

I&M GROUP PLC
(Formerly I&M Holdings PLC)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2021

I&M GROUP PLC
(Formerly I&M Holdings PLC)

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FOR THE YEAR ENDED 31 DECEMBER 2021

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I&M GROUP PLC
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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
Group	I&M Group PLC (formerly 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
IMGP	I&M Group PLC (formerly 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
RISKO	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

I&M GROUP PLC
(Formerly I&M Holdings PLC)

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 Nyambura. Koigi	
Suleiman Kiggundu Jr. **	
Rose Wanjiru Kinuthia	
Allan Christopher Michael Low*	(Appointed on 15 January 2021)
Oliver Fowler	(Resigned on 18 March 2021)

* British

** Ugandan

COMPANY SECRETARY

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

AUDITOR

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

REGISTERED OFFICE

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

BANKERS

I&M Bank LIMITED
PO Box 30238, 00100 GPO
Nairobi

LEGAL ADVISORS

Kaplan & Stratton
Williamson House
4th Ngong Avenue
PO Box 40111, 00100 GPO
Nairobi

I&M GROUP PLC
(Formerly I&M Holdings PLC)

CORPORATE INFORMATION (CONTINUED)

BANKING ENTITIES REGISTERED OFFICES

I&M BANK LIMITED

1 Park Avenue
1st Parklands Avenue
PO Box 30238 – 00100 GPO
Nairobi, Kenya

I&M BANK (T) LIMITED

Maktaba Square
Maktaba Street
PO Box 1509
Dar es Salaam, Tanzania

I&M BANK (RWANDA) PLC

11, Boulevard de la Revolution
PO BOX 354
Kigali, Rwanda

I&M BANK (UGANDA) LIMITED

Plot 6/6a, Kampala Road
P.O BOX 3072
Kampala, Uganda

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

I&M GROUP PLC
(Formerly I&M Holdings PLC)

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2021

The Directors have pleasure in submitting their annual report together with the audited financial statements of I&M Group PLC (formerly I&M Holdings PLC) (“the Company”), its subsidiaries and its joint venture (together “the Group”) for the year ended 31 December 2021, 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, Uganda 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. Acquisition of a I&M Bank (Uganda) Limited (Formerly Orient Bank Limited)

On 17 July 2020 I&M Group PLC (Formerly I&M Holdings PLC) entered into a Share Purchase Agreement with the shareholders of I&M Bank (Uganda) Limited (Formerly Orient Bank Limited (OBL)), to acquire 90% shareholding in OBL.

On 30 April 2021, I&M Group PLC (Formerly I&M Holdings PLC) acquired the 90% issued share capital of Orient Bank Limited following the receipt of all regulatory approvals and being satisfied that all conditions precedent stipulated in the Share Purchase Agreement were met. The results of I&M Bank (Uganda) Limited (formerly Orient Bank Limited) from the date of acquisition are consolidated in these financials.

3. Results/business review

The consolidated results for the year are as follows:

	2021	2020
	KShs'000	KShs'000
Profit before income tax	12,412,906	10,952,004
Income tax expense	<u>(3,788,970)</u>	<u>(2,539,446)</u>
Profit for the year	<u>8,623,936</u>	<u>8,412,558</u>

Net profit closed at KShs 8.6 billion, an increase of 2.5% (or KShs 211 million) compared to prior year. The marginal increase was due to increase in loan provisions due to increased expected credit losses to cater for increased credit risk for sectors still affected by 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 Company changed its name from I&M Holdings PLC to I&M Group PLC effective 28 June 2021.

I&M GROUP PLC
(Formerly I&M Holdings PLC)

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

4. Dividends

The Directors recommend payment of a first and final dividend of KShs. 1.50 per share amounting to KShs 2,480,432,214 for the year ended 31 December 2021. A dividend of KShs. 1.125 per share amounting to KShs. 1,860,324,161 in respect of the year ended 31 December 2020 was paid on the 20 May 2021.

The dividend will be payable to shareholders registered on the Company's Register at the close of business on Thursday 21 April 2022 and will be paid on or around Thursday, 26 May 2022. The Register of Members will be closed from Friday, 22 April 2022 to Monday, 25 April 2022 (both days inclusive) for the purpose of processing the dividend.

5. Directors

The Directors who served during the year and up to the date of this report are set out on page 3.

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.

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 **29 March 2022**.

BY ORDER OF THE BOARD


Secretary

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

Date: 29 March 2022.

I&M GROUP PLC
(Formerly I&M Holdings PLC)

STATEMENT ON CORPORATE GOVERNANCE

Our Governance Framework

Introduction

The Board has consistently placed great importance on good corporate governance practices of the Company, its subsidiaries and joint venture investment (together the ‘Group’) as it believes that this is vital in achieving the Group’s objectives in a sustainable manner. The Board is committed to ensuring that the Group complies with the laws, regulations and practices applicable to it. The Board regularly reviews its corporate governance framework in line with developments in regulation, best practice and shareholder expectations.

The Directors present below the Group’s statement on Corporate Governance which outlines the key tenets of the Group’s corporate governance framework and provides guidance to the Board, Management and employees of the Group. It sets out how the Company has applied the principles of good governance in accordance and in compliance with the Code of Corporate Governance issued by the Capital Markets Authority in Kenya (the Code), the Central Bank of Kenya Guidelines on Corporate Governance and the Companies Act, 2015.

Governance Structure

The Company is licensed as a non-operating holding company (‘NOHC’) by the Central Bank of Kenya and operates within a clearly defined governance framework established by the Board of Directors. It includes a robust management structure built on a platform of stringent internal control and pre-approved policies, practices, and procedures to deliver sustainable value to its shareholders, whilst remaining focused on its responsibility to society at large. This underpins the Group’s commitment to ensuring that it **conducts** its business with the highest standards of integrity, transparency, and accountability across all levels.

The Company’s banking, advisory subsidiaries and joint venture are governed by different statutory and regulatory requirements across the region. As a NOHC, the Board takes full ownership of its responsibility to provide effective and responsible leadership, characterised by ethical values of responsibility, accountability, and fairness in order to promote the long-term success of the Group and deliver sustainable shareholder value.

Our Shareholders

The Company is listed on the Nairobi Securities Exchange and had 3,717 Shareholders as at 31 December 2021. The top 10 shareholders of the Company listed below hold 77.4% of the shares.

Name	No of Shares	% Holding
Minard Holdings Limited	357,035,864	21.59
Tecoma Limited	304,179,232	18.39
Ziyungi Limited	294,192,000	17.79
CDC Group PLC (through Standard Chartered Kenya Nominees Ltd A/C KE002796)	167,526,000	10.13
Bhagwanji Raja Charitable Foundation The Registered Trustees	42,270,120	2.56
Investments & Mortgages Nominees Ltd A/C 0001229	34,024,744	2.06
Investments & Mortgages Nominees Ltd A/C 0004047	33,581,872	2.03
Blanford Investments Limited	18,314,408	1.11
Lombard Holdings Limited	14,745,448	0.89
Sentinel Investments Limited	13,847,972	0.84
Sub total	1,279,717,660	77.39
Others (3,681 shareholders not holding more than 5% individually)	373,903,816	22.61
Total	1,653,621,476	100.00

I&M GROUP PLC
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STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Given below is the distribution of shareholders in terms of their holding.

Share range	Number of shareholders	Shares held	Shareholding %
Less than 1 million shares	3,626	143,480,212	13.80%
> 1 million < 2 million shares	54	72,818,696	2.45%
> 2 million < 3 million shares	10	24,389,112	1.10%
> 3 million shares	27	1,412,933,456	82.65%
Grand total	3,717	1,653,621,476	100.00%

Shareholder engagement and communication

I&M recognizes the importance of transparency and accountability to all stakeholders and in particular, to shareholders. The Company has various channels and mechanisms to communicate and engage with shareholders in addition to the Annual General Meeting. These include availing information on the website, publication of quarterly financial results and holding quarterly investor briefings. The Company remains committed to ensuring open communication with its shareholders and observing the highest standards of governance and shareholder communications.

The Shareholder Communication Policy sets out the processes that the Company has put in place to facilitate and encourage participation by shareholders. This policy is aimed at nurturing the loyalty and confidence of the Company's shareholders through frequent and forthright communication, both directly to shareholders and indirectly through analysts and the media. The Company seeks to ensure that interaction with each investor meets the highest levels of professionalism and quality. A copy of the policy is available on the Group's website (<https://www.imbankgroup.com/>). The following contacts are also available on the website for shareholders to contact the Group: 24-hour Call Centre: +254 20 322 1000, Email investor-relations@imgroup-plc.com.

The table below sets out the timelines of the key events and shareholder communication forums during the year.

Event/communication	Date
Financial year end	31 December
Release of full year results	31 March 2021
Investor briefing full year 2020 results	15 April 2021
Announcement of the Annual General Meeting	20 April 2021
Announcement on the completion of the acquisition of 90% of issued share capital of Orient Bank Limited, Uganda	30 April 2021
Annual General Meeting	20 May 2021
Release of Quarter 1 Financial results	27 May 2021
Investor briefing Quarter 1 Financial results	9 June 2021
Announcement of Change of Name	30 June 2021
Release of Half Year Financial results	30 August 2021
Investor briefing Half Year 2021 results	8 September 2021
Release of Quarter 3 Financial results	29 November 2021
Investor briefing Quarter 3 Financial results	2 December 2021

I&M GROUP PLC
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STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Our Board

Board of Directors

Board Constitution and Appointment

The Board of I&M Group PLC (formerly I&M Holdings PLC) currently constitutes nine directors. Their brief profiles are set out below:



Daniel Ndonye
Independent Chairman

Tenure on Board

Appointed Chairman of the Board on 14 June 2013.

Committee membership/(s):

Board Nomination, Remuneration and Governance Committee.

Qualifications

Bachelor of Commerce Degree

Fellow of the Institute of Chartered Accountants in England and Wales, the Institute of Certified Public Accountants of Kenya and the Institute of Certified Secretaries of Kenya.

Profile

Mr. Daniel Ndonye is a chartered accountant by profession and worked with Deloitte and Touche for over 30 years, 20 of which he was the Managing/Senior Partner. He has a broad range 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

Committee membership/(s):

None

Qualification

Founder member

Profile

Mr. Suresh Bhagwanji Raja Shah is a founder 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 S Raja Shah
Group Executive Director

Tenure on Board

Appointed on 14 June 2013

Committee membership/(s):

Board Audit and Risk Management Committee
Board Nomination, Remuneration and Governance Committee
Board Strategy Steering Committee

I&M GROUP PLC
(Formerly I&M Holdings PLC)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Sarit S Raja Shah (Continued)

Qualification

Master's 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 in the Boards of several companies including subsidiaries and associates of I&M Group PLC (formerly I&M Holdings PLC).



Michael Turner
Independent Director

Tenure on Board

Appointed on 1 August 2014

Committee membership/(s):

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

Committee membership/(s):

None

Qualification

Bachelor 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.

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STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)



Dr A Nyambura Koigi
Independent Director

Tenure on Board

Appointed on 28 October 2015

Committee membership/(s):

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 Koigi joined the Board in April 2015. Former Managing Director, Postbank, she has worked in various capacities in the financial sector including Banking, Business Development and Information Communication Technology. She has extensive training and experience in Leadership, Project Management, Product Development, ICT and Microfinance.



Suleiman Kiggundu Jr.
Independent Director

Tenure on Board

Appointed on 5 June 2018

Committee membership/(s):

Board Strategy Steering Committee (Chair)

Qualifications

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.



Allan Christopher Michael Low
Regional Director

Tenure on Board

Appointed on 15 January 2021

Committee membership/(s):

Board Audit and Risk Management Committee
Board Nomination, Remuneration and Governance
Committee
Board Strategy Steering Committee

I&M GROUP PLC
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STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Allan Christopher Michael Low (Continued)

Qualifications

MA. From Oxford University, member of the Institute of Chartered Accountants in England and Wales

Profile

Mr. Christopher 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 business across eleven countries in Sub-Saharan Africa. He has experience in International Banking, Digital Transformation, Risk Management and Financial Inclusion.



Rose Wanjiru Kinuthia
Independent Director

Tenure on Board

Appointed on 3 March 2020

Committee membership/(s):

Board Audit and Risk Management Committee (Chair)

Qualification

Master of Science degree in Risk Management from New York University, New York; Master of Business Administration from Adelphi University, New York; and Bachelor of Arts from the University of Nairobi, Nairobi

Profile

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

The Board collectively sets the Group's strategy and oversees the execution and implementation against this strategy. The Board recognizes the value in providing an independent and objective judgement on strategic deliberations. To this end, the Company's Board Charter and the Corporate Governance Policy stipulate that the Board shall at all times have at least one third of its members as independent Directors. During the year under review, the Board consisted of nine (9) members. Of these five (5) are independent directors, two (2) are non-executive directors and two (2) are executive directors. Independent Directors constituted 55% of the Board, well above the stipulated threshold of 33%. The tenure of independent Directors is set at a maximum of 9 years. The Board is supported by a Company Secretary who advises and supports the Board on governance matters.

Collectively, the Board has vast experience, stemming out of the individual Director's varied backgrounds across a multitude of disciplines. To ensure that this diversity of experience and skills is maintained, the Board, through the Board Nomination, Remuneration & Governance Committee, regularly reviews its composition and skills. This process was undertaken in the latter part of the year following a review and enhancement of the existing Board Skills Matrix. This exercise confirmed that the Board was well balanced and had the relevant skills and experience required to drive the Company forward. Gender diversity was highlighted as an area that presented an opportunity for improvement.

I&M GROUP PLC
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STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Separation of roles and responsibilities

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

The Board Charter clearly distinguishes between the roles and responsibilities of the Group Chairman and Group Executive Director. The Chairman is tasked with the responsibility of effectively leading the Board, fostering a constructive governance culture and maintain relevant links between all stakeholders. The Group Executive Director is responsible for providing leadership and direction in the day-to-day operations of the Group directed toward implementation of the Group's long-term vision and strategy. The Group Executive Director ensures that the strategy and decisions of the Board are implemented in each of the Group's entity by ensuring that each CEO is accountable for the achievement of the strategic initiatives and financial performance.

The independent Non-Executive Directors have the responsibility to constructively challenge Management and oversee the implementation of the strategy within the set risk control environment. The current Board Charter is available on the Group website (www.imbankgroup.com).

2021 Activities: The Board held four scheduled meetings in the year.

The Board undertook the following activities:

- The Board steered the Group through the challenging business environment on account of the ongoing Covid-19 pandemic, including seamlessly holding of the AGM and board meetings virtually.
- Reviewed and approved the Group consolidated forecasts for 2022.
- Reviewed and approved the annual budgets for the various subsidiaries in the Group.
- Reviewed strategic plans and objectives for the Group and status of implementation against the strategic plan.
- Reviewed the Group structure and Group organization structure.
- Reviewed the Group succession plan.
- Reviewed the company's Management Accounts.
- Reviewed the quarterly unaudited consolidated Group Accounts and annual audited financial statements including the statements to accompany the various mandated publications.
- considered and proposed a final dividend for the year.
- Reviewed quarterly performance as compared to listed peer banks.
- Reviewed and approved the agenda and notice for the Annual General Meeting.
- Reviewed quarterly updates from the banking and non-banking subsidiaries in the Group.
- Reviewed updates from the Board Committees.
- Reviewed changes in shareholding structure.
- Approved its annual calendar of meetings for 2022.
- Reviewed results from the annual board evaluation exercise.
- Reviewed results from the Legal & Compliance and Governance Audit including progress on implementation of the actions agreed.
- Reviewed and approved an annual Board work plan.
- Reviewed the director development plan for 2022.

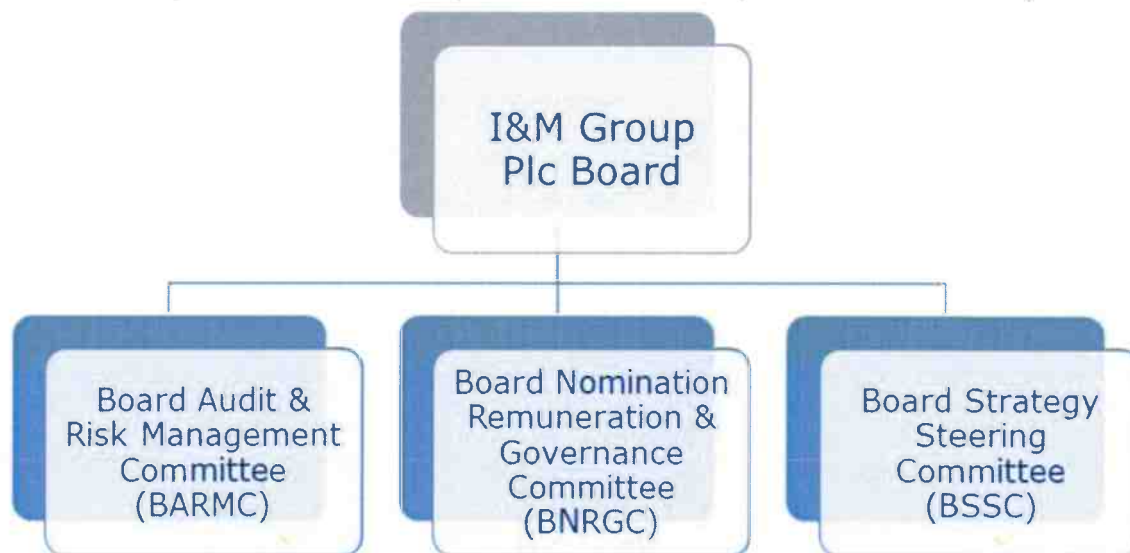
I&M GROUP PLC
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STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Board Committees

The Board has delegated authority to three Board Committees to assist the Board to effectively discharge its mandate. Each Committee has in place Terms of Reference approved by the Board that outline its responsibilities. The Terms of Reference are reviewed annually. The Board regularly reviews the membership of the Committees.

