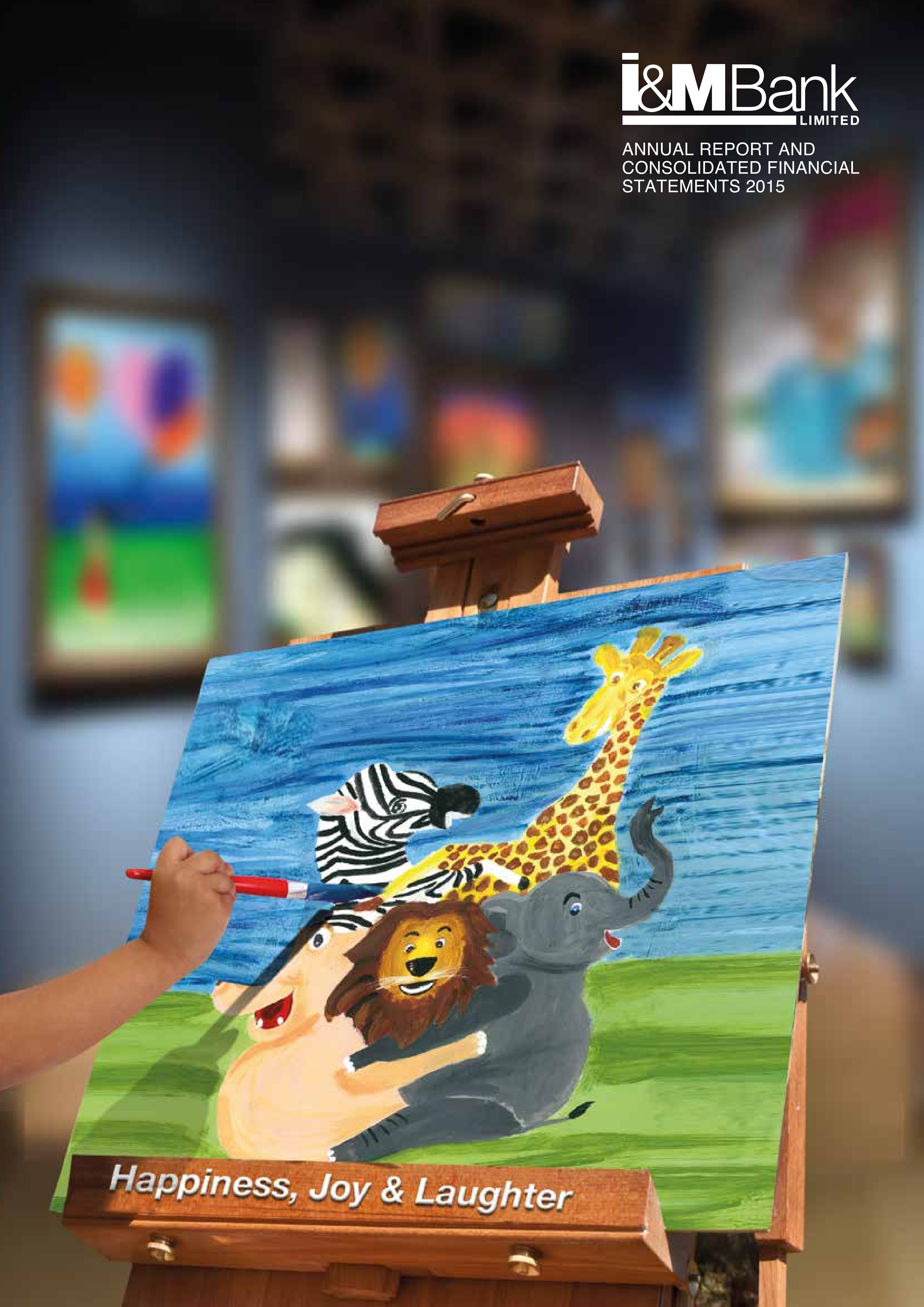
I&M Bank LIMITED

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 2015



Happiness, Joy & Laughter

We asked our young customers to express Happiness, Joy & Laughter through the strokes of their brushes. In a competition that encouraged creativity and free expression, children made statements that also reflect the spirit of I&M Bank. Some of the winning entries are reproduced in this publication.

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BOARD OF DIRECTORS

FROM LEFT STANDING:
Arun Mathur I Eric Kimani I NP Kothari - Company Secretary
SEATED: SBR Shah - Chairman

FROM RIGHT STANDING:
Sarit S Raja Shah I Sachit S Raja Shah I Mugo Kibati I M Soundararajan
SEATED: A N Koigi

SENIOR MANAGEMENT

L A Sivaramakrishnan
Divisional Head - Business Development

Lucy Thegeya
Divisional Head - Business Support

A V Chavda
Senior General Manager
Special Duties

Stephen K Kimwele
General Manager
Corporate Banking

Ruma Shah
General Manager
Audit

Joseph Njomo
General Manager
Operations

Rohit Gupta
General Manager
ICT

Henry Kirimania
General Manager
Treasury

Raphael Mapfumo
General Manager
Alternate Banking Channnels

Suprio Sen Gupta
General Manager
Marketing and Product Development

Elias Makau
General Manager
Finance

Shameer Patel
General Manager
CEO's Office

Priscilla Ndonga
General Manager
Human Resources

Chhanda Mishra
General Manager
Projects

Srinivasan Parthsarathy
General Manager
Commercial Banking

DIRECTORS, OFFICIALS AND ADMINISTRATION

DIRECTORS

SBR Shah, MBS	(Chairman)
Sarit S Raja Shah	(Executive Director)
Sachit S Raja Shah	
E M Kimani, MBS	
P C M Kibati	
M Soundararajan*	
A S Mathur	(Chief Executive Officer)
A N Koigi	(Appointed 13 April 2015)
M J Karanja	(Resigned 22 June 2015)

* Indian

SECRETARY
N P Kothari – FCPS (Kenya)
2nd Floor, Apollo Centre,
Ring Road, Parklands, Westlands
P O Box 764
00606 Sarit Centre

AUDITORS
KPMG Kenya
8th Floor, ABC Towers
Waiyaki Way
P O Box 40612
00100 Nairobi GPO

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

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

BRANCHES

I&M BANK TOWER
Kenyatta Avenue
P.O. Box 30238
00100 Nairobi GPO

I&M BANK HOUSE
2nd Ngong Avenue
P.O. Box 30238
00100 Nairobi GPO

SARIT CENTER
Westlands
P.O. Box 30238
00100 Nairobi GPO

ANSH PLAZA
Biashara Street
P.O. Box 30328
00100 Nairobi GPO

CHANGAMWE ROAD
Industrial Area
P.O. Box 30238
00100 Nairobi GPO

KAREN OFFICE PARK
Langata Road
P.O. Box 30238
00100 Nairobi GPO

PANARI SKY CENTRE
Mombasa Road
P.O. Box 30238
00100 Nairobi GPO

CENTRE POINT
Parklands Road
P.O. Box 30238
00100 Nairobi GPO

PEWIN HOUSE
Wilson Airport
P.O. Box 30238
00100 Nairobi GPO

ONGATA RONGAI
Maasai Mall
P.O. Box 30238
00100 Nairobi GPO

SOUTH C SHOPPING CENTRE
P.O Box 30238
00100 Nairobi GPO

LANGATA LINK
Langata South Road
P.O. Box 30238
00100 Nairobi GPO

GITANGA ROAD
Valley Arcade
P.O. Box 30238
00100 Nairobi GPO

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

GIGIRI SQUARE
United Nations Avenue
P.O. Box 30238
00100 Nairobi GPO

LAVINGTON MALL
James Gichuru Road
P.O. Box 30238
00100 Nairobi GPO

YAYA CENTRE
Argwings Kodhek Road
P.O. Box 30238
00100 Nairobi GPO

LUNGA LUNGA
Lunga Lunga Road
P.O. Box 30238
00100 Nairobi GPO

GARDEN CITY MALL
Thika Road
P.O. Box 30238
00100 Nairobi GPO

GATEWAY MALL
Mombasa Road
P. O. Box 30238
00100 Nairobi GPO

MILELE MALL
Ngong Town
P.O. BOX 30238
00100 Nairobi GPO

THIKA
80 West Place
P.O. Box 1207
00100 Nairobi Thika

NYERI
Hopewell Place
P.O. Box 747
301 Nyeri

POLO CENTRE
Kenyatta Avenue
P.O. Box 18445
20100 Nakuru

MEGA CENTRE MALL
Kitale
P.O. Box 2278
30200 Kitale

ZION MALL
Uganda Road
P.O. Box 9362
30100 Eldoret

BON ACCORD HOUSE
Oginga Odinga Road
P.O. Box 424
40100 Kisumu

ROYAL TOWER
Hospital Road
P.O. Box 4474
40200 Kisii

BIASHARA BANK BUILDING
Nyerere Avenue
P.O. Box 86357
80100 Mombasa

NYALI CINEMAX
Main Nyali Road
P.O. Box 86357
80100 Mombasa

CHANGAMWE
Refinery Road
P.O. Box 86357 0100
Mombasa

MTWAPA MALL
Mombasa Malindi Road
P.O. Box 86357
80100 Mombasa

MALINDI
Pine Court Building
P.O. Box 1125
80200 Malindi

REGIONAL OFFICES

I&M BANK (T) LIMITED
Maktaba Square
Maktaba Street
P.O. Box 1509
Dar es Salaam

I&M BANK (RWANDA) LIMITED
11, Boulevard de la Revolution
P.O. Box 354
Kigali
Rwanda

BANK ONE LIMITED
16 Sir William Newtown Street
Port Louis
Mauritius

I&M NEWS

I&M KENYA NEWS

I&M HOLDINGS LIMITED AGREES TO PURCHASE ENTIRE ISSUED SHARE CAPITAL OF GIRO COMMERCIAL BANK LIMITED

In 2015, I&M Holdings Limited signed an agreement to acquire 100 percent of the issued share capital in Giro Commercial Bank Limited.

Giro Bank is a well-established commercial bank with 7 branches in Kenya. The proposed acquisition envisions the merger of Giro's banking business into I&M Bank (K) Limited.

The acquisition is currently going through necessary approvals from regulatory bodies as well as from IMHL's shareholders.

I&M HOLDINGS LIMITED SIGNS AGREEMENT FOR BURBIDGE CAPITAL SHARE CAPITAL ACQUISITION

In October 2015, I&M Holdings Limited signed an agreement to acquire a 65 percent stake in the corporate financial advisory firm Burbridge Capital.

The proposed acquisition envisions I&M Bank's entry into financial advisory services and is currently going through necessary approvals from regulatory bodies.

Burbridge Capital has presence in London, Nairobi and Kampala, is regulated by CMA and is a licensed Nominated Advisor (NOMAD) by the Nairobi Securities Exchange (NSE) for the Growth Enterprise Market Segment (GEMS).

I&M BANK, KENYA CUSTOMERS HOSTED AT ANNUAL GOLF DAY

I&M Bank, Kenya, in partnership with Visa Kenya, hosted its first Annual Corporate Golf day at the Muthaiga Golf Club in November 2015 for I&M Bank customers.

The event featured I&M WebPay service, a Visa e-commerce platform that enables businesses to receive funds online from local and international customers through their respective business websites.

During the tournament, the Bank sponsored a Mercedes C Class as the hole in one (13th hole) prize which went unclaimed. All winners of the various tournament categories received I&M VISA Pre-Paid Travel cards loaded with US dollars. Another highlight of the day was the complimentary Trackman swing analysis offered to players to help them learn how to improve their golf ball swing.

The VISA Kenya team during the golf tournament.

Suprio Sen Gupta, General Manager, Marketing and Product Development at I&M Bank, Kenya (Left) and Yolanda Tavares, I&M Bank (K) Limited customer (Right) pose next to the Mercedes C Class offered for the hole in one competition.

I&M NEWS (Continued)
I&M KENYA NEWS (Continued)

I&M BANK, KENYA LAUNCHES I&M KARIBU AGENCY BANKING SERVICES

In 2015, I&M Bank, Kenya launched its Agency Banking services through partnerships with different Agent outlets across the country, greatly enhancing the geographic reach of the Bank to offer services to customers.

The Bank's customers can access a range of services at any I&M Karibu Agent such as opening an account, depositing and withdrawing cash to and from an I&M Bank account in real time, purchasing airtime, paying school fees, and paying utility bills.

I&M BANK, KENYA HOSTS CAMPAIGNS FOR THE DIASPORA

In 2015, I&M Bank's Kenya Diaspora Banking Unit hosted a number of overseas events in Swaziland and South Africa with an objective of expanding the Bank's diaspora market and extending customer service to existing customers.

The team was able to open new accounts, increase uptake of asset finance and diaspora insurance, as well as sign up new diaspora agents to better serve I&M Bank customers in the region.

Speaking during the team's visits, Kenya's Ambassador to South Africa, Amb. Jean Kamau hailed the Bank for maintaining consistency in providing quality financial services to meet the banking needs of the Kenyan diaspora community.

I&M BANK, KENYA LAUNCHES SIGNIFICANTLY UPGRADED MOBILE BANKING APP

I&M Bank, Kenya took a technology leap and vastly extended its suite of Apps by introducing the I&M App, which is an umbrella App that includes several sub-Apps within its menu. The revamped I&M App has features that are available to both I&M Bank customers and persons who download the App from their respective App stores.

The sub-apps such as the I&M Info app comprise information about I&M Bank's products and services and locations of ATMs and branches. The I&M Bancassurance App, another sub-App, provides a complete online buying experience of insurance products of the Bank. The I&M Online Business Club App, enables the Bank's business customers to register online, showcase and sell their products and services, and get paid directly. Non - I&M Bank customers are also able to buy products showcased online using this App.

The I&M Bank, Kenya diaspora banking team and customers during one of the events that took place during the campaigns.

I&M NEWS (Continued)
I&M KENYA NEWS (Continued)

I&M BANK, KENYA EMERGES TOP AT 2015 THINK BUSINESS BANKING AWARDS

I&M Bank, Kenya won 3 prestigious awards at the Think Business Banking Awards 2015, including the Best Bank in Kenya award in Tier 2 Banks category. The annual Awards, whose objective is to encourage prudence and stability in the banking sector, recognizes different Banks for their exemplary performance in the sector.

I&M Bank, Kenya was awarded the title of the Best Bank Tier 2 based on various financial parameters. The Bank also emerged as the winner in the Best Bank in Internet Banking category for the second year running and also won the 2nd Runner up award for the Most Efficient Bank in Kenya category.

I&M BANK, KENYA CUSTOMERS REAP FROM IMBA REWARD SCHEME

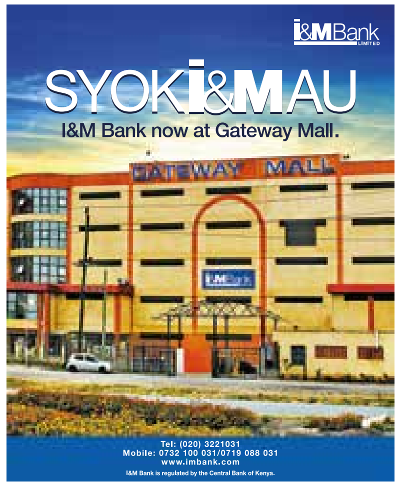
Last year, I&M Bank, Kenya launched a unique customer reward scheme dubbed the IMBA Rewards programme which incentives customers to transact on their I&M Bank accounts.

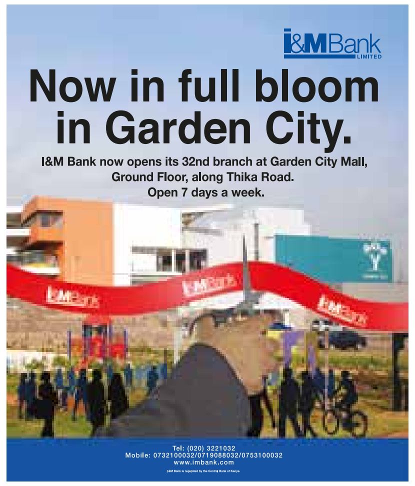
The programme attracts reward points known as IMBA points every time a customer makes a chargeable transaction. The points are accumulated automatically, and converted to cash which is subsequently credited to the customer's account at the end of every quarter.

BRANCH OPENING

In 2015, the Bank continued to grow its footprint, venturing into new markets to deliver its financial solutions closer to its customers.

I&M Bank, Kenya opened 3 fully fledged branches with ATMs at Garden City Mall along Thika Road Nairobi, Gateway Mall in Syokimau and Milele Mall in Ngong town.





I&M NEWS (Continued)

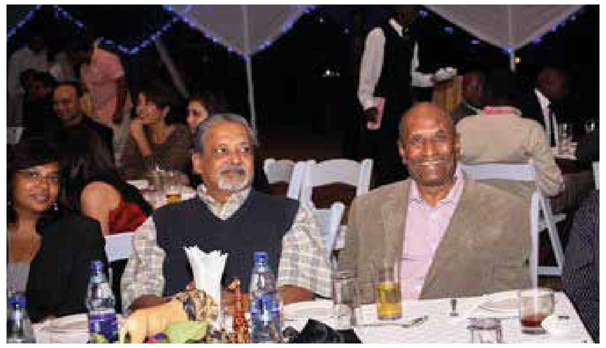
I&M KENYA NEWS (Continued)

I&M BANK, KENYA HOLDS A SERIES OF CUSTOMER EVENTS

I&M Bank, Kenya customers were hosted to cocktails, dinner and exotic entertainment during a series of customer events held at the Nairobi Arboretum and the Ngong Racecourse.

The 3 events that took place in March, July and September had different exciting themes: A Night in the Jungle, A Night at the Races and An Ode to Wangari Mathaai respectively.

The Bank launched different products such as the I&M Bank Instagram page, IMBA Rewards Programme, the I&M App and I&M Smart Collections during the various events.



I&M NEWS (Continued)

I&M TANZANIA NEWS

I&M BANK (T) LIMITED LAUNCHES 24/7 CASH DEPOSIT AND ATM FACILITIES AT MAIN BRANCH

In 2015, the Bank launched extension sites enabling bulk cash deposits and cash withdrawals at different ATMs.

Speaking at the opening of the extension sites, Mr. Baseer Mohammed, CEO informed customers that the Bank was in the process of upgrading its operations, with the objective of enhancing service delivery standards and ensuring that customers enjoy their banking experience.

I&M Bank (T) Limited's CEO, Baseer Mohammed cuts the ribbon to unveil the new ATM as the Head of Business Development, Tirunagari Srikanth and Branch Manager, Imran Walli look on.

I&M BANK (T) LIMITED LAUNCHES INAUGURAL I&M RICHES PROMOTION CAMPAIGN

I&M Bank (T) Limited launched its inaugural I&M Riches Promotion campaign with an objective to grow the Bank's customer base and increase awareness of its product offering.

The campaign ran successfully for 3 months with over 1500 accounts opened. Winners were selected at a draw held on a monthly basis and were awarded with TZS 20M. The I&M Riches campaign has been successfully run in Kenya for the past three years.

I&M Bank (T) Limited, CEO Baseer Mohammed, (Left) Head of Business Development, Tirunagari Srikanth (Right) and Marketing Manager, Ruheen Kaba (Center) present the cheque to Mr. Jumanne Francis who was one of the winners of the I&M Riches Promotion campaign.

I&M BANK (T) LIMITED SPONSORS THE 2015 ARUSHA OPEN GOLF TOURNAMENT

In July 2015, the Bank hosted and exclusively sponsored the Arusha Open Golf tournament held at Arusha Gymkhana Club.

The event attracted a total of 82 golfers from various golf clubs in Tanzania and abroad. The golfers were thereafter hosted to a dinner event where winners of the tournament received prizes.

One of the winners at the golf tournament poses with the I&M Bank (T) Limited's team on receiving his prize.

I&M BANK (T) LIMITED NOMINATED AT 2015 TANZANIA LEADERSHIP AWARDS

In December 2015, at the Tanzania Leadership Awards held at the Hyatt Regency hotel, I&M Bank (T) Limited was nominated to the "Hall of Fame" for the Brand Excellence Award in the Banking and Financial Services Category.The event was held for the first time in Dar es Salaam, and comprised of leaders in the Tanzanian business sector.

The Tanzania Leadership Awards aim to reward and recognize well-earned achievements by individuals and organizations in different industries. The Awards also honor laurels in the business sector and recognize them for their contribution in the nation's development agenda.

I&M Bank (T) Limited CEO, Baseer Mohammed receiving the award from the Tanzania Excellence Awards Director.

I&M NEWS (Continued)
I&M RWANDA NEWS

I&M BANK (RWANDA) LIMITED INTRODUCES NEW MD

On 22nd October 2015, I&M Bank formally introduced its newly appointed Managing Director, Mr. Robin Bairstow to its stakeholders and customers, at a customer appreciation cocktail held at the Kigali Serena Hotel.

Mr. Bairstow joined the Bank in September 2015 and brings with him 23 years of experience in the financial services sector, having worked in both local and international banking organizations.

I&M Bank, Rwanda new MD Robin Bairstow welcomes BNR Governor Mr. John Rwangombwa to the event, as local board member Mr. Richard Mugisha looks on.

LAUNCH OF NEW MORTGAGE FINANCE PRODUCTS

During the third quarter of 2015, I&M Bank launched three revised and improved housing finance products under the umbrella name I&M Home Loans.

The products include Mortgage Loans, Construction Loans and Home Equity Loans. The added features for the loan products include a Mortgage top up facility on the Mortgage loans, and the ability to borrow up to 70% of the value of an existing property on the Home Equity loan offer.

I&M BANK (RWANDA) LIMITED REWARDS TOP VISA CARD USERS

More than 30 I&M Bank customers were rewarded in September 2015, for transacting using their I&M Bank VISA cards, during the VISA Use and Win Campaign.

The three month campaign co-sponsored by VISA Rwanda and I&M Bank Rwanda saw a 300 percent increase in uptake of VISA cards at the Bank, as well as significant growth in card usage at merchant locations.

Only clients who used their I&M VISA Cards to transact online and at POS terminals for more than 10 times in a month, participated in the final draw of the campaign.

One of the lucky winners receives a voucher from the I&M Bank, Rwanda MD, Mr. Bairstow (Center) flanked by Mr. Innocent Muhizi, the Bank's former Head of IT and Transactional Banking Services. (Left)

I&M BANK (RWANDA) LIMITED PARTICIPATES IN THE CAPITAL MARKETS EAST AFRICA CONFERENCE ON ACCELERATING ECONOMIC DEVELOPMENT IN KIGALI

I&M Bank sponsored a luncheon at the Capital Markets East Africa conference held in Kigali last year. The conference was hosted by the Government of Rwanda together with the International Financial Corporation (IFC).

The high level conference convened nearly 300 global and regional experts, regulators, law firms, issuers and rating agencies who brought their experiences and best practices to contribute to the various conference topics.

I&M NEWS (Continued)
BANK ONE MAURITIUS NEWS

BANK ONE, FIRST AMONG ACQUIRING BANKS IN MAURITIUS FOR 'BUSINESS RISK MANAGEMENT' IN E-COMMERCE CARD PROCESSING

Bank One received an award from Visa for the best Business Risk Management among banks engaged in e-commerce card processing in Mauritius for the period 2014-2015.

The Bank was recognized for its adherence to Visa compliance standards, ability to innovate and adapt business and risk management practices in a changing market environment, ability to efficiently control risks associated with fraud and disputes while maintaining business growth, and commitment to educating customers on best practices in e-commerce.

Bank One's e-commerce platform enables local and offshore companies to sell products and services online on a 24/7 basis through a secure payment gateway.

Mr. Dev Neelayya (Left) and Mr. C.P Balachandran (Center) receive the Award from Visa Representative, Shema Sebgoya. (Right)

BANK ONE SPONSORS MAURITIUS GOLF MASTERS 2015

Bank One, in association with Ciel Group & BNI Madagascar, sponsored its first international golf tournament at the Anahita's Four Seasons Resort Golf Course in December 2015, dubbed the Mauritius Golf Masters tournament.

The event brought together over twenty top golf players of the French Professional Circuit and ten guest players of the European Professional Golf Circuit. Organized by TV Sport Events, the competition was a landmark event for both professional and amateur golfers alike.

