I&M Bank LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS | 2016

Vibrant Colors of Growth

East African people have a long history of producing intricate textiles from bark in the earlier ages to the introduction of looms and printing in modern times. Today, East Africa continues to emphasize the use of natural fibres - such as cotton, wool, palm, jute, flax, and silk for weaving. The use of woven colorful yarns, textured fabrics, applique designs, embroidery, tie-dye, batik and resist dyeing result in vibrant designs and textures.

They make each fabric a canvas for communities and cultures to express themselves - from Khanga, Kitenge, Kikoi to Kente designs that are popular in Kenya, Tanzania, Uganda and Rwanda. As we grow in Sub-Saharan Africa, we are discovering the richness in the culture of our people.

The vibrancy and energy of these colours reflect, in many ways, the spirit that has driven the growth of I&M Bank in the last many years. Join us in a celebration of our growth as is reflected in the colours of these varied and vibrant fabrics.

Table of Contents

BOARD OF DIRECTORS

BOARD OF DIRECTORS (CONTINUED)

SENIOR MANAGEMENT

L A Sivaramakrishnan
Divisional Head
Business Development

Lucy Thegeya
Divisional Head
Business Support

A V Chavda
Director
Credit

Henry Kirimania
General Manager
Treasury

Priscilla Ndonga
General Manager
Human Resources

Elias Makau
General Manager
Finance

Stephen K. Kimwele
General Manager
Corporate Banking

Rohit Gupta
General Manager
ICT

Shameer Patel
General Manager
Strategy and Transformation Office

SENIOR MANAGEMENT (CONTINUED)

Srinivasan Parthasarthy
General Manager
Business Banking

Connie Macharia
General Manager
Credit

Suprio Sen Gupta
General Manager
Products

Bamidele O. Oseni
General Manager
Risk

Ruma Shah
General Manager
Audit

Chhanda Mishra
General Manager
Projects

Joseph Njomo
General Manager
Operations

Raphael Mapfumo
General Manager
Alternate Banking Channels

Gauri Gupta
General Manager
Mergers and Acquisitions

CORPORATE INFORMATION

BOARD OF DIRECTORS

SBR Shah, MBS	(Chairman)
Sarit S Raja Shah	(Executive Director)
Sachit S Raja Shah	
EM Kimani, MBS	
PCM Kibati	
M Soundararajan*	
AS Mathur	(Resigned 14 June 2016)
AN Koigi	
CK Maina	CEO - (Appointed 14 June 2016)

* Indian

COMPANY SECRETARY

NP Kothari – FCPS (Kenya)

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 Limited
Citibank NA
Commerzbank AG
Deutsche Bank AG
I&M Bank Rwanda Limited
I&M Bank (T) Limited
ICICI Limited Mumbai
Standard Bank of South Africa
Standard Chartered Bank NY

CORPORATE INFORMATION (CONTINUED)

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

CROSS ROAD
Off River Road
P.O. BOX 20338
Nairobi

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

NYERI
Hopewell Place
P.O. Box 747
301 Nyeri

NANYUKI
Nyeri Nanyuki Road
P.O. Box 971
10400 Nanyuki

MERU
Moi Avenue
P.O. Box 576
60200 Meru

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

I&M NEWS

I&M KENYA NEWS

I&M BANK INTRODUCES iMARA STRATEGY

2016 certainly goes down as one of the most challenging years in the history of the Kenyan banking community. The change in legislation that saw the introduction of interest rate caps and impact of deposits flight from smaller banks to bigger players has greatly undermined the overall industry stability. Our interpretation of the legislative challenge is that the people of Kenya are desirous of a much meaningful relationship with their bankers.

The significant legislative changes did coincide with the completion of our previous five year strategic cycle. The new strategy aptly dubbed iMara strategy, aims at reorganizing the bank to accelerate its growth trajectory by focusing on 3 key strategic themes.

The themes include:

- Growing our corporate banking offering through transaction banking, Relationship Management, sales effectiveness and a new coverage model;
- Delivering a distinctive value proposition to Affluent, Personal (middle income & Young Professionals) and Business Banking clients to set ourselves apart;
- Digitizing the business through automation processes which will cover re-engineering supported by automation, improved use of online and mobile channels to drive sales, using data analytics to make better informed decisions, as well as fostering an innovation culture amongst staff members.

Overall, we did reaffirm our unwavering commitment to continue delivering consistent growth and be partners of growth for all stakeholders. We envision that the iMara strategy will help build a stronger brand presence in the region within the bank's target segments.

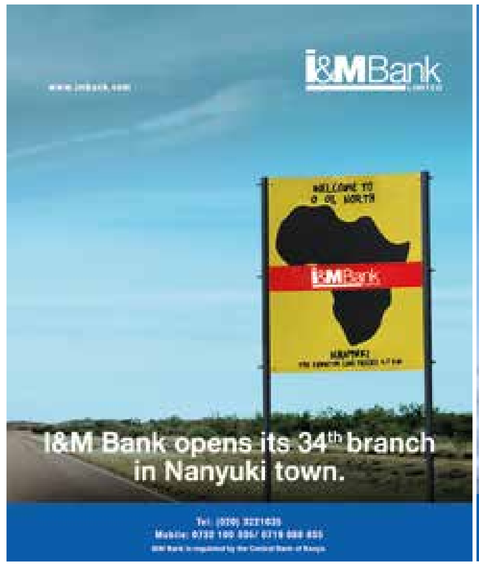
i&Mara

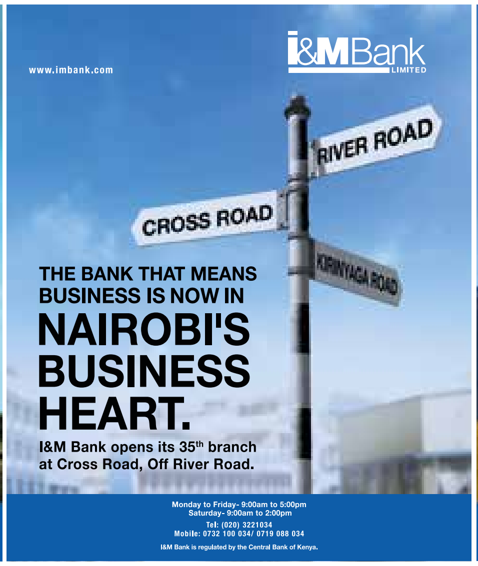
TRANSFORMING TOMORROW

I&M BANK NOW IN NANYUKI, MERU AND DOWNTOWN NAIROBI, AS CUSTOMER DELIVERY DRIVE GETS INTO HIGH GEAR

As part of its strategic effort to enhance its customer delivery capacity and experience, I&M Bank Kenya opened a branch at Cross Road Nairobi and in Nanyuki town in 2016, and a branch in Meru town in early 2017.

The move aimed at tapping into the fast growing agricultural towns of Nanyuki and Meru, as well as targeting the SME entrepreneurs operating in downtown Nairobi including River Road, Kirinyaga Road and its environs. The bank now has a branch network of 41 branches including 5 other additional Giro Bank branches.





I&M NEWS (Continued)

I&M KENYA NEWS (Continued)

I&M BANK FETED AT BANKER AFRICA AWARDS

In 2016, I&M Bank was awarded the Corporate Governance award at the 3rd Banker Africa East African Banking Awards. The bank, which has been undertaking a strategic and corporate transformation programme, was named the best East African bank in the Corporate Governance category for its role in maintaining sound practices.

The annual Banker Africa Awards are continent-wide programmes open to all banks and financial institutions in Africa. The aim of the Banker Africa Awards, broken down to four individual regions, is to recognise outstanding performance and excellence in the financial services industry. I&M Bank's Corporate Governance framework mirrors IMHL's policy on corporate governance. The Group's corporate governance framework takes into consideration the Capital Markets Authority (CMA) Guidelines on Corporate Governance, as well as global best practices.

In addition, the bank was also awarded the 1st Runner Up in the Best Bank in Kenya Tier II category for the Think Business Banking Awards 2016. The Awards recognise different banks for their exemplary performance and their objective is to encourage prudence and stability in the banking sector.

I&M BANK UNVEILS I&M KARIBU ACCOUNT

In 2016, the bank launched the I&M Karibu Account, a technology driven product, that enables real-time account opening through self-registration on the I&M App, or at approved I&M Karibu Agents.

The move is reflective of I&M Bank's commitment to provide innovative banking solutions for the market to enhance its customers' banking experience, in line with the bank's pillar on innovation.

For one to open the I&M Karibu account through the phone, they are required to dial *458# or download the I&M App from their respective Play Stores for smart phone users; after which they will have to input their national ID and full names to open the account. On the other hand, one can visit an I&M Karibu Agent to open the account in real-time.

The I&M Karibu account has enabled customers to transact in a convenient and exciting way without having to visit the branch; where they can withdraw and deposit cash through I&M Karibu agents or different mobile network operators; transfer funds to the different mobile network operators; and to I&M Bank accounts in addition to topping up airtime.

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

I&M BANK PARTNERS WITH POSTBANK FOR AGENCY BANKING
In 2016, I&M Bank got into a strategic partnership with Postbank Kenya to enhance its Agency Banking network across the country. The roll out has enabled I&M Bank to tap into Postbank's expansive network, with an objective of increasing convenience for its customers to easily access I&M Bank services.

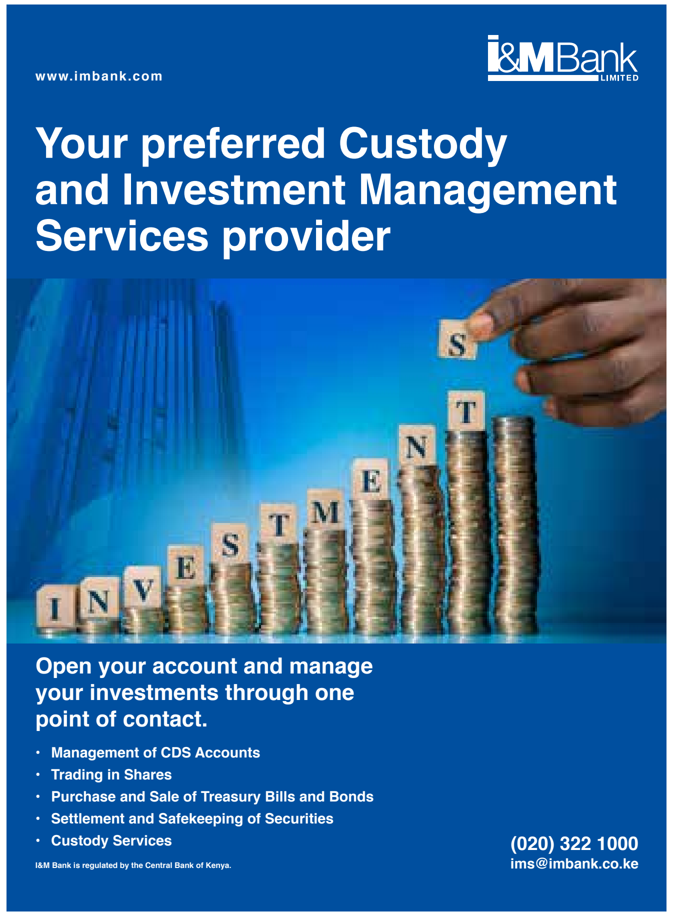
Through the partnership, I&M Bank customers are now able to withdraw and deposit cash, check account balances and request for account statements at 104 Post Bank branches countrywide. The development has allowed the two institutions to benefit from each other's strengths to grow their banking business.

I&M BANK ROLLS OUT PESALINK
The Kenyan banking industry through Kenya Bankers Association (KBA) in 2016 introduced the banks' interoperability project, PesaLink. The platform is set to play a key role of enhancing interoperability within the industry, and will provide a platform that will encourage collaboration and innovation within the Banking and Payments industry. I&M Bank, among other banks have received approval from the Central Bank of Kenya to launch the product.

The service will enable any customer to directly pay another bank's customer in Kenya in real time, affordably and conveniently, through the branches and alternate delivery channels. For I&M Bank's case in particular, the service is available at I&M Bank branches, I&M Karibu Agents, ATMs, and through I&M mobile and internet banking platforms. I&M Bank customers can initiate PesaLink transactions through I&M Mobile App or Short code *458# or by giving instructions through a Transfer Form at any I&M Bank branch.

I&M BANK REVAMPS INVESTMENT MANAGEMENT AND CUSTODIAL SERVICES
In 2016, the bank revamped its array of Investment Management and Custodial Services which now allows customers to channel all their investment needs through one point of contact. I&M Bank is now licensed by the Capital Markets Authority (CMA) as a Central Depository Agent (CDA) and the Retirement Benefits Authority (RBA) as a custodian. Customers can now easily monitor their accounts and easily access financial markets information and research from the bank's panel of brokers.

The investment facilitation service now enables customers to enjoy the following services: CDS account opening, trading and transfer of securities including government securities custodial services, public offers among others.



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

I&M MALAIKAS HOSTED AT CONTEMPORARY ART EVENT
Last year, the bank hosted a cocktail event in appreciation of art for the Malaika Account holders, at the Circle Art Gallery in Lavington. The exclusive event featured contemporary artwork from 10 Kampala artists, showcasing their vibrant and honest reflection of their city.

The Malaikas also got to enjoy an artistic poetic presentation of the Malaika account benefits by a Kenyan poet and playwright – Sitawa Namwalie. I&M Bank in partnership with Circle Art has previously sponsored art exhibitions at the gallery.

The Malaika Account is a high end personal account exclusively designed to cater for ladies' financial and lifestyle requirements. Through this account, Malaikas get to enjoy discounts at selected stores/outlets from merchants whom I&M Bank has partnered with, for eyewear, footwear, beauty and wellness centers, retail stores, fine dining, among others.

I&M Bank Malaikas Lydia Mokaya (Right) and Norah Njeri (Left) during the Malaika event.

Director, Circle Art Gallery, Danda Jaroljmek (Right) and Artist, Maral Boulori (Left), stand infront of paintings by Dennis Mubiru one of the artist's exhibiting at the Malaika event.

I&M BANK CUSTOMERS HOSTED FOR ANNUAL GOLF DAY
I&M Bank held its second annual golf day for its customers at the Muthaiga golf club in November 2016. The event was very successful with close to 200 customers in attendance.

The golfers got the opportunity to experience the Trackman swing analysis, offered to players to help them learn how to improve their golf swing. Going forward, the bank will host regional golf tournaments for its customers at major towns in the country.

A customer tees off during the golf day.

Dilip Shah, the overall winner at the golf day is presented with his prize by I&M Bank Kenya CEO, Kihara Maina.

I&M NEWS (Continued)

I&M KENYA NEWS (Continued)

BUSINESS IN THE DIGITAL WORLD SEMINAR

In 2016, the bank held a conference in partnership with Deloitte Digital Africa, for Corporate and Select customers themed - *Your Business in the Digital World,* at the Safari Park hotel. The event aimed at enlightening customers on the importance of adopting digital strategies for their businesses to ensure sustained growth.

Moderated by Valter Adao, the Head of Deloitte Digital Africa, customers got the opportunity to learn from different eye-opening digital innovations being undertaken by businesses across the globe, and also learnt how to adopt digital strategies for their businesses for enhanced business growth.

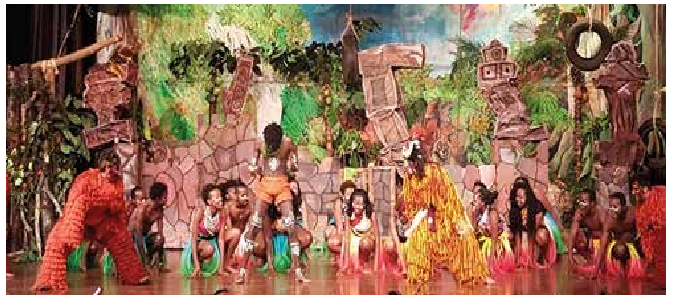
A section of customers at the seminar.

Valter Adao, Head of Deloitte Digital Africa, the key note speaker moderates the session during the seminar.

I&M BANK HOSTS YOUNG SAVERS FOR JUNGLE BOOK MUSICAL

During the year, I&M Bank hosted over 200 Young Savers Account holders accompanied by their parents to a Jungle Book musical, where they got to enjoy a theatric performance depicting the highly acclaimed Jungle Book movie.

The bank believes in the enormous potential of the Arts industry which is critical to national development. In this regard, the bank in its endeavor to support the Arts industry, nurtures creative talent amongst the Young Savers by giving them opportunities to display their talent through art. The Jungle Book musical held last year was aimed at inculcating a creative culture amongst the Young Savers.



The Jungle Book Musical performance.

I&M NEWS (Continued)

I&M TANZANIA NEWS

CORPORATE GOVERNANCE

Benchmarking on our high standards of Corporate Governance I&M Bank (T) Ltd strengthened the Board with the inclusion of two Independent Directors from Tanzania.

Mr. Alan Rodrick Mchaki and Ambassador Bertha Semu-Somi joined the Board during the year and bring a wealth of experience from diverse fields. Mr. Mchaki is a fellow member of Association of Chartered Certified Accountants of UK and Certified Public Accountant in Tanzania.

He carries over 30 years of working experience covering public practice in two major accountancy firms and exposure in various industries like oil, marketing television, health service and mutual fund management, where he held the directorship roles in Finance. Ambassador Bertha Ernestine Semu-Somi serves as an Executive Director of a Charity organization, Hassan Major Trust. She brings in vast experience, knowledge and network both in the Tanzanian Government and International organizations such as the United Nations.

INCREASE IN CAPITAL

In the 2nd half of 2016, I&M Bank Ltd Kenya increased its shareholding of I&M Bank (T) Ltd with the purchase of 350 shares from PROPARCO following the completion of Proparco's investment tenor.

Thereafter, to be ahead of the revised regulations on the Capital adequacy ratios coming into place with effect from August 2017, I&M Bank (T) Ltd raised additional capital of TZS 10.91 billion through a rights issue, which was fully subscribed by the Shareholders. This has helped in improving the Tier I Capital ratio during the year to 13.90% from 11.22% in the year 2015.

The above developments led to I&M Bank Ltd Kenya increasing its shareholding in I&M Bank (T) Ltd from 55.03% to 70.38%.

I&M BANK (T) LIMITED LAUNCHES I&M MOBILE

I&M Bank (T) Ltd launched in 2016 its Mobile Banking product with an objective of enhancing customer experience while transacting on their bank accounts. The service was launched on a USSD code platform (*150*32#).

I&M Bank customers can access various services like enquiries, funds transfer, mobile money, airtime top-up, utility payments, stop cheque and offline requests. The bank also plans to roll out an I&M App in future.

I&M BANK (T) LIMITED PARTNERS WITH TATA AFRICA HOLDING (T) LIMITED ON ASSET FINANCE

In 2016, the bank signed an agreement with TATA Africa Holding (T) Limited to provide Asset Financing for commercial vehicles and equipment in Tanzania. This agreement was signed in the presence of Mr. Noel Tata, Managing Director, TATA International and Mr. Baseer Mohammed, CEO of I&M Bank (T) Limited. Commenting on the partnership, the bank's CEO noted that the alliance was valuable for the bank, and that we would work towards strengthening this relationship.

I&M BANK (T) LIMITED LAUNCHES BULK SALARY PAYMENTS ON MOBILE BANKING

In 2016, the bank launched bulk salary payments on its mobile banking platform to better serve business customers. The Mobile banking platform enables the customers to make bulk payments such as salaries and wages seamlessly from their bank accounts to the Mobile Wallets (MPESA) of the beneficiaries.

I&M BANK (T) LIMITED LAUNCHES CASH IN TRANSIT SERVICES FOR CORPORATE CUSTOMERS

During the year, the bank launched the I&M Cash In Transit services to facilitate cash handling services for its large corporate customers. Under these services the bank will collect cash directly from the customers' outlets and deposit into their accounts, thereby eliminating the risk of cash movement for customers.

CUSTOMER SERVICE WEEK – BRANCH WISE

In 2016, I&M Bank (T) Limited set aside various customer appreciation weeks to celebrate love for their customers. The events took place across the branches and involved various themed activities such as: customer visits, personalised thank you notes signed by the CEO, refreshments for customers at the branches, exciting décor at the branches among other activities. The bank's customers in turn displayed their gratitude and shared feedback on great customer service that they experienced at the bank.