The relationship between the Board and Board Committees is illustrated below:



A summary of the composition, responsibilities and key activities achieved by the Board Committees is outlined below:

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

The BARMC consists of three independent directors and one Non-Executive Director. It is Chaired by an Independent Director.

Members:

Ms. Rose Kinuthia (Chairperson), Dr. Nyambura Koigi, Mr. Michael Turner and Mr. Chris Low.

Responsibilities:

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.

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STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

2021 Activities: BARMC held four scheduled meetings in the year

The Committee undertook the following activities:

- reviewed the unaudited and audited financial statements for the full year 2020 for consideration and ultimate approval by the Board;
- approved the annual internal audit plan;
- reviewed the internal audit reports presented by the Internal Auditor for audits undertaken during the year;
- reviewed the Group's Compliance and Risk reports including Cyber Risk and Enterprise Risk Management Framework;
- reviewed and recommended various policies for approval by the Board;
- provided oversight on the annual Group Audit and Risk Conference and monitored progress on the actions agreed and,
- reviewed progress on implementation of the requirements under the Data Protection Act.

The Committee held separate meetings with the external auditors KPMG without Management present and is satisfied that the auditors remain independent.

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

The BNRGC consists of two Independent Directors and two Executive Directors. It is chaired by an Independent Director.

Members:

Mr. Michael Turner (Chairman), Mr. Daniel Ndonye, Mr. Sarit S. Raja Shah and Mr. Chris Low.

Responsibilities:

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 harmonized framework for remuneration of the Board members across the Group, in line with clearly defined remuneration principles. The Committee also provides oversight on governance-related matters at the Group level such as Board succession planning, induction for new board members, assisting the Board in reviewing the mix of skills and expertise of board members, reviewing the performance and effectiveness of the Board through the board evaluation process and generally providing oversight in relation to the general governance of the entities within the Group. This is to ensure that there is continued compliance with the corporate governance laws, regulations and best practice.

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.

2021 Activities: BNRGC held two scheduled meetings in the year

The Committee undertook the following activities:

- Approved revision of the Committee's Terms of Reference to include the Regional Director as a member of the Committee;
- Reviewed the training and development reports for the Directors in the Group entities;
- Reviewed results of the annual board evaluation for the year including follow up on agreed remedial actions;
- Reviewed board composition and succession for the entities within the Group;
- Reviewed the Group's reward framework and approved Directors benefits;

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STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

2021 Activities: BNRGC held two scheduled meetings in the year(continued)

- Reviewed progress on remedial action from the legal & compliance and governance audits,
- Reviewed related party transactions and,
- Received reports on the progress made in relation to the Culture Transformation Program.

The Company has received an exemption from the Capital Markets Authority on the requirement to have three Independent Directors on each of the BARMC and BNRGC.

(iii) Board Strategy Steering Committee (BSSC)

The BSSC consists of one Independent Director, two Executive Directors and 4 management team members.

Members:

Mr. Suleiman Kiggundu Jr. (Chairman), Mr. Sarit S. Raja Shah and Mr. Chris Low

Responsibilities:

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 and Acquisition transactions).

2021 Activities: BSSC held four scheduled meetings in the year.

The Committee undertook the following activities:

- Reviewed the business and strategy performance over the year and provided guidance on proposed initiatives;
- Recommended areas for improved regional synergies;
- Monitored an update on the progress of integration of I&M Uganda Ltd (formerly Orient Bank Limited), and;
- Reviewed the Committee structure and terms of reference for the Committee.

The entity Boards have ultimate responsibility for their local business performance and are guided by regulations within the respective jurisdiction and the Group Minimum standards.

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.

Each banking entity in the Group has set up various Board Committees to oversee the conduct of its business. The key ones include the following:

Board Audit Committee (BAC)

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

I&M GROUP PLC
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STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Board Risk 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 and procurement from related parties.

Board Nomination and Remuneration Committee (BNRC)

The BNRC is responsible for assessment of Board requirements for non-executive directors, induction programs for new Directors and development programs to build individual skills and improve Board effectiveness, Board succession planning, Performance evaluation of the Board of Individual Directors and of the senior executives, setting remuneration policies and strategic objectives of senior executives, providing oversight over HR matters and input into HR policies as appropriate.

Director Appointment

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

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

Induction, Orientation and Continuous Professional Development

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

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

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

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

I&M GROUP PLC
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STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

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 Description	Date Undertaken	No. of Hours
Training on Emerging Laws and Legislations	21 May 2021	4
Audit and Risk Conference on future proofing resilience, embedding ESG into the risk management process and Climate Change	13 October 2021 and 14 November 2021	16

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 in-between scheduled meetings. Board members receive board papers well in advance of their meetings, thereby facilitating meaningful deliberations therein. Proceedings 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 for evaluating the performance of the Board and its members annually 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, Group Executive Director and Company Secretary.

Board Attendance

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

Directors	18-Jan-21	25-Mar-21	20 May-21***	9-Jul-21	18-Oct-21	Total Board meetings attended in 2021
Daniel Ndonge	√	√	√	√	√	100%
Suresh B R Shah	√	√	√	√	√	100%
Sarit S Raja Shah	√	√	√	√	√	100%
Michael Turner	√	√	√	√	√	100%
Oliver Fowler*	√	N/A	N/A	N/A	N/A	100%
Sachit S Raja Shah	√	√	√	√	√	100%
Dr. A Nyambura. Koigi	√	√	√	√	√	100%
Suleiman Kiggundu	√	√	√	√	√	100%
Rose Kinuthia	√	√	√	√	√	100%
Chris Low**	√	√	√	√	√	100%

*Resigned on 18 March 2021

** Appointed on 15 January 2021

***Special Board Meeting

√ Attended

X Not Attended

N/A Not Applicable / Meeting preceded appointment and regulatory approval or had resigned

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

I&M GROUP PLC
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STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Management Delegations and 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 the Group's banking and other business to deliver sustainable long-term value for shareholders. The Group Executive Office coordinates the dissemination of information between the Directors and the Management of the entities and is also responsible for the establishment, execution and delivery of agreed strategic objectives approved by the Board.

Management Committees

Each banking entity in the Group has set up various Management Committees. The key ones include:

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 strategize 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 and Liabilities Committee (ALCO)

The Assets and Liability Committee 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.

Risk and 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 before prior to presentation to the Board. The committee also periodically reviews and assess the effectiveness of the Bank's enterprise-wide risk assessment processes and recommend improvements, where appropriate;

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STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Management Committees (Continued)

Human Resources Committee (HRC)

HRC assists the Board in fulfilling its Human Resource Management responsibilitiesIM 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.

Risk Management, Internal Controls and Compliance

The Group has an integrated risk management framework in place to identify, assess, manage and report risks as well as 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.

Given that risk taking is core to the Group's innovation capacity and ultimately its entrepreneurial success, the Group'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.

The risk management framework is set so that risks identified 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 organizational 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 this is being supplemented by setting 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.

Each entity in the Group endeavours to be compliant with best practices in its risk management and uses the Committee of Sponsoring Organisations of the Treadway Commission "COSO" framework as a reference and adopts compatible processes and terminology.

An area of increased focus for the Group is environment, social, governance given the growing global emphasis on climate change. The Groups' risk management framework has been aligned to ensure formulation and implementation of an ESG framework to focus on this risk in line with international best practice, the guidance on climate-related risk management issued by the Central Bank of Kenya and Nairobi Stock Exchange (NSE) manual guiding listed companies on measuring and reporting ESG matters.

Business Continuity Management

The Covid-19 pandemic continued in 2021 with the virus mutating to various variants throughout the year. The vaccines were a significant development in mitigating the impact of the virus however in line with government directives on containment of the pandemic, the Group continued to operate within its Business Continuity Plan. The previous laid down protocols continued to be implemented in 2021 including enhanced hygiene at the workplace, social distancing for physical interactions, continued preference for virtual meetings, isolation of affected staff, amongst others.

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STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Compliance

The Board ensures that laws, rules and regulations, codes and standards applicable to the Group have been identified, documented and observed. Each of the Banking entities within the Group have independent Compliance functions to continuously monitor the Company and its subsidiaries' compliance with applicable laws, rules and regulations, codes and standards to provide assurance in this respect to the Board on a quarterly basis.

All policies and procedures are tailored to ensure that the Group processes are fully compliant with all relevant laws and regulations.

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

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 functionally reports directly to its Board Audit Committee.

The Internal Audit function provides an independent assurance to its respective Board and Management that the governance, risk management and control processes are adequate and effective to enable the organization meet its objectives.

In addition, the Group has set up the Group Internal Audit function to provide independent assurance to the Company's Board through the Board Audit and Risk Management Committee 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 of the financial statements.

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STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Ethics and Social Responsibility

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

Conflicts of Interest

The Board has in place a policy to provide guidance on what constitutes a conflict of interest. The Board expects its members, both individually and collectively, to act ethically and in a manner consistent with the values of the business. Each director is obligated to, as far as practically possible, minimize the possibility of any conflict of interest with the Company or the Group by restricting involvement in other businesses that would be likely to lead to a conflict of interest. Where any director considers that they may have a conflict of interest in any matter pertaining to the Group or being considered at a Board or Committee meeting, they are required to immediately declare the potential conflict for the Board to review. The Director will excuse themselves from the relevant discussions and will not exercise their right to vote in respect of such matters. Directors also declare their pecuniary interests annually. 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 and Related Party Transactions

The Group has adopted an Insider Trading Policy that prohibits Directors, 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 requires them to declare their intention to purchase or sell Company's securities before entering into a transaction.

The Board Audit and Risk Management Committee (BARMC) has oversight on insider trading and is made aware of insider trades as well as any breach of the Insider Trading Policy through quarterly returns.

I&M GROUP PLC
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STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Ethics and Social Responsibility (Continued)

Insider Trading and Related Party Transactions (continued)

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 Board has adopted a Whistle blowing policy and appropriate mechanisms to demonstrate its commitment to the highest standards of openness, probity and accountability. These mechanisms enable staff of the Group to voice concerns in a responsible and effective manner.

The policy is designed to encourage and facilitate employees to raise concerns internally and at a high level and to disclose information which the individual believes shows malpractice or impropriety. The policy is reviewed **regularly** to ensure relevance with best practice. The policy aims to:

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

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

Sustainability and Corporate Social Responsibility (CSR)

The Group is very conscious of its responsibility towards the Community and those around it. It is in this endeavour that the Group, through I&M Foundation, 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.

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.

I&M GROUP PLC
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STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Ethics and Social Responsibility (Continued)

Information technology (IT) policy (continued)

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; and,
- 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.

Stakeholder Management

I&M recognizes 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 achieve and maintain 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.

The Group engages both formally and informally throughout the year to:

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

Stakeholder engagement is decentralized within I&M. All I&M Group employees are accountable for managing relationships and meeting expectations of internal and external stakeholders within their areas of responsibility. Should a stakeholder not be satisfied with the service or assistance that they receive from their I&M point of contact, there are a number of opportunities that allow for anonymity (if desired) as well as independence to ensure a voice for concerned stakeholders. These include our client call centre that is the first point of call for all clients' requests and the section "Contact us" on the Group's corporate website.

Concerns raised by stakeholders are monitored on an ongoing basis for compliance by the Group Risk and Compliance Team and by the Board Audit and Risk Management Committee.

I&M GROUP PLC
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STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Other Key Matters

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 a bi-annual Governance Audit by an accredited Governance Auditor as required by Section 2.11 of the Code. The Company subjected itself to an independent external Governance Audit in 2020 and received an unqualified report noting that the Board has put in place a governance framework that is to a large extent in compliance with the Corporate Governance framework. The next governance audit will be for the year 2022. In the intervening period, the Board remains committed to reviewing and implementing the recommendations from the report to ensure continued enhancement in corporate governance.

Legal and Compliance Audit

In accordance with the code, the Company undertook an external and independent Legal and Compliance Audit for the year ended 31 December 2020. The outcome of the audit process confirmed that during the year under review the Company was generally compliant with applicable legislation, regulations, standards, and codes.

Capital Markets Authority (CMA) Corporate Governance Assessment Report for the year ended 31 December 2020

The CMA conducted a comprehensive assessment on the Group for the year ended 31 December 2020 as per the Code of Corporate Governance Practices for Issuers of Securities to the Public. During the assessment, the results of which were advised in November 2021, CMA reviewed the Group's governance and sustainability practices and noted the Group's demonstrated commitment to good governance and sustainability. CMA commended the Group for achieving an overall 'Leadership' rating of 87% and for continued efforts to strengthen the company's governance structures and practices.

I&M GROUP PLC
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STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the consolidated and separate financial statements of I&M Group PLC (formerly I&M Holdings PLC) (the "Group" or "Company") set out on pages 37 to 155 which comprise the consolidated and company statements of financial position at 31 December 2021, and the consolidated and company statements of profit or loss and other comprehensive income, the consolidated and company statements of changes in equity and the consolidated and company statements of cash flows for the year then ended, and 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.

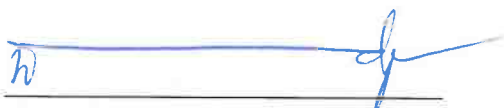
Under the Kenyan Companies Act, 2015, the Directors are required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Group and the Company as at the end of the financial year and of the profit or loss of the Group and the Company for 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/or 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 **29 March 2022**.



Chairman **Daniel Ndonye**



Director **Dr. Nyambura Koigi**



Director **Sarit Raja Shah**

Date: **29 March 2022**.

I&M GROUP PLC
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DIRECTORS' REMUNERATION REPORT

The Board Nomination and Remuneration Committee [BNRC] of I&M Group PLC (formerly I&M Holdings PLC) (IMGP) is pleased to present the Directors' remuneration report for the year ended 31 December 2021. This report is in compliance with the IMGP's Board Charter on Directors' reward and remuneration, the Code of Corporate Governance Guidelines issued by the Capital Markets Authority (CMA) 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.

IMGP is regulated by the Capital Markets Authority and the Central Bank of Kenya as a non-operational holding company. IMGP 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 IMGP, 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 IMGP 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 2021	Annual retainer fees 2020
	KShs	KShs
Chairman	1,040,000	1,040,000
Director	598,000 – 832,000	598,000 – 832,000

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.

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DIRECTORS' REMUNERATION REPORT (CONTINUED)

Directors' Contract of service:

Directors who serve on the Board of IMGPA 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
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	20-May-21	3 months

Oliver Fowler, Independent Non-Executive Director, resigned from the Board of I&M Group PLC effective 18 March 2021.

Directors Shareholding:

Directors' direct and indirect interests as at 31 December 2021 are tabulated below.

Name of Director	Number of Shares	% Shareholding
Mr. SBR Shah, MBS	174,947,573	10.58%
Mr. Sarit S. Raja-Shah	37,595,102	2.27%
Mr. Sachit S. Raja-Shah	37,152,230	2.25%

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

Share Options and long term incentive schemes

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

Non-Executive Directors:

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

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DIRECTORS' REMUNERATION REPORT (CONTINUED)

Information subject to audit (Audit able 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 2020, are summarised below:

Director	2021				2020			
	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 Ndonge	1,040,000	670,800	360,000	2,070,800	1,040,000	873,600	-	1,913,600
Suresh Bhagwanji Raja Shah, MBS	598,000	286,000	1,560,094	2,444,094	598,000	286,000	1,391,778	2,275,778
Sarit S Raja Shah	598,000	880,400	403,858	1,882,258	598,000	1,057,600	388,444	2,044,044
Michael Turner	832,000	806,000	1,453,600	3,091,600	832,000	920,400	1,279,071	3,031,471
Sachit S Raja Shah	598,000	286,000	3,027,625	3,911,625	598,000	286,000	3,382,877	4,266,877
Oliver Fowler	175,518	57,200	1,271,358	1,504,076	832,000	457,600	-	1,289,600
Nyambura Koigi	598,000	514,800	3,070,940	4,183,740	598,000	286,000	4,806,755	5,690,755
Suleiman Kiggundu	832,000	1,000,400	1,082,239	2,914,639	832,000	1,207,600	-	2,039,600
Rose Kinuthia	832,000	754,000	-	1,586,000	637,639	722,800	-	1,360,439
	6,103,518	5,255,600	12,229,714	23,588,832	6,565,639	6,097,600	11,248,925	23,912,164

I&M GROUP PLC
(Formerly I&M Holdings PLC)

DIRECTORS' REMUNERATION REPORT (CONTNUED)

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 Group PLC (formerly I&M Holdings PLC):

Details	2021	2020
	KShs	KShs
Salary	31,941,935	31,350,911
Bonus	4,925,152	7,387,728
Pension	3,003,296	2,661,982
Insurance	4,076,235	3,073,330
Total	43,946,618	44,473,951

Mr. Allan Christopher Low received the following remuneration from I&M Bank LIMITED, a wholly owned subsidiary of I&M Group PLC (formerly I&M Holdings PLC):

Details	2021	2020
	KShs	KShs
Salary	36,258,377	-
Pension	2,400	-
Insurance	1,224,622	-
Total	37,485,399	-

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

Details	2021	2020
	KShs	KShs
Salary	-	21,419,373
Pension	-	1,400
Insurance	-	1,134,464
Total	-	22,555,237

In the AGM held on 20 May 2021, 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.

I&M GROUP PLC
(Formerly I&M Holdings PLC)

DIRECTORS' REMUNERATION REPORT (CONTNUED)

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.