Elated winner surrounded by participants of the Mauritius Golf Masters 2015 tournament.

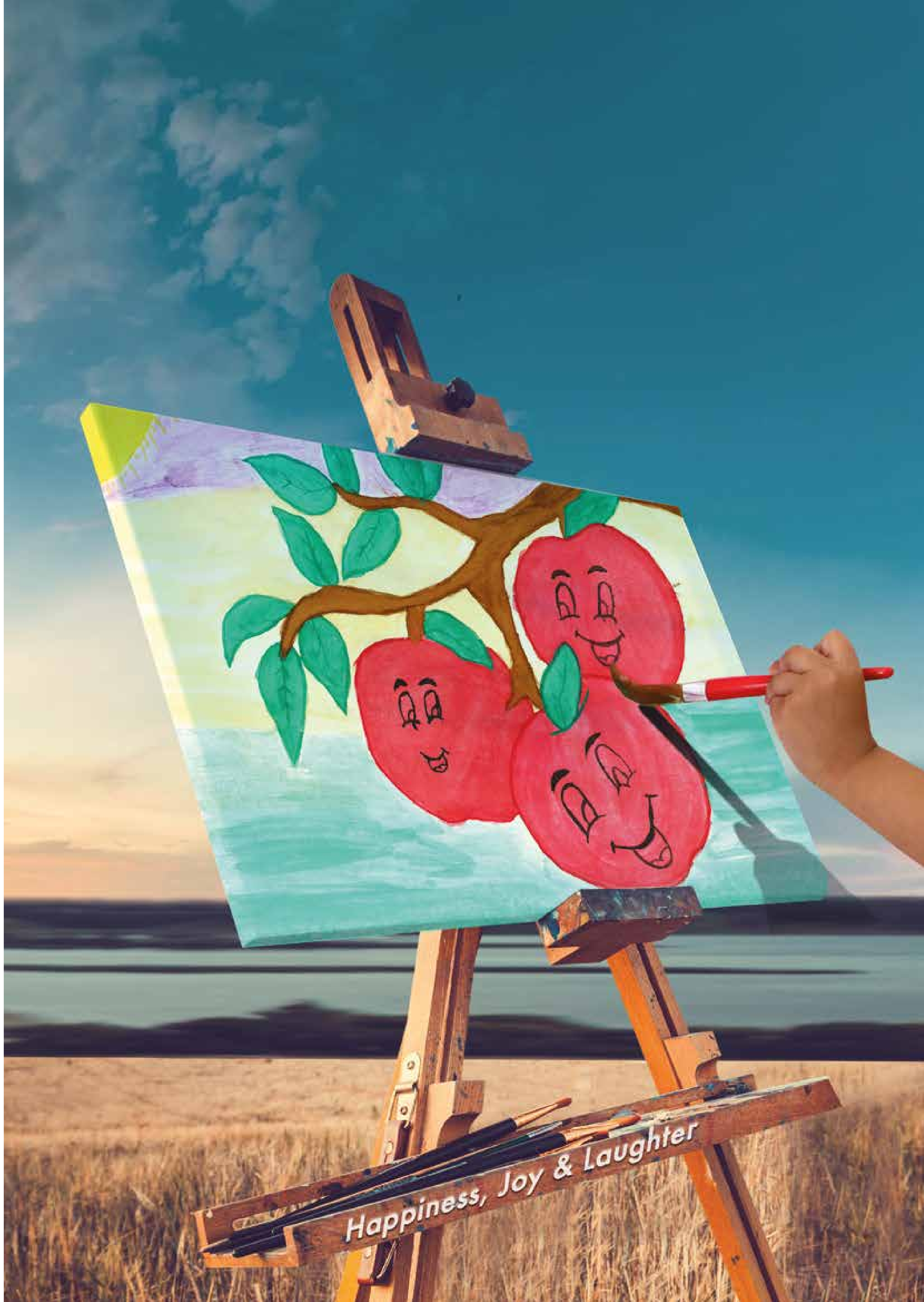
Golfer evaluating the shot.

I&M NEWS (Continued)
BANK ONE MAURITIUS NEWS (Continued)

BANK ONE RELOCATES CUREPIPE BRANCH

In March 2015, Bank One relocated its Curepipe branch to the central business district, enabling easier access to it. The new branch has a modern design reflecting Bank One's new retail banking vision and brand.

New Curepipe branch lit up for its launching ceremony.



CHAIRMANS' STATEMENT

I have the pleasure of presenting the Bank's annual report for the year 2015, an eventful year in which the Bank undertook various initiatives, in line with our strategic thinking. During the year, our deposits increased by 18% to hit a new record of Kes 116.79 Bn with the loans and advances portfolio touching Kes 114 Bn. Margins remained under pressure and earnings increased to Kes 8.75 Bn before tax. The volatility in interest and exchange rates not only tempered the growth in business but more importantly, business sentiment was dented from the third quarter.

In order to increase transaction volumes and expand our footprint, the Bank opened three branches with full-fledged 24 hours ATMs at the Gateway Mall on Mombasa Road, the Garden City Mall on Thika Highway and at Milele Mall in Ngong town, bringing the I&M branch network to 33.

With the growth in volumes and product offering, the Bank undertook various improvements in line with our strategic and corporate objectives to improve upon our offering to our customers. I am highlighting a number of our key initiatives below:

1. The Bank introduced the IMBA Reward points in an effort to recognize, celebrate and reward our customers. To our knowledge, this is the first time a bank in Kenya is introducing such a program, whereby customers earn points every time they do a chargeable transaction either at our branches or through any of our self-service channels like i-Click Internet Banking, I&M Mobile and at ATMs. The IMBA points earned are accumulated automatically and converted to cash, which is credited to the customer's account every quarter.

2. I&M Bank introduced its agency banking platform through the launch of "I&M Karibu" in an effort to diversify revenue, provide the unbanked population with access to financial services, and bring the Bank even closer to its current and future customers through a wider network across the country. The Bank has currently enlisted over 500 MobiKash outlets located in major stores across the country as agents. Any I&M Bank customer who is registered on I&M Mobile Banking can withdraw and deposit money from their I&M Bank account at these outlets. The range of services that our customers can utilise at these agency outlets also includes mobile top-up, utility bill payments such as electricity and water bills, DSTV, GOTV, ZUKU, and school fees amongst others.

3. The Bank launched 'Bancassurance' though its subsidiary, I&M Insurance Agency Ltd, offering a wide variety of insurance products and unbiased professional advice. This added service has benefitted many of our customers and we hope that in the coming years we will contribute towards better penetration of insurance products in our country.

4. In keeping with our strategy of technology driven product innovations, the Bank vastly extended its suite of Apps by introducing the "I&M App", a 4-in-1 App for convenience.

   The App contains:

   (i) I&M Mobile App for mobile banking transactions;

   (ii) Bancassurance App where customers can purchase various insurance products;

   (iii) Online Business Club App enabling our customers to showcase and sell their products and get paid directly

   (iv) Information App which provides detail about our products, services, ATMs and branch locations and

   (v) Safecard App which provides our Card customers with an enhanced safety feature, whereby they can block / unblock their cards for usage, at their convenience.

   This is a technology leap on the existing I&M Bank Mobile Banking App and a true first-of-its-kind product in the Kenyan banking industry. Non- I&M Bank customers are also able to access some of the features of this app.

5. Our I&M Mobile platform continued to expand the variety of services that we offer to our customers and we are pleased to announce that our Mobile Money transfer product now includes Airtel Money. This service operates in a similar manner to the existing M-PESA service whereby our customers can top-up their Airtel Money directly from their I&M Bank account or transfer funds from their Airtel Money wallet to an I&M Bank account.

6. In line with growing business volumes driven by Kenyan businesses importing from China and UAE, the Bank introduced foreign currency accounts denominated in Chinese Yuan (CNH) and Arab Emirate Dirham (AED). Our customers are now able to make & receive direct payments for transactions in CNH and AED, saving them the costs associated with currency volatility.

The Bank's most important accomplishments are not only measured by quantity, but by quality as well. I am delighted to share that we received, once again, for the second year running the award for "Best Bank in Internet Banking" and emerged as the "Best Bank in Tier II" following an extensive banking survey themed on innovating for financial inclusion. We were ranked 2nd Runner's Up for the "Most Efficient Bank" at the annual Banking Awards Ceremony and recognized as the "Best Bank in Diaspora" at the 2015 Banker East Africa Awards.

CHAIRMANS' STATEMENT (Continued)

Your Bank also seeks to play its role in Corporate Social Responsibility, seeking to enhance the quality of human life, in health, education and economic development by supporting various such initiatives. In the spirit of giving back to the society we operate in, the Bank participated in upgrading facilities for a primary school to improve the learning conditions. I&M staff also volunteered to interact with and provide much needed mentoring and counseling to a group of teenage boys at the Kamiti Youth Correctional Training Centre (YCT), many who lack a positive male influence in their life.

THE BANKING SECTOR

The Banking industry grew nearly 20% from June 2014 to June 2015 mainly through an increase in branch network and alternate banking channels. However, the economic conditions in the third quarter changed for the worse, leading to a steady upsurge in the level of non-performing loans across the board. The placing of two banks under receivership for unsound banking practices also created market turbulence and it was only through the efforts of the Central Bank of Kenya (CBK) and Kenya Bankers Association that calm returned to the markets. Recognizing the need for closer and more effective supervision, CBK imposed a moratorium on fresh issue of bank licenses.

The Financial services industry plays a vital role in shaping the destiny of a country and acts as one of the catalysts for economic activity and a source of employment for the most talented resources. Through significant investment in innovation, technology and attendant infrastructure to link the two, the Kenyan banking industry has moved the country closer towards meeting the policy objective of reaching out to the unbanked Kenyan population. More Kenyans today have access to banking services than they did 10 years ago. Use of technology has, no doubt, led to an improvement in operational efficiency, underpinned by a noted increase in the use of alternative delivery channels for availing banking services – available 24/7 365 days a year. The industry has also played an important part in the regional integration within the East African Community and beyond.

STABILITY OF RATES

The high volatility in interest and exchange rates witnessed from the third quarter resulted in a liquidity crunch in the market when returns on Government securities more than doubled and then dropped equally suddenly. In the ensuing confusion, the yield curve was completely distorted and Banks had to resort to repricing customer loans. At the same time most banks were left holding high cost deposits with longer tenures. The cumbersome process of communicating the sudden change in interest rates to customers not only resulted in frustration and discontent amongst borrowers but also resulted in increased administrative costs.

A sudden, sharp, unpredictable hike in interest rates hurts all borrowers and in turn, undermines the economy. The ratification of Fiscal Policy gaps through Monetary Policy interventions should be extremely measured and applied sparingly. In addition, a more thorough examination of the root course behind the recurrent weakening of the currency and Fiscal Policy challenges will reveal that the solutions do not require Monetary Policy tools. Fundamentally, the design of those solutions should have limited impact to the ordinary borrowing Kenyan household or owner of business, who are in need of fairly priced and stable credit facilities to enable them to generate wealth and earn a fair return for their labors.

The interest rate spread during such turbulence tends to increase and the few Banks that have the benefit of low costs funds from various Government projects, tend to show high spreads and distort the industry average position. The Kenyan Banking Industry has made presentations and suggestions for reducing the cost of doing business. Some of the suggestions are:

1. Simplifying legal procedures so that standardized documents can be obtained for securing facilities, especially for the SME segment. The current practice of having to refer all legal work to a firm of advocates who are members of the Law Society of Kenya, slows down the process and increases costs for the banks and for borrowers. This practice is not prevalent in other countries in East Africa.

2. Easing the registration of documents and perfection of securities. The process is extremely manual and time consuming, requiring constant follow up at every stage, resulting in a slowdown in the process of loan disbursements. At times, facilities have to be disbursed on an urgent basis which distorts pricing and also results in defaults whereby loans cannot be easily recovered.

3. To encourage the mergers of banks, enabling the industry to take advantage of resultant synergies in technology, human capital and governance structures, to achieve much desired financial stability. Much larger economies amongst other developing countries have far fewer banks and this is clear in the two largest economies in Africa i.e. Nigeria and South Africa.

The list of much needed reforms is indeed long and has through various forums been shared with the Central Bank and the Treasury. Such far reaching reforms in various countries within our continent have brought about huge benefits for the ultimate consumers.

CHAIRMANS' STATEMENT (Continued)

RISK MITIGATION INITATIVES

Worldwide, the industry is facing increasing levels of cyber-attacks, and criminals are using all means to get around controls. In Kenya, we are also witnessing increasing levels of cyber crime. We have so far been fortunate that most attempted frauds were foiled in time by our vigilant staff. To remain ahead of fraudsters the Bank had invested in a state of the art Security Event and Incident Management (SEIM) system which is able to monitor external threats real time.

Another area of universal concern globally is money laundering. While we had already enhanced the scrutiny of all new accounts being opened, it was felt that we needed to be extra vigilant as transaction volumes have increased making it difficult to block suspicious transactions. We adopted a group wide approach to tackling this issue by fully automating our anti-money laundering process across all four countries. For this project we would also like to acknowledge the technical support extended by FMO, one of our DFI partners.

FUTURE OUTLOOK

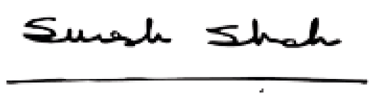
As the Bank continues looking for opportunities to enhance its presence, 2016 brings with it a significant milestone for the Group with the proposed acquisition of Giro Commercial Bank by I&M Holdings Limited - IMHL, and the subsequent merger of Giro's banking business with that of I&M Bank, an important and strategic move for the group. This merger will expand our presence and will make a material difference for the Bank in the coming year. This will give us a wider customer base, increase our branch network, as well as help to achieve additional business growth with more opportunities for both our customers and our staff. This is a very exciting initiative for both institutions, which have a very loyal customer base, and are known for their top quality customer service. I&M Bank will stand out as a larger bank with the ability to cater for all customer requirements across the region and country, thereby giving us the opportunity to have all the benefits and synergies of being part of a regional banking group. In addition, we will benefit from Giro's pool of skilled and experienced manpower to support our expansion plans.

As we grow, our highest priority remains service quality. At the same time, the Bank's focus on expanding the range of products and services offered and continuing its efforts to integrate the Group more cohesively, shall continue to create a solid platform for future growth. We are committed to offering innovative and new products, focusing on providing a wide array of 'Alternate Banking' solutions to grow the retail and SME segments. In order to provide the most efficient products and services, the Bank will embark on making further improvements in turnaround times while also ensuring the processes for registering for our various services are simplified.

Over the years, your Bank has created a dedicated and talented human resources base. Our emphasis on training and development is our investment in our staff, and we will continue to work in this area to enable our staff to meet the ever changing requirements of our customers and to keep abreast of developments in the industry.

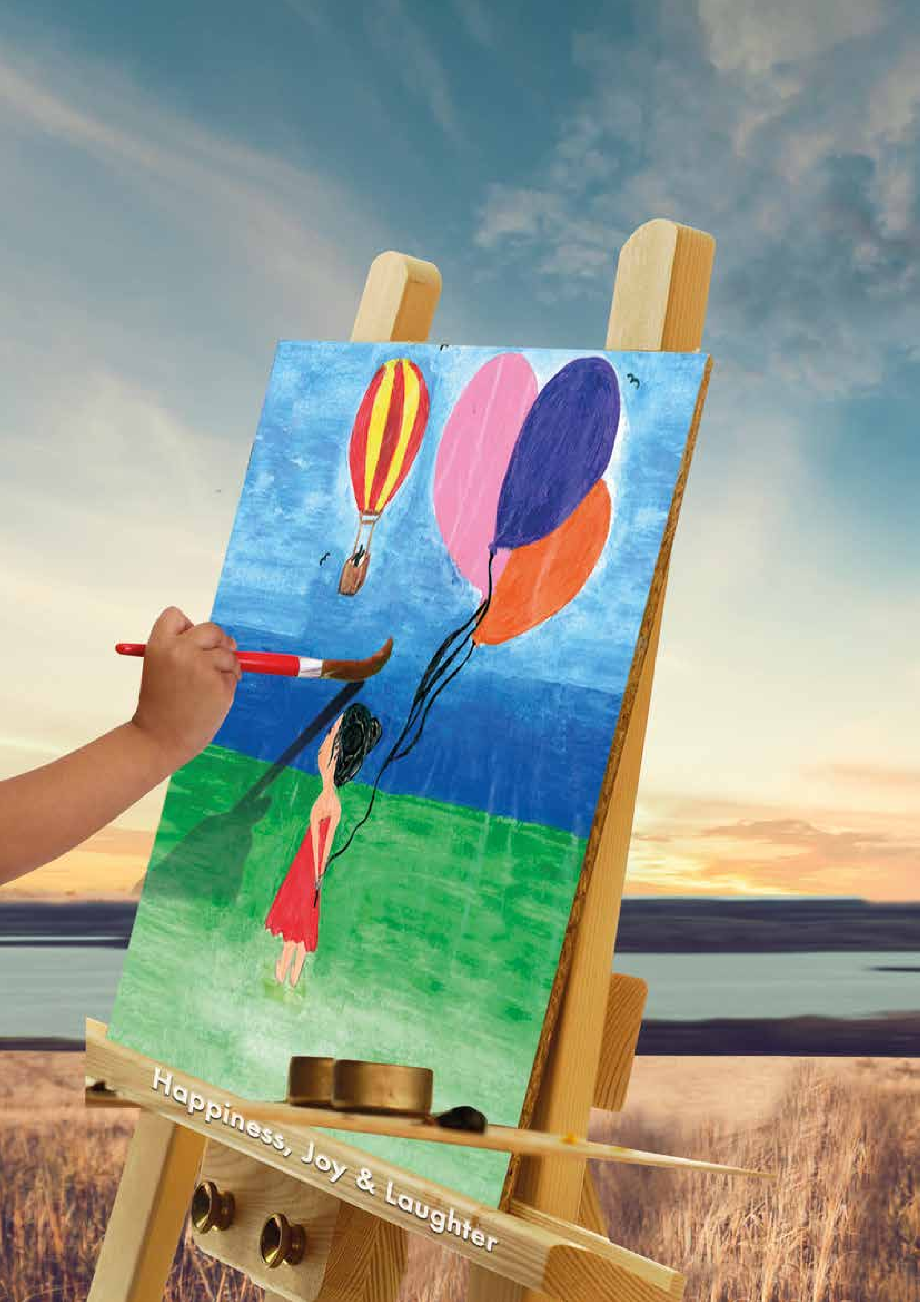
On behalf of our Board members I would like to offer appreciation and a big Thank you to our staff and the management team, who have performed superbly in these challenging times, a testament of their perseverance and commitment. I would like to offer my thanks to my fellow board members for their support, providing sound advice and leadership at the Board and in Board Committees. I take this opportunity to thank our customers for their support and loyalty which has been fundamental to our growth.

With best wishes,



S. B. R. SHAH

CHAIRMAN



REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2015

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2015, which disclose the state of affairs of the company and the group. The group comprises I&M Bank LIMITED, I&M Bank (T) Limited, Tanzania, I&M Realty Limited and I&M Insurance Agency Limited.

1. **Activities**
   The Bank provides an extensive range of banking, financial and related services permitted under the Banking Act (Cap.488). The Bank is regulated by the Central Bank of Kenya.

2. **Acquisition of Giro Commercial Bank Limited**
   On 5 September 2015, an agreement was reached between I&M Holdings Limited and the shareholders of Giro Commercial Bank Limited to acquire all of the issued share capital of Giro Commercial Bank Limited. The proposed acquisition, upon completion, envisages the immediate merger of Giro's banking business into I&M Bank LIMITED, I&M Holdings Limited flagship banking subsidiary.

   The acquisition is conditional to the approval of the shareholders and various regulatory authorities including the Central Bank of Kenya, the Capital Markets Authority (CMA) and the Competition Authority of Kenya. At the reporting date, the Group had obtained approval from the Competition Authority of Kenya.

3. **Results**

   The consolidated results for the year are as follows:

	2015 KShs'000	2014 KShs'000
Profit before income tax	8,747,752	7,480,487
Income tax expense	(2,715,109)	(2,245,939)
Net Profit for the year after tax	**6,032,643**	**5,234,548**

4. **Dividend**
   The directors recommend the payment of a final dividend of KShs. 47.70 per share amounting to KShs. 1,373,877,008 (2014 – KShs. 45 per share amounting to KShs. 1,296,110,385).

5. **Directors**
   The directors of the company who served during the year and up to the date of this report are set out on page 6.

6. **Auditors**
   The auditor, KPMG Kenya, have expressed their willingness to continue in office in accordance with the Companies Act and subject to Section 24(1) of the Banking Act (Cap.488), laws of Kenya.

7. **Approval of financial statements**
   The financial statements were approved at a meeting of the directors held on 22nd March 2016.

BY ORDER OF THE BOARD

N P Kothari,
Secretary
Date: 22nd March 2016

STATEMENT ON CORPORATE GOVERNANCE

The hallmark of I&M Bank Group's Corporate Governance Framework is a Group-wide commitment to ensuring that the highest standards of corporate governance are implemented and upheld in all its entities. This in turn ensures that the Group maintains and promotes high standards of integrity, transparency and accountability across all levels. The Corporate Governance Framework, established by the Board of Directors of I&M Bank LIMITED. ('I&M Bank' or 'I&M' or 'the Bank'), includes a robust management structure built on a platform of stringent internal controls and pre-approved policies, practice and procedures to deliver sustainable value to its shareholders, whilst also remaining focused on the Group's wider role & responsibility to society at large.

The Bank has in place a Code of Conduct and Code of Ethics that binds all its Directors and employees to ensure that the Bank's business is carried out in an ethical, fair and transparent manner, in keeping with the local regulations and international best practices.

For the Group's operations in Tanzania, the Bank has ensured set up of a sound governance framework which not only meets its own high standards of corporate governance but is also in accordance with the guidelines and directives issued by their respective regulators.

The restructuring of I&M Bank Group in 2013 resulted in the creation of the Bank's holding company – I&M Holdings Limited ("IMHL"). IMHL is listed on the Nairobi Securities Exchange and regulated by Capital Markets Authority, and the Central Bank of Kenya. Set up of the holding company structure is expected to aid in enhancing the levels of accountability and governance within the Group as it continues to grow and expand in other countries within the pan-African region.

Risk Management Framework

I&M Bank has over the years maintained a keen focus on risk management, both in its business processes and products, and which have supported the Bank's steady and sustainable growth.

The Risk Management Framework at the Bank ensures that risks are identified and effectively managed on an on-going basis. Given that risk taking is core to the Bank's innovation capacity and ultimately its entrepreneurial success, I&M's approach to Risk Management is characterized by a strong risk oversight at the Board level and a strong risk management culture at all levels across the Bank. This approach supports and facilitates I&M's decision making process which not only ensures that the risk reward trade-off is optimized but also that risks assumed are within the overall risk appetite and risk tolerance levels as laid down by the Board of Directors.

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

- Its risk appetite & risk tolerance levels
- An independent audit, compliance & quality assurance department
- Zero tolerance for violations
- A policy of "no surprises"
- Protection of reputation
- Enhanced stakeholder satisfaction

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

The Board of Directors

Constitution, Appointment and Composition

The Bank's Board, led by the Chairman Mr SBR Shah, consists of four independent non-executive Directors, two non-executive Directors, one Executive Director and the Chief Executive Officer. Of the six non-executive Directors, more than 50% are independent. The Directors, collectively have vast experience stemming out of their varied backgrounds in different disciplines, which include, inter alia Banking, General Management, Law, Accounting and Investment Analysis, apart from hands on experience in various industries. The unique collective experience of our Board members provides a superior mix of skills as required by the Board, in not only discharging its responsibilities and providing a strategic vision and direction for the Bank, but more importantly also adds value to, and brings in the element of independent judgment and risk assessment to bear in the decision making process.

I&M Bank recognizes and appreciates that all Directors make valuable contributions to the Board and to the Bank by virtue of their experience and judgment.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

The Board of Directors (Continued)

Roles & Responsibilities

Entrusted with the overall responsibility of the Bank, the Board's key role is to provide effective, responsible leadership characterized by the ethical values of responsibility, accountability, fairness and transparency.