I&M branded cupcakes sent out to all customers as a token of appreciation.

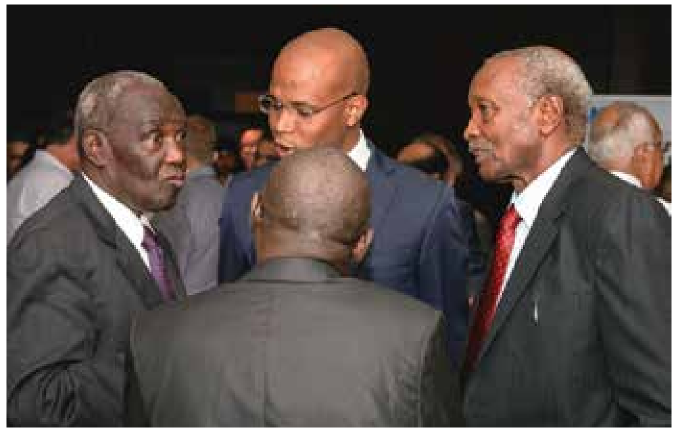
I&M NEWS (Continued)

I&M TANZANIA NEWS (Continued)

I&M BANK (T) LTD HOSTS CUSTOMER MEET AND GREET

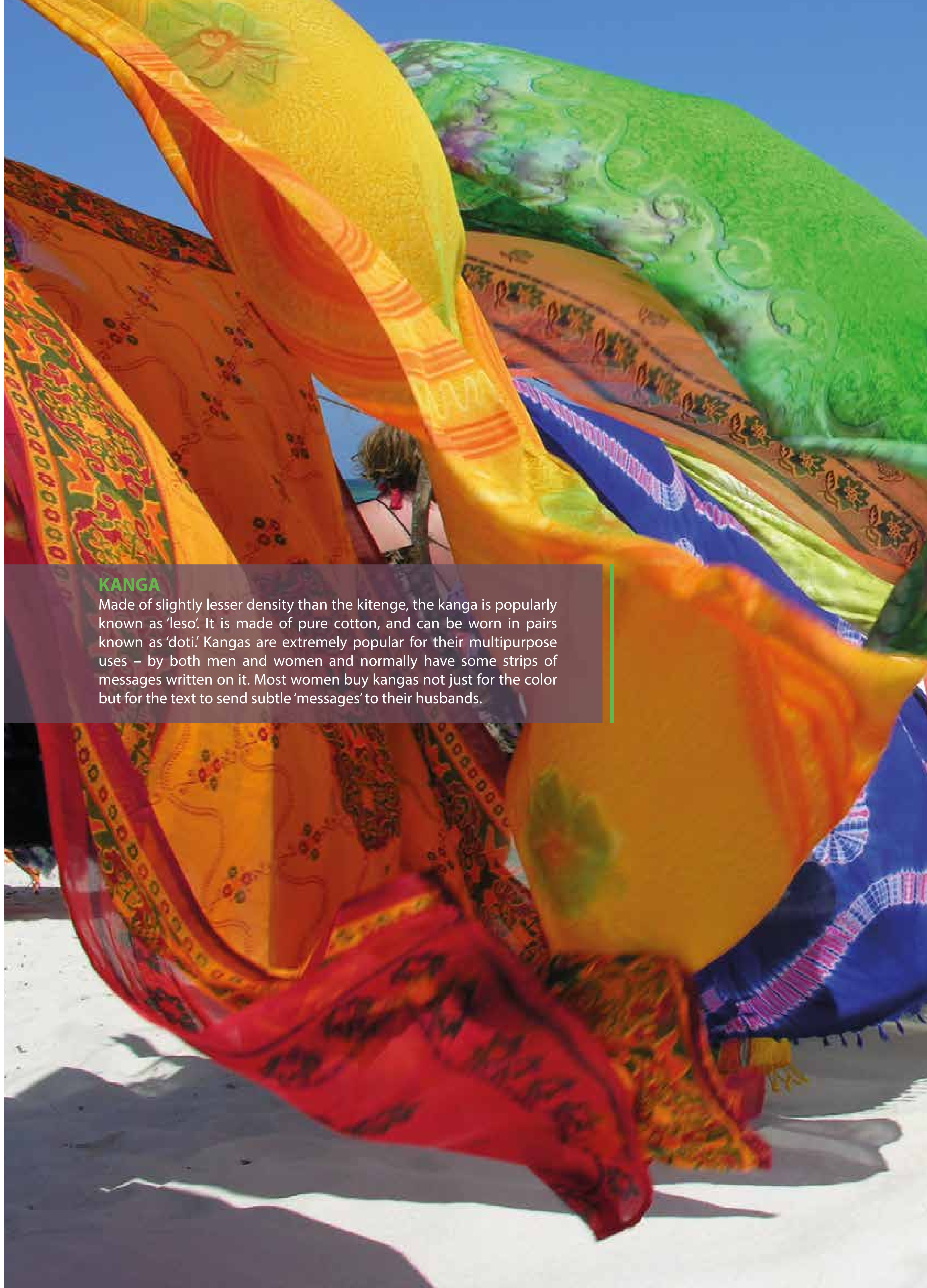
I&M Bank (T) Limited hosted a customer cocktail in May last year at the Hyatt Regency Hotel. The event was a huge success attracting customers, entrepreneurs and businessmen from diverse segments. Dignitaries included Mr.Yusuf Makamba, Minister of State in the Vice President's Office for Union Affairs and Environment also graced the occasion amongst others.

The Chairman of the bank, Mr. Sarit S Raja Shah alongside other directors, joined this event and appreciated the customers for their valuable support and continued patronage for the bank. The bank's CEO, Mr. Baseer Mohammed, thanked the customers for their great support and reassured them of providing banking solutions that meet the dynamic banking needs.



Hon. Mr. January Makamba (Left) with I&M Bank (T) Ltd, Director Mr. Michael Shirima (right) and Former Director Mr. Gen Rtd. Sarakikya (Left) during the customer event.

I&M Bank (T) Ltd, Chairman, Sarit S. Raja Shah interacting with Corporate Clients along with I&M Bank (T) Ltd, CEO, Baseer Mohammed.



KANGA

Made of slightly lesser density than the kitenge, the kanga is popularly known as 'leso'. It is made of pure cotton, and can be worn in pairs known as 'doti.' Kangas are extremely popular for their multipurpose uses – by both men and women and normally have some strips of messages written on it. Most women buy kangas not just for the color but for the text to send subtle 'messages' to their husbands.

CHAIRMAN'S STATEMENT

I am pleased to present the Bank's annual report for the year 2016. The year demonstrated I&M Bank's continued ability to deliver consistent profitable growth as we endeavor to be partners of growth for all our stakeholders.

ECONOMIC PERFORMANCE

The Kenyan economy's GDP is estimated to have grown by 5.9% despite having recorded above 6% growth rate up to the 3rd Quarter of the 2016. The economic performance was significantly supported by government investment in infrastructure, low oil prices, good agriculture performance, recovery of the tourism sector and a functioning / supportive monetary policy for the first 3 quarters of the year. Inflation was also within the government long term objectives, falling from 8.01% in December 2015 to 6.35% in December 2016. The foreign exchange remained relatively stable, with the USD/ KSHS exchange rate averaging 101.50 in 2016 (2015 – Kshs 98.60) supported by narrowing current account deficit from 6.8% of GDP in 2015 to 5.5% in 2016. The 91 day T-bill averaged at 8.65% (High – 11.76%; Low – 7.03%) in 2016 compared to 10.85% (High – 22.49%, Low – 8.12%) in 2015. The Nairobi Securities Exchange All Share Index decreased from 145.7 in 31 December 2015 to 133.4 in December 2016, mainly due to the poor performance of banking's shares depicting interest capping legislation.

The legislative environment in 2016 presented a major challenge for the banking industry. The Banking Amendment Act Bill 2015 was signed into law geared towards regulating interest rates applicable to bank loans and deposits was effected, heralding a new dawn in the financial services industry in Kenya. Despite impact of the interest rate capping at the 4th Quarter of 2016 and the raise in non-performing loans, the banking industry is estimated to have recorded notable growth, in terms of balance sheet size, increased liquidity and improved capitalisation, the latter two well above minimal statutory limits.

However, as explicitly acknowledged by the President in his State of the Nation speech in March 2017, there is now overwhelming evidence the interest rate cap introduced in September 2016 dampened growth in Q4 and at the start of this year. Bank lending to the real economy has slowed considerably with a number of players opting to restrict lending to smaller, less riskier businesses with shorter maturity profiles. While this has led to reduction in banking profitability in the 4th Quarter, banks have held the position that current pricing mechanism does not reflect a commensurate return for risk profile.

While we understand the driver behind the change, it's expected that the country will experience an unprecedented slowdown in economic growth in certain sectors. The industry has already experienced a rise in non-performing loans and a shift in balance sheet size growth patterns. I would like to reiterate I&M Bank's commitment to support balanced interests working towards mitigating the law's impact on the banking business and the Kenyan economy in general.

At this point, I would like to affirm that despite this being a challenging time for the industry, we will continue to make necessary investments in our people and systems for greater efficiencies and productivity benchmarked on the iMara strategy. These investments are geared towards strategically positioning ourselves to stay ahead of competition by bringing down costs and constantly innovating to provide the right banking solutions that meet all our customers' financial needs.

FINANCIAL PERFORMANCE

During the year our deposits increased by 11% to KShs. 129.6 billion while our loans and advances portfolio grew by 5% to KShs.120.6 billion. Our investment in government securities also grew by Kshs 7.4billion to KShs. 41.5 billion.

In terms of profitability, closing at KShs. 9.0 billion (2015 – KShs. 8.7 billion), Profit before tax was considerable impacted by the introduction of the interest rate capping law in Kenya. The business was also impacted by the adverse economic environment that saw additional provisions of KShs. 2.9 billion (2015 – KShs. 0.7 billion).

CHAIRMANS' STATEMENT (Continued)

ACQUSITION OF GIRO COMMERICAL BANK

The Giro Commercial Bank Limited (GCBL) acquisition by IMHL came to a successful completion in February 2017 after receiving necessary regulatory approvals from the Central Bank of Kenya (CBK), the Capital Markets Authority (CMA), the Competition Authority of Kenya as well as the IMHL shareholders.

Through the acquisition, IMHL took over 100% of issued share capital in GCBL. I&M Group has also acquired on a proforma basis additional net advances of approximately KES 9.1 billion, and deposits of KES 12.6 billion besides other assets of approximately KES 6.7 billion. I&M Group has also acquired GCBL's branch network which will supplement I&M Bank Limited's existing network of 36 branches.

CHANGE OF GUARD

In June 2016, the Board of Directors appointed Mr. Kihara Maina to serve as the Chief Executive Officer of I&M Bank Kenya. Mr. Kihara, a seasoned career banker, previously Managing Director Barclays Bank, Tanzania, took over from Mr. Arun Mathur, who is now serving as the Associate Director, Financial Services at IMHL. I take this opportunity to thank Mr. Arun Mathur for his great stewardship and undisputed legacy over his 16 year tenure at the bank, and welcome Mr. Kihara Maina to lead us into the future through his vast wealth of experience.

iMARA STRATEGY

I&M Bank Limited embarked on a strategy review process having completed its last strategy cycle in 2015. The process, spearheaded by a leading consultant with the Board's guidance, set to develop a strategy that will help us reorganise our business in order to accelerate the bank's growth trajectory, as we continue to deliver value for all our stakeholders.

The new strategy and its various elements went through approval by the Board and has been ably dubbed the "iMara strategy". "iMara" is a Swahili word meaning stability/strength therefore displaying the Bank's strong and stable foundation and portrays the key facets that the strategy is expected to continue to enhance.

Under the iMara strategy, the Bank's aspiration is ***"To become the Corporate and Affluent banking powerhouse of East Africa".*** I&M Bank's vision is "To become a company where the best people want to work; the first choice where customers want to do business; and where shareholders are happy with their investment." In this regard, we have endeavored over time to achieve this vision through our purpose which is "To become partners of growth for all our stakeholders" by meeting our customers' expectations; motivating and developing every employee; and enhancing shareholder value. The iMara strategy will further enable us to achieve this as we embrace customer centricity, dynamism, innovation and creativity, which have formed the core elements of our organizational culture.

The iMara strategy will mainly focus on three key strategic themes namely:

- Growing Corporate Banking through transaction banking, enhanced customer engagement and a new coverage model;
- Delivering a distinctive value proposition to Affluent, Personal (middle & young Professionals) and Business Banking clients; and
- Digitising the business through process reengineering supported by automation, improved use of online and mobile channels to drive sales, and increased use of data and analytics to make better informed decisions.

Through these strategic themes, we believe that we will be better placed to build on our strengths, counter the various challenges affecting our operating environment and while taking advantage of opportunities present as we endeavour to increase our shareholders' value.

CHAIRMANS' STATEMENT (Continued)

RECOGNITION

The Bank places significant premium on good corporate governance practices as we believe that this is vital for the Group's strong business performance on a sustainable basis. Our efforts continued to receive more recognition across the country and the region. I am delighted to inform you that the I&M Bank LIMITED was recognised as the Best Bank in the Corporate Governance at the 3rd Banker Africa East African Banking Awards for maintaining sound practices. The Award came at a timely juncture, given the setbacks on trust and credibility that other peers in the industry experienced last year.

The bank was further recognised as the 1st Runner up in the Best Bank in Tier II category of the annual Think Business Banking Awards. In addition, the I&M WebPay E-Commerce platform was awarded the Visa E-Commerce Warrior Award in the 2016 VISA Awards for best practice in the E-Commerce space.

PRODUCTS

In 2016, we continued to expand our product portfolio by launching various products in line with the bank's pillar on innovation. The following were the various products launched:

- I&M Karibu Account: The bank launched the I&M Karibu Account, a technology driven product, that enables real time account opening through self-registration on the I&M App, or at approved I&M Karibu Agents. For one to open the I&M Karibu account through the phone, they are required to dial *458# or download the I&M App from their respective Play Stores for smart phone users, or visit an I&M Karibu Agent to open the account in real time
- Partnership with Postbank: I&M Bank got into a strategic partnership with Postbank Kenya to enhance our Agency Banking network across the country. The roll out has enabled I&M Bank to tap into Postbank's expansive network, with an objective of increasing convenience for its customers to easily access I&M Bank services
- Revamp of Investment Management and Custodial Services: We revamped our Investment Management and Custodial services to allow customers to channel all their investment needs through one point of contact
- PesaLink roll out: I&M Bank has also enrolled on PesaLink, a payments solution, set to play a key role of enhancing interoperability within the industry. The service, set to rival other mobile money platforms in the country enables any customer to directly pay another bank's customer in Kenya in real time, affordably and conveniently through the branches and alternate delivery channels

To supplement the above product offering, and in our bid to better serve our customers and expand our branch network, I&M Bank opened 3 new branches in Nanyuki, Crossroad in downtown Nairobi and Meru. The branch network represents our continued commitment to our customers to bring services as close to them as possible.

I&M FOUNDATION

In a bid to support the banking industry to continue to playing its pivotal role in supporting Kenya's economic growth, and enhance this role towards driving more positive socio-economic development, the Kenya Bankers Association (KBA) launched the Sustainable Finance Initiative. To achieve this objective I&M Bank has advanced its plans in setting up the I&M Foundation to champion our shared growth agenda. This will give us a structured approach on how we invest in our communities as good corporate citizen. The foundation will still focus on the current Corporate Social Responsibility pillars of the I&M Group namely: Environment, Health, Education and Community Service.

CHAIRMANS' STATEMENT (Continued)

FUTURE OUTLOOK

2017 is expected to bring a mix of successes, opportunities and challenges. On the political front, we have elections coming up and election fever is on the rise, as is expected with any general election. We anticipate continued challenges in the stock markets, slower socio-economic development, and rising inflation levels among other issues. On the legal front, we expect additional regulations that may present challenges in the banking operating environment.

The iMara strategy gives us a clear direction on how to cushion the impact of this unpredictable operating impact for all our stakeholders. We have re-platformed I&M Bank's business model to prepare for the more uncertain future as we endeavor to better serve our customers and enhance our shareholders' value.

The recent completion of the Giro Commercial Bank Limited (GCBL) acquisition is a strategic fit in the realisation of iMara's aspiration. The extended customer base and the wider branch network will help us exceed our business growth trajectory to benefit all our stakeholders. I&M Burbidge Capital on the other hand gives the I&M Group a greater competitive edge, where we are now a one stop shop for all financial services such as corporate advisory services. Our just revamped Investment Management and Custodial Services also provide customers an opportunity to manage all their investments through a one point of contact.

iMara has also provided the benchmark for the bank's product expansion plans. We intend to roll out various products to offer distinctive value propositions for our customers, in our bid to continue innovating new banking solutions for our customers.

The bank will continue to employ high quality staff members, who are talented and dedicated to achieving the set vision. We have also realigned the organisational structure to better serve our customers in line with iMara. This will be supported by various capacity building and training programmes to enhance capabilities our staff members.

ACKNOWLEDGMENT

Finally but not least of all, on behalf of the I&M Bank LIMITED Board, I would like to extend my sincere gratitude to the key stakeholders whose invariable input has contributed immensely towards 2016 results:

- Our staff and the management team for their continued resolve to place our customers and shareholders' needs first, and for their exemplary performance over the very challenging year, which defines the true I&M spirit of dedication, creativity and unity of purpose
- To my fellow Directors for their continued wise counsel, sound advice and stewardship in providing strategic direction for this great organisation
- To our regulators, in particular the Central Bank of Kenya, Capital Markets Authority (CMA) and the Competition Authority of Kenya whose invaluable input has facilitated the conclusion a significant acquisition i.e. Giro Commercial Bank Limited (GCBL)
- To our customers whose patronage and loyalty we do not take for granted. My commitment to you is that we will remain eternally grateful and seek to exceed your expectation. We have relied entirely on your feedback and goodwill to grow the business and set up a strong foundation for growth not only in Kenya but also across the region

With best wishes,

SBR SHAH
CHAIRMAN

KIKOI
Standing out for its bold colors, the Kikoi is a work of art of rectangular shape. Evenly colored in the middle and striped along the edge, the kikoi was traditionally worn by men but has now become a fashion statement for all.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2016

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2016, which disclose the state of affairs of the Company ("the Bank" or "the Company") and the group. The group comprises I&M Bank LIMITED, I&M Bank (T) Limited, Tanzania and I&M Insurance Agency Limited.

1. Principal 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 I&M Holdings Limited entered into a Share Purchase Agreement with the shareholders of Giro Commercial Bank Limited (GCBL), to acquire 100% shareholding in GBCL. The purchase consideration is the aggregate of 50% cash consideration of KShs. 2,547,295,000 and the remaining 50% by issue of 21,043,330 new shares of KShs. 1 each of I&M Holdings Limited.

On 13 February 2017, I&M Holdings Limited acquired the entire issued share capital of GCBL following the receipt of all regulatory approvals. Subsequently, the entire GCBL's banking business was merged into that of I&M Bank LIMITED. The results of GCBL have not been consolidated in these financials.

3. Group Restructuring

As part of Group restructuring, I&M Realty Limited was transferred from I&M Bank LIMITED to I&M Holdings Limited. The transfer was carried out at the net asset value of I&M Realty as at 31 December 2015. The purchase consideration paid to I&M Bank LIMITED by I&M Holdings Limited in respect of the transfer amounted to KShs. 5,119,000.

4. Results

The consolidated results for the year are as follows:	2016 KShs'000	2015 KShs'000
Profit before income tax	9,025,473	8,747,752
Income tax expense	(2,444,192)	(2,715,109)
Profit for the year	**6,581,281**	**6,032,643**

5. Dividend

The directors recommend payment of a final dividend of KShs. 50.25 per share amounting to KShs. 1,447,323,263.25 for the year ended 31 December 2016. On the 31 March 2016, a final dividend of KShs. 47.70 per share amounting to KShs. 1,373,877,008 was paid with respect to the year ended 31 December 2015.