Bilha Wanjiru Mwangi
Reg. No. 2258
CPS (K)
P.O. Box 24358 - 00152, NAIROBI

For _____
Michael Turner
Chairman, Board Nomination and Remuneration Committee

Date: 29 March 2022.



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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF I&M GROUP PLC (Formerly I&M Holdings PLC)

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of I&M Group PLC (*Formerly I&M Holdings PLC*) (the "Group" and "Company") as set out on pages 37 to 155, which comprise the consolidated and company statements of financial position as at 31 December 2021, and the consolidated and company statements of profit or loss and other comprehensive income, the consolidated and company statements of changes in equity and the consolidated and company statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of I&M Group PLC (*Formerly I&M Holdings PLC*) as at 31 December 2021, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Kenyan Companies Act, 2015.

Basis for opinion

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

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.

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 consolidated financial statements in the following notes:

- Note 3 (f) (iii) – Significant accounting policies, *Impairment on financial assets* (page 56 – 59)
- Note 5(a) – Financial risk management, *Credit risk* (page 74 – 96)
- Note 21 (b) – Change in expected credit losses and other credit impairment charges (page 125)



INDEPENDENT AUDITOR’S REPORT
TO THE MEMBERS OF I&M GROUP PLC (Formerly I&M Holdings PLC)
(CONTINUED)

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

Key audit matters (continued)

Expected credit losses on loans and advances at amortised cost in the consolidated financial statements (Continued)

The key audit matter	How the matter was addressed in our audit
<p>Subjective estimate</p> <p>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:</p> <ul style="list-style-type: none"> — 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. <p>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.</p>	<p>Our procedures in this area included:</p> <ul style="list-style-type: none"> — 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: <ul style="list-style-type: none"> ▪ 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 key data inputs and assumptions applied in the determination of ECL, assessing for accuracy of economic forecasts and challenging PD assumptions applied by involving our specialists in the reperformance 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. — Involving our internal financial risk modelling specialists to: <ul style="list-style-type: none"> ▪ 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 7 <i>Financial Instruments: Disclosures</i>.



**INDEPENDENT AUDITOR’S REPORT
TO THE MEMBERS OF I&M GROUP PLC (Formerly I&M Holdings PLC)
(CONTINUED)**

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

Key audit matters (continued)

Impairment of goodwill in the consolidated financial statements	
The key audit matter	How the matter was addressed
<p>The disclosure on goodwill is set out in the consolidated financial statements in the following notes: — Note 3 (j) (ii) – Significant accounting policies, <i>Goodwill</i> (page 63 – 64) — Note 26(a) – Intangible assets – Goodwill (page 135 – 138)</p>	
<p>Impairment of goodwill is considered a key audit matter because:</p> <ul style="list-style-type: none"> — 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 models used to determine the value in use of the cash generating units. — 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. <p>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.</p>	<p>Our audit procedures in this area included:</p> <ul style="list-style-type: none"> — Evaluating the forecasting process undertaken by the Group by assessing the precision of prior year forecast cash flows by comparing with actual outcomes in the current year. — Involving our internal 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 <i>Impairment of Assets</i>

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 2021, which is expected to be made available to us after that date.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon, other than that prescribed by the Kenyan Companies Act, 2015, as set out below.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information 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 have 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.



INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF I&M GROUP PLC (Formerly I&M Holdings PLC)
(CONTINUED)

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

Directors' responsibilities for the consolidated and separate financial statements

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

In preparing the consolidated and separate financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the Company to cease to continue as a going concern.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
I&M GROUP PLC (Formerly 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)

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

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and 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.

From the matters communicated with the directors, 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 5 and 6 is consistent with the consolidated and separate financial statements; and
- (ii) The auditable part of the directors' remuneration report on pages 29 to 30 has been prepared in accordance with the Kenyan Companies Act, 2015.

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

For and on behalf of:

**KPMG Kenya
Certified Public Accountants
PO Box 40602 – 00100
Nairobi**

Date: 29 March 2022

I&M GROUP PLC
(Formerly I&M Holdings PLC)

**CONSOLIDATED AND COMPANY STATEMENTS OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021**

	Note	Group		Company	
		2021	2020	2021	2020
		KShs '000	KShs '000	KShs '000	KShs '000
Interest income	9	33,081,468	27,848,575	36,991	29,175
Interest expense	10	(12,204,574)	(12,248,980)	-	-
Net interest income		20,876,894	15,599,595	36,991	29,175
Fee and commission income	11	4,876,226	4,170,303	-	-
Fee and commission expense	11	(466,026)	(327,639)	-	-
Net fee and commission income	11	4,410,200	3,842,664	-	-
Revenue		25,287,094	19,442,259	36,991	29,175
Net trading income	12	3,367,095	3,870,331	-	-
Other operating income	13	492,299	597,119	6,781,344	3,377,318
Net operating income before change in expected credit losses and other credit impairment charges		29,146,488	23,909,709	6,818,335	3,406,493
Change in expected credit losses and other credit impairment charges	21(b)	(4,199,601)	(2,472,836)	-	-
Net operating income		24,946,887	21,436,873	6,818,335	3,406,493
Staff costs	14	(6,001,913)	(4,555,444)	-	-
Premises and equipment costs	14	(568,098)	(428,732)	-	-
Other expenses	14	(4,489,890)	(3,295,865)	(114,249)	(31,102)
Depreciation and amortisation expenses	14	(2,022,970)	(1,525,866)	-	-
Operating expenses		(13,082,871)	(9,805,907)	(114,249)	(31,102)
Operating profit		11,864,016	11,630,966	6,704,086	3,375,391
Share of (loss)/profit of joint venture	24(a)	548,890	(678,962)	-	-
Profit before income tax	15	12,412,906	10,952,004	6,704,086	3,375,391
Income tax expense	16(a)	(3,788,970)	(2,539,446)	(8,118)	(4,805)
Profit for the year		8,623,936	8,412,558	6,695,968	3,370,586

(Continued Page 38)

The notes set out on pages 44 to 155 form an integral part of these consolidated and separate financial statements.

I&M GROUP PLC
(Formerly I&M Holdings PLC)

**CONSOLIDATED AND COMPANY STATEMENTS OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)**

	Note	Group		Company	
		2021 KShs '000	2020 KShs '000	2021 KShs '000	2020 KShs '000
Other Comprehensive Income					
<i>Items that will not be reclassified to profit or loss:</i>					
Actuarial gains/(losses) on re-measurement of defined benefit scheme net of deferred tax	34(g)	35,022	(37,519)	-	-
Revaluation surplus on property and equipment net of deferred tax charge		111,898	75,118		
Movement in fair value reserve for FVOCI - Equity Instruments	22	(9,334)	(80,436)	-	-
<i>Items that may be classified to profit or loss:</i>					
Movement in fair value reserve for FVOCI debt instruments		(742,847)	321,564	(1,275)	801
Foreign operations-foreign currency translation differences		(515,333)	317,658	-	-
Total other comprehensive income for the year		(1,120,594)	596,385	(1,275)	801
Total comprehensive income for the year		7,503,342	9,008,943	6,694,693	3,371,387
Profit attributable to:					
Equity holders of the Company		8,130,742	8,073,855	6,695,968	3,370,586
Non-controlling interest		493,194	338,703	-	-
		8,623,936	8,412,558	6,695,968	3,370,586
Total comprehensive income attributable to:					
Equity holders of the Company		7,011,452	8,498,802	6,694,693	3,371,387
Non-controlling interest		491,890	510,141	-	-
		7,503,342	9,008,943	6,694,693	3,371,387
Basic and diluted earnings per share - (KShs) (2020 restated)	17	4.92	4.88	4.05	2.04

The notes set out on pages 44 to 155 form an integral part of these consolidated and separate financial statements.

I&M GROUP PLC
(Formerly I&M Holdings PLC)

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	Note	Group		Company	
		2021 KShs '000	2020 KShs '000	2021 KShs '000	2020 KShs '000
ASSETS					
Cash and balances with central banks	18	27,546,591	19,403,419	-	-
Items in the course of collection	19	668,114	622,994	-	-
Loans and advances to banks	20	15,517,824	18,335,440	-	-
Loans and advances to customers	21(a)	210,619,661	187,391,266	-	-
Financial assets at fair value through profit or loss (FVTPL)	22(a)	16,368,165	11,869,403	-	-
Financial assets measured at fair value through other comprehensive income (FVOCI)	22(b)	64,010,272	42,477,252	27,019	28,392
Other financial assets at amortised cost	22(c)	45,156,710	47,364,625	-	-
Held for sale assets	23	1,014,651	1,057,056	-	-
Investment in Joint Venture	24(a)	5,226,107	5,177,219	2,515,591	2,515,591
Investment in subsidiaries	24(b)	-	-	30,435,895	26,151,882
Property and equipment	25	12,883,629	12,121,588	-	-
Intangible assets - Goodwill	26(a)	3,894,190	3,155,449	-	-
Intangible assets - Software	26(b)	2,684,869	2,436,493	-	-
Tax recoverable	16(b)	459,760	133,588	3,463	4,369
Deferred tax asset	27	6,104,185	4,211,504	-	-
Due from group companies	38(b)(iii)	-	-	834,431	446,059
Other assets	28	3,025,949	2,342,497	229,786	4,124
TOTAL ASSETS		415,180,677	358,099,793	34,046,185	29,150,417
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Deposit from banks	29	19,114,307	6,762,835	-	-
Items in course of collection	19	95,530	261,363	-	-
Deposits from customers	30	296,746,509	262,681,402	-	-
Tax payable	16(b)	29,310	155,863	-	-
Due to group companies	38(b)(iv)	-	-	1,931,640	1,881,272
Other liabilities	31	5,600,871	5,402,428	97,423	84,324
Long term debt	32	9,516,698	10,317,827	-	-
Subordinated debt	33	10,029,375	4,454,936	-	-
		341,132,600	290,036,654	2,029,063	1,965,596
Shareholders' equity (pages 40 - 42)					
Share capital	34(a)	1,653,621	826,811	1,653,621	826,811
Share premium	34(a)/(b)	17,561,629	18,390,507	17,561,629	18,390,507
Retained earnings		43,903,009	39,610,553	12,802,385	7,966,741
Revaluation reserve	34(c)	1,036,048	929,217	-	-
Fair value reserve	34(d)	(752,545)	(36,599)	(513)	762
Translation reserve	34(e)	(1,756,759)	(1,260,493)	-	-
Statutory credit risk reserve	34(f)	8,051,567	5,867,908	-	-
Defined benefit reserve	34(g)	(103,539)	(138,561)	-	-
Equity attributable to Owners of the Company		69,593,031	64,189,343	32,017,122	27,184,821
Non-controlling interest		4,455,046	3,873,796	-	-
TOTAL SHAREHOLDERS' EQUITY		74,048,077	68,063,139	32,017,122	27,184,821
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		415,180,677	358,099,793	34,046,185	29,150,417

The consolidated and separate financial statements set out on pages 37 to 155 were approved and authorised for issue by the Board of Directors on 29 March 2022 and were signed on its behalf by:

Director: Daniel Ndonye

Director: Dr. Nyambum Koigi

Director: Sarit Raja Shah

Secretary: Anura

The notes set out on pages 44 to 155 form an integral part of these consolidated and separate financial statements.

I&M GROUP PLC
(Formerly I&M Holdings PLC)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	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
As previously stated at 1 January 2021	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
Correction of prior year reversal	-	-	(69,901)	-	-	-	69,901	-	-	-	-
Fair value revaluation prior year reversal	-	-	20,970	-	-	-	(20,970)	-	-	-	-
Deferred tax - fair value reval prior year reversal	-	-	-	-	-	-	-	-	-	-	-
At 1 January 2021 restated	826,811	18,390,507	39,561,622	(138,561)	5,867,908	929,217	12,332	(1,260,493)	64,189,343	3,873,796	68,063,139
Comprehensive income for the year	-	-	8,130,742	-	-	-	-	-	8,130,742	493,194	8,623,936
Net profit after tax	-	-	8,130,742	-	-	-	-	-	8,130,742	493,194	8,623,936
Other comprehensive income	-	-	-	-	-	-	-	(496,266)	(496,266)	(19,067)	(515,333)
Translation reserve	-	-	-	-	-	-	(1,010,931)	-	(1,010,931)	18,177	(992,754)
Fair value reserve (Note 22)	-	-	-	-	-	-	246,054	-	246,054	(5,481)	240,573
Deferred tax charge - fair value reserve	-	-	-	-	-	152,635	-	-	152,635	7,254	159,889
Revaluation reserve	-	-	-	-	-	(45,804)	-	-	(45,804)	(2,187)	(47,991)
Deferred tax charge - revaluation reserve	-	-	-	35,022	-	-	-	-	35,022	-	35,022
Defined benefit plan	-	-	(2,118,258)	-	2,118,258	-	-	-	-	-	-
Statutory credit risk	-	-	-	-	-	-	-	-	-	-	-
Total other comprehensive income	-	-	(2,118,258)	35,022	2,118,258	106,831	(764,877)	(496,266)	(1,119,290)	(1,304)	(1,120,594)
Total comprehensive income	-	-	6,012,484	35,022	2,118,258	106,831	(764,877)	(496,266)	7,011,452	491,890	7,503,342
Transactions with owners	-	-	-	-	-	-	-	-	-	398,842	398,842
Acquisition of I&M Bank (Uganda) Limited (Formerly Orient Bank Limited)	-	-	189,227	-	65,401	-	-	-	254,628	(219,589)	35,039
Issue of shares - I&M Bank (T) Limited	826,810	(826,810)	-	-	-	-	-	-	-	-	-
Issue of bonus shares	-	(2,068)	-	-	-	-	-	-	(2,068)	-	(2,068)
Acquisition and bonus issue related cost	-	-	(1,860,324)	-	-	-	-	-	(1,860,324)	(89,893)	(1,950,217)
Dividends paid - 2021	-	-	-	-	-	-	-	-	-	-	-
Total transactions with owners for the year	826,810	(828,878)	(1,671,097)	-	65,401	-	-	-	(1,607,764)	89,360	(1,518,404)
At 31 December 2021	1,653,621	17,561,629	43,903,009	(103,539)	8,051,567	1,036,048	(752,545)	(1,756,759)	69,593,031	4,455,046	74,048,077

The notes set out on page 44 to 155 form an integral part of these consolidated and separate financial statements.

I&M GROUP PLC
(Formerly I&M Holdings PLC)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	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	-	-	8,073,855	-	-	-	-	-	8,073,855	338,703	8,412,558
Net profit after tax	-	-	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 44 to 155 form an integral part of these consolidated and separate financial statements.

I&M GROUP PLC
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COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

2021:	Share capital KShs '000	Share premium KShs '000	Retained earnings KShs '000	Fair value reserve KShs '000	Total KShs '000
At 1 January 2021	826,811	18,390,507	7,966,741	762	27,184,821
Comprehensive income for the year	-	-	6,695,968	-	6,695,968
Profit for the year	-	-	6,695,968	-	6,695,968
Other comprehensive income	-	-	-	(1,275)	(1,275)
Fair value reserve	-	-	-	(1,275)	(1,275)
Total other comprehensive income	-	-	-	(1,275)	(1,275)
Total comprehensive income for the year	-	-	6,695,968	(1,275)	6,694,693
Transactions with owners recorded directly in equity	826,810	(826,810)	-	-	-
Issue of bonus shares	-	(2,068)	-	-	(2,068)
Issue related cost	-	-	(1,860,324)	-	(1,860,324)
Dividends paid - 2021	-	-	-	-	-
Total transactions with owners for the year	826,810	(828,878)	(1,860,324)	-	(1,862,392)
At 31 December 2021	1,653,621	17,561,629	12,802,385	(513)	32,017,122
2020:					
At 1 January 2020	826,811	18,390,507	6,704,522	(39)	25,921,801
Comprehensive income for the year	-	-	3,370,586	-	3,370,586
Profit for the year	-	-	3,370,586	-	3,370,586
Total transactions with owners for the year	-	-	3,370,586	-	3,370,586
Fair value reserve	-	-	-	801	801
Total comprehensive income for the year	-	-	-	801	801
Transactions with owners recorded directly in equity	-	-	-	-	-
Issue of bonus shares	-	-	(2,108,367)	-	(2,108,367)
Dividends paid - 2021	-	-	-	-	-
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

The notes set out on page 44 to 155 form an integral part of these consolidated and separate financial statements.

I&M GROUP PLC
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CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	Group		Company	
		2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Net cash flows (utilised in)/ generated from operating activities	35(a)	<u>(14,406,479)</u>	<u>(13,718,921)</u>	<u>6,534,777</u>	<u>3,369,737</u>
Cash flows used in investing activities					
Purchase of property and equipment (excluding right of use assets)	25	(1,327,815)	(2,300,649)	-	-
Purchase of intangible assets	26(b)	(873,623)	(896,157)	-	-
Investment in subsidiaries		-	-	(4,284,013)	-
Additional Investment in I&M Bank (Rwanda) PLC	24(c)	-	-	-	(489,588)
Acquisition of I&M Bank (Uganda) Limited (formerly Orient Bank Limited) net of cash and cash equivalent	35(c)	2,300,643	-	-	-
Additional Investment in Joint venture	24(a)	-	(405,000)	-	(405,000)
Proceeds from disposal of property and equipment		39,779	39,139	-	-
Net cash used in investing activities		<u>138,984</u>	<u>(3,562,667)</u>	<u>(4,284,013)</u>	<u>(894,588)</u>
Cash flows used in financing activities					
Net outflows from term subordinated debt		5,763,666	(190,119)	-	-
Dividend paid to shareholders of the company		(1,860,324)	(2,108,367)	(1,860,324)	(2,108,367)
Dividend paid to non-controlling interests		(89,893)	(107,708)	-	-
Rights issue - I&M Bank (Rwanda) PLC		-	408,098	-	-
Rights issue -I&M Bank (T) Limited		65,401	-	-	-
Payment of lease liabilities	31	(419,977)	(397,328)	-	-
Capital restructuring costs		(2,068)	-	(2,068)	-
Net cash used in financing activities		<u>3,456,805</u>	<u>(2,395,424)</u>	<u>(1,862,392)</u>	<u>(2,108,367)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(10,810,690)</u>	<u>(19,677,012)</u>	<u>388,372</u>	<u>366,782</u>
Cash and cash equivalents at start of the year		<u>21,472,404</u>	<u>41,149,416</u>	<u>446,059</u>	<u>79,277</u>
Cash and cash equivalents at end of the year	35(b)	<u>10,661,714</u>	<u>21,472,404</u>	<u>834,431</u>	<u>446,059</u>

The notes set out on pages 44 to 155 form an integral part of these consolidated and separate financial statements.