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

Board Meetings

The Board meets at least quarterly each year for scheduled meetings and on other occasions when required to deal with specific matters between scheduled meetings. During the year, four scheduled Board meetings were held. All members attended at least 75% of the meetings held during the year.

Board members receive board papers well in advance of their meetings, thereby facilitating meaningful deliberations therein. They also have full and unlimited access to the Bank's records and consult with employees and independent professional advisors, as the Board or its committees deem appropriate.

Board Evaluation

The Bank has an established and effective process of evaluating the Board's Chairman's and individual Directors performance, on an annual basis. This performance evaluation process is reviewed periodically to incorporate global best practice and any amendments issued by the Central Bank of Kenya, the Regulator, from time to time.

Governance Principles

The Board ensures that *Accountability* among staff is enhanced through a system of objective goal setting and periodic performance appraisals. Additionally, the Board has delegated financial and other powers with clearly defined accountabilities for each.

In order to ensure that high levels of efficiency and effectiveness are maintained, the Bank has a good pool of well-trained staff with the appropriate skills required to perform their duties. Further, the Bank ensures that all staff undergo regular training to improve and develop their skills.

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

The Board has set up six Board Committees and several top level Management Committees to assist in discharging its responsibilities. These include:

Board Committees:

Board Audit Committee (BAC)

The BAC consisting of three Directors is chaired by an independent non-executive Director. BAC, which meets at least once every quarter, 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. Further, in compliance with the revised Prudential Guidelines issued by the Central Bank of Kenya with effect from 1 January 2013, two BAC meetings are held in each year independent of management giving the internal and external auditors an opportunity to raise matters directly with members of the BAC.

Board Risk Management Committee (BRMC)

The BRMC, comprising five members, is chaired by an independent non-executive Director, and meets at least once every quarter. Through the Bank's risk management function, BRC 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, which consists of six Directors is chaired by an independent non-executive Director and is responsible for review of the Bank's 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 comprising five members, excluding the Secretary, is chaired by an independent non-executive Director, and meets at least half-yearly and on other occasions to deal with specific matters. 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 Share Transfers Committee (BSTC)

The BSTC, comprising four members excluding the Secretary, is chaired by a non-executive director, and meets at least once every quarter. It assists the Board in fulfilling its responsibilities by considering matters pertaining to the transfers of ordinary shares of the Bank from time to time, to ensure that the Bank is also compliant with the guidelines issued by the Central Bank as regards shareholding of the Bank.

Board Nomination and Remuneration Committee (BNRC)

The BNRC has delegated responsibility to the BNRC to undertake structured assessment of candidates for membership of the Board and Executive Management, and establishment of an appropriate framework for remuneration of the Board and Executive Management members, in line with clearly defined remuneration principles.

Management Committees:

Business Strategy & Coordination Committee

This Committee provides the link between the Board and Management in terms of formulating, implementing and monitoring of the Bank's Strategic direction, intent and objectives.

Executive Committee (EXCO)

EXCO provides the link between the Board, Top Management and Department Heads. It is responsible for reviewing and benchmarking the Bank's financial and business performance, review of progress of special projects and identification of risks or opportunities in addition to providing a platform for review of new products, initiatives & ideas and developments in the banking industry and impact of changes in regulations / legislation.

Assets & Liabilities Committee (ALCO)

ALCO's primary functions include measurement, management and monitoring of liquidity, interest rate, foreign exchange and equity risks of the Bank in order to protect the Bank's net worth from adverse movements.

Credit Risk Management Committee (CRMC)

CRMC is the link between the Board and Management in terms of establishing and implementing the credit and lending policies of the 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.

Human Resources Committee (HRC)

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

IT Steering Committee (ITSC)

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

Corporate Social Responsibility (CSR)

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

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

- Education
- Health
- Environment
- Community Support.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Board Committees

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

	Board Audit Committee	Board Risk Committee	Board Credit Committee	Board Procurement Committee	Board Share Transfers Committee	Board Nomination & Remuneration Committee
Chairman	Independent Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director	Non-Executive Director	Independent Non-Executive Director
Members (Including Chairman)	• 3 Non-Executive Independent Directors; • Head of Internal Audit (Secretary) • Group Head of Internal Audit (Alternate Secretary) **Invitees:** • Executive Director • CEO • A member of Senior Management at the discretion of the ED &/or CEO	• 3 Independent Non-Executive Directors • Executive Director (ED) • Chief Executive Officer (CEO) • Head of Risk & Compliance (Secretary) • Manager Risk (Alternate Secretary) **Invitees:** • A member of Senior Management at the discretion of the ED &/or CEO	• 3 Independent Non-Executive Directors • 1 non–Executive Director • 1 Executive Director • Chief Executive Officer (CEO) • Head of Credit (Secretary) • Manager Credit (Alternate Secretary) **Invitees:** • A member of Senior Management at the discretion of the ED &/or CEO	• 2 Independent Non-Executive Directors • 1 Executive Director • CEO • Divisional Head, Business Support • Assistant General Manager Finance (Secretary) • Manager Finance (Alternate Secretary) **Invitees:** • A member of Senior Management at the discretion of the ED &/or CEO	• 2 Non-Executive Directors • 1 Executive Director • CEO • Company Secretary (Secretary) **Invitees:** • A member of Senior Management at the discretion of the ED &/or CEO	• 2 Independent Non-Executive Directors • 1 Executive Director • CEO • Head of HR (Secretary) • Manager HR (Alternate Secretary) **Invitees:** • A member of Senior Management at the discretion of the ED &/or CEO
Frequency of Meetings	Quarterly	Quarterly	Quarterly	Half-yearly	Quarterly	Annually
Main Functions	• Ensure establishment of an adequate, efficient and effective internal audit function • Review structure and adequacy of internal Controls • Review and co-ordinate between External Auditors and Internal Audit Department • Review and receive CBK Inspection Report, and ensure implementation of recommendations therein	• Ensure that the Risk management framework and the processes as approved are implemented • Review, monitor and deliberate on the appropriate risk mitigation approach • Ensure business continuity planning is formulated, tested and reviewed periodically • Review of policies, procedures and exposure limits • Review of proposed strategic initiatives • Creating awareness about Risk Management Process in the Bank	• Review lending policy • Consider loan applications beyond discretionary limits granted to CRMC • Review lending by CRMC • Direct, monitor, review all aspects that will impact upon present and future Credit risk management at the Bank • Ensure compliance with Banking Act and Prudential Guidelines • Conduct independent loan reviews as and when appropriate	• Review and approve the Procurement Policy • Review and consider significant procurement proposals / consultancy assignments above the delegated authority limit of the Executive Director's Delegated • Vet agreements/ Procurement proposals from related parties • Review and ratify unbudgeted capital expenditure above Executive Director's delegated authority limits	• Ensure that any new shareholders meet the Board's criteria of good standing • Approve / reject applications for the transfer of shares and approve registration of such transfers • Give guidance and approve any share allotment arising out of a bonus / rights issue • Sign the Share Certificates, under Company Seal, to be issued to any shareholder	• Assessment of Board requirements for non-executive directors • Succession planning for Board and key Management members • Induction programs for new members and development programs to build individual skills and improve Board effectiveness • Board and Senior Management succession planning • Performance evaluation of the Board of Individual Directors and of the ED & CEO • Set remuneration policies & strategic objectives of Board, ED & CEO • Set policies for ESOP Scheme and provide requisite guidance to Scheme Trustee

STATEMENT ON CORPORATE GOVERNANCE (Continued)

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

	Business Strategy Committee	Executive Committee	Assets & Liabilities Committee	Credit Risk Management Committee	Human Resources Committee	IT Steering Committee
Chairman	Executive Director (ED)	Executive Director	Executive Director	Executive Director	Executive Director	Chief Executive Officer (CEO)
Members	ED, CEO, Senior General Manager • Division Head, Business Development • Division Head, Business Support (Secretary)	ED, CEO, Senior General Manager • Division Head, Business Development • Division Head, Business Support • General Manager Risk • General Manager Treasury • General Manager Projects • General Manager – CEO's Office (Secretary) **Invitees:** Head – Internal Audit	ED, CEO, Senior General Manager • Division Head,Business Development • Division Head, Business Support • Assistant General Manager Finance • General Manager Treasury • General Manager Risk (Secretary)	ED, CEO, Senior General Manager • Divisional Head, Business Development • General Manager Risk • Assistant General Manager Credit (Secretary) **Invitees:** Head – Debt Recovery	ED, CEO, Senior General Manager • Division Head, Business Development • Division Head, Business Support • General Manager HR (Secretary)	CEO, • Division Head, Business Development • Division Head, Business Support • General Manager Central Marketing • General Manager – CEO's Office • General Manager Projects • General Manager ICT (Secretary)
Frequency of meetings	Quarterly	Once every 2 months	Monthly	Fortnightly	Monthly	Quarterly
Main functions	• Lead and direct Strategic Planning Process, including formulation, implementation and evaluation of Strategy • Review and recommend mid-stream corrections in Strategic Direction • Ensure bank-wide strategic focus by setting medium/ short term objectives • Evaluate progress on Strategic and Corporate Objectives • Periodically evaluate performance targets	• Review and benchmark Bank's financial and business performance • Review issues that warrant policy changes for other management committees • Review progress of special projects and implementation status of policy initiatives • Review and formulate marketing strategies • Platform for discussing and review of innovations to enhance efficiency and performance • Identify and manage key risks • Review disaster preparedness and business continuity	• Liquidity management • Interest Rate Risk management • Maturity Gap management • Currency Risk management • Capital Risk management • Determining investment strategies of the Bank for maximization of risk adjusted returns over the long term • Counter Party and Settlements Risk management	• Set Credit Policy and Credit Risk Management Policy • Sanction Credit Proposals in line with Policy and CBK Guidelines • Review NPAs • Consider and approve new asset-based products • Control and follow-up on credit-related matters • Regularly report to Board Credit Committee	• Review and monitor implementation of various staff development and welfare initiatives to ensure maintenance of productive and healthy staff relations • Review of Bank's Manpower Plan • Review and take decisions on disciplinary issues • Review staff remuneration vis-à-vis overall Bank's performance and industry to ensure the Bank remains competitive in attracting and retaining talent • Update Board on HR matters	• Draw up the ICT Strategic Plan • Guide development of the information architecture and determine the technological direction • Define ICT processes, organisation and relationships • Identify, assess and manage IT risks • Define and manage ICT and ICT-dependent projects • Ensure optimum use of IT resources and manage ICT investments

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Board of Directors – Summary of Attendance of meetings

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

Name of Director	20 March 2015	19 June 2015	22 September 2015	8 December 2015	Total Board Meetings attended in 2015
S B R Shah (Chairman)	√	√	√	√	100%
Michael J Karanja **	√	X	-	-	-
Eric M Kimani	√	√	√	X	75%
Sarit S Raja Shah	√	√	√	X	75%
Sachit Shah	√	√	√	√	100%
Paul C M Kibati	√	√	√	√	100%
M Soundararajan	√	√	X	√	75%
Arun S Mathur	√	√	√	√	100%
A N Koigi***	-	√	√	√	100%

√ Attended
X Not Attended

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.

** M J Karanja resigned from the board on 22 June 2015

*** A N Koigi was appointed on 13 April 2015

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and fair presentation of the consolidated and company financial statements of I&M Bank LIMITED set out on pages 33 to 120 which comprise the consolidated and company statement of financial position as at 31 December 2015, consolidated and company statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and 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. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs and the operating results of the group and the company.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act 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 the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and the company as at the end of the financial year and of the operating results of the group and the company for that year. It also requires the Directors to ensure the group and the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the group and the company.

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

The Directors have made an assessment of the company, its subsidiaries and joint venture's ability to continue as a going concern and have no reason to believe the company, its subsidiaries and joint venture will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The group and company financial statements, as indicated above, were approved by the Board of Directors on and were signed on its behalf by:

SBR Shah **Director**	Sarit S Raja Shah **Director**	A N Koigi **Director**

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF I&M Bank LIMITED

We have audited the financial statements of I&M Bank LIMITED set out on pages 33 to 120 which comprise the consolidated and company statement of financial position as at 31 December 2015, and the consolidated and company statement of profit or loss and other comprehensive income, consolidated and company statement of changes in equity and consolidated and company statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

As stated on page 31, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

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

Report on other legal requirements

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

- We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
- In our opinion, proper books of account have been kept by the company, in so far as appears from our examination of those books; and,
- The statement of financial position and statement of profit or loss and other comprehensive income of the company are in agreement with the books of account.

The Engagement Partner responsible for the audit resulting in this independent auditors' report is FCPA Eric Aholi – P/1471.

KPMG Kenya

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

Date: 22 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 KShs'000	2014 KShs'000
Interest income	7	19,663,034	15,748,626
Interest expense	8	(8,645,515)	(6,653,787)
Net interest income		**11,017,519**	**9,094,839**
Fee and commission income	9(a)	2,031,505	1,855,229
Fee and commission expense	9(a)	(107,883)	(62,499)
Net fee and commission income	9(a)	**1,923,622**	**1,792,730**
Revenue		**12,941,141**	**10,887,569**
Other operating income	10	1,525,427	1,204,069
Operating income		**14,466,568**	**12,091,638**
Staff costs	11	(2,463,697)	(2,071,868)
Premises and equipment costs	11	(449,045)	(330,772)
General administrative expenses	11	(1,716,041)	(1,244,688)
Depreciation and amortisation	11	(394,944)	(312,738)
Operating expenses		**(5,023,727)**	**(3,960,066)**
Operating profit before impairment losses and taxation		**9,442,841**	**8,131,572**
Net impairment charge on loans and advances	19(c)	(695,089)	(787,960)
		8,747,752	**7,343,612**
Share of profit of equity-accounted joint venture	21(a)	-	136,875
Profit before income tax	12	**8,747,752**	**7,480,487**
Income tax expense	13(a)	(2,715,109)	(2,245,939)
Net profit for the year after tax		**6,032,643**	**5,234,548**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

	Note	2015 KShs'000	2014 KShs'000
Other comprehensive income for the year			
Items that are or may be reclassified to profit or loss			
Net change in fair value of available-for-sale financial assets		(203,404)	(276,126)
Foreign currency translation differences (Page 40 & 41)		(185,617)	(47,518)
Deferred tax on change in fair value of available-for-sale financial assets	25(a)	61,021	82,836
Total other comprehensive income for the year		**(328,000)**	**(240,808)**
Total comprehensive income for the year		**5,704,643**	**4,993,740**
Profit attributable to:			
Equity holders of the company		5,899,936	5,136,916
Non-controlling interest		132,707	97,632
		6,032,643	**5,234,548**
Total comprehensive income attributable to:			
Equity holders of the company		5,655,408	4,917,476
Non- controlling interest		49,235	76,264
		5,704,643	**4,993,740**
Basic and diluted earnings per share (KShs)	14	**204.85**	**178.35**

The notes set out on pages 44 to 120 form an integral part of these financial statements.

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 KShs'000	2014 KShs'000
Interest income	7	17,971,129	14,143,746
Interest expense	8	(7,909,855)	(5,834,666)
Net interest income		**10,061,274**	**8,309,080**
Fee and commission income	9(b)	1,798,458	1,680,139
Fee and commission expense	9(b)	(92,597)	(62,499)
Net fee and commission income	9(b)	**1,705,861**	**1,617,640**
Revenue		**11,767,135**	**9,926,720**
Other operating income	10	1,294,996	1,737,794
Dividend income	10	21,118	132,420
		1,316,114	**1,870,214**
Operating income		**13,083,249**	**11,796,934**
Staff costs	11	(2,102,169)	(1,764,767)
Premises and equipment costs	11	(454,835)	(279,068)
General administrative expenses	11	(1,299,902)	(1,007,024)
Depreciation and amortisation	11	(306,324)	(249,565)
Operating expenses		**(4,163,230)**	**(3,300,424)**
Operating profit before impairment losses and tax		**8,920,019**	**8,496,510**
Net impairment charge on loans and advances	19(c)	(553,130)	(747,385)
Profit before income tax	12	**8,366,889**	**7,749,125**
Income tax expense	13(a)(ii)	(2,555,761)	(2,130,248)
Net profit for the year after tax		**5,811,128**	**5,618,877**
Other comprehensive income			
Items that are or may be reclassified to profit or loss:			
Net change in fair value of available-for-sale financial assets		(203,404)	(276,126)
Deferred tax on fair value of available-for-sale financial assets	25(a)	61,021	82,836
Total other comprehensive income for the year		**(142,383)**	**(193,290)**
Total comprehensive income for the year		**5,668,745**	**5,425,587**
Basic and diluted earnings per share - (KShs)	14	**201.76**	**195.09**

The notes set out on pages 44 to 120 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2015

	Note	2015 KShs'000	2014 KShs'000
ASSETS			
Cash and balances with central banks	16	8,339,703	10,248,861
Items in the course of collection	17	466,999	530,876
Loans and advances to banks	18	2,798,893	1,071,675
Loans and advances to customers	19(a)	114,927,247	101,610,562
Investment securities	20	33,181,160	35,445,270
Property and equipment	22	2,388,852	2,225,340
Intangible assets - Goodwill	23(a)	619,700	619,700
Intangible assets - Software	23(b)	224,571	281,818
Prepaid operating lease rentals	24	284,606	290,314
Tax recoverable	13(b)(ii)	4,354	24,488
Deferred tax asset	25(a)	675,581	736,043
Other assets	26	910,943	975,632
TOTAL ASSETS		**164,822,609**	**154,060,579**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	27	5,718,764	16,694,177
Deposits from customers	28	116,686,002	99,211,681
Deferred tax liability	25(b)	75	-
Tax payable	13(b)(i)	64,504	4,050
Other liabilities	29	1,900,192	1,397,785
Long term borrowings	30	9,141,735	10,352,513
Subordinated debt	31	4,495,084	3,975,395
		138,006,356	**131,635,601**
Shareholders' equity (Pages 40 & 41)			
Share capital	32(a)	2,880,245	2,880,245
Share premium	32(c)	3,773,237	3,773,237
Retained earnings		18,753,636	14,169,548
Statutory credit risk reserve	32(e)	644,928	625,190
Revaluation reserve	32(d)	629,739	629,739
Available-for-sale reserve	32(g)	(505,187)	(362,804)
Translation reserve	32(f)	(157,650)	(55,505)
		26,018,948	**21,659,650**
Equity attributable to owners of the company			
Non-controlling interest		797,305	765,328
Total shareholders' equity		**26,816,253**	**22,424,978**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**164,822,609**	**154,060,579**

The financial statements set out on pages 33 to 120 were approved by the Board of Directors on 22nd March 2016 and were signed on its behalf by:

SBR Shah	Sarit S Raja Shah	A N Koigi	NP Kothari
Director	**Director**	**Director**	**Secretary**

The notes set out on pages 44 to 120 form an integral part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2015

	Note	2015 KShs'000	2014 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	16	5,877,586	7,600,296
Items in the course of collection	17	449,077	526,123
Loans and advances to banks	18	2,182,800	573,125
Loans and advances to customers	19(a)	102,188,164	89,866,260
Investment securities	20	31,337,730	32,755,347
Investment in subsidiary	21(b)	1,123,111	1,123,111
Property and equipment	22	724,691	620,205
Intangible assets - Goodwill	23(a)	10,747	10,747
Intangible assets - Software	23(b)	162,063	235,535
Tax recoverable	13(b)(ii)	2,144	24,488
Deferred tax asset	25(a)	596,334	712,469
Due from group companies	36(b)iv)	2,423,273	2,367,116
Other assets	26	768,619	781,624
TOTAL ASSETS		**147,846,339**	**137,196,446**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	27	3,835,531	13,730,242
Deposits from customers	28	103,635,311	86,620,927
Due to group companies	36(b)(v)	206,137	-
Other liabilities	29	1,700,813	1,292,319
Long term borrowings	30	8,606,203	9,763,520
Subordinated debt	31	3,675,666	3,975,395
		121,659,661	**115,382,403**
Shareholders' equity (Pages 42 & 43)			
Share capital	32(a)	2,880,245	2,880,245
Share premium	32(c)	3,773,237	3,773,237
Retained earnings		19,413,193	14,898,175
Statutory credit risk reserve	32(e)	625,190	625,190
Available-for-sale reserve	32(g)	(505,187)	(362,804)
		26,186,678	**21,814,043**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**147,846,339**	**137,196,446**

The financial statements set out on pages 33 to 120 were approved by the Board of Directors on 22nd March 2016 and were signed on its behalf by:

SBR Shah	Sarit S Raja Shah	A N Koigi	NP Kothari
Director	**Director**	**Director**	**Secretary**

The notes set out on pages 44 to 120 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 KShs'000	2014 KShs'000
Net cash flows generated from /(used in) operating activities	33(a)	**13,899,567**	**(7,107,874)**
Cash flows from investing activities			
Purchase of property and equipment	22(a)	(441,432)	(501,938)
Purchase of intangible assets	23(b)	(120,313)	(140,293)
Purchase of prepaid operating lease rentals		-	(445)
Purchase of equity shares		-	(26,185)
Proceeds from disposal of property and equipment		2,127	2,964
Dividend received from I&M Bank Rwanda Limited	10(i)(a)	-	107,960
Net cash used in investing activities		**(559,618)**	**(557,937)**
Cash flows from financing activities			
Movement in long term borrowings		519,689	(298,843)
Dividend paid to shareholders of the company		(1,296,110)	(1,008,086)
Dividend paid to non-controlling interests		(17,258)	(19,991)
Net cash outflow from financing activities		**(793,679)**	**(1,326,920)**
Net increase/(decrease) in cash and cash equivalents	33(b)	**12,546,270**	**(8,992,731)**

The notes set out on pages 44 to 120 form an integral part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 KShs'000	2014 KShs'000
Net cash flows generated from / (used in) operating activities	33(c)	**13,849,601**	**(9,490,781)**
Cash flows from investing activities			
Purchase of property and equipment	22(b)	(260,361)	(331,344)
Purchase of intangible assets	23(b)	(75,909)	(136,798)
Proceeds from disposal of property and equipment		1,533	2,964
Dividends received	10(b)(i)	21,118	132,420
Net cash used in investing activities		**(313,619)**	**(332,758)**
Cash flows from financing activities			
Net outflows from subordinated debt		(299,728)	(298,843)
Dividend paid		(1,296,110)	(1,008,086)
Net cash outflow from financing activities		**(1,595,838)**	**(1,306,929)**
Net increase/(decrease) in cash and cash equivalents	33(d)	**11,940,144**	**(11,130,468)**

The notes set out on pages 44 to 120 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

2014	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Statutory credit risk reserve KShs'000	Revaluation reserve KShs'000	Available for sale reserve KShs'000	Translation reserve KShs'000	Total KShs'000	Non controlling interest KShs'000	Total KShs'000
At 1 January 2014	2,880,245	3,773,237	14,730,121	218,047	631,858	(161,585)	16,469	22,088,392	1,767,797	23,856,189
Comprehensive income for the year										
Net Profit after tax	-	-	5,136,916	-	-	-	-	5,136,916	97,632	5,234,548
Total comprehensive income for the year	-	-	5,136,916	-	-	-	-	5,136,916	97,632	5,234,548
Other comprehensive income										
Translation reserve	-	-	-	-	-	-	(26,150)	(26,150)	(21,368)	(47,518)
Available for sale reserve	-	-	-	-	-	(193,290)	-	(193,290)	-	(193,290)
Statutory credit risk reserve	-	-	(530,511)	530,511	-	-	-	-	-	-
Total other comprehensive income	-	-	(530,511)	530,511	-	(193,290)	(26,150)	(219,440)	(21,368)	(240,808)
Total comprehensive income	-	-	4,606,405	530,511	-	(193,290)	(26,150)	4,917,476	76,264	4,993,740
Transactions with owners, recorded directly in equity										
Transfer of Bank One and I&M Rwanda to parent company	-	-	(1,030,800)	(123,368)	(2,119)	(7,929)	(45,824)	(1,210,040)	(1,058,742)	(2,268,782)
Special dividend paid	-	-	(3,128,092)	-	-	-	-	(3,128,092)	-	(3,128,092)
Dividend paid - 2013 Final	-	-	(1,008,086)	-	-	-	-	(1,008,086)	(19,991)	(1,028,077)
Total transactions with owners for the year	-	-	(5,166,978)	(123,368)	(2,119)	(7,929)	(45,824)	(5,346,218)	(1,078,733)	(6,424,951)
Balance as at 31 December 2014	2,880,245	3,773,237	14,169,548	625,190	629,739	(362,804)	(55,505)	21,659,650	765,328	22,424,978

