I&M Bank LIMITED

BEHIND EVERY TRANSACTION, THERE'S A SIMPLE TRUTH

I&M BANK LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS I 2017

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Board of Directors

1. EM Kimani, MBS
2. SBR Shah, MBS - Chairman
3. Sachit S Raja Shah
4. Kihara Maina

Board of Directors (Continued)

5. M Soundararajan
6. PCM Kibati
7. Sarit S Raja Shah - Executive Director
8. AN Koigi
9 NP Kothari - Company Secretary

Senior **Management**

L A Sivaramakrishnan
Divisional Head
Business Development

Lucy Thegeya
Divisional Head
Business Support

A V Chavda
Senior Director
Credit

Henry Kirimania
General Manager
Treasury

Priscilla Ndonga
General Manager
Human Resources

Elias Makau
General Manager
Finance

Senior **Management (Continued)**

Enodius Makiwa
General Manager
Personal and
Business Banking

Connie Macharia
General Manager
Credit

Suprio Sen Gupta
General Manager
Products and
Marketing

Bamidele O. Oseni
General Manager
Risk

Ruma Shah
General Manager
Audit

Chhanda Mishra
General Manager
Projects

Senior Management (Continued)

Stephen Kimwele
General Manager
Corporate Banking

Shameer Patel
General Manager
Strategy and Transformation office

Rohit Gupta
General Manager
ICT

Joseph Njomo
General Manager
Operations

Gauri Gupta
General Manager
Corporate Advisory

Raphael Mapfumo
General Manager
Alternate Banking Channels

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*	
AN Koigi	
Kihara Maina	

* Indian

COMPANY SECRETARY

NP Kothari – FCPS (Kenya)

AUDITORS

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

REGISTERED OFFICE

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

CORRESPONDENT BANKS

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

CORPORATE INFORMATION (Continued)

BRANCHES

NAIROBI
I&M Bank House
2nd Ngong Avenue
PO Box 30238
00100 Nairobi GPO

I&M Bank Tower
Kenyatta Avenue
PO Box 30238
00100 Nairobi GPO

Sarit Centre
Karuna Road Westlands
PO Box 30238
00100 Nairobi GPO

Ansh Plaza
Biashara Street
PO Box 30238
00100 Nairobi GPO

KCC Building
Changamwe Road
PO Box 30238
00500 Nairobi

Karen Office Park
Langata Road
PO Box 30238
00100 Nairobi GPO

Panari Centre
Mombasa Road
PO Box 30238
00100 Nairobi GPO

Centre Point
Parklands Road
PO Box 30238
00100 Nairobi GPO

Wilson Airport
Pewin House
PO Box 30238
00100 Nairobi GPO

Ongata Rongai
Maasai Mall
PO Box 30238
00100 Nairobi GPO

South C Shopping Centre
PO Box 30238
00100 Nairobi GPO

Langata Link Complex
Langata South Road
PO Box 30238
00100 Nairobi GPO

Kenol Kobil Valley Arcade
Gitanga Road
PO Box 30238
00100 Nairobi GPO

14 Riverside Drive
Riverside
PO Box 30238
00100 Nairobi GPO

Gigiri Square
United Nations Avenue
PO Box 30238
00100 Nairobi GPO

Lavington Mall
James Gichuru Road
PO Box 30238
00100 Nairobi GPO

Lunga Lunga
Lunga Lunga Square
PO Box 30238
00100 Nairobi GPO

Yaya Centre
Argwings Kodhek Road
PO Box 30238
00100 Nairobi GPO

Gateway Mall
Mombasa road
PO Box 30238
00100 Nairobi GPO

Garden City
Thika Road
PO Box 30238
00100 Nairobi GPO

Milele Mall
Ngong Town
PO Box 30238
00100 Nairobi GPO

Cross Road
Off River Road
PO Box 30238
00100 Nairobi GPO

Spring Valley Business Park,
Ground floor, Block B
PO Box 30238
00100 Nairobi GPO

Eldama,
Eldama Park
PO Box 30238
00100 Nairobi GPO

Banda
Banda street
PO Box 30238
00100 Nairobi GPO

Industrial Area
Dunga road
PO Box 30238
00100 Nairobi GPO

Ridge Court
Parklands
PO Box 30238
00100 Nairobi GPO

THIKA
Kenyatta Highway
80 West Place
PO Box 1207
01000 Thika

NYERI
Hopewell Place
Gakere Road
PO Box 747
301 Nyeri

NANYUKI
Nyeri Nanyuki Road
PO Box 971
10400 Nanyuki

MERU
P&K Plaza, Ground floor
Moi Avenue
PO Box 576
60200 Meru

NAKURU
Polo Centre
Kenyatta Avenue
PO Box 18445
20100 Nakuru

KITALE
Mega Centre Mall
Makasembo Road
PO Box 2278
30200 Kitale

ELDORET
Zion Mall
Uganda Road
PO Box 9362
30100 Eldoret

KISUMU
Bon Accord House
Oginga Odinga Street
PO Box 424
40100 Kisumu

KISII
Royal Towers
Hospital Road
PO Box 4474
40200 Kisii

MOMBASA
Biashara Bank Building
Nyerere Avenue
PO Box 86357
80100 Mombasa

Nyali Cinemax
Main Nyali Road
PO Box 86357
80100 Mombasa

Haile Selassie Avenue
Patel Samaj Building
Mombasa

Changamwe
Refinery Building
Refinery Road
PO Box 86357
80100 Mombasa

Mtwapa Mall
Mombasa Malindi Road
PO Box 86357
80100 Mombasa

MALINDI
Pine Court Building
Lamu Road
PO Box 1125
80200 Malindi

I&M NEWS

I&M KENYA NEWS

THE EUROPEAN INVESTMENT BANK EXTENDS A USD 40 MILLION FINANCING FACILITY TO I&M BANK, KENYA

In early 2018, the European Investment Bank (EIB) approved a US $ 40 million financing facility with I&M Bank, Kenya that will support investment by businesses across Kenya. Backed by the new EIB facility I&M Bank's medium and large business customers around the country will benefit from this facility.

The new credit line was signed in Nairobi by Kihara Maina, CEO I&M Bank Kenya and Robert Schofield, responsible for EIB business financing outside Europe. The signature ceremony was attended by Stefano Dejak, Ambassador of the European Union to Kenya and senior executives from I&M Bank, Kenya and the European Investment Bank.

Under this credit line, I&M Bank, Kenya will advance loans in US Dollars to eligible borrowers up to a maximum of 50% (fifty per cent) of the total cost of each of the projects, which comply with the EIB eligibility criteria undertaken by qualifying private enterprises and public sector entities in Kenya.

I&M Bank, Kenya, Chief Executive Officer, Kihara Maina (left) and European Investment Bank Executive responsible for EIB business financing outside Europe, Robert Schofield (right) sign new line of credit for onward lending to the bank's SME, Corporate and Institutional Customers. The signing was witnessed by EU Ambassador to Kenya Stefano Dejak (centre), I&M Bank, Kenya, Legal Manager, Peris Chege (standing left) and I&M Bank, Kenya, General Manager - Treasury, Henry Kirimania.

I&M BANK SETS UP THE GERMAN DESK-FINANCIAL SUPPORT AND SOLUTIONS IN KENYA

In 2017, I&M Bank, Kenya launched the German Desk – Financial Support and Solutions, aimed at providing specialist banking and financial advisory services for German businesses operating and seeking to set up shop in the East African region.

The development formed through a strategic alliance between I&M Bank and DEG Deutsche Investitions- und Entwicklungsgesellschaft mbH, in cooperation with the Delegation of German Industry and Commerce in Nairobi (AHK), aims at giving targeted support to medium-sized German enterprises and their local customers in East Africa. The initiative is also supported by the Federal Ministry for Economic Cooperation and Development (BMZ).

The range of services offered by the German Desk – Financial Support and Solutions encompasses financial services from account creation to loan provision through to trade financing for local companies wishing to acquire German facilities or services.

The German Desk – Financial Support and Solutions in Kenya is the second in the world after Peru. Other German Desks in Nigeria and Indonesia are set to be opened in the course of the year.

The Desk looks to service over 80 German Companies in the region and is a critical ingredient in consolidating the growing business relationship between the Bank and DEG.

German Development Finance Agency (DEG) Management Board Member, Christiane Laibach (left) exchanging contractual documents with I&M Bank, Kenya CEO Kihara Maina as Ministry of Industry, Trade and Co-operatives CS Adan Mohammed looks on.

I&M NEWS (Continued)

I&M KENYA NEWS (Continued)

CASH DEPOSIT MACHINES UNVEILED

In order to improve operational efficiency in serving our customers, I&M Bank, Kenya last year rolled out Cash Deposit Machines, with the objective of improving service delivery standards. The Cash Deposit Machines accept Kenya Shillings in denominations of 200, 500 and 1000. The machines are placed in our Sarit Centre, Kenyatta Avenue, CrossRoad and Parklands branches.

IMPROVED FOREX RATES IN THE OFFING

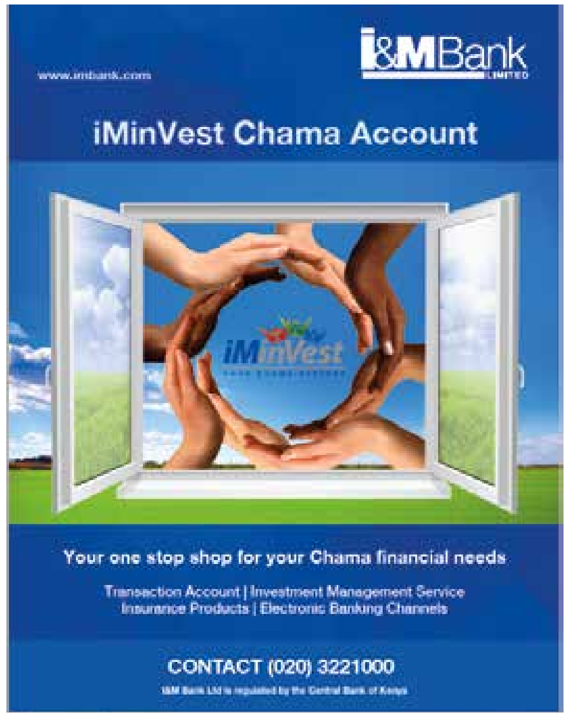
In a bid to grow I&M Bank Kenya's Non-Funded Income portfolio, the Bank in 2017 posted fine rates of exchange on the I&M Bank mobile app, as a way to incentivize retail and personal banking customers to transact foreign exchange via the mobile phone. This initiative positioned I&M Bank as having the best market rates across banks and forex bureaus in Kenya, with the service being availed via Mobile app. In addition, customers can also use the Bank's i-Click (Internet banking) portal to transact foreign exchange conversions.
The Bank through its Treasury arm continues to provide support to corporate and business banking customers, by offering foreign exchange value to importers and exporters through dedicated relationship management.

I&M BANK, KENYA LAUNCHES CONVENIENT PAYMENT OPTION FOR PRE-PAID & CREDIT CARDS

I&M Bank, Kenya, in 2017 introduced instant, easy and convenient bill payment for I&M Bank's wide range of credit cards namely: (Gold Visa, Gold Visa tamarind and Classic Visa cards, as well as reloading of I&M Prepaid cards (Multicurrency, Travel and Safari cards) through Mpesa. The Mpesa pay bill number for credit cards bill payment is 872649, while Pre-paid cards reloads is 872651.

IMINVEST ACCOUNT FOR CHAMAS LAUNCHED

I&M Bank, Kenya in 2017 launched a Chama Account dubbed iMinvest Account aimed at helping Chamas (Investment groups) diversify investments and create wealth for their members. The account offers Chamas (Investment groups) cost effective and efficient value added services that will help promote their vision for investments. In addition to the iMinvest Account the Bank will also offer a wide range of products and services to match the chamas' needs such as: Transaction Account, Account Control through Electronic Channels, Value added services such as Custody and Investment Management Services as well as Insurance products.



I&M NEWS (Continued)

I&M KENYA NEWS (Continued)

I&M BANCASSURANCE LAUNCHES CHILD EDUCATION POLICY

In 2017, I&M Bank, Kenya through I&M Bancassurance rolled out the Child Education Insurance Policy, which enables customers to build a fund over a period of time, enabling them to pay for their child's school fees requirements, when they are due or in the event of untimely death of the policyholder during the term of the policy.

Open to parents or guardians aged 18-65 years, the policy is very flexible and can vary from 5 to 20 years depending on the customer's financial plan. The premium payments can be made monthly, quarterly, semi-annually or annually, depending on the customer's preference. The policy also comes with a tax benefit relief of 15% of annual premium paid, the maturity benefit is payable as lump sum or in instalments, while the bonuses and benefits are payable based on the sum assured and policy period.

INSURANCE PREMIUM FINANCING FOR MEDICAL INSURANCE UNVEILED

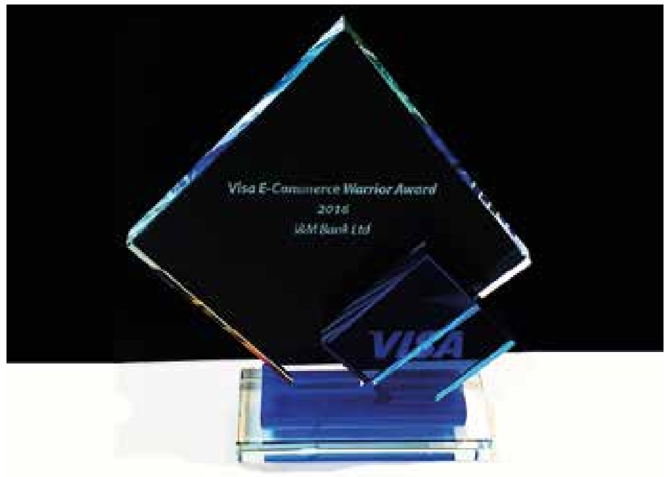
In line with the I&M Bank, Kenya's iMara Strategy initiative on providing our customers with a one stop shop for their banking needs, through innovation and product enhancements, we launched the Insurance Premium Financing (IPF) facilities for medical insurance. The product largely targets the Bank's corporate/institutional and premium segments of our clientele base. The scheme has been rolled out through partnership with a select panel of underwriters who are well established in Medical Insurance.

END TO END RTGS PROCESSING UNVEILED FOR IMPROVED OPERATIONAL EFFICIENCIES

iMara has provided a benchmark for digitizing our business to ensure that we take advantage of automated processes to improve our operational efficiencies. In this background, I&M Bank Kenya automated the RTGs process to allow for end to end processing of transaction requests. This has in turn enhanced the Bank's operational efficiencies and complemented our cost management efforts in line with iMara.

I&M BANK, KENYA FETED FOR EXCELLENCE

Last year, I&M Bank, Kenya was awarded at the 2017 Think Business Banking Awards. The Bank bagged the 2nd Runner Up position at the Most Efficient Bank in Kenya. Themed on *Digital Banking; The New Frontier,* the Awards sought to reward excellence on financial stability and growth, corporate governance best practices, products and systems innovation, education and sustainable social projects in the banking industry. In addition to this, VISA Kenya, recognized I&M Bank, Kenya as the winner in the Visa E-Commerce Acquiring Award category during the Visa Kenya Annual Awards, for achieving the highest volumes in E-Commerce in 2017. The I&M WebPay e-commerce provides I&M Bank customers an efficient way to accept payments from their customers who buy products or services through the internet using Visa or MasterCard payment cards.



I&M NEWS (Continued)

I&M KENYA NEWS (Continued)

I&M BANK, KENYA EXTENDS FOOTPRINT

The Bank continued to expand its footprint by adding to branches in its network. The Meru branch was opened at the beginning of 2017, while the Spring Valley branch in Nairobi was opened in mid-last year. The Bank also gained 4 additional branches following the successful completion of the Giro Bank acquisition covering Parklands,
Eldama Park - Westlands, Dunga Road - Industrial Area and Mombasa - Haile Selassie Avenue. The Bank now has a branch network of 42 branches.

