner, in keeping with the local regulations and international best practices. The Code of Ethics that all staff are expected to adhere to, encompasses, inter alia, matters touching upon safety and health, environment, compliance with laws and regulations, confidentiality of customer information, financial integrity and relationships with external parties. This Code of Ethics is reviewed periodically and amendments incorporated if necessary.

Conflicts of Interest

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

Insider Trading & Related Party Transactions

The Group has adopted an Insider Trading Policy that prohibits Directors 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.
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.

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

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

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

Whistle Blowing Policy

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

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

- Encourage employees to feel confident in raising their apprehensions and to question any act that may raise concerns about practice that may bring

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

Sustainability & Corporate Social Responsibility (CSR)

The Group is very conscious of its responsibility towards the community and those around it. It is in this endeavor that the Group has put in place guidelines that aid in carrying out its corporate social responsibility mandate at each entity's level. The Group, through each of its entities, seeks to deepen its relationship with various stakeholders while providing opportunities to its staff members to participate in various CSR activities, with a focus towards health, education and the environment.

Stakeholder Management

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

Other Key Matters

Information Technology (IT) Policy

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

to unwanted events, or threats. The Group's Information Security Policy is aimed at enhancement of its ability to collect, store, process and transmit Information. Information Systems and Information Processing are vital to the various entities in the Group in pursuit of its business objectives and it is important that it is managed with regard to:
- Confidentiality – ensuring that information is accessible only to those authorised to have access
- Integrity – safeguarding the accuracy and completeness of information and processing methods
- Availability – ensuring that authorised users have access to information and associated assets when required.
- Effectiveness - the capability to produce the desired results especially to ensure that regulatory, operational and contractual requirement are fulfilled
- Efficiency - the extent to which resources are used to achieve the desired results

Procurement Policy

The Group has put in place a Group Procurement policy aimed at guiding the approach to procurement in the areas of systems implementation or significant upgrades of existing systems, acquisition of significant ICT infrastructure, deployment of standardized specifications such as for branding and marketing and for provision of critical services across the Group entities. The coordinated approach to procurement of major goods and services is designed to deliver benefits in terms of standardized specifications, platforms for delivery of critical business operations and for deriving synergies, competitive pricing arising from economies of scale, a harmonized approach to business continuity in major business and operational matters and more importantly an efficient and reliable financial and management reporting as may be required from time to time by various stakeholders. The policy is guided by key governance principles to maintain the highest level of integrity and transparency. It is a pre requisite that no entity shall seek to gain undue advantage over another in pursuance of any one procurement initiative at Group level. The Procurement policy is also available on the Company's website.

Governance Audit

The Board is committed to ensure that the company has sound Corporate Governance practices and strives for continuous improvement by seeking to identify any loopholes and gaps in the Company's governance structures and processes. The Board ensures that it subjects the Company to an annual Governance Audit by an accredited Governance Auditor as required by Section 2.11 of the Code. The Company subjected itself to an independent external Governance Audit during the year. The Governance Auditor's report is separately disclosed in this report.

Legal & Compliance Audit

In accordance with the Corporate Governance Code for Issuers of Securities to the Public, 2015 (the Code), the Company undertook an external and independent Legal and Compliance Audit for the Financial year ending 31 December 2020. The Code requires that a comprehensive independent legal audit is carried out at least once every two years by a legal professional in good standing with the Law Society of Kenya. For the financial year ending 31 December 2020, an independent legal audit was carried out by Walker Kontos Advocates. The outcome of the audit process has confirmed that during the year in review the Company was generally compliant with applicable legislation, regulations, standards and codes. In addition, the Company generally complied with the Prudential Guideline on Non-Operating Holding Companies (CBK/PG/24) prescribed by the Central Bank of Kenya which is its primary Regulator.

15. Our Approach to Risk Management

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

Risk Governance

The Group has an integrated risk management framework in place to identify, assess, manage and report risks and risk adjusted returns on a consistent and reliable basis. I&M maintains a keen focus on ensuring that the risk management framework at a Group level is robust enough to safeguard the business processes and products of each entity. Given that risk taking is core to the Group's innovation capacity and ultimately its entrepreneurial success, I&M's approach to risk management is characterized by strong risk oversight at the board level and a strong risk management culture at all levels and across all functions. Such an approach supports and facilitates decision making processes across the Group.

Enterprise risk management policy framework

The Enterprise Risk Management function within and at I&M is integrated and holistic covering all risk spectrums across the different geographic locations where it is present. The Group had adopted the Committee of Sponsoring organizations of the Tredway Commission's COSO Framework in its approach to management of risks across the various entities. The COSO Framework addresses the strategic, organizational, operational, analytical, reporting and control and is driven by a governance structure consisting of a board of directors and executive management committees at subsidiaries and joint venture level.

Subsidiary risk governance

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

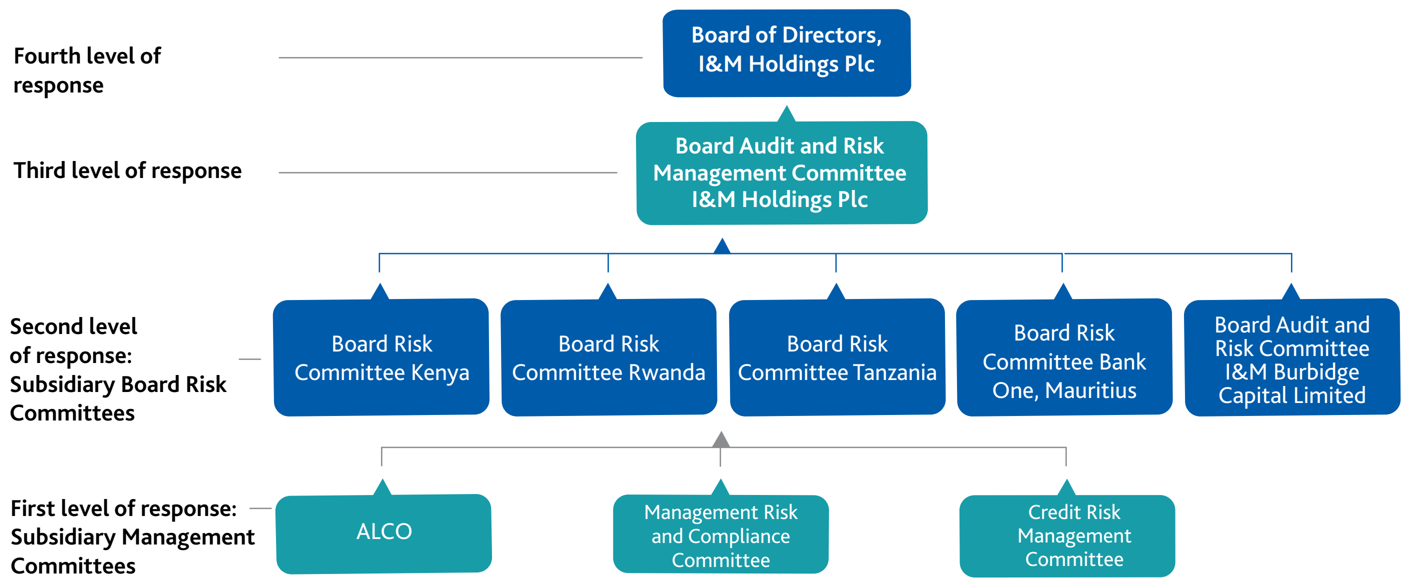
Group risk management oversight function

Risk-related issues are taken into consideration in all business decisions and the Group continually strives to maintain a balance between risk and revenue. Additionally, the Group continues to emphasize ongoing education of effective risk management practices to strengthen and enhance a culture of risk consciousness across the Group. The Board of Directors is responsible to ensure strict compliance with relevant laws, rules and standards issued by the industry regulators and other law enforcement agencies, market conventions, codes of practices promoted by industry associations and internal policies. The Group Board Audit and Risk Committee at the Company level (BARMC) is responsible for the overall risk oversight for the subsidiaries and joint venture. The following are the responsibilities and functions of the committee as it relates to risk management. It must:

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

In order to discharge the functions above on a daily basis, the committee is supported by the Group Chief Risk Officer who reports on the Group's risk profile, rating and instituted controls every quarter.

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



The Board of Directors at the Group and individual entity level assume the ultimate responsibility for the level of risks taken and are responsible for overseeing the effective implementation of the risk strategies;

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

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

Group risk appetite

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

Qualitative

Managed risk appetite that aligns with our vision:

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

Quantitative

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

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

Risk management framework

Extract of the Group's risk management policy

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

Risk category	Definition and Management
Credit Risk	The potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. In simple terms, credit risk is the risk that the borrower defaults and does not honour his obligation to service the debt or delay in servicing the debt. The Bank through its approach to prudent lending remained resilient despite the macroeconomic shocks caused by Covid-19. For example I&M Kenya only restructured about 16% of its loan portfolio against 30% Industry average.
Market Risk	The risk of losses in on-and off-balance sheet risk positions arising from movements in market prices. The losses result from changes in the prices of instruments such as bonds, shares currencies and commodities. This risk is closely monitored at ALCO and Board Risk Committee.
Operational Risk	Defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk, as well as the losses that the Group entities are exposed to due to poorly designed or poorly executed processes; challenges with human capital whether in terms of numbers or competencies; challenges with systems both software and hardware; or from external events such as terrorist activities, coronavirus, earthquakes, floods etc. Risk and Compliance Committee Chaired by the CEO, meets monthly to review key operational risk exposures and give guidance on mitigation strategies. The output of this meeting is reviewed quarterly by the Board Risk Committee that has the oversight responsibility of all risks in the Bank.
Compliance Risk	The risk of legal or regulatory sanctions, financial loss, or loss to reputation that a group entity may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice.
Environmental and Social Risk	The possible financial loss and/or reputational damage to a group entity as a result of the clients' activities/operations that may have negative environmental and social impacts. The impact could be direct e.g. fines, restoration of the degraded environment or indirect through loss in value of asset pledged as collateral.
Capital Management	**(ICAAP)** This is an internal review of the core risks that the Banking entities are exposed to and assessing if the capital at its disposal is adequate given the risks and the possible shocks.
Cyber Risk	Possible financial loss, disruption to operations or damage to a group's reputation as a result of malicious damage to the information technology system. These could come in the form of denial of service, data breaches, etc.
Information Communication Technology Risk	The risk of loss or damage resulting from breach of confidentiality, integrity and availability of ICT assets. The loss or damage could be financial, reputational or safety.
Country/Transfer	The exposure to losses caused by events in the particular country, which may be under the control of the government but not under the control of a private enterprise or individual. Transfer risk is the risk that the government may impose restrictions on the transfer of funds by debtors/corporations (subsidiary) in the country in question to foreign creditors or parent company for financial or other reasons.
Reputational Risk	The possible financial loss resulting from a potential damage of the Group's image.
Business Continuity Risk	The capability of the organisation to continue delivery of products or services at acceptable predefined levels following a disruptive incident. It also includes the possibility of financial loss, reputational damage to a group entity as a result of not adequately planning for natural disasters, terrorist incidents, or blackouts etc. that could lead to business disruptions. Through effective BCM, COVID-19 pandemic did not have any major business disruptions on the Group. The Group quickly adopted split operations as well as remote working that ensured seamless provision of baking services to customers under the guidance of Crisis Management Committee that continues to meet weekly to oversee the implementation of the Crisis Management Plan.
Liquidity risks	The ability of a group entity to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses.

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

ALCO that is charged with the responsibility of optimizing the Bank's balance sheet meets every month monitor liquidity risks. Despite the impact of COVID-19, The Bank's liquidity ratio has remained stable and healthy.

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ABBREVIATIONS

In this document we have used the following abbreviations;

AFS	Available-for-sale
AGM	Annual General Meeting
BNRGC	Board Nomination, Remuneration and Governance Committee
CBK	Central Bank of Kenya
CMA	Capital Markets Authority
CRMC	Credit Risk Management Committee
EAD	Exposure at default
ECL	Expected credit losses
ESOP	Employee Share Ownership Plan
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
GED	Group Executive Director
Group	I&M Holdings PLC together with its subsidiary undertakings and joint venture
HRC	Human Resource Committee
IAS	International Accounting Standards
IFC	International Finance Corporation
IFRSs	International Financial Reporting Standards
IMHP	I&M Holdings PLC
GDP	Gross Domestic Product
GPO	General Post Office
LGD	Loss given default
ITSC	IT steering Committee
KShs	Kenya Shillings
MPC	Management Procurement committee
NSE	Nairobi Securities Exchange
OCI	Other comprehensive income
PBT	Profit before tax
PPE	Property and Equipment
PD	Probability of default
RISCO	Risk and Compliance Management committee
SICR	Significant increase in credit risk
SPPI	Solely payments of principal and interest
YIB	Youjays Insurance Brokers Limited
TO STeerCO	Transformation Office Steering committee

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Daniel Ndonye	Chairman
Suresh B R Shah, MBS	
Sarit S Raja Shah	
Michael Turner*	
Sachit S. Raja Shah	
Dr A N Koigi	
Suleiman Kiggundu Jr. **	
Rose Wanjiru Kinuthia	
Allan Christopher Michael Low*	(Appointed on 15 January 2021)
Oliver Fowler	(Resigned on 18 March 2021)
Vincent De Brouwer***	(Resigned on 31 July 2020)

* British
** Ugandan
*** Belgian

COMPANY SECRETARY

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

AUDITOR

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

REGISTERED OFFICE

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

BANKERS

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

CORPORATE INFORMATION (Continued)

LEGAL ADVISORS

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

BANKING ENTITIES REGISTERED OFFICES

I&M BANK LIMITED

1 Park Avenue
1st Parklands avenue
P.O. Box 30238 – 00100 GPO
Nairobi, Kenya

I&M BANK (T) LIMITED

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

I&M BANK (RWANDA) PLC

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

BANK ONE LIMITED

16 Sir William Newton Street
Port Louis
Mauritius

COMPANY REGISTRARS

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

Report of the Directors

For the Year Ended 31 December 2020

The Directors have pleasure in submitting their annual report together with the audited financial statements of I&M Holdings PLC ("the Company"), its subsidiaries and its joint venture (together "the Group") for the year ended 31 December 2020, which shows the state of affairs of the Group and of the Company.

1. Principal activities

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

2. Results/business review

The consolidated results for the year are as follows:

	2020 KShs'000	2019 KShs'000
Profit before income tax	10,952,004	14,603,108
Income tax expense	(2,539,446)	(3,834,494)
Profit for the year	**8,412,558**	**10,768,614**

Net profit closed at KShs 8.41 billion, a decrease of 21.88% (or KShs 2.36 billion) compared to prior year. This decrease was mainly due to increased expected credit losses to cater for increased credit risk due to COVID-19 and increase in operating expenses. The Directors and employees re-affirm their commitment to achieving the laid down strategies and consequently delivering key value to shareholders.

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

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

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

Report of the Directors (Continued)

For the Year Ended 31 December 2020 (Continued)

2. Results/business review (Continued)

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

3. Dividends

The Directors recommend a dividend of KShs. 2.25 per share amounting to KShs. 1,860,324,161 for the year ended 31 December, 2020. A dividend of KShs. 2.55 per share amounting to KShs. 2,108,367,382 in respect of the year ended 31 December 2019 was paid on the 26 June, 2020.

The dividend will be payable to shareholders registered on the Company's Register at the close of business on Thursday 15 April 2021 and will be paid on or around Thursday, 20 May 2021. The Register of Members will be closed from Friday, 16 April 2021 to Monday, 19 April 2021 (both days inclusive) for the purpose of processing the dividend.

4. Bonus issue

The Board has resolved to recommend the issuance of bonus share of one (1) new fully paid up bonus share of a par value KShs 1.00 for every one (1) ordinary shares of par value KShs 1.00 to be issued to the shareholders registered on the Company's register at the close of business on 10 May 2021. The Register of Members will be closed from Tuesday 11 May 2021 to Thursday 13 May 2021 (both days inclusive) for the purpose of processing the bonus shares.

The bonus issue is subject to approval by the Capital Markets Authority and the shareholders at the Annual General Meeting to be held on 20 May 2021. Subject to receipt of the requisite approvals, shareholders will be credited with the bonus shares on 21 May 2021. The bonus shares will not be entitled to receive any dividend declared and approved for the year.

5. Directors

The Directors who served during the year and up to the date of this report are set out on page 105.

6. Relevant audit information

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

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

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

Report of the Directors (Continued)

For the Year Ended 31 December 2020 (Continued)

7. Auditor

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

8. Approval of financial statements

The financial statements were approved and authorised for issue at a meeting of the Board of Directors held on 30 March 2021.

BY ORDER OF THE BOARD
Secretary

Bilha Wanjiru Mwangi
Reg. No. 2356
CPS (K)
P. O. Box 23358 - 00100, NAIROBI

Date: 30 March 2021.

Directors' Remuneration Report

The Board Nomination and Remuneration Committee [BNRC] of I&M Holdings PLC is pleased to present the Directors' remuneration report for the year ended 31 December 2020. This report is in compliance with the IMHP's Board Charter on Directors' reward and remuneration, the Code of Corporate Governance Guidelines issued by the Capital Markets Authority on Directors' remuneration and the new Companies Act, 2015, enacted in September 2015, which became operational in June 2016. In the course of executing these policies, the Board's desire is to align rewards with a clear and measurable linkage to business performance.

IMHP is regulated by the Capital Markets Authority and the Central Bank of Kenya as a non-operational holding company. IMHP Board is therefore comprised of Non-Executive directors as detailed out on corporate information page.

Information not subject to audit comprise the following:

- Policy on Directors' remuneration
- Directors' contract of service
- Directors' shareholding
- Share option and long term incentives

Board Remuneration

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

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

1. Fixed Annual Retainer Fees

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

2. Sitting or Attendance Fees

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

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

Particulars	Annual retainer fees 2020 KShs	Annual retainer fees 2019 KShs
Chairman	1,040,000	1,030,000
Director	598,000 – 832,000	592,250 – 824,000

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

Directors' Remuneration Report (Continued)

Directors' Contract of service

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

Director	Board membership	Appointment date	Last re-election date	Notice period
Daniel Ndonye	Non-Executive, Independent	14-June-13	26-June-20	3 months
Suresh Bhagwanji Raja Shah, MBS	Non-Executive	14-June-13	26-June-20	3 months
Sarit S Raja Shah	Executive	14-June-13	24-May-18	3 months
Michael Turner	Non-Executive, Independent	1-August-14	26-June-20	3 months
Sachit S Raja Shah	Non-Executive	10-July-15	23-May-19	3 months
Oliver Fowler	Non-Executive, Independent	21-August-15	23-May-19	3 months
Nyambura Koigi	Non-Executive, Independent	28-October-15	26-June-20	3 months
Suleiman Kiggundu	Non-Executive, Independent	5-June-18	23-May-19	3 months
Rose Kinuthia	Non-Executive, Independent	3-March-20	26-June-20	3 months
Allan Christopher Michael Low	Executive	15-January-21	N/A	3 months

Directors Shareholding

Directors' direct and indirect interests as at 31 December 2020 are tabulated below.

Name of Director	Number of Shares	% Shareholding
Mr. SBR Shah, MBS	89,257,181	10.80%
Mr. Sarit S. Raja-Shah	16,958,572	2.05%
Mr. Sachit S. Raja-Shah	16,790,936	2.03%

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

Share options and long term incentive schemes

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

Directors' Remuneration Report (Continued)

Non-Executive Directors

Non-Executive Directors receive fees and other emoluments in recognition of their contribution to the Company for Board and Committee meetings. The attendance fees is payable after the occurrence of the meetings. The Non-Executive Directors do not receive any performance-based remuneration.

Information subject to audit (Auditable part)

Information subject to audit comprise the amounts of each Directors' compensation in each of the relevant years.

The remuneration paid to Directors in the year under review, and comparative figures for 2019, are summarised below:

	2020				2019			
Director	Annual retainer KShs	Attendance fees KShs	Fees earned in subsidiaries KShs	Total KShs	Annual retainer KShs	Attendance fees KShs	Fees earned in subsidiaries KShs	Total KShs
Daniel Ndonye	1,040,000	873,600	-	1,913,600	1,030,000	1,069,200	-	2,099,200
Suresh Bhagwanji Raja Shah, MBS	598,000	286,000	1,391,778	2,275,778	592,250	281,600	1,390,840	2,264,690
Sarit S Raja Shah	598,000	1,057,600	388,444	2,044,044	592,250	789,800	436,780	1,818,830
Michael Turner	832,000	920,400	1,279,071	3,031,471	824,000	741,000	1,255,923	2,820,923
Sachit S Raja Shah	598,000	286,000	3,382,877	4,266,877	592,250	167,200	2,050,125	2,809,575
Oliver Fowler	832,000	457,600	-	1,289,600	824,000	281,600	-	1,105,600
Nyambura Koigi	598,000	286,000	4,806,755	5,690,755	592,250	281,600	3,992,630	4,866,480
Suleiman Kiggundu	832,000	1,207,600	-	2,039,600	824,000	803,400	-	1,627,400
Rose Kinuthia	637,639	722,800	-	1,360,439	-	-	-	-
	6,565,639	6,097,600	11,248,925	23,912,164	5,871,000	4,415,400	9,126,298	19,412,698

Directors' Remuneration Report (Continued)

Information subject to audit (Auditable part) (Continued)

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

Details	2020 KShs	2019 KShs
Salary	31,350,911	31,350,911
Bonus	7,387,728	2,789,325
Pension	2,661,982	2,661,982
Insurance	3,073,330	2,882,888
Total	**44,473,953**	**39,685,106**

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

Details	2020 KShs	2019 KShs
Salary	21,419,373	5,620,000
Pension	1,400	400
Insurance	1,134,464	111,893
Total	**22,555,237**	**5,732,293**

In the AGM held on 26 June 2020, the Directors' remuneration was approved unanimously.
Information on aggregate amount of emoluments and fees paid to directors are disclosed in Note 15 of the financial statements.