I&M GROUP PLC
(Formerly I&M Holdings PLC)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

1. REPORTING ENTITY

I&M Group PLC (formerly 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, Uganda 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 2021 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 Bancassurance Intermediary 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 Bank (Uganda) Limited (formerly Orient Bank Limited) and 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
PO Box 30238
00100 Nairobi GPO

The Company owns the following entities directly:

- (i) Bank One Limited – 50% interest in Bank One Limited, a joint venture in a bank licensed in Mauritius;
- (ii) I&M Bank LIMITED – 100% shareholding;
- (iii) I&M Capital Limited – 100% Shareholding;
- (iv) I&M Realty Limited – 100% Shareholding;
- (v) BCR Investment Company Limited – 100% Shareholding;
- (vi) I&M Burbidge Capital Limited – 65% Shareholding;
- (vii) Giro Limited – 100% Shareholding, and;
- (viii) I&M Bank (Uganda) Limited (formerly Orient Bank Limited) – 90% Shareholding

Through I&M Bank LIMITED, the Company has:

- (i) 77.8% (2020 – 70.38%) shareholding in I&M Bank (T) Limited;
- (ii) 100% shareholding in I&M Bancassurance Intermediary Limited (incorporated on 23 July 2014),
- (iii) 100% shareholding in Youjays Insurance Brokers Limited (effective 31 March 2018) through I&M Bancassurance Intermediary 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.

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

I&M GROUP PLC
(Formerly I&M Holdings PLC)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

2. BASIS OF PREPARATION (Continued)

(a) Statement of compliance (continued)

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).

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

(i) Business combination

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (continued)

(i) *Business combination – continued*

The Group has an option to apply a ‘concentration test’ that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree’s employees (acquiree’s awards), then all or a portion of the amount of the acquirer’s replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree’s awards and the extent to which the replacement awards relate to pre-combination service.

(ii) *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.

(iii) *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.

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (continued)

(iv) *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.

(v) *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.

(vi) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currencies

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

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Foreign currencies (continued)

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.

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.

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(d) **Income recognition (continued)**

(i) *Net interest income – continued*

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

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

Presentation

Interest income and expense presented in the statement of profit or loss and other comprehensive income 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).

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income recognition (continued)

(ii) *Net fee and commission income*

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

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

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

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

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

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

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

(iv) *Other operating income*

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

(v) *Rental income – other operating income*

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

(vi) *Dividend income*

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

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Income tax expense

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

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

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

- temporary differences relating to the initial recognition of assets or liabilities in a transaction that is not a business combination and which affects neither accounting nor taxable profit;
- Temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

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

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

(f) Financial assets and financial liabilities

(i) Recognition

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (continued)

(ii) Classification

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (continued)

(ii) Classification – continued

Business model assessment – continued

— 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:

- 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (continued)

(ii) Classification – continued

Debt instruments measured at amortised cost

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 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (continued)

(ii) Classification – continued

Debt instruments measured at FVTPL

Debt instruments are measured at FVTPL if assets:

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

These instruments are measured at fair value in the 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.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (continued)

(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 amortised 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.

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'.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (continued)

(iii) Impairment on financial assets – continued

Significant Increase in Credit Risk (SICR)

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

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

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

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

Measurement of ECL

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (continued)

(iii) Impairment on financial assets – continued

Restructured financial assets – continued

- If the expected restructuring will 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.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (continued)

(iii) Impairment on financial assets – continued

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

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

(iv) De-recognition

Financial assets

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (continued)

(iv) De-recognition – continued

Financial assets – continued

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.

Financial liabilities

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (continued)

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

Financial assets

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

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

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

Financial liabilities

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

(vi) *Offsetting of financial assets and financial liabilities*

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

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

(g) Fair value measurement

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fair value measurement (continued)

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 measured 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 measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

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

(h) Cash and cash equivalents

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Cash and cash equivalents (continued)

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

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

(ii) Goodwill

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Intangible assets (continued)

(ii) Goodwill – continued

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.

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.

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Leases (continued)

Group acting as a lessee – continued

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.

(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.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Impairment of non-financial assets (continued)

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

(m) Derivative financial instruments

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

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

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

(n) Employee benefits

(i) Defined contribution plan

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

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

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.

(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.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Non-current assets held for sale (continued)

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

New standards or amendments	Effective for annual period beginning or after
— Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2021
— COVID-19-Related Rent Concessions (Amendments to IFRS 16)	1 June 2020

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

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

The Financial Stability Board has initiated a fundamental review and reform of the major interest rate benchmarks used globally by financial market participants. This review seeks to replace existing interbank offered rates (IBORs) with alternative risk-free rates (ARRs) to improve market efficiency and mitigate systemic risk across financial markets. During the 2021 financial year, the LIBOR's administrator, the Intercontinental Exchange Benchmark Administration Limited, announced it would no longer publish EUR, CHF, JPY and GBP related LIBOR rates for all tenors after 31 December 2021. The IBA has adopted a two-stage approach for the cession of the USD LIBOR rates with the 1 week and 2 month USD LIBOR rates no longer being published after 31 December 2021 and the remaining being the overnight, 1 month, 3 month, 6 month and 12 month rates no longer being published after 30 June 2023. The LIBOR rates which the bank is exposed to will be replaced by secured overnight financing rate (SOFR).

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33. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Interest rate benchmark reform (Amendments to IFRS 9, IAS 39 and IFRS 7) – continued

Whilst there are plans to replace Johannesburg Interbank Average Rate (JIBAR), there is currently no indication of when the designated successor rate will be made available. Given that the LIBOR rates and ARR's are calculated on a different basis, adjustments may be made to contracts that are transitioned from LIBOR to ARR's, to ensure economic equivalence. The bank has several LIBOR linked contracts that extend beyond 2021. The bank ceased booking new LIBOR linked exposures from 1 January 2022, apart from in limited circumstances to align with industry guidance and best practice. From this date, new exposure will be booked using the SOFR. In certain instances, other suitable rates may be used, such as Central Bank policy rates. The bank has established a steering committee and within Assets and Liability Committee (ALCO) to manage the transition to ARR's.

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

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

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

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

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

The 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.

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(w) **New standards, amendments and interpretations (continued)**

(ii) *New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2021*

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

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

New standards or amendments	Effective for annual period beginning or after
— Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
— Annual Improvements to IFRS Standards 2018-2020	1 January 2022
— Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
— Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
— IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts	1 January 2023
— Classification of Liabilities as current or non-current (Amendments IAS 1)	1 January 2023
— Disclosure of Accounting Policy (Amendments to IAS 1 and IFRS Practice Statement 2)	1 January 2023
— Definition of Accounting Estimate (Amendments to IAS 8)	1 January 2023
— Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes	1 January 2023
— Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	1 January 2022 (Optional)

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

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

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

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

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3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(w) **New standards, amendments and interpretations (continued)**

(ii) *New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2021 – continued*

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

The following improvements were finalised in May 2020:

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

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

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

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

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

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

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

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

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2021 – continued

— *Reference to the Conceptual Framework (Amendments to IFRS 3) – continued*

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

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

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

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

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

— *IFRS 17 Insurance Contracts*

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

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

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

- (a) the fulfilment cash flows—the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and
- (b) the contractual service margin—the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided.

IFRS 17 requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the Company expects to recognise in the future.

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3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(w) **New standards, amendments and interpretations (continued)**

(ii) *New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2021 – continued*

— *IFRS 17 Insurance Contracts – continued*

IFRS 17 requires an entity to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts are accounted for in profit or loss as soon as the Company determines that losses are expected. IFRS 17 requires the entity to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates. The entity:

- (a) accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and
- (b) chooses where to present the effects of some changes in discount rates—either in profit or loss or in other comprehensive income.

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

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

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

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

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

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

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

The Group did not early adopt new or amended standards in the year ended 31 December 2021.

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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 2021 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Group. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses. 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.

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5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

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

Derivative financial instruments

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

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

Credit-related commitment risks

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

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

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

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

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

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

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5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Exposure to credit risk

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

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

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

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

Group

2021:	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
<i>Risk classification</i>				
Loans and advances to Customers at amortised cost				
Normal (Stage 1)	178,368,003	-	-	178,368,003
Watch (Stage 2)	-	23,483,533	-	23,483,533
Non-Performing loans (Stage 3)	-	-	22,637,444	22,637,444
Gross carrying amount	178,368,003	23,483,533	22,637,444	224,488,980
Loss allowance	(745,489)	(1,880,754)	(11,243,076)	(13,869,319)
Net carrying amount	177,622,514	21,602,779	11,394,368	210,619,661
2020:				
<i>Risk classification</i>				
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

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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:	2021	2020
Loans and advances to customers	KShs'000	KShs'000
<i>Identified impairment:</i>		
Grade 3: Substandard	1,423,884	4,288,655
Grade 4: Doubtful	14,906,087	15,177,428
Grade 5: Loss	6,307,473	4,129,380
	22,637,444	23,595,463
Specific allowances for impairment	(11,243,076)	(11,180,481)
Carrying amounts	11,394,368	12,414,982
<i>Unidentified impairment:</i>		
Grade 2: Watch	23,483,533	22,319,087
Grade 1: Normal	178,368,003	154,439,529
	201,851,536	176,758,616
Portfolio allowances for impairment	(2,626,243)	(1,782,332)
Carrying amounts	199,225,293	174,976,284
Total carrying amounts	210,619,661	187,391,266
	Gross	Net
	KShs'000	KShs'000
<i>Identified impairment:</i>		
31 December 2021		
Grade 3: Substandard	1,423,884	669,067
Grade 4: Doubtful	14,906,087	8,344,804
Grade 5: Loss	6,307,473	2,380,497
	22,637,444	11,394,368
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
	Gross	Net
	KShs'000	KShs'000
<i>Unidentified impairment:</i>		
31 December 2021		
Grade 1: Normal	178,368,003	177,622,514
Grade 2: Watch	23,483,533	21,602,779
	201,851,536	199,225,293
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

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5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

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

Impaired loans and securities

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

Neither past due nor impaired

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

2021:	Gross KShs'000	Impairment KShs'000	Net KShs'000	Credit impaired
Current	26,632	2,130	24,502	No
Past due:				
30-90 days	15,395	1,992	13,403	No
91-180 days	20,349	8,519	11,830	Yes
180-360 days	58,360	39,343	19,017	Yes
Over 360 days	17,597	17,597	-	Yes
	<u>138,333</u>	<u>69,581</u>	<u>68,752</u>	

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5. **FINANCIAL RISK MANAGEMENT (Continued)**

(a) **Credit risk (continued)**

(ii) *Credit quality analysis – Trade receivables – continued*

2020:	Gross KShs'000	Impairment KShs'000	Net KShs'000	Credit impaired
Current	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	No
180-360 days	55,103	31,997	23,106	Yes
Over 360 days	7,944	7,944	-	Yes
	<u>180,906</u>	<u>58,112</u>	<u>122,794</u>	

Impairment loss movement on trade receivables

	2021 KShs'000	2020 KShs'000
At 1 January	58,103	43,119
Charge for the year	11,442	14,956
Translation difference	36	37
At 31 December	<u>69,581</u>	<u>58,112</u>

Loss rates are based on actual credit loss experience over the past three years. All trade receivables that are past due over 180 days are considered uncollectible and fully impaired. All financial assets that are contractually 90 days in arrears are automatically classified as impaired under IFRS 9. The group therefore is of the view that due to the short term nature of these instruments, the impact of economic conditions is immaterial. Consequently, the impact of forward looking information has not been taken on these financial statements.

The risk management committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered.

The Group's review includes, if they are available; financial statements, credit agency information, industry information and in some cases references from other credible sources. Credit limits are established for each customer and reviewed frequently. Any credit exceeding those limits require approval from the risk management committee.

In addition, the Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of six months for customers. A significant part of the Group's customers have been transacting with the larger banking group.

The Group does not require collateral in respect of trade and other receivables. The Group does not have trade receivable and contract assets for which no loss allowance is recognised because of collateral.

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5. **FINANCIAL RISK MANAGEMENT (Continued)**

(a) **Credit risk (continued)**

(iii) *Credit quality analysis – Other assets*

The Group has estimated that the ECL for the following financial assets is not significant as at 31 December 2021. These financial assets have been assessed to be in Stage 1 (low credit risk). Consequently, no ECL has been recorded as at 31 December 2021.

	Group		Company	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Balances with central banks (Note 18)	21,343,955	15,412,097	-	-
Items in the course of collection (Note 19)	668,114	622,994	-	-
Loans and advances to banks (Note 20)	15,517,824	18,335,440	-	-
Financial assets at fair value through other comprehensive income (FVOCI) - Debt instruments (Note 22)	64,010,272	42,477,252	27,019	28,392
Other financial assets at amortised cost; Government securities (Note 22)	45,087,958	47,241,831	-	-
Due from group companies (Note 38)	-	-	834,431	446,059
	<u>146,628,123</u>	<u>124,089,614</u>	<u>861,450</u>	<u>474,451</u>

(iv) *Collateral and other security enhancements*

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

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

Group	2021	2020
	KShs'000	KShs'000
Fair value of collateral held – against impaired loans	<u>11,394,368</u>	<u>12,414,982</u>

(v) *Amounts arising from ECL*

Inputs, assumptions and techniques used for estimating impairment

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

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5. **FINANCIAL RISK MANAGEMENT (Continued)**

(a) **Credit risk (continued)**

(v) *Amounts arising from ECL – continued*

Significant increase in credit risk

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

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

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

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

Credit risk grading

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

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5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

(v) Amounts arising from ECL – continued

Credit risk grading - continued

In addition, the prudential guidelines are supplemented

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

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

The following are additional considerations for each type of portfolio held by the Group:

Customer loans and advances

After the date of initial recognition, the payment behaviour of the borrower is monitored on a periodic basis to develop a behavioural score. Any other known information about the borrower which impacts their creditworthiness. A relationship manager will also incorporate any updated or new information/credit assessments into the credit system on an ongoing basis.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for loans and advances. The Group collects performance and default information about its credit risk exposures analysed by country and borrower as well as by credit risk grading.

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and exchange rate.

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.

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5. **FINANCIAL RISK MANAGEMENT (Continued)**

(a) **Credit risk (continued)**

(v) *Amounts arising from ECL – continued*

COVID-19 considerations for the year ended 31 December 2021

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).

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.

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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 2021

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

The loan repayment deferral package is considered to be a loan modification under IFRS 9. This either results in the loan being derecognised and replaced with a new loan (substantial modification) or the existing loan continuing to be recognised (non-substantial modification). The table below shows the outstanding balance as at 31 December 2021 of all loans that have been modified (both substantial and non-substantial modifications):

	2021 KShs'000	2020 KShs'000
Assistance package category		
<i>Loan deferral package</i>		
Corporate & Institutional Banking	15,022,134	8,201,657
Business Banking	2,457,204	429,365
Premium Banking	247,053	100,164
Personal Banking	21,667	129,141
<i>Interest only</i>		
Corporate Institutional Banking	392,377	1,586,777
Business Banking	-	213,475
Premium Banking	-	-
Personal Banking	-	16,345
<i>Term extensions</i>		
Corporate Institutional Banking	2,474,680	14,245,720
Business Banking	1,280,961	5,539,981
Premium Banking	-	1,175,221
Personal Banking	1,905,569	2,430,319
Total		
Corporate Institutional Banking	17,889,191	24,034,154
Business Banking	3,738,165	6,182,821
Premium Banking	247,053	1,275,385
Personal Banking	1,927,236	2,575,805
	<u>23,801,645</u>	<u>34,068,165</u>

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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.

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5. **FINANCIAL RISK MANAGEMENT (Continued)**

(a) **Credit risk (continued)**

(v) *Amounts arising from ECL – continued*

Incorporation of forward-looking information

For banking subsidiaries, the Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the respective country Assets and Liabilities Committee (ALCO) and consideration of a variety of external actual and forecast information, the banking subsidiaries formulate a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the International Monetary Fund (IMF), World Bank and selected private-sector and academic forecasters.

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

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

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

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

COVID-19 considerations for the year ended 31 December 2021

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 2021, the base case assumptions have been updated to reflect the rapidly evolving situation with respect to COVID-19. This includes an assessment of the impact of central bank policies, governments' actions, the response of business, and institution specific responses (such as repayment deferrals). These are considered in determining the length and severity of the forecast economic downturn. The expected outcomes of key economic drivers for the base case scenario as at 31 December 2021 are described below.

In determining the likelihood of each of the macroeconomic scenarios based on sectors, weighting are applied to three scenarios; base, upside and downside.

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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 2021 - continued

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

The economic scenarios used as at 31 December 2021 included the following ranges of key indicators based on sectors;

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

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

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

Some sectors did not have correlations with macro-economic factors. These include: Agriculture, Building and Construction, Mining and Quarrying, Trade, Tourism Restaurant and Hotels. In view of this, management judgements were applied by taking an average of the percentage macro-adjustments from the sectors above 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.