I&M BANK, KENYA CUSTOMERS HOSTED AT MOMBASA & NAIROBI GOLF DAYS

I&M Bank Kenya held its third annual golf day for its customers in Nairobi at the Muthaiga Golf Club in November 2017. The event attracted over 200 customers in attendance. The Bank also held its inaugural golf day in Mombasa at the Nyali Golf Club in October. The Bank will continue to host regional golf days in major towns where we have presence in as this aligns with the Bank's pillar on building relationships.

OFFSHORE INVESTMENT OPPORTUNITIES AT BANK ONE EVENT FOR I&M BANK, KENYA CUSTOMERS

I&M Bank customers were hosted to a Cocktail event organized by the Group's Mauritius subsidiary - Bank One. The event gave the customers an opportunity to learn on various opportunities available for them on Offshore Investments at Bank One.

A section of customers at the Bank One cocktail

GIRO CUSTOMERS HOSTED AT WELCOME COCKTAIL

Following the successful completion of the Giro Commercial Bank Limited (GCBL) acquisition in February 2017, I&M Bank Kenya hosted former GCBL customers at a cocktail event aimed at enlightening them on the additional suite of products and services that they would enjoy at I&M Bank such as: Alternate Channels like all Visa, Kenswitch and I&M Bank ATMs, Mobile Banking, Internet Banking and PesaLink; and a wide range of I&M Bank's credit, debit and pre-paid Visa and MasterCard payment cards. Former GCBL Corporate customers also got to learn about the I&M's Cash Management Services, Trade Services as well as the Corporate Internet Banking suite. The customers also got to learn about the Bank's branch network, Board and Senior Management, Financial Performance and Social Impact Investments.

A section of Giro Commercial Bank Limited customers we hosted at the cocktail event

I&M NEWS

I&M TANZANIA NEWS

CORPORATE GOVERNANCE

Benchmarking on the Group's sustained efforts for Corporate Governance, I&M Bank (T) Limited, continued to strengthen its Board structure by appointing Mr. Bharat Ruparelia, a Board Member. Mr. Bharat Ruparelia brings on board vast wealth of experience and knowledge and will complement the Board's mandate to provide overall strategic direction and support to the Bank's operations. Mr. Ruparelia is an adept entrepreneur with interests in varied commercial and agricultural ventures in Tanzania. He holds Directorship in the Board of many companies.

I&M Bank (T) Ltd Board Chairman, Mr. Sarit S Raja Shah and Board Director, Mr. Michael N. Shirima cutting the ribbon to mark the official opening of Quality branch.

STRATEGIC HUMAN RESOURCES INITIATIVES

In an effort to develop a proper compensation system that is internally equitable and externally competitive, the Bank has contracted Deloitte Consulting Limited to carry out Job Evaluation and a Salary Survey project. The outcomes of this project will help I&M Bank (T) Limited to deliver on its vision of being a company where the best people want to work.

In addition to this, I&M Bank (T) Limited introduced a new Human Resource Management system known as PerPay which will ease human resources processes and related activities.

I&M Bank (T) Limited has also reorganized the Management Team with the objective of enhancing business efficiency. One key initiative was to introduce a Retail Banking division, to cater for Personal Banking clients. Ms. Lilian Ndabu Swere, appointed to lead this division has vast experience in Banking, and was previously Head of Consumer Banking at Ecobank.

RECURRING DEPOSIT SCHEME

In order to remain competitive in the market through provision of financial products and services suitable for the different segments, I&M Bank (T) Limited introduced a new account branded "Recurring Deposits (RD)". This account is designed for individuals and businesses looking to build on their savings on a regular basis while earning a higher return.

BRANCH RELOCATION

In August 2017, I&M Bank (T) Limited relocated its Quality Center Branch in Dar es Salaam to a more spacious and convenient location at the PSPF (Quality Plaza) along Nyerere Road in the city. The move was complemented by an introduction of new services such as the Safe Deposit Lockers and Bulk Cash Deposit Counters to provide more convenience to customers.

I&M RICHES CAMPAIGN

I&M Bank (T) Limited ran another sequel of the I&M Riches Promotions Campaign in 2017. This campaign was a deposit mobilisation campaign targeted at the retail segment. The 3 month campaign ran from September to November and 3 lucky winners got a cash prize of TZS 20M during the campaign on a monthly basis.

I&M Bank (T) Limited Hosts Golf Days

I&M Bank (T) Limited endeavoured to remain visible amongst its target market segments and in collaboration with GA Insurance, they hosted a two day Golf Tournament at the Gymkhana Grounds in Arusha dubbed as 'The Northern Province Open Golf Tournament 2017'. The tournament attracted a good number of participants from golf clubs across Tanzania.


When your business
needs quick solutions
We are on your side

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I hereby present I&M Bank's annual report for the year ended 31st December 2017.

The year was challenging for the Kenyan economy and the banking industry as a whole. In tandem with the famed Kenyan spirit of resilience and fortitude, I am proud to report that I&M Bank leveraged on it's ingenuity to withstand the many unprecedented challenges that affected the country and the banking industry.

ECONOMIC PERFORMANCE

The Kenyan economy continued to face headwinds in 2017 that dampened GDP growth, and is estimated to have grown between 4.5% and 4.9%. The economy experienced a myriad of challenges emanating from both internal and external operating environments.

Externally, global events such as Brexit, US-North Korea geo-political tensions, terror attacks in various countries, and the German elections were among factors that had great influence in European and American economies, which also impacted the Kenyan economy.

Locally, the economy was vulnerable to uncertainties stemming from political disruptions, rising inflation levels, and prolonged drought, among other factors. An emerging concern is on the economic vulnerability arising from a large fiscal deficit, unmet revenue targets and an increasing debt burden. The accumulated and ballooning bills owed to contractors by county governments are further stifling businesses that have primed their operations to support devolution.

2017 marked the first full year of implementation of the interest rate capping law, which also had a significant impact on the Bank's and the overall industry's performance. Despite these challenges, the Bank had already set aside measures aimed at cushioning the impact, with the intention of maintaining a healthy growth trajectory in our business performance viz a viz our peers.

iMARA STRATEGY

Internally, we made great strides in how we operate to better meet stakeholder's expectations. The iMara strategy was launched in late 2016 and underpins the Bank's aspiration - **"To become a banking powerhouse in East Africa for medium to large businesses and premium clients."** With the full authority of the Board, the phased strategy implementation has been carried out with vigour and commitment and at this point I would like to thank our management team led by the CEO, Mr Kihara Maina, who have been able to steward this vision over the last year.

The iMara strategy gained good traction in its first full year of implementation last year. We are now settled and well aligned with the different strategic elements presented by iMara namely:

- Growing Corporate Banking through transaction banking, enhanced customer engagement and a new coverage model;
- Delivering a distinctive value proposition to Premium, Personal (middle income & 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 analytics to make better informed decisions.

The iMara strategy has brought about more focus on customers' needs across the various business segments, leading to dedicated and clear value propositions. These propositions are dynamic and interactive rather than being prescriptive with a view of meeting and exceeding customer expectations.
At the heart of the strategy, is enduring customer centricity, dynamism, innovation and creativity, which form the core elements of our organizational culture.

CHAIRMAN'S STATEMENT (Continued)

FINANCIAL PERFORMANCE

During the year, our deposits increased by 14% to KShs 147.6bn while our loans and advances portfolio grew by 12% to KShs 135.1bn. Our investment in government securities also grew by 11% to KShs 46bn.

Our profitability closed at Kshs 7.9bn, a 12% drop to prior year attributed to full year impact of interest capping and a significant rise in provisions for bad and doubtful debts. The Bank's Non-Funded Income stood at Kshs 4.5bn [13% increase compared to 2016]. We faced the challenge of containing the rising Non-Performing Loans experienced over the year given the tough economic and operating environment. Non-Performing Assets closed at Kshs 18.9bn which represents a net NPL ratio of 6.35%.

RECOGNITION

Last year, the Bank added more feathers to its cap by being recognized as the 2nd Runner Up in the Most Efficient Bank in Kenya category by Think Business Banking Awards 2017. The Awards themed on Digital Banking; The New Frontier aimed at celebrating excellence in the banking sector.

I&M Bank takes prides in the innovative I&M WebPay e-commerce service that provides I&M Bank customers an efficient way to accept payments from their customers who buy products or services, through the internet using their Visa or MasterCard payment cards. The Bank was also recognized as the winner in the Visa E-Commerce Acquiring Award for achieving the highest volumes in E-Commerce in 2017.

We see these awards as a reflection of our responsiveness to our discerning customers who drive us to improve through useful feedback. We therefore dedicate these awards to our customers who push us to perfection.

BRANCH NETWORK EXPANSION

In 2017, we undertook the successful completion of the **Giro Commercial Bank Limited (GCBL) acquisition.** Through the merger, I&M Group acquired the assets and GCBL's branch network of 5 branches, supplementing I&M Bank Limited's existing network of 37 branches.

The Bank also extended its **footprint to 42 fully fledged branches** with the formal opening of **Meru and Spring Valley branches.** In line with iMara, this is part of a strategic effort to enhance our delivery capacity and customer experience by bringing services and products closer to our customers.

PRODUCTS

Benchmarking on the iMara strategy, I&M Bank continued to expand its product portfolio with an objective of providing a one stop shop for all financial requirements, and a more efficient way to help our customers better engage with our products and services.

PARTNERSHIPS

European Investment Bank Funding Line

In 2017 I&M Bank, Kenya commenced discussions with the European Investment Bank for an unsecured credit facility totaling US Dollar 40 Million. The funding line will be further be used for on lending to our Corporate, Institutional – both private and public and Business banking and SME customers. Under this credit line, I&M Bank Ltd will advance loans in US Dollars to eligible borrowers up to a maximum of 50% (fifty per cent) of the total cost of each of the projects, which comply with the EIB eligibility criteria undertaken by qualifying private enterprises and public sector entities in Kenya. The financing facility from EIB will complement I&M Bank's strategic initiatives for its Corporate, Institutional and Business Banking segments.

CHAIRMAN'S STATEMENT (Continued)

The European Investment Bank works in partnership with leading banks around the world to support business investment which in turn enables thousands of companies to expand, explore new business opportunities and create jobs.

We welcome the new cooperation between EIB and I&M Bank that will boost business investment across Kenya and look forward to being a partner of growth for all our key stakeholders, which will accelerate their business growth and support their expansion efforts. The EU has firm commitment to support the private sector, and this partnership shall help the Kenyan government support the BIG FOUR plan for economic prosperity.

Partnership with responAbility and Microfinance Enhancement Facility SA, SICAV-SIF

This year, the Bank has also entered into a financing facility with responsAbility who manage funds for Microfinance Enhancement Facility SA, SICAV-SIF (MEF), where MEF has advanced a 3 year short term loan amount of US$7,400,000 to the Bank for purposes of augmenting the bank's US dollar funding sources for the foreign currency loan portfolio in the balance sheet.

FUTURE OUTLOOK

The Kenyan economy is expected to rebound in 2018, driven by more investment in various economic sectors, by both local and foreign investors. We plan on exceeding our organic growth by ensuring that we tap into the opportunities that present themselves in the coming year, by fulfilling the objectives set out in the iMara strategy. We also continue to build our shareholders' value by enhancing the Bank's revenue, improving business efficiency, and continually managing all our costs in line with iMara.

The Bank endeavours to build a stronger brand presence in the region within our target segments comprising of the premium, personal (middle income and young professionals) and business customers.

iMara has provided a clear benchmark for the bank's product expansion plans. We intend to roll out various products and offer distinctive value propositions, through unique product bundles that complement financial and lifestyle requirements of each of our business segments.

We expect to continue with the roll out of the upgraded Finacle 10 core banking system which is expected to give our customers improved user experience, as they continue to interact with our various products and services. We will continue to enhance the Bank's Alternate Delivery Channels to help you interact with our products and services at your own convenience.

The Bank will also continue to retain and employ high quality staff members, who are talented and dedicated to achieving the set vision. In 2017, we realigned the organizational structure to better serve all our stakeholders and we believe that this led to positive gains over the year. We have now been able to embed customer centrism, dynamism and innovation in what we do, and look to continue in the same spirit.

I&M FOUNDATION

We are completing the set-up of the I&M Foundation whose objective will be to push the Bank's shared growth agenda which will be fully defined as part of the set-up of the Foundation. The Foundation is envisioned to help us remain impactful in the different communities that we continue to engage in through a more structured and transparent approach.

CHAIRMAN'S STATEMENT (Continued)

ACKNOWLEDGMENT

An entity's growth depends on the goodwill, co-operation, shared vision and sense of purpose of its people. I would like to salute various stakeholders who carried these values last year and greatly impacted the Bank's success in 2017:

1. Our staff and the management team for their continued diligence, effective contribution, commitment, passion and team work, as they execute their different roles. I assure you that I am confident that your efforts are not in vain.

2. To my fellow Directors for their guidance and stewardship in providing strategic direction for this organization.

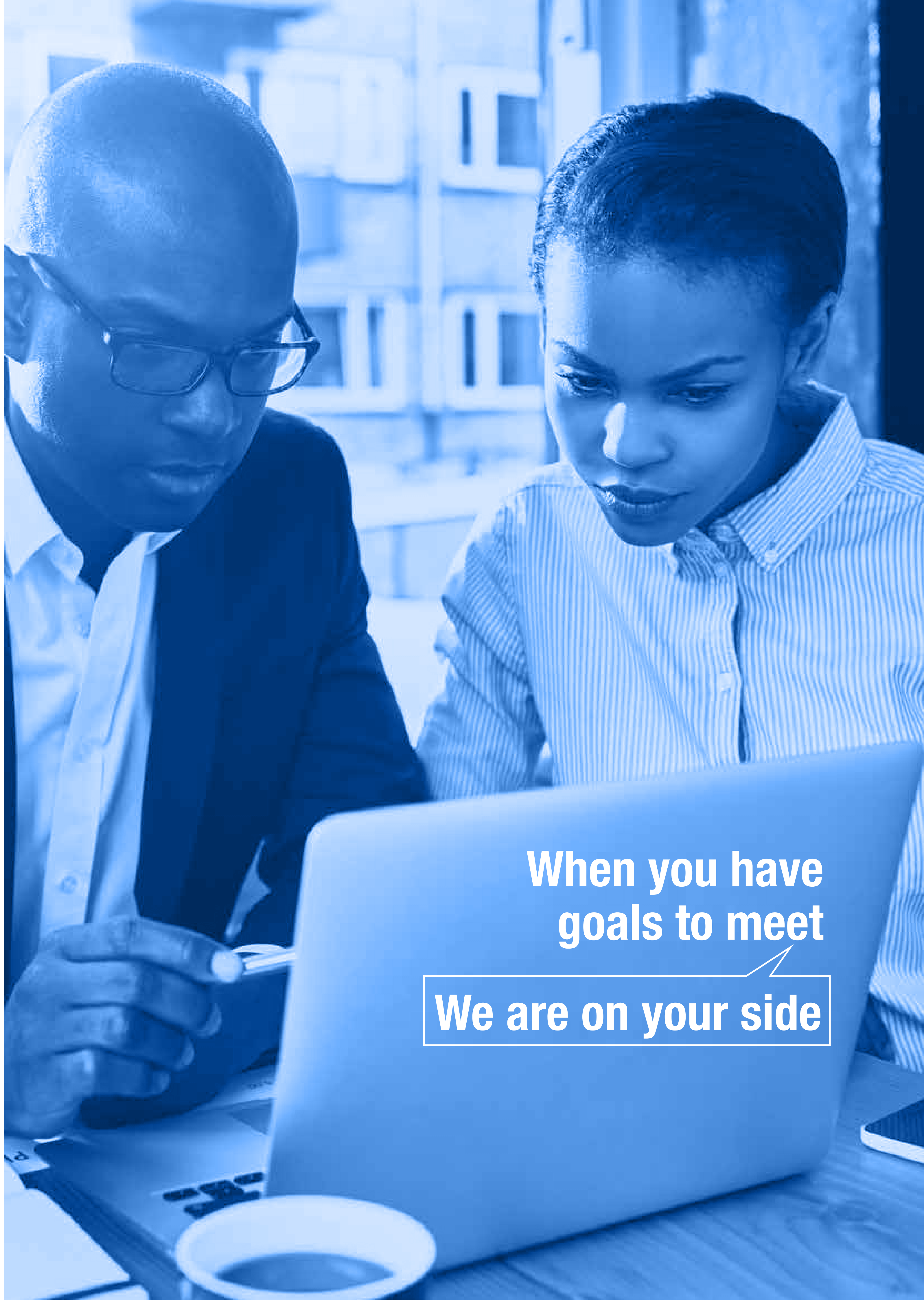
3. To our regulators, namely: Central Bank of Kenya, Capital Markets Authority (CMA), the Competition Authority of Kenya and others, whose invaluable input has helped us make great strides and achieve major milestones at the Bank.