6. Directors

The directors of the Company who served during the year and up to the date of this report are set out on page 2 and 3.

7. Relevant Audit Information

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

(i) There is no relevant audit information of which the Company's auditor is unaware; and
(ii) Each director has taken all the steps that they ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

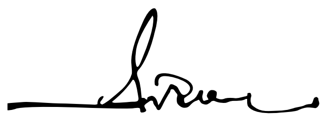
8. Auditors

In accordance with section 721 of the Companies Act, 2015, a resolution is to be proposed at the Annual General Meeting for reappointment of KPMG Kenya as auditors of the Company.

9. Approval of financial statements

The financial statements were approved at a meeting of the directors held on 21 March 2017.

BY ORDER OF THE BOARD



Secretary
Date: 21 March 2017

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 control 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 bind 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. The 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.

Enterprise Risk Management

Overview

I&M Bank LIMITED is exposed to various risks as a result of the business it undertakes. When the Bank extends a loan to a customer, invests in government securities or conducts any number of services and activities, the Bank takes on some degree of risks. The bank's risk objective is to ensure the sustainability, safety and soundness of the Bank while enhancing shareholder value.

The bank has instituted an embedded risk culture in all its operations and follows best practice in enterprise wide risk management, to align strategy, policies, people, processes, technology and business development. This is to enable the bank to evaluate, manage and optimise the opportunities and threats it may face in its efforts to maximise sustainable stakeholders' value within the defined risk appetite.

COSO (Committee of Sponsoring Organisation of Treaty) defines Enterprise Risk Management (ERM) as a process driven by an entity's Board of Directors, management and other personnel, applied in strategy setting and across the enterprise, to identify potential events that may affect the entity and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of the entity's objectives. This involves the application of risk management principles and processes in every business activity to determine potential threats and adopt appropriate control measures to contain risks with the aim of achieving its objectives.

The bank has recognised its major risk areas as Strategic, Credit, Operational, Information Technology, Market and Liquidity Risks, Reputational, Compliance, Environment and Social Risk, Country and Transfer risk. Risk identification in these areas is carried out by the relevant risk owners, in collaboration with the ERM department.

Objectives

The bank's Risk Management objectives are as follows:

- Achieve its stated strategic business objectives;
- Provide a return that meets or exceeds expectations;
- Comply with all applicable laws and regulations;
- Conduct its business in a safe and sound manner;
- Institutionalise comprehensive risk management practices in all areas of the bank's business; and
- Attain international best practices in the management of our risk profile.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Risk Management Philosophy and Risk Appetite.

Risk Appetite

The bank's Risk Management Appetite is the amount of risk, on a broad level, the bank is willing to accept in pursuit of values, mission, vision, strategic objectives over and above which controls will be triggered to bring the risk exposures within the appetite framework.

IMBL recognised its changing risk profile in its new 5 year strategy aspiration which is ***'to become the Corporate and Affluent banking powerhouse of East Africa'*** has adopted in qualitative term a '***Managed Risk Appetite'*** approach to achieve its strategic objective.

The Board of Directors through its Risk Committee approved the following key parameters to quantify the risk appetite and manage the risk exposures:

- To target a Return of Equity that is above Cost of Equity;
- An operational loss of not more than 0.375% of Gross Revenue or maximum of KShs. 70 million;
- At all times ensure the bank's Capital Adequacy Ratio exceeds that of required by the regulator, plus a buffer; and
- Low levels of net non-performing assets to total lending that conveys a significant level of prudence in levels of provisioning.

The bank's Risk Appetite is summarised in a statement as: ***'In serving our chosen business segments, I&M Bank adopts a managed risk appetite aligned to our vision. At I&M Bank, risk and control is everyone's responsibility'.***

Risk Philosophy

The bank's Risk Management Philosophy describes its attitude to risk taking. It is the driving force behind staff behavior in the conduct of business activities and operations from a risk perspective. This is summarised as:

"Sustainability of the bank's business and enhancement of stakeholder value will always inform our business decisions".

The bank recognises that there are risk elements associated with the pursuit of growth opportunities to achieve its strategic objectives. While its risk philosophy articulates how inherent risks are considered when making decisions, the Board and Management of the bank determine the risks that are acceptable based on its capabilities in terms of capital, technology and people in line with its defined risk appetite framework.

This philosophy is further cascaded into working statements via the following risk principles:

- The bank's decisions will be based on careful analysis of its operating environment as well as the implications of risks to the achievement of its strategic goals and sustainability of the bank's business;
- The bank will not take any action that will reduce shareholder's value;
- Risk & control is everybody's responsibility within the bank;
- The bank will always comply with all applicable regulations and embrace global best practice;
- Risk management will form an integral part of the bank's strategy setting process;
- The bank will only assume risks that fall within its risk appetite with commensurate returns;
- The bank shall adhere to the risk management process of identifying, measuring, controlling and reporting risks through its three lines of defense approach; and
- The bank shall continually review its activities to determine the level of risks inherent in them and implement its approved Risk Response Framework to mitigate the risk at all time.

The Framework

The bank has adopted COSO Framework in its implementation of Enterprise Risk Management Function. This is an integrated and holistic approach deployed using **'THE THREE LINES OF DEFENSE APPROACH'** as part of initiatives to sustain and embed risk culture throughout the bank. This approach places the responsibility of risk management on every staff of the bank. It is built on a well-defined risk organisational structure and established policies to guide staff in the identification, analysis, and monitoring of the various risks inherent in the business as well as setting appropriate risk limits and controls to align with the bank's strategic objectives and risk appetites. The risk management policies are subject to review at least once a year. However, frequent reviews may be conducted at the instance of the Board, or whenever there are changes in laws, regulations, market conditions or significant increase in bank's activities which are material and fundamental enough to impact on the continued adoption of the existing policies.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Risk Management Governance

Board of Directors

The Board of Directors has overall responsibility for the establishment of the bank's Enterprise-wide Risk Management framework and exercises its oversight function over all the bank's prevalent risks via its various committees; Board Risk Committee, Board Credit Committee, and Board Audit Committee. These committees are responsible for developing and monitoring risk policies in their specific areas and report regularly to the Board of Directors. The Board committees consists majorly of independent Non-Executive Directors.

Senior Management

The Board Committees are assisted by the various Management Committees in implementation of Enterprise Risk Management Framework and various risk policies as well as day to day management of the bank's risk catalogue. The management committees responsible for Risk Management include but are not limited to:

- Risk & Compliance Management Committee (RISKCO);
- Credit Risk Management Committee (CRMC);
- Asset and Liability Management Committee (ALCO); and
- Business Strategy Committee (BSM).

These committees meet on a regular basis while others are set up on an ad-hoc basis as dictated by circumstances.

Three Lines of Defense Approach

The bank's enterprise risk management process is structured into three lines of defence to minimise the crystallisation of risk events. This approach is to enhance the existing ERM process such that the risk & compliance function independent and distinct from the owners of risk while still promoting collaboration and the flow of information. The three lines of defence model involves:

1st Line of Defense are functions that own and manage risks- manage operational, business processes, design, implement, operate, test and remediate controls. The roles are as follows:

- Identify, assess, control and mitigate risks to ensure the achievement of set goals and objectives; and
- Implement corrective actions to address process and control deficiencies; maintain effective internal controls and execute risk and control procedures on a day-to-day basis.

2nd Line of Defense are functions that oversee risks (Risk Management Department)- oversee, review the activities of first line and guide/support to discharge their functions effectively while still providing second line independent risk assesment. The functions are:

- Guide the Management to develop a robust risk management framework;
- Performs policy-setting and monitoring role;
- Identify known and emerging risk issues and recommend appropriate controls;
- Facilitates and monitors the implementation of effective risk management practices and a compliance function that monitors various specific risks such as non-compliance with applicable laws and regulations;
- Assist management in developing processes and controls to manage risks; and
- Monitor the adequacy and effectiveness of internal control, accuracy and completeness of reporting and timely remediation of deficiencies.

3rd Line of Defense are functions that provide independent assurance (Internal Audit Department)- Provides objective assurance on the effectiveness of governance, risk management and internal controls to the Board of Directors and Management that the ERM process/framework is adequate for purpose, and that it is being carried out as intended.

Environmental and Social Risk

We have mechanisms in our origination and credit process to identify and assess environmental and social risks in line with local and international regulatory requirements (IFC Performance Standards, ILO Standards, Kenya Bankers Sustainability initiative and Kenya Government).

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Anti-Bribery and Corruption Statement

The bank has a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in relationships and business dealings. The bank also implements and enforces effective systems to counter bribery and corruption.

Risk & Compliance Management Function

This is an independent function within the bank separate from Business Division, headed by Senior Management Staff of General Manager level and reports directly to Board Risk Committee of the Board of Directors.

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.

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 performance of the Board's Chairman and of individual Directors, 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.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

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. The 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, the BRMC 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. It 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 Board of Directors 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 implementing and monitoring of the Bank's Strategic direction, intent and objectives. The Committee will play a significant role in providing direction and focus on the emerging issues/challenges in respect of the implementation of the Bank's strategy.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

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. It also provides a platform for reviewing of new products, initiatives & ideas and developments in the banking industry and assessing impact of changes in regulations/legislation.

Assets & Liabilities Committee (ALCO)

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

Credit Risk Management Committee (CRMC)

CRMC is the link between the Board and Management in terms of implementing the credit and lending policies of 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 prioritisation 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 Management Committee	Board Credit Committee	Board Procurement Committee	Board Share Transfers Committee	Board Nomination and 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 • 1 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 Chairman	• 3 Independent Non-Executive Directors • 1 Non–Executive Director • 1 Executive Director • Chief Executive Officer (CEO) • General Manager 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 • Chief Executive Officer CEO • Divisional Head, Business Support • 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 **Invitees:** • A member of Senior Management at the discretion of the ED &/or CEO	• 2 Independent Non-Executive Directors • 1 Executive Director • CEO • General Manager HR (Secretary)
Frequency of Meetings	Quarterly	Quarterly	Quarterly	Half-yearly	Quarterly	Half-yearly

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Board Committees (Continued)

	Board Audit Committee	Board Risk Management Committee	Board Credit Committee	Board Procurement Committee	Board Share Transfers Committee	Board Nomination and Remuneration Committee
Main Functions	• Ensure establishment of an adequate, efficient and effective internal audit function • Review structure and adequacy of internal controls • Review and co-ordinate between External Auditors and Internal Audit Department • Review and receive CBK Inspection Report, and ensure implementation of recommendations therein	• Ensure that the Risk management framework and the processes as approved are implemented • Review, monitor and deliberate on the appropriate risk mitigation approach • Ensure business continuity planning is formulated, tested and reviewed periodically • Review of policies, procedures and exposure limits • Review of proposed strategic initiatives • Creating awareness about Risk Management Process in the Bank. • Ensure that the Risk management strategies are designed to manage social and environmental risks and promote good sustainability practices across all Bank's activities	• Review lending policy • Consider loan applications beyond discretionary limits granted to CRMC • Review lending by CRMC • Direct, monitor, review all aspects that will impact upon present and future Credit risk management at the Bank • Ensure compliance with Banking Act and Prudential Guidelines • Conduct independent loan reviews as and when appropriate	• Review and approve the Procurement Policy • Review and consider significant procurement proposals /consultancy assignments above the delegated authority limit of the Executive Director's • 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 • Induction programs for new Directors and development programs to build individual skills and improve Board effectiveness • Board succession planning • Performance evaluation of the Board of Individual Directors and of the ED & CEO • Set remuneration policies & strategic objectives of Board, ED & CEO • Policies in relation to the ESOP Scheme and provide requisite guidance to Scheme Trustee

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Management Committees

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

	Business Strategy and Coordination Committee	Executive Committee	Assets & Liabilities Committee	Credit Risk Management Committee	Human Resources Committee	IT Steering Committee
Chairman	**CEO**	**CEO**	**CEO**	**Executive Director**	**CEO**	**CEO**
Members	ED, CEO, • Division Head, Business Development • Division Head, Business Support • General Manager ICT • General Manager Risk • General Manager Strategy & Transformation office • General Manager Finance • General Manager HR • Manager - CEO's Office (Secretary)	ED, CEO, • Division Head, Business Development • Division Head, Business Support • All General Managers • Manager - CEO's Office (Secretary) **Invitees:** General Manager – Internal Audit	ED, CEO, • Division Head,Business Development • General Manager Finance • General Manager Treasury • General Manager Risk (Secretary) • Manager, Middle Office (Market Risk)	ED, CEO Senior General Manager • Divisional Head, Business Development • General Manager Credit (Secretary) **Invitees:** General Manager - Risk	ED, CEO, • Division Head, Business Development • Division Head, Business Support • General Manager HR • Manager HR (Secretary)	CEO, • Division Head, Business Development • Division Head, Business Support • General Manager ICT • General Manager – Operations • General Manager Projects • General Manager ABC • Assistant General Manager ICT(Secretary)
Frequency of meetings	Quarterly	Monthly	Monthly	Fortnightly	Once every 2 months	Quarterly

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Management Committees (Continued)

	Business Strategy and Coordination Committee	Executive Committee	Assets & Liabilities Committee	Credit Risk Management Committee	Human Resources Committee	IT Steering Committee
Main functions	• Guide and oversee development of the five year corporate strategy • Guide/oversee annual review of agreed strategy, making recommendations to the Board on any changes deemed necessary mid-stream • On a quarterly basis, evaluate progress on achievement of strategic milestones, against the set strategic targets, and in case of significant variances, consider need or otherwise to review overall strategy • Review and approve all significant Strategic Initiatives, before roll out • Evaluate progress on Strategic and Corporate Objectives • Prior to the annual budgeting exercise, consider and agree broad budget parameters in line with the set strategic targets	• The Executive Committee is to drive and oversee effective and efficient business performance, in line with the agreed Corporate Objectives and Budget • The Financial EXCO will focus on business performance related issues and largely incorporate the business development team. The Division Head of Business Support, General Manager Finance and General Manager Risk are part of this session to specifically provide required inputs from a business support perspective • The non-financial EXCO will focus on the business support function •The CEO, Divisional Head Business Development, Divisional Head Business Support, General Managers Finance and Risk will participate in both the financial and non-financial EXCO	• Treasury Market Risk and Middle Office Management • Asset and Liability Management • Interest Rate Risk Management • Treasury Credit Risk Management\Counter Party and Settlements Risk Management • Funding Risk Management • Liquidity Risk Management • Capital Risk Management and the Internal Capital Assessment Process (ICAAP) • Product Pricing • Currency Risk Management	• Implement Credit Policy and Credit Risk Management Policy • Reviews Credit Proposals in line with Policy and CBK Guidelines • Review NPAs • Consider and approve new asset-based products • Control and follow-up on credit-related matters • Regularly report to Board Credit Committee	• Review HR Strategy and ensure implementation to comply with all HR related standards, laws and regulations • Periodically review the effectiveness and alignment to business needs of the Bank's Human Resources policies • Review and recommend the appointment of and compensation (including incentive bonus, benefits) for the staff team • Review the competencies of existing Senior Management resources, and ensure that competent pipeline is available for succession to critical positions • Oversee staff alignment with agreed I&M Group priorities. • Review and Monitor the Grievance Resolution and Discipline handling process of the Bank. • Update Board on HR matters	• Draw up the ICT Strategic Plan • Monitor ICT related investments • Monitor ICT enabled / dependent initiatives • Assess and direct management of ICT risks • Define and manage ICT and ICT-dependent projects • Ensure optimum use of IT resources and manage ICT investments

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	28 January 2016	22 March 2016	14 June 2016	19 September 2016	9 December 2016	Total Board Meetings attended in 2016
S B R Shah (Chairman)	√	√	X	√	√	80%
Eric M Kimani	X	√	√	√	√	80%
Sarit S Raja Shah	√	√	√	√	√	100%
Sachit Shah	√	√	√	√	√	100%
Paul C M Kibati	X	√	√	√	X	60%
M Soundararajan	√	√	√	√	√	100%
Arun S Mathur**	√	√	-	-	-	100%
C K Maina***	-	-	√	√	√	100%
A N Koigi	√	√	√	X	√	80%

√ 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.

** A S Mathur resigned as a Director with effect from 14 June 2016
*** C K Maina was appointed as a Director with effect from 14 June 2016

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 39 to 135 which comprise the consolidated and company statements of financial position as at 31 December 2016, consolidated and company statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the financial statements give a true and fair view of the 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, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, 2015, the Directors are required to prepare financial statements for each financial year which give a true and fair view of the 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 keep 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 and its subsidiaries ability to continue as a going concern and have no reason to believe the company and its subsidiaries 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 **21 March 2017** and were signed on its behalf by:

SBR Shah, MBS
Director

Sarit S Raja Shah
Director

A.N Koigi
Director

KPMG

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

Report on the audit of the financial statements

Opinion

We have audited the consolidated and separate financial statements of I&M Bank LIMITED set out on pages 39 to 135 which comprise Consolidated and Company statements of financial position as at 31 December 2016, the Consolidated and Company statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the Consolidated and Company's financial position of I&M Bank LIMITED as at 31 December 2016 and the Consolidated and Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015.

Basis for opinion

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

Directors' responsibilities for the financial statements

As stated on page 35, 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, 2015 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.

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

KPMG

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF I&M BANK LIMITED (Continued)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

Report on other legal requirements

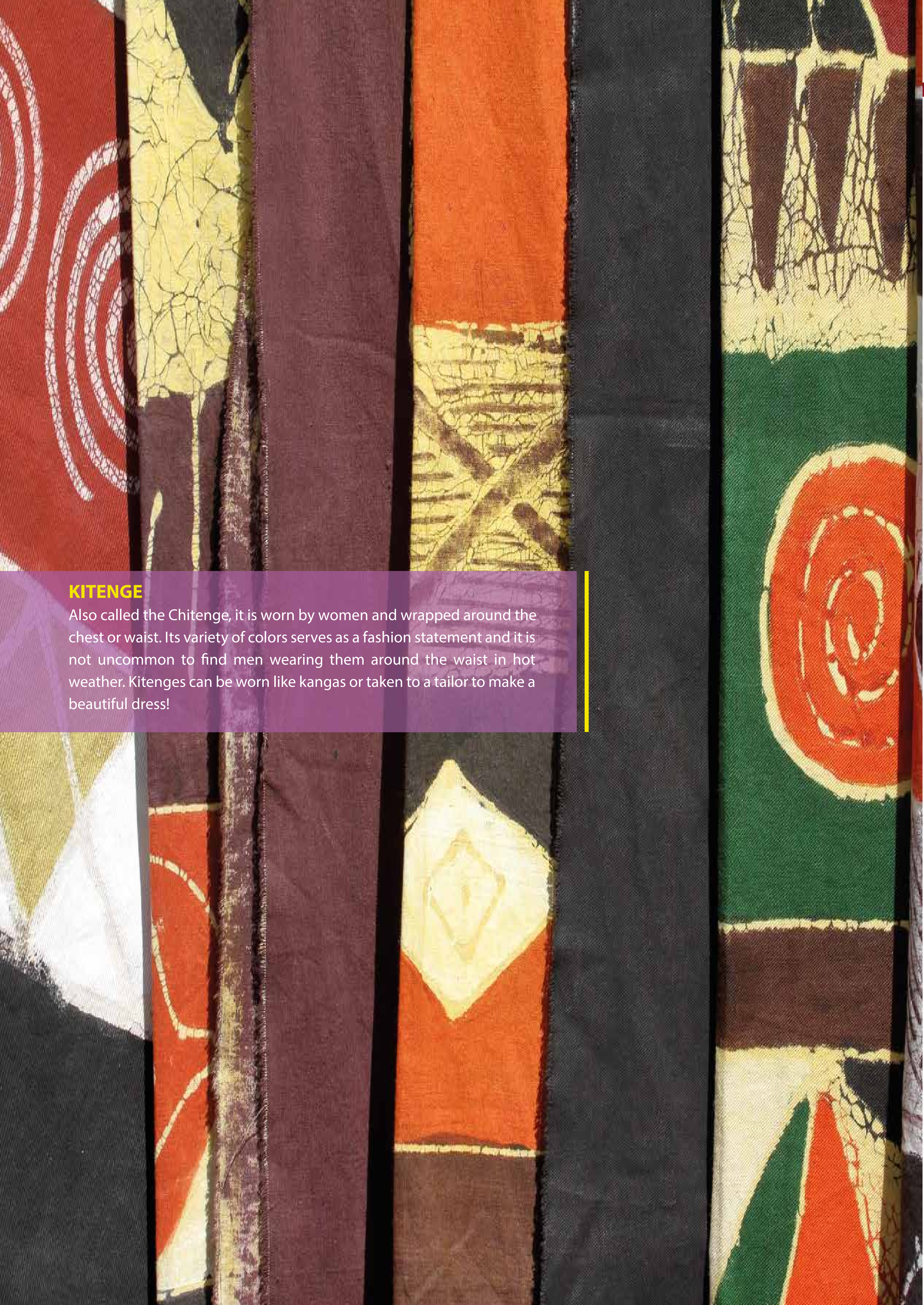
As required by the Kenyan Companies Act, 2015 we report to you based on our audit, that:

(i) we have obtained all the information and explanations, which to the best of our knowledge and belief was necessary for the purpose of our audit;
(ii) in our opinion proper books of account have been kept by the Company, so far as appears from our examination of those books; and
(iii) the Company's statement of financial position and statement of profit or loss and other comprehensive income of the Group 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

Date: 21 March 2017



KITENGE

Also called the Chitenge, it is worn by women and wrapped around the chest or waist. Its variety of colors serves as a fashion statement and it is not uncommon to find men wearing them around the waist in hot weather. Kitenges can be worn like kangas or taken to a tailor to make a beautiful dress!