Other Key Policies Influencing Directors Remuneration

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

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

Approval of the directors' remuneration report
The Directors confirm that this report has been prepared in accordance with the Kenyan Companies Act, 2015, Capital Markets Authority (CMA) Code and listing rules.

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

Date: 30 March 2021.

Statement of Directors' Responsibilities in respect of the Governance Audit

The Kenya Companies Act, 2015 requires Directors to act in good faith, to promote the success of the Company for the benefit of its stakeholders and to avoid conflict between their personal interests and those of the Company, always acting in the best interest of the Company.

The Code of Corporate Governance for Issuers of Securities to the Public, 2015 ("the Code") requires listed companies to engage the services of an independent and accredited Governance Auditor to establish the extent to which the Board has applied Corporate Governance principles. The Code further requires that after undergoing the Governance Audit, the Directors should provide an explicit statement on the level of compliance.

The Directors are responsible for putting in place governance structures and systems that support the practice of good governance in accordance with best practice, the requirements of the Kenya Companies Act, the Code and the Governance Audit Tool developed by the Institute of Certified Secretaries ("ICS"). The responsibility includes planning, designing and maintaining governance structures that ensure effective leadership and strategic management, transparency and disclosure, compliance with laws and regulations, communication with stakeholders, Board independence and governance, Board systems and procedures, consistent shareholder and stakeholders' value enhancement and corporate social responsibility and investment.

The Directors also accept responsibility for putting in place an effective and efficient Management Team and effective internal control and risk governance systems that are designed to promote good governance practice.

The Directors accept that the independent Governance Audit does not relieve them of their responsibilities.

The Directors are not aware of any material governance issues that may adversely impact the operations of the Company.

As required by the Code therefore, the Directors commissioned a Governance Audit with the aim of ensuring that the Company has complied with the Act, the Code, and adopted best practices in Corporate Governance in order to deliver long term value to stakeholders.

The Directors have adopted this Governance Audit report for the year ended 31st December 2020, and which discloses the state of Governance within the Company.

Adoption of the Governance Audit Report

The Governance Audit Report was adopted by the Board of Directors of I&M Holdings PLC on 25th day of March 2021.

Mr. Daniel Ndonye
Board Chairman

Mr. Sarit Raja Shah
Group Executive Director

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Governance Auditor's Report

Following the coming into force of the Code of Corporate Governance for Issuers of Securities to the Public, 2015 ("the Code"), listed companies are specifically required to engage the services of an independent and accredited Governance Auditor to establish the extent to which the Board has applied Corporate Governance principles.

The annual Governance Audit should be conducted by a competent and recognized professional accredited for that purpose by ICS. I & M Holdings Plc, in compliance with the Act and Code, retained Ms. Catherine Musakali of Dorion Associates ("the Auditor") to conduct a Governance Audit of the governance structures, procedures and processes of the Company in order to assure the Board that its goals, structure and operations are consistent with the law, the Code, as well as the latest developments in Corporate Governance; and that the Company has adopted best practices in Corporate Governance as a means of ensuring sustainability. The Code further requires that after undergoing the Governance Audit, the Board should provide an explicit statement on the level of compliance.

The scope of the Audit is derived from the Code, the Companies Act, 2015 and the Governance Audit Tool developed by the ICS. More specifically, the Audit covers the following broad areas;

1. Leadership and strategic management;
2. Transparency and disclosure;
3. Compliance with laws and regulations;
4. Communication with stakeholders;
5. Board independence and governance;
6. Board systems and procedures;
7. Consistent shareholder and stakeholders' value enhancement; and
8. Corporate social responsibility and investment.

Governance Auditor's Responsibility

Our responsibility is to express an opinion on the existence and effectiveness of governance instruments, policies, structures, systems and practices in the organization in accordance with best governance practices as envisaged within the legal and regulatory framework. We conducted our audit in accordance with ICS Governance Audit Standards and Guidelines, which conform to global Standards. These standards require that we plan and perform the Governance Audit to obtain reasonable assurance on the adequacy and effectiveness of the organization's policies, systems, practices and processes. The Audit involved obtaining audit evidence on a sample basis. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Opinion

in our opinion, the Board has put in place a governance framework that is to a large extent in compliance with the Corporate Governance framework, and in this regard, we issue an unqualified opinion.

FCS. Catherine Musakali, ICPSK GA. No 006
For Dorion Associates
For more information about this GAR, please contact:
Catherine Musakali – cmusakali@dorion.co.ke

Statement of Directors' Responsibilities

The Directors are responsible for the preparation and presentation of the consolidated and separate financial statements of I&M Holdings PLC (the "Group" or "Company") set out on pages 123 to 242 which comprise the consolidated and company statements of financial position at 31 December 2020 and the consolidated and company statements of profit or loss and other comprehensive income, the consolidated and company statements of changes in equity and the consolidated and company statements of cash flows for the year then ended, and 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' 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 which 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 period. It also requires the Directors to ensure the Group and Company, its subsidiaries and joint venture keep proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Company and its profit or loss.

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

The Directors have made an assessment of the Group and Company's ability to continue as a going concern and have no reason to believe the Group and the 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 30 March 2021.

Daniel Ndonye
Chairman

Sachit S Raja Shah
Director

Dr. A N Koigi
Director

Date: 30 March 2021.

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

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 Holdings PLC (the "Group" and "Company") set out on pages 123 to 242, which comprise the consolidated and company statements of financial position as at 31 December 2020, and the consolidated and company statements of profit or loss and other comprehensive income, the consolidated and company statements of changes in equity and the consolidated and company statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of I&M Holdings PLC as at 31 December 2020, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required Kenyan Companies Act, 2015.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that there are no key audit matters to communicate relating to the separate financial statements.

Expected credit losses on loans and advances at amortised cost in the consolidated financial statements
The disclosure associated with credit risk is set out in the financial statements in the following notes:
— Note 3 (f) (iii) – Significant accounting policies, *Impairment on financial assets* (page 141 – 144)
— Note 5(a) – Financial risk management, *Credit risk* (page 160 – 184)
— Note 21 (b) – Impairment losses on loans and advances and other financial assets at amortized cost (page 213)

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

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

Key audit matters (Continued)

The key audit matter	How the matter was addressed in our audit
The estimation of expected credit losses ("ECL") on loans and advances and off balance sheet elements, involves significant judgement and estimates. The key areas where we identified greater levels of management judgement in the Group's financial statements and therefore increased levels of audit focus in the estimation of ECLs are: — Forward looking Information – IFRS 9 requires the Group to measure ECLs on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied in determining the macroeconomic information used and the probability weightings applied especially when considering the current uncertain economic environment as a result of COVID-19. — Significant increase in credit risk ("SICR") – the criteria selected to identify a significant increase in credit risk is a key area of judgement within the Group's ECL calculation as these criteria determine whether a 12 month or lifetime provision is recorded. — Model estimations – inherently judgemental modelling is used to estimate ECL which involves determining probabilities of default ("PD"), loss given default ("LGD"), and exposures at default ("EAD"). The PD model is a key driver of complexity in the Group's and Bank's ECL modelling approach. The effect of these matters is that, as part of our risk assessment, we determined that the impairment of loans and advances to customers to be a key audit matter due to the high degree of estimation uncertainty and significant judgement applied by management in determination of ECL.	Our procedures in this area included, among others: — Performing process walk-throughs to identify the key systems, applications and controls used in the ECL processes. We tested the relevant general IT and applications controls over key systems used in the ECL process. This included testing the design and operating effectiveness of the key controls over the staging criteria and completeness and accuracy of the key inputs and assumptions into the IFRS 9 impairment models. — Evaluating key aspects of the ECL model by: • Selecting a sample of outstanding loans from the Group's loan book and comparing these to the details in the customers' credit files in order to establish whether facilities are correctly staged/classified and valued based on IFRS as well as regulatory considerations; • For a sample of outstanding loan balances, tested the economic forecasts and PD assumptions used in the determination of the ECL, by involving our specialists in the performance of the economic forecasts and PD calculations; • Evaluating the appropriateness of the Group's assessment of the SICR criteria used by assessing the qualitative and quantitative factors applied in the classification of the loans into stage 1, 2 and 3; • Assessing the appropriateness of parameters used in the impairment models in regards to the probability PDs, LGDs, and EADs by considering the local economic conditions; and • Evaluating management's basis for establishing Stage 3 impairment amounts. This includes challenging reasonability of management assumptions on cashflow projections and time to realization for a sample of facilities.

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

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

Key audit matters (Continued)

	— Involving our internal financial risk modelling specialists to: • Assess the Group's methodology for determining the macro-economic scenarios used in the forward looking information by challenging the probability weightings applied to the scenarios, particularly in the COVID – 19 environment. • Assess the key economic variables used, including agreeing samples of economic variables to external sources, as well as the overall reasonableness of the economic forecasts by comparing the Group's forecasts to our own modelled forecasts. Evaluating the adequacy of the financial statements disclosures, including disclosures of key assumptions and judgements in accordance with IFRS 9.

Impairment of goodwill

The key audit matter	How the matter was addressed
The disclosure on goodwill is set out in the financial statements in the following notes: — Note 3 (j) (ii) – Significant accounting policies, Goodwill (Page 149) — Note 26(a) – Intangible assets – Goodwill (Page 224 -227)	
Impairment of goodwill is considered a key audit matter because: — The sectors in which the Group operates are highly regulated and continues to experience competitive market conditions with uncertainty of forecast cash flows used in the valuation models. — A significant level of judgment is applied on key inputs such as forecast cash flows, discount rates applied, forecast growth rates and terminal growth rates when considering management's assessment of impairment. The preparation of the estimate of the carrying value and value in use ('VIU') involves subjective judgement and uncertainties and hence was considered as a key audit matter.	Our audit procedures in this area included, among others: — Assessing managements determination of the Group's Cash Generating Unit (CGU) based on our understanding of the nature of the Group to assess how results are monitored and reported. — Evaluated the forecasting process undertaken by the Group by assessing the precision of prior year forecast cash flows by comparing with actual outcomes. — Involving our valuation specialists in challenging the Group's valuation methodology, discount rates and growth rates by comparing the Group's input to external data such as economic growth projections and interest rates. — Assessing the adequacy of the financial statements disclosures, including disclosures of key assumptions and judgements in accordance with IAS 36

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

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

Other information

The Directors are responsible for the other information. The other information comprises the Corporate information, Report of the directors, Statement on corporate governance, Statement of Directors' responsibilities and directors' remuneration report, but does not include the consolidated and separate financial statements, and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the additional other information to be included in the *Annual Integrated Report and Financial Statements for the year ended 31 December 2020,* which is expected to be made available to us after that date.

Our opinion on the consolidated and separate financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Directors' responsibilities for the consolidated and separate financial statements

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

In preparing the consolidated and separate financial statements, Directors are responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group and/or 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 International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

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

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

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

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

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

We communicate with Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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

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

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

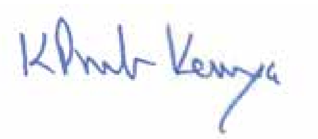
Report on other legal and regulatory requirements

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

(i) The information given in the *Report of the Directors* on pages 107 to 109 is consistent with the consolidated and separate financial statements; and

(ii) The auditable part of the directors' remuneration report on pages 112 to 113 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

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



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

Date: 30 March 2021

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

For the Year Ended 31 December 2020

	Note	Group 2020 KShs '000	Group 2019 KShs '000	Company 2020 KShs '000	Company 2019 KShs '000
Interest income	9	27,848,575	27,163,847	29,175	42,017
Interest expense	10	(12,248,980)	(11,654,006)	-	-
Net interest income		**15,599,595**	**15,509,841**	**29,175**	**42,017**
Fee and commission income	11	4,170,303	3,993,648	-	-
Fee and commission expense	11	(327,639)	(313,915)	-	-
Net fee and commission income	**11**	**3,842,664**	**3,679,733**	**-**	**-**
Revenue		**19,442,259**	**19,189,574**	**29,175**	**42,017**
Net trading income	12	3,870,331	3,835,815	-	4,713
Other operating income	13	597,119	456,078	3,377,318	363,733
Net operating income before change in expected credit losses and other credit impairment charges		**23,909,709**	**23,481,467**	**3,406,493**	**410,463**
Change in expected credit losses and other credit impairment charges	21(b)	(2,472,836)	(636,455)	-	-
Net operating income		**21,436,873**	**22,845,012**	**3,406,493**	**410,463**
Staff costs	14	(4,555,444)	(4,727,698)	-	-
Premises and equipment costs	14	(428,732)	(423,951)	-	-
Other expenses	14	(3,295,865)	(2,829,772)	(31,102)	(40,699)
Depreciation and amortisation expenses	14	(1,525,866)	(1,165,520)	-	-
Operating expenses		**(9,805,907)**	**(9,146,941)**	**(31,102)**	**(40,699)**
Operating profit		**11,630,966**	**13,698,071**	**3,375,391**	**369,764**
Share of (loss)/profit of joint venture	24(a)	(678,962)	905,037	-	-
Profit before income tax	**15**	**10,952,004**	**14,603,108**	**3,375,391**	**369,764**
Income tax expense	16(a)	(2,539,446)	(3,834,494)	(4,805)	(5,088)
Profit for the year		**8,412,558**	**10,768,614**	**3,370,586**	**364,676**

(Continued Page 124)

The notes set out on pages 130 to 242 form an integral part of these consolidated and separate financial statements.

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

For the Year Ended 31 December 2020 (Continued)

	Note	Group 2020 KShs '000	Group 2019 KShs '000	Company 2020 KShs '000	Company 2019 KShs '000
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Actuarial gains/(losses) on re-measurement of defined benefit scheme net of deferred tax	34(g)	(37,519)	(30,681)	-	-
Revaluation surplus on property and equipment net of deferred tax charge		75,118	55,708		
Movement in fair value reserve for FVOCI - Equity Instruments	22	(80,436)	(30,029)	-	-
Items that may be classified to profit or loss:					
Movement in fair value reserve for FVOCI debt instruments		321,564	220,586	801	(3,016)
Foreign operations-foreign currency translation differences		317,658	(750,519)	-	-
Total other comprehensive income for the year		**596,385**	**(534,935)**	**801**	**(3,016)**
Total comprehensive income for the year		**9,008,943**	**10,233,679**	**3,371,387**	**361,660**
Profit attributable to:					
Equity holders of the Company		8,073,855	10,309,038	3,370,586	364,676
Non-controlling interest		338,703	459,576	-	-
		8,412,558	**10,768,614**	**3,370,586**	**364,676**
Total comprehensive income attributable to:					
Equity holders of the Company		8,498,802	9,871,024	3,371,387	361,660
Non-controlling interest		510,141	362,655	-	-
		9,008,943	**10,233,679**	**3,371,387**	**361,660**
Basic and diluted earnings per share - (Kshs)	17	**9.77**	**12.47**	**4.08**	**0.44**

The notes set out on pages 130 to 242 form an integral part of these consolidated and separate financial statements.

Consolidated and Company Statements of Financial Position

as at 31 December 2020

	Note	Group 2020 KShs '000	Group 2019 KShs '000	Company 2020 KShs '000	Company 2019 KShs '000
ASSETS					
Cash and balances with central banks	18	19,403,419	15,385,829	-	-
Items in the course of collection	19	622,994	536,459	-	-
Loans and advances to banks	20	18,335,440	43,662,404	-	-
Loans and advances to customers	21(a)	187,391,266	175,329,426	-	-
Financial assets at fair value through profit or loss (FVTPL)	22(a)	11,869,403	13,744,048	-	-
Financial assets measured at fair value through other comprehensive income (FVOCI)	22(b)	42,477,252	13,109,198	28,392	27,679
Other financial assets at amortised cost	22(c)	47,364,625	27,071,019	-	-
Held for sale assets	23	1,057,056	631,334	-	-
Investment in Joint Venture	24(a)	5,177,219	5,398,545	2,515,591	2,110,591
Investment in subsidiaries	24(b)	-	-	26,151,882	25,662,294
Property and equipment	25	12,121,588	10,152,429	-	-
Intangible assets - Goodwill	26(a)	3,155,449	3,113,771	-	-
Intangible assets - Software	26(b)	2,436,493	2,042,907	-	-
Tax recoverable	16(b)	133,588	37,819	4,369	5,253
Deferred tax asset	27	4,211,504	3,014,836	-	-
Due from group companies	38(b)(iii)	-	-	446,059	79,277
Other assets	28	2,342,497	2,060,650	4,124	8,880
TOTAL ASSETS		**358,099,793**	**315,290,674**	**29,150,417**	**27,893,974**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Deposit from banks	29	6,762,835	8,005,604	-	-
Items in course of collection	19	261,363	147,321	-	-
Deposits from customers	30	262,681,402	229,736,509	-	-
Tax payable	16(b)	155,863	894,694	-	-
Due to group companies	38(b)(iv)	-	-	1,881,272	1,881,592
Other liabilities	31	5,402,428	4,788,747	84,324	90,581
Long term debt	32	10,317,827	6,210,571	-	-
Subordinated debt	33	4,454,936	4,645,055	-	-
		290,036,654	**254,428,501**	**1,965,596**	**1,972,173**
Shareholders' equity (pages 126 - 128)					
Share capital	34(a)	826,811	826,811	826,811	826,811
Share premium	34(a)/(b)	18,390,507	18,390,507	18,390,507	18,390,507
Retained earnings		39,610,553	33,918,324	7,966,741	6,704,522
Revaluation reserve	34(c)	929,217	875,985	-	-
Fair value reserve	34(d)	(36,599)	(273,802)	762	(39)
Translation reserve	34(e)	(1,260,493)	(1,416,566)	-	-
Statutory credit risk reserve	34(f)	5,867,908	5,518,392	-	-
Defined benefit reserve	34(g)	(138,561)	(101,042)	-	-
Equity attributable to Owners of the Company		**64,189,343**	**57,738,609**	**27,184,821**	**25,921,801**
Non-controlling interest		3,873,796	3,123,564	-	-
TOTAL SHAREHOLDERS' EQUITY		**68,063,139**	**60,862,173**	**27,184,821**	**25,921,801**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**358,099,793**	**315,290,674**	**29,150,417**	**27,893,974**

The consolidated and separate financial statements set out on pages 123 to 242 were approved and authorised for issue by the Board of Directors on 30 March 2020 and were signed on its behalf by:

Daniel Ndonye **Director**	Sachit S Raja Shah **Director**	Dr. A N Koigi **Director**	Bilha Wanjiru Mwangi **Secretary**

The notes set out on pages 130 to 242 form an integral part of these consolidated and separate financial statements.

I&M Holdings Plc
Consolidated Statement of Changes in Equity
For the year Ended 31 December 2020

	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Defined benefit reserve KShs'000	Statutory credit risk reserve KShs'000	Revaluation reserve KShs'000	Fair value reserve KShs'000	Translation reserve KShs'000	Total KShs'000	Non-controlling interest KShs'000	Total KShs'000
At 1 January 2020	826,811	18,390,507	33,918,324	(101,042)	5,518,392	875,985	(273,802)	(1,416,566)	57,738,609	3,123,564	60,862,173
Comprehensive income for the year											
Net profit after tax	-	-	8,073,855	-	-	-	-	-	8,073,855	338,703	8,412,558
	-	-	8,073,855	-	-	-	-	-	8,073,855	338,703	8,412,558
Other comprehensive income											
Translation reserve	-	-	-	-	-	-	-	156,073	156,073	161,585	317,658
Fair value reserve (Note 22)	-	-	-	-	-	-	287,549	-	287,549	5,499	293,048
Deferred tax charge - fair value reserve	-	-	-	-	-	-	(50,346)	-	(50,346)	(1,574)	(51,920)
Revaluation reserve	-	-	15,958	-	-	72,730	-	-	88,688	-	88,688
Deferred tax charge - revaluation reserve	-	-	-	-	-	(19,498)	-	-	(19,498)	5,928	(13,570)
Defined benefit plan	-	-	-	(37,519)	-	-	-	-	(37,519)	-	(37,519)
Statutory credit risk	-	-	(349,516)	-	349,516	-	-	-	-	-	-
Total other comprehensive income	-	-	(333,558)	(37,519)	349,516	53,232	237,203	156,073	424,947	171,438	596,385
Total comprehensive income	-	-	7,740,297	(37,519)	349,516	53,232	237,203	156,073	8,498,802	510,141	9,008,943
Transactions with owners											
Buy back of shares by BCR Investment Company Limited	-	-	60,299	-	-	-	-	-	60,299	(60,299)	-
Issue of shares by I&M Bank (Rwanda) PLC	-	-	-	-	-	-	-	-	-	408,098	408,098
Dividends paid - 2020	-	-	(2,108,367)	-	-	-	-	-	(2,108,367)	(107,708)	(2,216,075)
Total transactions with owners for the year	-	-	(2,048,068)	-	-	-	-	-	(2,048,068)	240,091	(1,807,977)
At 31 December 2020	826,811	18,390,507	39,610,553	(138,561)	5,867,908	929,217	(36,599)	(1,260,493)	64,189,343	3,873,796	68,063,139

The notes set out on page 130 to 242 form an integral part of these consolidated and separate financial statements.