4. To our customers and shareholders for their continued belief in our financial solutions and our policies. We appreciate your loyalty and remain committed to keeping your best interests at heart, as we innovate and continue to execute for you. We value your feedback and shall purpose towards strengthening the relationships we have built with you, as we aspire to be the number one banking powerhouse in East Africa for all our business segments.

With best wishes,

Suresh Shah

SBR SHAH



REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2017

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2017, 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. Acquisitions / Restructure

(a) Giro Commercial Bank Limited

(i) Acquisition

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 KSh 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 transferred into that of I&M Bank LIMITED. The results of GCBL are consolidated in these financials.

(ii) Restructuring

On 12 August 2016, the Board of Directors approved that the consideration for asset purchase by I&M for transfer of banking assets and liabilities from Giro Limited would be by way of issuance of new 997,547 shares at a price of Kshs 1,876/- per share of a par value of Kshs 100/- per share in I&M Bank Limited.

Consequently, consideration has been affected in the current financials statement with the capital amount of Kshs 1.87 billion being included as part of shareholders equity, pending allotment.

Post issuance of these new shares, there will however be no change in the ultimate beneficial ownership of I&M Bank LIMITED since Giro Limited is a wholly owned subsidiary of I&M Holdings. Giro Limited will own 3.35% of the shares in I&M Bank and the balance of 96.65% shares will continue to be owned by I&M Holdings.

(b) Youjays Insurance Brokers Limited

On 25 October 2017, the group signed an agreement with the shareholders of Youjays Insurance Brokers Limited [YIB] to acquire 100% in YIB Limited. On completion, the group shall merge its operations of YIB with I&M Insurance Agency Limited, the group's Bancassurance business arm.

Completion of this transaction, is subject to receipt of approvals from regulatory authorities. The results of YIB have therefore not been consolidated in these financials.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

3. Results / Business review

The consolidated results for the year are as follows:

	2017 KShs'000	2016 KShs'000
Profit before income tax	7,871,653	9,025,473
Income tax expense	(2,145,835)	(2,444,192)
Net profit for the year after tax	**5,725,818**	**6,581,281**

Net profit closed at KShs 5.7 billion, a 13% drop to prior year attributed to full year impact of interest capping in our flag ship entity – I&M Bank LIMITED and a 41% rise in provisions for bad and doubtful debts. The Directors and employees are committed to achieving the laid down strategies and delivering key value to shareholders.

The principal risks and uncertainties facing the Group and Company as well as the risk management framework are outlined in Note 4 of the consolidated and separate financial statements.

4. Dividend

The directors recommend payment of a final dividend of KShs 38.50 per share amounting to KShs 1,108,894,441 for the year ended 31 December 2017. On the 31 March 2017, a final dividend of KShs 50.25 per share amounting to KShs 1,447,323,263 was paid with respect to the year ended 31 December 2016.

5. Directors

The directors of the Company who served during the year and up to the date of this report are set out on page 7. The Company provides professional indemnity for all the Directors.

6. Relevant Audit Information

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

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

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

7. Auditors

To note that Messrs KPMG Kenya continue in office as Auditors by virtue of section 719 of the Companies Act, 2015 and subject to section 24(1) of the Banking Act (Cap. 488).

8. Approval of financial statements

The financial statements were approved at a meeting of the directors held on 22 March 2018.

BY ORDER OF THE BOARD

Secretary
Date: 22 March 2018

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. Set up of the holding company structure is expected to aid in enhancing the levels of accountability and governance within the Group as it continues to grow and expand in other countries within the pan-African region.

Risk Management Framework

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

The Risk Management Framework at the Bank ensures that risks are identified and effectively managed on an on-going basis.

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

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

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

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

STATEMENT ON CORPORATE GOVERNANCE (Continued)

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.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Board of Directors (Continued)

Governance Principles

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

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

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

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

Board Committees:

Board Audit Committee (BAC)

The BAC consisting of three Directors is chaired by an independent non-executive Director. 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.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Board Committees (Continued)

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.

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.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Management Committees (Continued)

IT Steering Committee (ITSC)

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

Corporate Social Responsibility (CSR)

I&M Bank is very conscious of its responsibility towards the Community and those around it. It is in this endeavour that the Bank has put in place guidelines that support the discharge of its Corporate Social Responsibility mandate, which is well integrated within the Bank. The Bank has continued to deepen its relationship with various stakeholders while providing opportunities to its employees to participate in various CSR activities.
I&M Bank's CSR activities are aimed at making sustainable difference under four key social pillars:

- Education
- Health
- Environment
- Community Support.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Board Committees

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

	Board Audit Committee	Board Risk Management Committee	Board Credit Committee	Board Procurement Committee	Board Share Transfers Committee	Board Nomination & Remuneration Committee
Chairman	Independent Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director	Non-Executive Director	Independent Non-Executive Director
Members (Including Chairman)	• 3 Non-Executive Independent Directors; • Head of Internal Audit (Secretary) • Group Head of Internal Audit (Alternate Secretary) **Invitees:** • Executive Director • CEO • A member of Senior Management at the discretion of the ED &/or CEO	• 3 Independent Non-Executive Directors • 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 • Manager Procurement (Secretary) • Manager Finance (Alternate Secretary) **Invitees:** A member of Senior Management at the discretion of the ED &/ or CEO	• 2 Non-Executive Directors • 1 Executive Director • CEO • Company Secretary (Secretary) **Invitees:** A member of Senior Management at the discretion of the ED &/ or CEO	• 2 Independent Non-Executive Directors • 1 Executive Director • CEO • 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 & 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 • Business Support • General Manager • ICT • Risk • Strategy & Transformation office • Finance • HR • Manager CEOs Office (Secretary)	ED, CEO, • Division Head, • Business Development • Business Support • All General Managers • Manager – CEO's Office (Secretary) **Invitees:** • General Manager – Internal Audit	ED, CEO, • Division Head, Business Development • General Manager • Finance • Treasury • 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 • Business Support • General Manager HR • Manager HR (Secretary)	CEO, • Division Head, • Business Development • Business Support • General Manager • ICT • Operations • Projects • ABC • Assistant General Manager ICT(Secretary)
Frequency of meetings	Quarterly	Monthly	Monthly	Fortnightly	Once every 2 months	Quarterly
Main functions	• Guide and oversee development of the five year corporate strategy; • Guide/oversee annual review of agreed strategy, making recommendations to	• The Executive Committee is to drive and oversee effective and efficient business performance, in line with the agreed Corporate Objectives and Budget	• Treasury Market Risk and Middle Office Management • Asset and Liability Management • Interest Rate Risk Management	• Implement Credit Policy and Credit Risk Management Policy • Reviews Credit Proposals in line with Policy and CBK Guidelines	• Review HR Strategy and ensure implementation to comply with all HR related standards, laws and regulations • Periodically review the effectiveness and	• Draw up the ICT Strategic Plan • Monitor ICT related investments • Monitor ICT enabled / dependent initiatives

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
	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 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 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.	• Review NPAs • Consider and approve new asset-based products • Control and follow-up on credit-related matters • Regularly report to Board Credit Committee.	• 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.	• 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	21 March 2017	15 June 2017	15 September 2017	04 December 2017	Total Board meetings attended in 2017
SBR Shah (Chairman)	√	√	√	√	100%
Eric M Kimani	√	X	X	√	50%
Sarit S Raja Shah	√	√	√	√	100%
Sachit S Raja Shah	√	√	√	√	100%
Paul C M Kibati	√	X	√	√	75%
M Soundararajan	√	√	√	X	75%
A N Koigi	√	√	√	√	100%
C K Maina	√	√	√	√	100%

√ Attended
X Not Attended

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements of I&M Bank LIMITED set out on pages 38 to 138 which comprise the consolidated and company statements of financial position as at 31 December 2017, consolidated and company statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the financial statements give a true and fair view of the 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 financial position of the group and the company as at the end of the financial year and of the profit or loss of the group and the company for that year. It also requires the Directors to ensure the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the group and the company.

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

The Directors have made an assessment of the company 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 and authorised for issue by the Board of Directors on **22 March 2018.**

SBR Shah, MBS **Director**	**Sarit S Raja Shah** **Director**	**AN Koigi** **Director**

KPMG

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

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of I&M Bank LIMITED set out on pages 38 to 138 which comprise the consolidated and separate statements of financial position as at 31 December 2017, the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate 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 consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of I&M Bank LIMITED as at 31 December 2017 and the consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in 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 *Auditors' responsibilities for the audit of the consolidated and separate financial statements section* of our report. We are independent of the Group and Company in accordance with the International 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 consolidated and separate financial statements in Kenya and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Directors are responsible for the other information. The other information obtained at the date of this auditors' report is the *Corporate information, Report of the directors, Statement on corporate governance and Statement of directors' Responsibilities* but does not include the consolidated and separate financial statements and our auditors' report thereon.

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

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

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

KPMG

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

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

Directors' responsibilities for the consolidated and separate financial statements

As stated on page 34, the directors are responsible for the preparation of the consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, directors are responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or 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.

Auditors' responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated and separate financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and 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 auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or Company to cease to continue as a going concern.

KPMG

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate 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 and regulatory requirements

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

i. in our opinion, the information in the report of the directors on pages 22 and 23 is consistent with the financial statements; and
ii. we have issued an unqualified audit opinion on the consolidated and separate annual financial statements.

The Engagement Partner responsible for the audit resulting in this independent auditors' report is CPA Jacob Gathecha – P/1610.

KPMG Kenya

Date: 22 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 KShs '000	2016 KShs '000
Interest income	7(a)	21,554,526	21,775,364
Interest expense	8(a)	(8,011,287)	(8,211,082)
Net interest income		**13,543,239**	**13,564,282**
Fee and commission income	9(a)	2,739,176	2,273,189
Fee and commission expense	9(a)	(157,619)	(132,264)
Net fee and commission income	9(a)	**2,581,557**	**2,140,925**
Revenue		**16,124,796**	**15,705,207**
Other operating income	10(a)	1,764,500	1,643,654
Dividend income	10(a)	-	95,000
		1,764,500	**1,738,654**
Total operating income		**17,889,296**	**17,443,861**
Staff costs	11(a)	(2,861,931)	(2,680,322)
Premises and equipment costs	11(a)	(685,512)	(570,467)
General expenses	11(a)	(2,025,134)	(1,922,648)
Depreciation and amortisation	11(a)	(386,184)	(360,870)
Operating expenses		**(5,958,761)**	**(5,534,307)**
Operating profit before impairment, losses and tax		**11,930,535**	**11,909,554**
Net impairment losses on loans and advances	19(c)(i)	(4,058,882)	(2,884,081)
Profit before income tax	12	**7,871,653**	**9,025,473**
Income tax expense	13(a)(i)	(2,145,835)	(2,444,192)
Net profit for the year after tax		**5,725,818**	**6,581,281**

The notes set out on page 49 to 138 form an integral part of these financial statements.

(Continued Page 39)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

	Note	2017 KShs '000	2016 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		296,499	213,485
Deferred tax on fair value of available-for-sale financial assets	24(a)(i)	(88,998)	(64,046)
Foreign currency translation differences		(175,599)	27,280
Items that will not be reclassified to Profit or loss:			
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		**31,902**	**252,083**
Total comprehensive income for the year		**5,757,720**	**6,833,364**
Profit attributable to:			
Equity holders of the company		5,658,265	6,504,810
Non-controlling interest		67,553	76,471
		5,725,818	**6,581,281**
Comprehensive income attributable to:			
Equity holders of the company		5,687,178	6,727,690
Non-controlling interest		70,542	105,674
		5,757,720	**6,833,364**
Basic and diluted earnings per share - (KShs)	**14**	**196.45**	**225.86**

The notes set out on pages 49 to 138 form an integral part of these financial statements.

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 KShs '000	2016 KShs '000
Interest income	7(b)	19,602,751	20,000,251
Interest expense	8(b)	(7,175,806)	(7,455,478)
Net interest income		**12,426,945**	**12,544,773**
Fee and commission income	9(b)	2,431,864	2,004,333
Fee and commission expense	9(b)	(140,664)	(115,980)
Net fee and commission income	9(b)	**2,291,200**	**1,888,353**
Revenue		**14,718,145**	**14,433,126**
Other operating income	10(b)(i)	1,677,056	1,572,686
Dividend income	10(b)(ii)	32,359	137,822
		1,709,415	**1,710,508**
Total operating income		**16,427,560**	**16,143,634**
Staff costs	11(b)	(2,435,688)	(2,295,855)
Premises and equipment costs	11(b)	(607,775)	(488,741)
General expenses	11(b)	(1,699,906)	(1,632,738)
Depreciation and amortisation	11(b)	(314,698)	(296,563)
Operating expenses		**(5,058,067)**	**(4,713,897)**
Operating profit before impairment losses and tax		**11,369,493**	**11,429,737**
Net impairment charge on loans and advances	19(c)(ii)	(3,853,113)	(2,778,703)
Profit before income tax	12	**7,516,380**	**8,651,034**
Income tax expense	13(a)(ii)	(2,028,889)	(2,308,445)
Net profit for the year after tax		**5,487,491**	**6,342,589**
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		282,116	213,485
Deferred tax on fair value of available-for-sale financials assets	24(a)(ii)	(84,635)	(64,046)
Total other comprehensive income for the year		**197,481**	**149,439**
Total comprehensive income for the year		**5,684,972**	**6,492,028**
Basic and diluted earnings per share - (KShs)	**14**	**190.52**	**220.21**

The notes set out on pages 49 to 138 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2017

	Note	2017 KShs '000	2016 KShs '000
ASSETS			
Cash and balances with central banks	16(a)	8,730,570	8,654,225
Items in the course of collection	17(a)	378,462	449,306
Loans and advances to banks	18(a)	2,612,377	3,253,269
Loans and advances to customers	19(a)(i)	135,098,394	120,696,861
Investment securities	20(a)	49,537,528	45,054,178
Property and equipment	22(a)	856,764	891,796
Intangible assets - goodwill	23(a)(i)	507,009	619,700
Intangible assets - software	23(b)(i)	281,725	215,896
Tax recoverable	13(b)(i)	548,383	2,015
Deferred tax asset	24(a)(i)	1,504,199	781,962
Due from group companies	25(a)(ii)	854,052	26,121
Other assets	26(a)	1,735,550	1,512,153
TOTAL ASSETS		**202,645,013**	**182,157,482**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	27(a)	2,118,079	4,439,933
Items in the course of collection	17(a)	-	7,517
Deposits from customers	28(a)	147,582,171	129,636,067
Due to group companies	25(b)(i)	2,032,125	1,124,710
Tax payable	13(b)(i)	5,635	11,112
Other liabilities	29(a)	3,211,141	2,338,364
Long term borrowings	30(a)	7,314,699	8,006,089
Subordinated debt	31(a)	4,512,315	4,507,178
		166,776,165	**150,070,970**
Shareholders' equity			
Share capital	32(a)	2,880,245	2,880,245
Share premium	32(b)	3,759,624	3,773,237
Shares for allocation		1,871,398	-
Retained earnings		25,429,367	23,088,383
Proposed dividend		-	1,447,323
Statutory credit risk reserve	32(d)	1,619,262	698,894
Available -for- sale reserve	32(f)	(151,215)	(355,748)
Translation reserve	32(e)	(314,716)	(159,573)
Equity attributable to owners of the company		**35,093,965**	**31,372,761**
Non- controlling interest		774,883	713,751
Total shareholders' equity		**35,868,848**	**32,086,512**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**202,645,013**	**182,157,482**