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 KShs '000	2015 KShs '000
Interest income	7(a)	21,775,364	19,663,034
Interest expense	8(a)	(8,211,082)	(8,645,515)
Net interest income		**13,564,282**	**11,017,519**
Fee and commission income	9(a)	2,273,189	2,031,505
Fee and commission expense	9(a)	(132,264)	(107,883)
Net fee and commission income	9(a)	**2,140,925**	**1,923,622**
Revenue		**15,705,207**	**12,941,141**
Other operating income	10(a)	1,643,654	1,525,427
Dividend income	10(a)	95,000	-
		1,738,654	**1,525,427**
Total operating income		**17,443,861**	**14,466,568**
Staff costs	11(a)	(2,680,322)	(2,463,697)
Premises and equipment costs	11(a)	(570,467)	(449,045)
General administrative expenses	11(a)	(1,922,648)	(1,716,041)
Depreciation and amortisation	11(a)	(360,870)	(394,944)
Operating expenses		**(5,534,307)**	**(5,023,727)**
Operating profit before impairment, losses and taxation		**11,909,554**	**9,442,841**
Net impairment losses on loans and advances	19(c)	(2,884,081)	(695,089)
Profit before income tax	12	**9,025,473**	**8,747,752**
Income tax expense	13(a)(i)	**(2,444,192)**	**(2,715,109)**
Net profit for the year after tax		**6,581,281**	**6,032,643**

(Continued page 40)

The notes set out on pages 50 to 135 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

	Note	2016 KShs '000	2015 KShs '000
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		213,485	(203,404)
Deferred tax on fair value of available for sale financial assets	25(a)	(64,046)	61,021
Foreign currency translation differences		27,280	(185,617)
Realisation of profit on disposal of property		694,210	-
Revaluation reserve - Sale of I&M Realty Limited to I&M Holdings Limited		(618,846)	-
Total other comprehensive income for the year		**252,083**	**(328,000)**
Total comprehensive income for the year		**6,833,364**	**5,704,643**
Profit attributable to:			
Equity holders of the company		6,504,810	5,899,936
Non-controlling interest		76,471	132,707
		6,581,281	**6,032,643**
Comprehensive income attributable to:			
Equity holders of the company		6,727,690	5,655,408
Non-controlling interest		105,674	49,235
		6,833,364	**5,704,643**

The notes set out on pages 50 to 135 form an integral part of these financial statements.

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 KShs '000	2015 KShs '000
Interest income	7(b)	20,000,251	17,971,129
Interest expense	8(b)	(7,455,478)	(7,909,855)
Net interest income		**12,544,773**	**10,061,274**
Fee and commission income	9(b)	2,004,333	1,798,458
Fee and commission expense	9(b)	(115,980)	(92,597)
Net fee and commission income	9(b)	**1,888,353**	**1,705,861**
Revenue		**14,433,126**	**11,767,135**
Other operating income	10(b)	1,572,686	1,294,996
Dividend income	10(b)	137,822	21,118
		1,710,508	**1,316,114**
Total operating income		**16,143,634**	**13,083,249**
Staff costs	11(b)	(2,295,855)	(2,102,169)
Premises and equipment costs	11(b)	(488,741)	(454,835)
General administrative expenses	11(b)	(1,632,738)	(1,299,902)
Depreciation and amortisation	11(b)	(296,563)	(306,324)
Operating expenses		**(4,713,897)**	**(4,163,230)**
Operating profit before impairment losses and tax		**11,429,737**	**8,920,019**
Net impairment charge on loans and advances	19(c)	(2,778,703)	(553,130)
Profit before income tax	12	**8,651,034**	**8,366,889**
Income tax expense	13(a)(ii)	(2,308,445)	(2,555,761)
Profit for the year		**6,342,589**	**5,811,128**
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		213,485	(203,404)
deferred tax on fair value of available for sale financial assets	25(a)	(64,046)	61,021
Total other comprehensive income for the year		**149,439**	**(142,383)**
Total comprehensive income for the year		**6,492,028**	**5,668,745**
Basic and diluted earnings per share - (KShs)	14	**220.21**	**201.76**

The notes set out on pages 50 to 135 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016

	Note	2016 KShs '000	2015 KShs '000
ASSETS			
Cash and balances with central banks	16(a)	8,654,225	8,339,703
Items in the course of collection	17(a)	449,306	466,999
Loans and advances to banks	18(a)	3,253,269	2,798,893
Loans and advances to customers	19(a)	120,696,861	114,927,247
Investment securities	20(a)	45,054,178	33,181,160
Property and equipment	22(a)	891,796	2,388,852
Intangible assets - goodwill	23(a)	619,700	619,700
Intangible assets - software	23(b)	215,896	224,571
Prepaid operating lease rentals	24	-	284,606
Tax recoverable	13(b)(ii)	2,015	4,354
Deferred tax asset	25(a)	781,962	675,581
Due from group companies	37(g)	26,121	-
Other assets	26	1,512,153	910,943
TOTAL ASSETS		**182,157,482**	**164,822,609**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	27(a)	4,439,933	5,718,764
Items in the course of collection	17(a)	7,517	-
Deposits from customers	28(a)	129,636,067	116,686,002
Deferred tax liability	25(a)	-	75
Due to group companies	37(g)	1,095,207	-
Tax payable	13(b)(i)	11,112	64,504
Other liabilities	29(a)	2,367,867	1,900,192
Long term borrowings	30(a)	8,006,089	9,141,735
Subordinated debt	31(a)	4,507,178	4,495,084
		150,070,970	**138,006,356**
Shareholders' equity (Page 46-47)			
Share capital	32(a)	2,880,245	2,880,245
Share premium	32(c)	3,773,237	3,773,237
Retained earnings		23,088,383	18,753,636
Proposed dividend		1,447,323	-
Statutory credit risk reserve	32(e)	698,894	644,928
Revaluation reserve	32(d)	-	629,739
Available -for- sale reserve	32(g)	(355,748)	(505,187)
Translation reserve	32(f)	(159,573)	(157,650)
Equity attributable to owners of the company		**31,372,761**	**26,018,948**
Non- controlling interest		713,751	797,305
TOTAL SHAREHOLDERS' EQUITY		**32,086,512**	**26,816,253**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**182,157,482**	**164,822,609**

The financial statements set out on pages 39 to 135 were approved by the Board of Directors on **21 March 2017** and were signed on its behalf by:

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

The notes set out on pages 50 to 135 form an integral part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016

	Note	2016 KShs '000	2015 KShs '000
ASSETS			
Cash and balances with Central Bank of Kenya	16(b)	6,659,995	5,877,586
Items in the course of collection	17(b)	449,306	449,077
Loans and advances to banks	18(b)	2,729,611	2,182,800
Loans and advances to customers	19(b)	106,585,737	102,188,164
Investment securities	20(b)	42,271,708	31,337,730
Investment in subsidiaries	21(b)	2,324,126	1,123,111
Property and equipment	22(b)	655,069	724,691
Intangible assets - goodwill	23(a)(ii)	10,747	10,747
Intangible assets - software	23(b)(ii)	161,706	162,063
Tax recoverable	13(b)(ii)	2,015	2,144
Deferred tax asset	25(a)	677,926	596,334
Due from group companies	37(b)(iv)	158,568	2,423,273
Other assets	26(b)	1,429,608	768,619
TOTAL ASSETS		**164,116,122**	**147,846,339**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	27(b)	3,262,621	3,835,531
Deposits from customers	28(b)	116,169,431	103,635,311
Due to group companies	37(b)(v)	1,199,065	206,137
Other liabilities	29(b)	2,185,505	1,700,813
Long term borrowings	30(b)	6,315,291	8,606,203
Subordinated debt	31(b)	3,679,380	3,675,666
		132,811,293	**121,659,661**
Shareholders' equity (Page 48-49)			
Share capital	32(a)	2,880,245	2,880,245
Share premium	32(c)	3,773,237	3,773,237
Retained earnings		22,929,382	19,413,193
Proposed dividend		1,447,323	-
Statutory credit risk reserve	32(e)	630,390	625,190
Available -for- sale reserve	32(g)	(355,748)	(505,187)
		31,304,829	**26,186,678**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**164,116,122**	**147,846,339**

The financial statements set out on pages 39 to 135 were approved by the Board of Directors on **21 March 2017** and were signed on its behalf by:

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

The notes set out on pages 50 to 135 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 KShs'000	2015 KShs'000
Net cash flows generated from operating activities	33(a)	**1,740,217**	**13,899,567**
Cash flows from investing activities			
Purchase of property and equipment	22(a)	(176,112)	(441,432)
Purchase of intangible assets	23(b)	(81,739)	(120,313)
Purchase of equity shares		(819,907)	-
Proceeds from disposal of property and equipment		4,375	2,127
Disposal of I&M Realty Limited		(35,891)	-
Dividends received from I&M Realty Limited		95,000	-
Net cash used in investing activities		**(1,014,274)**	**(559,618)**
Cash flows from financing activities			
Movement in long term borrowings		-	519,689
Dividend paid to shareholders of the company		(1,373,877)	(1,296,110)
Rights issue-I&M Bank (T) Limited		132,578	-
Dividend paid to non-controlling interest		(20,727)	(17,258)
Net cash flow from financing activities		**(1,262,026)**	**(793,679)**
Net (decrease)/increase in cash and cash equivalents	33(b)	**(536,083)**	**12,546,270**
Cash and cash equivalents at start of the year	33(b)	**4,033,445**	**(8,512,825)**
Cash and cash equivalents at end of the year		**3,497,362**	**4,033,445**

The notes set out on pages 50 to 135 form an integral part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 KShs'000	2015 KShs'000
Net cash flows generated from operating activities	33(c)	**3,472,322**	**14,298,678**
Cash flows from investing activities			
Purchase of property and equipment	22(b)	(158,171)	(260,361)
Purchase of intangible assets	23(b)	(72,766)	(75,909)
Proceeds from disposal of property and equipment	21	3,583	1,533
Proceeds from sale of subsidiary (I&M Realty Limited)	21	5,119	-
Purchase of additional shares in a subsidiary-I&M Bank (T) Limited		(1,201,115)	-
Dividends received	10(b)(i)	137,822	21,118
Net cash used in investing activities		**(1,285,528)**	**(313,619)**
Cash flows from financing activities			
Net outflows from subordinated debt		-	(299,728)
Dividend paid		(1,373,877)	(1,296,110)
Net cash outflow from financing activities		**(1,373,877)**	**(1,595,838)**
Net increase in cash and cash equivalents	33(d)	**812,917**	**12,389,221**
Cash and cash equivalents at start of the year		**2,829,458**	**(9,559,763)**
Cash and cash equivalents at end of the year	33(d)	**3,642,375**	**2,829,458**

The notes set out on pages 50 to 135 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

2016	Share Capital KShs'000	Share Premium KShs'000	Retained Earnings KShs'000	Proposed Dividend 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 2016	**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**
Profit for the year	-	-	6,504,810	-	-	-	-	-	6,504,810	76,471	6,581,281
Other comprehensive income	-	-	1,169,965	-	53,966	(629,739)	149,439	(1,923)	741,708	29,203	770,911
Total comprehensive income	**-**	**-**	**7,674,775**	**-**	**53,966**	**(629,739)**	**149,439**	**(1,923)**	**7,246,518**	**105,674**	**7,352,192**
Transactions with owners, recorded directly in equity											
Other transactions	-	-	(518,828)		-	-	-	-	(518,828)	(168,501)	(687,329)
Dividend paid-2015 Final	-	-	(1,373,877)		-	-	-	-	(1,373,877)	(20,727)	(1,394,604)
Proposed dividend-2016	-	-	(1,447,323)	1,447,323	-	-	-	-	-	-	-
Total transactions with owners for the year	-	-	(3,340,028)	1,447,323	-	-	-	-	(1,892,705)	(189,228)	(2,081,933)
Balance as at 31 December 2016	**2,880,245**	**3,773,237**	**23,088,383**	**1,447,323**	**698,894**	**-**	**(355,748)**	**(159,573)**	**31,372,761**	**713,751**	**32,086,512**

The notes set out on pages 50 to 135 form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

2015	Share Capital KShs'000	Share Premium KShs'000	Retained Earnings KShs'000	Proposed Dividend 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**
Profit for the year	-	-	5,899,936	-	-	-	-	-	5,899,936	132,707	6,032,643
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)
Proposed dividend paid - 2015	-	-	(1,373,877)	1,373,877	-	-	-	-	-	-	-
Total transactions with owners for the year	-	-	(2,669,987)	1,373,877	-	-	-	-	(1,296,110)	(17,258)	(1,313,368)
Balance as at 31 December 2015	**2,880,245**	**3,773,237**	**17,379,759**	**1,373,877**	**644,928**	**629,739**	**(505,187)**	**(157,650)**	**26,018,948**	**797,305**	**26,816,253**

The notes set out on pages 50 to 135 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

2016	Share Capital KShs'000	Share Premium KShs'000	Retained Earnings KShs'000	Proposed Dividends KShs'000	Statutory credit risk Reserve KShs'000	Available for sale Reserve KShs'000	Total KShs'000
At 1 January 2016	**2,880,245**	**3,773,237**	**19,413,193**	**-**	**625,190**	**(505,187)**	**26,186,678**
Profit for the year	-	-	6,342,589	-	-	-	6,342,589
Other comprehensive income	-	-	(5,200)	-	5,200	149,439	149,439
Total comprehensive income	**-**	**-**	**6,337,389**	**-**	**5,200**	**149,439**	**6,492,028**
Transactions with owners recorded directly in equity							
Dividend paid - 2015 Final	-	-	(1,373,877)	-	-	-	(1,373,877)
Proposed dividend - 2016	-	-	(1,447,323)	1,447,323	-	-	-
Total transactions with owners for the year	**-**	**-**	**(2,821,200)**	**1,447,323**	**-**	**-**	**(1,373,877)**
Balance as at 31 December 2016	**2,880,245**	**3,773,237**	**22,929,382**	**1,447,323**	**630,390**	**(355,748)**	**31,304,829**

The notes set out on pages 50 to 135 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

2015	Share Capital KShs'000	Share Premium KShs'000	Retained Earnings KShs'000	Proposed Dividends 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**
Profit for the year	-	-	5,811,128		-	-	5,811,128
Other comprehensive income	-	-	-	-	-	(142,383)	(142,383)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(142,383)**	**(142,383)**
Transactions with owners recorded directly in equity							
Dividend paid - 2014 Final	-	-	(1,296,110)		-	-	(1,296,110)
Proposed dividend - 2015	-	-	(1,373,877)	1,373,877	-	-	-
Total transactions with owners for the year	**-**	**-**	**(2,669,987)**	**1,373,877**	**-**	**-**	**(1,296,110)**
Balance as at 31 December 2015	**2,880,245**	**3,773,237**	**18,039,316**	**1,373,877**	**625,190**	**(505,187)**	**26,186,678**

The notes set out on pages 50 to 135 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. REPORTING ENTITY

I&M Bank LIMITED (the "Bank" or "Company"), a financial institution licensed under the Kenyan Banking Act (Chapter 488), provides corporate and retail banking services in various parts of the country. The Bank is incorporated in Kenya under the Kenyan Companies Act and has subsidiaries in Kenya and Tanzania. The consolidated financial statements of the Bank as at and for the year ended 31 December 2016 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 70.38% (2015 - 55.03%) shareholding in I&M Bank (T) Limited and 100% in I&M Insurance Agency Limited. During the year, the Bank disposed one of its subsidiary, I&M Realty Limited. (Note 21)

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, 2015 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, 2015.

(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.

(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 2016 (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

(I) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.
Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(ii) Subsidiaries

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with 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 on which control commences until the date when control ceases.

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Transactions eliminated on consolidation

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currencies

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

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign operations (Continued)

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.

When calculating the effective interest rate, the Group 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 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Income tax expense

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

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

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

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

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

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

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(ii) Classification (Continued)

Financial assets at fair value through profit or loss (Continued)

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.

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(iii) Identification and measurement of impairment of financial assets (Continued)

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.

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

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

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

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fair value measurement (Continued)

- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

(h) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows in the financial statements, 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:

• Leasehold 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 measure at cost less accumulated amortisation and accumulated impairment. The costs are amortised on a straight line basis over the expected useful lives, from the date it is available for use, not exceeding 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 2016 (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 Group uses financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities.

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

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

(n) Employee benefits

(i) Defined contribution plan

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

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

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

(ii) Leave accrual

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (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) Provisions

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

(t) Fiduciary activities

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

(u) Comparative information

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards and interpretations

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

The Group has adopted the following new standards and amendments during the year ended 31 December 2016, including consequential amendments to other standards with the date of initial application by the Group being 1 January 2016. The nature and effects of the changes are explained below:

New standard or amendments
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciations and Amortisation
Amendments to IAS 41 - Bearer Plants (Amendments to IAS 16 and IAS 41)
Equity Method in Separate Financial Statements (Amendments to IAS 27)
IFRS 14 Regulatory Deferral Accounts
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
Disclosure Initiative (Amendments to IAS 1)
Annual improvements cycle (2012-2014) – various standards

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.

The adoption of these changes did not have a significant impact on the financial statements of the Group.

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.The new requirements are effective from 1 January 2016.

The adoption of these changes did not have a significant impact on the financial statements of the Group.

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.

The adoption of these changes did not have a significant impact on the financial statements of the Group.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards and interpretations (Continued)

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

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.

The adoption of these changes did not have a significant impact on the financial statements of the Group.

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. The adoption of these changes did not have a significant impact on the financial statements of the Group.

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.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016.

The adoption of these changes did not have a significant impact on the financial statements of the Group.

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.

The adoption of these changes did not have a significant impact on the financial statements of the Group.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards and interpretations (Continued)

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

Annual improvements cycle (2012-2014) – various standards

Standard	Amendments
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	**Changes in methods of disposal.** Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.
IFRS 7 Financial Instruments: Disclosures (with consequential amendments to IFRS 1)	**Servicing contracts**. Adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. **Applicability of the amendments to IFRS 7 to condensed interim financial statements.** Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.
IAS 19 Employee Benefits	**Discount rate: regional market issue.** Clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).
IAS 34 Interim Financial Reporting	**Disclosure of information 'elsewhere in the interim financial report'.** Clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference

The adoption of these changes did not have a significant impact on the financial statements of the Group.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards and interpretations (Continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2016, and have not been applied in preparing these financial statements.