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5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

(v) Amounts arising from ECL – continued

Incorporation of forward-looking information – continued

Energy and Water	Weighting			
	Coefficients	Base	Upside	Downside
		95%	3%	3%
Interbank	0.43020	4.17%	3.18%	5.16%
Deposit	1.65410	6.93%	6.64%	7.21%
Constant	(0.13170)	-	-	-

Transport	Weighting			
	Coefficients	Base	Upside	Downside
		54%	12%	25%
GDP	(4.51880)	5.10%	5.18%	5.02%
Public debt to GDP	0.85030	38.92%	36.93%	40.90%
Constant	0.06960	-	-	-

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

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

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5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

(v) Amounts arising from ECL – continued

Incorporation of forward-looking information – continued

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

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

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

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

In Rwanda, the backward elimination multiple regression model led to the following macro-economic factors per sector for the year ended 31 December 2021;

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

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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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;

Macro-Economic variable	2021		
	Base	Upside	Downside
	%	%	%
Weighting	58.33%	16.67%	25.00%
Central Bank Rate	4.50%	5%	4%
Repo rate	4.50%	5%	4%
Reverse Repo	4.50%	5%	4%
T-Bills 91 days	6.83%	7.45%	6.20%
Lending rate	16.23%	16.91%	15.54%
GDP	7.20%	7.65%	6.75%
Inflation	5.70%	7.00%	4.40%
Public debt to GDP	77.90%	84.80%	71.00%

Measurement of ECL

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

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

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

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

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

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5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

(v) Amounts arising from ECL – continued

Measurement of ECL – continued

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.

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

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5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

(v) Amounts arising from ECL – continued

ECL - Sensitivity analysis – continued

Group

2021:	ECL KShs'000	Impact KShs'000
If 1% of stage 1 facilities were included in Stage 2	2,358,125	181,185
If 1% of stage 2 facilities were included in Stage 1	2,162,496	(14,445)
100% upside scenario	2,157,525	(19,415)
100% base scenario	2,170,928	(6,012)
100% downside scenario	2,246,404	(75,504)

2020:	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	1,184,200	(461,817)
100% base scenario	1,683,016	19,403
100% downside scenario	2,154,016	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).

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

(v) Amounts arising from ECL – continued

Loans and advances to customers at amortised cost

Group	Provisions (ECL allowance)			Exposure (Gross balance)				
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000
Balance at 1 January 2021	527,618	1,254,714	11,180,481	12,962,813	154,439,529	22,319,087	23,595,463	200,354,079
Acquisition of I&M Bank (Uganda) Limited (Formerly Orient Bank Limited)	5,345	2,859	690,185	698,389	5,382,654	1,382,718	2,370,784	9,136,156
Transfer from 12 months ECL (Stage 1)	(9,354)	12,798	(3,444)	-	(8,250,304)	7,875,623	374,681	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	200,206	(451,281)	251,075	-	6,655,665	(10,047,354)	3,391,689	-
Transfer from Lifetime ECL credit impaired (Stage 3)	52,078	435,850	(487,928)	-	119,077	1,389,830	(1,508,907)	-
Net remeasurement of loss allowance	(98,454)	612,001	3,741,347	4,254,894	8,729,622	310,344	(200,362)	8,839,604
New financial assets originated or purchased	90,959	26,448	731,235	848,642	21,409,285	1,802,645	1,053,112	24,265,042
Financial assets derecognised	(21,965)	(11,927)	(455,915)	(489,807)	(10,362,716)	(1,648,970)	(1,109,715)	(13,121,401)
Write off	-	-	(4,485,302)	(4,485,302)	-	-	(5,430,645)	(5,430,645)
Translation difference	(944)	(708)	81,342	79,690	245,191	99,610	101,344	446,145
Balance at 31 December 2021	745,489	1,880,754	11,243,076	13,869,319	178,368,003	23,483,533	22,637,444	224,488,980

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5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

(v) Amounts arising from ECL - continued

Loans and advances to customers at amortised cost – continued

Group	Provisions (ECL allowance)			Exposure (Gross balance)				
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime 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
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5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

(v) Amounts arising from ECL – continued

Loan commitments and financial guarantee contracts

Group	Provisions (ECL allowance)			Exposure (Gross balance)				
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000
Balance at 1 January 2021	112,933	61,057	229,395	403,385	83,587,060	3,983,401	994,299	88,564,760
Acquisition of I&M Bank (Uganda) Limited (Formerly Orient Bank Limited)	3,006	759	-	3,765	2,202,015	265,476	75	2,467,566
Transfer from 12 months ECL (Stage 1)	2,340	(2,340)	-	-	(310,419)	190,880	119,539	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	50,958	(50,958)	-	-	3,182,930	(3,182,930)	-	-
Transfer from Lifetime ECL credit impaired (Stage 3)	14,524	-	(14,524)	-	698,462	-	(698,462)	-
Net remeasurement of loss allowance	3,769	22,648	-	26,417	(803,049)	386,193	1,521	(415,335)
New financial assets originated or purchased	71,891	1,995	2,365	76,251	18,836,985	43,597	7,992	18,888,574
Financial assets derecognised	(15,861)	(747)	(212,798)	(229,406)	(12,089,645)	(117,760)	(293,229)	(12,500,634)
Translation difference	364	181	(1,998)	(1,453)	228,443	(4,653)	(2,683)	221,107
Balance at 31 December 2021	243,924	32,595	2,440	278,959	95,532,782	1,564,204	129,052	97,226,038

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

(v) Amounts arising from ECL – continued

Loan commitments and financial guarantee contracts – continued

Group	Provisions (ECL allowance)			Exposure (Gross balance)				
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000
Balance at 1 January 2020	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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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 Group'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		Uganda	
	2021	2020	2021	2020	2021	2020	2021	2020
At 31 December	48%	50%	31%	29%	57%	53%	49%	50%
Average for the period	47%	48%	27%	25%	54%	40%	49%	49%
Highest for the period	49%	50%	32%	29%	58%	53%	54%	52%
Lowest for the period	44%	46%	24%	23%	51%	31%	49%	44%

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2021 to the contractual maturity date

Group 31 December 2021	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3- 12 months KShs'000	Due between 1- 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
LIABILITIES						
Deposits from banks	4,762,282	8,953,588	3,987,253	1,293,208	876,007	19,872,338
Items in the course of collection	-	95,530	-	-	-	95,530
Deposits from customers	92,318,893	98,805,030	96,060,554	11,290,251	5,781,360	304,256,088
Other liabilities	1,257,750	4,297,646	150,759	-	-	5,706,155
Long term debt	46,723	2,204	3,051,800	3,527,010	5,303,059	11,930,796
Subordinated debt	-	69,118	113,365	8,617,593	3,917,819	12,717,895
Contractual off-balance sheet financial liabilities	-	-	120,456,706	-	-	120,456,706
Capital commitments	-	-	5,968,322	-	-	5,968,322
Lease liabilities	42,693	126,248	325,919	1,681,277	538,402	2,714,539
At 31 December 2021	98,428,341	112,349,364	230,114,678	26,409,339	16,416,647	483,718,369

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5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (continued)

Group 31 December 2020	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3- 12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
LIABILITIES						
Deposits from banks	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
Leases	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

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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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 2021							
ASSETS							
Cash and balances with central banks	-	-	-	-	-	27,546,591	27,546,591
Items in the course of collection	-	-	-	-	-	668,114	668,114
Loans and advances to banks	4,733,372	7,003,301	315,338	-	-	3,465,813	15,517,824
Loans and advances to customers	7,772,925	164,463,662	4,286,798	19,882,911	14,098,968	114,397	210,619,661
Financial assets at fair value through profit or loss (FVTPL)	15,560	14,293	423,631	2,482,473	13,432,208	-	16,368,165
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	3,862,212	12,765,030	8,425,555	38,704,743	252,732	64,010,272
Other financial assets at amortised cost	329,585	8,289,460	11,675,075	18,347,968	6,514,622	-	45,156,710
Other assets	-	-	-	-	-	3,025,949	3,025,949
At 31 December 2021	12,851,442	183,632,928	29,465,872	49,138,907	72,750,541	35,073,596	382,913,286
LIABILITIES							
Deposits from banks	6,609,067	8,508,204	3,415,672	399,606	-	181,758	19,114,307
Items in the course of collection	-	-	-	-	-	95,530	95,530
Deposits from customers	84,758,357	97,994,801	89,220,161	4,865,067	83,096	19,825,027	296,746,509
Other liabilities	-	79,596	150,759	-	-	5,370,516	5,600,871
Long term debt	46,368	2,154	3,729,460	2,108,386	3,467,075	163,255	9,516,698
Subordinated debt	-	8,924,816	3,326	1,101,233	-	-	10,029,375
At 31 December 2021	91,413,792	115,509,571	96,519,378	8,474,292	3,550,171	25,636,086	341,103,290
Interest rate gap	(78,562,350)	68,123,357	(67,053,506)	40,664,615	69,200,370	9,437,510	41,809,996

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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 2020							
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

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.

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5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk – continued

Exposure to interest rate risk – continued

Sensitivity analysis

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

31 December 2021	Profit or loss	Equity net of tax
200 basis points	Increase/decrease in	Increase/decrease in
	basis points ('000)	basis points ('000)
Assets	6,956,794	5,217,596
Liabilities	(6,309,344)	(4,732,008)
Net position	647,450	485,588
<hr/>		
31 December 2020	Profit or loss	Equity net of tax
Assets	6,125,657	4,594,243
Liabilities	(5,472,978)	(4,104,734)
Net position	652,679	489,509

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5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (continued)

Currency rate risk

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

Group

At 31 December 2021	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with central banks	9,717,549	2,362,062	1,065,897	342,994	13,488,502
Items in the course of collection	44,276	-	825	-	45,101
Loans and advances to banks	7,423,980	8,377	1,117,072	8,727	8,558,156
Loans and advances to customers	72,990,048	3,988,648	3,847,242	-	80,825,938
Other financial assets at amortised cost	17,924,723	117,150	87,190	5,752	18,134,815
Other assets	3,924,181	13,253	10,787	18,360	3,966,581
At 31 December 2021	112,024,757	6,489,490	6,129,013	375,833	125,019,093
LIABILITIES					
Deposits from banks	4,266,830	18,615	96,339	1,601	4,383,385
Items in the course of collection	-	-	19,315	7	19,322
Deposits from customers	94,277,618	8,449,891	3,768,446	239,576	106,735,531
Other liabilities	2,864,262	19,058	319,501	29,242	3,232,063
Long-term debt	7,666,134	-	-	-	7,666,134
Subordinated debt	10,026,049	-	-	-	10,026,049
At 31 December 2021	119,100,893	8,487,564	4,203,601	270,426	132,062,484
Net on statement of financial position	(7,076,136)	(1,998,074)	1,925,412	105,407	(7,043,391)
Net notional off balance sheet position	519,355	2,008,621	2,601,085	32,722	5,161,783
Overall net position – 2021	(6,556,781)	10,547	4,526,497	138,129	(1,881,608)

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (continued)

Currency rate risk – continued

Group – continued

	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
At 31 December 2020					
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

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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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 2021	Profit or loss Strengthening/weakening of currency KShs'000	Equity net of tax Strengthening/weakening of currency KShs'000
USD (± 2.5% movement)	(163,920)	(114,744)
GBP (± 2.5% movement)	264	185
EUR (± 2.5% movement)	113,162	79,213
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

(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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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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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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5. **FINANCIAL RISK MANAGEMENT (Continued)**

(d) **Capital management (continued)**

Regulatory capital – Kenya – continued

	2021	2020
	KShs'000	KShs'000
Core capital (Tier 1)		
Share capital	2,980,000	2,980,000
Share premium	5,531,267	5,531,267
Retained earnings	32,937,303	36,447,470
	41,448,570	44,958,737
Less: Deferred tax	(66,019)	-
Less: Investment in subsidiary	(3,057,585)	(2,750,653)
Total Core capital	38,324,966	42,208,084
Supplementary capital (Tier 2)		
Term subordinated debt	7,778,208	2,546,106
Statutory loan loss reserve	6,747,297	4,580,387
	14,525,505	7,126,493
Total capital	52,850,471	49,334,577
Risk weighted assets		
Credit risk weighted assets	195,827,487	181,977,999
Market risk weighted assets	17,800,488	12,306,196
Operational risk weighted assets	33,513,810	29,691,747
Total risk weighted assets	247,141,785	223,975,942
Deposits from customers	232,110,990	219,831,712
Capital ratios	Minimum*	
Core capital/Total deposit liabilities	8.0%	16.51%
Core capital /Total risk weighted assets	10.5%	15.51%
Total capital /Total risk weighted assets	14.5%	22.03%

* 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 capital is analysed in two tiers:

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

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5. **FINANCIAL RISK MANAGEMENT (Continued)**

(d) **Capital management (continued)**

Regulatory capital – Tanzania – continued

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.

	2021	2020
	TZS'000	TZS'000
Core capital (Tier 1)		
Share capital	23,192,000	16,202,000
Share premium	18,090,228	18,090,228
Retained earnings	40,288,096	29,788,752
	81,570,324	64,080,980
Less: Prepaid expenses	(1,743,051)	(1,902,527)
Deferred tax asset	(6,898,287)	(7,211,017)
Intangible assets	-	-
Total Core capital	72,928,986	54,967,436
Supplementary capital (Tier 2)		
Term subordinated debt	-	930,400
General provisions in equity	15,820,613	19,294,170
Fair value reserve	253,891	248,938
	16,074,504	20,473,508
Total capital	89,003,490	75,440,944
Risk weighted assets		
On balance sheet	350,105,298	316,632,102
Off balance sheet	56,124,462	50,713,528
Capital charge for market risk	48,111,594	890,274
Operational risk weighted assets	861,975	30,156,410
Total risk weighted assets	455,203,329	398,392,314
	Minimum*	
Capital ratios		
Core capital /Total risk weighted assets	10.0%	13.80%
Total capital /Total risk weighted assets	12.0%	18.94%

* As defined by the Bank of Tanzania

— The minimum level of regulatory capital is TZS 15 billion.

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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.

Regulatory capital – Rwanda – continued

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.

	2021	2020
	Frw'000	Frw'000
Core capital (Tier 1)		
Share capital	15,150,000	12,120,000
Share premium	6,249,832	6,249,832
Retained earnings	38,335,411	32,968,671
	<u>59,735,243</u>	<u>51,338,503</u>
Less: Other reserves	606,828	249,453
Intangible assets	(2,943,460)	(3,814,403)
Total Core capital (Tier 1 Capital)	<u>57,398,611</u>	<u>47,773,553</u>
Supplementary capital		
Revaluation reserves	4,433,435	3,660,400
Term subordinated debt	4,038,471	5,834,850
	<u>8,471,906</u>	<u>9,495,250</u>
Total capital (Tier 2 Capital)	<u>65,870,517</u>	<u>57,268,803</u>
Total risk weighted assets	<u>317,436,863</u>	<u>296,639,446</u>
Capital ratios	Minimum*	
Core capital /Total risk weighted assets	<u>10.0%</u>	<u>16.10%</u>
Total capital /Total risk weighted assets	<u>15.0%</u>	<u>19.31%</u>

* *As defined by the Bank of Rwanda*

The minimum level of regulatory capital is RWF 5 billion.

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5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management (continued)

Regulatory Capital – Uganda

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- To comply with the capital requirements set by the Central Bank;
- 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; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Bank of Uganda (the Authority), for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

The Financial Institutions (Capital Buffers) Regulations 2020 were issued in 2020 which will increase the Bank's minimum capital requirement from 10% and 12% to 12.5% and 14.5% for core and total capital respectively effective 31 December 2021.

The regulatory capital requirements are strictly observed when managing economic capital. The Bank's regulatory capital is managed by its Bank Treasury and comprises two tiers:

- Tier 1 capital: permanent shareholder's equity, share premium, prior years' retained profits, net after tax profits current year to date (50% only), general reserves, less goodwill and other intangible assets, current year losses, investment in unconsolidated subsidiaries, deficiencies in provisions for losses, prohibited loans to insiders and other deductions determined by Central Bank
- Tier 2 capital: Revaluation reserves on fixed assets, unencumbered general provisions for losses, hybrid capital instruments and others and subordinated term debt.

The risk-weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of and reflecting an estimate of the credit risk associated with each asset and counterparty. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2021 and 2020. During those two years, the Bank complied with all of the externally imposed capital requirements to which it is subject.

Orient Bank Limited was prudent in taking specific provisions on loans and advances as per Bank of Uganda prudential guidelines on credit classification regulations, 2005, which resulted into breach of Capital adequacy requirements as at 31 December 2020. However, the Directors prior to the breach had notified the shareholders, who took the remedial steps to arrest the breach through a resolution, dated 28 December 2020 committing to injection of Capital of Ushs 14,700,000,000.

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5. **FINANCIAL RISK MANAGEMENT (Continued)**

(d) **Capital management (continued)**

Regulatory Capital – Uganda – continued

The funds were subsequently received within the time lines stipulated by Bank of Uganda (forty five days from date of breach) as per the Financial Institution's Act, 2004 as amended in 2016, section 86, which corrected the breach.