The financial statements set out on pages 38 to 138 were approved and authorised for issue by the Board of Directors on **22 March 2018** and were signed on its behalf by:

SBR Shah, MBS **Director**	**Sarit S Raja Shah** **Director**	**AN Koigi** **Director**	**NP Kothari** **Secretary**

The notes set out on pages 49 to 138 form an integral part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2017

	Note	2017 KShs '000	2016 KShs '000
ASSETS			
Cash and balances with Central Bank of Kenya	16(b)	7,037,263	6,659,995
Items in the course of collection	17(b)	374,006	449,306
Loans and advances to banks	18(b)	2,544,525	2,729,611
Loans and advances to customers	19(a)(ii)	120,656,819	106,585,737
Investment securities	20(b)	45,749,927	42,271,708
Investment in subsidiaries	21	2,324,125	2,324,125
Property and equipment	22(b)	627,695	655,069
Intangible assets - goodwill	23(a)(ii)	10,747	10,747
Intangible assets - software	23(b)(ii)	239,811	161,706
Tax recoverable	13(b)(ii)	545,305	2,015
Deferred tax asset	24(a)(i)	1,338,451	677,926
Due from group companies	25(a)(ii)	876,329	158,568
Other assets	26(b)	1,627,514	1,429,609
TOTAL ASSETS		**183,952,517**	**164,116,122**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	27(b)	1,446,278	3,262,621
Deposits from customers	28(b)	132,800,892	116,169,431
Due to group companies	25(b)(ii)	2,085,237	1,199,065
Other liabilities	29(b)	2,950,705	2,185,505
Long term borrowings	30(b)	5,965,228	6,315,291
Subordinated debt	31(b)	3,680,666	3,679,380
		148,929,006	**132,811,293**
Shareholders' equity			
Share capital	32(a)	2,880,245	2,880,245
Share premium	32(b)	3,759,624	3,773,237
Shares for allocation		1,871,398	-
Retained earnings		25,113,725	22,929,382
Proposed dividend		-	1,447,323
Statutory credit risk reserve	32(d)	1,556,786	630,390
Available -for- sale reserve	32(f)	(158,267)	(355,748)
		35,023,511	**31,304,829**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**183,952,517**	**164,116,122**

The financial statements set out on pages 38 to 138 were approved and authorised for issue by the Board of Directors on **22 March 2018** and were signed on its behalf by:

SBR Shah, MBS **Director**	**Sarit S Raja Shah** **Director**	**AN Koigi** **Director**	**NP Kothari** **Secretary**

The notes set out on pages 49 to 138 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 KShs'000	2016 KShs'000
Net cash flows generated from operating activities	33(a)	**5,617,141**	**1,740,217**
Cash flows from investing activities			
Purchase of property and equipment	22(a)	(218,308)	(176,112)
Purchase of intangible assets	23(b)	(196,983)	(81,739)
Transfer of net assets from Giro Limited	33(e)	1,195,612	-
Purchase of equity shares		-	(819,907)
Proceeds from disposal of property and equipment		2,644	4,375
Disposal of I&M Realty Limited	21	-	(35,891)
Dividends received from I&M Realty Limited		-	95,000
Net cash generated from/(used in) investing activities		**782,965**	**(1,014,274)**
Cash flows from financing activities			
Restructuring costs - Giro Limited		(13,613)	-
Dividend paid to shareholders of the company		(3,947,008)	(1,373,877)
Rights issue-I&M Bank (T) Limited		-	132,578
Dividend paid to non-controlling interest		(9,410)	(20,727)
Net cash flow used in financing activities		**(3,970,031)**	**(1,262,026)**
Net increase /(decrease) in cash and cash equivalents	33(b)	**2,430,075**	**(536,083)**
Cash and cash equivalents at start of the year	33(b)	**3,497,362**	**4,033,445**
Cash and cash equivalents at end of the year	33(b)	**5,927,437**	**3,497,362**

The notes set out on pages 49 to 138 form an integral part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 KShs'000	2016 KShs'000
Net cash flows generated from operating activities	33(c)	**3,149,721**	**3,472,322**
Cash flows from investing activities			
Purchase of property and equipment	22(b)	(176,548)	(158,171)
Purchase of intangible assets	23(b)	(180,769)	(72,766)
Proceeds from disposal of property and equipment		2,621	3,583
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)
Transfer of net assets from Giro Limited	33(e)	1,195,612	-
Dividends received	10(b)(ii))	32,359	137,822
Net cash generated/used in investing activities		**873,275**	**(1,285,528)**
Cash flows from financing activities			
Capital restructuring costs		(13,613)	-
Dividend paid		(3,947,324)	(1,373,877)
Net cash outflow from financing activities		**(3,960,937)**	**(1,373,877)**
Net increase in cash and cash equivalents	**33(d)**	**62,059**	**812,917**
Cash and cash equivalents at start of the year	**33(d)**	**3,642,375**	**2,829,458**
Cash and cash equivalents at end of the year	**33(d)**	**3,704,434**	**3,642,375**

The notes set out on pages 49 to 138 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital KShs'000	Share premium KShs'000	Shares for allocation 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 2017	**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**
Profit for the year	-	-	-	5,658,265	-	-	-	-	-	5,658,265	67,553	5,725,818
Other comprehensive income	-	-	-	(817,596)	-	797,119	-	204,533	(155,143)	28,913	2,989	31,902
Total comprehensive income	**-**	**-**	**-**	**4,840,669**	**-**	**797,119**	**-**	**204,533**	**(155,143)**	**5,687,178**	**70,542**	**5,757,720**
Transaction with owners recorded directly in equity												
Other transactions*	-	(13,613)	1,871,398	-	-	123,249	-	-	-	1,981,034	-	1,981,034
Dividends paid-2016	-	-	-	1,447,323	(1,447,323)	-	-	-	-	-	-	-
Interim dividend-2017	-	-	-	(3,947,008)	-	-	-	-	-	(3,947,008)	(9,410)	(3,956,418)
Transactions with owners for the year	**-**	**(13,613)**	**1,871,398**	**(2,499,685)**	**(1,447,323)**	**123,249**	**-**	**-**	**-**	**(1,965,974)**	**(9,410)**	**(1,975,384)**
At December 2017	**2,880,245**	**3,759,624**	**1,871,398**	**25,429,367**	**-**	**1,619,262**	**-**	**(151,215)**	**(314,716)**	**35,093,965**	**774,883**	**35,868,848**

*Includes issue of ordinary shares on acquisition of Giro Limited (formerly Giro Commercial Bank Limited)

The notes set out on pages 49 to 138 form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

	Share capital KShs`000	Share premium KShs`000	Shares for allocation 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**
Transaction with owners recorded directly in equity												
Other transactions	-	-	-	(518,828)	-	-	-	-	-	(518,828)	(168,501)	(687,329)
Dividends paid-2015 Final	-	-	-	(1,373,877)	-	-	-	-	-	(1,373,877)	(20,727)	(1,394,604)
Proposed dividend 2016	-	-	-	(1,447,323)	1,447,323	-	-	-	-	-	-	-
Transactions with owners for the year	**-**	**-**	**-**	**(3,340,028)**	**1,447,323**	**-**	**-**	**-**	**-**	**(1,892,705)**	**(189,228)**	**(2,081,933)**
At 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 49 to 138 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital KShs`000	Share premium KShs`000	Shares for allocation 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 2017	**2,880,245**	**3,773,237**	**-**	**22,929,382**	**1,447,323**	**630,390**	**(355,748)**	**31,304,829**
Profit for the year	-	-	-	5,487,491	-	-	-	5,487,491
Other comprehensive income	-	-	-	(803,147)	-	803,147	197,481	197,481
Total comprehensive income	**-**	**-**	**-**	**4,684,344**	**-**	**803,147**	**197,481**	**5,684,972**
Transaction with owners recorded directly in equity								
Other transactions*	-	(13,613)	1,871,398	-	-	123,249	-	1,981,034
Dividends paid-2016	-	-	-	1,447,323	(1,447,323)	-	-	-
Interim dividend-2017	-	-	-	(3,947,324)	-	-	-	(3,947,324)
Transactions with owners for the year	**-**	**(13,613)**	**1,871,398**	**(2,500,001)**	**(1,447,323)**	**123,249**	**-**	**(1,966,290)**
At December 2017	**2,880,245**	**3,759,624**	**1,871,398**	**25,113,725**	**-**	**1,556,786**	**(158,267)**	**35,023,511**

*Includes issue of ordinary shares on acquisition of Giro Limited (formerly Giro Commercial Bank Limited)

The notes set out on pages 49 to 138 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

	Share capital KShs`000	Share premium KShs`000	Shares for allocation 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**
Transaction with owners recorded directly in equity								
Dividends paid-2015 Final	-	-	-	(1,373,877)	-	-	-	(1,373,877)
Proposed dividend-2016	-	-	-	(1,447,323)	1,447,323	-	-	-
Transactions with owners for the year	**-**	**-**	**-**	**(2,821,200)**	**1,447,323**	**-**	**-**	**(1,373,877)**
At 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 n pages 49 to 138 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017 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
PO Box 30238
00100 Nairobi GPO

The Bank has 70.38% (2016 - 70.38%) shareholding in I&M Bank (T) Limited and 100% in I&M Insurance Agency Limited. In the year 2016, 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 is represented 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.

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

Details of significant accounting policies are contained in note 3.

(b) Basis of measurement

These consolidated financial statements have been prepared under the historical cost basis of accounting except for the available-for-sale financial assets.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

In preparing these consolidated and separate 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

2. BASIS OF PREPARATION (Continued)

(d) Use of estimates and judgments (Continued)

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.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

(i) Non-controlling interests

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

(ii) Subsidiaries

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee 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 non-controlling interest (NCI) and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Transactions eliminated on consolidation

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

(b) Foreign currencies

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Foreign currencies (Continued)

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

(c) Foreign operations

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

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

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

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

(d) Income recognition

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

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

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

(i) Net interest income

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

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income recognition (Continued)

(i) Net interest income (Continued)

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.

(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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Income tax expense (Continued)

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

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

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

(f) Financial assets and financial liabilities

(i) Recognition

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

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

(ii) Classification

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

Financial assets at fair value through profit or loss

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and liabilities (Continued)

(ii) Classification (Continued)

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and liabilities (Continued)

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

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. Significant assets found not to be specifically impaired are then collectively assessed for any impairment that may have been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

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

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

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

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

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

(iv) De-recognition

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and liabilities (Continued)

(iv) De-recognition (Continued)

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.

(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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fair value measurement (Continued)

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

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

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

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

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

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

(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, treasury bills with original maturities of less than three months and net balances from banking institutions.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 2017 (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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Employee benefits

(i) Defined contribution plan

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

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

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

(ii) Leave accrual

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

(o) Share capital and share issue costs

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

(p) Earnings per share

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

(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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Provisions

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

(t) Fiduciary activities

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

(u) Comparative information

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

(v) New standards, amendments and interpretations

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

The Company has adopted the following new standards and amendments during the year ended 31 December 2017, including consequential amendments to other standards with the date of initial application by the Group being 1 January 2017. The nature and effects of the changes are as explained here in.

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

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Disclosure Initiative (Amendments to IAS 7) (Continued)

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 apply for annual periods beginning on or after 1 January 2017 and early application is permitted.

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

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

Annual improvements cycle (2014-2016)

Standard	Amendments
IFRS 12 Employee Benefits	**Disclosure of Interests in Other Entities** Clarifies that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

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 2017 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2017

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2017, and have not been applied in preparing these financial statements.

The Company does not plan to adopt these standards early. These are summarised below;

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
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
IAS 40 Transfers of Investment Property	1 January 2018
IFRS 16 Leases	1 January 2019
IFRIC 23 Income tax exposures	1 January 2019
IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
IFRS 17 Insurance contracts	1 January 2021
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined
Annual improvement cycle (2014 – 2016) – various standards	1 January 2018
Annual improvement cycle (2015 – 2017) – various standards	1 January 2019

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 and Company is assessing the potential impact on the financial statements resulting from application of the new standard.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2017 (Continued)

IFRS 9 Financial Instruments (IFRS 9)

On 29 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

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 permitted if, and only if, it is possible without the use of hindsight. The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement including impairment changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in retained earnings and reserves as at 1 January 2018.

The new classification and measurement and impairment requirements will be applied by adjusting the Group's statement of financial position on 1 January 2018, the date of initial application, with no restatement of comparative period financial information. The impact of IFRS 9 on capital both bank and group are disclosed in Note 4 (e) capital management.

Classification and Measurement

IFRS 9 introduces a principles-based approach to the classification of financial assets. Debt instruments, including hybrid contracts, are measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortized cost based on the nature of the cash flows of the assets and an entity's business model. These categories replace the existing IAS 39 classifications of FVTPL, available for sale (AFS), loans and receivables, and held-to-maturity. Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss.

For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in IAS 39 were carried forward unchanged into IFRS 9 other than the provisions relating to the recognition of changes in own credit risk for financial liabilities designated at fair value through profit or loss, as permitted by IFRS 9.

The combined application of the contractual cash flow characteristics and business model tests as at 1 January 2018 is expected to result in certain differences in the classification of financial assets when compared to the Bank's classification under IAS 39". The most significant change involves classification of certain loans and advances from amortised cost to fair value.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2017 (Continued)

IFRS 9 Financial Instruments (IFRS 9) (Continued)

Impairment

Impairment Overall Comparison of the New Impairment Model and the Current Model

IFRS 9 introduces a new, single impairment model for financial assets that requires the recognition of expected credit losses (ECL) rather than incurred losses as applied under the current standard. Currently, impairment losses are recognized if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after initial recognition of the asset and that loss event has a detrimental impact on the estimated future cash flows of the asset that can be reliably estimated. If there is no objective evidence of impairment for an individual financial asset, that financial asset is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment losses incurred but not yet identified. Under IFRS 9, ECLs will be recognized in profit or loss before a loss event has occurred, which could result in earlier recognition of credit losses compared to the current model.

Under the current standard, incurred losses are measured by incorporating reasonable and supportable information about past events and current conditions. Under IFRS 9, the ECL model, which is forward-looking, in addition requires that forecasts of future events and economic conditions be used when determining significant increases in credit risk and when measuring expected losses. Forward-looking macroeconomic factors such as unemployment rates, inflation rates, interest rates, exchange rates, domestic borrowing, credit to private sector and gross domestic product will be incorporated into the risk parameters. Estimating forward-looking information will require significant judgment and must be consistent with the forward-looking information used by the Bank for other purposes, such as forecasting and budgeting.

Scope

Under IFRS 9, the same impairment model is applied to all financial assets, except for financial assets classified or designated as at fair value through profit or loss (FVTPL) and equity instruments designated as at fair value through other comprehensive income (FVOCI), which are not subject to impairment assessment.