I&M Holdings Plc
Consolidated Statement of Changes in Equity
FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Defined benefit reserve KShs'000	Statutory credit risk reserve KShs'000	Revaluation reserve KShs'000	Fair value reserve KShs'000	Translation reserve KShs'000	Total KShs'000	Non-controlling interest KShs'000	Total KShs'000
At 1 January 2019	413,405	18,805,359	26,931,401	(70,361)	2,190,131	820,277	(454,825)	(766,356)	47,869,031	3,005,417	50,874,448
Comprehensive income for the year											
Net profit after tax	-	-	10,309,038	-	-	-	-	-	10,309,038	459,576	10,768,614
	-	-	10,309,038	-	-	-	-	-	10,309,038	459,576	10,768,614
Other comprehensive income											
Translation reserve	-	-	-	-	-	-	-	(650,210)	(650,210)	(100,309)	(750,519)
Fair value reserve (Note 22)	-	-	8,780	-	-	-	232,204	-	240,984	4,985	245,969
Deferred tax charge - fair value reserve	-	-	(2,634)	-	-	-	(51,181)	-	(53,815)	(1,597)	(55,412)
Revaluation reserve	-	-	-	-	-	79,583	-	-	79,583	-	79,583
Deferred tax charge - revaluation reserve	-	-	-	-	-	(23,875)	-	-	(23,875)	-	(23,875)
Defined benefit plan	-	-	-	(30,681)	-	-	-	-	(30,681)	-	(30,681)
Statutory credit risk	-	-	(3,328,261)	-	3,328,261	-	-	-	-	-	-
Total other comprehensive income	-	-	(3,322,115)	(30,681)	3,328,261	55,708	181,023	(650,210)	(438,014)	(96,921)	(534,935)
Total comprehensive income	-	-	6,986,923	(30,681)	3,328,261	55,708	181,023	(650,210)	9,871,024	362,655	10,233,679
Transactions with owners											
Issue of bonus shares	413,406	(413,406)	-	-	-	-	-	-	-	-	-
Issue related cost	-	(1,446)	-	-	-	-	-	-	(1,446)	-	(1,446)
Dividends paid - 2019	-	-	-	-	-	-	-	-	-	(244,508)	(244,508)
Total transactions with owners for the year	413,406	(414,852)	-	-	-	-	-	-	(1,446)	(244,508)	(245,954)
At 31 December 2019	826,811	18,390,507	33,918,324	(101,042)	5,518,392	875,985	(273,802)	(1,416,566)	57,738,609	3,123,564	60,862,173

The notes set out on page 130 to 242 form an integral part of these consolidated and separate financial statements.

I&M Holdings Plc
Company Statement of Changes in Equity
FOR THE YEAR ENDED 31 DECEMBER 2020

2020:	Share capital KShs '000	Share premium KShs '000	Retained earnings KShs '000	Fair value reserve KShs '000	Total KShs '000
At 1 January 2020	**826,811**	**18,390,507**	**6,704,522**	**(39)**	**25,921,801**
Comprehensive income for the year					
Profit for the year	-	-	3,370,586	-	3,370,586
	-	**-**	**3,370,586**	**-**	**3,370,586**
Other comprehensive income					
Fair value reserve	-	-	-	801	801
Total other comprehensive income	**-**	**-**	**-**	**801**	**801**
Total comprehensive income for the year	**-**	**-**	**3,370,586**	**801**	**3,371,387**
Transactions with owners recorded directly in equity					
Dividends paid - 2020	-	-	(2,108,367)	-	(2,108,367)
Total transactions with owners for the year	**-**	**-**	**(2,108,367)**	**-**	**(2,108,367)**
At 31 December 2020	**826,811**	**18,390,507**	**7,966,741**	**762**	**27,184,821**
2019:					
At 1 January 2019	**413,405**	**18,805,359**	**6,339,846**	**2,977**	**25,561,587**
Comprehensive income for the year					
Profit for the year	-	-	364,676	-	364,676
	-	**-**	**364,676**	**-**	**364,676**
Total transactions with owners for the year					
Fair value reserve	-	-	-	(3,016)	(3,016)
	-	**-**	**-**	**(3,016)**	**(3,016)**
Total comprehensive income for the year	**-**	**-**	**364,676**	**(3,016)**	**361,660**
Transactions with owners recorded directly in equity					
Issue of bonus shares	413,406	(413,406)	-	-	-
Issue related cost	-	(1,446)	-	-	(1,446)
Total transactions with owners for the year	**413,406**	**(414,852)**	**-**	**-**	**(1,446)**
At 31 December 2019	**826,811**	**18,390,507**	**6,704,522**	**(39)**	**25,921,801**

The notes set out on page 130 to 242 form an integral part of these consolidated and separate financial statements.

I&M Holdings Plc
Consolidated and Company Statements of Cash Flows
For the Year Ended 31 December 2020

	Note	Group 2020 KShs'000	Group 2019 KShs'000	Company 2020 KShs'000	Company 2019 KShs'000
Net cash flows (utilised in)/ generated from operating activities	35(a)	(13,633,979)	11,830,044	3,369,737	(1,137,172)
Cash flows used in investing activities					
Purchase of property and equipment (excluding right of use assets)	25	(2,300,649)	(1,654,839)	-	-
Purchase of intangible assets	26(b)	(896,157)	(1,026,409)	-	-
Additional Investment in I&M Bank (Rwanda) PLC	24(c)	-	-	(489,588)	-
Additional Investment in Joint venture	24(a)	(405,000)	(430,620)	(405,000)	(430,620)
Proceeds from disposal of property and equipment		(45,803)	4,847	-	-
Net cash used in investing activities		**(3,647,609)**	**(3,107,021)**	**(894,588)**	**(430,620)**
Cash flows used in financing activities					
Net outflows from term subordinated debt		(190,119)	(863,854)	-	-
Dividend paid to shareholders of the company		(2,108,367)	-	(2,108,367)	-
Dividend paid to non-controlling interests		(107,708)	(244,508)	-	-
Rights issue - I&M Bank (Rwanda) PLC		408,098	-	-	-
Payment of lease liabilities	31	(397,328)	(421,795)	-	-
Capital restructuring costs		-	(1,446)	-	(1,446)
Net cash used in financing activities		**(2,395,424)**	**(1,531,603)**	**(2,108,367)**	**(1,446)**
Net increase/(decrease) in cash and cash equivalents		**(19,677,012)**	**7,191,420**	**366,782**	**(1,569,238)**
Cash and cash equivalents at start of the year		**41,149,416**	**33,957,996**	**79,277**	**1,648,515**
Cash and cash equivalents at end of the year	35(b)	**21,472,404**	**41,149,416**	**446,059**	**79,277**

The notes set out on pages 130 to 242 form an integral part of these consolidated and separate financial statements.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020

1. REPORTING ENTITY

I&M Holdings PLC (the "Company"), is a non-operating holding company licensed by the Central Bank of Kenya (CBK) under the Kenyan Banking Act (Chapter 488). The Company is incorporated in Kenya under the Kenyan Companies Act,2015 and comprises banking subsidiaries in Kenya, Tanzania, Rwanda and a joint venture in Mauritius and non banking Subsidiaries in Kenya, Mauritius and Uganda. The consolidated financial statements as at and for the year ended 31 December 2020 comprise of entities in Kenya – I&M Bank LIMITED, I&M Capital Limited, I&M Realty Limited, I&M Burbidge Capital Limited, Giro Limited, I&M Insurance Agency Limited, and Youjays Insurance Brokers Limited; Tanzania - I&M Bank (T) Limited; Rwanda - I&M Bank (Rwanda) Plc, Mauritius - BCR Investment Company Limited and a joint venture - Bank One Limited; and Uganda - I&M Burbidge Capital (U) Limited (together referred to as the "Group"). The address of its registered office is as follows:

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

The Company owns the following entities directly:

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

Through I&M Bank LIMITED, the Company has:

(i) 70.38% (2019 – 70.38%) shareholding in I&M Bank (T) Limited;
(ii) 100% shareholding in I&M Insurance Agency Limited (incorporated on 23 July 2014),
(iii) 100% shareholding in Youjays Insurance Brokers Limited (effective 31 March 2018) through I&M Insurance Agency Limited.

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

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

2. BASIS OF PREPARATION

(a) Statement of compliance

The Group's consolidated and separate financial statements for the year 2020 have been prepared in accordance with International Financial Reporting Standards (IFRSs) and in a manner required by the Kenyan Companies Act, 2015. Additional information required by the regulatory bodies is included where appropriate.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

2. BASIS OF PREPARATION (Continued)

(a) Statement of compliance (Continued)

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

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to estimates are recognised prospectively.

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

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

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

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

Business combination

(i) Non-controlling interests

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

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

(ii) Subsidiaries

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

(iii) Interest in equity-accounted investees

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

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

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

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

(iv) 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.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Foreign currencies

Foreign currency transactions are translated into the functional currency of Group entities using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss in the year in which they arise.

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

(c) Foreign operations

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

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

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

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

(d) Income recognition

(i) Net interest income

Effective interest rate and amortised cost

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income recognition (Continued)

(i) Net interest income (Continued)

Effective interest rate and amortised cost (Continued)

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

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

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).

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Net interest income (Continued)

Presentation

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

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on debt instruments measured at Fair Value Through Other Comprehensive Income (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 Fair Value Through Profit or Loss (FVTPL).

(ii) Net fee and commission income

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

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

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

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

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income recognition (Continued)

(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.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Income tax expense (Continued)

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realized simultaneously.

(f) Financial assets and financial liabilities

(i) Recognition

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

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

(ii) Classification

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

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

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

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

- 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.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(ii) Classification (Continued)

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

Business model assessment

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

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

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

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

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

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:

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(ii) Classification (Continued)

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

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

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

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

Debt instruments are measured at amortized 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 expected credit losses (ECL) 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

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(ii) Classification (Continued)

and losses that relate to the amortized cost of the debt instrument are recognized in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

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

Debt instruments measured at FVTPL

Debt instruments are measured at FVTPL if assets:

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

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

Debt instruments designated at FVTPL

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

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

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

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(ii) Classification (Continued)

Equity instruments

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

Reclassifications

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

Financial liabilities

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

(iii) Impairment on financial assets

The Group recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments (amortised cost and FVOCI) including loans and advances, trade receivables from Bancassurance and Advisory, and other financial assets measured at armotised cost.
- lease receivables (rental income collected from Investment properties);
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

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

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

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

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(iii) Impairment on financial assets (Continued)

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.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(iii) Impairment on financial assets (Continued)

Measurement of ECL

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

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

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

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

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

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(iii) Impairment on financial assets (Continued)

Credit-impaired financial assets (Continued)

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

Government securities (debt instruments)

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

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

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

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

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(iv) De-recognition

Financial assets

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

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

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

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

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

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

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

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

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Financial liabilities

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

(v) Modifications of financial assets and financial liabilities

Financial assets

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

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

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

Financial liabilities

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

(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.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fair value measurement

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

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

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

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

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

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

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

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included in level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- 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.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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:

Buildings	2% or over the period of lease if shorter than 50 years
Leasehold improvements	10-12½% or over the period of lease if shorter than 8 years
Right of use assets	2% or over the period of lease if shorter than 50 years
Furniture, fittings and fixtures	10- 12½%
Motor vehicles	20 -25%

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

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

(j) Intangible assets

(i) Computer software

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

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

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Intangible assets (Continued)

(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.

Goodwill is reviewed annually 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 inherent risk 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.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Leases (Continued)

Group acting as a lessee (Continued)

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

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

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

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

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

Short-term leases and leases of low-value assets

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

Group acting as a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

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

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

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Impairment of non-financial assets

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

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

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

(m) Derivative financial instruments

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

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

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

(n) Employee benefits

(i) Defined contribution plan

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

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

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

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.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Employee benefits (Continued)

(iii) Employee Share Ownership Plan (ESOP)

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

(o) Share capital and share issue costs

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

(p) Earnings per share

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

(q) Dividends

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

(r) Contingent liabilities

Letters of credit, acceptances and guarantees are not recognised and are disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date the financial statements are approved for issue by the directors. Any expected loss is charged to profit or loss.

(s) Provisions

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

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Fiduciary activities

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

(u) Comparative information

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

(v) 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 Group and Company has adopted the following new standards and amendments during the year ended 31 December 2020, including consequential amendments to other standards with the date of initial application by the Group and Company being 1 January 2020. The nature and effects of the changes are as explained here in.

New standards or amendments	Effective for annual period beginning or after
• IFRS 3 Definition of a Business	1 January 2020
• Amendments to references to the Conceptual Framework in IFRS Standards	1 January 2020
• Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020
• Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020

- *IFRS 3 Definition of a Business*

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

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (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)

- *IFRS 3 Definition of a Business (Continued)*

- Optional concentration test

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

- Substantive process

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

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

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

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

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

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

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

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

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

- *IAS 1 and IAS 8 Definition of Material*

The amendment refines the definition of Material to make it easier to understand and aligning the definition across IFRS Standards and the Conceptual Framework.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (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)

IAS 1 and IAS 8 Definition of Material (Continued)

The amendment includes the concept of 'obscuring' to the definition, alongside the existing references to 'omitting' and 'misstating'. Additionally, the amendments also adds the increased threshold of 'could influence' to 'could reasonably be expected to influence' as below.

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

However, the amendment has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

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

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

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

The 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.

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

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2020, and have not been applied in preparing these financial statements.

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

New standards or amendments	Effective for annual period beginning or after
• COVID-19-Related Rent Concessions (Amendments to IFRS 16)	1 June 2020
• Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
• Annual Improvements to IFRS Standards 2018-2020	1 January 2022
• Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
• Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
• Classification of Liabilities as Current or Non-current (Amendments IAS 1)	1 January 2023
• IFRS 17 Insurance contracts	1 January 2023
• Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (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 2020 (Continued)

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

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

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

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

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

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

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

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

The following improvements were finalised in May 2020:

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

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (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 2020 (Continued)

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

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

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (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 2020 (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.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (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 2020 (Continued)

- *IFRS 17 Insurance Contracts (Continued)*

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

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

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

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

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

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

4. IMPACT OF COVID-19

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

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

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

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

4. IMPACT OF COVID-19 (Continued)

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant note of these financial statements. Readers should carefully consider these disclosures in light of the inherent uncertainty described above.

5. FINANCIAL RISK MANAGEMENT

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

Financial risk

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

(a) Credit risk

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

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

Derivative financial instruments

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

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

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Credit-related commitment risks

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

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

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

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

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

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

Exposure to credit risk

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

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

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

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt instruments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively. See accounting policy on note 3(f)(iii) for the explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Group

2020:	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total 31 December KShs'000
Risk classification				
Loans and advances to Customers at amortised cost				
Normal (Stage 1)	154,439,529	-	-	154,439,529
Watch (Stage 2)	-	22,319,087	-	22,319,087
Non-Performing loans (Stage 3)	-	-	23,595,463	23,595,463
Gross carrying amount	**154,439,529**	**22,319,087**	**23,595,463**	**200,354,079**
Loss allowance	(527,618)	(1,254,714)	(11,180,481)	(12,962,813)
Net carrying amount	**153,911,911**	**21,064,373**	**12,414,982**	**187,391,266**

2019:	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total 31 December KShs'000
Risk classification				
Loans and advances to Customers at amortised cost				
Normal (Stage 1)	146,184,774	-	-	146,184,774
Watch (Stage 2)	-	18,852,792	-	18,852,792
Non-Performing loans (Stage 3)	-	-	21,310,499	21,310,499
Gross carrying amount	**146,184,774**	**18,852,792**	**21,310,499**	**186,348,065**
Loss allowance	(283,411)	(550,536)	(10,184,692)	(11,018,639)
Net carrying amount	**145,901,363**	**18,302,256**	**11,125,807**	**175,329,426**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (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	2020 KShs'000	2019 KShs'000
Identified impairment:		
Grade 3: Substandard	4,288,655	3,173,487
Grade 4: Doubtful	15,177,428	15,294,918
Grade 5: Loss	4,129,380	2,842,094
	23,595,463	**21,310,499**
Specific allowances for impairment	(11,180,481)	(10,184,692)
Carrying amounts	**12,414,982**	**11,125,807**
Unidentified impairment:		
Grade 2: Watch	22,319,087	18,852,792
Grade 1: Normal	154,439,529	146,184,774
	176,758,616	**165,037,566**
Portfolio allowances for impairment	(1,782,332)	(833,947)
Carrying amounts	**174,976,284**	**164,203,619**
Total carrying amounts	**187,391,266**	**175,329,426**
Identified impairment:		
31 December 2020		
Grade 3: Substandard	4,288,655	2,271,621
Grade 4: Doubtful	15,177,428	8,373,021
Grade 5: Loss	4,129,380	1,770,340
	23,595,463	**12,414,982**
31 December 2019		
Grade 3: Substandard	3,173,487	1,707,305
Grade 4: Doubtful	15,294,918	8,457,433
Grade 5: Loss	2,842,094	961,069
	21,310,499	**11,125,807**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

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

	Gross KShs'000	Net KShs'000
Unidentified impairment:		
31 December 2020		
Grade 1: Normal	154,439,529	153,911,911
Grade 2: Watch	22,319,087	21,064,373
	176,758,616	**174,976,284**
31 December 2019		
Grade 1: Normal	146,184,774	145,901,363
Grade 2: Watch	18,852,792	18,302,256
	165,037,566	**164,203,619**

Impaired loans and securities

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

Neither past due nor impaired

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

Past due but not impaired loans

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

(ii) Credit quality analysis – Trade receivables

The Group's exposure to trade receivables credit risk is influenced mainly by the individual characteristics of each customer. The Group uses an allowance matrix, using the simplified approach, to measure the lifetime ECLs of trade receivables. Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

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

2020:	Gross KShs'000	Impairment KShs'000	Net KShs'000	Credit impaired
Current	57,651	4,449	53,202	No
Past due:				
30-90 days	20,499	2,672	17,827	No
91-180 days	39,709	11,050	28,659	Yes
180-360 days	55,103	31,997	23,106	Yes
Over 360 days	7,944	7,944	-	Yes
	180,906	**58,112**	**122,794**	

2019:	Gross KShs'000	Impairment KShs'000	Net KShs'000	Credit impaired
Current	28,777	1,908	26,869	No
Past due:				
30-90 days	15,024	584	14,440	No
91-180 days	23,007	5,914	17,093	No
180-360 days	40,243	20,843	19,400	Yes
Over 360 days	13,870	13,870	-	Yes
	120,921	**43,119**	**77,802**	

Impairment loss movement on trade receivables

	2020 KShs'000	2019 KShs'000
At 1 January	43,119	44,107
Charge for the year	14,956	(709)
Write off during the year	-	(281)
Translation difference	37	2
At 31 December	**58,112**	**43,119**

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.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

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

The risk management committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered.

The Group's review includes, if they are available; financial statements, credit agency information, industry information and in some cases references from other credible sources. Credit limits are established for each customer and reviewed frequently. Any credit exceeding those limits require approval from the risk management committee.

In addition, the Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of six months for customers. A significant part of the Group's customers have been transacting with the larger banking group.

The Group does not require collateral in respect of trade and other receivables. The Group does not have trade receivable and contract assets for which no loss allowance is recognised because of collateral.

(iii) Credit quality analysis – other assets

The Group has estimated that the ECL for the following financial assets is not significant as at 31 December 2020. These financial assets have been assessed to be in Stage 1 (low credit risk). Consequently, no ECL has been recorded as at 31 December 2020.

	Group		Company	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Balances with central banks (Note 18)	15,412,097	13,024,765	-	-
Items in the course of collection (Note 19)	622,994	536,459	-	-
Loans and advances to banks (Note 20)	18,335,440	43,662,404	-	-
Financial assets at fair value through other comprehensive income (FVOCI) - Debt instruments (Note 22)	42,477,252	13,109,198	28,392	27,679
Other financial assets at amortised cost; Government securities (Note 22)	47,241,831	26,993,217	-	-
Due from group companies (Note 38)	-	-	446,059	79,277
	124,089,614	97,326,043	474,451	106,956

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(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 2020 or 2019.

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

Group	2020 KShs'000	2019 KShs'000
Fair value of collateral held – against impaired loans	12,414,982	11,125,807

(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).

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (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 2020

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

Credit risk grading

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

In addition, the prudential guidelines are supplemented

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

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

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.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Generating the term structure of PD (Continued)

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and exchange rate.

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

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

COVID-19 considerations for the year ended 31 December 2020

The key consideration for probability weightings in the current period is the continuing impact of COVID-19.

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

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

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

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(f)(v).

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Modified financial assets (Continued)

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

- its remaining lifetime PD at the reporting date based on the modified terms; with and;
- 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 2020 of all loans that have been modified (both substantial and non-substantial modifications):

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Modified financial assets (Continued)

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

	Group KShs'000
Assistance package category	
Loan deferral package	
Corporate & Institutional Banking	8,201,657
Business Banking	429,365
Premium Banking	100,164
Personal Banking	129,141
Interest only	
Corporate Institutional Banking	1,586,777
Business Banking	213,475
Premium Banking	-
Personal Banking	16,345
Term extensions	
Corporate Institutional Banking	14,245,720
Business Banking	5,539,981
Premium Banking	1,175,221
Personal Banking	2,430,319
Total	
Corporate Institutional Banking	**24,034,154**
Business Banking	**6,182,821**
Premium Banking	**1,275,385**
Personal Banking	**2,575,805**
	34,068,165

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Modified financial assets (Continued)

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.

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 country Assets and Liabilities Committee (ALCO) and consideration of a variety of external actual and forecast information, the banking subsidiaries formulate a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Incorporation of forward-looking information (Continued)

data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the International Monetary Fund (IMF), World Bank and selected private-sector and academic forecasters.

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

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

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

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

COVID-19 considerations for the year ended 31 December 2020

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

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

In determining the likelihood of each of the macroeconomic scenarios based on sectors, weighting are applied to three scenarios; base, upside and downside.

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

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

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Incorporation of forward-looking information (Continued)

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

Kenya				
Manufacturing	**Weighting**			
	Coefficients	**Base**	**Upside**	**Downside**
		75%	**16.67%**	**8.33%**
Reverse repo	(0.4729)	7.36%	10.77%	3.96%
Public debt to GDP	3.4272	63.00%	60.51%	65.49%
Constant	(1.806)	-	-	-
Energy & Water	**Weighting**			
	Coefficients	**Base**	**Upside**	**Downside**
		75%	**16.67%**	**8.33%**
Interbank lending rate	1.63625	4.17%	2.94%	5.39%
Constant	(0.0578)	-	-	-
Transport & Communication	**Weighting**			
	Coefficients	**Base**	**Upside**	**Downside**
		75%	**16.67%**	**8.33%**
Public debt to GDP	1.05427	63.00%	60.45%	65.55%
Constant	(0.51345)	-	-	-
Real Estate	**Weighting**			
	Coefficients	**Base**	**Upside**	**Downside**
		75%	**16.67%**	**8.33%**
Reverse repo	(0.5156)	7.36%	10.77%	3.96%
Public debt to GDP	1.2594	63.00%	60.45%	65.55%
Constant	(0.5943)	-	-	-
Financial Services	**Weighting**			
	Coefficients	**Base**	**Upside**	**Downside**
		75%	**16.67%**	**8.33%**
91 Day T-Bills	0.9852	6.69%	6.54%	6.85%
Central bank rate	0.4575	6.83%	6.49%	7.18%
Constant	(0.0928)	-	-	-

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Incorporation of forward-looking information (Continued)

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

Some sectors did not have correlations with macro-economic factors. These include: Agriculture, Building & Construction, Mining & Quarrying, Trade, Tourism Restaurant & Hotels. In view of this, management judgements were applied by taking an average of the percentage macro-adjustments from the sectors above was applied for purposes of ECL calculation.