	2021	2020
	Ushs'000	Ushs'000
Core capital (Tier 1)		
Share capital	132,000,000	96,750,000
Retained earnings	<u>(28,612,072)</u>	<u>(24,716,375)</u>
	<u>103,387,928</u>	<u>72,033,625</u>
Less: Intangible assets	(1,773,227)	(3,043,717)
Deferred income tax asset	(60,227,771)	(43,114,532)
Unrealised foreign exchange gains	626,881	(33,455)
Investment in subsidiary	-	(80,000)
Total Core capital (Tier 1 Capital)	<u>42,013,811</u>	<u>25,761,921</u>
Supplementary capital		
Revaluation reserves	-	1,195,445
General provisions	<u>2,492,904</u>	<u>3,355,707</u>
	<u>2,492,904</u>	<u>4,551,152</u>
Total capital (Tier 2 Capital)	<u>44,506,715</u>	<u>30,313,073</u>
Risk weighted assets:		
On-balance sheet	257,331,779	283,655,899
Off-balance sheet	26,936,185	46,355,332
Market risk	<u>9,704,985</u>	<u>5,118,023</u>
Total risk weighted assets	<u>293,972,949</u>	<u>335,129,254</u>
Capital ratios	Minimum*	
Core capital /Total risk weighted assets	12.5%	<u>14.29%</u>
Total capital /Total risk weighted assets	14.5%	<u>9.05%</u>

* As defined by the Bank of Uganda

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.

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5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management (continued)

Regulatory Capital – Mauritius – continued

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 2021 was 20.89% (2020 - 19.81%).

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.

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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6. USE OF ESTIMATES AND JUDGEMENT (Continued)

Key sources of estimation uncertainty (continued)

(b) *Income taxes*

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

(c) *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.

(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.

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

Accounting classifications at carrying amounts and fair values

Group	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
31 December 2021	-	27,546,591	-	-	-	27,546,591	-	-	-	-
Cash and balances with central banks	-	668,114	-	-	-	668,114	-	-	-	-
Items in the course of collection	-	15,517,824	-	-	-	15,517,824	-	-	-	-
Loans and advances to banks	-	210,619,661	-	-	-	210,619,661	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss (FVTPL)	-	-	-	16,368,165	-	16,368,165	16,368,165	-	-	16,368,165
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	64,010,272	-	-	64,010,272	63,533,858	-	476,414	64,010,272
Other financial assets at amortised cost	-	45,156,710	-	-	-	45,156,710	45,087,958	-	-	45,087,958
Property and equipment:Buildings	7,352,451	-	-	-	-	7,352,451	-	7,352,451	-	7,352,451
Other assets	-	3,025,949	-	-	-	3,025,949	-	-	-	-
	7,352,451	302,534,849	64,010,272	16,368,165	-	390,265,737	124,989,981	7,352,451	476,414	132,818,846
Deposits from banks	-	-	-	-	19,114,307	19,114,307	-	-	-	-
Items in course of collection	-	-	-	-	95,530	95,530	-	-	-	-
Deposits from customers	-	-	-	-	296,746,509	296,746,509	-	-	-	-
Other liabilities	-	-	-	-	5,600,871	5,600,871	-	-	-	-
Long term debt	-	-	-	-	9,516,698	9,516,698	-	-	-	-
Subordinated debt	-	-	-	-	10,029,375	10,029,375	-	-	-	-
	-	-	-	-	341,103,290	341,103,290	-	-	-	-

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7. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE (Continued)
Accounting classifications at carrying amounts and fair values (continued)

Group	Carrying amounts					Fair value				
	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
31 December 2020										
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	-	-	-	-
Due to group companies	-	-	-	-	5,402,428	5,402,428	-	-	-	-
Long term borrowings	-	-	-	-	10,317,827	10,317,827	-	-	-	-
Subordinated debt	-	-	-	-	4,454,936	4,454,936	-	-	-	-
	-	-	-	-	289,880,791	289,880,791	-	-	-	-

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

Accounting classifications at carrying amounts and fair values (continued)

Company	Carrying amounts				Fair value		
	Financial assets at amortised cost KShs'000	Financial assets at FVOCI KShs'000	Other financial liabilities at amortised cost KShs'000	Total KShs'000	Level 1 KShs'000	Level 3 KShs'000	Total KShs'000
31 December 2021							
Financial assets							
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	27,019	-	27,019	27,019	-	27,019
Due from group companies	834,431	-	-	834,431	-	-	-
Other assets	229,786	-	-	229,786	-	-	-
	1,064,217	27,019	-	1,091,236	27,019	-	27,019
Financial liabilities							
Due to group companies	-	-	1,931,640	1,931,640	-	-	-
Other liabilities	-	-	97,423	97,423	-	-	-
	-	-	2,029,063	2,029,063	-	-	-

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

Accounting classifications at carrying amounts and fair values (continued)

Company	Carrying amounts			Fair value			
	Financial assets at amortised cost KShs'000	Financial assets at FVOCI KShs'000	Other financial liabilities at amortised cost KShs'000	Total KShs'000	Level 1 KShs'000	Level 3 KShs'000	Total KShs'000
31 December 2020							
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	-	-	-

Measurement of fair values

(i) *Valuation techniques and significant unobservable inputs*

Financial assets measured at fair value - At 31 December 2021 and 31 December 2020

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

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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 2021.

	Kenya KShs'000	Tanzania KShs'000	Rwanda KShs'000	Mauritius KShs'000	Uganda KShs'000	Elimination KShs'000	Total KShs'000
2021							
Net interest income	15,757,495	1,509,033	2,946,533	-	663,833	-	20,876,894
Net fee commission and other income	6,892,473	478,328	720,175	-	380,717	(202,099)	8,269,594
Operating income	22,649,968	1,987,361	3,666,708	-	1,044,550	(202,099)	29,146,488
Operating expenses	(7,238,187)	(1,064,551)	(1,894,376)	(15,830)	(861,604)	14,647	(11,059,901)
Depreciation and Amortisation	(1,331,301)	(176,828)	(381,192)	-	(133,649)	-	(2,022,970)
Net impairment losses on loans and advances	(3,113,289)	(254,553)	(186,895)	-	(644,864)	-	(4,199,601)
Operating expenses	(11,682,777)	(1,495,932)	(2,462,463)	(15,830)	(1,640,117)	14,647	(17,282,472)
Results from joint venture	-	-	-	548,890	-	-	548,890
Profit before tax	10,967,191	491,429	1,204,245	533,060	(595,567)	(187,452)	12,412,906
Profit after tax	7,402,568	336,838	1,005,300	533,059	(372,279)	(281,550)	8,623,936
Loans and advances to customers	168,945,534	17,413,506	24,260,621	-	-	-	210,619,661
Deposits from customers	246,278,288	21,404,048	29,064,173	-	-	-	296,746,509
Total assets	347,155,715	28,855,393	50,549,818	4,817,545	22,615,650	(38,813,444)	415,180,677
Total liabilities	254,880,391	24,016,267	43,764,969	7,336	19,317,684	(854,047)	341,132,600
Capital expenditure	1,267,818	100,246	693,950	-	139,424	-	2,201,438

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	Kenya KShs'000	Tanzania KShs'000	Rwanda KShs'000	Mauritius KShs'000	Uganda KShs'000	Elimination KShs'000	Total KShs'000
8. OPERATING SEGMENTS (Continued)							
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
Operating income	18,865,691	1,707,676	3,402,511	-	6,970	(73,139)	23,909,709
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)
Results from joint venture	-	-	-	(678,962)	-	-	(678,962)
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	2,073,451	120,645	1,002,710	-	-	-	3,196,806

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9. INTEREST INCOME

	Group		Company	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Loans and advances to customers	23,769,022	21,885,324	-	-
Loans and advances to banks	231,501	364,446	33,963	26,139
Investment securities:-				
- At amortised cost	4,234,596	3,346,508	-	-
- FVOCI - Debt instruments	4,846,349	2,252,297	3,028	3,036
	<u>33,081,468</u>	<u>27,848,575</u>	<u>36,991</u>	<u>29,175</u>

10. INTEREST EXPENSE

Deposits from customers	10,256,364	10,552,655	-	-
Deposits from banks	961,451	860,925	-	-
Long term debt	434,967	390,107	-	-
Subordinated debt	427,850	297,423	-	-
Lease liabilities (Note 31)	123,942	147,870	-	-
	<u>12,204,574</u>	<u>12,248,980</u>	<u>-</u>	<u>-</u>

11. NET FEE AND COMMISSION INCOME

Fee and commission income				
Commissions	3,612,857	3,080,687	-	-
Service fees	1,263,369	1,089,616	-	-
	<u>4,876,226</u>	<u>4,170,303</u>	<u>-</u>	<u>-</u>
Fee and commission expense				
Interbank transaction fees	(143,589)	(76,152)	-	-
Other	(322,437)	(251,487)	-	-
	<u>(466,026)</u>	<u>(327,639)</u>	<u>-</u>	<u>-</u>
Net fee and commission income	<u>4,410,200</u>	<u>3,842,664</u>	<u>-</u>	<u>-</u>

12. NET TRADING INCOME

Foreign exchange income	1,732,746	1,883,939	-	-
Net income on financial assets at fair value through profit or loss (FVTPL)	1,634,349	1,986,392	-	-
	<u>3,367,095</u>	<u>3,870,331</u>	<u>-</u>	<u>-</u>

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13. OTHER OPERATING INCOME

	Group		Company	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Rental income	320,647	299,157	-	-
Profit on sale of property and equipment	17,595	4,470	-	-
Other income	154,057	293,492	2,817	318
Dividend income	-	-	6,778,527	3,377,000
	<u>492,299</u>	<u>597,119</u>	<u>6,781,344</u>	<u>3,377,318</u>

14. OPERATING EXPENSES

	Group		Company	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Staff Costs				
Salaries and wages	5,120,297	3,765,906	-	-
Contribution to defined contribution plan	226,373	170,988	-	-
Statutory contribution	123,208	86,245	-	-
Other staff costs	532,035	532,305	-	-
	<u>6,001,913</u>	<u>4,555,444</u>	<u>-</u>	<u>-</u>
Premises and equipment costs				
Service charge	164,346	146,950	-	-
Electricity	301,863	148,715	-	-
Other premises and equipment costs	101,889	133,067	-	-
	<u>568,098</u>	<u>428,732</u>	<u>-</u>	<u>-</u>
Other expenses				
Deposit protection insurance contribution	438,624	342,512	-	-
Loss on disposal of property and equipment	30,200	7,802	-	-
Other general administrative expenses	4,021,066	2,945,551	114,249	31,102
	<u>4,489,890</u>	<u>3,295,865</u>	<u>114,249</u>	<u>31,102</u>
Depreciation and amortisation				
Depreciation on property and equipment (Note 25)	1,320,783	993,125	-	-
Amortisation of intangible assets (Note 26(b))	702,187	532,741	-	-
	<u>2,022,970</u>	<u>1,525,866</u>	<u>-</u>	<u>-</u>

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14. OPERATING EXPENSES (Continued)

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

	Group		Company	
	2021	2020	2021	2020
Management	1,730	1,472	-	-
Others	401	279	-	-
	<u>2,131</u>	<u>1,751</u>	<u>-</u>	<u>-</u>

15. PROFIT BEFORE INCOME TAX

	Group		Company	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Profit before income tax is arrived at after charging/(crediting):				
Depreciation	1,320,783	993,125	-	-
Amortisation of intangible assets	702,187	532,741	-	-
Directors' emoluments:				
Fees	23,589	23,912	11,360	12,663
Other	81,432	67,029	-	-
Auditor's remuneration	34,373	34,171	2,414	1,680
Net profit on disposal of property and equipment	(12,605)	(3,332)	-	-
Dividend income	-	-	<u>6,778,527</u>	<u>3,377,000</u>

16. INCOME TAX EXPENSE AND TAX PAYABLE

(a) Income tax expense

	Group		Company	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Current tax				
Current year's	3,850,229	3,884,357	8,796	7,235
(Over)/under provision in prior year	33,345	(99,263)	(678)	(2,430)
	<u>3,883,574</u>	<u>3,785,094</u>	<u>8,118</u>	<u>4,805</u>
Deferred tax (Note 27)				
Current year	(66,770)	(1,496,080)	-	-
Prior year adjustment	(27,834)	250,432	-	-
	<u>(94,604)</u>	<u>(1,245,648)</u>	<u>-</u>	<u>-</u>
Income tax expense	<u>3,788,970</u>	<u>2,539,446</u>	<u>8,118</u>	<u>4,805</u>

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16. **INCOME TAX EXPENSE AND TAX PAYABLE (Continued)**

(a) **Income tax expense (continued)**

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

	Group		Company	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Accounting profit before income tax	<u>12,412,906</u>	<u>10,952,004</u>	<u>6,704,086</u>	<u>3,375,391</u>
Computed tax using the applicable corporation tax rate 30% (2020 - 25%)	3,723,872	2,738,001	2,011,226	843,848
Effect of change in tax rate	-	(196,852)	-	(138)
Under(over) provision in the prior year	33,345	(99,263)	(678)	(2,430)
Impact of share of joint venture's loss/(profit)	(164,667)	169,741	-	-
Effect on non-deductible costs/non-taxable income	224,254	(322,613)	(2,002,430)	(836,475)
Over provision in prior year - deferred tax (Note 27)	(27,834)	250,432	-	-
	<u>3,788,970</u>	<u>2,539,446</u>	<u>8,118</u>	<u>4,805</u>

(b) **Tax (recoverable)/payable**

	Group		Company	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January	22,275	856,875	(4,369)	(5,253)
Income tax expense (Note 16(a))	3,883,574	3,785,094	8,118	4,805
Effect of tax in foreign jurisdiction	(97,379)	41	-	-
Tax paid	(4,238,920)	(4,619,735)	(7,212)	(3,921)
At 31 December	<u>(430,450)</u>	<u>22,275</u>	<u>(3,463)</u>	<u>(4,369)</u>
Tax recoverable	(459,760)	(133,588)	(3,463)	(4,369)
Tax payable	29,310	155,863	-	-
Net payable	<u>(430,450)</u>	<u>22,275</u>	<u>(3,463)</u>	<u>(4,369)</u>

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17. EARNINGS PER SHARE

	Group		Company	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Profit for the year attributable to equity holders (KShs '000')	8,130,742	8,073,855	6,695,968	3,370,586
Weighted average number of ordinary shares in issue during the year (2020-Restated)	<u>1,653,621</u>	<u>1,653,621</u>	<u>1,653,621</u>	<u>1,653,621</u>
Earnings per share (KShs)	<u>4.92</u>	<u>4.88</u>	<u>4.05</u>	<u>2.04</u>

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

18. CASH AND BALANCES WITH CENTRAL BANKS

	Group		Company	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Cash on hand	6,202,636	3,991,322	-	-
Balances with central banks				
-Restricted balances (CRR*)	17,360,918	11,508,107	-	-
-Unrestricted balances	<u>3,983,037</u>	<u>3,903,990</u>	<u>-</u>	<u>-</u>
	<u>27,546,591</u>	<u>19,403,419</u>	<u>-</u>	<u>-</u>

The Group's Cash Reserve Ratio (CRR) is non-interest earning and is based on the value of deposits as adjusted for the respective central banks requirements. At 31 December 2021, the cash ratio requirement was 4.25% (2020 – 4.25%) in Kenya, Tanzania was 10.0% (2020 – 10.0%) and 5% (2020 – 5%) in Rwanda and Uganda was 4.25% (2020 5.25%) of eligible deposits.