The scope of the IFRS 9 expected credit loss (ECL) impairment model includes financial assets classified as amortized cost, debt securities classified as at FVOCI, and off balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37). The above-mentioned reclassifications into or out of these categories under IFRS 9 and items that previously fell under the IAS 37 framework were considered in determining the scope of the Group's application of the new expected credit loss impairment model.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2017 (Continued)

IFRS 9 Financial Instruments (IFRS 9) (Continued)

Measurement of Expected Credit Losses

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument.
The measurement of ECLs will be based primarily on the product of the instrument's probability of default (PD), loss given default (LGD), and exposure at default (EAD).

The ECL model contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

- Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.
- Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses based on the Central Bank of Kenya (CBK) and Banks' policy on curing of loans.
- When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

Interest income is calculated on the gross carrying amount of the financial assets in Stages 1 and 2 and on the net carrying amount of the financial assets in Stage 3.

Assessment of Significant Increase in Credit Risk

The determination of a significant increase in credit risk (SICR) takes into account many different factors including a comparison of a financial instruments credit risk or PD at the reporting date and the credit or PD at the date of initial recognition. The Bank has included relative and absolute thresholds in the definition of significant increase in credit risk and a backstop of over 30 days past due. All financial instruments that are over 30 days past due are migrated to Stage 2.

Definition of Default

IFRS 9 does not define default but requires the definition to be consistent with the definition used for internal credit risk management purposes. However, IFRS 9 contains a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due. Under IFRS 9, the Group will consider a financial asset as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred or when contractual payments are 90 days past due. The Group's write-off policy under IAS 39 is not expected to be materially different under IFRS 9.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2017 (Continued)

IFRS 9 Financial Instruments (IFRS 9) (Continued)

Hedge Accounting

IFRS 9 introduces a new general hedge accounting model that better aligns hedge accounting with risk management activities. However, the current hedge accounting requirements under IAS 39 may continue to be applied until the IASB finalizes its macro hedge accounting project. The IFRS 9 Hedge accounting requirements will not have a significant impact on the financial statements of the Group since the Group does not apply hedge accounting.

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:

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2017 (Continued)

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

- 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.

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 is 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2017 (Continued)

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

The adoption of these changes will not affect the amounts and disclosures of the Group's financial statements since it does not issue insurance contracts within the scope of IFRS 4 or IFRS 9.

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.

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:

(a) at fair value; or
(b) 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 affect the amounts and disclosures of the Group's financial statements.

Transfers of Investment property (Amendments to IAS 40)

The IASB has amended the requirements in IAS 40 Investment property on when a company should transfer a property asset to, or from, investment property.

The adoption of these standard will not have an impact on the financial statements of the Group.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2017 (Continued)

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.

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 this standards.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2017 (Continued)

IFRIC 23 Clarification on accounting for Income tax exposures

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

The entity is required to measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The entity will also need to provide disclosures, under existing disclosure requirements, about

(a) judgments made;
(b) assumptions and other estimates used; and
(c) potential impact of uncertainties not reflected.

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

Prepayment Features with Negative Compensation **(Amendments to IFRS 9)**

The amendments clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

Management is currently evaluating the impact of the new standard to the Group's financial statements.

The amendments apply for annual periods beginning on or after 1 January 2019 with retrospective application, early adoption is permitted.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2017 (Continued)

***Long-term Interests in Associates and Joint Ventures* (Amendment to IAS 28)**

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate and joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The adoption of these changes will not affect the amounts and disclosures of the Group's financial statements. The amendments apply for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

IFRS 17 Insurance Contracts

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2017 (Continued)

IFRS 17 Insurance Contracts (Continued)

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

The adoption of these changes will not affect the amounts and disclosures of the Group's financial statements since it does not issue insurance contracts within scope of IFRS 17.

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

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

The effective date for these changes has now been postponed until the completion of a broader review. The adoption of these changes will not affect the amounts and disclosures of the Group's financial statements.

The Group and Company is assessing the potential impact on the financial statements resulting from application of the new standard.

Annual improvements cycle (2014 - 2016) – various standards

Standard	Amendments
1 First-time IFRS Adoption IFRS of	Outdated exemptions for first-time adopters of IFRS are removed. The amendments apply prospectively for annual periods beginning on or after 1 January 2018.
IAS 28 Investments in Associates and Joint Ventures	A venture capital organisation, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis. A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. The amendments apply retrospectively for annual periods beginning on or after 1 January 2018; early application is permitted.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2017 (Continued)

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

The adoption of these amendments is not expected to affect the amounts and disclosures of the Group and Company's financial statements.

Annual improvements cycle (2015 - 2017) – various standards

Standard	Amendments
IFRS 3 Business Combinations and IFRS 11 Joint Arrangements	Clarifies how a company accounts for increasing its interest in a joint operation that meets the definition of a business: • If a party maintains (or obtains) joint control, then the previously held interest is not remeasured. • If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.
IAS 12 Income taxes	Clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.
IAS 23 Borrowing costs	Clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

The amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. Management is assessing the impact of the adoption of these amendments in the amounts and disclosures of the Group's and Company's financial statements.

4. RISK MANAGEMENT

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

4. RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

The Group's credit exposure at the reporting date from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the statement of financial position.

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

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

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

Exposure to credit risk

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

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

Group:

Loans and advances to customers	**2017** **KShs'000**	**2016** **KShs'000**
Individually impaired:		
Grade 3: Substandard	3,702,833	2,014,735
Grade 4: Doubtful	14,541,507	5,749,457
Grade 5: Loss	696,356	1,215,302
	18,940,696	**8,979,494**
Specific allowances for impairment	(5,876,547)	(5,339,317)
Carrying amounts	**13,064,149**	**3,640,177**
Collectively impaired:		
Grade 2: Watch	23,327,501	16,380,866
Grade 1: Normal	99,701,180	101,142,669
	123,028,681	**117,523,535**
Portfolio allowances for impairment	(994,436)	(466,851)
Carrying amounts	**122,034,245**	**117,056,684**
Total carrying amounts	**135,098,394**	**120,696,861**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

4. RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Exposure to credit risk (Continued)

Company:

	2017	2016
Loans and advances to customers	**KShs '000**	**KShs '000**
Individually impaired		
Grade 3: Substandard	2,991,734	1,464,733
Grade 4: Doubtful	14,148,110	5,705,164
Grade 5: Loss	528,670	1,045,900
	17,668,514	**8,215,797**
Specific allowance for impairment	(5,421,605)	(5,030,876)
Carrying amounts	**12,246,909**	**3,184,921**
Collectively impaired		
Grade 2: Watch	21,236,443	15,347,203
Grade 1: Normal	88,038,949	88,439,789
	109,275,392	**103,786,992**
Portfolio impairment provision	(865,482)	(386,176)
Carrying amounts	**108,409,910**	**103,400,816**
Total carrying amounts	**120,656,819**	**106,585,737**

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 2017 (Continued)

4. RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Exposure to 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:

	Gross	Net
Individually impaired: **31 December 2017**	**KShs'000**	**KShs'000**
Grade 3: Substandard	3,702,833	3,234,530
Grade 4: Doubtful	14,541,507	9,675,307
Grade 5: Loss	696,356	154,312
	18,940,696	**13,064,149**
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**

Group:

	Gross	Net
Collectively impaired: **31 December 2017**	**KShs'000**	**KShs'000**
Grade 1: Normal	99,701,179	98,928,356
Grade 2: Watch	23,327,502	23,105,889
	123,028,681	**122,034,245**
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**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

4. RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Exposure to credit risk (Continued)

Company:

	Gross KShs'000	Net KShs'000
Individually impaired:		
31 December 2017		
Grade 3: Substandard	2,991,734	2,644,599
Grade 4: Doubtful	14,148,110	9,496,367
Grade 5: Loss	528,670	105,943
	17,668,514	**12,246,909**
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**
Collectively impaired:		
31 December 2017		
Grade 1: Normal	88,038,949	87,341,664
Grade 2: Watch	21,236,443	21,068,246
	109,275,392	**108,409,910**
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**

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 2017 or 2016.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

4. RISK MANAGEMENT (Continued)

(b) Liquidity risk

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

Loans and advances to customers

	2017 KShs'000	2016 KShs'000
Company		
Fair value of collateral held – against impaired loans	**4,593,937**	**3,834,519**
Group		
Fair value of collateral held - against impaired loans	**5,462,724**	**4,289,776**

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	
	2017	**2016**	**2017**	**2016**
At 31 December	35%	37%	28%	31%
Average for the period	37%	36%	31%	31%
Highest for the period	41%	39%	34%	34%
Lowest for the period	34%	32%	28%	25%

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 2017 and 2016 to the contractual maturity date:

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

4. RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

Group 31 December 2017	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	Total KShs'000
LIABILITIES					
Deposits from banks	1,764,854	351,026	2,199	-	2,118,079
Deposits from customers	46,032,567	83,003,102	18,384,866	161,636	147,582,171
Due to group companies	-	2,032,125	-	-	2,032,125
Other liabilities	718,456	2,492,685	-	-	3,211,141
Long term borrowings	64,039	22,121	2,104,801	5,123,738	7,314,699
Subordinated debt	-	2,867	25,666	4,483,782	4,512,315
At 31 December 2017	**48,579,916**	**87,903,926**	**20,517,532**	**9,769,156**	**166,770,530**

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	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	-	1,124,710	-	-	1,124,710
Other liabilities	48,810	2,289,554	-	-	2,338,364
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**	**83,565,495**	**15,004,596**	**10,692,402**	**150,059,858**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

4. RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

Company 31 December 2017	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	Total KShs'000
LIABILITIES					
Deposits from banks	1,093,053	351,026	2,199	-	**1,446,278**
Deposits from customers	39,684,423	80,756,137	12,336,959	23,373	**132,800,892**
Due to group companies	2,085,237	-	-	-	**2,085,237**
Other liabilities	655,136	2,295,569	-	-	**2,950,705**
Long term borrowings	-	-	1,812,238	4,152,990	**5,965,228**
Subordinated debt	-	-	25,666	3,655,000	**3,680,666**
At 31 December 2017	**43,517,849**	**83,402,732**	**14,177,062**	**7,831,363**	**148,929,006**

Company 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	Total KShs'000
LIABILITIES					
Deposits from banks	1,190,103	2,072,518	-	-	**3,262,621**
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**

(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 2017 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk (Continued)

Group 31 December 2017	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	-	-	-	-	-	8,730,570	**8,730,570**
Items in the course of collection	-	-	-	-	-	378,462	**378,462**
Loans and advances to banks	2,607,619	4,758	-	-	-	-	**2,612,377**
Loans and advances to customers	133,063,739	1,905,846	2,781	71,467	54,561	-	**135,098,394**
Investment securities	556,451	5,360,901	18,281,807	8,516,370	13,284,491	3,537,508	**49,537,528**
Due from group companies	-	-	-	-	-	854,052	**854,052**
Other assets	-	-	-	-	-	1,735,550	**1,735,550**
At 31 December 2017	**136,227,809**	**7,271,505**	**18,284,588**	**8,587,837**	**13,339,052**	**15,236,142**	**198,946,933**
LIABILITIES							
Deposits from banks	1,764,854	351,026	2,199	-	-	-	**2,118,079**
Deposits from customers	40,174,262	83,003,102	18,384,866	161,635	-	5,858,306	**147,582,171**
Due to group companies	-	-	-	-	-	2,032,125	**2,032,125**
Other liabilities	-	-	-	-	-	3,211,141	**3,211,141**
Long term borrowings	1,222,762	1,324,152	4,767,785	-	-	-	**7,314,699**
Subordinated debt	-	831,649	3,680,666	-	-	-	**4,512,315**
At 31 December 2017	**43,161,878**	**85,509,929**	**26,835,516**	**161,635**	**-**	**11,101,572**	**166,770,530**
Interest rate gap	**93,065,931**	**(78,238,424)**	**(8,550,928)**	**8,426,202**	**13,339,052**	**4,134,570**	**32,176,403**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (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**
Due from group companies	-	-	-	-	-	26,121	**26,121**
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**	**14,565,647**	**179,646,113**
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**
Due to group companies	-	-	-	-	-	1,124,710	**1,124,710**
Other liabilities	-	-	-	-	-	2,338,364	**2,338,364**
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**	**-**	**8,299,914**	**150,059,858**
Interest rate gap	**82,705,052**	**(74,913,925)**	**(6,515,257)**	**13,804,060**	**8,240,592**	**6,265,733**	**29,586,255**

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 2017 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk (Continued)

Company **31 December 2017**	**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	-	-	-	-	-	-	7,037,263	**7,037,263**
Items in the course of collection	-	-	-	-	-	-	374,006	**374,006**
Loans and advances to banks	1.1%	2,539,767	4,758	-	-	-	-	**2,544,525**
Loans and advances to customers	11.4%	118,750,990	1,905,829	-	-	-	-	**120,656,819**
Investment securities	10.9%	-	5,014,869	16,227,199	8,081,328	12,926,531	3,500,000	**45,749,927**
Due from group companies	-	-	-	-	-	-	876,329	**876,329**
Other assets	-	-	-	-	-	-	1,627,514	**1,627,514**
At 31 December 2017		**121,290,757**	**6,925,456**	**16,227,199**	**8,081,328**	**12,926,531**	**13,415,112**	**178,866,383**
LIABILITIES								
Deposits from banks	6.2%	1,093,053	351,026	2,199	-	-	-	**1,446,278**
Deposits from customers	4.6%	39,684,423	80,756,137	12,336,959	23,373	-	-	**132,800,892**
Due to group companies	-	-	-	-	-	-	2,085,237	**2,085,237**
Other liabilities	-	-	-	-	-	-	2,950,705	**2,950,705**
Long-term borrowings	4.2%	-	1,197,443	4,767,785	-	-	-	**5,965,228**
Subordinated debt	12.5%	-	-	3,680,666	-	-	-	**3,680,666**
At 31 December 2017		**40,777,476**	**82,304,606**	**20,787,609**	**23,373**	**-**	**5,035,942**	**148,929,006**
Interest rate gap		**80,513,281**	**(75,379,150)**	**(4,560,410)**	**8,057,955**	**12,926,531**	**8,379,170**	**29,937,377**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (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	2.4%	1,697,412	1,032,199	-	-	-	-	**2,729,611**
Loans and advances to customers	13.4%	101,765,145	144,704	679,817	3,342,363	653,708	-	**106,585,737**
Investment securities	11.3%	-	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	-	-	-	-	-	-	1,429,609	**1,429,609**
At 31 December 2016		**103,462,557**	**5,613,228**	**11,832,679**	**18,994,747**	**8,183,845**	**12,197,478**	**160,284,534**
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	-	-	-	-	-	-	2,185,505	**2,185,505**
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**	**-**	**3,384,570**	**132,811,293**
Interest rate gap		**69,031,627**	**(71,557,810)**	**(2,511,444)**	**15,514,115**	**8,183,845**	**8,812,908**	**27,473,241**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (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.

	Profit or loss	Equity net of tax
Group		
31 December 2017		
200 basis points	**Increase/decrease in basis points ('000)**	**Increase/decrease in basis points ('000)**
Assets	3,674,216	2,571,951
Liabilities	(3,113,379)	(2,179,365)
Net position	**560,837**	**392,586**
31 December 2016		
Assets	3,301,609	2,311,127
Liabilities	(2,835,199)	(1,984,639)
Net position	**466,410**	**326,488**
Company		
31 December 2017		
200 basis points		
Assets	3,309,025	2,316,318
Liabilities	(2,877,861)	(2,014,503)
Net position	**431,164**	**301,815**
31 December 2016		
Assets	2,961,741	2,073,219
Liabilities	(2,588,534)	(1,811,974)
Net position	**373,207**	**261,245**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (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 2017 and 31 December 2016.