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

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

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Incorporation of forward-looking information (Continued)

Tanzania				
Manufacturing	**Weighting**			
	Coefficients	**Base**	**Upside**	**Downside**
		50%	**25%**	**25%**
Saving	(11.2844)	2.00%	2.05%	1.95%
Lending	2.521	16.04%	14.55%	17.53%
Constant	(0.0237)	-	-	-
Building & construction	**Weighting**			
	Coefficients	**Base**	**Upside**	**Downside**
		50%	**25%**	**25%**
Saving	(27.046)	2.06%	2.10%	2.01%
Constant	1.225	-	-	-
Trade	**Weighting**			
	Coefficients	**Base**	**Upside**	**Downside**
		50%	**25%**	**25%**
Saving	(4.9441)	2.00%	2.05%	1.95%
Constant	0.22201	-	-	-
Real Estate	**Weighting**			
	Coefficients	**Base**	**Upside**	**Downside**
		50%	**25%**	**25%**
Saving	(18.3186)	2.17%	2.21%	2.12%
Constant	0.61336	-	-	-
Personal & Household	**Weighting**			
	Coefficients	**Base**	**Upside**	**Downside**
		50%	**25%**	**25%**
Repo	1.3433	2.75%	2.75%	2.75%
Reverse repo	1.0319	5.19%	4.17%	6.20%
Central bank rate	1.3779	7.67%	4.68%	10.65%
Deposit	1.4934	5.94%	5.75%	6.12%
Constant	(0.1677)	-	-	-

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Incorporation of forward-looking information (Continued)

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

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

In Rwanda, the backward elimination multiple regression model led to the following macro-economic factors per sector for the year ended 31 December 2020;

Sector	Macro-economic factors
(i) Agriculture	Central Bank Rate
(ii) Manufacturing	Treasury bills 182 days.
	GDP
(iii) Building and construction	Repo
(iv) Tourism restaurants and hotels	Inflation
	Public debt to GDP
(v) Mining and quarrying	Treasury bills 91 days
	Treasury bills 182 days
	Lending rates
(vi) Personal/households	Public debt to GDP
(vii) Social, community and personal	Public debt to GDP

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Amounts arising from ECL (Continued)

Incorporation of forward-looking information (Continued)

With incorporation of forward looking information the followings were used as micro adjusted PDs;

Rwanda			
Sector	Weighted Macro Adjusted PDs		
	Stage 1	Stage 2	Stage 3
Agriculture	0.05%	0.05%	100%
Manufacturing	0.46%	46.09%	100%
Building & Construction	1.14%	3.00%	100%
Mining & Quarrying	14.29%	42.86%	100%
Energy and water	0.05%	0.05%	100%
Trade	2.13%	19.89%	100%
Tourism, Restaurants and Hotels	7.37%	15.60%	100%
Transport & communication	3.14%	6.05%	100%
Real Estate	0.53%	6.87%	100%
Financial Services	2.53%	0.05%	100%
Personal & Household	2.72%	25.00%	100%
Social, Community and Personal	4.70%	33.64%	100%

Measurement of ECL

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

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

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

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

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (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.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (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 2020:

Group	ECL KShs'000	Impact KShs'000
If 1% of stage 1 facilities were included in Stage 2	2,062,364	106,042
If 1% of stage 2 facilities were included in Stage 1	1,943,741	(11,724)
100% upside scenario	1,520,631	(461,817)
100% base scenario	1,975,726	19,403
100% downside scenario	2,403,470	447,149

Loss allowance

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

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (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 2020	**283,411**	**550,536**	**10,184,692**	**11,018,639**	**146,184,774**	**18,852,792**	**21,310,499**	**186,348,065**
Transfer from 12 months ECL (Stage 1)	(15,937)	13,679	2,258	-	(10,486,512)	9,434,489	1,052,023	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	119,675	(307,273)	187,598	-	5,002,819	(8,243,391)	3,240,572	-
Transfer from Lifetime ECL credit impaired (Stage 3)	7,555	1,226,346	(1,233,901)	-	36,313	2,845,990	(2,882,303)	-
Net remeasurement of loss allowance	39,473	(251,811)	2,463,128	**2,250,790**	9,837,825	(277,259)	1,582,891	**11,143,457**
New financial assets originated or purchased	111,208	41,662	29,479	**182,349**	16,755,812	368,505	34,192	**17,158,509**
Financial assets derecognised	(20,377)	(21,836)	(205,612)	**(247,825)**	(14,096,917)	(800,782)	(524,911)	**(15,422,610)**
Write off	-	-	(323,009)	**(323,009)**	-	-	(358,276)	**(358,276)**
Translation difference	2,610	3,411	75,848	**81,869**	1,205,415	138,743	140,776	**1,484,934**
Balance at 31 December 2020	**527,618**	**1,254,714**	**11,180,481**	**12,962,813**	**154,439,529**	**22,319,087**	**23,595,463**	**200,354,079**

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Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (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 2019	**825,900**	**1,396,700**	**9,601,944**	**11,824,544**	**136,701,338**	**19,367,483**	**22,492,452**	**178,561,273**
Transfer from 12 months ECL (Stage 1)	(49,542)	46,742	2,800	-	(8,770,949)	8,269,632	501,317	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	337,348	(591,167)	253,819	-	5,915,796	(9,152,343)	3,236,547	-
Transfer from Lifetime ECL credit impaired (Stage 3)	617,001	464,680	(1,081,681)	-	1,978,953	1,119,082	(3,098,035)	-
Net remeasurement of loss allowance	(1,464,656)	(746,606)	2,474,739	**263,477**	5,369,758	(946,426)	2,179,671	**6,603,003**
New financial assets originated or purchased	69,266	50,091	34,487	**153,844**	14,358,672	1,010,380	48,515	**15,417,567**
Financial assets derecognised	(49,260)	(66,788)	(378,051)	**(494,099)**	(8,502,938)	(754,409)	(1,094,641)	**(10,351,988)**
Write off	-	-	(698,298)	**(698,298)**	-	-	(2,917,819)	**(2,917,819)**
Translation difference	(2,646)	(3,116)	(25,067)	**(30,829)**	(865,856)	(60,607)	(37,508)	**(963,971)**
Balance at 31 December 2019	**283,411**	**550,536**	**10,184,692**	**11,018,639**	**146,184,774**	**18,852,792**	**21,310,499**	**186,348,065**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (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 2020	**74,464**	**49,346**	**45,099**	**168,909**	**60,554,708**	**4,705,427**	**449,331**	**65,709,466**
Transfer from 12 months ECL (Stage 1)	(205,619)	1,191	204,428	-	(1,148,818)	750,363	398,455	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	4,978	(6,374)	1,396	-	238,075	(934,331)	696,256	-
Transfer from Lifetime ECL credit impaired (Stage 3)	-	-	-	-	-	-	-	-
Net remeasurement of loss allowance	238,060	7,502	(30,052)	**215,510**	20,982,699	(1,492,044)	(653,477)	**18,837,178**
New financial assets originated or purchased	11,137	9,447	8,524	**29,108**	8,762,520	889,624	103,734	**9,755,878**
Financial assets derecognised	(12,785)	(249)	-	**(13,034)**	(6,140,649)	(43,856)	-	**(6,184,505)**
Translation difference	2,698	194	-	**2,892**	338,525	108,218	-	**446,743**
Balance at 31 December 2020	**112,933**	**61,057**	**229,395**	**403,385**	**83,587,060**	**3,983,401**	**994,299**	**88,564,760**

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For The Year Ended 31 December 2020 (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 2019	235,675	93,595	-	329,270	55,677,743	2,707,378	-	58,385,121
Transfer from 12 months ECL (Stage 1)	(6,843)	6,843	-	-	(1,387,009)	1,387,009	-	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	11,430	(11,430)	-	-	159,667	(159,667)	-	-
Transfer from Lifetime ECL credit impaired (Stage 3)	-	-	-	-	259,076	604,935	(864,011)	-
Net remeasurement of loss allowance	(164,093)	(15,833)	45,099	(134,827)	(1,982,310)	(1,231,601)	1,433,558	(1,780,353)
New financial assets originated or purchased	22,242	324	-	22,566	13,455,683	1,865,185	-	15,320,868
Financial assets derecognised	(23,624)	(24,113)	-	(47,737)	(5,173,113)	(466,661)	(120,216)	(5,759,990)
Translation difference	(323)	(40)	-	(363)	(455,029)	(1,151)	-	(456,180)
Balance at 31 December 2019	74,464	49,346	45,099	168,909	60,554,708	4,705,427	449,331	65,709,466

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For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by Asset and Liabilities Committee. The Asset and Liabilities Committee (ALCO) also monitors the liquidity gap and at first instance would source funds from market using interbank borrowings and as a last resort, use repo and reverse repo arrangements with the central banks. The Group has also arranged for long term funding as disclosed under Note 32 and Note 33.

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

	Kenya		Tanzania		Rwanda	
	2020	2019	2020	2019	2020	2019
At 31 December	50%	47%	29%	27%	53%	39%
Average for the period	48%	47%	25%	29%	40%	37%
Highest for the period	50%	49%	29%	32%	53%	40%
Lowest for the period	46%	44%	23%	26%	31%	35%

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2020 to the contractual maturity date

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	2,096,593	1,458,899	2,392,637	763,192	513,063	**7,224,384**
Items in the course of collection	-	261,363	-	-	-	**261,363**
Deposits from customers	72,677,497	109,882,907	72,938,752	7,852,171	5,786,692	**269,138,019**
Other liabilities	613,365	4,707,505	167,054	-	-	**5,487,924**
Long term debt	-	-	2,229,677	5,738,563	4,927,725	**12,895,965**
Subordinated debt	-	65,412	349,746	4,970,696	-	**5,385,854**
Contractual off-balance sheet financial liabilities	-	-	98,056,514	-	-	**98,056,514**
Capital commitments	-	-	5,997,153	-	-	**5,997,153**
Lease liabilities	43,093	126,548	334,847	1,713,437	540,576	**2,758,501**
At 31 December 2020	**75,430,548**	**116,502,634**	**182,466,380**	**21,038,059**	**11,768,056**	**407,205,677**

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For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

Group

31 December 2019	**Within 1 month KShs'000**	**Due within 1-3 months KShs'000**	**Due between 3-12 months KShs'000**	**Due between 1-5 years KShs'000**	**Due after 5 years KShs'000**	**Total KShs'000**
LIABILITIES						
Deposits from banks	3,374,767	4,163,034	340,770	261,541	-	8,140,112
Items in the course of collection	147,321	-	-	-	-	147,321
Deposits from customers	72,741,316	107,479,279	51,259,049	1,449,812	-	232,929,456
Other liabilities	1,393,844	1,443,905	-	-	331,366	3,169,115
Long term debt	1,451,202	10,888	1,798,676	3,588,966	-	6,849,732
Subordinated debt	-	3,751	-	5,792,553	-	5,796,304
Contractual off-balance sheet financial liabilities	-	-	124,441,918	-	-	124,441,918
Capital commitments	-	-	7,192,759	-	-	7,192,759
Leases	42,082	125,526	275,973	1,740,278	542,247	2,726,106
At 31 December 2019	**79,150,532**	**113,226,383**	**185,309,145**	**12,833,150**	**873,613**	**391,392,823**

Deposits from customers represent business transaction, personal transaction, savings, call and fixed deposit balances, which past experience has shown to be stable.

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spread (not relating to changes in the obligator's/issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments.

All trading instruments are subject to market risk, the risk that the future changes in market conditions may make an instrument less valuable or more onerous. The Group manages its use of trading instruments in response to changing market conditions. The Board of Directors of the individual Group entities have delegated responsibility for management of Market Risk to their respective Board Risk Committees. Exposure to market risk is formally managed within Risk Limits and Policy Guidelines issued by the Board, on recommendation of the Board Risk Committee. ALCO, a Management Committee is charged with the responsibility of ensuring implementation and monitoring of the risk management framework in line with policy guidelines. The Group is primarily exposed to Interest Rate and Foreign Exchange Risk. The policy guidelines and procedures in place are adequate to effectively manage these risks.

Exposure to interest rate risk

This is the risk of loss from fluctuations in the future cash flows of fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the group's interest rate gap position reflecting assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates is shown below.

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For The Year Ended 31 December 2020 (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	-	-	-	-	-	19,403,419	19,403,419
Items in the course of collection	-	-	-	-	-	622,994	622,994
Loans and advances to banks	10,964,469	6,294,273	-	-	-	1,076,698	18,335,440
Loans and advances to customers	151,944,020	3,910,490	7,349,076	12,749,163	11,436,205	2,312	187,391,266
Financial assets at fair value through profit or loss (FVTPL)	-	1,881,721	3,873,554	99,202	6,014,926	-	11,869,403
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	2,361,397	13,198,009	5,981,452	20,860,266	76,128	42,477,252
Other financial assets at amortised cost	579,535	7,915,691	21,313,154	13,000,844	4,555,401	-	47,364,625
Other assets	-	-	-	-	-	2,342,497	2,342,497
At 31 December 2020	**163,488,024**	**22,363,572**	**45,733,793**	**31,830,661**	**42,866,798**	**23,524,048**	**329,806,896**
LIABILITIES							
Deposits from banks	1,355,414	4,498,910	866,026	-	-	42,485	6,762,835
Items in the course of collection	-	-	-	-	-	261,363	261,363
Deposits from customers	61,775,286	121,280,960	66,503,937	2,360,796	-	10,760,423	262,681,402
Other liabilities	-	67,746	167,054	-	-	5,167,628	5,402,428
Long term debt	-	-	2,149,817	5,866,199	2,301,811	-	10,317,827
Subordinated debt	-	64,176	329,250	4,061,510	-	-	4,454,936
At 31 December 2020	**63,130,700**	**125,911,792**	**70,016,084**	**12,288,505**	**2,301,811**	**16,231,899**	**289,880,791**
Interest rate gap	**100,357,324**	**(103,548,220)**	**(24,282,291)**	**19,542,156**	**40,564,987**	**7,292,149**	**39,926,105**

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For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk (Continued)

Group	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
31 December 2019							
ASSETS							
Cash and balances with central banks	-	-	-	-	-	15,385,829	15,385,829
Items in the course of collection	-	-	-	-	-	536,459	536,459
Loans and advances to banks	33,104,341	8,981,791	407,456	-	-	1,168,816	43,662,404
Loans and advances to customers	144,691,248	6,091,845	5,476,176	12,374,079	6,696,078	-	175,329,426
Financial assets at fair value through profit or loss (FVTPL)	46,331	1,969,108	6,141,558	1,690,879	3,896,172	-	13,744,048
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	497,802	2,909,854	1,560,408	8,052,288	88,846	13,109,198
Other financial assets at amortised cost	86,239	8,064,764	9,921,445	5,488,346	3,510,225	-	27,071,019
Other assets	-	-	-	-	-	2,060,650	2,060,650
At 31 December 2019	**177,928,159**	**25,605,310**	**24,856,489**	**21,113,712**	**22,154,763**	**19,240,600**	**290,899,033**
LIABILITIES							
Deposits from banks	2,500,752	4,107,927	326,426	215,963	-	854,536	8,005,604
Items in the course of collection	-	-	-	-	-	147,321	147,321
Deposits from customers	55,910,262	106,233,748	49,802,096	1,268,256	-	16,522,147	229,736,509
Other liabilities	32,758	-	-	-	331,367	4,424,622	4,788,747
Long term debt	1,440,143	10,703	1,738,901	3,020,824	-	-	6,210,571
Subordinated debt	-	3,659	-	4,641,396	-	-	4,645,055
At 31 December 2019	**59,883,915**	**110,356,037**	**51,867,423**	**9,146,439**	**331,367**	**21,948,626**	**253,533,807**
Interest rate gap	**118,044,244**	**(84,750,727)**	**(27,010,934)**	**11,967,273**	**21,823,396**	**(2,708,026)**	**37,365,226**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk (Continued)

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

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

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.

31 December 2020 **200 basis points**	**Profit or loss Increase/decrease in basis points ('000)**	**Equity net of tax Increase/decrease in basis points ('000)**
Assets	6,125,657	4,594,243
Liabilities	(5,472,978)	(4,104,734)
Net position	**652,679**	**489,509**

31 December 2019	**Profit or loss**	**Equity net of tax**
Assets	5,433,169	3,803,218
Liabilities	(4,631,704)	(3,242,193)
Net position	**801,465**	**561,025**

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk

The Group is exposed to currency risk through transactions in foreign currencies. The Group's transactional exposure gives rise to foreign currency gains and losses that are recognised in the profit or loss. In respect of monetary assets and liabilities in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. The table below analyses the currencies which the Group is exposed to as at 31 December 2020 and 31 December 2019.

Group

At 31 December 2020	**USD KShs'000**	**GBP KShs'000**	**Euro KShs'000**	**Other KShs'000**	**Total KShs'000**
ASSETS					
Cash and balances with central banks	7,144,584	5,685,680	1,959,792	373,573	15,163,629
Items in the course of collection	31,236	-	1,341	-	32,577
Loans and advances to banks	5,950,654	121,450	1,342,579	22,157	7,436,840
Loans and advances to customers	64,536,593	3,630,886	4,183,726	13,323	72,364,528
Other financial assets at amortised cost	2,227,615	-	-	-	2,227,615
Other assets	1,436,280	-	-	-	1,436,280
At 31 December 2020	**81,326,962**	**9,438,016**	**7,487,438**	**409,053**	**98,661,469**
LIABILITIES					
Deposits from banks	1,182,867	62,525	56,112	7,369	1,308,873
Items in the course of collection	10,020	9,255	39,676	16,077	75,028
Deposits from customers	72,094,956	9,902,324	3,902,673	308,067	86,208,020
Other liabilities	666,696	17,744	420,280	45,752	1,150,472
Long-term debt	8,583,721	-	103,698	-	8,687,419
Subordinated debt	4,454,936	-	-	-	4,454,936
At 31 December 2020	**86,993,196**	**9,991,848**	**4,522,439**	**377,265**	**101,884,748**
Net on statement of financial position	**(5,666,234)**	**(553,832)**	**2,964,999**	**31,788**	**(3,223,279)**
Net notional off balance sheet position	**3,700,485**	**552,608**	**3,001,739**	**(10,332)**	**7,244,500**
Overall net position – 2020	**(1,965,749)**	**(1,224)**	**5,966,738**	**21,456**	**4,021,221**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk (Continued)

Group (Continued)

At 31 December 2019	**USD KShs'000**	**GBP KShs'000**	**Euro KShs'000**	**Other KShs'000**	**Total KShs'000**
ASSETS					
Cash and balances with central banks	1,699,186	211,427	396,072	19,386	2,326,071
Items in the course of collection	32,486	-	-	-	32,486
Loans and advances to banks	32,169,334	9,149,451	2,391,597	301,193	44,011,575
Loans and advances to customers	57,869,670	2,639,588	2,038,375	2,851	62,550,484
Other assets	2,359,033	65,327	48	76	2,424,484
At 31 December 2019	**94,129,709**	**12,065,793**	**4,826,092**	**323,506**	**111,345,100**
LIABILITIES					
Deposits from banks	2,502,160	42,044	86,039	44,032	2,674,275
Deposits from customers	62,093,913	11,926,863	3,821,902	235,002	78,077,680
Other liabilities	686,285	76,430	230,799	54,271	1,047,785
Long-term debt	4,630,079	-	264,298	-	4,894,377
Subordinated debt	4,377,756	-	-	-	4,377,756
At 31 December 2019	**74,290,193**	**12,045,337**	**4,403,038**	**333,305**	**91,071,873**
Net on statement of financial position	**19,839,516**	**20,456**	**423,054**	**(9,799)**	**20,273,227**
Net notional off balance sheet position	**(17,995,453)**	**(13,379)**	**(268,670)**	**54,585**	**(18,222,917)**
Overall net position – 2019	**1,844,063**	**7,077**	**154,384**	**44,786**	**2,050,310**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (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.

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)	(49,144)	(36,858)
GBP (± 2.5% movement)	(31)	(23)
EUR (± 2.5% movement)	**149,168**	**111,876**

At 31 December 2019	Profit or loss Strengthening/weakening of currency KShs'000	Equity net of tax Strengthening/weakening of currency KShs'000
USD (± 2.5% movement)	46,102	32,271
GBP (± 2.5% movement)	177	124
EUR (± 2.5% movement)	**3,860**	**2,702**

(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 all banks.

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

- Is adequate to protect its depositors and creditors;
- Is commensurate with the risks associated with its activities and profile
- Promotes public confidence in the bank.

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For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

Regulatory capital – Kenya (Continued)

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

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

- The minimum level of regulatory capital of KShs 1 billion.
- A core capital of not less than 10.5% of total risk weighted assets, plus risk weighted off-balance sheet items.
- A core capital of not less than 10.5% of its total deposit liabilities.
- A total capital of not less than 14.5% of its total risk weighted assets, plus risk weighted off-balance sheet items.