19. ITEMS IN THE COURSE OF COLLECTION

	Group		Company	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Assets	668,114	622,994	-	-
Liabilities	<u>95,530</u>	<u>261,363</u>	<u>-</u>	<u>-</u>

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

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20. LOANS AND ADVANCES TO BANKS

	Group		Company	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Due within 90 Days	15,202,486	18,335,440	-	-
Due after 90 days	315,338	-	-	-
	<u>15,517,824</u>	<u>18,335,440</u>	<u>-</u>	<u>-</u>

21. LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

	2021	2020
	KShs'000	KShs'000
Overdrafts	56,433,865	52,817,818
Loans	159,470,851	141,748,263
Bills discounted	1,366,301	1,013,360
Hire purchase- finance leases	7,217,963	4,774,638
Gross loans and advances	<u>224,488,980</u>	<u>200,354,079</u>
Less: Impairment losses on loans and advances	<u>(13,869,319)</u>	<u>(12,962,813)</u>
Net loans and advances	<u>210,619,661</u>	<u>187,391,266</u>

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

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21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(b) Impairment losses on loans and advances and other financial assets at amortised cost - Group

	Loans and advances to Customers at amortised cost KShs'000	Loan commitments and financial guarantee contracts KShs'000	Total banking related financial assets KShs'000	Other financial assets at amortised cost - trade receivable KShs'000	Total KShs'000
2021:					
Net remeasurement of loss allowance	4,254,894	26,417	4,281,311	11,442	4,292,753
New financial assets originated or purchased	848,642	76,251	924,893	-	924,893
	5,103,536	102,668	5,206,204	11,442	5,217,646
Recoveries and impairment no longer required	(489,807)	(229,406)	(719,213)	-	(719,213)
Recoveries of loans and advances previously written off	(846,880)	-	(846,880)	-	(846,880)
Amounts directly written off during the year	547,964	-	547,964	78	548,042
	4,314,813	(126,738)	4,188,075	11,520	4,199,595

	Loans and advances to Customers at amortised cost KShs'000	Loan commitments and financial guarantee contracts KShs'000	Total banking related financial assets KShs'000	Other financial assets at amortised cost - trade receivable KShs'000	Total KShs'000
2020:					
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

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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

	2021	2020
	KShs'000	KShs'000
Interest on impaired loans and advances which have not yet been received in cash	<u>1,424,285</u>	<u>1,272,415</u>

(d) Loans and advances to customers concentration by sector

Group

	2021		2020	
	KShs'000	%	KShs'000	%
Manufacturing	57,403,877	26%	52,057,820	26%
Wholesale and retail trade	42,349,653	19%	35,736,622	18%
Building and construction	13,935,854	6%	15,904,791	8%
Agriculture	8,667,994	4%	7,002,635	3%
Real estate	34,548,392	15%	37,397,337	19%
Transport and communication	15,027,689	7%	13,482,552	7%
Business services	17,390,341	8%	13,870,994	7%
Electricity and water	1,265,651	1%	680,901	0%
Finance and insurance	4,994,388	2%	3,324,456	2%
Mining and quarrying	1,653,721	1%	1,456,910	1%
Others	27,251,420	11%	19,439,061	9%
	<u>224,488,980</u>	<u>100%</u>	<u>200,354,079</u>	<u>100%</u>

(e) Finance leases

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

Group

	2021	2020
	KShs'000	KShs'000
Receivable no later than 1 year	561,842	399,879
Receivable later than 1 year and no later than 5 years	5,500,870	4,362,357
Receivable later than 5 years	1,155,251	12,402
	<u>7,217,963</u>	<u>4,774,638</u>

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22. FINANCIAL ASSETS

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

Group

	2021	2020
	KShs'000	KShs'000
Derivative assets	342,477	70,969
Government securities (Non liquid)	<u>16,025,688</u>	<u>11,798,434</u>
	<u>16,368,165</u>	<u>11,869,403</u>

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

Group

	2021	2020
	KShs'000	KShs'000
Equity investment	476,414	448,857
Corporate bonds	362,346	-
Government securities (Non liquid)	<u>63,171,512</u>	<u>42,028,395</u>
	<u>64,010,272</u>	<u>42,477,252</u>

Company

Government securities (Non liquid)	<u>27,019</u>	<u>28,392</u>
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(c) Other financial assets at amortised cost

Group

	2021	2020
	KShs'000	KShs'000
Government securities (Non liquid)	45,087,958	47,241,831
Trade receivables	<u>68,752</u>	<u>122,794</u>
	<u>45,156,710</u>	<u>47,364,625</u>

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22. FINANCIAL ASSETS (Continued)

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

	Financial assets at fair value through profit or loss (FVTPL) Government securities KShs'000	Other financial assets at amortised cost Government securities KShs'000	Financial assets measured at fair value through other comprehensive income (FVOCI)			Total KShs'000
			Government securities KShs'000	Equity investments KShs'000	Corporate bond KShs'000	
31 December 2021						
At 1 January 2021	11,869,403	47,241,831	42,028,395	448,857	-	101,588,486
Acquisition of I&M Bank (Uganda) Limited (formerly Orient Bank Limited)	121,752	2,930,813	-	-	-	3,052,565
Additions	15,017,305	25,915,083	46,590,665	-	356,194	87,879,247
Disposals and maturities	(11,009,852)	(33,098,558)	(25,545,049)	-	-	(69,653,459)
Revaluation gain	111,697	-	80,556	-	-	192,253
Changes in fair value	201,884	-	(979,351)	(13,334)	(69)	(790,870)
Amortisation of discounts and premiums, unearned interest and interest receivable	48,775	1,711,401	1,051,277	38,885	6,221	2,856,559
Translation reserve	7,201	387,388	(54,981)	2,006	-	341,614
At 31 December 2021	16,368,165	45,087,958	63,171,512	476,414	362,346	125,466,395
31 December 2020						
At 1 January 2020	13,744,048	26,993,217	12,549,629	559,569	-	53,846,463
Reclassification	-	-	-	-	-	-
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

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22. FINANCIAL ASSETS (Continued)

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

Financial assets measured at fair value through other comprehensive income (FVOCI)	2021	2020
	KShs'000	KShs'000
At 1 January	28,392	27,679
Changes in fair value	(1,275)	801
Amortisation of discounts and premiums, unearned interest and interest receivable	(98)	(88)
At 31 December	<u>27,019</u>	<u>28,392</u>

23. HELD FOR SALE ASSETS

Group

	2021	2020
	KShs'000	KShs'000
Held for sale assets	<u>1,014,651</u>	<u>1,057,056</u>

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 Bancassurance Intermediary 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 Bank (Uganda) Limited (Formerly Orient Bank 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 Group PLC (Formerly I&M Holdings PLC). I&M Group PLC (Formerly I&M Holdings PLC) owns 50% of a joint venture in Mauritius (Bank One Limited).

(a) Investment in joint venture

The Company has 50% (2020 – 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 Group PLC (Formerly I&M Holdings PLC).

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24. **INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE (Continued)**

(a) **Investment in joint venture (continued)**

Group

	2021	2020
	KShs'000	KShs'000
Balance at start of the year	5,177,219	5,398,545
Additional investment in the year	-	405,000
Share of:		
Profit/(loss) from operations	548,890	(678,962)
Dividends received	-	-
Other comprehensive income	(500,002)	52,636
Balance at end of the year	<u>5,226,107</u>	<u>5,177,219</u>
Percentage ownership	50.00%	50.00%
Total assets (including cash and cash equivalents)	117,238,231	157,194,516
Total liabilities (including cash and cash equivalents)	(107,736,829)	(147,790,890)
Net assets (100%)	<u>9,501,402</u>	<u>9,403,626</u>
Group's share of net assets (50%)	4,750,701	4,701,813
Goodwill	475,406	475,406
Carrying amount of interest in joint venture	<u>5,226,107</u>	<u>5,177,219</u>
Interest income	3,067,823	4,106,490
Interest expense	(903,706)	(1,546,038)
Other income	1,500,121	1,078,002
Operating expenses	(2,276,915)	(5,106,340)
Income tax credit/(expense)	(289,543)	109,962
Profit and total comprehensive income (100%)	<u>1,097,780</u>	<u>(1,357,924)</u>
(Loss)/profit and loss (50%)	<u>548,890</u>	<u>(678,962)</u>
Groups share of total comprehensive income	<u>48,888</u>	<u>(626,326)</u>
Company:		
At 1 January	2,515,591	2,110,591
Additional investment in Bank One Limited	-	405,000
At 31 December	<u>2,515,591</u>	<u>2,515,591</u>

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24. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE (Continued)

(b) Investment in subsidiaries

Company	Activity	Shareholding	2021 KShs'000	2020 KShs'000
I&M Bank LIMITED	Banking Wealth	100.00%	19,840,176	19,840,176
I&M Capital Limited	management	100.00%	6,611	6,611
I&M Bank (Rwanda) PLC through BCR Investment Company Limited	Banking	54.47%	2,118,865	2,118,865
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
I&M Bank (Uganda) Limited (Formerly Orient Bank Limited)	Banking	90.00%	4,284,013	-
			<u>30,435,895</u>	<u>26,151,882</u>

The Group owns the following subsidiaries through I&M Bank LIMITED, its wholly owned subsidiary:

Company	Activity	Jurisdiction	Shareholding
I&M Bancassurance Intermediary Limited	Bancassurance	Kenya	100.00%
I&M Bank (T) Limited	Banking	Tanzania	77.80%
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

	2021 KShs'000	2020 KShs'000
At 1 January	26,151,882	25,662,294
Acquisition of I&M Bank (Uganda) Limited (Formerly Orient Bank Limited)	3,288,168	-
Additional investment in I&M Bank (Uganda) Limited (Formerly Orient Bank Limited)	995,845	-
Additional investment in I&M Bank (Rwanda) PLC	-	489,588
At December	<u>30,435,895</u>	<u>26,151,882</u>

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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24. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE (Continued)

Below is the summary of financials of the banking subsidiaries.

Summarized statement of financial position	I&M Bank LIMITED		I&M Bank (T) Limited		I&M Bank (Rwanda) PLC		I&M Bank (Uganda) Limited (Formerly Orient Bank Limited)	
	2021 KShs'M	2020 KShs'M	2021 KShs'M	2020 KShs'M	2021 KShs'M	2020 KShs'M	2021 KShs'M	2020 KShs'M
Summarized statement of profit and loss and other comprehensive income								
Net interest income	15,667	11,822	1,509	1,295	2,947	2,445	664	-
Profit before income tax	10,587	10,289	492	386	1,204	855	(596)	-
Income tax expense	(3,582)	(2,027)	(155)	(111)	(199)	(294)	223	-
Profit for the year	7,005	8,262	337	275	1,005	561	(373)	-
Summarised statement of cash flows								
Net cash generated from operating activities	(14,051)	(19,355)	1,372	1,745	3,749	(1,645)	(1,926)	-
Net cash used in investing activities	(1,520)	(1,793)	(99)	(71)	(700)	(1,030)	(84)	-
Net cash (used in)/generated from financing activities	(1,225)	(3,437)	(304)	(739)	1,411	4,085	(70)	-
Net increase/(decrease) in cash and cash equivalents	(16,796)	(24,585)	969	935	4,460	1,410	(2,080)	-
Cash and cash equivalents at beginning of year	18,358	42,943	1,413	478	6,533	5,123	9,355	-
Cash and cash equivalents at end of year	1,562	18,358	2,382	1,413	10,993	6,533	7,275	-

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25. PROPERTY AND EQUIPMENT

2021:	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 2021	4,715,127	2,053,158	2,118,504	1,211,525	212,729	2,942,772	3,402,012	16,655,827
Acquisition of I&M Bank (Uganda) Limited (Formerly Orient Bank Limited)	-	117,274	230,976	306,119	28,260	303,933	26,092	1,012,654
Additions	100,382	59,634	221,088	74,461	25,648	328,104	846,602	1,655,919
Revaluation reserve	45,189	-	-	-	-	-	-	45,189
On disposals	-	(24,251)	(39,206)	(3,628)	(31,857)	(98,653)	(6,059)	(203,654)
Items expensed	-	-	(7,929)	-	-	-	-	(7,929)
Reclassification/internal transfers	2,768,127	53,920	432,509	667,085	-	-	(3,868,039)	53,602
Write offs/back	(384,165)	-	-	-	-	-	-	(384,165)
Surplus on revaluation	271,811	-	-	-	-	-	-	271,811
Translation difference	(13,001)	11,028	15,304	9,581	1,022	6,558	(12,940)	17,552
At 31 December 2021	7,503,470	2,270,763	2,971,246	2,265,143	235,802	3,482,714	387,668	19,116,806
Depreciation								
At 1 January 2021	227,752	1,133,282	1,126,505	1,038,389	157,867	850,444	-	4,534,239
Acquisition of I&M Bank (Uganda) Limited (Formerly Orient Bank Limited)	-	91,298	184,642	280,281	21,806	156,616	-	734,643
Charge for the year	159,941	215,460	228,414	197,848	34,036	485,084	-	1,320,783
Write-offs	(135,981)	-	-	-	-	-	-	(135,981)
Reversal on revaluation	(98,767)	-	-	-	-	-	-	(98,767)
On disposals	-	(16,849)	(33,593)	(3,433)	(28,722)	(68,673)	-	(151,270)
Translation differences	(1,926)	8,005	10,316	8,119	765	4,251	-	29,530
At 31 December 2021	151,019	1,431,196	1,516,284	1,521,204	185,752	1,427,722	-	6,233,177
Net book value at 31 December 2021	7,352,451	839,567	1,454,962	743,939	50,050	2,054,992	387,668	12,883,629

In 2021, the buildings on LR No: 209/7265, LR No: 1870/1/579 and L.R.No. 209/21705 were revalued by an independent valuer, Coral valuers (2020 Kiragu & Mwangi Limited). The valuation is level 3 under the Fair value hierarchy.

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25. PROPERTY AND EQUIPMENT (Continued)

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
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
Transfer from prepaid operating lease rentals	-	-	-	-	-	-	-	-
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)
Transfers from intangible assets	-	-	-	-	-	-	-	-
Write offs/back	-	-	-	-	-	-	-	-
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
Depreciation								
At 1 January 2020	182,459	996,036	969,565	871,347	138,447	461,137	-	3,618,991
Transfer from prepaid operating lease rentals	-	-	-	-	-	-	-	-
Charge for the year	139,381	130,021	148,240	167,014	27,866	380,603	-	993,125
Write-offs	-	-	-	-	-	-	-	-
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

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26. INTANGIBLE ASSETS

(a) Goodwill

	2021 KShs'000	2020 KShs'000
I&M Bank LIMITED	1,195	1,195
I&M Bank (T) Limited	526,504	505,276
I&M Bank (Rwanda) PLC	433,256	437,690
I&M Burbidge Capital Limited	35,481	34,865
Giro Limited	1,944,139	1,944,139
Youjays Insurance Brokers Limited	232,284	232,284
I&M Bank (Uganda) Limited (Formerly Orient Bank Limited)	721,331	-
	<u>3,894,190</u>	<u>3,155,449</u>

Movement of Goodwill

At 1 January	3,155,449	3,113,771
Acquisition of I&M Bank (Uganda) Limited (Formerly Orient Bank Limited)	721,331	-
Exchange differences	17,410	41,678
At 31 December	<u>3,894,190</u>	<u>3,155,449</u>

Acquisition of I&M Bank (Uganda) Limited (Formerly Orient Bank Limited)

	2021 KShs'000
Total purchase consideration paid in cash	<u>3,288,168</u>
Total assets	20,030,162
Total liabilities	(17,436,437)
Net assets acquired	<u>2,593,725</u>
Exchange differences	26,888
Goodwill	<u>721,331</u>

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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:

	I&M Bank (T) Ltd	I&M Bank (Rwanda) PLC	I&M Burbidge Capital Limited	Giro Limited	Youjays Insurance Brokers Limited	I&M Bank (Uganda) Limited (Formerly Orient Bank Limited)
2021						
5 year risk free rate	9.10%	11.20%	10.46%	10.46%	10.46%	13.00%
Risk premium	11.95%	10.43%	9.33%	9.33%	9.33%	9.68%
Terminal growth rate	3.00%	3.00%	4.00%	4.00%	4.00%	5.00%
Pretax discount rate	21%	21%	20%	20%	20%	21%
Exchange rate	KShs 1 = Tzs 20.59	KShs 1 = Rwf 9.17	KShs 1 = KShs 1	KShs 1 = KShs 1	KShs 1 = KShs 1	KShs 1 = Ushs 31.43
Present value of the recoverable amounts KShs in billions	4.318	4.915	0.173	6.401	0.340	3.820
Goodwill impaired	Nil	Nil	Nil	Nil	Nil	Nil
2020						
5 year risk free rate	9.10%	10.98%	10.46%	10.46%	10.46%	
Risk premium	10.83%	10.33%	9.33%	9.33%	9.33%	
Terminal growth rate	3.00%	3.00%	4.00%	4.00%	4.00%	
Pretax discount rate	20%	21%	20%	20%	20%	
Exchange rate	KShs 1 = Tzs 21.24	KShs 1 = Rwf 9.08	KShs 1 = KShs 1	KShs 1 = KShs 1	KShs 1 = KShs 1	
Present value of the recoverable amounts KShs in billions	3428	3.179	0.19	5.242	5.242	
Goodwill impaired	Nil	Nil	Nil	Nil	Nil	

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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.

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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 KShs'Million	Value in use KShs'Million	Value in use exceeding carrying value KShs'Million	Pretax discount rate %	Terminal growth rate %	Reduction in headroom			Change required to reduce the head room to zero		
						100bps increase in discount rate KShs'Million	100bps decrease in terminal rate KShs'Million	10% reduction in forecasted cash flows KShs'Million	Pretax discount rate %	Terminal growth rate %	Reduction in forecasted cash flows %
I&M Bank (T) Limited	527	4,318	3,791	20%	3%	(141.00)	(59.00)	(575.00)	-5%	-7%	-6%
I&M Bank (Rwanda) PLC	433	4,915	4,482	21%	3%	(464.90)	(170.70)	(1,115.50)	-1%	-2%	-10%
I&M Burbidge Capital Limited	35	173	138	20%	4%	(12.20)	(7.40)	(17.30)	204%	N/A	-80%
Youjays Insurance Brokers Limited	232	340	108	21%	4%	(21.00)	(11.80)	(15.80)	-5%	-8%	-50%
Giro Limited	1,944	6,401	4,457	21%	5%	(377.00)	(215.60)	(640.10)	-9%	-20%	-27%
I&M Bank (Uganda) Limited (Formerly Orient Bank Limited)	721	3,820	3,099	21%	5%	(187.40)	(72.00)	(410.60)	-0.2%	0.6%	-1.1%
Total	3,892	19,967	16,075								

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26. INTANGIBLE ASSETS (Continued)

(b) Software

2021:

	Software KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost			
At 1 January 2021	4,134,885	436,690	4,571,575
Acquisition of I&M Bank (Uganda) Limited (Formerly Orient Bank Limited)	667,642	-	667,642
Additions	372,814	500,809	873,623
Reclassification	419,164	(419,164)	-
Write offs	(960)	-	(960)
Translation differences	30,810	(799)	30,011
At 31 December 2021	<u>5,624,355</u>	<u>517,536</u>	<u>6,141,891</u>
Amortisation			
At 1 January 2021	2,135,082	-	2,135,082
Acquisition of I&M Bank (Uganda) Limited (Formerly Orient Bank Limited)	597,251	-	597,251
Amortisation for the year	702,187	-	702,187
Write offs	(960)	-	(960)
Translation differences	23,462	-	23,462
At 31 December 2021	<u>3,457,022</u>	<u>-</u>	<u>3,457,022</u>
Carrying amount at 31 December 2021	<u>2,167,333</u>	<u>517,536</u>	<u>2,684,869</u>

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	<u>4,134,885</u>	<u>436,690</u>	<u>4,571,575</u>
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	<u>2,135,082</u>	<u>-</u>	<u>2,135,082</u>
Carrying amount at 31 December 2020	<u>1,999,803</u>	<u>436,690</u>	<u>2,436,493</u>

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27. DEFERRED TAX ASSET – Group