Group

At 31 December 2017	**USD KShs'000**	**GBP KShs'000**	**Euro KShs'000**	**Other KShs'000**	**Total KShs'000**
ASSETS					
Cash and balances with central banks	938,886	121,498	243,941	4,995	**1,309,320**
Items in the course of collection	22,012	-	446	-	**22,458**
Loans and advances to banks	217,081	332,191	1,091,001	164,744	**1,805,017**
Loans and advances to customers	52,085,541	2,109,003	1,756,284	307	**55,951,135**
Investment securities	700,902	-	-	-	**700,902**
Due from group companies	8,643	-	-	-	**8,643**
Other assets	51,640	56,752	621	8,051	**117,064**
At 31 December 2017	**54,024,705**	**2,619,444**	**3,092,293**	**178,097**	**59,914,539**
LIABILITIES					
Deposits from banks	1,297,774	92,572	538,253	9,883	**1,938,482**
Deposits from customers	36,509,816	2,475,718	1,736,588	94,802	**40,816,924**
Other liabilities	715,241	13,910	39,039	36,517	**804,707**
Due to group companies	1,180,030	-	-	-	**1,180,030**
Long-term borrowings	5,359,482	-	672,351	-	**6,031,833**
At 31 December 2017	**45,062,343**	**2,582,200**	**2,986,231**	**141,202**	**50,771,976**
Net on statement of financial position	**8,962,362**	**37,244**	**106,062**	**36,895**	**9,142,563**
Net notional off balance sheet position	**(9,246,177)**	**(35,619)**	**(93,922)**	**(20,830)**	**(9,396,548)**
Overall net position – 2017	**(283,815)**	**1,625**	**12,140**	**16,065**	**(253,985)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk (Continued)

Group (Continued)

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	128,517	94,859	1,299	**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**
Long-term borrowings	1,518,684	-	-	-	**1,518,684**
Subordinated debt	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 2017 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk (Continued)

Company

At 31 December 2017	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with Central Bank of Kenya	629,879	84,280	236,937	483	**951,579**
Items in the course of collection	17,556	-	446	-	**18,002**
Loans and advances to banks	217,081	332,191	1,091,001	164,744	**1,805,017**
Investment securities	700,902	-	-	-	**700,902**
Loans and advances to customers	40,429,776	2,109,003	1,756,284	307	**44,295,370**
Due from group companies	8,643	-	-	-	**8,643**
Other assets	50,319	140	-	8,051	**58,510**
At 31 December 2017	**42,054,156**	**2,525,614**	**3,084,668**	**173,585**	**47,838,023**
LIABILITIES					
Deposits from banks	883,383	92,572	538,253	9,883	**1,524,091**
Deposits from customers	27,499,217	2,382,094	1,729,816	94,802	**31,705,929**
Other liabilities	154,918	13,660	39,017	36,512	**244,107**
Due to group companies	-	-	-	-	**-**
Long-term borrowings	4,527,833	-	672,351	-	**5,200,184**
At 31 December 2017	**33,065,351**	**2,488,326**	**2,979,437**	**141,197**	**38,674,311**
Net on statement of financial position	**8,988,805**	**37,288**	**105,231**	**32,388**	**9,163,712**
Net notional off balance sheet position	**(9,246,177)**	**(35,619)**	**(93,922)**	**(20,830)**	**(9,396,548)**
Overall net position – 2017	**(257,372)**	**1,669**	**11,309**	**11,558**	**(232,836)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk (Continued)

Company (Continued)

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)**	**(9,522,976)**
Overall net position – 2016	**(171,885)**	**5,272**	**11,179**	**9,353**	**(146,081)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (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 2017	**Profit or loss Strengthening/weakening of currency KShs'000**	**Equity net of tax Strengthening/weakening of currency KShs'000**
USD (± 2.5% movement)	(7,095)	(4,967)
GBP (± 2.5% movement)	41	28
EUR (± 2.5% movement)	304	212
At 31 December 2016		
USD (± 2.5% movement)	(4,875)	(3,412)
GBP (± 2.5% movement)	126	88
EUR (± 2.5% movement)	286	201

Company:

At 31 December 2017		
USD (± 2.5% movement)	(6,434)	(4,504)
GBP (± 2.5% movement)	42	29
EUR (± 2.5% movement)	283	198
At 31 December 2016		
USD (± 2.5% movement)	(4,297)	(3,008)
GBP (± 2.5% movement)	132	92
EUR (± 2.5% movement)	279	196

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (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 2017 (Continued)

4. RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

Regulatory capital – Kenya (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 item
- 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 2017 (Continued)

4. RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

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

Company:		2017 KShs'000	2016 KShs'000
Core capital (Tier 1)			
Share capital		2,880,245	2,880,245
Share premium		3,759,624	3,773,237
Retained earnings		23,613,726	20,366,110
Other reserves		1,871,398	-
		32,124,993	**27,019,592**
Less: Goodwill		(10,747)	(10,747)
Investment in subsidiary		(2,324,025)	(2,324,025)
Total Core capital		**29,790,221**	**24,684,820**
Supplementary capital (Tier 2)			
Term subordinated debt		880,357	1,619,048
Statutory loan loss reserve		1,556,786	630,390
		2,437,143	**2,249,438**
Total capital		**32,227,364**	**26,934,258**
Risk weighted assets			
Credit risk weighted assets		138,500,542	120,665,480
Market risk weighted assets		6,875,704	7,132,108
Operational risk weighted assets		28,078,833	20,585,426
Total risk weighted assets		**173,455,079**	**148,383,014**
Deposits from customers		**136,135,203**	**118,553,272**
Capital ratios	**Minimum***		
Core capital/Total deposit liabilities	**8.0%**	**21.88%**	**20.82%**
Core capital /Total risk weighted assets	**10.5%**	**17.17%**	**16.64%**
Total capital /Total risk weighted assets	**14.5%**	**18.58%**	**18.15%**

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (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.

		2017 TZS'000	2016 TZS'000
Risk weighted assets			
Total risk weighted assets		**375,094,040**	**323,629,957**
Capital ratios	Minimum*		
Core capital /Total risk weighted assets	**12.5%**	**13.01%**	**14.23%**
Total capital /Total risk weighted assets	**14.5%**	**17.51%**	**19.92%**

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

IFRS 9

Based on current estimates, the adoption of IFRS 9 is expected to result in a charge to retained earnings before taxes and Capital Adequacy Ratios as at 1 January 2018 as below:

	Impairment charge before taxes	Total capital /Total risk weighted assets		
		From	To	Change
	KShs '000	%	%	%
I&M Bank LIMITED	746,197	18.58%	18.23%	-0.35%
I&M Bank (T) Limited	15,904	17.42%	17.34%	-0.08%
		Core Capital /Total risk weighted assets		
		From	**To**	**Change**
	KShs '000	**%**	**%**	**%**
I&M Bank LIMITED	746,197	17.17%	17.25%	0.08%
I&M Bank (T) Limited	15,904	12.92%	12.94%	0.02%

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

4. RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

IFRS 9 (Continued)

The impact is primarily attributable to:

- Increase in the allowance for credit losses under the new impairment requirements
- Changes in classification and measurement for some assets

Management will continue to monitor and refine certain elements of the Bank's impairment process in advance of Q1 2018 reporting.

(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 2017 (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 2017 (Continued)

6. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Accounting classifications at carrying amounts and fair values

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

Group	Carrying amounts					Fair value		
31 December 2017	Held to maturity KShs'000	Loans and receivables KShs'000	Available -for-sale KShs'000	Other amortized cost KShs'000	Total KShs'000	Level 1 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets								
Cash and balances with central banks	-	8,730,570	-	-	**8,730,570**	2,034,166	-	**2,034,166**
Items in the course of collection	-	-	-	378,462	**378,462**	-	-	**-**
Investment securities	24,497,866	-	25,039,662	-	**49,537,528**	21,502,154	3,537,508	**25,039,662**
Loans and advances to banks	-	2,612,377	-	-	**2,612,377**	-	-	**-**
Loans and advances to customers	-	135,098,394	-	-	**135,098,394**	-	-	**-**
Due from group companies	-	-	-	854,052	**854,052**	-	-	**-**
Other assets	-	-	-	711,396	**711,396**	-	-	**-**
	24,497,866	**146,441,341**	**25,039,662**	**1,943,910**	**197,922,779**	**23,536,320**	**3,537,508**	**27,073,828**
Financial liabilities								
Deposits from banks	-	-	-	2,118,079	**2,118,079**	-	-	-
Deposits from customers	-	-	-	147,582,171	**147,582,171**	-	-	-
Due to group companies	-	-	-	2,032,125	**2,032,125**	-	-	-
Long term borrowings	-	-	-	7,314,699	**7,314,699**	-	-	-
Subordinated debt	-	-	-	4,512,315	**4,512,315**	-	-	-
	-	**-**	**-**	**163,559,389**	**163,559,389**	**-**	**-**	**-**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

6. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

Accounting classifications at carrying amounts and fair values (continued)

Group	Carrying amounts					Fair value		
31 December 2016	Held to maturity KShs'000	Loans and receivables KShs'000	Available for-sale KShs'000	Other amortized cost 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**	1,447,295	-	1,447,295
Items in the course of collection	-	-	-	449,306	**449,306**	-	-	-
Investment securities	19,607,259	-	25,446,919	-	**45,054,178**	21,923,267	3,523,652	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**	-	-	-
Due from group companies	-	-	-	26,121	**26,121**	-	-	-
Other assets	-	-	-	525,764	**525,764**	-	-	-
	19,607,259	**132,604,355**	**25,446,919**	**1,001,191**	**178,659,724**	**23,370,562**	**3,523,652**	**26,894,214**
Financial liabilities								
Deposits from banks	-	-	-	4,439,933	**4,439,933**	-	-	-
Deposits from customers	-	-	-	129,636,067	**129,636,067**	-	-	-
Due to group companies	-	-	-	1,124,710	**1,124,710**	-	-	-
Long term borrowings	-	-	-	8,006,089	**8,006,089**	-	-	-
Subordinated debt	-	-	-	4,507,178	**4,507,178**	-	-	-
	-	**-**	**-**	**147,713,977**	**147,713,977**	**-**	**-**	**-**

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 – Available for sale	Prices quoted at securities exchanges	None	Not applicable

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

6. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting classifications at carrying amounts and fair values (Continued)

Company	Carrying amounts					Fair value		
31 December 2017	**Held to maturity KShs'000**	**Loans and receivables KShs'000**	**Available -for-sale KShs'000**	**Other amortised cost 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	-	7,037,263	-	-	**7,037,263**	-	-	**-**
Items in the course of collection	-	-	-	374,006	**374,006**	-	-	**-**
Investment securities	20,747,773	-	25,002,154	-	**45,749,927**	21,502,154	3,500,000	**25,002,154**
Loans and advances to banks	-	2,544,525	-	-	**2,544,525**	-	-	**-**
Loans and advances to customers	-	120,656,819	-	-	**120,656,819**	-	-	**-**
Due from group companies	-	-	-	876,329	**876,329**	-	-	**-**
Other assets	-	-	-	711,396	**711,396**	-	-	**-**
	20,747,773	**130,238,607**	**25,002,154**	**1,961,731**	**177,950,265**	**21,502,154**	**3,500,000**	**25,002,154**
Financial liabilities								
Deposits from banks	-	-	-	1,446,278	**1,446,278**	-	-	-
Deposits from customers	-	-	-	132,800,892	**132,800,892**	-	-	-
Due to group companies	-	-	-	2,085,237	**2,085,237**	-	-	-
Long term borrowings	-	-	-	5,965,228	**5,965,228**	-	-	-
Subordinated debt	-	-	-	3,680,666	**3,680,666**	-	-	-
	-	**-**	**-**	**145,978,301**	**145,978,301**	**-**	**-**	**-**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

6. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting classifications at carrying amounts and fair values (Continued)

Company	Carrying amounts					Fair value		
31 December 2016	**Held to maturity KShs'000**	**Loans and receivables KShs'000**	**Available -for-sale KShs'000**	**Other amortised cost 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 2017 (Continued)

7. INTEREST INCOME

	2017 KShs '000	2016 KShs'000
(a) Group		
Loans and advances to customers	16,545,444	17,115,612
Loans and advances to banks	51,054	89,096
Investment securities:-		
- Held-to-maturity	2,546,630	2,288,794
- Available for sale	2,411,398	2,281,862
	21,554,526	**21,775,364**
(b) Company		
Loans and advances to customers	15,056,578	15,721,942
Loans and advances to banks	31,697	39,539
Investment securities:-		
- Held-to-maturity	2,103,078	1,956,908
- Available for sale	2,411,398	2,281,862
	19,602,751	**20,000,251**

8. INTEREST EXPENSE

	2017 KShs '000	2016 KShs'000
(a) Group		
Deposits from customers	6,956,427	7,064,563
Deposits from banks	198,336	249,602
Long term borrowings	324,487	371,768
Subordinated debt	532,037	525,149
	8,011,287	**8,211,082**
(b) Company		
Deposits from customers	6,296,570	6,475,313
Deposits from banks	175,150	219,646
Long term borrowings	235,838	291,513
Subordinated debt	468,248	469,006
	7,175,806	**7,455,478**

9. NET FEE AND COMMISSION INCOME

	2017 KShs '000	2016 KShs'000
(a) Group		
Fee and commission income		
Commissions	1,748,561	1,390,474
Service fees	990,615	882,715
	2,739,176	**2,273,189**
Fees and commission expense		
Interbank transaction fees	(81,389)	(53,979)
Other	(76,230)	(78,285)
	(157,619)	**(132,264)**
Net fee and commission income	**2,581,557**	**2,140,925**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

9. NET FEE AND COMMISSION INCOME (Continued)

	2017 KShs '000	2016 KShs'000
(b) Company		
Fee and commission income		
Commissions	1,521,377	1,197,651
Service fees	910,487	806,682
	2,431,864	**2,004,333**
Fees and commission expense		
Interbank transaction fees	(66,421)	(40,079)
Other	(74,243)	(75,901)
	(140,664)	**(115,980)**
Net fee and commission income	**2,291,200**	**1,888,353**

10. OTHER OPERATING INCOME

	2017 KShs '000	2016 KShs'000
(a) Group		
(i) Other operating income		
Income from foreign exchange dealings	1,468,282	1,315,363
Profit on sale of property and equipment	2,421	5,019
Profit on sale of available-for-sale securities	208,885	277,478
Management fees income	58,861	18,143
Other income	26,051	27,651
	1,764,500	**1,643,654**
(ii) Dividend income		
Dividend income-I&M Realty Limited	-	95,000
	-	**95,000**
(b) Company		
(i) Other operating income		
Income from foreign exchange dealings	1,373,188	1,205,951
Profit on sale of property and equipment	2,421	1,979
Profit on sale of available-for-sale securities	208,885	277,478
Profit on disposal of I&M Realty Limited	-	5,019
Management fees	78,097	58,168
Other income	14,465	24,091
	1,677,056	**1,572,686**
(ii) Dividend income		
Dividend income-I&M (T) Limited	32,359	42,822
Dividend income-I&M Realty Limited	-	95,000
	32,359	**137,822**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

11. OPERATING EXPENSES

(a) Group	2017 KShs'000	2016 KShs'000
Staff costs		
Salaries and wages	2,257,336	2,173,088
Contribution to defined benefit and contribution plan	120,903	82,424
Statutory contribution	28,635	25,944
Other staff costs	455,057	398,866
	2,861,931	**2,680,322**
Premises and equipment costs		
Rental of premises	492,973	404,107
Utilities	56,448	54,436
Other premises and equipment costs	136,091	111,924
	685,512	**570,467**
General expenses		
Deposit protection insurance contribution	207,707	168,965
Loss on disposal of property and equipment	62	-
Other general administrative expenses	1,817,365	1,753,683
	2,025,134	**1,922,648**
Depreciation and amortisation		
Depreciation on property and equipment (note 22)	261,919	264,700
Amortisation of intangible assets (note 23(b))	124,265	96,170
	386,184	**360,870**
(b) Company		
Staff costs		
Salaries and wages	1,942,833	1,890,143
Contribution to defined benefit and contribution plan	119,819	93,790
Statutory contribution	2,159	2,061
Other staff costs	370,877	309,861
	2,435,688	**2,295,855**
Premises and equipment costs		
Rental of premises	431,150	339,813
Utilities	46,099	42,426
Other premises and equipment costs	130,526	106,502
	607,775	**488,741**
General expenses		
Deposit protection insurance contribution	186,489	147,569
Other general administrative expenses	1,513,417	1,485,169
	1,699,906	**1,632,738**
Depreciation and Amortisation		
Depreciation on property and equipment (note 22)	218,095	223,452
Amortisation of intangible assets (note 23(b))	96,603	73,111
	314,698	**296,563**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