The notes set out on pages 44 to 120 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

2015	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Statutory credit risk reserve KShs'000	Revaluation reserve KShs'000	Available for sale reserve KShs'000	Translation reserve KShs'000	Total KShs'000	Non controlling interest KShs'000	Total KShs'000
At 1 January 2015	2,880,245	3,773,237	14,169,548	625,190	629,739	(362,804)	(55,505)	21,659,650	765,328	22,424,978
Comprehensive income for the year										
Net Profit after tax	-	-	5,899,936	-	-	-	-	5,899,936	132,707	6,032,643
Total comprehensive income for the year	-	-	5,899,936	-	-	-	-	5,899,936	132,707	6,032,643
Other comprehensive income										
Translation reserve	-	-	-	-	-	-	(102,145)	(102,145)	(83,472)	(185,617)
Available for sale reserve	-	-	-	-	-	(203,404)	-	(203,404)	-	(203,404)
Tax charge - Available for sale reserve	-	-	-	-	-	61,021	-	61,021	-	61,021
Statutory credit risk reserve	-	-	(19,738)	19,738	-	-	-	-	-	-
Total other comprehensive income	-	-	(19,738)	19,738	-	(142,383)	(102,145)	(244,528)	(83,472)	(328,000)
Total comprehensive income	-	-	5,880,198	19,738	-	(142,383)	(102,145)	5,655,408	49,235	5,704,643
Transactions with owners, recorded directly in equity										
Dividend paid - 2014 Final	-	-	(1,296,110)	-	-	-	-	(1,296,110)	(17,258)	(1,313,368)
Total transactions with owners for the year	-	-	(1,296,110)	-	-	-	-	(1,296,110)	(17,258)	(1,313,368)
Balance as at 31 December 2015	2,880,245	3,773,237	18,753,636	644,928	629,739	(505,187)	(157,650)	26,018,948	797,305	26,816,253

The notes set out on pages 44 to 120 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

2014	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Statutory credit risk reserve KShs'000	Available for sale reserve KShs'000	Revaluation reserve KShs'000	Total KShs'000
At 1 January 2014	**2,880,245**	**3,773,237**	**13,316,248**	**94,679**	**(169,514)**	**629,739**	**20,524,634**
Comprehensive income for the year							
Net Profit after tax	-	-	5,618,877	-	-	-	5,618,877
Total comprehensive income for the year	**-**	**-**	**5,618,877**	**-**	**-**	**-**	**5,618,877**
Other comprehensive income							
Revaluation reserve	-	-	629,739	-	-	(629,739)	-
Available for sale reserve	-	-	-	-	(193,290)	-	(193,290)
Statutory credit risk reserve	-	-	(530,511)	530,511	-	-	-
Total other comprehensive income	**-**	**-**	**99,228**	**530,511**	**(193,290)**	**(629,739)**	**(193,290)**
Total comprehensive income	**-**	**-**	**5,718,105**	**530,511**	**(193,290)**	**(629,739)**	**5,425,587**
Transactions with owners recorded directly in equity							
Special dividend paid	-	-	(3,128,092)	-	-	-	(3,128,092)
Dividend paid - 2013 Final	-	-	(1,008,086)	-	-	-	(1,008,086)
Total transactions with owners for the year	**-**	**-**	**(4,136,178)**	**-**	**-**	**-**	**(4,136,178)**
Balance as at 31 December 2014	**2,880,245**	**3,773,237**	**14,898,175**	**625,190**	**(362,804)**	**-**	**21,814,043**

The notes set out on pages 44 to 120 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

2015	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Statutory credit risk reserve KShs'000	Available for sale reserve KShs'000	Total KShs'000
At 1 January 2015	**2,880,245**	**3,773,237**	**14,898,175**	**625,190**	**(362,804)**	**21,814,043**
Comprehensive income for the year						
Net Profit after tax	-	-	5,811,128	-	-	5,811,128
Total comprehensive income for the year	**-**	**-**	**5,811,128**	**-**	**-**	**5,811,128**
Other comprehensive income						
Available for sale reserve	-	-	-	-	(203,404)	(203,404)
Tax charge -Available for sale reserve	-	-	-	-	61,021	61,021
Total other comprehensive income	**-**	**-**	**-**	**-**	**(142,383)**	**(142,383)**
Total comprehensive income	**-**	**-**	**5,811,128**	**-**	**(142,383)**	**5,668,745**
Transactions with owners recorded directly in equity						
Dividend paid - 2014 Final	-	-	(1,296,110)	-	-	(1,296,110)
Total transactions with owners for the year	**-**	**-**	**(1,296,110)**	**-**	**-**	**(1,296,110)**
Balance as at 31 December 2015	**2,880,245**	**3,773,237**	**19,413,193**	**625,190**	**(505,187)**	**26,186,678**

The notes set out on pages 44 to 120 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. REPORTING ENTITY

I&M Bank LIMITED (the "Bank"), a financial institution licensed under the Kenyan Banking Act (Chapter 488), provides corporate and retail banking services in various parts of the country. The Bank is incorporated in Kenya under the Kenyan Companies Act and has subsidiaries in Kenya and Tanzania. The consolidated financial statements of the Bank as at and for the year ended 31 December 2015 comprise the Bank and its subsidiaries (together referred to as the "Group"). The address of its registered office is as follows:

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

The Bank has 55.03% (2014 - 55.03%) shareholding in I&M Bank (T) Limited, 100% interest in I&M Realty Limited and I&M Insurance Agency Limited.

Where reference is made to "Group" in the accounting policies, it should be interpreted as referring to the Bank where the context requires, unless otherwise stated.

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

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the Kenyan Companies Act.

(b) Basis of measurement

These consolidated financial statements have been prepared under the historical cost basis of accounting except for the available-for-sale financial assets and buildings which are measured at fair value.

(c) Functional and presentation currency

These consolidated financial statements are presented in Kenya Shillings (KShs), which also is the Bank's functional currency. All financial information presented in Kshs has been rounded to the nearest thousand 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 5.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

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.

(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.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the available-for-sale reserve in equity.

(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

Income is derived substantially, from banking business and related activities and comprises net interest income and fee and commission income.

Gains and losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss, as well as any interest receivable or payable, are included in profit or loss in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets, other than foreign exchange gains or losses from monetary items, are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss.

(i) Net interest income

Interest income and expense on available-for-sale assets and financial assets or liabilities held at amortised cost is recognised in profit or loss using the effective interest method.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income recognition (Continued)

(i) Net interest income (Continued)

When calculating the effective interest rate, the Bank estimates the cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received, between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other discounts and premiums. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented in net interest income.

(ii) 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 expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(iii) 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.

(iv) 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.

(v) Dividend income

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

(e) Income tax expense

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Income tax expense (Continued)

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, 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 at which the Group becomes a party to the contractual provision of the instrument.

A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue. Subsequent to initial recognition, financial liabilities (deposits and debt securities) are measured at their amortized cost using the effective interest method.

(ii) Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Investments held for trading are those which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. Investments held for trading are subsequently re-measured at fair value based on quoted bid prices or dealer price quotations, without any deduction for transaction costs. All related realized and unrealized gains and losses are included in profit or loss. Interest earned whilst holding held for trading investments is reported as interest income.

Foreign exchange forward and spot contracts are classified as held for trading. They are marked to market and are carried at their fair value. Fair values are obtained from discounted cash flow models which are used in the determination of the foreign exchange forward and spot contract rates. Gains and losses on foreign exchange forward and spot contracts are included in foreign exchange income as they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money directly to a debtor with no intention of trading the receivable. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at amortized cost using the effective interest method. Loans and receivables compose of loans and advances and cash and cash equivalents.

Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. A sale or reclassification of more than an insignificant amount of held to maturity investments would result in the reclassification of the entire category as available for sale and would prevent the Group from classifying investment securities as held to maturity for the current and the following two financial years. Held to maturity investments includes treasury bills and bonds. They are subsequently measured at amortized cost using the effective interest rate method.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(ii) Classification (Continued)

Available-for-sale

Available-for-sale financial investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any other category of financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognized in other comprehensive income and presented in the available-for-sale fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is re-classified to profit or loss.

(iii) Identification and measurement of impairment of financial assets

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset than can be estimated reliably. The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. Significant assets found not to be specifically impaired are then collectively assessed for any impairment that may have been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would otherwise not consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

Impairment losses on available-for-sale securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

(iv) De-recognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

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

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(iv) De-recognition (Continued)

The Group enters into transactions whereby it transfers assets recognized 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. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include repurchase transactions.

(v) 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.

(vi) Fair value of financial assets and financial liabilities

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.

(vii) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(g) Fair value measurement

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

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

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

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

Portfolio of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of net exposure to either market or credit risk are 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:

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fair value measurement (Continued)

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

(h) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows in the financial statements, the cash and cash equivalents include cash and balances with the respective central banks which are available to finance day to day operations, items in the course of collection from and transmission to other banks and net balances from banking institutions.

(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:

Asset Type	Percentage
Buildings	2
Leasehold improvements	10 - 12½ or over the period of lease if shorter than 8 years
Computer equipment and computer software	20 - 33⅓
Furniture, fittings and fixtures	10 - 12½
Motor vehicles	20 - 25

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

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

(j) Intangible assets

(i) Computer software

The costs incurred to acquire and bring to use specific computer software licences are capitalised. Software is 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 three years. Costs associated with maintaining software are recognised as an expense as incurred.

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

(ii) Goodwill

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Operating leases

(i) Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases arrangements (whether prepaid or post paid) are charged to the profit or loss on a straight-line basis over the period of the lease.

(ii) Finance lease receivables

Minimum lease receipts are apportioned between the interest income and the reduction of outstanding asset. The interest income is allocated to each period during the lease term so as to produce a constant period of rate of interest on the remaining balance of the liability.

(l) Impairment of non-financial assets

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

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

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

(m) Derivative financial instruments

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

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

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

(n) Employee benefits

(i) Defined contribution plan

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

The assets of the defined contribution scheme are held in a separate trustee administered guaranteed scheme managed by an insurance company. Retirement plans are funded by contributions from the employees and the respective entities. The Group's contributions are recognised in profit or loss in the year to which they relate.

The Group also contributes to various national social security funds in the countries it operates. Contributions are determined by local statute and the Group's contributions are charged to the income statement in the year to which they relate.

(II) Leave accrual

The monetary value of the unutilised leave by staff as at year end is recognised within accruals and the movement in the year is debited/credited to the profit or loss.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

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) 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.

(t) Comparative information

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

(u) New standards, amendments and interpretations

(i) New standards, amendments and interpretations effective and adopted during the period

- *Defined benefit plans – Employee contributions (Amendments to IAS 19)*

The amendments introduced reliefs that reduce the complexity and burden of accounting for certain contributions from employees or third parties. Such contributions are eligible for practical expedience if they are:

- Set out in the formal terms of the plan;
- Linked to service; and
- Independent of the number of years of service.
- When contributions are eligible for practical experience, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.
- The amendments apply retrospectively for annual periods beginning on or after 1 July 2014.
- The Group has no transactions affected by these amendments. Therefore, the application of these amendments has no material impact on the disclosures or on the amounts recognised in the Group's financial statements.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New and amended standards and interpretations in issue but not yet effective for the period ended 31 December 2015

New standard or amendments	Effective for annual periods beginning on or after
• Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	1 January 2016
• Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 January 2016
• Amendments to IAS 41 - Bearer Plants (Amendments to IAS 16 and IAS 41)	1 January 2016
• Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
• Equity Method in Separate Financial Statements (Amendments to IAS 27)	1 January 2016
• IFRS 14 Regulatory Deferral Accounts	1 January 2016
• Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	1 January 2016
• Disclosure Initiative (Amendments to IAS 1)	1 January 2016
• IFRS 15 Revenue from Contracts with Customers	1 January 2018
• IFRS 9 Financial Instruments (2014)	1 January 2018
• IFRS 16 Leases	1 January 2019

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

- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (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 joint venture 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 joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The amendments will be effective from annual periods commencing on or after 1 January 2016. Management is assessing the impact of the adoption of the amendments to the standard.

- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)*

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.

Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be re-measured.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted. The application of this amendment will have no material impact on the disclosures or on the amounts recognised in the Group's financial statements.

- *Amendments to IAS 41- Bearer Plants (Amendments to IAS 16 and IAS 41)*

The amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* require a bearer plant (which is a living plant used solely to grow produce over several periods) to be accounted for as property, plant and equipment in accordance with IAS 16 *Property, Plant and Equipment* instead of IAS 41 *Agriculture*. The produce growing on bearer plants will remain within the scope of IAS 41.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New and amended standards and interpretations in issue but not yet effective for the period ended 31 December 2015 (Continued)

- *Amendments to IAS 41- Bearer Plants (Amendments to IAS 16 and IAS 41) (Continued)*

  The new requirements are effective from 1 January 2016, with earlier adoption permitted. The application of these amendments will have no impact on the disclosures or on the amounts recognised in the Group's financial statements.

- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)*

  The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

  The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated' or when the intangible asset is expressed as a measure of revenue.

  The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted. The application of these amendments will have no material impact on the disclosures or on the amounts recognised in the Group's financial statements.

- *Equity Method in Separate Financial Statements (Amendments to IAS 27)*

  The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures but also for subsidiaries.

  The amendments apply retrospectively for annual periods beginning on or after 1 January 2016 with early adoption permitted. The application of this amendment will have no material impact on the disclosures or on the amounts recognised in the Group's financial statements.

- *IFRS 14 Regulatory Deferral Accounts*

  IFRS 14 provides guidance on accounting for regulatory deferral account balances by first-time adopters of IFRS. To apply this standard, the entity has to be rate-regulated i.e. the establishment of prices that can be charged to its customers for goods and services is subject to oversight and/or approval by an authorised body.

  The standard is effective for financial reporting years beginning on or after 1 January 2016 with early adoption permitted. The application of this standard will have no material impact on the disclosures or on the amounts recognised in the Group's financial statements.

- *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)*

  The amendment to IFRS 10 *Consolidated Financial Statements* clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements. The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

  The amendment to IFRS 12 *Disclosure of Interests in Other Entities* requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

  The amendment to IAS 28 *Investments in Associates and Joint Ventures* modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements. The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New and amended standards and interpretations in issue but not yet effective for the period ended 31 December 2015 (Continued)

- *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28) (Continued)*

  The amendments apply retrospectively for annual periods beginning on or after 1 January 2016, with early application permitted. Management is assessing the impact of the adoption of the amendments to the standard.

- *Disclosure Initiative (Amendments to IAS 1)*

  The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements.

  The amendments apply for annual periods beginning on or after 1 January 2016 and early application is permitted. Management is assessing the impact of the adoption of the amendments to the standard.

- *IFRS 15 Revenue from Contracts with Customers*

  This standard replaces IAS 11 *Construction Contracts,* IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter of Transactions Involving Advertising Services*.

  The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

  The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; Identify the performance obligations in the contract; Determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

  IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. Management is assessing the impact of the adoption of the amendments to the standard.

- *IFRS 9: Financial Instruments (2014)*

  On 24 July 2014 the IASB issued the final IFRS 9 *Financial Instruments* Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement.*

  This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

  The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted. The adoption of this standard is expected to have a significant impact on the financial statements of the Group.

- *IFRS 16: Leases*

  On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases and related interpretations.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New and amended standards and interpretations in issue but not yet effective for the period ended 31 December 2015 (Continued)

IFRS 16: Leases (Continued)

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration. A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases. Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

(a) Assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments.
(b) Depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and
(c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a company to recognise assets and liabilities for:

(a) Short-term leases (i.e. leases of 12 months or less) and;
(b) Leases of low-value assets

The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted in so far as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied.

Management is assessing the impact of the adoption of the amendments to the standard.

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2015 and have not been applied in preparing these consolidated financial statements.

4. RISK MANAGEMENT

This section provides details of the Group's exposure to risk and describes the methods used by management to control risk. The most important types of risk to which the Bank is exposed are liquidity risk, credit risk, market risk and operational risk. Market risk includes liquidity risk, currency risk and interest rate risk.

(a) Credit risk

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

The Board of Directors is responsible for management of credit risk and has delegated this responsibility to the 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.

4. RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

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

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

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

The Group also monitors concentrations of credit risk that arise by industry and type of customer in relation to 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's assesses whether it is probable that it will be unable to collect all principal and interest according to the contractual terms of the loans and advances.

Exposure to credit risk

Company

Loans and advances to customers	2015 KShs'000	2014 KShs'000
Individually impaired:		
Grade 3: Substandard	1,292,727	823,893
Grade 4: Doubtful	2,873,401	367,420
Grade 5: Loss	906,087	722,047
	5,072,215	**1,913,360**
Specific allowances for impairment	(2,373,452)	(1,416,577)
Carrying amounts	**2,698,763**	**496,783**
Collectively impaired:		
Grade 2: Watch	12,657,600	11,859,374
Grade 1: Normal	87,179,537	78,263,128
	99,837,137	**90,122,502**
Portfolio allowances for impairment	(347,736)	(753,025)
Carrying amounts	**99,489,401**	**89,369,477**
Total carrying amounts	**102,188,164**	**89,866,260**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

4. RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Exposure to credit risk

Group

Loans and advances to customers	2015 KShs'000	2014 KShs'000
Individually impaired:		
Grade 3: Substandard	1,551,326	924,804
Grade 4: Doubtful	2,911,656	370,288
Grade 5: Loss	1,004,924	772,745
	5,467,906	**2,067,837**
Specific allowances for impairment	(2,569,687)	(1,503,414)
Carrying amounts	**2,898,219**	**564,423**
Collectively impaired:		
Grade 2: Watch	13,883,583	12,232,143
Grade 1: Normal	98,581,517	89,645,454
	112,465,100	**101,877,597**
Portfolio allowances for impairment	(436,072)	(831,458)
Carrying amounts	**112,029,028**	**101,046,139**
Total carrying amounts	**114,927,247**	**101,610,562**

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 internal credit risk and grading system.

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.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to the deterioration in the borrower's financial position and where the Group has made concession that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

4. RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually impaired exposures and a collective loan loss allowance established for homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write off policy

The Group writes off a loan balance (and any related allowances for impairment losses) when Board Credit Committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

Loans and advances - Company

	Gross KShs'000	Net KShs'000
Individually impaired:		
31 December 2015		
Grade 3: Substandard	1,292,727	907,885
Grade 4: Doubtful	2,873,401	1,736,408
Grade 5: Loss	906,087	54,470
	5,072,215	**2,698,763**
31 December 2014		
Grade 3: Substandard	823,893	212,636
Grade 4: Doubtful	367,420	243,284
Grade 5: Loss	722,047	40,863
	1,913,360	**496,783**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

4. RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

	Gross KShs'000	Net KShs'000
Collectively impaired:		
31 December 2015		
Grade 1: Normal	87,179,536	86,875,888
Grade 2: Watch	12,657,600	12,613,513
	99,837,136	**99,489,401**
31 December 2014		
Grade 1: Normal	78,263,126	77,770,424
Grade 2: Watch	11,859,375	11,599,053
	90,122,501	**89,369,477**

	Gross KShs'000	Net KShs'000
Loans and advances - Group		
Individually impaired:		
31 December 2015		
Grade 3: Substandard	1,551,326	1,044,549
Grade 4: Doubtful	2,911,656	1,758,717
Grade 5: Loss	1,004,924	94,953
	5,467,906	**2,898,219**
31 December 2014		
Grade 3: Substandard	924,805	278,841
Grade 4: Doubtful	370,288	244,718
Grade 5: Loss	772,744	40,864
	2,067,837	**564,423**

	Gross KShs'000	Net KShs'000
Collectively impaired:		
31 December 2015		
Grade 1: Normal	98,581,517	98,200,208
Grade 2: Watch	13,883,583	13,828,820
	112,465,100	**112,029,028**
31 December 2014		
Grade 1: Normal	89,645,453	89,092,958
Grade 2: Watch	12,232,144	11,953,181
	101,877,597	**101,046,139**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

4. RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

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. Estimates 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 2015 or 2014.

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

Loans and advances to customers	2015 KShs'000	2014 KShs'000
Company		
Fair value of collateral held - Against impaired loans	**2,779,733**	**395,461**
Group		
Fair value of collateral held - Against impaired loans	**3,191,692**	**659,715**

(b) Liquidity risk

Liquidity risk includes the risk of being unable to meet the financial obligations as they fall due because of inability to liquidate assets at a reasonable price and in an appropriate timeframe.

The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall strategy. In addition, the Group holds a portfolio of liquid assets as part of its liquidity risk management strategy.

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

Kenya:	2015	2014
At 31 December	34%	31%
Average for the period	32%	33%
Highest for the period	35%	38%
Lowest for the period	27%	29%

Tanzania:	2015	2014
At 31 December	30%	32%
Average for the period	33%	33%
Highest for the period	40%	35%
Lowest for the period	23%	31%

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

4. RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

Deposits from customers represent transactional accounts, savings, call and fixed deposit balances, which past experience has shown to be stable.

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2014 and 2015 to the contractual maturity date:

Company 31 December 2015	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	583,341	3,155,068	97,122	-	-	3,835,531
Deposits from customers	30,137,002	69,588,164	3,874,163	35,982	-	103,635,311
Due to group companies	206,137	-	-	-	-	206,137
Other liabilities	627,410	1,073,403	-	-	-	1,700,813
Long term borrowings	-	219,419	2,093,332	5,712,963	580,489	8,606,203
Subordinated debt	-	-	20,666	3,655,000	-	3,675,666
At 31 December 2015	**31,553,890**	**74,036,054**	**6,085,283**	**9,403,945**	**580,489**	**121,659,661**

Company 31 December 2014	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	5,047,651	8,601,846	80,745	-	-	13,730,242
Deposits from customers	24,540,524	58,011,784	4,041,682	26,937	-	86,620,927
Other liabilities	501,972	790,347	-	-	-	1,292,319
Long term borrowings	-	177,676	1,897,212	6,478,979	1,209,653	9,763,520
Subordinated debt	-	170,395	150,000	-	3,655,000	3,975,395
At 31 December 2014	**30,090,147**	**67,752,048**	**6,169,639**	**6,505,916**	**4,864,653**	**115,382,403**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

4. RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

Group 31 December 2015	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	2,260,431	3,207,904	250,429	-	-	5,718,764
Deposits from customers	37,301,144	71,363,282	7,922,899	98,677	-	116,686,002
Other liabilities	657,863	1,216,136	26,193	-	-	1,900,192
Long term borrowings	-	237,143	2,214,736	6,109,367	580,489	9,141,735
Subordinated debt	-	-	63,686	4,010,422	420,976	4,495,084
At 31 December 2015	**40,219,438**	**76,024,465**	**10,477,943**	**10,218,466**	**1,001,465**	**137,941,777**

Group 31 December 2014	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	5,274,264	9,467,913	1,833,069	118,931	-	16,694,177
Deposits from customers	28,638,661	64,447,060	6,099,023	26,937	-	99,211,681
Other liabilities	495,654	835,615	38,186	28,330	-	1,397,785
Long term borrowings	-	177,676	1,985,605	6,979,579	1,209,653	10,352,513
Subordinated debt	-	170,395	150,000	-	3,655,000	3,975,395
At 31 December 2014	**34,408,579**	**75,098,659**	**10,105,883**	**7,153,777**	**4,864,653**	**131,631,551**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

4. RISK MANAGEMENT (Continued)

(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.

The Group is primarily exposed to interest rates and foreign exchange risk. 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 has delegated responsibility for management of Market Risk to the Board Risk Committee. 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 policy guidelines and procedures in place are adequate to effectively manage these risks.