	Balance at 1 January KShs'000	Acquisition of subsidiary KShs'000	Prior year adjustment KShs'000	Recognised in equity KShs'000	Translation differences KShs'000	Recognised in profit or loss KShs'000	Balance at 31 December KShs'000
2021:							
Property and equipment	(550,877)	-	13,873	(47,991)	2,734	(415,188)	(997,449)
Right of use of asset	(24,606)	-	32,353	-	300	(26,045)	(17,998)
General provisions	544,628	1,353,006	113,156	-	66,564	627,417	2,704,771
Other provisions	4,061,558	-	(130,647)	-	187,110	(105,857)	4,012,164
Fair value reserves	180,801	(4,055)	(901)	240,573	(164)	(13,557)	402,697
	4,211,504	1,348,951	27,834	192,582	256,544	66,770	6,104,185
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

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28. OTHER ASSETS

	Group		Company	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Prepayments	624,290	574,688	500	500
Other receivables	2,401,659	1,767,809	229,286	3,624
	<u>3,025,949</u>	<u>2,342,497</u>	<u>229,786</u>	<u>4,124</u>

29. DEPOSITS FROM BANKS

Due within 90 days	15,299,029	5,119,979	-	-
Due after 90 days	3,815,278	1,642,856	-	-
	<u>19,114,307</u>	<u>6,762,835</u>	<u>-</u>	<u>-</u>

30. DEPOSITS FROM CUSTOMERS

Government and Parastatals	7,057,426	6,028,854	-	-
Private sector and individuals	289,689,083	256,652,548	-	-
	<u>296,746,509</u>	<u>262,681,402</u>	<u>-</u>	<u>-</u>

31. OTHER LIABILITIES

Bankers cheques payable	108,680	141,705	-	-
Accruals	1,817,442	1,656,161	6,658	3,580
Lease liabilities	1,696,214	1,798,872	-	-
Provisions for loan commitments*	278,959	403,385	-	-
Other accounts payable	1,608,811	1,288,027	-	2,633
Dividend payable	90,765	78,111	90,765	78,111
Derivative liabilities	-	36,167	-	-
	<u>5,600,871</u>	<u>5,402,428</u>	<u>97,423</u>	<u>84,324</u>

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

Lease liability

Group	2021	2020
	KShs'000	KShs'000
Expected to be settled within 12 months after the year end	494,860	504,488
Expected to be settled more than 12 months after the year end	1,201,354	1,294,384
	<u>1,696,214</u>	<u>1,798,872</u>

The total cash outflow for leases in the year was:

Group	2021	2020
	KShs'000	KShs'000
Payments of principal portion of the lease liability	419,977	397,328
Interest paid on lease liabilities	123,942	147,870
	<u>543,919</u>	<u>545,198</u>

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31. OTHER LIABILITIES (Continued)

Lease liability (continued)

Lease liability movement

Group	2021	2020
	KShs'000	KShs'000
Balance at 1 January	1,798,872	1,619,632
Acquisition of I&M Bank (Uganda) Limited (Formerly Orient Bank Limited)	155,081	-
Additions	328,104	550,523
Interest expense	123,942	147,870
Lease payments	(543,919)	(545,198)
Disposal	(27,037)	-
Translation difference	(138,829)	26,045
Balance at 31 December	<u>1,696,214</u>	<u>1,798,872</u>

Amounts recognized in profit or loss

Group	2021	2020
	KShs'000	KShs'000
Interest on lease liabilities (Note 10)	123,942	147,870
Depreciation of right to use asset (Note 25)	485,084	380,603
	<u>609,026</u>	<u>528,473</u>

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	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Less than one year	1,623,410	2,839,442	-	-
One to five years	7,893,288	7,478,385	-	-
	<u>9,516,698</u>	<u>10,317,827</u>	<u>-</u>	<u>-</u>

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32. LONG TERM DEBT (Continued)

Loan movement schedule

	Group		Company	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January	10,317,827	6,210,571	-	-
Acquisition of I&M Bank (Uganda) Limited (Formerly Orient Bank Limited)	75,118	-	-	-
Funds received	1,872,226	6,375,389	-	-
Payments on principal and interest	(3,114,889)	(2,406,296)	-	-
Exchange differences	366,416	138,163	-	-
At 31 December	<u>9,516,698</u>	<u>10,317,827</u>	<u>-</u>	<u>-</u>

Long term borrowings constituted the following:

- (i) USD 15,000,000 facility granted on 9 November 2018 by FMO repayable semi-annually over 4 and a half years after an initial one year grace period.
- (ii) TZS 3,250 million facility granted by Tanzania Mortgage Refinance Company Limited (TMRC) in two tranches. TZS 1,800 million granted on 13 August 2018 for a tenure of 5 years and TZS 1,450 million granted on 30 August 2018 for a tenure of 3 years. The interest on the facility repayable quarterly basis and the principal at maturity.
- (iii) 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.
- (iv) 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.
- (v) 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.

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33. **SUBORDINATED DEBT**

	Group		Company	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Less than one year	172,663	86,007	-	-
One to five years	5,923,403	3,294,040	-	-
Over five years	3,933,309	1,074,889	-	-
	<u>10,029,375</u>	<u>4,454,936</u>	<u>-</u>	<u>-</u>

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.

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

In Tanzania, USD 10 million granted on January 2015 by DEG of which USD 8 Million was received in January 2015 and matured on September 2021.

In Rwanda, USD 10 million 5-year subordinated loan with IFC.

The subordinated debt would in the event of winding up of the respective companies be subordinated to the claims of depositors and all other creditors. The Group and Company has not had any defaults of principal or interest with respect to these debts.

34. **SHARE CAPITAL AND RESERVES**

(a) **Share capital and share premium – Group and Company**

	2021	2020
	KShs'000	KShs'000
Authorised:		
1,653,621,476 ordinary shares of KShs 1 each	<u>1,653,621</u>	<u>1,500,000</u>
Issued and fully paid:		
Ordinary shares of KShs 1 each at 31 December	<u>1,653,621</u>	<u>826,811</u>

Movement of share capital and premium

2021:	Number of shares '000	Share capital Kshs'000	Share premium Kshs'000	Total Kshs'000
At 1 January	826,811	826,811	18,390,507	19,217,318
Issued of bonus shares	826,810	826,810	(826,810)	-
Issue related costs	-	-	(2,068)	(2,068)
31 December	<u>1,653,621</u>	<u>1,653,621</u>	<u>17,561,629</u>	<u>19,215,250</u>
2020:				
1 January and 31 December	<u>826,811</u>	<u>826,811</u>	<u>18,390,507</u>	<u>19,217,318</u>

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34. SHARE CAPITAL AND RESERVES (Continued)

(a) Share capital and share premium – Group and Company (continued)

During the Annual General Meeting (AGM) of 20 May 2021, 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 826,810,738 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. The par value per share is KShs 1.00.

(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 40-42.

(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 40-42.

(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 40-42.

(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 40-42.

(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 40-42.

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34. SHARE CAPITAL AND RESERVES (Continued)

(g) Defined benefit reserve

Bank One Limited (a joint venture for I&M Group PLC (Formerly 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.

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35. NOTES TO THE STATEMENT OF CASH FLOWS

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

	Note	Group		Company	
		2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Profit before income tax		12,412,906	10,952,004	6,704,086	3,375,391
Adjustments for:					
Depreciation on property and equipment	25	835,699	612,522	-	-
Depreciation on right of use asset	25	485,084	380,603	-	-
Amortisation of intangible asset	26(b)	702,187	532,741	-	-
Interest on lease liabilities	31	123,942	147,870	-	-
Net loss/(gain) on sale of property and equipment		12,605	3,332	-	-
Profit on sale of available for sale securities		(1,634,349)	(1,986,392)	-	-
Profit/(loss) from joint venture	24(a)	(548,890)	678,962	-	-
Exchange reserves		(50,290)	289,757	-	-
		<u>12,338,894</u>	<u>11,611,399</u>	<u>6,704,086</u>	<u>3,375,391</u>
Increase/(decrease) in operating assets					
Movement in loans and advances to customers		(17,454,205)	(12,061,840)	-	-
Financial assets at fair value through profit or loss (FVTPL)		(2,586,496)	3,861,037	-	-
Financial assets measured at fair value through other comprehensive income (FVOCI)		(22,589,549)	(29,088,745)	-	88
Other financial assets at amortised cost		5,314,260	(20,331,125)	-	-
Held for sale assets		42,405	(425,722)	-	-
Loans and advances to banks		1,597,194	-	-	-
Cash and balances with Central Banks – Cash Reserve Ratio	18	(4,540,508)	(683,367)	-	-
Other assets		(328,514)	(281,847)	(225,564)	4,756
		<u>(40,545,413)</u>	<u>(59,011,609)</u>	<u>(225,564)</u>	<u>4,844</u>
Increase/(decrease) in operating liabilities					
Customer deposits		17,653,655	32,944,893	-	-
Deposits from banks		1,982,203	1,100,467	-	-
Long-term borrowings		(939,292)	3,969,093	-	-
Other liabilities		(533,664)	434,441	13,099	(6,257)
Amounts due to group company		-	-	50,368	(320)
		<u>18,162,902</u>	<u>38,448,894</u>	<u>63,467</u>	<u>(6,577)</u>
Cash flows (utilised in)/ generated from operating activities					
Tax paid	16(b)	(4,238,920)	(4,619,735)	(7,212)	(3,921)
Interest on lease liabilities	31	(123,942)	(147,870)	-	-
Net cash flows (utilised in)/ generated from operating activities		<u>(14,406,479)</u>	<u>(13,718,921)</u>	<u>6,534,777</u>	<u>3,369,737</u>

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

(b) **Analysis of cash and cash equivalents**

Group

		2021	2020	Change
		KShs'000	KShs'000	KShs'000
		a	b	c=(a - b)
Cash and balances with Central Banks	18			
– excluding Cash Reserve Ratio		10,185,673	7,895,312	2,290,361
Items in the process of collection	19	572,584	361,631	210,953
Loans and advances to banks	20	15,202,486	18,335,440	(3,132,954)
Deposits from banks	29	(15,299,029)	(5,119,979)	(10,179,050)
		<u>10,661,714</u>	<u>21,472,404</u>	<u>(10,810,690)</u>

*Cash Reserve Ratio

Company

Cash and bank balances	38(b)	<u>834,431</u>	<u>446,059</u>	<u>388,372</u>
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(c) **Acquisition of I&M Bank (Uganda) Limited (Formerly Orient Bank Limited) net of cash and cash equivalents**

	2021
	KShs'000
Total assets	20,030,162
Total liabilities	(17,436,437)
Net assets acquired	<u>2,593,725</u>
Goodwill	694,443
Net cash outflow	<u>3,288,168</u>

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 2021. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise (2020 – 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:

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36. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS – GROUP
(Continued)

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

Group	2021	2020
	KShs'000	KShs'000
Contingencies related to:		
Letters of credit	45,873,793	37,561,024
Guarantees	25,672,265	25,712,137
Other credit commitments	25,679,980	25,291,599
	97,226,038	88,564,760
Commitments related to:		
Outstanding spot/forward contracts	23,230,668	9,491,754
	120,456,706	98,056,514

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.

Group	2021	2020
	KShs'000	KShs'000
	3,703,421	3,703,421

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.

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38. RELATED PARTY TRANSACTIONS (Continued)

	2021 KShs'000	2020 KShs'000
(a) Transactions with directors/shareholders		
(i) Loans to directors/shareholders	<u>5,638</u>	<u>13,494</u>
Interest Income from loans to directors/shareholders	483	483
(ii) Deposits from directors/shareholders	<u>997,855</u>	<u>895,832</u>
Interest expense on deposits from directors/shareholders	70,565	65,788
(iii) The Directors remuneration is disclosed in Note 15		
(b) Transactions with related companies		
(i) Loans to related companies	<u>2,172,163</u>	<u>1,452,838</u>
Interest income from loans to related companies	183,228	180,188
(ii) Deposits from related companies	<u>1,262,448</u>	<u>1,035,236</u>
Interest expense on deposits from related companies	58,969	47,726
(iii) Amounts due from group companies subsidiaries/joint venture	<u>834,431</u>	<u>446,059</u>
Interest income on amounts due from subsidiaries and joint venture	-	-
(iv) Amounts due to group companies subsidiaries/joint venture	<u>1,931,640</u>	<u>1,881,272</u>
Interest expense on amounts due from subsidiaries and joint venture	-	-
(c) Transactions with employees		
Staff loans	<u>1,949,231</u>	<u>1,274,906</u>
Interest earned	107,337	93,779
(d) Management compensation	<u>224,438</u>	<u>233,166</u>

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39. CAPITAL COMMITMENTS

	2021	2020
	KShs'000	KShs'000
Group	5,968,322	5,997,153

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

40. EMPLOYEE SHARE OPTION PLAN

The board of directors approved an employee share ownership plan of 5,000,000 shares of Frw 10 each effective 31 March 2017. The Bank'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 Bank'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 2021, 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 (31 March 2017)	5,000,000	1 years of service and the confirmed employees	5 years
Rights issue applied by employees (31 October 2020)	277,100	Employees with existing share options and continuous service	3 years
Bonus issue granted to employees (14 July 2020)	3,577,800	status and Bonus issue at par in the ratio of 1:1 (one new share for every new ordinary share held).	
Exercised in 2020	(1,422,300.00)	Full payment of ESOP	
Exercised in 2021	(454,500.00)	Full payment of ESOP	
Bonus issue granted to employees (28 May 2021)	1,859,700	status and Bonus issue at par in the ratio of 1:4 (one new share for every four ordinary share held).	
Total share options	8,837,800		

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41. EVENTS AFTER REPORTING DATE

No material events or circumstances have arisen between the accounting date and the date of this Report.

42. CONTINGENT LIABILITIES

On completion of the tax audit by Kenya Revenue Authority (KRA), covering the years of income 2011 to 2013, KRA raised an additional tax assessment on I&M Bank LIMITED (a wholly owned subsidiary of I&M Group PLC (formerly I&M Holdings PLC)) 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 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 KRA covering the period from 1 January 2014 to 30 September 2018, KRA raised an additional excise duty assessment for an amount KShs 283,512,550 on the Bank on 17 January 2019. The Bank objected to all items which were in the Directors' view erroneously assessed. The KRA subsequently confirmed the assessment on 15 April 2019 for an amount of KShs 231,220,414. The Bank lodged an appeal against this assessment to the Tax Appeal Tribunal. The matter was heard on 16 February 2021 and the tribunal ruled in favour of the Bank on 4 March 2022.

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.

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.

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43. OTHER DISCLOSURES (Continued)

(a) Operational risk (continued)

- 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.

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44. ACQUISITION OF SUBSIDIARY

On 30 April 2021, the Group acquired 90% of the shares and voting interests in I&M Bank (Uganda) Limited (formerly Orient Bank Limited). The acquisition is expected to provide the Group with an enhanced presence in the Eastern Africa Region in line with the group's strategy of being Eastern Africa's leading financial partner for growth.

For the eight months ended 31 December 2021, the subsidiary contributed revenue of KShs 1 billion and loss after tax of KShs 373 million to the Group's results. If the acquisition had occurred on 1 January 2021, management estimates that the consolidated revenue would have been KShs 1.4 billion and the consolidated loss after tax should have been KShs 704.5 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2021.

(a) Consideration transferred

The following summarises the acquisition consideration transferred.

	2021 KShs'000
Cash consideration	3,288,168
Contingent consideration	-
Purchase consideration	3,288,168

(b) Acquisition-related cost

The Group incurred acquisition-related costs of KShs 52 million on legal and professional fees, licenses fees and due diligence expenses. These costs have been included in the company administrative expenses.

(c) Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired, and liabilities assumed at the date of acquisition

	2021 KShs'000
Cash and Bank balances: Cash reserve ratio	1,312,304
Cash balances	5,588,810
Loans and advances to banks	1,912,532
Investment securities	3,348,937
Loans and advances	5,774,190
Property and equipment	136,184
Right of use assets	119,620
Intangible assets	85,525
Deferred income tax asset	1,396,819
Other assets	355,241
Customer deposits	(16,411,452)
Deposits due to other banks	(190,219)
Lease liability	(122,412)
Other liabilities	(712,354)
Total identifiable net assets acquired	2,593,725

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44. **ACQUISITION OF SUBSIDIARY (Continued)**

(c) **Identifiable assets acquired and liabilities assumed (continued)**

Measurement of fair values

The valuation/cost techniques used for measuring the fair value of material assets were as

<i>Asset acquired</i>	<i>Valuation technique</i>
Plant and equipment	Cost technique: The acquired amounts are the depreciated replacement cost. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.
Intangible assets	Cost technique: The acquired amounts are the depreciated replacement cost. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.
Derivative assets	Marking to market: The fair value is determined based on the foreign exchange market prices.
Investment securities (FVOCI)	Marking to market: The fair value is determined based on the market prices.

The loans and advances comprise gross contractual amounts due of KShs 301 million of which KShs 285 million was carried as non-performing loans as at the date of acquisition.

Fair value measured on a provisional basis

The fair value of investment securities assets held at amortised costs and loans and advances have been measured provisionally, pending completion of an independent valuation.

If new information is obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition, identifies adjustment to the above amounts or any additional provisions that existed as the date of acquisition, then the accounting for the acquisition will be revised.

(d) **Goodwill**

Goodwill arising from the acquisition has been recognised as follows

	KShs'000
Consideration transferred	3,288,168
Fair value of identifiable net assets	(2,593,725)
Goodwill	694,443

The goodwill is attributable to the business of I&M Bank (Uganda) Limited (formerly Orient Bank Limited) and the synergies to be achieved from integrating into I&M Group's existing business. None of the goodwill is expected to be deductible for tax purposes.