11. OPERATING EXPENSES (Continued)

The average number employee employed are as follows:

	Group		Company	
	2017	2016	2017	2016
Management	939	835	785	690
Others	173	232	143	186
	1,112	**1,067**	**928**	**876**

12. PROFIT BEFORE INCOME TAX

	2017 KShs'000	2016 KShs'000
(a) Group		
Profit before income tax is arrived at after charging /(crediting):		
Depreciation	261,919	264,700
Amortisation of intangible assets	124,265	96,170
Directors' emoluments: -fees	15,789	13,373
-other	94,367	80,014
Auditors' remuneration	10,530	10,417
Net profit on disposal of subsidiary-I&M Realty Limited	-	5,019
Net profit on sale of property and equipment	2,359	2,280
(b) Company		
Profit before income tax is arrived at after charging /(crediting):		
Depreciation	218,095	223,452
Amortisation of intangible assets	96,603	73,111
Directors' emoluments: -fees	15,396	12,975
-other	94,367	80,014
Auditors' remuneration	6,521	5,019
Net profit on disposal of subsidiary-I&M Realty Limited	-	5,019
Net profit/(loss) on sale of property and equipment	2,421	1,978

13. INCOME TAX EXPENSE AND TAX PAYABLE

(a) Income tax expense		
(i) Group		
Current year's tax	2,735,604	2,700,599
Under/(Over) provision in prior year - current tax	224,484	(85,754)
Current tax expense	**2,960,088**	**2,614,845**
Deferred tax credit -Prior year (Note 24)	(248,017)	(64,680)
-Current year (Note 24)	(566,236)	(105,973)
Income tax expense	**2,145,835**	**2,444,192**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

13. INCOME TAX EXPENSE AND TAX PAYABLE (Continued)

(a) Income tax expense (Continued)

(i) Group (Continued)

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

	2017 KShs'000	2016 KShs'000
Accounting profit before tax	**7,871,653**	**9,025,473**
Computed tax using the applicable corporation tax rate	2,361,496	2,707,642
Under/(Over) provision in the prior year	224,484	(85,754)
Effect on non-deductible costs/non-taxable income	(272,550)	(113,016)
Over provision in prior year - deferred tax	(248,017)	(64,680)
	2,065,413	**2,444,192**
(ii) Company		
Current tax expense		
Current year's tax at 30%	2,549,565	2,539,837
Under/(Over) provision in prior year - current tax	224,483	(85,754)
	2,774,048	**2,454,083**
Deferred tax credit -Prior year (Note 24)	(246,330)	(64,680)
-Current year (Note 24)	(498,829)	(80,958)
Income tax expense	**2,028,889**	**2,308,445**

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

	2017	2016
Accounting profit before tax	**7,516,380**	**8,651,034**
Computed tax using the applicable corporation tax rate at 30%	2,254,914	2,595,310
Over provision in the prior year	224,483	(85,754)
Effect on non-deductible costs /non-deductible income	(204,178)	(136,431)
Under provision in prior year - deferred tax	(246,330)	(64,680)
	2,028,889	**2,308,445**
(b) Tax Payable / (Recoverable)		
(i) Group		
At 1 January	9,097	60,150
Income tax expense (Note 13(a)(i))	2,960,088	2,614,845
Effect of tax in foreign jurisdiction	241	29
Disposal of I&M Realty Limited (Note 21)	-	(52,645)
Tax paid (Note 33(a))	(3,512,174)	(2,613,282)
At 31 December	**(542,748)**	**9,097**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

13. INCOME TAX EXPENSE AND TAX PAYABLE (Continued)

(b) Tax Payable / (Recoverable) (Continued)

	2017 KShs'000	2016 KShs'000
(i) Group (Continued)		
Tax recoverable	(548,383)	(2,015)
Tax payable	5,635	11,112
	(542,748)	**9,097**
ii) Company		
At 1 January	(2,015)	(2,144)
Income tax expense (Note 13(a)(ii))	2,774,048	2,454,083
Tax paid (Note 33(c))	(3,317,338)	(2,453,954)
At 31 December	**(545,305)**	**(2,015)**

14. EARNINGS PER SHARE

	Group 2017	Group 2016	Company 2017	Company 2016
Net profit after tax attributable to owners of the company (KShs '000')	5,658,265	6,504,810	5,487,491	6,342,589
Weighted average number of ordinary shares in issue during the year ('000)	28,802	28,802	28,802	28,802
Earnings per share (KShs)	**196.45**	**225.85**	**190.52**	**220.21**

There were no potentially dilutive shares outstanding at 31 December 2017 (2016 – Nil).

15. DIVIDEND PER SHARE

	2017 KShs'000	2016 KShs'000
The calculation of dividend per share is based on:		
Final dividend proposed during the year (KShs'000)	1,108,894	1,447,323
	1,108,894	**1,447,323**
Weighted averaged number of ordinary shares in issue during the year ('000)	**28,802**	**28,802**
Final dividend per share (KShs.)	**38.50**	**50.25**

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

16. CASH AND BALANCES WITH CENTRAL BANKS

	2017 KShs'000	2016 KShs'000
(a) Group		
Cash on hand	2,034,166	1,447,295
Balances with central banks:		
-Restricted balances (Cash reserve ratio)	5,852,585	6,508,025
-Unrestricted balances	843,819	698,905
	8,730,570	**8,654,225**
(b) Company		
Cash on hand	1,785,443	1,199,323
Balances with Central Bank of Kenya:		
-Restricted balances (Cash reserve ratio)	4,807,281	5,110,608
-Unrestricted balances	444,539	350,064
	7,037,263	**6,659,995**

The Group's Cash Reserve Ratio is non-interest earning and is based on the value of deposits as adjusted for the respective central banks requirements. At 31 December 2017, the cash ratio requirement was 5.25% (2016: 5.25%) in Kenya and, 10.0% (2016: 10.0%) in Tanzania of eligible deposits.

17. ITEMS IN THE COURSE OF COLLECTION

	2017 KShs'000	2016 KShs'000
(a) Group		
Assets	378,462	449,306
Liabilities	-	7,517
(b) Company		
Assets	374,006	449,306

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

18. LOANS AND ADVANCES TO BANKS

	2017 KShs'000	2016 KShs'000
(a) Group		
Due within 90 days	2,612,377	3,172,614
Due after 90 days	-	80,655
	2,612,377	**3,253,269**
(b) Company		
Due within 90 Days	2,544,525	2,729,611
	2,544,525	**2,729,611**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

19. LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

(i) Group

	2017 KShs'000	2016 KShs'000
Overdrafts	43,624,502	42,856,108
Loans	94,857,342	80,308,395
Bills discounted	675,299	861,323
Finance leases	2,812,234	2,477,203
Gross loans and advances	**141,969,377**	**126,503,029**
Less: Impairment losses on loans and advances	(6,870,983)	(5,806,168)
Net loans and advances	**135,098,394**	**120,696,861**
Repayable on demand	38,532,894	22,229,446
Less than 3 months	12,400,567	11,903,529
3 months to 1 year	21,477,516	27,625,162
1 to 5 years	38,137,661	33,001,977
5 to 10 years	27,315,925	26,320,661
Over 10 years	4,104,814	5,422,254
Gross loans and advances	**141,969,377**	**126,503,029**

(ii) Company

	2017 KShs'000	2016 KShs'000
Overdrafts	37,671,305	36,629,761
Loans	85,785,068	72,034,502
Bills discounted	675,299	861,323
Finance leases	2,812,234	2,477,203
Gross loans and advances	**126,943,906**	**112,002,789**
Less: Impairment losses on loans and advances	(6,287,087)	(5,417,052)
Net loans and advances	**120,656,819**	**106,585,737**
Repayable on demand	38,532,894	22,229,447
Less than 3 months	7,587,717	8,421,760
3 months to 1 year	17,521,357	24,493,704
1 to 5 years	33,343,336	28,109,132
5 to 10 years	25,853,786	23,326,492
Over 10 years	4,104,816	5,422,254
Gross loans and advances	**126,943,906**	**112,002,789**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

19. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(b) Impairment losses reserve

(i) Group

	Specific impairment allowance KShs'000	Portfolio impairment allowance KShs'000	Total KShs'000
At 1 January 2017	5,339,317	466,851	5,806,168
Transferred from Giro Limited (formerly Giro Commercial Bank Limited)	88,085	131,737	219,822
Net impairment made in the year	4,080,342	398,216	4,478,558
Net recoveries	(298,579)	-	(298,579)
Translation differences	(8,621)	(2,368)	(10,989)
Write offs	(3,323,997)	-	(3,323,997)
At 31 December 2017	**5,876,547**	**994,436**	**6,870,983**
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**

(ii) Company

	Specific impairment allowance KShs'000	Portfolio impairment allowance KShs'000	Total KShs'000
At 1 January 2017	5,030,876	386,176	5,417,052
Transferred from Giro Limited (formerly Giro Commercial Bank Limited)	88,085	131,737	219,822
Net impairment made in the year	3,925,220	347,569	4,272,789
Net recoveries	(298,579)	-	(298,579)
Write offs	(3,323,997)	-	(3,323,997)
At 31 December 2017	**5,421,605**	**865,482**	**6,287,087**
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**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

19. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Impairment losses on loans and advances

(i) Group

	2017 KShs'000	2016 KShs'000
Impairment made in the year	4,478,558	2,998,702
Recoveries and impairment no longer required	(298,579)	(197,460)
Recoveries of loans and advances previously written off	(121,097)	-
Amounts directly written off during the year	-	82,839
	4,058,882	**2,884,081**

(ii) Company

	2017 KShs'000	2016 KShs'000
Impairment made in the year	4,272,789	2,885,873
Recoveries and impairment no longer required	(298,579)	(190,009)
Recoveries of loans and advances previously written off	(121,097)	-
Amounts directly written off during the year	-	82,839
	3,853,113	**2,778,703**

(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)

	2017 KShs'000	2016 KShs'000
Interest on impaired loans and advances which has not yet been received in cash	**1,304,005**	**1,178,358**

(e) Non-performing loans and advances - Group

	2017 KShs '000	%	2016 KShs '000	%
Manufacturing	33,201,055	23%	29,132,399	24%
Wholesale and retail trade	25,688,692	18%	25,484,027	20%
Building and construction	12,752,086	9%	13,895,573	10%
Agriculture	5,167,395	4%	6,348,299	5%
Real estate	29,431,005	21%	23,716,621	18%
Transport and communication	6,510,271	5%	7,316,515	6%
Business services	19,661,813	14%	11,967,545	10%
Electricity and water	130,765	0%	80,338	0%
Finance and insurance	1,720,237	1%	2,219,247	1%
Mining and quarrying	1,774,233	1%	2,248,788	3%
Others	5,931,825	4%	4,093,677	3%
	141,969,377	**100%**	**126,503,029**	**100%**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

19. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(f) Loans and advances concentration by sector - Company

	2017 KShs '000	%	2016 KShs '000	%
Manufacturing	29,876,340	24%	25,767,098	23%
Wholesale and retail trade	22,840,401	18%	22,727,761	20%
Building and construction	12,361,283	10%	12,900,414	12%
Agriculture	4,679,373	4%	5,864,353	5%
Real estate	25,869,903	20%	20,087,969	18%
Transport and communication	5,281,299	4%	5,956,251	5%
Business services	18,151,097	14%	11,312,293	10%
Electricity and water	130,765	0%	80,338	0%
Finance and insurance	1,720,237	1%	2,219,247	2%
Mining and quarrying	1,401,217	1%	1,902,328	2%
Others	4,631,991	4%	3,184,737	3%
	126,943,906	**100%**	**112,002,789**	**100%**

(g) Finance leases - Group

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

	2017 KShs'000	2016 KShs'000
Receivable no later than 1 year	566,681	468,272
Receivable later than 1 year and no later than 5 years	2,245,553	2,008,931
	2,812,234	**2,477,203**

(g) Finance leases - Company

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

	2017 KShs'000	2016 KShs'000
Receivable no later than 1 year	566,681	468,272
Receivable later than I year and no later than 5 years	2,245,553	2,008,931
	2,812,234	**2,477,203**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

20. INVESTMENT SECURITIES

(a) Group	2017 KShs'000	2016 KShs'000
Available-for sale		
Equity investment	738,410	23,652
Preference shares investment in I&M Realty Limited**	3,500,000	3,500,000
Corporate bonds - available-for-sale	331,104	330,992
Treasury bonds - available-for-sale (Non Liquid)	15,109,383	15,612,575
Treasury bills – available-for-sale (Non Liquid)	5,360,765	5,979,700
Total available-for-sale	**25,039,662**	**25,446,919**
Held-to-maturity		
Treasury bonds (Non Liquid)	14,109,056	8,680,199
Treasury bills (Liquid)	-	10,927,060
Treasury bills (Non Liquid)	10,388,810	-
Total held to maturity	**24,497,866**	**19,607,259**
Total investment securities	**49,537,528**	**45,054,178**

* 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 Limited issued 350 5% non-cumulative preference shares of a par value of Kshs 10,000,000/- each to the value of Kshs 3.5 billion, 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.