I&M Bank LIMITED's regulatory capital is analysed into two tiers:

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

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

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

The regulatory capital position for I&M Bank LIMITED being the Kenyan banking subsidiary was as follows:

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For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

Regulatory capital – Kenya (Continued)

		2020 KShs'000	2019 KShs'000
Core capital (Tier 1)			
Share capital		2,980,000	2,980,000
Share premium		5,531,267	5,531,267
Retained earnings		36,447,470	32,086,451
		44,958,737	**40,597,718**
Less: Investment in subsidiary		(2,750,653)	(2,750,653)
Total core capital		**42,208,084**	**37,847,065**
Supplementary capital (Tier 2)			
Term subordinated debt		2,546,106	2,830,389
Statutory loan loss reserve		4,580,387	4,598,169
		7,126,493	**7,428,558**
Total capital		**49,334,577**	**45,275,623**
Risk weighted assets			
Credit risk weighted assets		181,977,999	174,882,505
Market risk weighted assets		12,306,196	4,460,142
Operational risk weighted assets		29,691,747	30,638,806
Total risk weighted assets		**223,975,942**	**209,981,453**
Deposits from customers		**219,831,712**	**196,165,364**
Capital ratios	***Minimum****		
Core capital/total deposit liabilities	**8.0%**	**19.20%**	**19.29%**
Core capital/total risk weighted assets	**10.5%**	**18.84%**	**18.02%**
Total capital/total risk weighted assets	**14.5%**	**22.03%**	**21.56%**

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

Regulatory capital – Tanzania

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

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for prepaid expenses, goodwill, other intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

Regulatory capital – Tanzania (Continued)

- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of fair value reserve relating to unrealized gains on equity instruments classified as available for sale.

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

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of business. The impact of the level of capital of shareholders' return is also 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.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

Regulatory capital – Tanzania (Continued)

		2020 TZS'000	2019 TZS'000
Core capital (Tier 1)			
Share capital		16,202,000	16,202,000
Share premium		18,090,228	18,090,228
Retained earnings		29,788,752	37,303,341
		64,080,980	**71,595,569**
Less: Prepaid expenses		(1,902,527)	(1,293,797)
Deferred tax asset		(7,211,017)	(5,620,807)
Intangible assets		-	-
Total Core capital		**54,967,436**	**64,680,965**
Supplementary capital (Tier 2)			
Term subordinated debt		930,400	3,680,000
General provisions in equity		19,294,170	8,150,554
Fair value reserve		248,938	248,938
		20,473,508	**12,079,492**
Total capital		**75,440,944**	**76,760,457**
Risk weighted assets			
On balance sheet		316,632,102	334,697,311
Off balance sheet		50,713,528	46,799,438
Capital charge for market risk		890,274	1,144,316
Operational risk weighted assets		30,156,410	27,871,571
Total risk weighted assets		**398,392,314**	**410,512,636**
Capital ratios			
Core capital /Total risk weighted assets	**10.0%**	**13.80%**	**15.76%**
Total capital /Total risk weighted assets	**12.0%**	**18.94%**	**18.70%**

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

- The minimum level of regulatory capital is TZS 15 billion.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

Regulatory capital – Rwanda

The Bank's objectives when managing capital, which is a broader concept than the "equity" on the balance sheet, are:

- To comply with the capital requirements set by the National Bank of Rwanda;
- To safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To maintain a strong capital base to support the development of its business.

The National Bank of Rwanda (BNR) sets and monitors capital requirements for the banking industry as a whole. In implementing its current capital requirements, BNR, requires Banks in Rwanda to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank's regulatory capital consists only of Tier 1 capital, which includes ordinary share capital, retained earnings, revaluation reserves and statutory reserves. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

		2020 Frw'000	2019 Frw'000
Core capital (Tier 1)			
Share capital		12,120,000	5,050,000
Share premium		6,249,832	400,000
Retained earnings		32,968,671	33,390,046
		51,338,503	**38,840,046**
Less: Other reserves		249,453	188,347
Less: Intangible assets		(3,814,403)	(4,492,050)
Total Core capital (Tier 1 Capital)		**47,773,553**	**34,536,343**
Supplementary capital			
Revaluation reserves		3,660,400	2,047,698
Term subordinated debt		5,834,850	7,380,140
		9,495,250	**9,427,838**
Total capital (Tier 2 Capital)		**57,268,803**	**43,964,181**
Total risk weighted assets		**296,639,446**	**240,635,377**
Capital ratios	Minimum*		
Core capital /Total risk weighted assets	**10.0%**	**16.10%**	**14.35%**
Total capital /Total risk weighted assets	**15.0%**	**19.31%**	**18.27%**

* As defined by the Bank of Rwanda

The minimum level of regulatory capital is RWF 5 billion.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

Regulatory Capital – Mauritius

Under the BASEL II methodology, Bank of Mauritius has issued guidelines for the measurement of Credit Risk, Market Risk and Operational Risk. The minimum required capital as set by the Bank of Mauritius, under BASEL II guidelines, is a capital to Risk Weighted Assets of 10%.

The Bank's capital management policy is to provide sufficient capital for the banking business to achieve its strategic objectives, taking into account the regulatory, economic and commercial environment in which it operates. The capital adequacy framework is supported by a Board approved Internal Capital Adequacy Assessment Process (ICAAP), which encompasses capital planning for current and future periods, taking into consideration strategic focus and business plan and assessment of all material risks under stress conditions.

The Bank's objectives when managing capital are:

- To comply to the capital requirements set by the regulator;
- To safeguard the Bank's ability to continue its business as a going concern;
- To maximize returns to shareholders and optimize the benefits to stakeholders;
- To maintain a strong capital base to support the development of its business.

The Bank's eligible capital as managed by the Bank's management is divided into two tiers:

1. *Core capital or Tier 1 Capital:* Comprising Share capital, profit and loss, and reserves created by appropriations of retained earnings. The book value of goodwill and other intangible assets is deducted in arriving at core capital; and

2. *Supplementary capital or Tier 2 Capital:* Qualifying perpetual and term subordinated debts, collectively assessed impairment allowances, regulatory reserve, and fair value gains arising on revaluation of holdings of land and buildings and available-for sale equities and debt securities. Investment in subsidiaries, significant investments in non-subsidiary companies and shares, and investments in other banks' equity are deducted 50 % from Tier-1 capital and 50% from supplementary capital to arrive at the eligible capital.

Capital Adequacy and the use of eligible capital are monitored regularly by Management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by Bank of Mauritius for supervisory purposes. The required information is submitted to the Bank of Mauritius on a quarterly basis.

The ratio of its capital to aggregate risk weighted assets being the Capital Adequacy Ratio as at 31 December 2020 was 19.81% (2019 - 14.71%).

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

6. USE OF ESTIMATES AND JUDGEMENT

Key sources of estimation uncertainty

(a) Expected credit losses

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI debt instruments is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 3(f)(iii) which also sets out key sensitivities of the ECL to changes in these elements.

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

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

(b) Income taxes

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

(c) Property and equipment

Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programs are taken into account which involves extensive subjective judgment. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. The rates used are set out under accounting policy Note 3(i).

(d) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy 3(j)(ii) and computed in Note 26(a). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

(e) Lease term

The Group makes judgement on whether it is reasonably certain that it will exercise extension options.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

6. USE OF ESTIMATES AND JUDGEMENT (Continued)

(f) Critical accounting judgements in applying the Group's accounting policies

Critical accounting judgements made in applying the Group's accounting policies include financial asset and liability classification. The Group's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances.

In classifying financial assets as held to maturity, the Group has determined that it has both positive intention and ability to hold the assets until their maturity date as required by the group's accounting policies.

7. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE

Accounting classifications and fair values

The tables below show the carrying amounts and fair values of assets and liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

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

Accounting classifications at carrying amounts and fair values

Group	Carrying amounts						Fair value			
31 December 2020	Non financial asset KShs'000	Financial assets at amortised cost KShs'000	Financial assets at FVOCI KShs'000	Financial assets at FVTPL KShs'000	Other financial liabilities at amortised cost KShs'000	Total KShs'000	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Cash and balances with central banks	-	19,403,419	-	-	-	19,403,419	-	-	-	-
Items in the course of collection	-	622,994	-	-	-	622,994	-	-	-	-
Loans and advances to banks	-	18,335,440	-	-	-	18,335,440	-	-	-	-
Loans and advances to customers	-	187,391,266	-	-	-	187,391,266	-	-	-	-
Financial assets at fair value through profit or loss (FVTPL)	-	-	-	11,869,403	-	11,869,403	11,869,403	-	-	11,869,403
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	42,477,252	-	-	42,477,252	42,028,395	-	448,857	42,477,252
Other financial assets at amortised cost	-	47,364,625	-	-	-	47,364,625	47,241,831	-	-	47,241,831
Property and equipment:Buildings	4,487,375	-	-	-	-	4,487,375	-	4,487,375	-	4,487,375
Other assets	-	2,342,497	-	-	-	2,342,497	-	-	-	-
	4,487,375	275,460,241	42,477,252	11,869,403	-	334,294,271	101,139,629	4,487,375	448,857	106,075,861
Deposits from banks	-	-	-	-	6,762,835	6,762,835	-	-	-	-
Items in course of collection	-	-	-	-	261,363	261,363	-	-	-	-
Deposits from customers	-	-	-	-	262,681,402	262,681,402	-	-	-	-
Other liabilities	-	-	-	-	5,402,428	5,402,428	-	-	-	-
Long term debt	-	-	-	-	10,317,827	10,317,827	-	-	-	-
Subordinated debt	-	-	-	-	4,454,936	4,454,936	-	-	-	-
	-	-	-	-	289,880,791	289,880,791	-	-	-	-

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

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

Accounting classifications at carrying amounts and fair values (Continued)

Group 31 December 2019	Carrying amounts						Fair value			
	Non financial asset KShs'000	Financial assets at amortised cost KShs'000	Financial assets at FVOCI KShs'000	Financial assets at FVTPL KShs'000	Other financial liabilities at amortised cost KShs'000	Total KShs'000	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Cash and balances with central banks	-	15,385,829	-	-		**15,385,829**	-	-	-	-
Items in the course of collection	-	536,459	-	-	-	**536,459**	-	-	-	-
Loans and advances to banks	-	43,662,404	-	-	-	**43,662,404**	-	-	-	-
Loans and advances to customers	-	175,329,426	-	-	-	**175,329,426**	-	-	-	-
Financial assets at fair value through profit or loss (FVTPL)	-	-	-	13,744,048	-	**13,744,048**	13,744,048	-	-	**13,744,048**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	13,109,198	-	-	**13,109,198**	12,549,629	-	559,569	**13,109,198**
Other financial assets at amortised cost	-	27,071,019	-	-	-	**27,071,019**	26,993,217	-	-	**26,993,217**
Property and equipment:Buildings	2,387,951	-	-	-		**2,387,951**	-	2,387,951	-	**2,387,951**
Other assets	-	2,060,650	-	-	-	**2,060,650**	-	-	-	-
	2,387,951	**264,045,787**	**13,109,198**	**13,744,048**	**-**	**293,286,984**	**53,286,894**	**2,387,951**	**559,569**	**56,234,414**
Deposits from banks	-	-	-	-	8,005,604	**8,005,604**	-	-	-	-
Items in course of collection	-	-	-	-	147,321	**147,321**	-	-	-	-
Deposits from customers	-	-	-	-	229,736,509	**229,736,509**	-	-	-	-
Due to group companies	-	-	-	-	4,788,747	**4,788,747**	-	-	-	-
Long term borrowings	-	-	-	-	6,210,571	**6,210,571**	-	-	-	-
Subordinated debt	-	-	-	-	4,645,055	**4,645,055**	-	-	-	-
	-	**-**	**-**	**-**	**253,533,807**	**253,533,807**	**-**	**-**	**-**	**-**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (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	Other financial liabilities at amortised cost KShs'000	Total KShs'000	Level 1 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets							
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	28,392	-	28,392	28,392	-	**28,392**
Due from group companies	446,059	-	-	446,059	-	-	**-**
Other assets	4,124	-	-	4,124	-	-	**-**
	450,183	**28,392**	**-**	**478,575**	**28,392**	**-**	**28,392**
Financial liabilities							
Due to group companies	-	-	1,881,272	1,881,272	-	-	**-**
Other liabilities	-	-	84,324	84,324	-	-	**-**
	-	**-**	**1,965,596**	**1,965,596**	**-**	**-**	**-**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

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

Accounting classifications at carrying amounts and fair values (Continued)

Company	Carrying amounts				Fair value		
31 December 2019	Financial assets at amortised cost KShs'000	Financial assets at FVOCI KShs'000	Other financial liabilities at amortised cost KShs'000	Total KShs'000	Level 1 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets							
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	27,679	-	27,679	27,679	-	**27,679**
Due from group companies	79,277	-	-	79,277	-	-	**-**
Other assets	8,880	-	-	8,880	-	-	**-**
	88,157	**27,679**	**-**	**115,836**	**27,679**	**-**	**27,679**
Financial liabilities							
Due to group companies	-	-	1,881,592	1,881,592	-	-	**-**
Other liabilities	-	-	90,581	90,581	-	-	**-**
	-	**-**	**1,972,173**	**1,972,173**	**-**	**-**	**-**

Measurement of fair values

(i) Valuation techniques and significant unobservable inputs

Financial assets measured at fair value - At 31 December 2020 and 31 December 2019

Type	**Valuation technique**	**Significant unobservable inputs**	**Inter-relationship between significant unobservable inputs and fair value measurement**
Investment securities – Fair Value through Other Comprehensive Income	Prices quoted in an active market	None	Not applicable

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

8. OPERATING SEGMENTS

The Group operations are within five geographical segments, Kenya, Tanzania, Rwanda, Uganda and Mauritius. The table below contains segmental information for the year ended 31 December 2020.

	Kenya KShs'000	Tanzania KShs'000	Rwanda KShs'000	Mauritius KShs'000	Uganda KShs'000	Elimination KShs'000	Total KShs'000
2020							
Net interest income	11,864,220	1,290,459	2,444,916	-	-	-	15,599,595
Net fee commission and other income	7,001,471	417,217	957,595	-	6,970	(73,139)	8,310,114
Results from joint venture	-	-	-	(678,962)	-	-	(678,962)
Operating income	**18,865,691**	**1,707,676**	**3,402,511**	**(678,962)**	**6,970**	**(73,139)**	**23,230,747**
Operating expenses	(5,694,512)	(910,269)	(1,604,419)	(8,087)	(3,072)	(59,682)	(8,280,041)
Depreciation and Amortisation	(1,027,297)	(159,424)	(339,131)	-	(14)	-	(1,525,866)
Net impairment losses on loans and advances	(1,616,646)	(252,283)	(603,907)	-	-	-	(2,472,836)
Operating expenses	**(8,338,455)**	**(1,321,976)**	**(2,547,457)**	**(8,087)**	**(3,086)**	**(59,682)**	**(12,278,743)**
Profit before tax	**10,527,236**	**385,700**	**855,054**	**(687,049)**	**3,884**	**(132,821)**	**10,952,004**
Profit after tax	**8,488,500**	**274,631**	**560,678**	**(687,048)**	**2,718**	**(226,921)**	**8,412,558**
Loans and advances to customers	**149,675,064**	**15,101,900**	**22,614,302**	**-**	**-**	**-**	**187,391,266**
Deposits from customers	**218,152,864**	**17,153,294**	**27,375,244**	**-**	**-**	**-**	**262,681,402**
Total assets	**317,738,409**	**24,192,273**	**45,794,544**	**4,687,258**	**9,377**	**(34,322,068)**	**358,099,793**
Total liabilities	**230,653,849**	**20,206,550**	**39,791,712**	**3,332**	**1,674**	**(620,463)**	**290,036,654**
Capital expenditure	**2,067,987**	**120,645**	**1,002,710**	**-**	**-**	**-**	**3,191,342**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

8. OPERATING SEGMENTS (Continued)

2019	Kenya KShs'000	Tanzania KShs'000	Rwanda KShs'000	Mauritius KShs'000	Uganda KShs'000	Elimination KShs'000	Total KShs'000
Net interest income	11,798,315	1,294,729	2,416,797	-	-	-	15,509,841
Net fee commission and other income	7,098,877	381,448	662,350	-	2,636	(173,685)	7,971,626
Results from joint venture	-	-	-	905,037	-	-	905,037
Operating income	**18,897,192**	**1,676,177**	**3,079,147**	**905,037**	**2,636**	**(173,685)**	**24,386,504**
Operating expenses	(5,448,724)	(893,153)	(1,725,307)	-	(2,618)	88,381	(7,981,421)
Depreciation and Amortisation	(743,671)	(112,901)	(308,936)	-	(12)	-	(1,165,520)
Net impairment losses on loans and advances	(305,595)	(279,641)	(51,219)	-	-	-	(636,455)
Operating expenses	**(6,497,990)**	**(1,285,695)**	**(2,085,462)**	**-**	**(2,630)**	**88,381**	**(9,783,396)**
Profit before tax	**12,399,202**	**390,482**	**993,685**	**905,037**	**6**	**(85,304)**	**14,603,108**
Profit after tax	**9,005,120**	**264,900**	**678,855**	**898,935**	**6**	**(79,202)**	**10,768,614**
Loans and advances to customers	**141,543,126**	**15,225,620**	**18,560,680**	**-**	**-**	**-**	**175,329,426**
Deposits from customers	**195,404,638**	**13,620,563**	**20,711,308**	**-**	**-**	**-**	**229,736,509**
Total assets	**287,189,138**	**22,545,831**	**34,149,852**	**4,914,959**	**5,954**	**(33,515,060)**	**315,290,674**
Total liabilities	**206,852,953**	**18,971,164**	**29,529,663**	**1,896**	**1,306**	**(928,481)**	**254,428,501**
Capital expenditure	**1,510,313**	**169,583**	**1,001,352**	**-**	**-**	**-**	**2,681,248**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

9. INTEREST INCOME

	Group 2020 KShs'000	Group 2019 KShs'000	Company 2020 KShs'000	Company 2019 KShs'000
Loans and advances to customers	21,885,324	22,364,083	-	-
Loans and advances to banks	364,446	656,440	26,139	17,708
Investment securities:-				
- At amortised cost	3,346,508	2,843,711	-	-
- FVOCI - Debt instruments	2,252,297	1,299,613	3,036	24,309
	27,848,575	**27,163,847**	**29,175**	**42,017**

10. INTEREST EXPENSE

	Group 2020 KShs'000	Group 2019 KShs'000	Company 2020 KShs'000	Company 2019 KShs'000
Deposits from customers	10,552,655	10,081,560	-	-
Deposits from banks	860,925	542,610	-	-
Long term debt	390,107	544,131	-	-
Subordinated debt	297,423	319,700	-	-
Lease liabilities (Note 31)	147,870	166,005	-	-
	12,248,980	**11,654,006**	**-**	**-**

11. NET FEE AND COMMISSION INCOME

	Group 2020 KShs'000	Group 2019 KShs'000	Company 2020 KShs'000	Company 2019 KShs'000
Fee and commission income				
Commissions	3,080,687	2,893,937	-	-
Service fees	1,089,616	1,099,711	-	-
	4,170,303	**3,993,648**	**-**	**-**
Fee and commission expense				
Interbank transaction fees	(76,152)	(91,965)	-	-
Other	(251,487)	(221,950)	-	-
	(327,639)	**(313,915)**	**-**	**-**
Net fee and commission income	**3,842,664**	**3,679,733**	**-**	**-**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

12. NET TRADING INCOME

	Group		Company	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Foreign exchange income	1,883,939	2,577,518	-	-
Net income on Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	-	4,713
Net income on financial assets at fair value through profit or loss (FVTPL)	1,986,392	1,258,297	-	-
	3,870,331	**3,835,815**	**-**	**4,713**

13. OTHER OPERATING INCOME

	Group		Company	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Rental income	299,157	218,286	-	-
Profit on sale of property and equipment	4,470	4,277	-	-
Other income	293,492	233,515	318	12,153
Dividend income	-	-	3,377,000	351,580
	597,119	**456,078**	**3,377,318**	**363,733**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

14. OPERATING EXPENSES

	Group		Company	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Staff Costs				
Salaries and wages	3,765,906	3,740,107	-	-
Contribution to defined contribution plan	170,988	150,443	-	-
Statutory contribution	86,245	77,377	-	-
Other staff costs	532,305	759,771	-	-
	4,555,444	**4,727,698**	**-**	**-**
Premises and equipment costs				
Service charge	146,950	124,999	-	-
Electricity	148,715	126,527	-	-
Other Premises and equipment costs	133,067	172,425	-	-
	428,732	**423,951**	**-**	**-**
Other expenses				
Deposit protection insurance contribution	342,512	292,410	-	-
Loss on disposal of property and equipment	7,802	-	-	-
Other general administrative expenses	2,945,551	2,537,362	31,102	40,699
	3,295,865	**2,829,772**	**31,102**	**40,699**
Depreciation and amortisation				
Depreciation on property and equipment (Note 25)	993,125	821,799	-	-
Amortisation of intangible assets (Note 26(b))	532,741	343,721	-	-
	1,525,866	**1,165,520**	**-**	**-**

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

Management	1,472	1,470	-	-
Others	279	245	-	-
	1,751	**1,715**	**-**	**-**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

15. PROFIT BEFORE INCOME TAX

	Group		Company	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Profit before income tax is arrived at after charging/(crediting):				
Depreciation	993,125	821,799	-	-
Amortisation of intangible assets	532,741	343,721	-	-
Directors' emoluments:				
Directors' emoluments: Fees	23,912	19,413	12,663	10,286
Directors' emoluments: Other	67,029	45,417	-	-
Auditor's remuneration	34,131	28,960	1,680	1,680
Net (profit)/loss on disposal of property and equipment	3,332	(4,277)	-	-
Dividend income	-	-	3,377,000	351,580

16. INCOME TAX EXPENSE AND TAX PAYABLE

(a) Income tax expense

	Group 2020	Group 2019	Company 2020	Company 2019
Current tax				
Current year's	3,884,357	4,754,399	7,235	6,905
(Over)/under provision in prior year	(99,263)	238,341	(2,430)	(1,817)
	3,785,094	**4,992,740**	**4,805**	**5,088**
Deferred tax (Note 27)				
Current year	(1,496,080)	(763,618)	-	-
Prior year adjustment	250,432	(394,628)	-	-
	(1,245,648)	**(1,158,246)**	**-**	**-**
Income tax expense	**2,539,446**	**3,834,494**	**4,805**	**5,088**