Exposure to interest rate risk

This is the risk of loss from fluctuations in the future cash flows of fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the Group's interest rate gap position reflecting assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates is shown below:

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk

Company 31 December 2015	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS							
Cash and balances with Central Bank	-	-	-	-	-	5,877,586	5,877,586
Items in the course of collection	-	-	-	-	-	449,077	449,077
Loans and advances to banks	1,079,969	1,102,831	-	-	-	-	2,182,800
Loans and advances to customers	96,005,156	2,021,772	429,069	3,234,755	497,412	-	102,188,164
Investment securities	-	3,053,515	11,788,884	9,904,930	6,590,401	-	31,337,730
Due from group companies	-	-	-	-	-	2,423,273	2,423,273
Other assets	-	-	-	-	-	768,619	768,619
At 31 December 2015	**97,085,125**	**6,178,118**	**12,217,953**	**13,139,685**	**7,087,813**	**9,518,555**	**145,227,249**
LIABILITIES							
Deposits from banks	583,341	3,155,068	97,122	-	-	-	3,835,531
Deposits from customers	30,137,002	69,588,164	3,874,163	35,982	-	-	103,635,311
Due to group companies	-	-	-	-	-	206,137	206,137
Other liabilities	-	-	-	-	-	1,700,813	1,700,813
Long term borrowings	-	1,197,443	7,408,760	-	-	-	8,606,203
Subordinated debt	-	-	3,675,666	-	-	-	3,675,666
At 31 December 2015	**30,720,343**	**73,940,675**	**15,055,711**	**35,982**	**-**	**1,906,950**	**121,659,661**
Interest rate gap	**66,364,782**	**(67,762,557)**	**(2,837,758)**	**13,103,703**	**7,087,813**	**7,611,605**	**23,567,588**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk – (Continued)

Company 31 December 2014	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	7,600,296	7,600,296
Items in the course of collection	-	-	-	-	-	526,123	526,123
Loans and advances to banks	546,179	26,946	-	-	-	-	573,125
Loans and advances to customers	85,788,676	464,326	1,106,014	2,283,955	223,289	-	89,866,260
Investment securities	-	2,444,062	12,680,868	10,571,417	7,059,000	-	32,755,347
Due from group companies	-	-	-	-	-	2,367,116	2,367,116
Other assets	-	-	-	-	-	781,624	781,624
At 31 December 2014	86,334,855	2,935,334	13,786,882	12,855,372	7,282,289	11,275,159	134,469,891
LIABILITIES							
Deposits from banks	920,675	12,728,821	80,746	-	-	-	13,730,242
Deposits from customers	49,946,027	32,280,240	4,230,365	164,295	-	-	86,620,927
Other liabilities	-	-	-	-	-	1,292,319	1,292,319
Long term borrowings	-	1,776,379	7,987,141	-	-	-	9,763,520
Subordinated debt	-	320,395	3,655,000	-	-	-	3,975,395
At 31 December 2014	50,866,702	47,105,835	15,953,252	164,295	-	1,292,319	115,382,403
Interest rate gap	35,468,153	(44,170,501)	(2,166,370)	12,691,077	7,282,289	9,982,840	19,087,488

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk - (Continued)

Group 31 December 2015	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS							
Cash and balances with central banks	-	-	-	-	-	8,339,703	8,339,703
Items in the course of collection	-	-	-	-	-	466,999	466,999
Loans and advances to banks	1,065,508	1,102,831	-	-	-	630,554	2,798,893
Loans and advances to customers	108,358,650	2,022,110	429,069	3,484,792	632,626	-	114,927,247
Investment securities	281,769	3,319,278	12,522,992	10,466,720	6,590,401	-	33,181,160
Other assets	-	-	-	-	-	910,943	910,943
At 31 December 2015	109,705,927	6,444,219	12,952,061	13,951,512	7,223,027	10,348,199	160,624,945
LIABILITIES							
Deposits from banks	2,260,431	3,207,904	250,429	-	-	-	5,718,764
Deposits from customers	33,466,719	71,363,282	7,922,899	98,677	-	3,834,425	116,686,002
Other liabilities	-	-	-	-	-	1,900,192	1,900,192
Long term borrowings	-	1,215,166	7,530,164	396,405	-	-	9,141,735
Subordinated debt	-	-	3,718,685	355,422	420,977	-	4,495,084
At 31 December 2015	35,727,150	75,786,352	19,422,177	850,504	420,977	5,734,617	137,941,777
Interest rate gap	73,978,777	(69,342,133)	(6,470,116)	13,101,008	6,802,050	4,613,582	22,683,168

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk - (Continued)

Group

31 December 2014	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS							
Cash and balances with central banks	-	-	-	-	-	10,248,861	10,248,861
Items in course of collection	-	-	-	-	-	530,876	530,876
Loans and advances to banks	635,416	26,947	-	-	-	409,312	1,071,675
Loans and advances to customers	97,148,328	464,326	1,109,212	2,617,680	271,016	-	101,610,562
Investment securities	-	3,134,512	13,743,240	11,140,530	7,400,803	26,185	35,445,270
Other assets	-	-	-	-	-	975,632	975,632
At 31 December 2014	**97,783,744**	**3,625,785**	**14,852,452**	**13,758,210**	**7,671,819**	**12,190,866**	**149,882,876**
LIABILITIES							
Deposits from banks	905,469	12,728,821	3,059,887	-	-	-	16,694,177
Deposits from customers	54,285,983	39,581,583	5,060,888	283,227	-	-	99,211,681
Other liabilities	-	-	-	-	-	1,397,785	1,397,785
Long term borrowings	-	1,776,379	8,075,534	500,600	-	-	10,352,513
Subordinated debt	-	320,395	3,655,000	-	-	-	3,975,395
At 31 December 2014	**55,191,452**	**54,407,178**	**19,851,309**	**783,827**	**-**	**1,397,785**	**131,631,551**
Interest rate gap	**42,592,292**	**(50,781,393)**	**(4,998,857)**	**12,974,383**	**7,671,819**	**10,793,081**	**18,251,325**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

4. 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.

Company

	Profit or loss Increase/decrease in basis points ('000)	Equity net of tax Increase/decrease in basis points ('000)
31 December 2015 200 basis points		
Assets	2,714,174	1,899,922
Liabilities	(2,395,054)	(1,676,538)
Net position	**319,120**	**223,384**
31 December 2014 200 basis points		
Assets	2,463,895	1,724,726
Liabilities	(2,281,802)	(1,597,261)
Net position	**182,093**	**127,465**

Group

	Profit or loss Increase/decrease in basis points ('000)	Equity net of tax Increase/decrease in basis points ('000)
31 December 2015 200 basis points		
Assets	3,005,535	2,103,874
Liabilities	(2,644,143)	(1,850,900)
Net position	**361,392**	**252,974**
31 December 2014 200 basis points		
Assets	2,753,840	1,927,688
Liabilities	(2,604,675)	(1,823,273)
Net position	**149,165**	**104,415**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

4. 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 2015 and 31 December 2014.

Company

31 December 2015	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with Central Bank	264,645	96,224	90,071	150	451,090
Items in the course of collection	11,046	-	2,436	-	13,482
Loans and advances to banks	1,261,163	188,226	624,727	107,586	2,181,702
Loans and advances to customers	38,356,505	2,097,268	1,571,477	-	42,025,250
Due from group companies	54,256	-	-	413	54,669
Other assets	201,487	9,485	-	-	210,972
At 31 December 2015	**40,149,102**	**2,391,203**	**2,288,711**	**108,149**	**44,937,165**
LIABILITIES					
Deposits from banks	3,669,831	144,857	80,034	13,972	3,908,694
Deposits from customers	17,711,032	1,754,541	1,700,557	48,176	21,214,306
Other liabilities	212,800	21,695	47,808	17,159	299,462
Due to group companies	91,710	101	1,045	1,902	94,758
Long term borrowings	7,658,059	-	948,144	-	8,606,203
At 31 December 2015	**29,343,432**	**1,921,194**	**2,777,588**	**81,209**	**34,123,423**
Net on statement of financial position	**10,805,670**	**470,009**	**(488,877)**	**26,940**	**10,813,742**
Net notional off balance sheet position	**(10,624,777)**	**(462,921)**	**497,058**	**(12,594)**	**(10,603,234)**
Overall net position – 2015	**180,893**	**7,088**	**8,181**	**14,346**	**210,508**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk - (Continued)

31 December 2014	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
Cash and balances with central bank	201,657	40,259	53,627	203	295,746
Items in the course of collection	22,073	541	428	-	23,042
Loans and advances to banks	1,315,757	2,715	74,792	23,745	1,417,009
Loans and advances to customers	30,915,082	1,836,064	1,347,439	-	34,098,585
Other assets	172,794	2,689	-	-	175,483
At 31 December 2014	**32,627,363**	**1,882,268**	**1,476,286**	**23,948**	**36,009,865**
LIABILITIES					
Deposits from banks	7,379,058	32,994	168	14,147	7,426,367
Deposits from customers	10,529,338	1,439,245	897,916	29,771	12,896,270
Other liabilities	304,232	60,057	86,583	17,499	468,371
Long term borrowings	8,612,745	-	1,102,664	-	9,715,409
At 31 December 2014	**26,825,373**	**1,532,296**	**2,087,331**	**61,417**	**30,506,417**
Net on statement of financial position	**5,801,990**	**349,972**	**(611,045)**	**(37,469)**	**5,503,448**
Net notional off balance sheet position	**(6,020,385)**	**(342,239)**	**615,838**	**38,787**	**(5,707,999)**
Overall net position – 2014	**(218,395)**	**7,733**	**4,793**	**1,318**	**(204,551)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk – (Continued)

Group

31 December 2015	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with central banks	905,859	116,011	96,130	4,385	1,122,385
Items in the course of collection	11,046	-	2,436	-	13,482
Loans and advances to banks	1,261,163	188,226	624,727	107,586	2,181,702
Loans and advances to customers	48,848,899	2,097,268	1,571,477	-	52,517,644
Other assets	302,945	9,864	13	-	312,822
At 31 December 2015	**51,329,912**	**2,411,369**	**2,294,783**	**111,971**	**56,148,035**
LIABILITIES					
Deposits from banks	5,452,575	144,857	80,034	13,972	5,691,438
Deposits from customers	25,845,587	1,772,937	1,710,062	48,176	29,376,762
Other liabilities	221,255	21,695	47,808	17,164	307,922
Long-term borrowings	8,193,591	-	948,144	-	9,141,735
Subordinated debt	819,418	-	-	-	819,418
At 31 December 2015	**40,532,426**	**1,939,489**	**2,786,048**	**79,312**	**45,337,275**
Net on statement of financial position	**10,797,486**	**471,880**	**(491,265)**	**32,659**	**10,810,760**
Net notional off balance sheet position	**(10,563,321)**	**(462,921)**	**497,058**	**(12,594)**	**(10,541,778)**
Overall net position – 2015	**234,165**	**8,959**	**5,793**	**20,065**	**268,982**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk - (Continued)

31 December 2014	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
Cash and balances with central banks	1,282,921	58,447	77,821	2,846	1,422,035
Items in the Course of collection	22,073	541	428	-	23,042
Loans and advances to banks	1,315,757	2,715	74,792	23,745	1,417,009
Loans and advances to customers	40,033,545	1,836,064	1,347,439	-	43,217,048
Other assets	176,057	2,689	-	-	178,746
At 31 December 2014	**42,830,353**	**1,900,456**	**1,500,480**	**26,591**	**46,257,880**
LIABILITIES					
Deposits from banks	10,332,015	32,994	168	14,147	10,379,324
Deposits from customers	17,391,030	1,455,569	903,451	29,771	19,779,821
Other liabilities	308,885	60,057	86,583	17,499	473,024
Long term borrowings	9,031,120	-	1,102,664	-	10,133,784
At 31 December 2014	**37,063,050**	**1,548,620**	**2,092,866**	**61,417**	**40,765,953**
Net on statement of financial position	**5,767,303**	**351,836**	**(592,386)**	**(32,826)**	**5,491,927**
Net notional off balance sheet position	**(6,020,385)**	**(342,239)**	**615,838**	**38,787**	**(5,707,999)**
Overall net position – 2014	**(253,082)**	**9,597**	**23,452**	**5,961**	**(214,072)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

4. 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.

Company

31 December 2015	Profit or loss strengthening/ weakening of currency ('000)	Equity net of tax strengthening/ weakening of currency ('000)
USD (± 2.5% movement)	4,522	3,166
GBP (± 2.5% movement)	177	124
EUR (± 2.5% movement)	205	143
31 December 2014		
USD (± 2.5% movement)	(5,460)	(3,822)
GBP (± 2.5% movement)	193	135
EUR (± 2.5% movement)	120	84

Group

31 December 2015		
USD (± 2.5% movement)	5,854	4,098
GBP (± 2.5% movement)	224	157
EUR (± 2.5% movement)	145	101
31 December 2014		
USD (± 2.5% movement)	(6,327)	(4,429)
GBP (± 2.5% movement)	240	168
EUR (± 2.5% movement)	586	401

(d) Operational risk

The overall responsibility of managing operational risks - the risk arising from failed or inadequate internal processes, people, systems and external events - is vested with the Board of Directors. The Board through the Board Risk Committee, issues policies that guide management on appropriate practices of operational risk mitigation. An independent risk manager assures the Board Risk Committee of the implementation of the said policies.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

4. RISK MANAGEMENT (Continued)

(d) Operational risk (Continued)

The following are key measures that the Group undertakes in managing operational risk:

- Documentation of procedures and controls, including regular review and updates to reflect changes in the dynamic business environment.
- Appropriate segregation of duties, including the independent authorisation of transactions
- Reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Reporting of operational losses and ensuring appropriate remedial action to avoid recurrence.
- Development and implementation of Business Continuity and Disaster Recovery Plans
- Training and professional development of employees to ensure they are well equipped to identify and mitigate operational risks in a timely manner.
- Establishment of ethical practices at business and individual employee's level.
- Implementation of risk mitigation parameters, including insurance where this is considered effective.

The entire operational risk management framework is subjected to periodic independent audits (internal) in order for the Group to obtain an independent opinion on the effectiveness and efficiency of the framework. Further, the findings of the Internal Audit department are reviewed by the Board Audit Committee and recommendations made implemented in line with the agreed timeframe.

(e) 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 recognised in addition to recognising 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.

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:

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

4. RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

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

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

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

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

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

Company	2015 KShs'000	2014 KShs'000
Core capital (Tier 1)		
Share capital	2,880,245	2,880,245
Share premium	3,773,237	3,773,237
Retained earnings	19,413,194	13,602,065
	26,066,676	**20,255,547**
Less: Goodwill	(10,747)	(10,747)
Investment in subsidiary	(1,122,911)	(1,122,911)
Total core capital	**24,933,018**	**19,121,889**
Supplementary capital (Tier 2)		
Term subordinated debt	2,359,762	3,115,952
Statutory credit risk reserve	625,190	625,190
	2,984,952	**3,741,142**
Total capital	**27,917,970**	**22,863,031**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

4. RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

	2015 KShs'000	2014 KShs'000
Risk weighted assets		
Credit risk weighted assets	116,332,346	101,383,557
Market risk weighted assets	5,163,855	6,071,469
Operational risk weighted assets	16,682,595	13,804,685
Total risk weighted assets	**138,178,796**	**121,259,711**
Deposits from customers	**104,467,260**	**87,185,430**
Capital ratios		
Core capital/total deposit liabilities (CBK min 8%)	22.50%	21.93%
Core capital /total risk weighted assets (CBK min 10.50%)	17.05%	15.77%
Total capital /total risk weighted assets (CBK min 14.50%)	19.21%	18.85%

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

Various limits are applied to elements of the capital base such as qualifying Tier 2 capital cannot exceed Tier 1 Capital and qualifying subordinated debt may not exceed 50 percent of Tier 1 capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of Tier 2 capital. Tier 1 capital (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 Group's Tanzanian banking subsidiary had the following capital adequacy ratios as at 31 December 2015:

Tier I (Minimum required 10%) - 11.22% (2014: 12.54%)

Tier I + Tier II (Minimum required 12%) - 17.72% (2014: 12.54%)

(f) Compliance and regulatory risk

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

4. RISK MANAGEMENT (Continued)

(g) Environmental and social risks

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

The Group is aware that it has a responsibility to ensure that its internal practice and its lending activities do not have negative environmental and social impacts and is thus committed to ensure that such risks are sufficiently managed through its environmental and Social management policy and by adopting the country's labour and environmental laws. The Bank also adheres to international best practice (IFC performance standards and ILO standards as ratified by the Kenya government). An environmental and social management system is being put in place to ensure due diligence and monitoring of the environmental and social risk is done efficiently. Compliance to these laws is monitored by the compliance function.

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

5. USE OF ESTIMATES AND JUDGEMENT

Key sources of estimation uncertainty - Allowance for credit losses

Assets accounted for at amortised costs are evaluated for impairment on a basis described in accounting policy 3(f)(vii). The specific component of total allowances for impairment applies to loans and advances evaluated individually for impairment and are based upon management's best estimate of the present value of cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realizable value of any underlying collateral. Estimate of cash flows considered recoverable are independently approved by the Credit Risk Committee.

Collectively assessed impaired allowances cover credit losses inherent in portfolios of loans and advances with similar economic characteristics when there is objective evidence to suggest that they contain impaired loans and advances but the individual impaired items cannot yet be identified. In considering the collective loan loss allowances, management considers the historical loan loss rate and the emergence period. The accuracy of the allowance depends on how well these estimate future cash flows for specific debtor's allowances and the model assumptions and parameters used in determining collective allowances.

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.

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 on accounting policy 3(i).

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 3(j)(ii). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

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 accounting policy 3(f)(ii).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

6. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Accounting classifications and fair values

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Group	Carrying amounts						Fair value	
31 December 2015	Held to maturity KShs'000	Loans and receivables KShs'000	Available -for-sale KShs'000	Other amortized cost KShs'000	Other financial liabilities KShs'000	Total KShs'000	Level 1 KShs'000	Total KShs'000
Financial assets								
Cash and balances with Central Bank of Kenya	-	8,339,703	-	-	-	8,339,703	-	-
Items in the course of collection	-	-	-	466,999	-	466,999	-	-
Investment securities	17,156,259	-	16,024,901	-	-	33,181,160	16,024,901	16,024,901
Loans and advances to banks	-	2,798,893	-	-	-	2,798,893	-	-
Loans and advances to customers	-	114,927,247	-	-	-	114,927,247	-	-
Other assets	-	-	-	910,943	-	910,943	-	-
	17,156,259	126,065,843	16,024,901	1,377,942	-	160,624,945	16,024,901	16,024,901
Financial liabilities								
Deposits from banks	-	-	-	-	5,718,764	5,718,764	-	-
Deposits from customers	-	-	-	-	116,686,002	116,686,002	-	-
Long term borrowings	-	-	-	-	9,141,735	9,141,735	-	-
Subordinated debt	-	-	-	-	4,495,084	4,495,084	-	-
Other liabilities	-	-	-	-	1,900,192	1,900,192	-	-
	-	-	-	-	137,941,777	137,941,777	-	-

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

6. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting classifications at carrying amounts and fair values – (Continued)

Group	Carrying amounts						Fair Value	
31 December 2014	Held to maturity KShs'000	Loans and receivables KShs'000	Available -for-sale KShs'000	Other amortized cost KShs'000	Other financial liabilities KShs'000	Total KShs'000	Level 1 KShs'000	Total KShs'000
Financial assets								
Cash and balances with central banks	-	10,248,861	-	-	-	10,248,861	-	-
Items in the course of collection	-	-	-	530,876	-	530,876	-	-
Investment securities	18,984,617	-	16,460,653	-	-	35,445,270	16,460,653	16,460,653
Loans and advances to banks	-	1,071,675	-	-	-	1,071,675	-	-
Loans and advances to customers	-	101,610,562	-	-	-	101,610,562	-	-
Other assets	-	-	-	975,632	-	975,632	-	-
	18,984,617	112,931,098	16,460,653	1,506,508	-	149,882,876	16,460,653	16,460,653
Financial liabilities								
Deposits from banks	-	-	-	-	16,694,177	16,694,177	-	-
Deposits from customers	-	-	-	-	99,211,681	99,211,681	-	-
Long term borrowings	-	-	-	-	10,352,513	10,352,513	-	-
Other liabilities	-	-	-	-	3,975,395	3,975,395	-	-
	-	-	-	-	130,233,766	130,233,766	-	-

Measurement of fair values

(i) Valuation techniques and significant unobservable inputs

Financial assets measured at fair value - At 31 December

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Investment securities - AFS	Prices quoted at securities exchanges	None	Not applicable

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

6. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting classifications at carrying amounts and fair values - (Continued)

Company	Carrying amounts						Fair value	
31 December 2015	Held to maturity KShs'000	Loans and receivables KShs'000	Available -for-sale KShs'000	Other amortized cost KShs'000	Other financial liabilities KShs'000	Total KShs'000	Level 1 KShs'000	Total KShs'000
Financial assets								
Cash and balances with Central Bank	-	5,877,586	-	-	-	5,877,586	-	-
Items in the course of collection	-	-	-	449,077	-	449,077	-	-
Investment securities	15,336,539	-	16,001,191	-	-	31,337,730	16,001,191	16,001,191
Loans and advances to banks	-	2,182,800	-	-	-	2,182,800	-	-
Loans and advances to customers	-	102,188,164	-	-	-	102,188,164	-	-
Due from group companies	-	-	-	2,423,273	-	2,423,273	-	-
Other assets	-	-	-	768,619	-	768,619	-	-
	15,336,539	110,248,550	16,001,191	3,640,969	-	145,227,249	16,001,191	16,001,191
Financial liabilities								
Deposits from banks	-	-	-	-	3,835,531	3,835,531	-	-
Deposits from customers	-	-	-	-	103,635,311	103,635,311	-	-
Due to group companies	-	-	-	-	206,137	206,137	-	-
Long term borrowings	-	-	-	-	8,606,203	8,606,203	-	-
Subordinated debt	-	-	-	-	3,675,666	3,675,666	-	-
Other liabilities	-	-	-	-	1,700,813	1,700,813	-	-
	-	-	-	-	121,659,661	121,659,661	-	-

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

6. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting classifications at carrying amounts and fair values - (Continued)

Company

31 December 2014	Carrying amounts Held to maturity KShs'000	Loans and receivables KShs'000	Available -for-sale KShs'000	Other amortized cost KShs'000	Other financial liabilities KShs'000	Total KShs'000	Fair value Level 1 KShs'000	Total KShs'000
Financial assets								
Cash and balances with Central Bank of Kenya	-	7,600,296	-	-	-	7,600,296	-	-
Items in the course of collection	-	-	-	526,123		526,123	-	-
Investment securities	16,294,694	-	16,460,653	-	-	32,755,347	16,460,653	16,460,653
Loans and advances to banks	-	573,125	-	-	-	573,125	-	-
Loans and advances to customers	-	89,866,260	-	-	-	89,866,260	-	-
Due from group companies	-	-	-	2,367,116	-	2,367,116	-	-
Other assets	-	-	-	781,624	-	781,624	-	-
	16,294,694	**98,039,681**	**16,460,653**	**3,674,863**	**-**	**134,469,891**	**16,460,653**	**16,460,653**
Financial liabilities								
Deposits from banks	-	-	-	-	13,730,242	13,730,242	-	-
Deposits from customers	-	-	-	-	86,620,927	86,620,927	-	-
Long term borrowings	-	-	-	-	9,763,520	9,763,520	-	-
Subordinated debt	-	-	-	-	3,975,395	3,975,395	-	-
Other liabilities	-	-	-	-	1,292,319	1,292,319	-	-
	-	**-**	**-**	**-**	**115,382,403**	**115,382,403**	**-**	**-**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

7. INTEREST INCOME

(a) Group

	2015 KShs'000	2014 KShs'000
Loans and advances to customers	15,859,075	12,845,851
Loans and advances to banks	168,445	110,109
Investment securities:		
- Held-to-maturity	1,877,833	1,645,501
- Available-for-sale	1,757,681	1,147,165
	19,663,034	**15,748,626**

(b) Company

Loans and advances to customers	14,460,653	11,627,319
and advances to banks	140,161	87,147
Investment securities:		
- Held-to-maturity	1,612,634	1,282,115
- Available-for-sale	1,757,681	1,147,165
	17,971,129	**14,143,746**

8. INTEREST EXPENSE

(a) Group

Deposits from customers	7,474,885	5,671,527
Deposits from banks	274,829	103,098
Long term borrowings	378,660	366,536
Subordinated debt	517,141	512,626
	8,645,515	**6,653,787**