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

New standard or amendments	Effective for annual periods beginning on or after
Disclosure Initiative (Amendments to IAS 7)	1 January 2017
Recognition of Deferred Tax Assets for Unrealised losses (Amendments to IAS 12)	1 January 2017
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments (2014)	1 January 2018
Classification and Measurement of Share-based payment Transactions (Amendments to IFRS 2)	1 January 2018
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	1 January 2018
IFRS 16 Leases	1 January 2019
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).	To be determined

Disclosure Initiative (Amendments to IAS 7)

The amendments in *Disclosure Initiative (Amendments to IAS 7)* come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The International Accounting Standards Board (IASB) requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The IASB defines liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the same definition.

The amendments state that one way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Since the amendments are being issued less than one year before the effective date, entities need not provide comparative information when they first apply the amendments.
The potential impact on the financial statements of the Group is being assessed.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards and interpretations (Continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016 (Continued)

Disclosure Initiative (Amendments to IAS 7) (Continued)

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

The amendments in Recognition of Deferred Tax Assets for Unrealised Losses clarify the following aspects:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use
- The carrying amount of an asset does not limit the estimation of probable future taxable profits
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type

The amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. As transition relief, an entity may recognise the change in the opening equity of the earliest comparative period in opening retained earnings on initial application without allocating the change between opening retained earnings and other components of equity. The Board has not added additional transition relief for first-time adopters

The potential impact on the financial statements of the Group is being assessed.

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 2018, with early adoption permitted.

The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards and interpretations (Continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016 (Continued)

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 period beginning on or after 1 January 2018 with retrospective application, early adoption permitted.

The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

The following clarifications and amendments are contained in the pronouncement:

- Accounting for cash-settled share-based payment transactions that include a performance condition

Up until this point, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. IASB has now added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

- Classification of share-based payment transactions with net settlement features

IASB has introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

- Accounting for modifications of share-based payment transactions from cash-settled to equity-settled

Up until this point, IFRS 2 did not specifically address situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The IASB has introduced the following clarifications:

- On such modifications, the original liability recognised in respect of the cash-settled share-based payment is derecognised and the equity-settled share-based payment is recognised at the modification date fair value to the extent services have been rendered up to the modification date.
- Any difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date would be recognised in profit and loss immediately.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards and interpretations (Continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016 (Continued)

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) (Continued)

The amendments are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments are to be applied prospectively. However, retrospective application if allowed if this is possible without the use of hindsight. If an entity applies the amendments retrospectively, it must do so for all of the amendments described above.

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

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

The amendments in Applying IFRS 9 'Financial Instruments' with IFRS 4 *'Insurance Contracts' (Amendments to IFRS 4)* provide two options for entities that issue insurance contracts within the scope of IFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;
- an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

An entity applies the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9. Application of the overlay approach requires disclosure of sufficient information to enable users of financial statements to understand how the amount reclassified in the reporting period is calculated and the effect of that reclassification on the financial statements.

An entity applies the deferral approach for annual periods beginning on or after 1 January 2018. Predominance is assessed at the reporting entity level at the annual reporting date that immediately precedes 1 April 2016. Application of the deferral approach needs to be disclosed together with information that enables users of financial statements to understand how the insurer qualified for the temporary exemption and to compare insurers applying the temporary exemption with entities applying IFRS 9. The deferral can only be made use of for the three years following 1 January 2018. Predominance is only reassessed if there is a change in the entity's activities.

The adoption of these changes will not affect the financial statements for 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.

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards and interpretations (Continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016 (Continued)

IFRS 16: Leases (Continued)

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 insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied.

The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

This Interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it).

This Interpretation stipulates that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards and interpretations (Continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016 (Continued)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (Continued)

This Interpretation does not apply to income taxes, insurance contracts and circumstances when an entity measures the related asset, expense or income on initial recognition:

(i) at fair value; or

(ii) at the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying IFRS 3 *Business Combinations).*

The amendments apply retrospectively for annual periods beginning on or after 1 January 2018, with early application permitted.

The adoption of these changes will not have an impact on the amounts and disclosures of the Company's financial statements.

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

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 Group is exposed are credit risk, market risks and operational risk. Market risk includes liquidity risk, currency risk and interest rate risk.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from 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.

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

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

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

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

Exposure to credit risk

Group

	2016 KShs'000	2015 KShs'000
Loans and advances to customers		
Individually impaired:		
Grade 3: Substandard	2,014,735	1,551,326
Grade 4: Doubtful	5,749,457	2,911,656
Grade 5: Loss	1,215,302	1,004,924
	8,979,494	**5,467,906**
Specific allowances for impairment	(5,339,317)	(2,569,687)
Carrying amounts	**3,640,177**	**2,898,219**
Collectively impaired:		
Grade 2: Watch	16,380,866	13,883,583
Grade 1: Normal	101,142,669	98,581,517
	117,523,535	**112,465,100**
Portfolio allowances for impairment	(466,851)	(436,072)
Carrying amounts	**117,056,684**	**112,029,028**
Total carrying amounts	**120,696,861**	**114,927,247**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Exposure to credit risk (Continued)

Company

Loans and advances to customers	**2016 KShs '000**	**2015 KShs '000**
Individually impaired		
Grade 3: Substandard	1,464,733	1,292,727
Grade 4: Doubtful	5,705,164	2,873,401
Grade 5: Loss	1,045,900	906,087
	8,215,797	**5,072,215**
Specific allowance for impairment	(5,030,876)	(2,373,452)
Carrying amounts	**3,184,921**	**2,698,763**
Collectively impaired		
Grade 2: Watch	15,347,203	12,657,600
Grade 1: Normal	88,439,789	87,179,537
	103,786,992	**99,837,137**
Portfolio impairment provision	(386,176)	(347,736)
Carrying amounts	**103,400,816**	**99,489,401**
Total carrying amounts	**106,585,737**	**102,188,164**

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.

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

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.

Group

Individually impaired:	**Gross KShs'000**	**Net KShs'000**
31 December 2016		
Grade 3: Substandard	2,014,735	1,318,698
Grade 4: Doubtful	5,749,457	2,250,870
Grade 5: Loss	1,215,302	70,609
	8,979,494	**3,640,177**
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**

Group

Collectively impaired:	**Gross KShs'000**	**Net KShs'000**
31 December 2016		
Grade 1: Normal	101,142,669	100,575,322
Grade 2: Watch	16,380,866	16,481,362
	117,523,535	**117,056,684**
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**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Company

	Gross KShs'000	Net KShs'000
Individually impaired:		
31 December 2016		
Grade 3: Substandard	1,464,733	934,343
Grade 4: Doubtful	5,705,164	2,222,150
Grade 5: Loss	1,045,900	28,428
	8,215,797	**3,184,921**
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**

	Gross KShs'000	Net KShs'000
Collectively impaired:		
31 December 2016		
Grade 1: Normal	88,439,789	87,947,086
Grade 2: Watch	15,347,203	15,453,730
	103,786,992	**103,400,816**
31 December 2015		
Grade 1: Normal	87,179,537	86,875,888
Grade 2: Watch	12,657,600	12,613,513
	99,837,137	**99,489,401**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (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 2016 or 2015.

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

Loans and advances to customers

	2016 KShs'000	2015 KShs'000
Company		
Fair value of collateral held - against impaired loans	**3,834,519**	**2,779,733**
Group		
Fair value of collateral held - against impaired loans	**4,289,776**	**3,191,692**

(b) Liquidity risk

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

The Bank 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		Tanzania	
	2016	**2015**	**2016**	**2015**
At 31 December	37%	34%	31%	30%
Average for the period	36%	32%	31%	33%
Highest for the period	39%	35%	34%	40%
Lowest for the period	32%	27%	25%	23%

Deposits from customers represent transactional accounts, savings accounts, 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 2016 and 2015 to the contractual maturity date:

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

Group 31 December 2016	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	2,264,294	2,175,639	-	-	-	**4,439,933**
Items in the course of collection	7,517	-	-	-	-	**7,517**
Deposits from customers	38,398,127	77,860,852	13,304,558	72,530	-	**129,636,067**
Due to group companies	-	1,095,207	-	-	-	**1,095,207**
Other liabilities	48,810	2,319,058	-	-	-	**2,367,868**
Long term borrowings	78,617	114,740	1,672,824	6,139,908	-	**8,006,089**
Subordinated debt	-	-	27,214	4,479,964	-	**4,507,178**
At 31 December 2016	**40,797,365**	**83,565,496**	**15,004,596**	**10,692,402**	**-**	**150,059,859**

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**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

Company 31 December 2016	Within 1 month KShs'000	Due within 1-3 month 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	1,190,103	2,072,518	-	-	-	**3,262,621**
Items in the course of collection	-	-	-	-	-	**-**
Deposits from customers	33,315,998	74,595,239	8,206,563	51,631	-	**116,169,431**
Due to group companies	1,199,065	-	-	-	-	**1,199,065**
Other liabilities	-	2,185,505	-	-	-	**2,185,505**
Long term borrowings	-	114,740	1,381,078	4,819,473	-	**6,315,291**
Subordinated debt	-	-	24,380	3,655,000	-	**3,679,380**
At 31 December 2016	**35,705,166**	**78,968,002**	**9,612,021**	**8,526,104**	**-**	**132,811,293**

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**

(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 rate 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 2016 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk - Continued

Company 31 December 2016	Effective interest rate %	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS								
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-	6,659,995	**6,659,995**
Items in the course of collection	-	-	-	-	-	-	449,306	**449,306**
Loans and advances to banks	2.37%	1,697,412	1,032,199	-	-	-	-	**2,729,611**
Loans and advances to customers	13.40%	101,765,145	144,704	679,817	3,342,363	653,708	-	**106,585,737**
Investment securities	11.30%	-	4,436,325	11,152,862	15,652,384	7,530,137	3,500,000	**42,271,708**
Due from group companies	-	-	-	-	-	-	158,568	**158,568**
Other assets	-	-	-	-	-	-	1,429,608	**1,429,608**
At 31 December 2016		**103,462,557**	**5,613,228**	**11,832,679**	**18,994,747**	**8,183,845**	**12,197,477**	**160,284,533**
LIABILITIES								
Deposits from banks	4.4%	1,114,933	2,147,688	-	-	-	-	**3,262,621**
Deposits from customers	5.8%	33,315,997	74,595,239	8,206,563	51,632	-	-	**116,169,431**
Due to group companies	-	-	-	-	-	-	1,199,065	**1,199,065**
Other liabilities	-	-	-	-	-	-	2,185,506	**2,185,506**
Long-term borrowings	3.8%	-	428,111	5,887,180		-	-	**6,315,291**
Subordinated debt	12.5%	-	-	250,380	3,429,000	-	-	**3,679,380**
At 31 December 2016		**34,430,930**	**77,171,038**	**14,344,123**	**3,480,632**	**-**	**3,384,571**	**132,811,294**
Interest rate gap		**69,031,627**	**(71,557,810)**	**(2,511,444)**	**15,514,115**	**8,183,845**	**8,812,906**	**27,473,239**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk – Continued

Company 31 December 2015	Effective interest rate %	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS								
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-	5,877,586	**5,877,586**
Items in the course of collection	-	-	-	-	-	-	449,077	**449,077**
Loans and advances to banks	3.33%	1,079,969	1,102,831	-	-	-	-	**2,182,800**
Loans and advances to customers	13.92%	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	4.01%	583,341	3,155,068	97,122	-	-	-	**3,835,531**
Deposits from customers	7%	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	3.42%	-	1,197,443	7,408,760	-	-	-	**8,606,203**
Subordinated debt	12.05%	-	-	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 2016 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk – Continued

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk – Continued

Group 31 December 2016	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	-	-	-	-	-	8,654,225	**8,654,225**
Items in the course of collection	-	-	-	-	-	449,306	**449,306**
Loans and advances to banks	1,740,258	1,072,447	40,374	-	-	400,190	**3,253,269**
Loans and advances to customers	115,745,348	144,704	679,817	3,416,537	710,455	-	**120,696,861**
Investment securities	-	5,464,687	12,501,250	16,034,452	7,530,137	3,523,652	**45,054,178**
Other assets	-	-	-	-	-	1,512,153	**1,512,153**
At 31 December 2016	**117,485,606**	**6,681,838**	**13,221,441**	**19,450,989**	**8,240,592**	**14,539,526**	**179,619,992**
LIABILITIES							
Deposits from banks	1,114,933	3,325,000	-	-	-	-	**4,439,933**
Items in the course of collection	-	-	-	-	-	7,517	**7,517**
Deposits from customers	33,587,004	77,842,652	13,304,558	72,530	-	4,829,323	**129,636,067**
Other liabilities	-	-	-	-	-	2,367,869	**2,367,869**
Long term borrowings	78,617	428,111	6,178,926	1,320,435	-	-	**8,006,089**
Subordinated debt	-	-	253,214	4,253,964	-	-	**4,507,178**
At 31 December 2016	**34,780,554**	**81,595,763**	**19,736,698**	**5,646,929**	**-**	**7,204,709**	**148,964,653**
Interest rate gap	**82,705,052**	**(74,913,925)**	**(6,515,257)**	**13,804,060**	**8,240,592**	**7,334,817**	**30,655,339**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (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 2016 (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

31 December 2016 **200 basis points**	**Profit or loss increase/ decrease in basis points KShs ('000)**	**Equity net of tax increase/ decrease in basis points ('000)**
Assets	2,961,741	2,073,219
Liabilities	(2,588,534)	(1,811,974)
Net position	**373,207**	**261,245**
Assets	2,714,174	1,899,922
Liabilities	(2,395,054)	(1,676,538)
Net position	**319,120**	**223,384**

Group

31 December 2016 **200 basis points**		
Assets	3,301,609	2,311,127
Liabilities	(2,835,199)	(1,984,639)
Net position	**466,410**	**326,487**
31 December 2015		
Assets	3,005,535	2,103,874
Liabilities	(2,644,143)	(1,850,900)
Net position	**361,392**	**252,974**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank'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 Bank 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 Bank is exposed to as at 31 December 2016 and 31 December 2015.

Company

At 31 December 2016	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with Central Bank of Kenya	438,047	82,543	75,408	172	**596,170**
Items in the course of collection	15,370	-	66	-	**15,436**
Loans and advances to banks	1,463,605	441,533	715,494	236,362	**2,856,994**
Loans and advances to customers	37,916,283	1,269,748	1,234,951	2	**40,420,984**
Due from group companies	4,388	-	-	-	**4,388**
Other assets	48,074	9,366	-	374	**57,814**
At 31 December 2016	**39,885,767**	**1,803,190**	**2,025,919**	**236,910**	**43,951,786**
LIABILITIES					
Deposits from banks	3,293,274	41,176	130,201	17,171	**3,481,822**
Deposits from customers	20,340,500	2,225,564	1,788,221	188,967	**24,543,252**
Other liabilities	168,359	13,759	36,968	15,440	**234,526**
Due to group companies	-	-	-	-	**-**
Long-term borrowings	5,560,828	-	754,463	-	**6,315,291**
At 31 December 2016	**29,362,961**	**2,280,499**	**2,709,853**	**221,578**	**34,574,891**
Net on statement of financial position	**10,522,806**	**(477,309)**	**(683,934)**	**15,332**	**9,376,895**
Net notional off balance sheet position	**(10,694,691)**	**482,581**	**695,113**	**(5,979)**	**(9,522,977)**
Overall net position – 2016	**(171,885)**	**5,272**	**11,179**	**9,353**	**(146,082)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk (Continued)

At 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 of Kenya	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 2016 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk (Continued)

Group

At 31 December 2016	**USD KShs'000**	**GBP KShs'000**	**Euro KShs'000**	**Other KShs'000**	**Total KShs'000**
ASSETS					
Cash and balances with central banks	976,415.00	128,517.00	94,859.00	1,299.00	**1,201,090**
Items in the course of collection	20,568	-	66	-	**20,634**
Loans and advances to banks	1,463,605	441,533	715,494	236,362	**2,856,994**
Loans and advances to customers	49,458,055	1,269,748	1,234,951	2	**51,962,756**
Due from group companies	4,388	-	-	-	**4,388**
Other assets	119,716	9,366	-	374	**129,456**
At 31 December 2016	**52,042,747**	**1,849,164**	**2,045,370**	**238,037**	**56,175,318**
LIABILITIES					
Deposits from banks	4,573,000	41,176	130,201	17,171	**4,761,548**
Deposits from customers	28,630,056	2,267,467	1,799,368	188,967	**32,885,858**
Other liabilities	435,509	18,056	44,993	15,895	**514,453**
Due to group companies	1,518,684	-	-	-	**1,518,684**
Long-term borrowings	6,385,792	-	754,463	-	**7,140,255**
At 31 December 2016	**41,543,041**	**2,326,699**	**2,729,025**	**222,033**	**46,820,798**
Net on statement of financial position	**10,499,706**	**(477,535)**	**(683,655)**	**16,004**	**9,354,520**
Net notional off balance sheet position	**(10,694,691)**	**482,581**	**695,113**	**(5,979)**	**(9,522,976)**
Overall net position – 2016	**(194,985)**	**5,046**	**11,458**	**10,025**	**(168,456)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk (Continued)

At 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 2016 (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.

Group:

At 31 December 2016	**Profit or loss strengthening/ weakening of currency KShs'000**	**Equity net of tax strengthening/ weakening of currency KShs'000**
USD (± 2.5% movement)	(4,875)	(3,412)
GBP (± 2.5% movement)	126	88
EUR (± 2.5% movement)	286	201
At 31 December 2015		
USD (± 2.5% movement)	5,854	4,098
GBP (± 2.5% movement)	224	157
EUR (± 2.5% movement)	145	101

Company:

At 31 December 2016		
USD (± 2.5% movement)	(4,297)	(3,008)
GBP (± 2.5% movement)	132	92
EUR (± 2.5% movement)	279	196
At 31 December 2015		
USD (± 2.5% movement)	4,522	3,166
GBP (± 2.5% movement)	177	124
EUR (± 2.5% movement)	205	143

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. RISK MANAGEMENT (Continued)

(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.

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

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

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

(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 recognized in addition to recognizing the need to maintain a balance between the higher returns that may be possible with greater gearing and the advantages and security afforded by sound capital position.

Regulatory capital – Kenya

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

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

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

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

Company:		2016 KShs'000	2015 KShs'000
Core capital (Tier 1)			
Share capital		2,880,245	2,880,245
Share premium		3,773,237	3,773,237
Retained earnings		20,366,110	19,413,194
		27,019,592	**26,066,676**
Less: Goodwill		(10,747)	(10,747)
Investment in subsidiary		(2,324,025)	(1,122,911)
Total Core capital		**24,684,820**	**24,933,018**
Supplementary capital (Tier 2)			
Term subordinated debt		1,619,048	2,359,762
Statutory loan loss reserve		630,390	625,190
		2,249,438	**2,984,952**
Total capital		**26,934,258**	**27,917,970**
Risk weighted assets			
Credit risk weighted assets		120,665,480	116,332,346
Market risk weighted assets		7,132,108	5,163,855
Operational risk weighted assets		20,585,426	16,682,595
Total risk weighted assets		**148,383,014**	**138,178,796**
Deposits from customers		**118,553,272**	**104,467,260**
Capital ratios	Minimum*		
Core capital/Total deposit liabilities	**8.0%**	**20.82%**	**23.87%**
Core capital/Total risk weighted assets	**10.5%**	**16.64%**	**18.04%**
Total capital/Total risk weighted assets	**14.5%**	**18.15%**	**20.20%**

As defined by the Central Bank of Kenya

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

Regulatory capital – Tanzania

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

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

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

		2016 TZS'000	2015 TZS'000
Risk weighted assets			
Total risk weighted assets		**323,629,957**	**286,987,902**
	Minimum*		
Capital ratios			
Core capital /Total risk weighted assets	**10.0%**	**14.23%**	**11.22%**
Total capital /Total risk weighted assets	**12.0%**	**19.92%**	**17.66%**

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

(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.

(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 Group also adheres to international best practice (IFC performance standards and ILO standards as ratified by the Kenya government). An environmental and social management system is being put in place to ensure due diligence and monitoring of the environmental and social risk is done efficiently. Compliance to these laws is monitored by the compliance function.

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

5. USE OF ESTIMATES AND JUDGEMENT

Key sources of estimation uncertainty

(a) 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.

(b) Income taxes

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

(c) Property and equipment

Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programs are taken into account which involves extensive subjective judgment. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. The rates used are set out on accounting policy 3(i).