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

	Group 2020	Group 2019	Company 2020	Company 2019
Accounting profit before income tax	**10,952,004**	**14,603,108**	**3,375,391**	**369,764**
Computed tax using the applicable corporation tax rate 25% (2019 - 30%)	2,738,001	4,380,932	843,848	110,929
Effect of change in tax rate	(196,852)	-	(138)	-
Under(over) provision in the prior year	(99,263)	238,341	(2,430)	(1,817)
Impact of share of joint venture's loss/(profit)	169,741	(271,511)	-	-
Effect on non-deductible costs/non-taxable income	(322,613)	(118,640)	(836,475)	(104,024)
Over provision in prior year - deferred tax (Note 27)	250,432	(394,628)	-	-
	2,539,446	**3,834,494**	**4,805**	**5,088**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

16. INCOME TAX EXPENSE AND TAX PAYABLE (Continued)

(b) Tax (recoverable)/payable

	Group		Company	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
At 1 January	856,875	3,521	(5,253)	(6,347)
Income tax expense (Note 16(a))	3,785,094	4,992,740	4,805	5,088
Effect of tax in foreign jurisdiction	41	(9,026)	-	-
Tax paid	(4,619,735)	(4,130,360)	(3,921)	(3,994)
At 31 December	**22,275**	**856,875**	**(4,369)**	**(5,253)**
Tax recoverable	(133,588)	(37,819)	(4,369)	(5,253)
Tax payable	155,863	894,694	-	-
Net payable	**22,275**	**856,875**	**(4,369)**	**(5,253)**

17. EARNINGS PER SHARE

	Group 2020	Group 2019	Company 2020	Company 2019
Profit for the year attributable to equity holders (KShs '000')	8,073,855	10,309,038	3,370,586	364,676
Weighted average number of ordinary shares in issue during the year	826,811	826,811	826,811	826,811
Earnings per share (KShs)	**9.77**	**12.47**	**4.08**	**0.44**

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

18. CASH AND BALANCES WITH CENTRAL BANKS

	Group 2020	Group 2019	Company 2020	Company 2019
Cash on hand	3,991,322	2,361,064	-	-
Balances with central banks				
-Restricted balances (CRR*)	11,508,107	10,824,740	-	-
-Unrestricted balances	3,903,990	2,200,025	-	-
	19,403,419	**15,385,829**	**-**	**-**

The Group's Cash Reserve Ratio is non-interest earning and is based on the value of deposits as adjusted for the respective central banks requirements. At 31 December 2020, the cash ratio requirement was 4.25% (2019 – 5.25%) in Kenya, Tanzania was 10.0% (2019 – 10.0%) and 5% (2019 – 5%) in Rwanda of eligible deposits.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

19. ITEMS IN THE COURSE OF COLLECTION

	Group		Company	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Assets	**622,994**	**536,459**	**-**	**-**
Liabilities	**261,363**	**147,321**	**-**	**-**

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

20. LOANS AND ADVANCES TO BANKS

Due within 90 Days	**18,335,440**	**43,662,404**	**-**	**-**

21. LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

Overdrafts	52,817,818	53,205,302
Loans	141,748,263	127,646,523
Bills discounted	1,013,360	1,114,867
Hire purchase- finance leases	4,774,638	4,381,373
Gross loans and advances	**200,354,079**	**186,348,065**
Less: Impairment losses on loans and advances	(12,962,813)	(11,018,639)
Net loans and advances	**187,391,266**	**175,329,426**

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

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(b) Impairment losses on loans and advances and other financial assets at amortised cost - Group

2020:	Loans and advances to Customers at amortised cost KShs'000	Loan commitments and financial guarantee contracts KShs'000	Total bankingrelated financial assets KShs'000	Other financial assets at amortised cost - trade receivable KShs'000	Total KShs'000
Net remeasurement of loss allowance	2,250,790	215,510	2,466,300	14,956	2,481,256
New financial assets originated or purchased	182,349	29,108	211,457	-	211,457
	2,433,139	**244,618**	**2,677,757**	**14,956**	**2,692,713**
Recoveries and impairment no longer required	(247,825)	(13,034)	(260,859)	-	(260,859)
Recoveries of loans and advances previously written off	426,803	(421,088)	5,715	-	5,715
Amounts directly written off during the year	35,267	-	35,267	-	35,267
	2,647,384	**(189,504)**	**2,457,880**	**14,956**	**2,472,836**
2019:					
Net remeasurement of loss allowance	263,477	(134,827)	128,650	(709)	127,941
New financial assets originated or purchased	153,844	22,566	176,410	-	176,410
	417,321	**(112,261)**	**305,060**	**(709)**	**304,351**
Recoveries and impairment no longer required	(494,099)	(47,737)	(541,836)	-	(541,836)
Recoveries of loans and advances previously written off	(255,148)	-	(255,148)	-	(255,148)
Amounts directly written off during the year	1,112,879	13,688	1,126,567	2,521	1,129,088
	780,953	**(146,310)**	**634,643**	**1,812**	**636,455**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Non-performing loans and advances

Non-performing loans and advances net of impairment losses and estimated value of securities are disclosed in Note 5(a):

Group

	2020 KShs'000	2019 KShs'000
Interest on impaired loans and advances which have not yet been received in cash	1,272,415	1,273,012

(d) Loans and advances to customers concentration by sector

Group

	2020		2019	
	KShs'000	%	KShs'000	%
Manufacturing	52,057,820	26%	49,749,008	27%
Wholesale and retail trade	35,736,622	18%	34,803,564	19%
Building and construction	15,904,791	8%	15,934,435	9%
Agriculture	7,002,635	3%	4,633,291	2%
Real estate	37,397,337	19%	34,300,561	18%
Transport and communication	13,482,552	7%	8,621,354	5%
Business services	13,870,994	7%	13,201,078	7%
Electricity and water	680,901	0%	786,619	0%
Finance and insurance	3,324,456	2%	4,496,192	2%
Mining and quarrying	1,456,910	1%	1,131,892	1%
Others	19,439,061	9%	18,690,071	10%
	200,354,079	100%	186,348,065	100%

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(e) Finance leases

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

Group

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

22. FINANCIAL ASSETS

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

Group		
Derivative assets	70,969	1,920,720
Government securities (Non liquid)	11,798,434	11,823,328
	11,869,403	13,744,048

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

Group		
Equity investment	448,857	559,569
Government securities (Non liquid)	42,028,395	12,549,629
	42,477,252	13,109,198
Company		
Government securities (Non liquid)	28,392	27,679

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

(c) Other financial assets at amortised cost

Group

	2020 KShs'000	2019 KShs'000
Government securities (Non liquid)	47,241,831	26,993,217
Trade receivables	122,794	77,802
	47,364,625	**27,071,019**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (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	Equity investments KShs'000	Total KShs'000
31 December 2020					
At 1 January 2020	13,744,048	26,993,217	12,549,629	559,569	53,846,463
Additions	22,708,490	43,997,126	33,791,053	-	100,496,669
Disposals and maturities	(24,400,846)	(24,845,736)	(5,233,901)	-	(54,480,483)
Revaluation gain	53,122	-	39,268	-	92,390
Changes in fair value	40,211	-	407,956	(114,908)	333,259
Amortisation of discounts and premiums, unearned interest and interest receivable	(276,569)	781,032	585,231	1,152	1,090,846
Translation reserve	947	316,192	(110,841)	3,044	209,342
At 31 December 2020	**11,869,403**	**47,241,831**	**42,028,395**	**448,857**	**101,588,486**
31 December 2019					
At 1 January 2019	13,145,126	28,082,231	10,381,153	472,218	52,080,728
Reclassification	-	-	-	127,000	127,000
Additions	14,198,212	15,995,419	3,927,248	6,971	34,127,850
Disposals and maturities	(14,193,813)	(16,994,722)	(1,944,447)	(4,603)	(33,137,585)
Revaluation gain	-	-	21,494	-	21,494
Changes in fair value	579,421	-	288,868	(42,899)	825,390
Amortisation of discounts and premiums, unearned interest and interest receivable	15,135	173,259	(21,205)	1,063	168,252
Translation reserve	(33)	(262,970)	(103,482)	(181)	(366,666)
At 31 December 2019	**13,744,048**	**26,993,217**	**12,549,629**	**559,569**	**53,846,463**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

22. FINANCIAL ASSETS (Continued)

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

Financial assets measured at fair value through other comprehensive income (FVOCI)	**2020 KShs'000**	**2019 KShs'000**
At 1 January	27,679	133,223
Additions	-	296,350
Disposals and maturities	-	(423,187)
Changes in fair value	801	(3,016)
Amortisation of discounts and premiums, unearned interest and interest receivable	(88)	24,309
At 31 December	**28,392**	**27,679**

23. HELD FOR SALE ASSETS

Group	**2020 KShs'000**	**2019 KShs'000**
Held for sale assets	**1,057,056**	**631,334**

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

24. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE

The Company holds investments in subsidiaries in I&M Bank (T) Limited, I&M Insurance Agency Limited and Youjays Insurance Brokers Limited through I&M Bank LIMITED. All the three entities have been consolidated with the results of I&M Bank LIMITED. I&M Bank (Rwanda) PLC (subsidiary through BCR Investment Company Limited), I&M Capital Limited, I&M Realty Limited, I&M Burbidge Capital Limited, I&M Burbidge Capital (U) Limited are the other subsidiaries of I&M Holdings PLC. I&M Holdings PLC owns 50% of a joint venture in Mauritius (Bank One Limited).

(a) Investment in joint venture

The Company has 50% (2019 – 50%) control over Bank One Limited with the other joint venture, CIEL Finance Limited. The joint venture was formerly owned through I&M Bank LIMITED until 22 August 2014 when it was transferred to I&M Holdings PLC.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

24. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE (Continued)

(a) Investment in joint venture (Continued)

Group	**2020 KShs'000**	**2019 KShs'000**
Balance at start of the year	5,398,545	4,535,205
Additional investment in the year	405,000	430,620
Share of:		
(Loss)/profit from operations	(678,962)	905,037
Dividends received	-	(196,340)
Other comprehensive income	52,636	(275,977)
Balance at end of the year	**5,177,219**	**5,398,545**
Percentage ownership	50.00%	50.00%
Total assets (including cash and cash equivalents)	157,194,516	154,211,857
Total liabilities (including cash and cash equivalents)	(147,790,890)	(144,365,577)
Net assets (100%)	**9,403,626**	**9,846,280**
Group's share of net assets (50%)	4,701,813	4,923,139
Goodwill	475,406	475,406
Carrying amount of interest in joint venture	**5,177,219**	**5,398,545**
Interest income	4,106,490	4,838,100
Interest expense	(1,546,038)	(1,715,390)
Other income	1,078,002	1,210,973
Operating expenses	(5,106,340)	(2,436,387)
Income tax credit/(expense)	109,962	(87,222)
Profit and total comprehensive income (100%)	**(1,357,924)**	**1,810,074**
(Loss)/profit and loss (50%)	**(678,962)**	**905,037**
Groups share of total comprehensive income	**(626,326)**	**629,060**
Company:		
At 1 January	2,110,591	1,679,971
Additional investment in Bank One Limited	405,000	430,620
At 31 December	**2,515,591**	**2,110,591**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

24. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE (Continued)

(b) Investment in subsidiaries

Company	Activity	Shareholding	2020 KShs'000	2019 KShs'000
I&M Bank LIMITED	Banking	100.00%	19,840,176	19,840,176
I&M Capital Limited	Dormant	100.00%	6,611	6,611
I&M Bank (Rwanda) PLC through BCR Investment Company Limited	Banking	54.47%	2,118,865	1,629,277
I&M Realty Limited	Real estate	100.00%	5,170	5,170
I&M Burbidge Capital Limited	Investment	65.00%	66,037	66,037
Giro Limited	Dormant	100.00%	4,115,023	4,115,023
			26,151,882	**25,662,294**

The Group owns the following subsidiaries through I&M Bank LIMITED, its wholly owned subsidiary:

Company	Activity	Jurisdiction	Shareholding
I&M Insurance Agency Limited	Bancassurance	Kenya	100.00%
I&M Bank (T) Limited	Banking	Tanzania	70.38%
Youjays Insurance Brokers Limited	Bancassurance	Kenya	100.00%

In addition, the Group owns the I&M Burbidge Capital (U) Limited through I&M Burbidge Capital Limited, its wholly owned subsidiary.

(c) Movement in investment in subsidiaries

	2020 KShs'000	2019 KShs'000
At 1 January	**25,662,294**	**25,662,294**
Additional investment in I&M Bank (Rwanda) PLC	489,588	-
At December	**26,151,882**	**25,662,294**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

24. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE (Continued)

Below is the summary of financials of the banking subsidiaries.

	I&M Bank LIMITED		I&M Bank (T) Limited		I&M Bank (Rwanda) PLC	
	2020 KShs'M	2019 KShs'M	2020 KShs'M	2019 KShs'M	2020 KShs'M	2019 KShs'M
Summarized statement of financial position						
Total assets	283,569	254,252	24,144	22,498	45,972	34,327
Total liabilities	231,245	207,237	20,207	18,971	39,969	29,707
Net assets	**52,324**	**47,015**	**3,937**	**3,527**	**6,003**	**4,620**
Summarized statement of profit and loss and other comprehensive income						
Net interest income	**11,822**	**11,745**	**1,290**	**1,295**	**2,445**	**2,417**
Profit before income tax	10,289	12,012	386	391	855	994
Income tax expense	(2,027)	(3,273)	(111)	(126)	(294)	(315)
Profit for the year	**8,262**	**8,739**	**275**	**265**	**561**	**679**
Summarised statement of cash flows						
Net cash generated from operating activities	(19,355)	11,999	3,620	(1,257)	(1,645)	2,068
Net cash used in investing activities	(1,793)	(1,354)	(67)	(418)	(1,030)	(1,346)
Net cash (used in)/generated from financing activities	(3,437)	(1,067)	(170)	(122)	4,085	510
Net increase/(decrease) in cash and cash equivalents	**(24,585)**	**9,578**	**3,383**	**(1,797)**	**1,410**	**1,232**
Cash and cash equivalents at beginning of year	**42,944**	**33,366**	**(746)**	**1,051**	**3,260**	**2,028**
Cash and cash equivalents at end of year	**18,359**	**42,944**	**2,637**	**(746)**	**4,670**	**3,260**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

25. PROPERTY AND EQUIPMENT

2020:	Buildings KShs'000	Leasehold improvements KShs'000	Furniture, fittings, fixtures and office equipment KShs'000	Computers KShs'000	Motor vehicles KShs'000	Right of use asset KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost/valuation								
At 1 January 2020	2,570,410	1,334,796	1,502,238	1,171,293	202,469	2,357,500	4,632,714	13,771,420
Additions	-	53,482	93,443	25,784	13,281	573,874	2,114,659	2,874,523
Revaluation reserve	(5,464)	-	-	-	-	-	-	(5,464)
On disposals	(34,237)	(71)	(6,721)	(6,688)	(10,682)	(6,622)	-	(65,021)
Reclassification/internal transfers	2,170,129	652,986	505,702	13,582	4,771	-	(3,391,706)	(44,536)
Translation difference	14,289	11,965	23,842	7,554	2,890	18,020	46,345	124,905
At 31 December 2020	**4,715,127**	**2,053,158**	**2,118,504**	**1,211,525**	**212,729**	**2,942,772**	**3,402,012**	**16,655,827**
At 1 January 2020	182,459	996,036	969,565	871,347	138,447	461,137	-	3,618,991
Charge for the year	139,381	130,021	148,240	167,014	27,866	380,603	-	993,125
Reversal on revaluation	(94,099)	-	-	-	-	-	-	(94,099)
On disposals	(4,138)	(71)	(4,696)	(6,128)	(10,680)	3,163	-	(22,550)
Translation differences	4,149	7,296	13,396	6,156	2,234	5,541	-	38,772
At 31 December 2020	**227,752**	**1,133,282**	**1,126,505**	**1,038,389**	**157,867**	**850,444**	**-**	**4,534,239**
Net book value at 31 December 2020	**4,487,375**	**919,876**	**991,999**	**173,136**	**54,862**	**2,092,328**	**3,402,012**	**12,121,588**

In 2020, the buildings on LR No: 209/7265, LR No: 1870/1/579 and L.R No. 209/21705 were revalued by an independent valuer, Kiragu & Mwangi Limited. The valuation is level 3 under the Fair value hierarchy.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

25. PROPERTY AND EQUIPMENT (Continued)

2019:	Buildings KShs'000	Leasehold improvements KShs'000	Furniture, fittings, fixtures and office equipment KShs'000	Computers KShs'000	Motor vehicles KShs'000	Right of use asset KShs'000	Capital work in progress KShs'000	Total KShs'000
At 1 January 2019	2,520,071	1,273,307	1,360,542	774,610	202,050	1,984,201	3,400,726	11,515,507
Transfer from prepaid operating lease rentals	-	-	-	-	-	317,623	-	317,623
Additions	12,713	28,934	126,710	51,729	29,871	55,676	1,404,882	1,710,515
Revaluation reserve	55,000	-	-	-	-	-	-	55,000
On disposals	-	-	(776)	(214)	(25,323)	-	-	(26,313)
Reclassification/internal transfers	23,381	33,416	30,829	355,626	-	-	(443,252)	-
Transfers from intangible assets	-	-	-	-	-	-	340,925	340,925
Write offs/back	(7,670)	-	33	211	-	-	(287)	(7,713)
Translation difference	(33,085)	(861)	(15,100)	(10,669)	(4,129)	-	(70,280)	(134,124)
At 31 December 2019	**2,570,410**	**1,334,796**	**1,502,238**	**1,171,293**	**202,469**	**2,357,500**	**4,632,714**	**13,771,420**
Depreciation								
At 1 January 2019	144,456	898,799	875,722	746,635	141,133	-	-	2,806,745
Transfer from prepaid operating lease rentals	-	-	-	-	-	71,352	-	71,352
Charge for the year	70,141	97,685	104,012	132,842	25,784	391,335	-	821,799
Write-offs	-	-	(33)	(434)	-	-	-	(467)
Reversal on revaluation	(24,583)	-	-	-	-	-	-	(24,583)
On disposals	-	-	(206)	(214)	(25,323)	-	-	(25,743)
Translation differences	(7,555)	(448)	(9,930)	(7,482)	(3,147)	(1,550)	-	(30,112)
At 31 December 2019	**182,459**	**996,036**	**969,565**	**871,347**	**138,447**	**461,137**	**-**	**3,618,991**
Net book value at 31 December 2019	**2,387,951**	**338,760**	**532,673**	**299,946**	**64,022**	**1,896,363**	**4,632,714**	**10,152,429**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

26. INTANGIBLE ASSETS

(a) Goodwill

	2020 KShs'000	2019 KShs'000
I&M Bank LIMITED	1,195	1,195
I&M Bank (T) Limited	505,276	473,061
I&M Bank (Rwanda) PLC	437,690	428,916
I&M Burbidge Capital Limited	34,865	34,176
Giro Limited	1,944,139	1,944,139
Youjays Insurance Brokers Limited	232,284	232,284
	3,155,449	**3,113,771**
Movement of Goodwill		
At 1 January	3,113,771	3,136,312
Exchange differences	41,678	(22,541)
At 31 December	**3,155,449**	**3,113,771**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

26. INTANGIBLE ASSETS (Continued)

(a) Goodwill (Continued)

With respect to goodwill assessment for impairment, no impairment losses have been recognised as the recoverable amounts of the Cash Generating Units (CGUs) were determined to be higher than their carrying amounts. The recoverable amounts have been calculated by discounting the future cash flows expected to be generated from the continuing use of the respective CGUs. The key assumptions used in the calculation of value in use were as follows:

2020	**I&M Bank (T) Ltd**	**I&M Bank (Rwanda) PLC**	**I&M Burbidge Capital Limited**	**Giro Limited**
5 year risk free rate	9.10%	10.98%	10.46%	10.46%
Risk premium	10.83%	10.33%	9.33%	9.33%
Terminal growth rate	3.00%	3.00%	4.00%	4.00%
Pretax discount rate	20%	21%	20%	20%
Exchange rate	KShs 1 = Tzs 21.24	KShs 1 = Rwf 9.08	KShs 1 = KShs 1	KShs 1 = KShs 1
Present value of the recoverable amounts KShs in billions	3.428	3.179	0.19	5.242
Goodwill impaired	Nil	Nil	Nil	Nil

2019	**I&M Bank (T) Ltd**	**I&M Bank (Rwanda) PLC**	**I&M Burbidge Capital Limited**	**Giro Limited**
5 year risk free rate	11.95%	11.20%	11.49%	11.40%
Risk premium	9.94%	10.43%	9.43%	9.43%
Terminal growth rate	3.00%	3.00%	4.00%	4.00%
Pretax discount rate	20%	20%	20%	20%
Exchange rate	KShs 1 = Tzs 22.68	KShs 1 = Rwf 9.26	KShs 1 = KShs 1	KShs 1 = KShs 1
Present value of the recoverable amounts KShs in billions	3.002	3.280	0.35	4.277
Goodwill impaired	Nil	Nil	Nil	Nil

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

26. INTANGIBLE ASSETS (Continued)

(a) Goodwill (Continued)

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

These cash flows have been projected for 7 years, based on the approved Business plans of the respective units.

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

Sensitivity analysis

The CGUs are sensitive to possible adverse changes in the key assumptions that support the recoverable amount:

Cash flows: The medium term plans used to determine the cash flows used in the Value In Use (VIU) calculation rely on macroeconomic forecasts. including interest rates. GDP and unemployment. and forecast levels of market and client activity. Interest rate assumptions impact planned cash flows from both customer income and structural hedge contributions and therefore cash flow expectations are highly sensitive to movements in the yield curve. The cash flows also contain assumptions with regards to the prudential and financial conduct regulatory environment which may be subject to change. Given the current level of economic uncertainty. a 10% reduction in cash flows has been provided to show the sensitivity of the outcome to a change in these key assumptions.