(b) Company

Deposits from customers	6,826,366	4,876,525
Deposits from banks	274,829	125,708
Long term borrowings	333,756	319,807
Subordinated debt	474,904	512,626
	7,909,855	**5,834,666**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

9. NET FEE AND COMMISSION INCOME

(a) Group

	2015 KShs'000	2014 KShs'000
Fee and commission income		
Commissions	1,364,789	1,199,839
Service fees	666,716	655,390
	2,031,505	**1,855,229**
Fee and commission expense		
Interbank transaction fees	(50,063)	(23,662)
Other	(57,820)	(38,837)
	(107,883)	**(62,499)**
Net fee and commission income	**1,923,622**	**1,792,730**

(b) Company

	2015 KShs'000	2014 KShs'000
Fee and commission income		
Commissions	1,131,742	1,024,748
Service fees	666,716	655,391
	1,798,458	**1,680,139**
Fee and commission expense		
Interbank transaction fees	(34,777)	(23,662)
Other	(57,820)	(38,837)
	(92,597)	**(62,499)**
Net fee and commission income	**1,705,861**	**1,617,640**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

10. OTHER OPERATING INCOME

(a) Other operating income

(i) Group

	2015 KShs'000	2014 KShs'000
Income from foreign exchange dealings	1,203,694	689,230
Rental income	99,668	82,565
Dividend income – I&M Bank Rwanda Limited	-	107,960
Profit on sale of property and equipment	-	2,952
Profit on sale of available-for-sale securities	39,135	122,540
Management fee	13,363	34,276
Other Income	169,567	164,546
	1,525,427	**1,204,069**

(ii) Company

	2015 KShs'000	2014 KShs'000
Income from foreign exchange dealings	1,049,906	629,492
Rental income	-	72,889
Profit on sale of property and equipment	-	697,300
Profit on sale of available for-sale-securities	39,135	122,540
Management fees	44,669	34,276
Other	161,286	181,297
	1,294,996	**1,737,794**

(b) Dividend income

(i) Company

	2015 KShs'000	2014 KShs'000
Dividend from subsidiary	**21,118**	**132,420**

11. OPERATING EXPENSES

(a) Group

	2015 KShs'000	2014 KShs'000
Staff Costs		
Salaries and wages	1,882,500	1,594,134
Contributions to defined benefit and contribution plan	68,811	48,265
Statutory contribution	22,101	20,067
Other staff costs	490,285	409,402
	2,463,697	**2,071,868**
Premises and equipment costs		
Rental of premises	285,864	206,008
Electricity	53,041	27,199
Other premises and equipment costs	110,140	97,565
	449,045	**330,772**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

11. OPERATING EXPENSES (Continued)

(a) Group (Continued)

	2015 KShs'000	2014 KShs'000
General administration expenses		
Deposit protection insurance contribution	145,625	129,714
Loss on disposal of property and equipment	3,108	-
Other general administrative expenses	1,567,308	1,114,974
	1,716,041	**1,244,688**
Depreciation and amortisation		
Depreciation on property and equipment (Note 22)	250,984	223,698
Amortisation of intangible assets (Note 23(b))	138,252	83,332
Amortisation of prepaid operating lease rentals (Note 24)	5,708	5,708
	394,944	**312,738**

(b) Company

	2015 KShs'000	2014 KShs'000
Staff costs		
Salaries and wages	1,631,098	1,392,278
Contributions to defined contribution plan	68,811	48,265
Other staff costs	402,260	324,224
	2,102,169	**1,764,767**
Premises and equipment costs		
Rental of premises	300,907	159,833
Electricity	45,432	22,207
Other premises and equipment costs	108,496	97,028
	454,835	**279,068**
General administration expenses		
Deposit protection insurance contribution	125,051	111,928
Loss on disposal of property and equipment	3,229	138
Other general administrative expenses	1,171,622	894,958
	1,299,902	**1,007,024**
Depreciation and amortisation		
Depreciation on property and equipment (Note 22)	192,280	179,852
Amortisation of intangible assets (Note 23(b))	114,044	69,713
	306,324	**249,565**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

12. PROFIT BEFORE INCOME TAX

	2015 KShs'000	2014 KShs'000
Group		
Profit before income tax is arrived at after charging/(crediting):		
Depreciation	250,984	223,698
Amortisation of intangible assets	138,252	83,332
Directors' emoluments: - Fees	19,754	13,643
- Other	48,890	37,037
Auditors' remuneration	11,544	10,795
Amortisation of prepaid operating lease rentals	5,708	5,708
Net (loss) / profit on sale of property and equipment	(3,108)	2,952
Company		
Profit before income tax is arrived at after charging/(crediting):		
Depreciation	192,280	179,852
Amortisation of intangible assets	114,044	69,713
Directors' emoluments: - Fees	13,300	8,975
- Other	44,441	35,480
Auditors' remuneration	6,066	4,912
Amortisation of prepaid operating lease rentals	-	5,708
Net (loss) / profit on sale of property and equipment	(3,229)	697,300

13. INCOME TAX EXPENSE AND TAX PAYABLE

(a) Income tax expense

(i) Group

	2015 KShs'000	2014 KShs'000
Current year's tax	2,616,530	2,323,506
Over provision in prior year - Current tax	(17,735)	-
	2,598,795	**2,323,506**
Over provision in prior year - Deferred tax	(75,296)	(16,593)
	2,523,499	**2,306,913**
Deferred tax credit (Note 25)	191,610	(60,974)
Income tax expense	**2,715,109**	**2,245,939**

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

	2015 KShs'000	2014 KShs'000
Accounting profit before tax	**8,610,876**	**7,480,487**
Computed tax using the applicable corporation tax rate	2,583,263	2,244,146
Over provision in the prior year	(17,735)	-
Effect on non-deductible costs	224,877	18,386
Over provision in prior year - Deferred tax	(75,296)	(16,593)
	2,715,109	**2,245,939**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

13. INCOME TAX EXPENSE AND TAX PAYABLE (Continued)

(a) Income tax expense (Continued)

(ii) Company

	2015 KShs'000	2014 KShs'000
Current year's tax at 30%	2,396,340	2,201,831
Over provision in prior year - Current tax	(17,735)	-
	2,378,605	2,201,831
Over provision in prior year - Deferred tax	(41,554)	(16,593)
	2,337,051	2,185,238
Deferred tax charge/(credit) (Note 25)	218,710	(54,990)
Income tax expense	**2,555,761**	**2,130,248**

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

	2015	2014
Accounting profit before tax	8,366,889	7,749,125
Computed tax using the applicable Corporation tax rate at 30%	2,510,067	2,324,738
Over provision in the prior year	(17,735)	-
Effect on non-deductible costs/income	104,983	(177,897)
Under provision in prior year - Deferred tax	(41,554)	(16,593)
	2,555,761	2,130,248

(b) Tax payable

(i) Group

	2015	2014
At 1 January	(20,438)	569,712
Income tax expense (Note 13 (a)(i))	2,598,795	2,323,506
Effect of tax in foreign jurisdiction	(811)	(725)
Transfer to parent company	-	(103,359)
Tax paid (Note 33 (a))	(2,517,396)	(2,809,572)
At 31 December	**60,150**	**(20,438)**
Tax recoverable	(4,354)	(24,488)
Tax payable	64,504	4,050
	60,150	(20,438)

(ii) Company

	2015	2014
At 1 January	(24,488)	412,051
Income tax expense (Note 13 (a)(i))	2,378,605	2,201,831
Tax paid (Note 33 (c))	(2,356,261)	(2,638,370)
At 31 December	**(2,144)**	**(24,488)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

14. EARNINGS PER SHARE

	Group		Company	
	2015	2014	2015	2014
Net profit after tax attributable to owners of the company (KShs'000)	5,899,936	5,136,916	5,811,128	5,618,877
Weighted average number of ordinary shares in issue during the year ('000)	28,802	28,802	28,802	28,802
Earnings per share (KShs)	204.85	178.35	201.76	195.09

There were no potentially dilutive shares outstanding at 31 December 2015 (2014 – Nil).

15. DIVIDEND PER SHARE

	2015	2014
The calculation of dividend per share is based on:		
Final dividend proposed during the year (KShs'000)	1,373,877	1,296,110
Weighted average number of ordinary shares in issue during the year ('000)	28,802	28,802
Final dividend per share (KShs)	47.70	45.00

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

16. CASH AND BALANCES WITH CENTRAL BANKS

(i) Group

	2015 KShs'000	2014 KShs'000
Cash on hand	1,410,068	1,255,152
Balances with central banks:		
- Restricted balances (Cash Reserve Ratio)	5,964,481	6,198,183
- Unrestricted balances	965,154	2,795,526
	8,339,703	10,248,861

(ii) Company

	2015	2014
Cash on hand	1,026,976	1,047,479
Balances with Central Bank of Kenya:		
- Restricted balances (Cash Reserve Ratio)	4,563,263	4,577,409
- Unrestricted balances	287,347	1,975,408
	5,877,586	7,600,296

The Group's Cash Reserve Ratio is non-interest earning and is based on the value of deposits as adjusted for the respective central banks requirements. As at 31 December 2015, the Cash Reserve Ratio requirement in Kenya was 5.25% of all customer deposits (2014 – 5.25%).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

17. ITEMS IN THE COURSE OF COLLECTION

	2015 KShs'000	2014 KShs'000
(a) Group	466,999	530,876
(b) Company	449,077	526,123

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

18. LOANS AND ADVANCES TO BANK

(a) Group

	2015 KShs'000	2014 KShs'000
Due within 90 days	2,722,536	1,071,675
Due after 90 days	76,357	-
	2,798,893	1,071,675

(b) Company

	2015 KShs'000	2014 KShs'000
Due within 90 days	2,182,800	573,125

The company's weighted average effective interest rate on loans and advances to banks at 31 December 2015 was 3.33% (2014 - 8.09%)

19. LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

(i) Group

	2015 KShs'000	2014 KShs'000
Overdrafts	38,280,951	34,534,551
Loans	74,586,058	66,504,918
Bills discounted	3,153,132	475,922
Hire Purchase - Finance leases	1,912,865	2,430,043
Gross loans and advances	**117,933,006**	**103,945,434**
Less: Impairment losses on loans and advances	(3,005,759)	(2,334,872)
Net loans and advances	**114,927,247**	**101,610,562**
Repayable on demand	37,063,858	24,807,432
Less than 3 months	6,982,434	12,028,173
3 months to 1 year	8,480,654	15,236,040
1 to 5 years	41,049,707	32,790,265
5 to 10 years	20,717,031	15,583,686
Over 10 years	3,639,322	3,499,838
Gross loans and advances	**117,933,006**	**103,945,434**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

19. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(a) Classification (Continued)

(ii) Company

	2015 KShs'000	2014 KShs'000
Overdrafts	32,435,388	29,386,673
Loans	67,433,082	59,743,224
Bills discounted	3,153,133	475,922
Hire purchase	1,887,749	2,430,043
Gross loans and advances	**104,909,352**	**92,035,862**
Less: Impairment losses on loans and advances	(2,721,188)	(2,169,602)
Net loans and advances	**102,188,164**	**89,866,260**
Repayable on demand	37,057,545	23,980,818
Less than 3 months	6,913,836	10,408,808
3 months to 1 year	7,549,651	12,073,188
1 to 5 years	30,971,669	26,489,524
5 to 10 years	18,777,329	15,583,687
Over 10 years	3,639,322	3,499,837
Gross loans and advances	**104,909,352**	**92,035,862**

(b) Impairment losses reserve

(i) Group

2015	Specific impairment allowance KShs'000	Portfolio impairment allowance KShs'000	Total KShs'000
At 1 January 2015	1,503,414	831,458	2,334,872
Net impairment made in the year	1,219,183	(387,806)	831,377
Net recoveries	(137,833)	-	(137,833)
Translation differences	(15,077)	(7,580)	(22,657)
At 31 December 2015	**2,569,687**	**436,072**	**3,005,759**
2014			
At 1 January 2014	782,247	1,217,717	1,999,964
Transfer to parent company	(77,116)	(80,857)	(157,973)
Net impairment made in the year	831,806	(303,667)	528,139
Net recoveries	(10,974)	-	(10,974)
Write offs	(20,639)	-	(20,639)
Translation differences	(1,910)	(1,735)	(3,645)
At 31 December 2014	**1,503,414**	**831,458**	**2,334,872**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

19. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(b) Impairment losses reserve

(ii) Company

2015	Specific impairment allowance KShs'000	Portfolio impairment allowance KShs'000	Total KShs'000
At 1 January 2015	1,416,577	753,025	2,169,602
Net impairment made in the year	1,094,708	(405,290)	689,418
Net recoveries	(137,833)	-	(137,833)
Write offs	-	1	1
At 31 December 2015	**2,373,452**	**347,736**	**2,721,188**
2014			
At 1 January 2014	637,073	1,076,578	1,713,651
Net impairment made in the year	811,117	(323,553)	487,564
Net recoveries	(10,974)	-	(10,974)
Write offs	(20,639)	-	(20,639)
At 31 December 2014	**1,416,577**	**753,025**	**2,169,602**

(c) Impairment losses on loans and advances

(i) Group

	2015 KShs'000	2014 KShs'000
Impairment made in the year	831,377	528,139
Recoveries and impairment no longer required	(137,833)	-
Recoveries of loans and advances previously written off	-	(10,974)
Amounts directly written off during the year	1,545	270,795
	695,089	**787,960**

(ii) Company

	2015 KShs'000	2014 KShs'000
Impairment made in the year	689,418	487,564
Recoveries and impairment no longer required	(137,833)	-
Recoveries of loans and advances written off in prior years	-	(10,974)
Amounts directly written off during the year	1,545	270,795
	553,130	**747,385**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

19. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(d) Non-performing loans and advances - Company

Non-performing loans and advances net of impairment losses and estimated value of securities are disclosed in note 4 (a).

	2015 KShs'000	2014 KShs'000
Interest on impaired loans and advances Which has not yet been received in cash	**986,864**	**505,476**

The company's weighted average effective interest rate on loans and advances to customers at 31 December 2015 was 13.92% (2014 – 13.37%).

(e) Loans and advances concentration by sector - Group

	2015 KShs'000	%	2014 KShs'000	%
Manufacturing	28,460,919	24.13	22,986,001	22.11
Wholesale and retail trade	5,446,203	4.62	5,341,706	5.14
Building and construction	12,147,151	10.30	10,019,562	9.64
Agriculture	5,482,585	4.65	3,611,185	3.47
Real estate	21,014,905	17.82	19,935,729	19.18
Transport and communication	7,174,091	6.08	6,331,787	6.09
Business services	21,119,139	17.91	19,259,057	18.53
Electricity and water	125,134	0.11	256,716	0.25
Finance and insurance	1,012,062	0.86	1,229,848	1.18
Mining and quarrying	2,958,087	2.51	4,662,890	4.49
Others	12,992,730	11.02	10,310,953	9.92
	117,933,006	**100.00**	**103,945,434**	**100.00**

(f) Loans and advances concentration by sector – Company

Manufacturing	25,522,232	24.33	20,829,301	22.63
Wholesale and retail trade	2,676,164	2.55	2,825,115	3.07
Building and construction	11,545,041	11.00	9,119,499	9.91
Agriculture	5,125,677	4.89	3,288,833	3.57
Real estate	18,312,362	17.46	17,033,051	18.51
Transport and communication	5,986,912	5.71	5,302,217	5.76
Business services	20,440,278	19.48	19,259,057	20.93
Electricity and water	125,134	0.12	256,716	0.28
Finance and insurance	1,012,062	0.96	1,229,848	1.34
Mining and quarrying	2,560,712	2.44	4,167,421	4.53
Others	11,602,778	11.06	8,724,804	9.48
	104,909,352	**100**	**92,035,862**	**100.00**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

19. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(g) Finance leases - Group

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

	2015 KShs'000	2014 KShs'000
Receivable no later than 1 year	263,350	238,373
Receivable later than 1 year and no later than 5 years	2,872,205	2,175,413
	3,135,555	**2,413,786**

(h) Finance leases - Company

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

	2015 KShs'000	2014 KShs'000
Receivable no later than 1 year	263,350	238,373
Receivable later than 1 year and no later than 5 years	2,872,205	2,175,413
	3,135,555	**2,413,786**

20. INVESTMENT SECURITIES

(a) Group

	2015 KShs'000	2014 KShs'000
Available-for-sale		
Equity investment in TMRC *	23,710	26,185
Corporate bonds available-for-sale	330,769	481,912
Treasury bonds - available-for-sale (Non Liquid)	10,207,397	9,049,728
Treasury bills - available-for-sale (Non Liquid)	5,463,025	6,929,012
Total available-for-sale	**16,024,901**	**16,486,837**
Held-to-maturity		
Treasury bonds (Liquid)	615,354	200,835
Treasury bonds (Non Liquid)	9,324,436	11,744,049
Treasury bills (Non Liquid)	6,059,148	4,767,006
Treasury bills (Liquid)	1,157,321	2,246,543
Total held to maturity	**17,156,259**	**18,958,433**
Total investment securities	**33,181,160**	**35,445,270**

*TMRC - refers to Tanzania Mortgage Refinancing Company

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

20. INVESTMENT SECURITIES (Continued)

(b) Company

Available-for-sale	2015 KShs'000	2014 KShs'000
Corporate bonds available-for-sale	330,769	481,912
Treasury bonds - available-for-sale (Non Liquid)	10,207,397	9,049,728
Treasury bills – available-for-sale (Non Liquid)	5,463,025	6,929,012
Total available-for-sale	**16,001,191**	**16,460,652**
Held-to- maturity		
Treasury bonds (Liquid)	515,505	-
Treasury bonds (Non Liquid)	8,761,886	11,033,967
Treasury bills (Liquid)	-	493,722
Treasury bills (Non Liquid)	6,059,148	4,767,006
Total held to maturity	**15,336,539**	**16,294,695**
Total investment securities	**31,337,730**	**32,755,347**

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

Group

	Treasury bills and Bonds KShs'000	Equity investment KShs'000	Corporate bond KShs'000	Total KShs'000
31 December 2015				
At 1 January 2015	34,932,468	26,185	486,617	35,445,270
Additions	23,475,913	-	-	23,475,913
Disposals and maturities	(25,759,959)	-	(148,225)	(25,908,184)
Changes in fair value	202,621	-	601	203,222
Amortisation of discounts and premiums	(74,855)	-	-	(74,855)
Unearned interest	(107,377)	-	-	(107,377)
Interest receivable	39,071	-	(2,317)	36,754
Translation differences	112,892	(2,475)	-	110,417
At 31 December 2015	**32,820,774**	**23,710**	**336,676**	**33,181,160**
31 December 2014				
At 1 January 2014	25,515,235	-	682,167	26,197,402
Additions	35,567,086	26,185	313,100	35,906,371
Disposals and maturities	(25,475,000)	-	(517,645)	(25,992,645)
Changes in fair value	33,331	-	2,573	35,904
Amortisation of discounts and premiums	10,736	-	-	10,736
Unearned interest	(735,805)	-	-	(735,805)
Interest receivable	(9,224)	-	6,422	(2,802)
Translation differences	26,109	-	-	26,109
At 31 December 2014	**34,932,468**	**26,185**	**486,617**	**35,445,270**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

20. INVESTMENT SECURITIES (Continued)

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

Company

	Treasury bonds and bills KShs'000	Corporate bond KShs'000	Total KShs'000
31 December 2015			
At 1 January 2015	32,273,434	481,913	32,755,347
Additions	22,384,252	-	22,384,252
Disposals and maturities	(23,691,299)	(148,225)	(23,839,524)
Changes in fair value	202,621	601	203,222
Amortisation of discounts and premiums	(74,855)	-	(74,855)
Unearned interest	(50,747)	-	(50,747)
Interest receivable	(37,647)	(2,318)	(39,964)
At 31 December 2015	**31,005,759**	**331,971**	**31,337,730**
31 December 2014			
At 1 January 2014	20,297,694	677,463	20,975,157
Additions	38,211,900	313,100	38,525,000
Disposals and maturities	(25,475,000)	(517,645)	(25,992,645)
Changes in fair value	33,331	2,573	35,904
Amortisation of discounts and premiums	10,736	-	10,736
Unearned interest	(877,422)	-	(877,422)
Interest receivable	72,195	6,422	78,617
At 31 December 2014	**32,273,434**	**481,913**	**32,755,347**

The weighted average effective interest rate on Government securities at 31 December 2015 was 10.67% (2014 – 9.97%).

The weighted average effective interest rate on corporate bonds at 31 December 2015 was 11.78% (2014 – 11.93%).

At 31 December 2015, unamortized premiums on investment securities amounted to KShs 196,340,736 (2014 – KShs 259,980,185) and unamortized discounts amounted to KShs 982,015,558 (2014 – KShs 231,810,411).

21. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE

(a) Investment in joint venture

The Bank had 50% control over Bank One Limited (formerly First City Bank Limited – Mauritius) with the other joint venturer, CIEL Investments Limited. This investment was acquired by the parent company (I&M Holdings Limited) with effect from 22 August 2014.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

21. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE (Continued)

(a) Investment in joint venture (Continued)

	2015 KShs'000	2014 KShs'000
Percentage ownership	-	50%
Interest income	-	(1,741,295)
Interest expense	-	(695,445)
Other income	-	268,445
Operating expenses	-	(976,239)
Income tax expense	-	(64,717)
Profit and total comprehensive income (100%)	-	273,339
Profit and total comprehensive income (50%)	-	136,875
Group's share of profit and total comprehensive income	-	**136,875**

Dividends received by the Group

The Bank transferred its interest in the joint venture (KShs 1,498,814,480) to its parent company, I&M Holdings Limited, on 22 August 2014. The share of profit up to 22 August 2014 was recognised as a receivable from Bank One Limited.

(b) Investment in subsidiaries

Company	Country of Incorporation	Activity	Interest	2015 KShs'000	2014 KShs'000
I&M Bank (T) Limited	Tanzania	Commercial banking	55.03%	1,122,911	1,122,911
I&M Realty Limited	Kenya	Real Estate	100%	100	100
I&M Insurance Agency Limited	Kenya	Insurance	100%	100	100
				1,123,111	**1,123,111**

The Bank acquired 55.03% equity in CF Union Bank Limited (now I&M Bank Tanzania Limited) on 14 January 2010 to offer banking services in Tanzania.

I&M Realty Limited was incorporated on 30 October 2014 and commenced operations in December 2014. The company mainly owns property for rental income.