(d) 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) and computed in note 23 (a). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

(e) 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 2016 (Continued)

6. FINANCIAL ASSETS AND LIABILITIES

Accounting classifications at 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		
December 31, 2016	**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**	**Level 3 KShs'000**	**Total KShs'000**
Financial assets									
Cash and balances with central banks	-	8,654,225	-	-	-	**8,654,225**	-	-	-
Items in the course of collection	-	-	-	449,306	-	**449,306**	-	-	-
Investment securities	19,607,259	-	25,446,919	-	-	**45,054,178**	21,946,919	3,500,000	**25,446,919**
Loans and advances to banks	-	3,253,269	-	-	-	**3,253,269**	-	-	-
Loans and advances to customers	-	120,696,861	-	-	-	**120,696,861**	-	-	-
Other assets	-	-	-	525,764	-	**525,764**	-	-	-
	19,607,259	**132,604,355**	**25,446,919**	**975,070**	**-**	**178,633,603**	**21,946,919**	**3,500,000**	**25,446,919**
Financial liabilities									
Deposits from banks	-	-	-	-	4,439,933	**4,439,933**	-	-	-
Deposits from customers	-	-	-	-	129,636,067	**129,636,067**	-	-	-
Long term borrowings	-	-	-	-	8,006,089	**8,006,089**	-	-	-
Subordinated debt	-	-	-	-	4,507,178	**4,507,178**	-	-	-
	-	**-**	**-**	**-**	**146,589,267**	**146,589,267**	**-**	**-**	**-**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

6. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting classifications at fair values (Continued)

Group	Carrying amounts						Fair value	
December 31, 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 banks	-	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**	16,001,191	**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**		
	17,156,259	**126,065,843**	**16,024,901**	**466,999**	**-**	**159,714,002**	**16,001,191**	**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	-	-	-	-	133,241	**133,241**	-	-
	-	**-**	**-**	**-**	**136,174,826**	**136,174,826**	**-**	**-**

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 2016 (Continued)

6. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting classifications at carrying amounts and fair values - Continued

Company	Carrying amounts						Fair value		
December 31, 2016	Held to maturity KShs'000	Loans and receivables KShs'000	Available for sale KShs'000	Other amortised cost KShs'000	Other financial liabilities KShs'000	Total KShs'000	Level 1 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets									
Cash and balances with Central Bank of Kenya	-	6,659,995	-	-	-	**6,659,995**	-	-	**-**
Items in the course of collection	-	-	-	449,306	-	**449,306**	-	-	**-**
Investment securities	16,848,441	-	25,423,267	-	-	**42,271,708**	21,923,267	3,500,000	**25,423,267**
Loans and advances to banks	-	2,729,611	-	-	-	**2,729,611**	-	-	**-**
Loans and advances to customers	-	106,585,737	-	-	-	**106,585,737**	-	-	**-**
Due from group companies	-	-	-	158,568	-	**158,568**	-	-	**-**
Other assets	-	-	-	525,764	-	**525,764**	-	-	**-**
	16,848,441	**115,975,343**	**25,423,267**	**1,133,638**	**-**	**159,380,689**	**21,923,267**	**3,500,000**	**25,423,267**
Financial liabilities									
Deposits from banks	-	-	-	-	3,262,621	**3,262,621**	-	-	**-**
Deposits from customers	-	-	-	-	116,169,431	**116,169,431**	-	-	**-**
Due to group companies	-	-	-	-	1,199,065	**1,199,065**	-	-	**-**
Long term borrowings	-	-	-	-	6,315,291	**6,315,291**	-	-	**-**
Subordinated debt	-	-	-	-	3,679,380	**3,679,380**	-	-	**-**
	-	**-**	**-**	**-**	**130,625,788**	**130,625,788**	**-**	**-**	**-**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

6. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting classifications at carrying amounts and fair values - Continued

Company	Carrying amounts						Fair value		
December 31, 2015	Held to maturity KShs'000	Loans and receivables KShs'000	Available for sale KShs'000	Other amortised cost KShs'000	Other financial liabilities KShs'000	Total KShs'000	Level 1 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets									
Cash and balances with Central Bank of Kenya	-	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**	-	-	**-**
	15,336,539	**110,248,550**	**16,001,191**	**2,872,350**	**-**	**144,458,630**	**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	-	-	-	-	133,241	**133,241**	-	-	**-**
	-	**-**	**-**	**-**	**120,092,089**	**120,092,089**	**-**	**-**	**-**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

7. INTEREST INCOME

	2016 KShs '000	2015 KShs '000
(a) Group		
Loans and advances to customers	17,115,612	15,859,075
Loans and advances to banks	89,096	168,445
Investment securities:		
- Held-to-maturity	2,288,794	1,877,833
- Available for sale	2,281,862	1,757,681
	21,775,364	**19,663,034**
(b) Company		
Loans and advances to customers	15,721,942	14,460,653
Loans and advances to banks	39,539	140,161
Investment securities:		
- Held-to-maturity	1,956,908	1,612,634
- Available for sale	2,281,862	1,757,681
	20,000,251	**17,971,129**

8. INTEREST EXPENSE

	2016 KShs '000	2015 KShs '000
(a) Group		
Deposits from customers	7,064,563	7,474,885
Deposits from banks	249,602	274,829
Long term borrowings	371,768	378,660
Subordinated debt	525,149	517,141
	8,211,082	**8,645,515**
(b) Company		
Deposits from customers	6,475,313	6,826,366
Deposits from banks	219,646	274,829
Long term borrowings	291,513	333,756
Subordinated debt	469,006	474,904
	7,455,478	**7,909,855**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

9. NET FEE AND COMMISSION INCOME

	2016 KShs'000	2015 KShs'000
(a) Group		
Fee and commission income		
Commissions	1,390,474	1,364,789
Service fees	882,715	666,716
	2,273,189	**2,031,505**
Fees and commission expense		
Interbank transaction fees	(53,979)	(50,063)
Other	(78,285)	(57,820)
	(132,264)	**(107,883)**
Net fee and commission income	**2,140,925**	**1,923,622**
(b) Company		
Fee and commission income		
Commissions	1,197,651	1,131,742
Service fees	806,682	666,716
	2,004,333	**1,798,458**
Fees and commission expense		
Interbank transaction fees	(40,079)	(34,777)
Other	(75,901)	(57,820)
	(115,980)	**(92,597)**
Net fee and commission income	**1,888,353**	**1,705,861**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

10. OTHER OPERATING INCOME

	2016 KShs'000	2015 KShs'000
(a) Group		
(i) Other operating income		
Income from foreign exchange dealings	1,315,363	1,203,694
Rental income	-	99,668
Profit on sale of property and equipment	5,019	-
Profit on sale of available-for-sale securities	277,478	39,135
Management fees income	18,143	13,363
Other income	27,651	169,567
	1,643,654	**1,525,427**
(ii) Dividend income		
Dividend income-I&M Realty Limited	95,000	-
	95,000	**-**
(b) Company		
(i) Other operating income		
Income from foreign exchange dealings	1,205,951	1,049,906
Profit on sale of property and equipment	1,979	-
Profit on sale of available-for-sale securities	277,478	39,135
Profit on disposal of I&M Realty Limited	5,019	-
Management fees	58,168	44,669
Other income	24,091	161,286
	1,572,686	**1,294,996**
(ii) Dividend income		
Dividend income-I&M Bank (T) Limited	42,822	21,118
Dividend income-I&M Realty Limited	95,000	-
	137,822	**21,118**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

11. OPERATING EXPENSES

	2016 KShs'000	2015 KShs'000
(a) Group		
Staff costs		
Salaries and wages	2,173,088	1,882,500
Contribution to defined benefit and contribution plan	93,790	68,811
Statutory contribution	14,578	22,101
Other staff costs	398,866	490,285
	2,680,322	**2,463,697**
Premises and equipment costs		
Rental of premises	404,107	285,864
Utilities	54,436	53,041
Other premises and equipment costs	111,924	110,140
	570,467	**449,045**
General administrative expenses		
Deposit protection insurance contribution	168,965	145,625
Loss on disposal of property and equipment	-	3,108
Other general administrative expenses	1,753,683	1,567,308
	1,922,648	**1,716,041**
Depreciation and amortisation		
Depreciation on property and equipment (note 22)	264,700	250,984
Amortisation of intangible assets (note 23(b))	96,170	138,252
Amortisation of prepaid operating lease rentals (note 24)	-	5,708
	360,870	**394,944**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

11. OPERATING EXPENSES (Continued)

	2016 KShs'000	2015 KShs'000
(b) Company		
Staff costs		
Salaries and wages	1,890,143	1,631,098
Contribution to defined benefit and contribution plan	93,790	68,811
Statutory contribution	2,061	1,994
Other staff costs	309,861	400,266
	2,295,855	**2,102,169**
Premises and equipment costs		
Rental of premises	339,813	300,907
Utilities	42,426	45,432
Other premises and equipment costs	106,502	108,496
	488,741	**454,835**
General administrative expenses		
Deposit protection insurance contribution	147,569	125,051
Loss on disposal of property and equipment	-	3,229
Other general administrative expenses	1,485,169	1,171,622
	1,632,738	**1,299,902**
Depreciation and Amortisation		
Depreciation on property and equipment (note 22)	223,452	192,280
Amortisation of intangible assets (note 23(b)	73,111	114,044
	296,563	**306,324**

12. PROFIT BEFORE INCOME TAX

	2016 KShs'000	2015 KShs'000
(a) Group		
Profit before income tax is arrived at after charging /(crediting):		
Depreciation	264,700	250,984
Amortisation of intangible assets	96,170	138,252
Directors' emoluments: - fees	87,544	19,754
- Other	78,278	48,890
Auditors' renumeration	10,417	10,022
Net profit on disposal of subsidiary-I&M Realty	5,019	-
Net profit / (loss) on sale of property and equipment	2,280	(3,108)
(b) Company		
Profit before income tax is arrived at after charging/(crediting):		
Depreciation	223,452	192,280
Amortisation of intangible assets	73,111	114,044
Directors' emoluments - fees	80,014	13,300
- Other	12,975	44,441
Auditors' renumeration	5,019	4,755
Net profit on disposal of subsidiary-I&M Realty	5,019	-
Net profit / (loss) on sale of property and equipment	1,978	(3,229)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

13. INCOME TAX EXPENSE AND TAX PAYABLE

	2016 KShs'000	2015 KShs'000
(a) Income tax expense		
(i) Group		
Current year's tax	2,700,599	2,616,530
Over provision in prior year - current tax	(85,754)	(17,735)
	2,614,845	**2,598,795**
Over provision in prior year - deferred tax	(64,680)	(75,296)
	2,550,165	**2,523,499**
Deferred tax/(credit) (Note 25)	(105,973)	191,610
Income tax expense	**2,444,192**	**2,715,109**
The tax on the group's profit differs from the theoretical amount using the basic tax rate as follows:		
Accounting profit before tax	**9,025,473**	**8,747,752**
Computed tax using the applicable corporation tax rate	2,707,642	2,624,326
Over provision in the prior year	(85,754)	(17,735)
Effect on non-deductible costs	(113,016)	183,814
Over provision in prior year - deferred tax	(64,680)	(75,296)
	2,444,192	**2,715,109**
(ii) Company		
Current year's tax at 30%	2,539,837	2,396,340
Over provision in prior year - current tax	(85,754)	(17,735)
	2,454,083	**2,378,605**
Over provision in prior year - deferred tax	(64,680)	(41,554)
	2,389,403	**2,337,051**
Deferred tax credit/(charge) (Note 25)	(80,958)	218,710
Income tax expense	**2,308,445**	**2,555,761**
The tax on the groups profit differs from the theoretical amount using the basic tax rate as follows:		
Accounting profit before tax	**8,651,034**	**8,366,889**
Computed tax using the applicable corporation tax rate at 30%	2,595,310	2,510,067
Over provision in the prior year	(85,754)	(17,735)
Effect on non-deductible costs /income	(136,431)	104,983
Under provision in prior year - deferred tax	(64,680)	(41,554)
	2,308,445	**2,555,761**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

13. INCOME TAX EXPENSE AND TAX PAYABLE (Continued)

	2016 KShs'000	2015 KShs'000
(b) Tax payable/(recoverable)		
(i) Group		
At 1 January	60,150	(20,438)
Income tax expense (Note 13(a)(i)	2,614,845	2,598,795
Effect of tax in foreign jurisdiction	29	(811)
Disposal of I&M Realty	(52,645)	-
Tax paid (Note 33(a)	(2,613,282)	(2,517,396)
At 31 December	**9,097**	**60,150**
Tax recoverable	(2,015)	(4,354)
Tax payable	11,112	64,504
	9,097	**60,150**
(ii) Company		
At 1 January	(2,144)	(24,488)
Income tax expense (Note 13(a)(i)	2,454,083	2,378,605
Tax paid (Note 33(c)	(2,453,954)	(2,356,261)
At 31 December	**(2,015)**	**(2,144)**

14. EARNINGS PER SHARE

	Group		Company	
	2016	2015	2016	2015
Net profit after tax attributable to owners of the company (KShs '000')	6,504,810	5,899,936	6,342,588	5,811,128
Weighted average number of ordinary shares in issue during the year ('000)	28,802	28,802	28,802	28,802
Earnings per share (KShs)	225.85	204.85	220.21	201.76

There were no potentially dilutive shares outstanding at 31 December 2016 (2015 – Nil).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

15. DIVIDEND PER SHARE

	2016 KShs'000	2015 KShs'000
The calculation of dividend per share is based on: Final dividend proposed during the year (KShs'000)	1,447,323	1,373,877
	1,447,323	**1,373,877**
Weighted averaged number of ordinary shares in issue during the year ('000)	**28,802**	**28,802**
Final dividend per share (KShs)	**50.25**	**47.70**

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

	2016 KShs'000	2015 KShs'000
(a) Group		
Cash on hand	1,447,295	1,410,068
Balances with central banks:		
- Restricted balances (Cash reserve ratio)	6,508,025	5,964,481
- Unrestricted balances	698,905	965,154
	8,654,225	**8,339,703**
(b) Company		
Cash on hand	1,199,323	1,026,976
Balances with Central Bank of Kenya:		
- Restricted balances (Cash reserve ratio)	5,110,608	4,563,263
- Unrestricted balances	350,064	287,347
	6,659,995	**5,877,586**

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 2016, the Cash Reserve Ratio requirement in Kenya was 5.25% of all customer deposits (2015 – 5.25%).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

17. ITEMS IN THE COURSE OF COLLECTION

	2016 KShs'000	2015 KShs'000
(a) Group		
Assets	449,306	466,999
Liabilities	7,517	-
(b) Company		
Assets	**449,306**	**449,077**

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

18. LOANS AND ADVANCES TO BANKS

	2016	2015
(a) Group		
Due within 90 days	3,172,614	2,722,536
Due after 90 days	80,655	76,357
	3,253,269	**2,798,893**
(b) Company		
Due within 90 Days	2,729,611	2,182,800
	2,729,611	**2,182,800**

19. LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

(i) Group	2016	2015
Overdrafts	42,856,108	38,280,951
Loans	80,308,395	74,586,058
Bills discounted	861,323	3,153,132
Finance leases	2,477,203	1,912,865
Gross loans and advances	**126,503,029**	**117,933,006**
Less: Impairment losses on loans and advances	(5,806,168)	(3,005,759)
Net loans and advances	**120,696,861**	**114,927,247**
Repayable on demand	22,229,446	37,063,858
Less than 3 months	11,903,529	6,982,434
3 months to 1 year	27,625,162	8,480,654
1 to 5 years	33,001,977	41,049,707
5 to 10 years	26,320,661	20,717,031
Over 10 years	5,422,254	3,639,322
Gross loans and advances	**126,503,029**	**117,933,006**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

19. LOANS AND ADVANCES TO CUSTOMERS (Continued)

	2016 KShs'000	2015 KShs'000
(ii) Company		
Overdrafts	36,629,761	32,435,388
Loans	72,034,502	67,433,082
Bills discounted	861,323	3,153,133
Finance leases	2,477,203	1,887,749
Gross loans and advances	**112,002,789**	**104,909,352**
Less: Impairment losses on loans and advances	(5,417,052)	(2,721,188)
Net loans and advances	**106,585,737**	**102,188,164**
Repayable on demand	22,229,447	37,057,545
Less than 3 months	8,421,760	6,913,836
3 months to 1 year	24,493,704	7,549,651
1 to 5 years	28,109,132	30,971,669
5 to 10 years	23,326,492	18,777,329
Over 10 years	5,422,254	3,639,322
Gross loans and advances	**112,002,789**	**104,909,352**

(b) Impairment losses reserve

(i) Group

	Specific impairment allowance KShs'000	Portfolio impairment allowance KShs'000	Total KShs'000
At 1 January 2016	2,569,687	436,072	3,005,759
Net impairment made in the year	2,960,262	38,440	2,998,702
Net recoveries	(190,009)	(7,451)	(197,460)
Translation differences	(623)	(210)	(833)
At 31 December 2016	**5,339,317**	**466,851**	**5,806,168**
At 1 January 2015			
Transfer to parent company	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**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

19. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(b) Impairment losses reserve (Continued)

	Specific impairment allowance 'KShs'000	Portfolio impairment allowance KShs'000	Total KShs'000
(ii) Company			
At 1 January 2016	2,373,452	347,736	2,721,188
Net impairment made in the year	2,847,433	38,440	2,885,873
Net recoveries	(190,009)	-	(190,009)
At 31 December 2016	**5,030,876**	**386,176**	**5,417,052**
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**

(c) Impairment losses on loans and advances

	2016 KShs'000	2015 KShs'000
(i) Group		
Impairment made in the year	2,998,702	831,377
Recoveries and impairment no longer required	(197,460)	(137,833)
Amounts directly written off during the year	82,839	1,545
	2,884,081	**695,089**
(ii) Company		
Impairment made in the year	2,885,873	689,418
Recoveries and impairment no longer required	(190,009)	(137,833)
Amounts directly written off during the year	82,839	1,545
	2,778,703	**553,130**

(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)

	2016 KShs'000	2015 KShs'000
Interest on impaired loans and advances which has not yet been received in cash	**2,165,222**	**986,863**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

19. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(e) Loans and advances concentration by sector – Group

	2016		2015	
	KShs '000	%	KShs '000	%
Manufacturing	29,132,399	23%	28,460,919	24%
Wholesale and retail trade	25,484,027	20%	23,210,731	20%
Building and construction	13,895,573	11%	12,147,150	10%
Agriculture	6,348,299	5%	5,482,173	5%
Real estate	23,716,621	19%	21,014,905	18%
Transport and communication	7,316,515	6%	7,174,091	6%
Business services	11,967,545	9%	21,281,638	10%
Electricity and water	80,338	-	125,134	-
Finance and insurance	2,219,247	2%	1,012,062	1%
Mining and quarrying	2,248,788	2%	2,958,087	3%
Others	4,093,677	3%	4,066,116	3%
	126,503,029	**100%**	**117,933,006**	**100%**

(f) Loans and advances concentration by sector – Company

	2016		2015	
	KShs '000	%	KShs '000	%
Manufacturing	25,767,098	23%	25,522,232	24%
Wholesale and retail trade	22,727,761	20%	20,440,692	19%
Building and construction	12,900,414	12%	11,545,041	11%
Agriculture	5,864,353	5%	5,125,265	5%
Real estate	20,087,969	18%	18,312,362	17%
Transport and communication	5,956,251	5%	5,986,912	6%
Business services	11,312,293	10%	11,602,777	11%
Electricity and water	80,338	0%	125,134	0%
Finance and insurance	2,219,247	2%	1,012,062	1%
Mining and quarrying	1,902,328	2%	2,560,712	2%
Others	3,184,737	3%	2,676,164	4%
	112,002,789	**100%**	**104,909,352**	**100%**

(g) Finance Leases-Group

	2016 KShs'000	2015 KShs'000
Loans and advances to customers also include finance leases receivable as follows:		
Receivable no later than 1 year	-	263,350
Receivable later than 1 year and no later than 5 years	2,477,203	1,649,515
	2,477,203	**1,912,865**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

19. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(h) Finance leases - Company

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

	2016 KShs'000	2015 KShs'000
Receivable no later than 1 year	468,272	263,350
Receivable later than I year and no later than 5 years	2,008,931	1,649,515
	2,477,203	1,912,865

20. INVESTMENT SECURITIES

	2016 KShs'000	2015 KShs'000
(a) Group		
Available for sale		
Equity investment in TMRC*	23,652	23,710
Preference shares investment in I&M Realty Limited**	3,500,000	-
Corporate bonds - available for sale	330,992	330,769
Treasury bonds - available for sale (Non Liquid)	15,612,575	10,207,397
Treasury bills - available for sale (Non Liquid)	5,979,700	5,463,025
Total available-for-sale	**25,446,919**	**16,024,901**
Held-to-maturity		
Treasury bonds (Liquid)	-	615,354
Treasury bonds (Non Liquid)	8,680,199	9,324,436
Treasury bills (Non Liquid)	10,927,060	1,157,321
Treasury bills (Non Liquid)	-	6,059,148
Total held to maturity	**19,607,259**	**17,156,259**
Total investment securities	**45,054,178**	**33,181,160**

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

** On 28 January 2016 and 6 July 2016, I&M Realty issued 350 5% non-cumulative preference shares of a par value of KShs. 10,000,000 each to the value of KShs. 3.5 billion, which were fully subscribed to by I&M Bank Limited. The proceeds of the preference shares raised by I&M Realty Limited were primarily used to repay the deferred consideration payable by I&M Realty Limited to I&M Bank Limited. The preference shares are redeemable after a period of 7 years at the discretion of the Issuer.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

20. INVESTMENT SECURITIES (Continued)

(b) Company

	2016 KShs'000	2015 KShs'000
Available-for sale		
Corporate bonds - available for sale	330,992	330,769
Preference shares investment in I&M Realty** (see note 20(a))	3,500,000	-
Treasury bonds - available for sale (Non Liquid)	15,612,575	10,207,397
Treasury bills - available for sale (Non Liquid)	5,979,700	5,463,025
Total available-for-sale	**25,423,267**	**16,001,191**
Held-to-maturity		
Treasury bonds (Liquid)	-	515,505
Treasury bonds (Non Liquid)	8,151,758	8,761,886
Treasury bills (Liquid)	8,696,683	-
Treasury bills (Non Liquid)	-	6,059,148
Total held to maturity	**16,848,441**	**15,336,539**
Total investment securities	**42,271,708**	**31,337,730**

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

	GROUP			
	Treasury bills and bonds KShs'000	Preference shares KShs'000	Equity investment KShs'000	Corporate bond KShs'000
31 December 2016				
At 1 January 2016	32,826,681	-	23,710	330,769
Additions	53,036,975	3,500,000	-	-
Disposals and maturities	(44,659,632)	-	-	223
Translation reserve	(4,490)	-	(58)	-
At 31 December 2016	**41,199,534**	**3,500,000**	**23,652**	**330,992**
31 December 2015				
At 1 January 2015	34,932,468	-	26,185	481,913
Additions	23,535,373	-		-
Disposals and maturities	(25,754,052)	-	-	(151,144)
Translation reserve	112,892	-	(2,475)	-
At 31 December 2015	**32,826,681**	**-**	**23,710**	**330,769**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

20. INVESTMENT SECURITIES (Continued)

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

	COMPANY			
	Treasury bills and bonds KShs'000	Preference shares KShs'000	Equity investment KShs'000	Corporate bond KShs'000
31 December 2016				
At 1 January 2016	31,006,961	-	-	330,769
Additions	50,188,507	3,500,000	-	-
Disposals and maturities	(42,754,752)	-	-	223
At 31 December 2016	**38,440,716**	**3,500,000**	**-**	**330,992**
31 December 2015				
At 1 January 2015	32,273,434	-	-	481,913
Additions	22,423,624	-	-	-
Disposals and maturities	(23,690,097)	-	-	(151,144)
At 31 December 2015	**31,006,961**	**-**	**-**	**330,769**

At 31 December 2016, unamortized premiums on investment securities amounted to KShs. 230,809,894 (2015 – KShs. 190,340,736) and unamortized discounts amounted to KShs. 1,044,922,899 (2015 – KShs. 982,015,558).

21. INVESTMENT IN SUBSIDIARIES

(a) Investment in subsidiaries

	Country of incorporation	Sector	2016 KShs'000	2016 % Ownership	2015 KShs'000	2015 % Ownership
I&M Bank (T) Limited	Tanzania	Banking	2,324,026	70.38%	1,122,911	55.03%
I&M Realty Limited	Kenya	Real estate	-	-	100	100%
I&M Insurance Agency Limited	Kenya	Insurance	100	100%	100	100%
			2,324,126		**1,123,111**	

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

21. INVESTMENT IN SUBSIDIARIES (Continued)

(a) Investment in subsidiaries (Continued)

The Bank acquired 55.03% controlling equity stake in CF Union Bank Limited (now I&M Bank Tanzania Limited) on 14 January 2010 to offer banking services in Tanzania. During the year, through a combination of rights issues (effective 12.10.2016) and a buyout of Proparco shares in I&M TZ (effective 26.10.2016), the group stake in the subsidiary has increased to 70.38%.

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

A summary of the subsidiaries performance is shown below;

	Year	Revenue KShs'000 a	Expenses KShs'000 b	Profit before tax KShs'000 c=(a-b)	Profit after tax KShs'000 d
I&M Tanzania Limited	2016	1,218,792	(840,865)	**377,927**	**258,172**
	2015	1,324,797	(923,491)	**401,306**	**295,101**
I&M Insurance Agency Limited	2016	70,116	(36,399)	**33,717**	**23,341**
	2015	26,719	(25,543)	**1,176**	**753**
I&M Realty Limited	2016	Disposed			
	2015	**184,036**	**(31,297)**	**152,739**	**90,343**

	Bank 2016 KShs'000	Bank 2015 KShs'000
At I January	1,123,111	1,123,111
Disposal of I&M Realty Limited	(100)	-
Acquisition of additional shares in I&M Bank (T) Limited	819,907	-
Rights issue	381,208	-
At 31 December	**2,324,126**	**1,123,111**

On 31 March 2016 as part of group restructuring the Bank transferred 100% of the share capital in I&M Realty to the holding company, I&M Holding Limited. I&M Realty Limited was incorporated on 30 October 2014 and commenced operations in December 2014. I&M Realty owns the real estate assets for I&M Group and to earn rental income from leasing out the real estate assets. The details of the assets and liabilities disposed and the disposal consideration are as follows:

Group: Disposal of I&M Realty Limited

	2016 KShs'000
Non-current assets	2,411,929
Current assets	118,759
Non-current liabilities	(2,335,075)
Current liabilities	(190,494)
Net Assets and proceeds on disposal	**5,119**
Less: investment at cost	**(100)**
Profit on disposal	**5,019**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

22. PROPERTY AND EQUIPMENT - Group and Company

(a) Group

	Buildings KShs'000	Leasehold improvements KShs'000	Furniture, fittings, fixtures and 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 2016	1,350,000	957,095	700,285	532,520	88,820	160,446	3,789,166
Additions	-	63,163	83,113	3,271	7,225	19,340	176,112
Disposals	-	-	(8,470)	(10,820)	(8,121)	-	(27,411)
Reclassification/internal transfers	-	5,525	2,182	(439)	-	(7,268)	-
Transfers from Intangible assets	-	-	-	-	-	(5,892)	(5,892)
Items expensed	-	-	-	-	-	(2,737)	(2,737)
Disposal of subsidiary-IMRL	(1,350,000)	-	(10,082)	-	-	(90,305)	(1,450,387)
Translation differences	-	(339)	(239)	(282)	(37)	(29)	(926)
At 31 December 2016	**-**	**1,025,444**	**766,789**	**524,250**	**87,887**	**73,555**	**2,477,925**
Depreciation							
At 1 January 2016	52,419	553,468	386,373	359,223	48,831	-	1,400,314
Charge for the year	-	99,297	67,687	79,883	17,833	-	264,700
On disposal	-	-	(7,244)	(10,737)	(7,335)		(25,316)
Disposal of subsidiary-IMRL	(52,419)	-	(847)	-	-	-	(53,266)
Translation differences	-	(116)	(84)	(90)	(13)	-	(303)
At 31 December 2016	**-**	**652,649**	**445,871**	**428,293**	**59,316**	**-**	**1,586,129**
Net book value at 31 December 2016	**-**	**372,795**	**320,918**	**95,957**	**28,571**	**73,555**	**891,796**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

22. PROPERTY AND EQUIPMENT (Continued)

(a) Group – Continued

	Buildings KShs'000	Leasehold improvements KShs'000	Furniture, fittings, fixtures and 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)
Transfer 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)
Disposal	-	(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	23,593	-	16,205	(16,205)	-	-	23,593
Charge for the year	-	92,678	63,876	58,182	12,655	-	227,391
Write offs	-	824	998	3,164	(888)	-	4,098
On disposal	-	(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 2016 (Continued)

22. PROPERTY AND EQUIPMENT (Continued)

(b) Company

2016	Leasehold improvements KShs'000	Furniture, fittings, fixtures and 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 2016	820,337	528,286	499,226	73,716	46,554	1,968,119
Additions	61,713	66,766	3,127	7,225	19,340	158,171
Disposals	-	(7,453)	(9,663)	(7,870)	-	(24,986)
Reclassification/internal transfers	5,525	2,182	(439)	-	(7,268)	-
Items expensed through P&L	-	-	-	-	(2,737)	(2,737)
At 31 December 2016	**887,575**	**589,781**	**492,251**	**73,071**	**55,889**	**2,098,567**
Depreciation						
At 1 January 2016	513,288	338,402	346,929	44,809	-	1,243,428
Charge for the year	85,481	49,246	73,887	14,838	-	223,452
Disposals	-	(6,628)	(9,663)	(7,091)	-	(23,382)
At 31 December 2016	**598,769**	**381,020**	**411,153**	**52,556**	**-**	**1,443,498**
Net book value at 31 December 2016	**288,806**	**208,761**	**81,098**	**20,515**	**55,889**	**655,069**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

22. PROPERTY AND EQUIPMENT (Continued)

(b) Company – Continued

	Leasehold improvements KShs'000	Furniture, fittings, fixtures and 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	2,536	792	(676)	-	(2,788)	(136)
Disposal	(12,440)	(48,011)	(366)	(1,500)	-	(62,317)
At 31 December 2016	**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	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. 1,134,050,997 (2015 - KShs. 822,243,491). If depreciation had been charged during the year on the cost of these assets at a nominal rate, it would have amounted to KShs. 291,023,564 (2015 - KShs. 197,217,944).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

22. PROPERTY AND EQUIPMENT (Continued)

(c) 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 the building will be fully let with potential for growth in rental and capital values.	Based on the past trend, the Directors are of the opinion 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	2016 KShs'000	2015 KShs'000
Balance as at 1 January (note 22(a))	1,297,581	1,321,174
Disposal of subsidiary (note 22(a))	(1,297,581)	-
Balances as at 31 December	**-**	**1,321,174**
Total gains or losses in profit or loss	-	(23,593)
Balances as at 31 December	**-**	**1,297,581**

The building was sold to I&M Realty Limited with effect from 14th November 2014. See Note 21 for details of the disposal of the subsidiary, I&M Realty Limited, during the year.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

23. INTANGIBLE ASSETS

(a) Goodwill *(i) Group*	2016 KShs'000	2015 KShs'000
I&M Bank (T) Limited	608,953	608,953
Biashara Bank of Kenya Limited	10,747	10,747
Balance as 31 December	**619,700**	**619,700**
Goodwill on assets purchased from Biashara Bank of Kenya Limited	**10,747**	**10,747**

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. 2.07 billion (2015: KShs. 2.78 billion) for I&M Bank (T) Limited. No impairment losses were recognised during 2016 (2015: 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:

	I&M (T) Ltd 2016
5 year risk free rate	17.96%
Risk premium	12.50%
Terminal growth rate	3.00%
Exchange rate	Kshs 1 = Tzs 17.15

	2015
5 year risk free rate	9.18%
Risk premium	12.50%
Terminal growth rate	3.00%
Exchange rate	Kshs 1 = Tzs 21.11

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%.

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 2016 (Continued)

23. INTANGIBLE ASSETS (Continued)

(b) Computer software

(i) Group

2016	Computer Software KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost			
At 1 January	816,868	95,841	912,709
Reclassification from capital work in progress	48,217	(48,217)	-
Transfer to property and equipment	-	5,892	5,892
Additions	42,550	39,189	81,739
Write offs	-	(12)	(12)
Translation differences	(285)	-	(285)
At 31 December 2016	**907,350**	**92,693**	**1,000,043**
Amortisation			
At 1 January	688,138	-	688,138
Amortisation for the year	96,170	-	96,170
Translation differences	(161)	-	(161)
At 31 December 2016	**784,147**	**-**	**784,147**
At 31 December 2016	**123,203**	**92,693**	**215,896**
2015			
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**
Carrying amount			
At 31 December 2015	**128,730**	**95,841**	**224,571**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

23. INTANGIBLE ASSETS (Continued)

(b) Computer software (Continued)

(ii) Company

2016	Computer Software KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost			
At 1 January	760,226	35,325	795,551
Reclassification from capital work in progress	35,315	(35,315)	-
Additions	33,577	39,189	72,766
Item expensed through Profit or Loss	-	(12)	(12)
At 31 December 2016	**829,118**	**39,187**	**868,305**
Amortisation			
At 1 January	633,488	-	633,488
Amortisation for the year	73,111	-	73,111
At 31 December 2016	**706,599**	**-**	**706,599**
Carrying amount			
At 31 December 2016	**122,519**	**39,187**	**161,706**
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**
Carrying amount			
At 31 December 2015	**126,738**	**35,325**	**162,063**

The Company's computer software with a gross value of KShs. 448,997,063 (2015 – KShs. 296,209,320) are fully amortised but still in use.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

24. PREPAID OPERATING LEASE RENTALS

	2016 KShs'000	2015 KShs'000
Group		
Cost		
As at 1 January	**317,650**	**317,650**
Disposal of subsidiary	(317,650)	-
	-	**317,650**
Amortisation		
As at 1 January	**(33,044)**	**(27,336)**
Sale of IMRL from IMBL to IMHL	33,044	-
Charge for the year	-	(5,708)
	-	**(33,044)**
As at 31 December	**-**	**284,606**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

25. DEFERRED TAX (Asset/liabilities)

Deferred tax assets at 31 December 2016 and 31 December 2015 are attributable to the following:

(a) Deferred tax asset

	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
Group						
2016						
Property and equipment	28,719	45,223	-	39	(5,682)	68,299
General provisions	298,882	-	-	(264)	(48,724)	249,894
Other provisions	131,474	19,457	-	(1)	160,379	311,309
Available for sale reserves	216,506	-	(64,046)	-	-	152,460
	675,581	**64,680**	**(64,046)**	**(226)**	**105,973**	**781,962**
2015						
Property 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**
Company						
2016						
Property and equipment	40,625	45,223	-	-	2,391	88,239
General provisions	226,275	-	-	-	(80,337)	145,938
Other provisions	112,928	19,457	-	-	158,904	291,289
Available for sale reserves	216,506	-	(64,046)	-	-	152,460
	596,334	**64,680**	**(64,046)**	**-**	**80,958**	**677,926**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

25. DEFERRED TAX (Asset/liabilities)

(a) Deferred tax asset (Continued)

Company (Continued)

	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
2015						
Property 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**

(b) Deferred tax liability

Group

	Balance at 1 January KShs'000	Disposal of subsidiary company KShs'000	Recognised in equity KShs'000	Translation differences KShs'000	Recognized in profit or loss KShs'000	Balance at 31 December KShs'000
2016						
Property and equipment	75	(75)	-	-	-	-
	75	**(75)**	**-**	**-**	**-**	**-**
2015						
Property and equipment	-	-	-	-	75	75
	-	**-**	**-**	**-**	**75**	**75**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

26. OTHER ASSETS

	2016 KShs'000	2015 KShs'000
(a) Group		
Rent receivable	-	41,244
Prepayments	279,198	319,980
Derivative assets (Note 34(b))	525,764	-
Other receivables	707,191	549,719
	1,512,153	**910,943**
(b) Company		
Prepayments	208,904	239,926
Derivative assets (Note 34(b))	525,764	-
Other receivables	694,940	528,693
	1,429,608	**768,619**

27. DEPOSITS FROM BANKS

	2016 KShs'000	2015 KShs'000
(a) Group		
Due within 90 Days	2,263,241	3,303,987
Due after 90 days	2,176,692	2,414,777
	4,439,933	**5,718,764**
(b) Company		
Due within 90 Days	1,085,929	1,632,247
Due after 90 days	2,176,692	2,203,284
	3,262,621	**3,835,531**

28. DEPOSITS FROM CUSTOMERS

	2016 KShs'000	2015 KShs'000
(a) Group		
Government and parastatals	1,319,806	1,588,384
Private sector and individuals	128,316,261	115,097,618
	129,636,067	**116,686,002**
(b) Company		
Government and parastatals	780,695	1,222,085
Private sector and individuals	115,388,736	102,413,226
	116,169,431	**103,635,311**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

29. OTHER LIABILITIES

	2016 KShs'000	2016 KShs'000
(a) Group		
Accruals	1,248,953	1,035,114
Other accounts payables	943,252	555,599
Derivative liabilities (Note 34(b))	-	133,241
Bankers cheques payable	175,662	176,238
	2,367,867	**1,900,192**
(b) Company		
Accruals	1,193,564	900,625
Other accounts payables	833,868	501,963
Derivative liabilities (Note 34(b))	-	133,241
Bankers cheques payable	158,073	164,984
	2,185,505	**1,700,813**

30. LONG TERM BORROWINGS

(a) Group		
Less than one year	1,866,182	2,451,879
One to five years	6,139,907	6,109,367
Over five years	-	580,489
	8,006,089	**9,141,735**

The Group's long term borrowings constituted those in note 30(a) and following in I&M (T) Ltd.

USD 5 million facility granted on 3 July 2012 by PROPARCO repayable in semi – annually with a final repayment date of 31 October 2019.

TZS 3,250 million facility granted on 14 July 2014 by Tanzania Mortgage Refinance Company Limited (TMRC). The interest on the facility repayable quarterly over 3 years with redemption on maturity.

The long term borrowing of USD 12 million granted on 16th March 2016 by FMO as senior debts for tenor of 6 years. The interest and principal on the facility is repayable on a quarterly basis. Final repayment date is 10 October 2021.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

30. LONG TERM BORROWINGS (Continued)

	2016 KShs'000	2015 KShs'000
(b) Company		
Less than one year	1,495,818	3,247,166
One to five years	4,819,473	5,068,792
Over five years	-	290,245
	6,315,291	**8,606,203**

The Company's 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 50,000,000 facility granted on 16 July 2013 by IFC repayable semi-annually over 7 years after an initial two years grace period.

(iii) 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.

(iv) 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.

Loan movement schedule

	2016 KShs'000	2015 KShs'000
(c) Group		
At 1 January	9,141,735	10,352,513
Funds received	1,239,717	-
Payments on principal and interest	(2,768,224)	(2,668,762)
Interest payable	40,281	43,966
Translation differences	352,580	1,414,018
At 31 December	**8,006,089**	**9,141,735**
d) Company		
At 1 January	8,606,203	9,763,520
Payments on principal and interest	(2,556,122)	(2,487,664)
Interest payable	24,397	35,011
Translation differences	240,813	1,295,336
At 31 December	**6,315,291**	**8,606,203**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

31. SUBORDINATED DEBT

	2016 KShs'000	2015 KShs'000
(a) Group		
Less than one year	27,214	63,685
One to five years	4,479,964	4,010,422
Over five years	-	420,977
	4,507,178	**4,495,084**

The group's subordinated debts constitute that in note 31(b) and USD 10 million facility granted on January 2015 by DEG (Deutsche Investitions- und Entwicklungsgesellschaft mbH) of which amount of USD 8 Million has already been received during the month of January 2015 in I&M (T) Ltd.

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.