Discount rate: The discount rate should reflect the market risk free rate adjusted for the inherent risks of the business it is applied to. Management have identified discount rates for comparable businesses and consider these to be a reasonable estimate of a suitable market rate for the profile of the business unit being tested. The risk that these discount rates may not be appropriate is quantified below and show the impact of a 100 bps change in the discount rate.

Terminal growth rate: The terminal growth rate is used to estimate the cash flows into perpetuity based on the expected longevity of the CGU's businesses. The terminal growth rate is sensitive to uncertainties in the macroeconomic environment. The risk that using inflation data may not be appropriate for its determination is quantified below and shows the impact of a 100 bps change in the terminal value.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

26. INTANGIBLE ASSETS (Continued)

(a) Goodwill (Continued)

Sensitivity analysis (Continued)

The sensitivity of the value in use to key judgements in the calculations is set out below:

Cash Generating Unit	Carrying value	Value in use	Value in use exceeding carrying value	Pretax discount rate	Terminal growth rate	Reduction in headroom: 100bps increase in discount rate	Reduction in headroom: 100bps decrease in terminal rate	Reduction in headroom: 10% reduction in forecasted cash flows	Change required to reduce the head room to zero: Pretax discount rate	Change required to reduce the head room to zero: Terminal growth rate	Change required to reduce the head room to zero: Reduction in forecasted cash flows
	KShs'Million	KShs'Million	KShs'Million	%	%	KShs'Million	KShs'Million	KShs'Million	%	%	%
I&M Bank (T) Limited	505	3,428	2,923	20%	3%	(129)	(61)	(34)	4.9%	15.0%	(15.0%)
I&M Bank (Rwanda) PLC	438	3,815	3,377	21%	3%	(194)	(83)	(359)	1.4%	(3.6%)	(7.0%)
I&M Burbidge Capital Limited	35	200	165	20%	4%	(14)	(9)	(20)	-	-	(83.0%)
Youjays Insurance Brokers Limited	232	381	149	20%	4%	(2)	(1)	(4)	0.0%	-	(1.0%)
Giro Limited	1,944	5,003	3,059	20%	4%	(258)	(115)	(500)	-0.3%	(0.8%)	(5.0%)
Total	**3,154**	**12,827**	**9,673**								

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

26. INTANGIBLE ASSETS (Continued)

(b) Software

2020:	Software KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost			
At 1 January 2020	3,537,629	127,322	3,664,951
Additions	422,946	473,211	896,157
Reclassification	165,449	(165,449)	-
Disposals	(39,353)	-	(39,353)
Translation differences	48,214	1,606	49,820
At 31 December 2020	**4,134,885**	**436,690**	**4,571,575**
Amortisation			
At 1 January 2020	1,622,044	-	1,622,044
Amortisation for the year	532,741	-	532,741
On disposals	(39,353)	-	(39,353)
Translation differences	19,650	-	19,650
At 31 December 2020	**2,135,082**	**-**	**2,135,082**
Carrying amount at 31 December 2020	**1,999,803**	**436,690**	**2,436,493**
2019:			
Cost			
At 1 January 2019	2,206,062	822,180	3,028,242
Additions	545,977	480,432	1,026,409
Reclassification	823,345	(823,345)	-
Transfers to tangible assets	-	(340,925)	(340,925)
Write offs	-	(6,665)	(6,665)
Translation differences	(37,755)	(4,355)	(42,110)
At 31 December 2019	**3,537,629**	**127,322**	**3,664,951**
Amortisation			
At 1 January 2020	1,292,360	-	1,292,360
Amortisation for the year	343,721	-	343,721
Translation differences	(14,037)	-	(14,037)
At 31 December 2019	**1,622,044**	**-**	**1,622,044**
Carrying amount at 31 December 2019	**1,915,585**	**127,322**	**2,042,907**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

27. DEFERRED TAX ASSET – Group

	Balance at 1 January KShs'000	Prior year adjustment KShs'000	Recognised in equity KShs'000	Translation differences KShs'000	Recognised in profit or loss KShs'000	Balance at 31 December KShs'000
2020:						
Property and equipment	(487,278)	(2,285)	(13,570)	3,138	(50,882)	(550,877)
Right of use of asset	16,580	(25,800)	-	395	(15,781)	(24,606)
General provisions	352,858	43,632	-	15,619	132,519	544,628
Other provisions	2,900,145	(265,979)	-	(2,559)	1,429,951	4,061,558
Fair value reserves	232,531	-	(51,920)	(83)	273	180,801
	3,014,836	**(250,432)**	**(65,490)**	**16,510**	**1,496,080**	**4,211,504**
2019:						
Property and equipment	(392,141)	(1,409)	(23,875)	11,084	(80,937)	(487,278)
Right of use of asset	-	-	-	-	16,580	16,580
General provisions	325,700	20,549	-	(4,504)	11,113	352,858
Other provisions	1,830,413	375,488	-	(267)	694,511	2,900,145
Fair value reserves	165,373	-	(55,412)	219	122,351	232,531
	1,929,345	**394,628**	**(79,287)**	**6,532**	**763,618**	**3,014,836**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

28. OTHER ASSETS

	Group		Company	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Prepayments	574,688	406,745	500	500
Other receivables	1,767,809	1,653,905	3,624	8,380
	2,342,497	**2,060,650**	**4,124**	**8,880**

29. DEPOSITS FROM BANKS

Due within 90 days	5,119,979	7,463,215	-	-
Due after 90 days	1,642,856	542,389	-	-
	6,762,835	**8,005,604**	**-**	**-**

30. DEPOSITS FROM CUSTOMERS

Government and Parastatals	6,028,854	4,039,916	-	-
Private sector and individuals	256,652,548	225,696,593	-	-
	262,681,402	**229,736,509**	**-**	**-**

31. OTHER LIABILITIES

Bankers cheques payable	**141,705**	**174,896**	**-**	**-**
Accruals	1,656,161	1,669,537	3,580	2,153
Lease liabilities	1,798,872	1,619,632	-	-
Provisions for loan commitments*	403,385	168,909	-	-
Other accounts payable	1,288,027	1,067,345	2,633	-
Dividend payable	78,111	88,428	78,111	88,428
Derivative liabilities	36,167	-	-	-
	5,402,428	**4,788,747**	**84,324**	**90,581**

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

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

31. OTHER LIABILITIES (Continued)

Lease liability

Expected to be settled within 12 months after the year end	504,488	443,581
Expected to be settled more than 12 months after the year end	1,294,384	1,176,051
	1,798,872	**1,619,632**

The total cash outflow for leases in the year was:

Group

Payments of principal portion of the lease liability	397,328	421,795
Interest paid on lease liabilities	147,870	166,005
	545,198	**587,800**

Lease liability movement

Balance at 1 January	1,619,632	2,011,226
Additions	550,523	55,676
Interest expense	147,870	166,005
Lease payments	(545,198)	(587,800)
Translation difference	26,045	(25,475)
Balance at 31 December	**1,798,872**	**1,619,632**

Amounts recognized in profit or loss

Group

Interest on lease liabilities (Note 10)	147,870	166,005
Depreciation of right to use asset (Note 25)	380,603	391,335
	528,473	**557,340**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

31. OTHER LIABILITIES (Continued)

Lease liability (Continued)

Extension options

Some leases of office premises contain extension options exercisable by the Group up to one term after 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 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.

32. LONG TERM DEBT

	Group		Company	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Less than one year	2,839,442	1,749,603	-	-
One to five years	7,478,385	4,460,968	-	-
	10,317,827	**6,210,571**	**-**	**-**
Loan movement schedule				
At 1 January	6,210,571	8,246,775	-	-
Funds received	6,375,389	957,195	-	-
Payments on principal and interest	(2,406,296)	(2,916,609)	-	-
Exchange differences	138,163	(76,790)	-	-
At 31 December	**10,317,827**	**6,210,571**	**-**	**-**

Long term borrowings constituted the following:

(i) USD 26,000,000 facility granted on 21 March 2014 by PROPARCO repayable semi-annually over seven years four months after an initial one year grace period.

(ii) EUR 10,000,000 facility granted on 21 March 2014 by PROPARCO repayable semi-annually over seven years four months after an initial one year grace period.

(iii) USD 15,000,000 facility granted on 9 November 2018 by FMO repayable semi-annually over 4 and a half years after an initial one year grace period.

(iv) USD 5,000,000 facility granted on 3 July 2012 by PROPARCO repayable in semi – annually with a final repayment date of 31 October 2019.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

32. LONG TERM DEBT (Continued)

(v) TZS 3,250 million facility granted on 14 July 2014 by Tanzania Mortgage Refinance Company Limited (TMRC). The interest on the facility repayable quarterly over 3 years with redemption on maturity.

(vi) USD 12,000,000 granted on 16th March 2016 by FMO as senior debts for tenor of 6 years. The interest and principal on the facility is repayable on a quarterly basis. Final Repayment date is 10 October 2021.

(vii) USD 15,000,000 granted on December 2018 by FMO as senior debts for tenor of 5 years. The interest and principal on the facility is repayable on a quarterly basis.

(viii) USD 4,657,777 granted on 21 January 2019 and USD 5,342,223 granted on 12 April 2019 unsecured loans from European Investment Bank repayable in Rwandan Francs. The loans maturing on 17 November 2025, 15 May 2025 respectively.

33. SUBORDINATED DEBT

	Group		Company	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Less than one year	86,007	207,586	-	-
One to five years	3,294,040	3,437,661	-	-
Over five years	1,074,889	999,808	-	-
	4,454,936	**4,645,055**	**-**	**-**

Subordinated debt comprises:

In Kenya, USD 27,350,000 medium term unsecured subordinated fixed and floating rate notes issued on 14 August 2019 for a tenure of 5 years with redemption on maturity date.

In Tanzania, USD 10 Million granted on January 2015 by DEG of which USD 8 Million was received in January 2015 and will mature on September 2021.

In Rwanda, USD 10 Million 5 year subordinated loan with IFC at an interest rate of 9.003%.

The subordinated debt would in the event of winding up of the respective companies be subordinated to the claims of depositors and all other creditors. The Group and Company has not had any defaults of principal or interest with respect to these debts.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

34. SHARE CAPITAL AND RESERVES

(a) Share capital and share premium – Group and Company

	2020 KShs'000	2019 KShs'000
Authorised:		
1,500,000,000 ordinary shares of KShs 1 each	1,500,000	1,500,000
Issued and fully paid:		
Ordinary shares of KShs 1 each at 31 December	826,811	826,811
Movement of share capital and premium		

2020:	Number of shares Kshs'000	Share capital Kshs'000	Share premium Kshs'000	Total Kshs'000
1 January and 31 December	826,811	826,811	18,390,507	19,217,318
2019:				
1 January	413,405	413,405	18,805,359	19,218,764
Issue of bonus shares	413,406	413,406	(413,406)	-
Issue related costs	-	-	(1,446)	(1,446)
31 December	826,811	826,811	18,390,507	19,217,318

During the Annual General Meeting (AGM) of 23 May 2019, shareholders approved issuance of bonus shares at a proportion of one (1) new share for every one (1) of existing and paid up shares held by shareholders respectively. The shares were treated as an increase in the amount of nominal amount of capital of the Company held by each shareholder. Requisite approvals were received and KShs 413,405,369 was capitalized from Share Premium account to form part of un-distributable capital.

The ordinary shares rank equally with regard to the company residual assets and are entitled to receive dividends as declared from time to time and to one vote per share at general meetings of the Company.

(b) Share premium

Share premium is the amount which the Company raises in excess of the par value/nominal value of the shares. This is disclosed in the statement of changes in equity appearing on pages 126 – 128.

(c) Revaluation reserve

The revaluation reserve arises on revaluation of buildings. When revalued property is disposed, the portion of the revaluation reserve that relates to that asset is transferred to retained earnings. This is disclosed in the statement of changes in equity appearing on pages 126 – 128.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

(d) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of FVOCI investments, excluding impairment losses, until the investment is derecognised. This is disclosed in the statement of changes in equity appearing on pages 126 – 128.

(e) Translation reserve

The translation reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations. Details of the Group investments outside Kenya are disclosed in Note 1 of the financial statements. This is disclosed in the statement of changes in equity appearing on pages 126 – 128.

(f) Statutory credit risk statutory reserve

Where impairment losses required by legislation or regulations exceed those computed under International Financial Reporting Standards (IFRSs), the excess is recognised as a statutory reserve and accounted for as an appropriation of retained profits and the reverse for reductions. These reserves are not distributable. This is disclosed in the statement of changes in equity appearing on pages 126 – 128.

(g) Defined benefit reserve

Bank one Limited (a joint venture for I&M Holdings PLC) operates a defined benefit scheme. The net obligation is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The calculation is performed annually by a qualified actuary using the projected unit credit method. The Group share of actuarial gains or losses arising from the calculation are recognised in other comprehensive income.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

35. NOTES TO THE STATEMENT OF CASH FLOWS

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

		Group		Company	
		2020	2019	2020	2019
	Note	KShs'000	KShs'000	KShs'000	KShs'000
Profit before income tax		10,952,004	14,603,108	3,375,391	369,764
Adjustments for:					
Depreciation on property and equipment	25	612,522	430,464	-	-
Depreciation on right of use asset	25	380,603	391,335	-	-
Amortisation of intangible asset	26(b)	532,741	343,721	-	-
Interest on lease liabilities	31	147,870	166,005	-	-
Net loss/(gain) on sale of property and equipment		3,332	(4,277)	-	-
Profit on sale of available for sale securities		(1,986,392)	(1,258,297)	-	-
Write off to profit or loss - property and equipment		-	7,246	-	-
Loss/(profit) from joint venture	24(a)	678,962	(905,037)	-	-
Exchange reserves		374,699	(207,708)	-	-
		11,696,341	**13,566,560**	**3,375,391**	**369,764**
Increase/(decrease) in operating assets					
Movement in loans and advances to customers		(12,061,840)	(8,592,697)	-	-
Financial assets at fair value through profit or loss (FVTPL)		3,861,037	659,375	-	-
Financial assets measured at fair value through other comprehensive income (FVOCI)		(29,088,745)	(2,009,858)	88	102,528
Other financial assets at amortised cost		(20,331,125)	1,056,401	-	-
Held for sale assets		(425,722)	(631,334)	-	-
Cash and balances with Central Banks					
– Cash Reserve Ratio	18	(683,367)	(454,445)	-	-
Other assets		(281,847)	(172,905)	4,756	(8,381)
		(59,011,609)	**(10,145,463)**	**4,844**	**94,147**
Increase/(decrease) in operating liabilities					
Customer deposits		32,944,893	16,597,139	-	-
Deposits from banks		1,100,467	(303,947)	-	-
Long-term borrowings		3,969,093	(1,959,415)	-	-
Other liabilities		434,441	(1,628,465)	(6,257)	(1,596,783)
Amounts due to group company		-	-	(320)	(306)
		38,448,894	**12,705,312**	**(6,577)**	**(1,597,089)**
Cash flows (utilised in)/ generated from operating activities		**(8,866,374)**	**16,126,409**	**3,373,658**	**(1,133,178)**
Tax paid	16(b)	(4,619,735)	(4,130,360)	(3,921)	(3,994)
Interest on lease liabilities	31	(147,870)	(166,005)	-	-
Net cash flows (utilised in)/ generated from operating activities		**(13,633,979)**	**11,830,044**	**3,369,737**	**(1,137,172)**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

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

(b) Analysis of cash and cash equivalents

Group		2020	2019	Change
		KShs'000	KShs'000	KShs'000
		a	b	c =(a – b)
Cash and balances with Central Banks – excluding CRR*	18	7,895,312	4,561,089	3,334,223
Items in the process of collection	19	361,631	389,138	(27,507)
Loans and advances to banks	20	18,335,440	43,662,404	(25,326,964)
Deposits from banks	29	(5,119,979)	(7,463,215)	2,343,236
		21,472,404	**41,149,416**	**(19,677,012)**
*Cash Reserve Ratio				
Company				
Cash and bank balances	38(b)	**446,059**	**79,277**	**366,782**

36. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS - GROUP

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Group as at 31 December 2020. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise (2019 – Nil).

(b) Contractual off-balance sheet financial liabilities

In the ordinary course of business, banking entities in the Group conduct business involving guarantees, acceptances and letters of credit. These facilities are offset by corresponding obligations of third parties. At the period end, the contingent liabilities were as follows:

Group

	2020	2019
	KShs'000	KShs'000
Contingencies related to:		
Letters of credit	37,561,024	27,973,277
Guarantees	25,712,137	20,417,687
Other credit commitments	25,291,599	17,318,502
	88,564,760	**65,709,466**
Commitments related to:		
Outstanding spot/forward contracts	**9,491,754**	**58,732,452**
	98,056,514	**124,441,918**

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

36. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS – GROUP (Continued)

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

Nature of contingent liabilities

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

Letters of credit commit a bank to make payment to third parties, on production of documents, which are subsequently reimbursed by customers.

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group expects most acceptances to be presented, and reimbursement by the customer is almost immediate.

Forward contracts are arrangements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate.

The fair values of the respective currency forwards are carried on the face of the balance sheet.

37. ASSETS PLEDGED AS SECURITY - GROUP

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

	2020 KShs'000	2019 KShs'000
Group	3,703,421	3,086,587

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

38. RELATED PARTY TRANSACTIONS

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

	2020 KShs'000	2019 KShs'000
(a) Transactions with directors/shareholders		
(i) Loans to directors/shareholders	13,494	33,747
Interest Income from loans to directors/shareholders	483	2,111
(ii) Deposits from directors/shareholders	895,832	894,791
Interest expense on deposits from directors/shareholders	65,788	65,788
(iii) The Directors remuneration is disclosed in Note 15		
(b) Transactions with related companies		
(i) Loans to related companies	1,452,838	1,488,433
Interest income from loans to related companies	180,188	188,231
(ii) Deposits from related companies	1,035,236	1,035,227
Interest expense on deposits from related companies	47,726	47,726
(iii) Amounts due from group companies subsidiaries/joint venture	446,059	79,277
Interest income on amounts due from subsidiaries and joint venture	-	-
(iv) Amounts due to group companies subsidiaries/joint venture	1,881,272	1,881,592
Interest expense on amounts due from subsidiaries and joint venture	-	-
(c) Transactions with employees		
Staff loans	1,274,906	1,264,583
Interest earned	93,779	93,113
(d) Management compensation	233,166	224,762

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

39. CAPITAL COMMITMENTS

	2020	2019
	KShs'000	KShs'000
Group	5,997,153	7,192,759

40. EMPLOYEE SHARE OPTION PLAN

In I&M Bank (Rwanda) PLC the board of directors of approved an Employee share ownership plan of 5,000,000 shares of Rwandese Franc (Frw) 10 each effective 31 March 2017. The entity's local directors and eligible employees are entitled to participate under this scheme. As per the agreement, the share ownership plan is to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to employees, and to promote the success of the entity's business. Under the plan, participants are granted options which only vest if certain performance standards are met. Participation in the plan is at the board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

During the year 2020, a further grant on similar terms was offered to employees with existing share options and continuous service status. In accordance with these programmes, holders of vested options are entitled to purchase shares at the market price of the shares at grant date.

The vesting period is maximum of 5 years from the date of the grant after which, as long as the continuous service status does not terminate, the Shares underlying this Option shall vest and become exercisable.

The terms and conditions of the grants are as follows;

Grant date/employees entitled	Number of options	Vesting conditions	Contractual life of options
Option grant to employees at 31 March 2017	5,000,000	1 years of service and the confirmed employees	5 years
Option granted to employees at 14 July 2020	3,854,800	Employees with existing share options and continuous service status and Bonus issue at par in the ratio of 1:1 (one new share for every new ordinary share held).	5 years
Total share options	**8,854,800**		

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

41. EVENTS AFTER REPORTING DATE

On 17 July 2020, I&M Holdings PLC entered into an agreement with the shareholders of Orient Bank Limited, a bank operating in Uganda, for the sale of shares comprising 90 percent of the issued share capital of Orient Bank Limited. The deal is subject to regulatory approval from both the Central Bank of Kenya and the Bank of Uganda and the Capital Markets Authority.

As at the date of signing these financial statements, the transaction was awaiting approval from the regulatory bodies.

42. CONTINGENT LIABILITIES

On completion of the tax audit by Kenya Revenue Authority (KRA), covering the years of Income 2011 to 2013, KRA raised an additional tax assessment I&M Bank LIMITED (the Bank) on June 2015. The Bank immediately settled amounts not in dispute and objected to all other items which were in the Directors' view erroneously assessed. The KRA confirmed the assessment on 13 March 2017 amounting to KShs 238,811,243. The matter was subsequently referred to the Tax Appeal Tribunal (Tribunal) by the High Court. The Tribunal issued its judgement and ruled partly in favour of the Bank and partly for the KRA for the various items assessed. The potential liability arising as a result of the Tribunal's decision amounts to KShs 34,679,257. The Bank has lodged an appeal against the Tribunal's ruling at the High Court. Based on the prevailing Tax Procedure Act that defines, inter alia, timeframes in conduct of tax assessments, the directors in consultation with the bank's legal and tax advisors are of the opinion the ruling will be in the Bank's favour.

On completion of an excise duty audit by Kenya Revenue Authority (KRA), covering the period from 1 January 2014 to 30 September 2018, KRA raised an additional excise duty assessment for an amount KShs 283,512,550 on the Bank on 17 January 2019. The Bank objected to all items which were in the Directors' view erroneously assessed. The KRA subsequently confirmed the assessment on 15 April 2019 for an amount of KShs 231,220,414. The Bank has lodged an appeal against this assessment to the Tax Appeal Tribunal. The matter was heard on 16 February 2021, and the Bank is awaiting the decision of the Tribunal. No provision for tax payable has been made in respect of the Excise Duty Assessment.