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

A summary of the subsidiaries performance is shown below;

	I&M Tanzania Kshs '000	I&M Realty Kshs '000	I&M Insurance Agency Kshs '000
Revenue	1,324,797	184,035	28,720
Expenses	923,491	31,296	27,554
Profit before tax	**401,306**	**152,739**	**1,166**
Profit after tax	**295,101**	**100,019**	**743**

(c) Other investments - Equity

In 2014, I&M Bank (T) Limited invested TZS 500 million (Kshs 26 million) as equity in Tanzania Mortgage Refinancing Company (TMRC).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

22. PROPERTY AND EQUIPMENT - Group and Company

(a) Group

2015	Buildings KShs'000	Leasehold improvements KShs'000	Furniture, fittings, fixtures & office, equipment KShs'000	Computers KShs'000	Motor vehicles KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost/valuation							
At 1 January 2015	1,350,000	891,343	575,851	433,766	58,427	130,020	3,439,407
Reclassification	-	-	69,326	(69,326)	-	(32,116)	(32,116)
Transfers from intangible assets	-	2,181	8,801	33,362	-	(55)	44,289
Additions	-	64,620	95,972	59,483	10,988	210,369	441,432
Reclassification from capital work in progress	-	22,795	11,615	78,771	24,686	(137,867)	-
Write offs	-	2,535	792	(676)	-	(6,593)	(3,942)
Disposals	-	(12,440)	(48,011)	(366)	(4,035)	-	(64,852)
Translation differences	-	(13,939)	(14,061)	(2,494)	(1,246)	(3,312)	(35,052)
At 31 December 2015	**1,350,000**	**957,095**	**700,285**	**532,520**	**88,820**	**160,446**	**3,789,166**
Depreciation							
At 1 January 2015	28,826	475,666	353,009	315,471	41,095	-	1,214,067
Reclassification	-	-	16,205	(16,205)	-	-	-
Charge for the year	23,593	92,678	63,876	58,182	12,655	-	250,984
Write offs	-	824	998	3,164	(888)	-	4,098
On disposals	-	(12,208)	(43,594)	(253)	(3,562)	-	(59,617)
Translation differences	-	(3,492)	(4,121)	(1,136)	(469)	-	(9,218)
At 31 December 2015	**52,419**	**553,468**	**386,373**	**359,223**	**48,831**	**-**	**1,400,314**
Net book value At 31 December 2015	**1,297,581**	**403,627**	**313,912**	**173,297**	**39,989**	**160,446**	**2,388,852**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

22. PROPERTY AND EQUIPMENT (Continued)

(a) Group - continued

2014	Buildings KShs'000	Leasehold improvements KShs'000	Furniture, fittings, fixtures & office, equipment KShs'000	Computers KShs'000	Motor vehicles KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost/valuation							
At 1 January 2014	1,817,431	688,384	813,912	510,428	217,230	182,247	4,229,632
Disposal of subsidiary	(467,431)	-	(322,698)	(166,608)	(166,380)	(20,913)	(1,144,030)
Additions	-	204,044	86,153	72,645	14,106	124,990	501,938
Reclassification from capital work in progress	-	1,800	-	19,057	-	(20,857)	-
Transfers to intangible assets	-	-	-	-	-	(65,683)	(65,683)
Transfers to prepaid operating lease rentals	-	-	-	-	-	(54,252)	(54,252)
Disposals / write off	-	-	(342)	(60)	(6,295)	(14,748)	(21,445)
Translation differences	-	(2,885)	(1,174)	(1,696)	(234)	(764)	(6,753)
At 31 December 2014	**1,350,000**	**891,343**	**575,851**	**433,766**	**58,427**	**130,020**	**3,439,407**
Depreciation							
At 1 January 2014	123,837	400,309	522,229	399,212	175,849	-	1,621,436
Disposal of subsidiary	(118,604)	-	(218,146)	(150,007)	(136,047)	-	(622,804)
Charge for the year	23,593	75,997	49,464	66,932	7,712	-	223,698
On disposals	-	-	(102)	(60)	(6,295)	-	(6,457)
Translation differences	-	(640)	(436)	(606)	(124)	-	(1,806)
At 31 December 2014	**28,826**	**475,666**	**353,009**	**315,471**	**41,095**	**-**	**1,214,067**
Net book value At 31 December 2014	**1,321,174**	**415,677**	**222,842**	**118,295**	**17,332**	**130,020**	**2,225,340**

In 2013, the building was revalued after 4 years by an independent valuer, Kiragu & Mwangi Limited. The valuation is level 3 under the Fair value hierarchy.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

22. PROPERTY AND EQUIPMENT (Continued)

(b) Company

2015	Buildings KShs'000	Leasehold improvements KShs'000	Furniture, fittings, fixtures & office, equipment KShs'000	Computers KShs'000	Motor vehicles KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost/valuation							
At 1 January 2015	-	747,374	526,423	348,427	48,730	53,857	1,724,811
Transfers from intangible assets	-	-	-	32,112	-	13,288	45,400
Additions	-	60,072	37,467	40,958	1,800	120,064	260,361
Reclassification from capital work in progress	-	22,795	11,615	78,771	24,686	(137,867)	-
Write offs/back	-	2,536	792	(676)	-	(2,788)	(136)
Disposals	-	(12,440)	(48,011)	(366)	(1,500)	-	(62,317)
At 31 December 2015	-	820,337	528,286	499,226	73,716	46,554	1,968,119
Depreciation							
At 1 January 2015	-	446,135	334,044	288,807	35,620	-	1,104,606
Charge for the year	-	78,538	46,954	55,211	11,577	-	192,280
Write offs/back	-	823	998	3,164	(888)	-	4,097
On disposals	-	(12,208)	(43,594)	(253)	(1,500)	-	(57,555)
At 31 December 2015	-	513,288	338,402	346,929	44,809	-	1,243,428
Net book value At 31 December 2015	-	307,049	189,884	152,297	28,907	46,554	724,691

Assets that are fully depreciated amounted to KShs 815,142,604 (2014 - KSh 687,887,485). If depreciation had been charged during the year on the cost of these assets at a nominal rate, it would have amounted to KShs 160,969,133 (2014 - KShs 128,229,228).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

22. PROPERTY AND EQUIPMENT (Continued)

(b) Company - Continued

2014	Buildings KShs'000	Leasehold improvements KShs'000	Furniture, fittings, fixtures & office, equipment KShs'000	Computers KShs'000	Motor vehicles KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost/valuation							
At 1 January 2014	1,350,000	604,575	447,711	295,298	42,044	145,218	2,884,846
Additions	-	142,799	79,054	53,188	12,980	43,323	331,344
Transfers to intangible assets	-	-	-	-	-	(65,683)	(65,683)
Transfers to prepaid operating lease rentals	-	-	-	-	-	(54,252)	(54,252)
Disposals	(1,350,000)	-	(342)	(59)	(6,294)	(14,749)	(1,371,444)
At 31 December 2014	-	747,374	526,423	348,427	48,730	53,857	1,724,811
Depreciation							
At 1 January 2014	5,233	379,278	288,592	227,971	35,369	-	936,443
Charge for the year	-	66,857	45,554	60,896	6,545	-	179,852
On disposals	(5,233)	-	(102)	(60)	(6,294)	-	(11,689)
At 31 December 2014	-	446,135	334,044	288,807	35,620	-	1,104,606
Net book value At 31 December 2014	-	301,239	192,379	59,620	13,110	53,857	620,205

In 2013, the building was revalued after 4 years by an independent valuer, Kiragu & Mwangi Limited. The valuation is level 3 under the fair value hierarchy.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

22. PROPERTY AND EQUIPMENT (Continued)

Measurement of fair values

(i) Valuation techniques and significant unobservable inputs

Financial assets measured at fair value

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Property	Cash-flow discounting	The building is located in one of the busiest business locations in the city, with a design and construction that is in line with market trends. The directors are of the opinion that the building will be fully let with potential growth in rental and capital values.	Based on the past trend, the directors are of the opinion that the building will be fully let with potential growth in rental and capital values, hence a higher fair value.

Level 3 fair values

Reconciliation of level 3 fair values

The following table shows reconciliation from the opening balances to the closing balances for level 3 fair values.

Group	2015 KShs'000	2014 KShs'000
Balance as at 1 January	1,321,174	875,131
Change in Fair Value	-	491,506
Total gains or losses in OCI*	-	(21,870)
Balances as at 31 December	**1,321,174**	**1,344,767**
Total gains or losses in profit or loss	(23,593)	(23,593)
Balances as at 31 December	**1,297,581**	**1,321,174**

Company	2015	2014
Balance as at 1 January	-	875,131
Change in Fair Value	-	491,506
Total gains or losses in OCI*	-	(21,870)
Balances as at 31 December	**-**	**1,344,767**
Total gains or losses in profit or loss in OCI*	-	(1,344,767)
	-	-

The building was transferred to I&M Realty with effect from 14th November 2014

*Other Comprehensive Income

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

23. INTANGIBLE ASSETS

(a) Goodwill

(i) Group

	2015 KShs'000	2014 KShs'000
I&M Bank (T) Limited	608,953	608,953
Biashara Bank of Kenya Limited	10,747	10,747
Balances as 31 December	**619,700**	**619,700**

The recoverable amounts for I&M Bank (T) Limited has been calculated based on their value in use, determined by discounting the future cash flows expected to be generated from the continuing use of the Cash Generating Unit (CGU). The present value of the recoverable amounts on I&M Bank LIMITED share were Kshs 2.78 billion (2014: Kshs 2.38 billion) for I&M Bank (T) Limited. No impairment losses were recognised during 2015 (2014: Nil), because the recoverable amounts of these CGUs were determined to be higher than their carrying amounts. The key assumptions used in the calculation of value in use were as follows:

2015	I&M (T) Ltd
5 year risk free rate	9.18%
Risk premium	12.50%
Terminal growth rate	3.00%
Exchange rate	Kshs 1 = Tzs 21.11

2014	
5 year risk free rate	9.18%
Risk premium	12.50%
Terminal growth rate	3.00%
Exchange rate	Kshs 1 = Tzs 19.09

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

These cash flows have been projected for 5 years for I&M (T) Limited based on the approved business plans of the respective units. For I&M (T) Limited the terminal growth rates estimated were 3.00%.

(ii) Company

	2015 KShs'000	2014 KShs'000
Goodwill on assets purchased from Biashara Bank of Kenya Limited	10,747	10,747

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

23. INTANGIBLE ASSETS (Continued)

(b) Computer software

(i) Group

2015

	Software KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost			
At 1 January	660,525	202,481	863,006
Reclassification from capital work in progress	53,333	(53,333)	-
Transfers to intangible assets	-	(44,289)	(44,289)
Additions	113,303	7,010	120,313
Reclassification	13,835	(16,028)	(2,193)
Write offs	(14,532)	-	(14,532)
Disposals	(10)	-	(10)
Translation differences	(9,586)	-	(9,586)
At 31 December 2015	**816,868**	**95,841**	**912,709**
Amortisation			
At 1 January	581,188	-	581,188
Amortisation for the year	138,252	-	138,252
Write offs	(26,789)	-	(26,789)
On disposals	(10)	-	(10)
Translation differences	(4,503)	-	(4,503)
At 31 December 2015	**688,138**	**-**	**688,138**
At 31 December 2015	**128,730**	**95,841**	**224,571**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

23. INTANGIBLE ASSETS (Continued)

(b) Computer software – (Continued)

2014 **Cost**	Software KShs'000	Capital work in progress KShs'000	Total KShs'000
At 1 January	830,767	-	830,767
Disposal of subsidiary to parent	(171,704)	-	(171,704)
Additions	3,495	136,798	140,293
Transfer from property and equipment	-	65,683	65,683
Translation differences	(2,033)	-	(2,033)
At 31 December 2014	**660,525**	**202,481**	**863,006**
Amortisation			
At 1 January	655,759	-	655,759
Disposal of subsidiary to parent	(157,181)	-	(157,181)
Amortisation for the year	83,332	-	83,332
Translation differences	(722)	-	(722)
At 31 December 2014	**581,188**	**-**	**581,188**
At 31 December 2014	**79,337**	**202,481**	**281,818**

(ii) Company

2015

At 1 January	579,297	202,481	781,778
Reclassification from capital work in progress	53,333	(53,333)	-
Transfer to property and equipment	52,394	(97,794)	(45,400)
Additions	75,909	-	75,909
Reclassification	13,835	(16,029)	(2,194)
Write offs	(14,532)	-	(14,532)
Disposals	(10)	-	(10)
At 31 December 2015	**760,226**	**35,325**	**795,551**
Amortisation			
At 1 January	546,243	-	546,243
Amortisation for the year	114,044	-	114,044
Write offs	(26,789)	-	(26,789)
On disposals	(10)	-	(10)
At 31 December 2015	**633,488**	**-**	**633,488**
At 31 December 2015	**126,738**	**35,325**	**162,063**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

23. INTANGIBLE ASSETS (Continued)

(b) Computer software – (Continued)

2014 Cost	Software KShs'000	Capital work in progress KShs'000	Total KShs'000
At 1 January	579,297	-	579,297
Additions	-	136,798	136,798
Transfer from property and equipment	-	65,683	65,683
At 31 December 2014	**579,297**	**202,481**	**781,778**
Amortisation			
At 1 January	476,530	-	476,530
Amortisation for the year	69,713	-	69,713
At 31 December 2014	**546,243**	**-**	**546,243**
At 31 December 2014	**33,054**	**202,481**	**235,535**

The company's computer software with a gross value of KShs 449,006,688 (2014 – KShs 282,314,364) are fully amortised but still in use.

24. PREPAID OPERATING LEASE RENTALS

Group	2015 KShs'000	2014 KShs'000
Cost		
At 1 January	317,650	262,953
Transfer from property and equipment	-	54,252
Additions	-	445
	317,650	**317,650**
Amortisation		
At 1 January	(27,336)	(21,628)
Charge for the year	(5,708)	(5,708)
As at 31 December	**284,606**	**290,314**
Company		
Cost		
At 1 January	-	262,953
Transfer from property and equipment	-	54,252
Disposals	-	(317,205)
	-	-
Amortisation		
At 1 January	-	21,628
Disposals	-	(21,628)
	-	-
As at 31 December	**-**	**-**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

25. DEFERRED TAX (ASSET/LIABILITIES)

Deferred tax assets at 31 December 2015 and 31 December 2014 are attributable to the following:

(a) Deferred tax asset

Group
2015

	Balance at 1 January KShs'000	Prior year under (over) provision KShs'000	Recognized in equity KShs'000	Translation differences KShs'000	Recognized in profit or loss KShs'000	Balance at 31 December KShs'000
Plant and equipment	59,948	41,553	-	1,850	(74,632)	28,719
General provisions	323,037	33,743	-	(7,094)	(50,804)	298,882
Other provisions	197,573	-	-	-	(66,099)	131,474
Available-for-sale reserves	155,485	-	61,021	-	-	216,506
	736,043	**75,296**	**61,021**	**(5,244)**	**(191,535)**	**675,581**

2014

	Balance at 1 January KShs'000	Prior year under (over) provision KShs'000	Recognized in equity KShs'000	Translation differences KShs'000	Recognized in profit or loss KShs'000	Balance at 31 December KShs'000
Plant and equipment	63,653	-	-	570	(4,275)	59,948
General provisions	341,301	-	-	(919)	(17,345)	323,037
Other provisions	98,386	16,593	-	-	82,594	197,573
Available-for-sale reserves	72,649	-	82,836	-	-	155,485
	575,989	**16,593**	**82,836**	**(349)**	**60,974**	**736,043**

Company
2015

	Balance at 1 January KShs'000	Prior year under (over) provision KShs'000	Recognized in equity KShs'000	Translation differences KShs'000	Recognized in profit or loss KShs'000	Balance at 31 December KShs'000
Deferred tax assets						
Plant and equipment	85,956	41,553	-	-	(86,884)	40,625
General provisions	292,001	1	-	-	(65,727)	226,275
Other provisions	179,027	-	-	-	(66,099)	112,928
Available-for-sale reserves	155,485	-	61,021	-	-	216,506
	712,469	**41,554**	**61,021**	**-**	**(218,710)**	**596,334**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

25. DEFERRED TAX (ASSET/LIABILITIES) (Continued)

(a) Deferred tax asset (Continued)

Company (Continued)
2014

	Balance at 1 January KShs'000	Prior year under/(over) provision KShs'000	Recognised in equity KShs'000	Translation differences KShs'000	Recognised in Profit or loss KShs'000	Balance at 31 December KShs'000
Deferred tax assets						
Plant and equipment	82,588	-	-	-	3,368	85,956
General provisions	322,973	-	-	-	(30,972)	292,001
Other provisions	79,840	16,593	-	-	82,594	179,027
Available-for-sale reserves	72,649	-	82,836	-	-	155,485
	558,050	16,593	82,836	-	54,990	712,469

(b) Deferred tax liability

Group
2015

	Balance at 1 January KShs'000	Disposal of subsidiary company KShs'000	Recognised in equity KShs'000	Translation differences KShs'000	Recognised in Profit or loss KShs'000	Balance at 31 December KShs'000
Deferred tax liabilities						
Plant and equipment	-	-	-	-	75	75

2014

	Balance at 1 January KShs'000	Disposal of subsidiary company KShs'000	Recognised in equity KShs'000	Translation differences KShs'000	Recognised in profit or loss KShs'000	Balance at 31 December KShs'000
Deferred tax liabilities						
Plant and equipment	59,238	(59,238)	-	-	-	-
Other provisions	(40,428)	40,428	-	-	-	-
Available-for-sale reserves	7,478	(7,478)	-	-	-	-
	26,288	(26,288)	-	-	-	-

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

26. OTHER ASSETS

Group

	2015 KShs'000	2014 KShs'000
Rent receivable	41,244	14,255
Prepayments	319,980	284,022
Due from Bank One	-	136,875
Other receivables	549,719	540,480
	910,943	975,632

Company

	2015 KShs'000	2014 KShs'000
Rent receivable	-	14,255
Prepayments	239,926	233,143
Other receivables	528,693	534,226
	768,619	781,624

27. DEPOSITS FROM BANKS

Group

	2015 KShs'000	2014 KShs'000
Due within 90 days	3,303,987	16,613,432
Due after 90 days	2,414,777	80,745
	5,718,764	16,694,177

Company

	2015 KShs'000	2014 KShs'000
Due within 90 days	1,632,247	13,649,497
Due after 90 days	2,203,284	80,745
	3,835,531	13,730,242

The company's weighted average effective interest rate on deposits from other banks and banking institutions at 31 December 2015 was 4.01% (2014 – 3.17%).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

28. DEPOSITS FROM CUSTOMERS

(a) Group

	2015 KShs'000	2014 KShs'000
Government and Parastatals	1,588,384	3,540,000
Private sector and individuals	115,097,618	95,671,681
	116,686,002	**99,211,681**

(b) Company

	2015 KShs'000	2014 KShs'000
Government and Parastatals	1,222,085	714,852
Private sector and individuals	102,413,226	85,906,075
	103,635,311	**86,620,927**

The company's weighted average effective interest rate on interest bearing deposits from customers at 31 December 2015 was 7% (2014 – 6.05%).

29. OTHER LIABILITIES

(a) Group

	2015 KShs'000	2014 KShs'000
Accruals	1,035,114	746,121
Other accounts payable	688,840	483,530
Bankers cheques payable	176,238	168,134
	1,900,192	**1,397,785**

(b) Company

	2015 KShs'000	2014 KShs'000
Accruals	900,625	644,815
Other accounts payable	635,204	489,849
Bankers cheques payable	164,984	157,655
	1,700,813	**1,292,319**

30. LONG TERM BORROWINGS

(a) Group

	2015 KShs'000	2014 KShs'000
Less than one year	2,451,879	2,142,904
One to five years	6,109,367	6,999,974
Over five years	580,489	1,209,635
	9,141,735	**10,352,513**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

30 LONG TERM BORROWINGS (Continued)

(a) Group (Continued)

The group's long term borrowings constituted those in note 30(b) and the following in I&M Bank (T) Ltd:

(i) USD 5 million facility granted on 3 July 2012 by PROPARCO repayable semi - annually with a final repayment date of 31 October 2019. The effective interest rate on the long term borrowing is 3.50%.

(ii) TZS 3.25 billion facility granted on 14 July 2014 by Tanzania Mortgage Refinance Company Limited (TMRC). The interest on the facility repayable quarterly over 3 years with redemption on maturity. The effective interest rate on the long term borrowing is 11.50% p.a.

The Group's average effective interest rate on long term borrowings was 3.54% (2014 - 3.91%).

(b) Company

	2015 KShs'000	2014 KShs'000
Less than one year	3,247,166	2,054,511
One to five years	5,068,792	6,499,374
Over five years	290,245	1,209,635
	8,606,203	**9,763,520**

The Company's long term borrowings constituted the following:

(i) USD 25,000,000 facility granted on 24 November 2010 by FMO repayable over seven years after an initial one year two months grace period.

(ii) USD 15,000,000 facility granted on 5 January 2012 by DEG repayable quarterly over five (5) years after an initial six months grace period.

(iii) USD 50,000,000 facility granted on 16 July 2013 by IFC repayable semi-annually over 7 years after an initial two years grace period.

(iv) USD 26,000,000 facility granted on 21 March 2014 by PROPARCO repayable semi-annually over seven years four months after an initial one year grace period.

(v) EUR 10,000,000 facility granted on 21 March 2014 by PROPARCO repayable semi-annually over seven years four months after an initial one year grace period.

The Company's average effective interest rate on long term borrowings was 3.42% (2014 – 3.45%).

Loan movement schedule

(c) Group

	2015 KShs'000	2014 KShs'000
At 1 January	10,352,513	6,634,740
Funds received	-	4,030,966
Payments on principal and interest	(2,668,762)	(627,545)
Interest payable	43,966	8,181
Translation differences	1,414,018	306,171
At 31 December	**9,141,735**	**10,352,513**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

30 LONG TERM BORROWINGS (Continued)

(d) Company

	2015 KShs'000	2014 KShs'000
At 1 January	9,763,520	6,634,740
Funds received	-	3,447,766
Payments on principal and interest	(2,487,664)	(627,545)
Interest payable	35,011	2,388
Translation differences	1,295,336	306,171
At 31 December	**8,606,203**	**9,763,520**

31. SUBORDINATED DEBT

(a) Group

Less than one year	63,685	320,395
One to five years	4,010,422	3,655,000
Over five years	420,977	-
	4,495,084	**3,975,395**

The group's subordinated debts constitute those in note 31(b) and the following in I&M (T) Ltd:

USD 10 million facility granted on January 2015 by DEG (Deutsche Investitions - und Entwicklungsgesellschaft mbH) of which amount of USD 8 Million had already been received during the month of January 2015.The effective interest rate on the subordinated debt is 5.74%

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

(b) Company

	2015 KShs'000	2014 KShs'000
Less than one year	20,666	320,395
One to five years	3,655,000	3,655,000
	3,675,666	**3,975,395**

The company's subordinated debts constitute the following:

KShs 600,000,000 subordinated unsecured floating rate notes issued on 12 June 2008. The tenor was 7 years from the issue date and each was redeemed in four equal instalments on 2 January 2014, 2 July 2014, 2 January 2015 and 11 June 2015. The average effective interest rate on the unsecured Floating Rate Note was 11.91% (2014 - 11.71%).

Kshs 3,655,000,000 medium term unsecured subordinated fixed and floating rate notes issued on 16 December 2013 for a tenor of 5 years with redemption on the maturity date. The Company's average effective interest rate on the medium term unsecured fixed and floating rate note was 12.05% (2014 - 12.49%).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

32. SHARE CAPITAL AND RESERVES

(a) Share capital

	2015 KShs'000	2014 KShs'000
Authorised		
30,000,000 Ordinary shares of KShs 100 each	**3,000,000**	**3,000,000**
Issued and fully paid		
28,802,453 Ordinary shares of KShs 100 each	**2,880,245**	**2,880,245**

(b) Major shareholders

The major shareholders at 31 December 2015 and 2014 were as follows:

	Number of shares	%
I&M Holdings Limited (2015 & 2014)	**28,802,453**	**100%**

(c) Share premium

	2015 KShs'000	2014 KShs'000
At 1 January and 31 December	**3,773,237**	**3,773,237**

(d) Revaluation reserve

The revaluation reserve relates to the revaluation of buildings.

(e) Statutory credit risk reserve

Where impairment losses required by legislation or regulations exceed those computed under International Financial Reporting Standards (IFRSs), the excess is recognised as a statutory reserve and accounted for as an appropriation of retained profits and the reverse for reductions. These reserves are not distributable.

(f) Translation reserve

The translation reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations (namely I&M Bank (T) Limited - Tanzania) into the functional currency of the Parent company.