	2016 KShs'000	2015 KShs'000
(b) Company		
Less than one year	24,380	20,666
One to five years	3,655,000	3,655,000
	3,679,380	**3,675,666**

The Companies' subordinated debts constitute 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

32. SHARE CAPITAL AND RESERVES

	Group and Company	
	2016 KShs'000	**2015 KShs'000**
(a) Share capital		
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 2016 and 2015 were as follows:

	Number of shares	%
I&M Holdings Limited (2015 & 2016)	**28,802,453**	**100%**

(c) Share premium

	2016 KShs'000	2015 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 2016 (Continued)

33. NOTES TO THE STATEMENT OF CASH FLOWS

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

	Note	2016 KShs'000	2015 KShs'000
Profit before income tax		9,025,473	8,747,752
Adjustments for:			
Depreciation	22(a)	264,700	250,984
Amortisation of intangible asset	23(a)	96,170	138,252
Amortisation of prepaid operating lease rentals	24	-	5,708
Profit/(Loss) on sale of property and equipment		(2,280)	3,108
Write back-intangible assets	23(b)(i)	12	(10,064)
Write (off)/back to PPE & P&L	22(a)	2,737	8,039
Profit on sale of available for sale securities	10(a)(i)	(277,478)	(39,135)
Dividend Income	10(a)(ii)	(95,000)	-
Exchange reserves		40,434	(115,677)
		9,054,768	**8,988,967**
(Increase)/Decrease in operating assets			
Movement in loans and advances to customers		(5,769,614)	(13,316,685)
Investment in securities		(10,819,789)	1,422,665
Cash and balances with Central Banks:			
- Cash Reserve Ratio		(543,543)	233,702
Due from group companies		(99,736)	
Loan and advances to banks		(4,297)	(76,357)
Other assets		(646,357)	64,689
		(17,883,336)	**(11,671,986)**
Increase/(Decrease) in operating liabilities			
Customer deposits		12,950,065	17,474,321
Deposits from banks		(238,085)	2,334,032
Long term borrowings		(1,135,646)	(1,210,778)
Due to Group companies		1,095,207	-
Other liabilities		510,526	502,407
		13,182,067	**19,099,982**
Cash flows generated from operating activities		**4,353,499**	**16,416,963**
Tax paid	13(a)(i)	(2,613,282)	(2,517,396)
Net cash flows generated from operating activities		**1,740,217**	**13,899,567**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

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

(b) Analysis of cash and cash equivalents – Group

	Note	2016 KShs'000	2015 KShs'000	Change KShs'000
Cash and balances with central banks – excluding CRR 16(a)	16(a)	2,146,200	2,375,222	(229,022)
Items in the course of collection 17(a)	17(a)	441,789	466,999	(25,210)
Loans and advance to banks 18(a)	18(a)	3,172,614	2,722,536	450,078
Investment securities 20(a)	20(a)	-	1,772,675	(1,772,675)
Deposits from banks 27(a)	27(a)	(2,263,241)	(3,303,987)	1,040,746
		3,497,362	**4,033,445**	**(536,083)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

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

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

	Note	2016 KShs'000	2015 KShs'000
Profit before income tax		8,651,034	8,366,889
Adjustments for:			
Depreciation	22(b)	223,452	192,280
Amortisation of intangible asset	23(b)	73,111	114,044
Loss/(profit) on sale of property and equipment		(1,979)	3,229
Write back to profit or loss - intangible assets	23(b)(i)	12	(10,064)
Write back to profit or loss - property and equipment	22(b)	2,737	4,233
Profit on disposal of subsidiary (I&M Realty)	10(b)(i)	(5,019)	-
Profit on sale of available for sale securities	10(b)(ii)	(277,478)	(39,135)
Dividend income	10(b)(ii)	(137,822)	-
		8,528,048	**8,631,476**
Increase / (Decrease) in operating assets			
Movement in loans and advances to customers		(4,397,573)	(12,321,904)
Investment in securities		(8,623,520)	1,275,131
Due from group companies		(70,295)	(56,157)
Cash and balances with Central Bank of Kenya:			
– Cash Reserve Ratio		(547,345)	540,269
Other assets		(657,274)	13,005
		(14,296,007)	**(10,549,656)**
Increase/(decrease) in operating liabilities			
Customer deposits		12,534,120	17,014,384
Balances due to group companies		992,928	206,137
Deposits from banks		(26,592)	2,122,539
Long-term borrowings		(2,290,912)	(1,157,317)
Other liabilities		484,691	408,494
		11,694,235	**18,594,237**
Cash flows generated from operating activities		**5,926,276**	**16,654,939**
Tax paid	13(b)(ii)	(2,453,954)	(2,356,261)
Net cash flows generated from operating activities		**3,472,322**	**14,298,678**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

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

(d) Analysis of cash and cash equivalents – Company

		2016 KShs'000	2015 KShs'000	Change KShs'000
Cash and balances with Central Bank of Kenya–excluding Cash Reserve Ratio	16(b)	1,549,387	1,314,323	235,064
Items in the course of collection	17(b)	449,306	449,077	229
Loans and advances to banks	18(b)	2,729,611	2,182,800	546,811
Investment securities	20(b)	-	515,505	(515,505)
Deposits from banks (due within 90 days)	27(b)	(1,085,929)	(1,632,247)	546,318
		3,642,375	**2,829,458**	**812,917**

34. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Group at 31 December 2016. 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:

(a) Group	2016 KShs'000	2015 KShs'000
Contingencies related to:		
Letters of credit	7,222,062	6,659,590
Guarantees	14,310,869	14,172,388
Acceptances	11,135,938	10,552,923
Commitments related to:		
Outstanding spot/forward contracts	16,588,064	18,812,112
	49,256,933	**50,197,013**
(b) Company		
Contingencies related to:		
Letters of credit	6,869,306	6,411,137
Guarantees	13,961,574	13,955,140
Acceptances	9,281,795	10,552,923
Commitments related to:		
Outstanding spot/forward contracts	16,588,064	18,812,112
	46,700,739	**49,731,312**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

34. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS (Continued)

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

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

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

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

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

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

35. 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.

36. ASSETS PLEDGED AS SECURITY

Group and Company

As at 31 December 2016, Treasury Bonds with a face value of KShs. 1,270,000,000 (2015 – KShs. 1,276,000,000) were held under lien in favour of the Central Bank of Kenya.

37. RELATED PARTY TRANSACTIONS

In the normal course of business, the Group 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.

	2016 KShs	2015 KShs
(a) Transactions with directors/shareholders (Company)		
Loans to directors/shareholders	**46,150**	**133,980**
Interest income from loans to directors/shareholders	246,826	9,811,996
Deposits from directors/shareholders	**2,495,765**	**3,024,670**
Interest expense on deposits from directors/shareholders	11,764,925	244,478,964
Loans from shareholders	-	-
Interest expense on loans from shareholders	-	-

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

37. RELATED PARTY TRANSACTIONS (Continued)

	2016 KShs	2015 KShs
(b) Transactions with related companies (Company)		
Loans to related companies	**412,807**	**14,695**
Interest income from loans to related companies	**3,886,653**	**1,280,075**
Loans from related companies	-	**3,192,693**
Interest expense on loans from related companies	-	54,434,554
Deposits from related companies	**975,850**	**617,870**
Interest expense on deposits from related companies	1,977,500	21,087,755
Amounts due from group companies subsidiaries/joint venture	**158,568**	**2,423,273**
Interest income on amounts due from subsidiaries and joint venture	187,464	-
Amounts due to group companies subsidiaries/joint venture	**1,199,065**	**206,137**
Interest expense on amounts due from subsidiaries and joint venture	39,569	1,259,100
Preference shares in I&M Realty Limited	**3,500,000,000**	**-**
(c) Transactions with employees (Company)		
Staff loans	**1,107,075**	**868,624**
Interest earned on these loans was KShs.	78,278,638	46,394,171
(d) Management fees received from subsidiaries	**58,168**	**38,462**
(e) Management Compensation	**80,014**	**68,644**
(f) Key management compensation		
Directors' remuneration is made up of short term benefits	**80,014**	**68,644**
Management fees received from subsidiaries	**58,168**	**38,462**
(g) Transactions with related companies (Group)	**26,121**	**-**
Amounts due from group companies subsidiaries/joint venture	**1,095,207**	**-**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

37. RELATED PARTY TRANSACTIONS (Continued)

(h) 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.

38. CAPITAL COMMITMENTS

	2016 KShs'000	2015 KShs'000
Group	**1,588,870**	**909,768**
Company	**1,417,794**	**557,145**

39. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

Group

(a) Lessee

The group leases 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 the lease after that date. None of the leases include contingent rentals. During the year, KShs. 404,108,000 (2015 – KShs. 285,864,000) was charged to the Profit or loss statement in respect of operating leases. Future minimum lease payments under these operating leases are as follows:

	2016 KShs'000	2015 KShs'000
Less than one year	345,931	328,424
One to five years	1,797,088	1,223,689
Over five years	203,355	408,122
	2,346,374	**1,960,235**

Group

(b) Lessor

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

	2016 KShs'000	2015 KShs'000
Less than one year	-	83,824
One to five years	-	408,558
	-	**492,382**

During the year, KShs. Nil (2015 – KShs. 99,668,000) was recognized as rental income in the income statement in respect of operating leases.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

39. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES (Continued)

Company

(a) Lessee

The Bank leases 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. 339,813,000 (2015 – KShs. 300,907,000) was charged to the Profit or loss statement in respect of operating leases. Future minimum lease payments under these operating leases are as follows:

	2016 KShs'000	2015 KShs'000
Less than one year	313,630	279,626
One to five years	1,658,337	1,435,489
Over five years	165,686	368,826
	2,137,653	**2,083,941**

40. EVENTS AFTER THE REPORTING DATE

On 13 February 2017, I&M Holdings Limited acquired the entire issued share capital of Giro Commercial Bank Limited (GCBL) following the receipt of all regulatory approvals. Subsequently, the entire GCBL's banking business was merged into that of I&M Bank LIMITED. The results of GCBL have not been consolidated in these financials.

ANKARA

The Ankara comes with a variety of names, just like it's designs for example: 'African prints', 'African Wax prints', 'Holland Wax' and 'Dutch Wax.' The Ankara has become popular throughout Africa and its main attribute is its 100% cotton tag and also it's distinct tribal patterns and motifs. The Ankara is popular due to its versatility and is considered very fashionable.

I&M CSR NEWS
I&M KENYA CSR

In 2016, I&M Bank Kenya continued to champion its shared growth agenda among different members of the community through the bank's Corporate Social Responsibility (CSR) arm. This was achieved through the following:

EDUCATION

Education is a key driver of socio-economic development. The bank continues to appreciate the power of transformation through education, and is committed to supporting education for bright but needy students to obtain secondary and university education.

Over and above provision of education scholarships, the bank has supported forums where staff members through mentorship opportunities impart knowledge, wisdom and guidance to the scholarship beneficiaries.

Below are key initiatives that the bank championed under the education pillar:

Palmhouse Foundation Mentorship Programme

I&M Bank Kenya continued to sponsor secondary school education for 64 bright but financially constrained students at the Palmhouse Foundation.

In 2016, the bank donated slightly over KShs. 6 million towards this initiative which includes: mentorship sessions facilitated by partners of the Palmhouse Foundation, I&M Bank staff and management trainees.

Last year, I&M Bank staff also organized a successful full day mentorship session for the beneficiaries encouraging them to work hard and be impactful members of society.

I&M Bank Kenya staff members conducting a mentorship session with some of the beneficiaries.

I&M Bank Kenya Provides Strathmore University Scholarships

I&M Bank Kenya continued to provide scholarships for needy students pursuing various degree programmes at Strathmore University. The bank donated over KShs. 6 million towards this scholarship programme. Various students benefitting from this programme have also continued to work at I&M Bank on internship and Management Trainee programmes. The bank's staff members have also been conducting mentorship sessions for the beneficiaries on an annual basis.

I&M Bank Finances Greenhouse Project at Kanaani Primary School

I&M Bank yet again partnered with the Amara Charitable Trust to support Kanaani Primary School in Machakos County. The bank contributed in the construction of a greenhouse project, drip lines and a kitchen for the school, a sustainable project for the school's feeding programme. This project is so far benefiting approximately 750 children in the school. The Amara Charitable Trust has made further steps to organize and finance training programmes for the school's teachers, gardeners and children on different agricultural practices.

The organisation has made a positive impact in the Kenyan education sector, which is their key focus for their charitable organizations. Earlier in the 2016, I&M Bank also partnered with the organisation to finance construction of 7 classrooms at the Ngalalya primary school in Machakos County.

Kanaani Primary School's garden.

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

I&M Bank Funds Construction of St. Ann's Kairi Suresh Raja Shah Girls Secondary School

In 2016, I&M Bank conducted a ground breaking ceremony to mark the beginning of the construction of St. Ann's Kairi Suresh Raja Shah Girls Secondary School. The construction costing over KShs. 40 million, will take two years and once completed, I&M Bank will further engage with the students through continued staff engagement on mentorship and advisory support.

The ongoing construction of the school.

I&M Bank Supports Students at Tangaza College

In 2016, I&M Bank sponsored a 2nd tranche of 10 needy but academically gifted students in an early childhood development education programme, under the Kibera slums Teacher Upgrading Programme undertaken by Project Busara in Christ the Teacher Institute for Education (CTIE) at Tangaza College, for approximately KShs. 4 million.

Kibera slums have many schools with untrained teachers who are looking to upgrade their education and impact their students and society. Project Busara seeks scholarship support for students living and teaching in Kibera to join the Early Childhood Development Education.

I&M Bank Donates Towards Afya Elimu Health Fund

In 2016, I&M Bank participated in the launch of the Afya Elimu health fund which is a public private partnership led by USAID, the Ministry of Health and the Kenya Healthcare Federation to support the training fees for needy students in medical training colleges in Kenya.

The bank has been one of the main sponsors of the Afya Elimu Fund since 2014 and is committed to supporting this project through 2019. The fund has benefitted a total of 9,278 students with 1,219 having graduated and 144 having joined the health workforce, therefore contributing to health service delivery.

Peter Tum, Director KMTC (first left), Charles Ringera CEO HELB (second left) and Prof. Philip Kaloki Chairman KMTC (third left) receive I&M Bank's donation to the Afya Elimu Health Fund from Joy Namasaka, Chair, I&M Bank, CSR (right), during the launch event.

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

ENVIRONMENT

I&M Bank Funds Kibagare River Rehabilitation

In 2016, the bank embarked on an initiative aimed at building sustainable environments that we believe will play a significant role in improving livelihoods of society.

I&M Bank Kenya through I&M Realty funded a strategy forum aimed at restoring and rehabilitating the Kibagare River and City Park in Nairobi. The research was conducted by Revive Consulting Solutions and was championed by Friends of City Park under the Nature Kenya initiative. Data results from the forum will inform a conceptual design for the most natural and financially sustainable solutions to restore the river.

Shameer Patel (Centre) General Manager at I&M Bank and Christine Aludo (Right) Marketing Manager at I&M Bank, present a representation of a report on findings of the survey aimed at restoring and rehabilitating the Kibagare River in City Park, to Patrick Analo (Left) of the Nairobi County Government.

HEALTH

Through the health pillar, the bank has been working with various health-related institutions to support quality healthcare systems. This aligns to UN's Sustainable Development Goal Number 3 of good health and well-being. In 2016, the bank supported different health initiatives at a cost of over KShs. 12 million.

Below are some of these initiatives:

I&M Bank donates towards Beyond Zero Campaign

In 2016, I&M Bank donated a fully kitted mobile clinic for the Beyond Zero campaign to Her Excellency the First Lady of Kenya, Mrs. Margaret Kenyatta for the Trans-Nzoia County.

The Beyond Zero campaign has significantly contributed towards HIV control and promotion and child of maternal healthcare in Kenya since its inception.

The mobile clinic handover is reflective of I&M Bank's commitment to deliver quality financial solutions that empower Kenyans to better improve their livelihoods, therefore enabling them to afford high quality health care, and in turn mitigating mortality rates.

Prior to this, I&M Bank sponsored the First Lady Half Marathon in March 2016 in its effort to also support the Beyond Zero Campaign.

The I&M Bank team pose for a photo with Her Excellency, the First Lady of Kenya, Mrs. Margaret Kenyatta after presenting the mobile clinic donated towards the Beyond Zero Campaign.

Her Excellency, the First Lady of Kenya, Mrs. Margaret Kenyatta views the mobile clinic flanked by Kihara Maina, CEO, I&M Bank, Kenya and Directors - Eric Kimani and Sachit Raja Shah.

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

HEALTH

I&M Bank offer two-day free medical services to the residents of Kibagare slums

Over 8,000 Kibagare slum residents benefitted from a two day medical camp organised by the bank's CSR team. The event that cost approximately KShs. 2.4 million recorded the highest attendance of beneficiaries since the inaugural medical camp held in 2014. A team of 35 doctors were able to attend to various medical needs of the residents such as screening for ailments such as Hypertension, Diabetes, Ulcers, and Cancer among other conditions.

The bank, through the CSR health pillar has identified various social determinants of health that widen the gap between ill health and socio-economic growth; and has come up with activities aimed at mitigating these determinants; among them the annual medical camp. The bank has also been supporting needy children from the Kibagare slums and the neighboring areas, through a monthly feeding programme.

I&M Bank Head of Business Development, L A Sivaramakrishnan with a patient at the Medical Camp.

A medic attends to a patient during the Medical Camp.

I&M Bank Conducts Annual Blood Drive

I&M Bank annual blood drive happened in June 2016 in various parts of the country. The event coincided with the World Health Organization (WHO) Blood Donation Day, which serves to raise awareness of the need for safe blood and blood products, and to thank blood donors for their voluntary, life-saving gifts of blood. The event themed on "Blood Connects us all was successful with over 500 pints collected.

COMMUNITY SERVICE

I&M Bank Kenya staff members continued to donate their time towards supporting various Community Service initiatives that I&M Bank focuses on. This included:

New Life Home Trust

The bank in 2016 continued to support the New Life Home Trust organization through a donation of approximately KShs. 400,000, to support the home in providing a safety net for abandoned or orphaned from HIV/AIDS.

St. Martin's Kibagare School Feeding Programme

I&M Bank in 2016 continued to support the St. Martin's Center in Kibagare by funding the monthly feeding programme that benefits children from the nearby slum. The bank spent over KShs. 700,000 towards this initiative. The home is run by the Assumption Sisters of Nairobi.

I&M Bank T-Shirt Donation Drive

I&M Bank staff members supported the Operation Karibu campaign run by the Micro Clinic Initiative, a non-profit organisation, whose mission is to make pregnancy and childbirth safe for every mother. Through research, the organization discovered that one of the reasons many women in rural Kenya were not delivering their babies in local clinics, was that they did not have clothes to dress their newborns after birth.

Through the Operation Karibu campaign, the Micro Clinic Initiative organisation offers baby clothes, safe delivery, emergency transportation, and birth preparation and care training to thousands of mothers in rural Kenya. I&M Bank staff members therefore donated t-shirts to support these needs.

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

HEALTH

Donation to Jakaya Kikwete Cardiac Institute

The bank contributed TZS 33,000,000 towards surgeries for children suffering from heart ailments in coordination with BAPS Charities. It was identified that about 500 children suffering from heart conditions are in dire need of surgery at different levels and are unable to afford such expensive treatments. The bank managed to treat 15 children and inevitably changed their lives.

I&M Bank (T) Limited Staff members present dummy cheque to the Jakaya Kikwete Cardiac Institute.

COMMUNITY SERVICE

Donation to Kagera Earthquake Victims

The bank contributed 390 blankets to victims of the Kagera earthquake that took place on 10th September 2016. Our Moshi Branch handed over the blankets to the Regional Commissioner Office, Kilimanjaro Region who then distributed the blankets to the Kagera victims.

I&M Bank (T) Limited Staff members presenting donations to the beneficiaries.

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BAATI

Baati is a cotton fabric originating from Somali and primarily worn by women. Cotton primarily chosen as it is favorable to the hot weather conditions. The fabric and outfits are normally characterized by vibrant colors and designs. In recent times the baati has been transformed into what is now worn as the Dera.

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