43. OTHER DISCLOSURES

(a) Operational risk

The overall responsibility of managing operational risks - the risk arising from failed or inadequate internal processes, people, systems and external events - is vested with the Board of Directors. The Board's of the various subsidiaries through their Board Risk Committee or equivalent, issues policies that guide management on appropriate practices of operational risk mitigation.

An independent Risk Manager assures the Board Risk Committee or equivalent of the implementation of the said policies.

Notes to the Consolidated and Separate Financial Statements

For The Year Ended 31 December 2020 (Continued)

43. OTHER DISCLOSURES (Continued)

(a) Operational risk (Continued)

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 Group to obtain an independent opinion on the effectiveness and efficiency of the framework. Further, the findings of the Internal Audit department are reviewed by the Board Audit Committee or equivalent committees of the respective subsidiaries and recommendations made implemented in line with the agreed timeframe.

(b) Compliance and regulatory risk

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

(c) Environmental and social risks

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

The Group is aware that it has a responsibility to ensure that its internal practice and its lending activities do not have negative environmental and social impacts and is thus committed to ensure that such risks are sufficiently managed through its environmental and social management policy and by adopting the country's labour and environmental laws.

The Group also adheres to international best practice i.e. International Finance Corporation (IFC) performance standards and International Labour Organisation (ILO) standards, as ratified by the Kenya government and Governments of the various jurisdictions in which the Group operates. An environmental and social management system is being put in place to ensure due diligence and monitoring of the environmental and social risk is done efficiently. Compliance to these laws is monitored by the compliance function.

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

AGM Notice

I&M Holdings

Notice of the Annual General Meeting

Notice is hereby given that the Sixty Nineth Annual General Meeting of the Shareholders of I&M Holdings Plc will be held via electronic communication on Thursday, 20th May, 2021 at 10.00 a.m. for purposes of transacting the business set out below.

Due to the ongoing Government of Kenya restrictions on public gatherings, shareholders will not be able to attend the Annual General Meeting in person but will be able to register for, access information pertaining to the Integrated Report and Audited Financial Statements of I&M Holdings PLC for the year ending 31 December, 2020, follow the meeting in the manner detailed and vote electronically or by proxy. Shareholders may ask questions in advance of the meeting as detailed in the notes to this notice.

A. ORDINARY BUSINESS

1. To receive the Group's audited financial statements for the year ended 31 December, 2020 together with the Chairman's, Directors' and Auditors' reports thereon.
2. To approve the Directors' remuneration as provided in the accounts for the year ended 31 December 2020.
3. To approve payment of a first and final dividend of Kshs. 2.25 per share amounting to Kshs. 1,860,324,161 for the year ended 31 December 2020. The dividend will be payable to the shareholders in the Company's Register of Members at the close of business on Thursday 15th April, 2021 and will be paid on or around Thursday, 20th May, 2021.
4. To re-elect directors:
   i. Mr. Allan Christopher Michael Low who was appointed as a director of the Company with effect from 15th January 2021 retires in accordance with Article No. 111 of the Company's Articles of Association and being eligible offers himself for re-election.
   ii In accordance with Article 2.5 of the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015, Mr. Daniel Ndonye, having attained the age of 70 years retires and offers himself for re-election.
   iii. In accordance with Article 2.5 of the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015, Mr. SBR Shah having attained the age of 70 years retires and offers himself for re-election.
   iv. In accordance with Article No. 112 of the Company's Articles of Association Mr. Sarit S. Raja Shah, retires by rotation and being eligible offers himself for re-election.
   v. In accordance with Article No. 112 of the Company's Articles of Association Mr. Suleiman I. Kiggundu Jr., retires by rotation and being eligible offers himself for re-election.
   vi. In accordance with Article No. 112 of the Company's Articles of Association Mr. Sachit S. Raja Shah, retires by rotation and being eligible offers himself for re-election.
5. Pursuant to the provisions of Section 769 of the Companies Act, 2015, Ms. Rose Wanjiru Kinuthia, Mr. Michael Turner, Dr. Alice Nyambura Koigi and Mr. Allan Christopher Michael Low being members of the Board Audit and Risk Management Committee, be elected to continue to serve as Members of this Committee.
6. To note that the auditors Messrs. KPMG Kenya Certified Public Accountants (K), having expressed their willingness, continue in office in accordance with Section 721 (2) of the Companies Act, 2015 and to authorize the Directors to fix their remuneration for the ensuing financial year.
7. To ratify, confirm and approve (a) the resolutions passed by the Company at the annual general meeting of the Company held on 26th June 2020 and (b) any acts or actions of the Company pursuant to such resolutions.
8. To generally authorize the Directors to establish, maintain and review various policies and procedures for remuneration, effective communication with stakeholders, corporate disclosure policies and procedures, dispute resolution for internal and external disputes and for attraction and retention of board members.

B. SPECIAL BUSINESS

9. **Approval of bonus issue**

   To consider and if thought fit to pass the following resolutions as **ORDINARY RESOLUTIONS;**

   a. THAT subject to receipt of requisite regulatory approvals the sum of Kenya Shillings Eight Hundred and Twenty Six Million, Eight Hundred and Ten Thousand and Seven Hundred and Thirty Eight (Kshs 826,810,738) being part of the amount standing to the credit of share premium reserves be capitalised and accordingly that such sum be set free for distribution amongst the shareholders of existing ordinary shares in the capital of the Company in the share register as at 10th May 2021, to be allocated by 21st May, 2021, on condition that, the same not be paid in cash but applied in paying up in full at par Eight Hundred and Twenty Six Million Eight Hundred and Ten Thousand and Seven Hundred and Thirty Eight (826,810,738) of the ordinary shares of Kshs 1.00 each in the share capital of the Company. That such Eight Hundred and Twenty Six Million Eight Hundred and Ten Thousand and Seven Hundred and Thirty Eight (826,810,738) shares credited as fully paid up be accordingly allotted to such shareholders in the proportion of one (1) of such new share for every one (1) of existing issued and paid up shares then held by such shareholders respectively, and that, the shares so distributed shall be treated for all purposes as an increase of the nominal amount of the capital of the Company held by each such shareholder and not as income and further that such shares shall rank pari passu for all purposes with the existing shares in the capital of the Company.

b. THAT the directors be and are hereby authorised and directed to give effect to the foregoing resolution and consequently, in accordance with section 329 of the Companies Act, 2015, the directors be generally and unconditionally authorised to allot shares in the Company up to the said aggregate nominal amount of Kenya Shillings Eight Hundred and Twenty Six Million, Eight Hundred and Ten Thousand and Seven Hundred and Thirty Eight (Kshs 826,810,738) provided that this authority shall, unless renewed, varied or revoked by the Company, expire on the second (2nd anniversary) of the date of the passing of this resolution.

10. Amendment of the Articles of Association
To consider and if thought fit to pass the following resolutions as **SPECIAL RESOLUTIONS:**

a. THAT Article 116 of the Articles of Association be and is hereby deleted in its entirety and replaced with the following new Article 116:

116 (a) Subject to the Companies Act, 2015, and provided he or she has declared the nature and extent of his or her interest in accordance with the requirements of the Companies Act, 2015, a Director may contract with and be interested in any way, whether directly or indirectly, in any actual or proposed contract or arrangement with the Company, either as vendor, purchaser or otherwise, and shall not be liable to account for any profit made by him or her by reason of any such contract or arrangement.

(b) No Director shall: -
(i) vote in respect of the transaction, arrangement or contract in which the Director is so interested; nor
(ii) be counted for quorum purposes in respect of the transaction, arrangement or contract.

(c) If a Director contravenes sub-article 116(b)(i) above, the vote shall not be counted.

(d) Sub-article 116(b) shall not apply to:
(i) an arrangement for giving a Director any security or indemnity in respect of money lent by the Director to or obligations undertaken by the Director for the benefit of the Company;
(ii) an arrangement for the Company to give any security to a third party in respect of a debt or obligation of the Company for which the Director has assumed responsibility wholly or in part under a guarantee or indemnity or by the deposit of a security;
(iii) an arrangement under which benefits are made available to employees and Directors or former employees and Directors of the Company or any of its subsidiaries, which do not provide special benefits for Directors or former Directors; or
(iv) an arrangement to subscribe for or underwrite shares.

*(e) In this Article 116, **"an arrangement to subscribe for or underwrite shares"** means: -*
(i) a subscription or proposed subscription for shares or other securities of the Company;
(ii) an agreement or proposed agreement to subscribe for shares or other securities of the Company; or
(iii) an agreement or proposed agreement to underwrite any of those shares or securities.

b. THAT Article 143 of the Articles of Association be and is hereby deleted in its entirety and replaced with the following new Article 143:

143. A resolution in writing signed or confirmed electronically by a majority of the Directors for the time being entitled to receive a notice of a meeting of the Board and vote or by a majority of the members of a committee of the Board to which discretion the subject-matter of the resolution has been validly delegated shall be as valid and effectual as a resolution passed at a meeting of the Board or, as the case may be, of such committee duly called and constituted. Such resolution may be contained in one document or several documents or electronic communications in like form each signed or confirmed electronically by one or more of the Directors or members of the committee concerned. Such a resolution need not be signed or confirmed electronically by an alternate director if it is signed or confirmed electronically by the Director who appointed him and a resolution signed or confirmed electronically by an alternate need not also be signed or confirmed electronically by his appointor.

11. **Change of Company Name**
To consider and if thought fit to pass the following resolution as a **SPECIAL RESOLUTION:**
That the name of the Company be and is hereby changed from "I&M Holdings Plc" to **"I&M Group Plc"** with effect from the date set out in the Certificate of Change of Name issued in that regard by the Registrar of Companies.
12. To transact any other business which may be properly transacted at an Annual General Meeting.

BY ORDER OF THE BOARD

Bilha Wanjiru Mwangi
Company Secretary,
P.O. Box 51922-00100,
Nairobi.

23rd April, 2021

Notes

1. I&M Holdings PLC has convened and is conducting this virtual Annual General Meeting in accordance with Article 66A of its Articles of Association. Shareholders wishing to participate in the meeting should register using either of the following:
   a. **Through the web portal**
   By logging onto https://escrowagm.com/imholdings/login.aspx and filling in the registration form. In order to complete the registration process, shareholders will need to have their ID/Passport Numbers which were used to purchase their shares and/or their CDSC or Share Account Number at hand. For assistance shareholders should dial the following helpline number: (+254) 710 888 000 between 9:00 a.m. to 4:00 p.m. from Monday to Friday.
   b) **Unstructured Supplementary Service Data (USSD)**
   By dialing *483*560# and following the prompts. In order to complete the registration process, shareholders will need to have their ID/Passport Numbers which were used to purchase their shares and/or their CDSC or Share Account Number at hand. For assistance shareholders should dial the following helpline number: (+254) 710 888 000 between 9:00 a.m. to 4:00 p.m. from Monday to Friday. The USSD service cost will be borne by the Company.
2. Registration for the AGM opens on 12th May, 2021 at 8.00 am and shall remain open to any Shareholder wishing to participate in the meeting.
3. In accordance with Section 283 (2) (c) of the Companies Act, the following documents may be viewed on the Company's website at https://www.imbank.com/about-us/i-and-m-holdings/investor-relations
   i. a copy of this Notice and the proxy form; and
   ii. the Company's Integrated Report and Audited Financial Statements for the year 2020.
4. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so by:
   a. sending their written questions by email to invest@imbank.co.ke; or
   b. to the extent possible, physically delivering their written questions with a return physical address or email address to the registered office of the Company at 1 Park Avenue, First Parklands Avenue, P.O. Box 30238-00100, Nairobi or to CDSC Registrars Limited's offices at 1st Floor, Occidental Plaza, Westlands, Nairobi; or
   c. sending their written questions with a return physical address or email address by registered post to the Company's address at P.O. Box 30238 -00100 Nairobi.
   d. Shareholders must provide their full details (full names, ID/Passport Number/CDSC or Share Account Number) when submitting their questions and clarifications.
   e. All questions and clarification must reach the Company on or before 17th May, 2021 at 5:00pm.
   f. Following receipt of the questions and clarifications, the directors of the Company shall provide written responses to the questions received to the return physical address or email address provided by the Shareholder no later than 24 hours before the start of the general meeting. A full list of all questions received and the answers thereto will be published on the Company's website not later than 24 hours before the start of the general meeting.
5. In accordance with Section 298(1) of the Companies Act, shareholders entitled to attend and vote at the AGM are entitled to appoint a proxy to vote on their behalf. A proxy need not be a member of the Company but if not the Chairman of the AGM, the appointed proxy will need access to a mobile telephone. A proxy form is also available together with this notice on the Company's website via this link: https://www.imbank.com/about-us/i-and-m-holdings/investor-relations. Physical copies of the proxy form are also available at the following address: CDSC Registrars Limited's offices at 1st Floor, Occidental Plaza, Westlands, Nairobi. A proxy must be signed by the appointor or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument appointing the proxy shall be given under the hand of an officer or duly authorized attorney of such body corporate.
   A completed form of proxy should be emailed to registrar@cdscregistrars.com or delivered to CDSC Registrars Limited's offices at 1st Floor, Occidental Plaza, Westlands, P.O. Box 6341-001000 Nairobi, so as to be received not later than 18th May, 2021 at 5.00 p.m. Any shareholder appointing a proxy must provide the phone number, Identity Card Number and e-mail address of the proxy on the proxy form. Any proxy registration that is rejected will be communicated to the shareholder concerned no later than 19th May, 2021 to allow time to address any issues.
6. All proxies should register using either the web portal or USSD. When registering, the proxy will be required to use their identity card/Passport Number. For further assistance, Proxies may call CDSC Registrars Limited on +254 710 888 000.
7. The AGM will be streamed live via a link which shall be provided to all shareholders who will have registered to participate in the general meeting. Duly registered shareholders and proxies shall be able to join the meeting either by logging into the system using their registration credentials or following proceedings on the link to be shared.
8. Duly registered shareholders and proxies may follow the proceedings of the AGM using the live stream platform. Duly registered shareholders and proxies may vote (when prompted by the Chairman) for resolutions on a panel provided next to the live stream screen or via the USSD prompts.
9. Results of the AGM shall be published within 24 hours following conclusion of the AGM. The results will also be available on the web portal and summarized results on the USSD menu.

Proxy Form

I&M Holdings

Notice of the Annual General Meeting

CDSC A/c No: ____________________

Shareholder No: ____________________

ID No: ____________________

THE COMPANY SECRETARY
P.O BOX 51922 -00100
NAIROBI

PROXY FORM

I/WE ____
of ____
Being a shareholder of I&M Holdings PLC hereby appoint the Chairman of the Meeting or (see note 5) ____________
(Name of proxy) of ______________________________(Mobile number of proxy) and ______________________________(email address of the proxy) in respect of my ____________
(Number of shares). Please indicate here if you are appointing more than one proxy __________ as my/our proxy to attend, represent and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held electronically on __________, 2021 at __________am and at any adjournment thereof.
Signed this ______________________ day of ______________, 2021

Signature(s) (i) ______________________ (ii) ______________________
I/WE direct my/our proxy to vote on the following resolutions as I/WE have indicated by marking the appropriate box with an 'X'. If no indication is given, my/our proxy will vote or withhold his or her vote at his or her discretion and I/WE authorize my/our proxy to vote (or withhold his or her vote) as he or she thinks fit in relation to any other matter which is properly put beforethe Meeting.

Please clearly mark the box below to instruct your proxy how to vote.

RESOLUTION	FOR	AGAINST	WITHHELD
1. Approval of the Group's audited financial statements for the year ended 31st December 2020 together with the Chairman's, Directors' and Auditors' reports thereon			
2. Approval of the Directors' remuneration as provided in the accounts for the year ended 31st December, 2020			
3. Approval of the first and final dividend of Kshs. 2.25 per share amounting to Kshs. 1,860,324,161 for the year ended 31 December 2020. The dividend will be payable to the shareholders in the Company's Register of Members at the close of business on Thursday 15th April, 2021 and will be paid on or around Thursday, 20th May, 2021.			
4. Re-election of Mr. Allan Christopher Michael Low			
5. Re-election of Mr. Daniel Ndonye			
6. Re-election of Mr. SBR Shah			
7. Re-election of Mr. Sarit S. Raja Shah			
8. Re-election of Mr. Suleiman I. Kiggundu Jr.			
9. Re-election of Mr. Sachit S. Raja Shah			
10. Audit Committee: In accordance with the provisions of Section 769 of the Companies Act, 2015, the following directors, being members of the Board Audit Committee be elected to continue to serve as members of the said Committee: (i) Ms. Rose Wanjiru Kinuthia, (ii) Mr. Michael Turner, (iii) Dr. Alice Nyambura Koigi and (iv) Mr. Allan Christopher Michael Low.			
11. Re-appointment of auditors: Messrs. KPMG Kenya Certified Public Accountants (K), having expressed their willingness, continue in office in accordance with Section 721 (2) of the Companies Act, 2015 and authorization of the Directors to fix their remuneration for the ensuing financial year.			
12. To ratify, confirm and approve (a) the resolutions passed by the Company at the annual general meeting of the Company held on 26th June 2020 and (b) any acts or actions of the Company pursuant to such resolutions.			

RESOLUTION	FOR	AGAINST	WITHHELD
13. To generally authorize the Directors to establish, maintain and review various policies and procedures for remuneration, effective communication with stakeholders, corporate disclosure policies and procedures, dispute resolution for internal and external disputes and for attraction and retention of board members.			
14. Approval of bonus issue - a. THAT subject to receipt of requisite regulatory approvals the sum of Kenya Shillings Eight Hundred and Twenty Six Million, Eight Hundred and Ten Thousand and Seven Hundred and Thirty Eight (Kshs 826,810,738) being part of the amount standing to the credit of share premium reserves be capitalised and accordingly that such sum be set free for distribution amongst the shareholders of existing ordinary shares in the capital of the Company in the share register as at 10th May 2021, to be allocated by 21st May, 2021, on condition that, the same not be paid in cash but applied in paying up in full at par Eight Hundred and Twenty Six Million Eight Hundred and Ten Thousand and Seven Hundred and Thirty Eight (826,810,738) of the ordinary shares of Kshs 1.00 each in the share capital of the Company. That such Eight Hundred and Twenty Six Million Eight Hundred and Ten Thousand and Seven Hundred and Thirty Eight (826,810,738) shares credited as fully paid up be accordingly allotted to such shareholders in the proportion of one (1) of such new share for every one (1) of existing issued and paid up shares then held by such shareholders respectively, and that, the shares so distributed shall be treated for all purposes as an increase of the nominal amount of the capital of the Company held by each such shareholder and not as income and further that such shares shall rank pari passu for all purposes with the existing shares in the capital of the Company. b. THAT the directors be and are hereby authorised and directed to give effect to the foregoing resolution and consequently, in accordance with section 329 of the Companies Act, 2015, the directors be generally and unconditionally authorised to allot shares in the Company up to the said aggregate nominal amount of Kenya Shillings Eight Hundred and Twenty Six Million, Eight Hundred and Ten Thousand and Seven Hundred and Thirty Eight (Kshs 826,810,738) provided that this authority shall, unless renewed, varied or revoked by the Company, expire on the second (2nd anniversary) of the date of the passing of this resolution.			
15. THAT Article 116 of the Articles of Association be and is hereby deleted in its entirety and replaced with the following new Article 116: *116.* *(a) Subject to the Companies Act, 2015, and provided he or she has declared the nature and extent of his or her interest in accordance with the requirements of the Companies Act, 2015, a Director may contract with and be interested in any way, whether directly or indirectly, in any actual or proposed contract or arrangement with the Company, either as vendor, purchaser or otherwise, and shall not be liable to account for any profit made by him or her by reason of any such contract or arrangement.* *(b) No Director shall: -* *(i) vote in respect of the transaction, arrangement or contract in which the Director is so interested; nor* *(ii) be counted for quorum purposes in respect of the transaction, arrangement or contract.* *(c) If a Director contravenes sub-article 116(b)(i) above, the vote shall not be counted.*			

RESOLUTION	FOR	AGAINST	WITHHELD
d) *Sub-article 116(b) shall not apply to:* (i) *an arrangement for giving a Director any security or indemnity in respect of money lent by the Director to or obligations undertaken by the Director for the benefit of the Company;* (ii) *an arrangement for the Company to give any security to a third party in respect of a debt or obligation of the Company for which the Director has assumed responsibility wholly or in part under a guarantee or indemnity or by the deposit of a security;* (iii) *an arrangement under which benefits are made available to employees and Directors or former employees and Directors of the Company or any of its subsidiaries, which do not provide special benefits for Directors or former Directors; or* (iv) *an arrangement to subscribe for or underwrite shares.* (e) *In this Article 116, "**an arrangement to subscribe for or underwrite shares**" means: -* (i) *a subscription or proposed subscription for shares or other securities of the Company;* (ii) *an agreement or proposed agreement to subscribe for shares or other securities of the Company; or* (iii) *an agreement or proposed agreement to underwrite any of those shares or securities.*			
16. THAT Article 143 of the Articles of Association be and is hereby deleted in its entirety and replaced with the following new Article 143: 143. *A resolution in writing signed or confirmed electronically by a majority of the Directors for the time being entitled to receive a notice of a meeting of the Board and vote or by a majority of the members of a committee of the Board to which discretion the subject-matter of the resolution has been validly delegated shall be as valid and effectual as a resolution passed at a meeting of the Board or, as the case may be, of such committee duly called and constituted. Such resolution may be contained in one document or several documents or electronic communications in like form each signed or confirmed electronically by one or more of the Directors or members of the committee concerned. Such a resolution need not be signed or confirmed electronically by an alternate director if it is signed or confirmed electronically by the Director who appointed him and a resolution signed or confirmed electronically by an alternate need not also be signed or confirmed electronically by his appointer.*			
17. THAT the name of the Company be and is hereby changed from **"I&M Holdings Plc"** to **"I&M Group Plc"** with effect from the date set out in the Certificate of Change of Name issued in that regard by the Registrar of Companies.			

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