(g) Available-for-sale reserve

The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale investment, excluding impairment losses, until the investment is derecognised.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

33. NOTES TO THE STATEMENT OF CASH FLOWS

Group

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

		2015 KShs'000	2014 KShs'000
Profit before income tax		8,747,752	7,480,487
Adjustments for:			
Depreciation		250,984	223,698
Amortisation of intangible asset		138,252	83,332
Amortisation of prepaid operating lease rentals		5,708	5,708
Profit on sale of property and equipment		3,108	12,024
Write back to profit or loss - intangible assets		(10,064)	-
Write off to profit or loss - property and equipment		8,039	-
Profit on sale of available - for - sale securities		(39,135)	(122,540)
Dividend income from I&M Bank Rwanda		-	(107,959)
Profit from Joint Venture		-	(136,875)
Exchange reserves		(115,677)	(80,207)
		8,988,967	**7,357,668**
Decrease in operating assets			
Movement in loans and advances to customers		(13,316,685)	(18,195,782)
Investment in securities		1,422,665	(9,934,630)
Cash and balances with central banks:			
– Cash Reserve Ratio		233,702	(1,099,835)
Loan and advances to banks		(76,357)	-
Other assets		64,689	(379,441)
		(11,671,986)	**(29,609,688)**
Increase in operating liabilities			
Customer deposits		17,474,321	14,201,362
Deposits from banks		2,334,032	80,745
Long term borrowings		(1,210,778)	3,333,397
Other liabilities		502,407	338,214
		19,099,982	**17,953,718**
Cash flows generated from / (used in) operating activities		**16,416,963**	**(4,298,302)**
Tax paid	13(b)	(2,517,396)	(2,809,572)
Net cash flows generated from / (used in) operating activities		**13,899,567**	**(7,107,874)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

33. NOTES TO THE STATEMENT CASH FLOWS (Continued)

(b) Analysis of cash and cash equivalents – Group

	2015 KShs'000 a	2014 KShs'000 b	Change KShs'000 c = (a – b)
Cash and balances with central banks			
– excluding Cash Reserve Ratio (Note 16)	2,375,222	4,050,678	(1,675,456)
Items in the course of collection (Note 17)	466,999	530,876	(63,877)
Loans and advance to banks (Note 18(a))	2,722,536	1,071,675	1,650,861
Investment Securities (Note 20(a))	1,772,675	2,447,378	(674,703)
Deposits from banks (Note 27(a))	(3,303,987)	(16,613,432)	13,309,445
	4,033,445	**(8,512,825)**	**12,546,270**

Company

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

		2015 KShs'000	2014 KShs'000
Profit before income tax		8,366,889	7,749,125
Adjustments for:			
Depreciation		192,280	179,852
Amortisation of intangible asset		114,044	69,713
Loss/(Profit) on sale of property and equipment		3,229	(697,300)
Property and equipment items expensed		-	14,669
Write back to profit or loss - intangible assets		(10,064)	-
Write off to profit or loss - property and equipment		4,233	-
Profit on sale of available - for - sale securities		(39,135)	(122,540)
Dividend income		(21,118)	(132,420)
		8,610,358	**7,061,099**
Decrease in operating assets			
Movement in loans and advances to customers		(12,321,904)	(16,496,672)
Investment in securities		1,275,131	(11,966,176)
Due from group companies		(56,157)	-
Cash and balances with Central Bank of Kenya:			
– Cash Reserve Ratio		91,192	(708,829)
Other assets		13,005	(392,513)
		(10,998,733)	**(29,564,190)**
Increase in operating liabilities			
Customer deposits		17,014,384	12,126,652
Balances due to group companies		206,137	-
Deposits from banks		2,122,539	80,745
Long term borrowings		(1,157,317)	3,128,780
Other liabilities		408,494	314,503
		18,594,237	**15,650,680**
Cash flows generated from/(used in) operating activities		**16,205,862**	**(6,852,411)**
Tax paid	13(b)	(2,356,261)	(2,638,370)
Net cash flows generated from / (used in) operating activities		**13,849,601**	**(9,490,781)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

33. NOTES TO THE STATEMENT CASH FLOWS (Continued)

(d) Analysis of cash and cash equivalents – Company

	2015 KShs'000 a	2014 KShs'000 b	Change KShs'000 c = (a – b)
Cash and balances with Central Bank of Kenya – excluding Cash Reserve Ratio (Note 16)	865,246	2,496,764	(1,631,518)
Items in the course of collection	449,077	526,123	(77,046)
Loans and advances to banks (Note 18(b))	2,182,800	573,125	1,609,675
Investment securities (Note 20(b))	515,505	493,722	21,783
Deposits from banks (Note 27(b))	(1,632,247)	(13,649,497)	12,017,250
	2,380,381	**(9,559,763)**	**11,940,144**

34. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Group at 31 December 2015. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

(b) Contractual off-balance sheet financial liabilities

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

Group	2015 KShs'000	2014 KShs'000
Contingencies related to:		
Letters of credit	6,659,590	6,171,463
Guarantees	14,172,388	10,078,364
Acceptances	10,552,923	5,063,573
	31,384,901	**21,313,400**
Commitments related to:		
Outstanding spot/forward contracts	18,812,112	21,285,664
	50,197,013	**42,599,064**
Company		
Contingencies related to:		
Letters of credit	6,411,137	5,870,662
Guarantees	13,955,140	9,939,782
Acceptances	10,552,923	5,063,573
	30,919,200	**20,874,017**
Commitments related to:		
Outstanding spot/forward contracts	18,812,112	21,285,664
	49,731,312	**42,159,681**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

34. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS (Continued)

(c) Nature of contingent liabilities

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

Letters of credit commit the Bank to make payment to third parties, on production of documents, which are subsequently reimbursed by customers.

An *acceptance* is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented and reimbursement by the customer is almost immediate.

Forward contracts are arrangements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate.

The fair values of the respective currency forwards are carried on the face of the balance sheet.

(d) Contingent Liabilities

On completion of the tax audit by Kenya Revenue Authority (KRA), covering the Years of Income 2011 to 2013, KRA raised an additional tax assessment on the Bank in June 2015. The Bank immediately settled Kshs 6,563,885 which was rightly assessed and objected to all other items which were erroneously assessed. The Bank has since provided all the information and supporting schedules requested by KRA with respect to the objection. At the date of approval of these financial statements, this dispute has not yet been concluded. The Directors believe that the claim will be successfully defended. Consequently, no provisions have been made in these financial statements.

35. ASSETS PLEDGED AS SECURITY

Group and Company

As at 31 December 2015, Treasury Bonds with a face value of Kshs 1,276,000,000 (2014 – Kshs 1,595,000,000) were held under lien in favour of the Central Bank of Kenya.

36. RELATED PARTY TRANSACTIONS

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

I&M Bank Limited - Kenya

(a) Transactions with directors/shareholders

	2015 KShs'000	2014 KShs'000
(i) Loans to directors/shareholders	**133,980**	**129,866**

The related interest income for loans above was KShs 9,811,996 (2014 – KShs 3,034,533).

(ii) Deposits from directors/shareholders	**3,024,670**	**2,378,850**

Interest expense on deposits from directors and shareholders was KShs 244,478,964 (2014 – KShs 169,134,311).

(iii) Loans from shareholders	-	-

There was no interest expense on loans from shareholders (2014 - Nil).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

36. RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with related companies

	2015 KShs'000	2014 KShs'000
(i) Loans to related companies	14,695	18,581

Interest income on loans to related companies was KShs 1,280,075 (2014 –2,787,145).

	2015 KShs'000	2014 KShs'000
(ii) Loans from related companies	3,192,693	4,064,831

Interest expense on loans from related companies was KShs 54,434,554 (2014 – 106,234,002).

	2015 KShs'000	2014 KShs'000
(iii) Deposits from related companies	617,870	609,577

Interest expense on deposits from related companies was KShs 21,087,755 (2014 – KShs 22,064,717).

	2015 KShs'000	2014 KShs'000
(iv) Amounts due from group companies subsidiaries / Joint Venture	2,423,273	2,367,116

There was no interest income on amounts due from group companies, subsidiaries and joint venture (2014: Nil).

	2015 KShs'000	2014 KShs'000
(v) Amounts due from group companies subsidiaries / Joint Venture	206,137	-

Interest expense on deposits from group companies, subsidiaries and joint venture was KSh 1,259,100 (2014 – KShs 1,536,098).

(c) Transactions with employees

	2015 KShs'000	2014 KShs'000
Staff loans	868,624	454,452

Interest earned on these loans was KShs 46,394,171 (2014 – KShs 21,107,786).

(d) Key management compensation

	2015 KShs'000	2014 KShs'000
Directors' remuneration made up of short term benefits	68,644	50,680

(e) I&M Bank (T) Limited – Tanzania

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

37. CAPITAL COMMITMENTS

	2015 KShs'000	2014 KShs'000
Group	909,768	1,150,000
Company	557,145	150,000

38. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

Group

(a) Lessee

The Group leases 41 bank premises under operating leases in Kenya and Tanzania. The leases, on average, run for an initial period of six years with an option to renew. None of the leases include contingent rentals. During the year, KShs 285,864,000 (2014 – KShs 206,008,000) was charged to the profit or loss statement in respect of operating leases. Future minimum lease payments under these operating leases are as follows:

	2015 KShs'000	2014 KShs'000
Less than one year	328,424	162,801
One to five years	1,223,689	571,050
Over five years	408,122	8,820
	1,960,235	742,671

(b) Lessor

The Group leases out its building under operating leases. Non-cancellable operating lease rentals are receivable as follows:

	2015 KShs'000	2014 KShs'000
Less than one year	83,824	84,484
One to five years	408,558	387,222
	492,382	471,706

During the year, KShs 109,344,000 (2014 – KShs 82,565,000) was recognized as rental income in the income statement in respect of operating leases. In addition, KShs 31,296,000 (2014 – KShs 25,660,000) in respect of management expenses was recognized as an expense in the income statement in respect of the building.

The building was transferred to I&M Realty Limited with effect from 14 November 2014.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

38. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES (Continued)

Company

(c) Lessee

The Bank leases 33 bank premises under operating leases (including head office). The leases, on average, run for an initial period of six years with an option to renew the lease after that date. None of the leases include contingent rentals. During the year, KShs 298,146,416 (2014 – KShs 159,833,119) was charged to the profit or loss statement in respect of operating leases. Future minimum lease payments under these operating leases are as follows:

	2015 KShs'000	2014 KShs'000
Less than one year	279,626	162,801
One to five years	1,435,489	571,050
Over five years	368,826	8,820
	2,083,941	**742,671**

(d) Lessor

In 2014, the Bank leased out its building under operating leases for the substantial part of the year. The building was transferred to I&M Realty limited with effect from 14 November 2014 hence no lease rental income was subsequently received. In 2014, KShs 72,889,200 was recognized as rental income in the income statement in respect of operating leases while KShs 25,660,093 in respect of management expenses was recognized as an expense.

39. EVENTS AFTER THE REPORTING DATE

Since balance sheet date, the Group through the Tanzania subsidiary, I&M Bank (T) Limited, has entered into an agreement with FMO for a senior debt of USD 12 million. Full drawdown is expected within the first quarter 2016.

I&M CSR NEWS
I&M KENYA CSR

I&M Bank, Kenya continues to share its growth by giving back to society through its various Corporate Social Responsibility (CSR) Programmes.

EDUCATION

At I&M Bank, Kenya we believe that if we educate our children they will have the capacity to reach and tap into opportunities that transform them, their families and the society in general. The more children we educate the more we develop our society, our country and the African continent thereby leading to an improvement in the quality of life.

It is with this objective in mind that the Bank worked with various organizations and institutions to improve access to and quality of education for needy students. Through the provision of scholarships, construction of classrooms and supply of learning materials, the Bank enhanced the educational experience of deserving and needy students.

In 2015, the Bank sponsored over Kshs. 11 million towards different education initiatives.

Strathmore University

I&M Bank, Kenya continued to provide scholarships to needy students pursuing various Finance related degree programmes at Strathmore University.

Palmhouse Foundation

In 2015, I&M Bank, Kenya continued to support the Palmhouse Foundation, which enables needy but deserving students to realize their dreams by financing their secondary education and providing mentorship. The foundation is working towards achieving an endowment fund of Kshs. 100 million by the year 2018. I&M Bank, Kenya has supported this organization for a number of years, therefore helping them edge closer towards achieving this momentous target.

Amara Charitable Trust

I&M Bank, Kenya supported the Amara Charitable Trust in implementing one of its flagship projects on education. The Bank donated towards the construction of 7 classrooms for the Ngalalya primary school.

The Amara Charitable Trust has made an impact in the education sector in Kenya, a key focus for the Trust. The Trust aims to support at least 8000 students and a minimum of 15 primary and secondary rural schools.

Mr. Sarit S Raja Shah, Executive Director at I&M Bank cuts ribbon at one of the classrooms I&M Bank donated towards at Ngalalya Primary school.

I&M CSR NEWS (Continued)
I&M KENYA CSR (Continued)

Afya Elimu Helb Fund

In 2015, the Bank supported the Afya Elimu Helb Fund. The initiative is a partnership between Intrahealth Kenya and the Higher Education Loans Board (HELB). It has been set up specifically for health workers, to enhance access and equity to higher education, by way of granting loans and scholarships. The loans and scholarships target individuals already within the health sector workforce, as well as those directly enrolled in approved institutions mandated to train health workers.

HEALTH

The Bank's CSR arm has identified various activities aimed at enhancing the health sector by donating towards various causes championed by health organisations in the country.

The Bank donated over Kshs. 2 million towards different health initiatives as follows:

Annual Blood Donation Drive

The Bank remains at the forefront in heeding the call to donate blood to save lives. The Bank conducted its annual blood donation drive that was done in tandem with the World Blood Donor day organized by the World Health Organization (WHO).

The blood drive took place at different regional branches as well as in Nairobi, where I&M Bank Kenya staff members and the public got to participate in the initiative.

A section of blood donors during the 2015 I&M Bank Blood Donation drive at the I&M Bank Kisumu branch.

I&M Bank Medical Camp

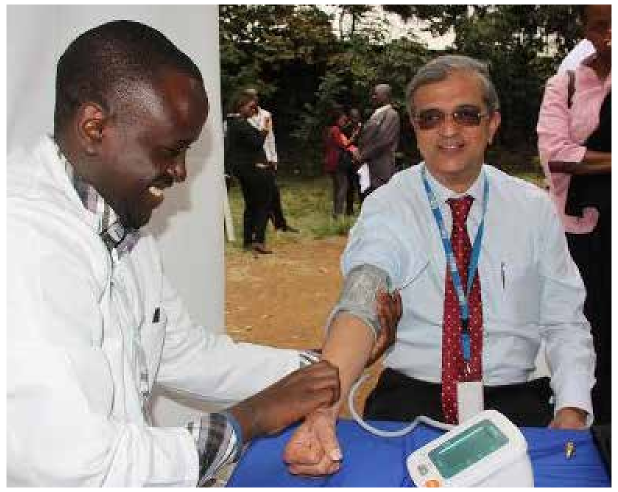
Over 3000 Kamukunji Jua Kali (small scale) artisans benefited from the 2015 edition of the I&M Bank's medical camp.

The medical camp's theme *Afya Njema, Maisha Mema* was spearheaded by a team of professional doctors, paramedics and staff. The camp was held at Muthurwa Primary School. Various ailments such as cancer (prostate & breast), ear nose and throat (ENT) amongst other conditions were covered during the event.

The activities at the camp focused on diagnosing and treating ailments whilst offering advice for follow up treatment at good referral hospitals.

"I&M Bank understands that the Jua Kali sector is an important segment of our economy. But at the same time we realize that those great Kenyans in this sector face a lot of health challenges due to the nature of their work, hence the need for us to come forward and give our best by providing treatment services to them," I&M Bank CEO, Mr. Arun Mathur, said during the opening of the 2015 medical camp.

Commenting on the Medical Camp, Bob Okumu, Chairman, Jua Kali Association, said, "We are so delighted to once again benefit from the 2015 I&M Bank medical camp. We are continually cementing our relationship with the Bank and are glad to see that I&M Bank has affirmed their commitment to support the fast growing Jua Kali sector."



Mr. Arun Mathur, I&M Bank CEO has his blood pressure taken during the I&M Bank medical camp organized for Jua Kali Artisans at the Muthurwa Primary School.

A section of Jua Kali artisans wait to be attended to by paramedics during the annual I&M Bank medical camp.

I&M CSR NEWS (Continued)
I&M KENYA CSR (Continued)

ENVIRONMENT

I&M Bank, Kenya has developed and maintained 25 acres of indigenous trees, 'I&M Bank Forest', inside Karura Forest. So far, the Bank has planted over 3000 trees and is targeting to plant 1 million trees.

In April 2015, the I&M Bank annual tree planting was held during the annual earth month which focuses on creating awareness and increasing knowledge of the importance of environmental conservation.

With this in mind, the Bank invited its Young Savers Account holders to participate in the tree planting exercise, with an objective of inspiring the next generation of environmentalists. The Young Savers Account holders, through their participation, were able to learn more about the fundamentals of environmental conservation.

The Bank's staff members and families also participated in the event and over 1000 trees were planted during the exercise.

Commenting on the event, I&M Bank CEO, Mr. Arun Mathur said, "At I&M Bank, through the CSR arm's environmental pillar, we believe that through building sustainable environments, we are able to improve livelihoods of our people, hence mitigate poverty levels in Kenya and Africa as a continent. By involving both the young and old on this tree planting exercise, we are able to support the government's efforts in achieving the Millennium Development Goal number 7 of ensuring environmental sustainability."

Participants of the I&M Bank tree planting exercise during the nature trail at the Karura Forest.

Wisdom Fadhili, a Young Savers Account Holder plants his tree during the I&M Bank tree planting exercise at the Bank's forest in Karura.

I&M Bank CEO, Mr. Arun Mathur plants his tree during the I&M Bank tree planting exercise aimed at celebrating the Annual Earth Month that falls in April.

Participants of the I&M Bank tree planting exercise plant trees during the tree planting exercise to commemorate the Annual Earth Month.

I&M CSR NEWS (Continued)
I&M KENYA CSR (Continued)

COMMUNITY SERVICE

The Bank's staff members dedicated time towards conducting various community service activities to support different homes, rehabilitation centres and schools.

We donated over Kshs. 30 million towards the different initiatives.

Kamiti Youth Correctional Centre

I&M Bank, Kenya donated seats, blankets and food stuff to the youths at the Kamiti Youth Correctional Center.

This is the largest youth correctional centre in Kenya drawing first-time offenders under the age of eighteen from all over country.

I&M Bank staff members had the opportunity to share a meal, interact with and provide mentoring and counselling to the group of teenage boys, some of whom lack role models to provide guidance.

A section of I&M Bank staff pose for a photo with Kamiti Youth Correctional Center beneficiaries after presenting donations to them during the staff CSR day.

Muthurwa Primary School

The Bank supports various initiatives with the objective of improving the quality of education provided in different learning institutions.

The Bank's staff members undertook a renovation process aimed at upgrading Muthurwa Primary school's facilities, in order to improve the learning conditions for students at the school. The staff members had the opportunity to paint and clean the school's buildings whilst also clearing its grounds, amongst other activities.

I&M Bank staff members paint classroom seats at the school during the CSR day.

Seeds Orphanage Children's Home

The Bank's Kitale branch staff members spent their CSR day at the Seeds Orphanage Children's Home in Kitale. The centre rehabilitates slightly over 200 children, many of whom are orphans, from diverse needy backgrounds. The team engaged in different activities with the children including mentoring. They also presented donations of food and blankets to the home.

Children at the Seeds Orphanage Children's home pose with I&M Bank Kitale branch staff members.

Jogoo Children's Home

Staff members from the Bank's Kisii branch spent their CSR day at the Jogoo Children's home in Kisii town. The home provides shelter for 120 children who come from financially constrained backgrounds. The home benefitted from various food donations. Staff members also got the chance to play, sing and make merry with the children during the visit.

Children at the Jogoo Children's Home make merry with some of the I&M Bank staff members at Kisii branch.

New Life Home Trust

The Bank continued to support the New Life Home Trust organization in undertaking different initiatives such as providing support programmes for abandoned, orphaned, and other extremely vulnerable babies and young children, with priority given to those who are infected or affected by HIV/AIDS.

St. Martin's Kibagare

The Bank donated towards St. Martin's Kibagare Children's feeding programme. The Kibagare Good News Centre (KGNC) is a program for poor and orphaned children from the slums of Nairobi and is run by the Assumption Sisters of Nairobi.

I&M CSR NEWS (Continued)
I&M RWANDA CSR

COMMUNITY SERVICE

I&M Bank (Rwanda) Limited Donates to Aegis White Rose Society and Participates in the Kwibuka 21st Commemoration

I&M Bank donated to the Aegis White Rose Society, whose key mission is to prevent genocide while promoting reconciliation, rehabilitating memorial sites, and preserving history.

I&M Bank staff also participated in the 21st Kwibuka commemoration event. During the event, the Bank reiterated its commitment to supporting families of the victims of genocide, including those who were formerly employed at I&M Bank. The Bank provides internship opportunities for some of the victims, who have subsequently been employed as full-time staff.

I&M Bank Staff listen to testimonials during the Kwibuka 21 commemoration event.

EDUCATION AND CAPACITY BUILDING

I&M Bank, (Rwanda) Limited supports Ntare Rebero Campus

I&M Bank contributed towards the construction of the Ntare Rebero Campus - a model not-for-profit secondary school current being constructed in Bugesera District. The donation went toward the construction of dormitories, classrooms and the dining hall. The school will be built on a 60 hectare plot of land on the Rebero hill, and is expected to accommodate 1000 students. The school is being developed by NSOBA Rwanda whose patrons include the President of The Republic of Uganda H. E. Yoweri K. Museveni and the President of Rwanda, H. E. Paul Kagame.

I&M Bank former MD Mr. Sanjeev Anand greets H. E. President Paul Kagame of Rwanda and H. E. President Yoweri Museveni of Uganda during the fundraising event.

I&M CSR NEWS (Continued)
I&M RWANDA CSR (Continued)

I&M Bank (Rwanda) Limited Participates in the Global Money Week 2015

I&M Bank joined the rest of the world in celebrating the ‘Global Money Week’ campaign that took place from the 7th March to 12th of March 2015. The event was organized by AIESEC Rwanda and Child & Youth International.

The Bank organized fun and interactive activities aimed at training children and the youth on financial literacy. Various topics featured included: inculcating a savings culture, creating livelihoods, employment and entrepreneurship.

School children from Alpha Community Academy after receiving GMW certificates and gifts from I&M Bank.

HEALTH

I&M Bank (Rwanda) Limited participates in the 2nd Annual RCCR Childhood Cancer Awareness Walk

I&M Bank staff joined the Rwanda Children’s Cancer Relief (RCCR), Rwandans and the rest of the world in to create awareness on childhood cancers during the 2nd Annual Childhood Cancer Awareness Walk.

The walk took place on 19th September and participants included medical students, survivors, school children and other well-wishers from the general public.

The walk was followed by discussions on cancer led by medical doctors as well as testimonials from survivors and their parents. The forum also provided an opportunity for the Ministry of Health to share the national strategy for combating childhood cancers.

I&M Bank staff and other participants at the close of the Childhood Cancer Awareness event.

I&M CSR NEWS (Continued)
I&M TANZANIA CSR

COMMUNITY SERVICE

I&M Bank (T) Limited Donates to SOS Village

I&M Bank continued to implement its CSR projects and presented food donations to the SOS Children's Home.

The Bank's management accompanied by staff visited the home, spent time with the children, played and shared a meal with them.

Speaking during the event, the SOS Supervisor noted that she was extremely happy to receive the donation from I&M Bank and mentioned that it was remarkable and major support for the children's daily needs.

The teams from SOS Children's home receive donations from the Head of Business Support at I&M Bank (T) Ltd, Lalit Tewari.

I&M CSR NEWS
BANK ONE MAURITIUS CSR

Bank One is committed to contributing toward economic development while improving the quality of life of the local community and society at large. The Bank aims at making an economic, social and ecological contribution to building a sustainable society through its (CSR) programme known as Community Action for Relief and Empowerment (CARE).

The CARE Programme aims at making a commitment towards vulnerable families and communities, to assist them in their short and long term development by providing an integrated approach aimed at addressing the root causes of poverty.

The various activities conducted under the programme included:

We CARE for Vacoas

Bank One in 2015 approached the Caritas Mauritius organization which aims to rehabilitate the poor, the excluded and the oppressed through active support, counseling and training. Caritas Mauritius identified 44 families living under poverty in Vacoas, Mauritius.

Bank One supported this organization by developing a Community Development programme at Vacoas. Under this program, Bank One set up a school feeding project for 70 children, undertook life skills management training for 40 unemployed persons, and provided school materials to 128 school children.

Children at Caritas Vacoas home pose for a photo with Bank One staff during one of the visits last year.

We CARE for SOS Children's Villages for Bambous

Bank one sponsored one family house at the SOS Children's Villages in Bambous, Mauritius. The SOS Children's Villages (SCV) Mauritius is a leading child care NGO which provides long term care to needy children.

The organization helps children who have lost parental care and those who are at risk of abandonment or whose basic rights are not being fulfilled.

The SCV of Bambous runs 9 family houses for these children, each managed by substitute mothers caring for 55 children.

Bank One staff members during tree planting exercise at the SOS Children's home.

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