(b) Company	2017 KShs'000	2016 KShs'000
Available-for sale		
Equity investment	700,902	-
Corporate bonds - available-for-sale	331,104	330,992
Preference shares investment in I&M Realty Limited**	3,500,000	3,500,000
Treasury bonds - available-for-sale (Non Liquid)	15,109,383	15,612,575
Treasury bills – available-for-sale (Non Liquid)	5,360,765	5,979,700
Total available-for-sale	**25,002,154**	**25,423,267**
Held-to-maturity		
Treasury bonds (Non Liquid)	12,989,410	8,151,758
Treasury bills (Liquid)	-	8,696,683
Treasury bills (Non Liquid)	7,758,363	-
Total held to maturity	**20,747,773**	**16,848,441**
Total investment securities	**45,749,927**	**42,271,708**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

20. INVESTMENT SECURITIES (Continued)

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 2017				
At 1 January 2017	41,199,534	3,500,000	23,652	330,992
Additions	39,997,582	-	700,902	-
Disposals and maturities	(35,758,786)	-	-	-
Revaluation gain	-	-	14,383	-
Changes in fair value	(381,536)	-	-	-
Amortisation of discounts and premiums	15,158	-	-	-
Unearned interest	(105,771)	-	-	-
Interest receivable	63,305	-	-	112
Translation reserve	(61,472)	-	(527)	-
At 31 December 2017	**44,968,014**	**3,500,000**	**738,410**	**331,104**
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**

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 2017				
At 1 January 2017	38,440,716	3,500,000	-	330,992
Additions	35,999,798	-	700,902	-
Disposals and maturities	(32,813,750)	-	-	-
Changes in fair value	(381,536)	-	-	-
Amortisation of discounts and premiums	15,158	-	-	-
Unearned interest	(105,771)	-	-	-
Interest receivable	63,306	-	-	112
At 31 December 2017	**41,217,921**	**3,500,000**	**700,902**	**331,104**
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**

At 31 December 2017, unamortized premiums on investment securities amounted to KShs 278,797,893 (2016 – KShs 230,809,894) and unamortized discounts amounted to KShs. 1,002,298,392 (2017 – KShs 1,044,922,899).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

21. INVESTMENT IN SUBSIDIARIES

			2017		2016	
	Country of incorporation	Sector	KShs'000	% Ownership	KShs'000	% Ownership
I&M Bank (T) Limited	Tanzania	Banking	2,324,025	70.38%	2,324,025	70.38%
I&M Realty Limited	Kenya	Real estate	-	-	-	-
I&M Insurance Agency Limited	Kenya	Insurance	100	100%	100	100%
			2,324,125		**2,324,125**	

The Bank acquired 55.03% controlling equity stake in CF Union Bank Limited (now I&M Bank (T) Limited) on 14 January 2010 to offer banking services in Tanzania. During the year, through a combination of rights issues (effective 12.10.2016) and a buyout of Proparco shares in I&M I&M Bank (T) Limited) (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 Bank (T) Limited)	2017	1,333,539	(908,179)	**425,360**	**228,066**
	2016	1,324,797	(923,491)	**401,306**	**258,172**
I&M Insurance Agency Limited	2017	99,956	(38,593)	**61,363**	**42,938**
	2016	70,116	(36,399)	**33,717**	**23,341**

	Bank	
	2017 KShs'000	2016 KShs'000
At I January	2,324,125	1,123,111
Disposal of I&M Realty Limited	-	(100)
Additional investment in I&M Bank (T) Limited	-	819,906
Rights issue	-	381,208
At 31 December	**2,324,125**	**2,324,125**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

21. INVESTMENT IN SUBSIDIARIES (Continued)

On 31 March 2016 as part of group restructuring the Bank transferred 100% of the share capital in I&M Realty Limited 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 Limited 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**
Net Assets and proceeds on disposal	5,119
Less: Cash and cash equivalent	(41,010)
Net cash outflow	**(35,891)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

22. PROPERTY AND EQUIPMENT

(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 2017	-	1,025,444	766,789	524,250	87,887	73,555	2,477,925
Additions	-	55,264	41,228	29,395	7,523	84,898	218,308
Transferred from Giro Limited (formerly Giro Commercial Bank Limited)	-	39,226	74,483	45,375	-	-	159,084
Disposals	-	-	(519)	(600)	(4,571)	-	(5,690)
Reclassification/internal transfers	-	52,494	101,879	(49,875)	-	(104,498)	-
Write offs/back	-	-	(1,211)	(290)	-	-	(1,501)
Items expensed	-	-	-	-	-	(4,985)	(4,985)
Translation differences	-	(3,397)	(3,459)	(1,613)	(355)	(65)	(8,889)
At 31 December 2017	**-**	**1,169,031**	**979,190**	**546,642**	**90,484**	**48,905**	**2,834,252**
Depreciation							
At 1 January 2017	-	652,649	445,885	428,279	59,316	-	1,586,129
Transferred from Giro Limited (formerly Giro Commercial Bank Limited)	-	31,016	65,508	43,204	-	-	139,728
Reclassification	-	-	21,782	(21,782)	-	-	-
Charge for the year	-	97,974	76,266	74,960	12,719	-	261,919
Write-offs	-	-	(979)	(259)	-	-	(1,238)
On disposal	-	-	(519)	(561)	(4,325)	-	(5,405)
Translation differences	-	(1,363)	(1,421)	(682)	(179)	-	(3,645)
At 31 December 2017	**-**	**780,276**	**606,522**	**523,159**	**67,531**	**-**	**1,977,488**
Net book value at 31 December 2017	**-**	**388,755**	**372,668**	**23,483**	**22,953**	**48,905**	**856,764**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (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 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
Disposal	-	-	(8,470)	(10,820)	(8,121)	-	(27,411)
Reclassification/internal transfers	-	5,525	2,182	(439)	-	(7,268)	-
Transfer from intangible assets	-	-	-	-	-	(5,892)	(5,892)
Items expensed	-	-	-	-	-	(2,737)	(2,737)
Disposal of subsidiary-I&M Realty Limited	(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
Write offs	-	-	(7,244)	(10,737)	(7,335)	-	(25,316)
Disposal of subsidiary-I&M Realty Limited	(52,419)	-	(847)	-	-	-	(53,266)
Translation differences	-	(116)	(84)	(90)	(13)	-	(303)
at 31 December 2016	**-**	**652,649**	**445,885**	**428,279**	**59,316**	**-**	**1,586,129**
Net book value at 31 December 2016	**-**	**372,795**	**320,904**	**95,971**	**28,571**	**73,555**	**891,796**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

22.PROPERTY AND EQUIPMENT (Continued)

(b) Company

	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 2017	887,575	589,781	492,251	73,071	55,889	2,098,567
Additions	26,439	37,529	28,783	4,650	79,147	176,548
Transferred from Giro Limited (formerly Giro Commercial Bank Limited)	39,226	74,483	45,377	-	-	159,086
Disposals	-	(519)	-	(3,900)	-	(4,419)
Reclassification/internal transfers	52,494	20,975	31,029	-	(104,498)	-
Items expensed	-	-	-	-	(4,985)	(4,985)
At 31 December 2017	**1,005,734**	**722,249**	**597,440**	**73,821**	**25,553**	**2,424,797**
Depreciation						
At 1 January 2017	598,769	381,020	411,153	52,556	-	1,443,498
Transferred from Giro Limited (formerly Giro Commercial Bank Limited)	31,016	65,508	43,204	-	-	139,728
On disposals	-	(519)	-	(3,700)	-	(4,219)
Charge for the year	83,558	55,905	69,039	9,593	-	218,095
At 31 December 2017	**713,343**	**501,914**	**523,396**	**58,449**	**-**	**1,797,102**
Net book value at 31 December 2017	**292,391**	**220,335**	**74,044**	**15,372**	**25,553**	**627,695**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (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 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
Disposal	-	(7,453)	(9,663)	(7,870)	-	(24,986)
Reclassification/internal transfers	5,525	2,182	(439)	-	(7,268)	-
Items expensed	-	-	-	-	(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
Write offs/Back	-	(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**

Assets that are fully depreciated amounted to KShs 1,736,123,900 (2016 - KShs 1,134,050,997). If depreciation had been charged during the year on the cost of these assets at a nominal rate, it would have amounted to KShs 414,670,053 (2016 – KShs 291,023,564).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

23. INTANGIBLE ASSETS

(a) Goodwill

	2017 KShs'000	2016 KShs'000
(i) Group		
I&M Bank (T) Limited	496,262	608,953
Biashara Bank of Kenya Limited	10,747	10,747
Balance as 31 December	**507,009**	**619,700**
(ii) Company		
Goodwill on assets purchased from Biashara Bank of Kenya Limited	**10,747**	**10,747**
(iii) Movement of Goodwill		
At 1 January	619,700	619,700
Exchange differences	(112,691)	-
At 31 December	**507,009**	**619,700**

The recoverable amounts for I&M Bank (T) Limited has been calculated based on their value in use, determined by discounting the future cash flows expected to be generated from the continuing use of the Cash Generating Unit (CGU). The present value of the recoverable amounts on I&M Bank LIMITED share were Kshs 3.295 billion (2016: Kshs 2.07 billion) for I&M Bank (T) Limited. No impairment losses were recognised during 2017 (2016: 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 Bank (T) Ltd 2017
5 year risk free rate	13.64%
Risk premium	13.90%
Terminal growth rate	3.00%
Exchange rate	KShs 1 = Tzs 21.40

	2016
5 year risk free rate	17.96%
Risk premium	12.50%
Terminal growth rate	3.00%
Exchange rate	KShs 1 = Tzs 17.15

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

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

23. INTANGIBLE ASSETS (Continued)

(b) Computer software

(i) Group

2017 Cost	Computer Software KShs'000	Capital work in progress KShs'000	Total KShs'000
At 1 January	**907,350**	**92,693**	**1,000,043**
Additions	61,527	135,456	196,983
Reclassification from capital work in progress	105,626	(105,626)	-
Transferred from Giro Limited (formerly Giro Commercial Bank Limited)	27,491	-	27,491
Item expensed through P&L	-	(16,034)	(16,034)
Translation differences	(2,778)	-	(2,778)
At 31 December 2017	**1,099,216**	**106,489**	**1,205,705**
Amortisation			
At 1 January	**784,147**	**-**	**784,147**
Transferred from Giro Limited (formerly Giro Commercial Bank Limited)	17,518	-	17,518
Amortisation for the year	124,265	-	124,265
Translation differences	(1,950)	-	(1,950)
At 31 December 2017	**923,980**	**-**	**923,980**
Carrying amount at 31 December 2017	**175,236**	**106,489**	**281,725**
2016			
Cost			
At 1 January	**816,868**	**95,841**	**912,709**
Additions	42,550	39,189	81,739
Reclassification from capital work in progress	48,217	(48,217)	-
Transfers to property and equipment	-	5,892	5,892
Disposals	-	(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**
Carrying amount at 31 December 2016	**123,203**	**92,693**	**215,896**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

23. INTANGIBLE ASSETS (Continued)

(b) Computer software (Continued)

(ii) Company

2017 Cost	Computer Software KShs'000	Capital work in progress KShs'000	Total KShs'000
At 1 January	**829,118**	**39,187**	**868,305**
Additions	45,313	135,456	180,769
Reclassification from capital work in progress	105,626	(105,626)	-
Transferred from Giro Limited (formerly Giro Commercial Bank Limited)	27,491	-	27,491
Item expensed through P&L	-	(16,034)	(16,034)
At 31 December 2017	**1,007,548**	**52,983**	**1,060,531**
Amortisation			
At 1 January	**706,599**	**-**	**706,599**
Transferred from Giro Limited (formerly Giro Commercial Bank Limited)	17,518	-	17,518
Amortisation for the year	96,603	-	96,603
At 31 December 2017	**820,720**	**-**	**820,720**
Carrying amount at 31 December 2017	**186,828**	**52,983**	**239,811**
2016			
Cost			
At 1 January	**760,226**	**35,325**	**795,551**
Additions	33,577	39,189	72,766
Reclassification from capital work in progress	35,315	(35,315)	-
Items expensed through P&L	-	(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**

The company's computer software with a gross value of KShs 519,569,458 (2016 – KShs 448,997,063) are fully amortised but still in use.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

24. DEFERRED TAX (ASSETS/LIABILITIES)

Deferred tax assets at 31 December 2017 and 31 December 2016 are attributable to the following:

(a) Deferred tax asset

(i) Group

2017	Balance at 1 January KShs'000	Prior year under/over provision KShs'000	Recognised in equity KShs'000	Translation differences KShs'000	Recognized in profit or loss KShs'000	Balance at 31 December KShs'000
Equipment	68,299	1,687	-	420	44,004	114,410
General provisions	249,894	-	-	(3,480)	394	246,808
Other provisions	311,309	246,330	-	(7)	521,838	1,079,470
Available-for-sale reserves	152,460	-	(88,998)	49	-	63,511
	781,962	**248,017**	**(88,998)**	**(3,018)**	**566,236**	**1,504,199**
2016						
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**

(ii) Company

2017	Balance at 1 January KShs'000	Prior year under/over provision KShs'000	Recognised in equity KShs'000	Translation differences KShs'000	Recognized in profit or loss KShs'000	Balance at 31 December KShs'000
Equipment	88,239	-	-	-	43,680	131,919
General provisions	145,938	-	-	-	(66,543)	79,395
Other provisions	291,289	246,330	-	-	521,692	1,059,311
Available-for-sale reserves	152,460	-	(84,634)	-	-	67,826
	677,926	**246,330**	**(84,634)**	**-**	**498,829**	**1,338,451**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

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

(a) Deferred tax asset (Continued)

(ii) Company (Continued)

2016	Balance at 1 January KShs'000	Prior year under/over provision KShs'000	Recognised in equity KShs'000	Translation differences KShs'000	Recognized in profit or loss KShs'000	Balance at 31 December KShs'000
Equipment	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**

(b) Deferred tax liability

Group						
2017						
Property and equipment	-	-	-	-	-	-
	-	-	-	-	-	-
2016						
Property and equipment	75	(75)	-	-	-	-
	75	**(75)**	**-**	**-**	**-**	**-**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

25. (a) DUE FROM RELATED PARTY

	2017 KShs'000	2016 KShs'000
(i) Group		
I&M Realty Limited	853,503	21,285
I&M Bank (Rwanda) Limited	549	4,836
	854,052	**26,121**
(ii) Company		
I&M Realty Limited	853,503	21,285
I&M Bank (T) Limited	22,277	132,447
I&M Bank (Rwanda) Limited	549	4,836
	876,329	**158,568**

(b) DUE TO RELATED PARTY

	2017	2016
(i) Group		
Giro Limited (formerly Giro Commercial Bank Limited)	353,770	-
I&M Holdings Limited	78,800	71,375
I&M Realty Limited	913,324	692,887
I&M Bank (Rwanda) Limited	671,281	347,705
I&M Burbidge Capital Limited	9,011	7,145
I&M Capital Limited	5,939	5,598
	2,032,125	**1,124,710**
(ii) Company		
Giro Limited (formerly Giro Commercial Bank Limited)	353,770	-
I&M Holdings Limited	78,800	71,375
I&M Realty Limited	913,324	692,887
I&M Bank (T) Limited	17,362	42,289
I&M Bank (Rwanda) Limited	671,281	347,705
I&M Insurance Agency Limited	35,750	32,066
I&M Burbidge Capital Limited	9,011	7,145
I&M Capital Limited	5,939	5,598
	2,085,237	**1,199,065**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

26. OTHER ASSETS

	2017 KShs'000	2016 KShs'000
(a) Group		
Prepayments	235,189	279,198
Derivative assets (Note 35(b))	711,396	525,764
Other receivables	788,965	707,191
	1,735,550	**1,512,153**
(b) Company		
Prepayments	171,139	208,904
Derivative assets (Note 35(b))	711,396	525,764
Other receivables	744,979	694,941
	1,627,514	**1,429,609**

27. DEPOSITS FROM BANKS

	2017	2016
(a) Group		
Due within 90 Days	2,115,880	2,263,241
Due after 90 days	2,199	2,176,692
	2,118,079	**4,439,933**
(b) Company		
Due within 90 Days	1,444,079	1,085,929
Due after 90 days	2,199	2,176,692
	1,446,278	**3,262,621**

28. DEPOSITS FROM CUSTOMERS

	2017	2016
(a) Group		
Government and Parastatals	1,396,933	1,319,806
Private sector and individuals	146,185,238	128,316,261
	147,582,171	**129,636,067**
(b) Company		
Government and Parastatals	509,489	780,695
Private sector and individuals	132,291,403	115,388,736
	132,800,892	**116,169,431**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

29. OTHER LIABILITIES

	2017 KShs'000	2016 KShs'000
(a) Group		
Accruals	1,108,080	1,248,953
Other accounts payables	1,947,380	913,749
Bankers cheques payable	155,681	175,662
	3,211,141	**2,338,364**
(b) Company		
Accruals	1,030,096	1,193,564
Other accounts payables	1,781,584	833,868
Bankers cheques payable	139,025	158,073
	2,950,705	**2,185,505**

30. LONG TERM BORROWINGS

(a) Group		
Less than one year	1,978,813	1,866,182
One to five years	5,335,886	6,139,907
	7,314,699	**8,006,089**

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

USD 5 million facility granted on 3 July 2012 by Societe de Promotion et de Participation Pour la Cooperation Economique S.A (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 Nenderlandse Financierings-Maatschappij Voor Ontwikkelingslande N.V (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.

(b) Company	2017 KShs'000	2016 KShs'000
Less than one year	1,812,239	1,495,818
One to five years	4,152,989	4,819,473
	5,965,228	**6,315,291**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

30. LONG TERM BORROWINGS (Continued)

The Company's borrowings constituted the following:

(i) USD 50,000,000 facility granted on 16 July 2013 by International Financial Corporation (IFC) repayable semi-annually over 7 years after an initial two years grace period.
(ii) 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.
(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.
(v) USD 7,000,000 facility granted on 22 December 2017 by Bank One Limited for a tenor of 2 years with redemption on maturity date and interest repayable semi-annually.
(vi) USD 7,400,000 facility granted on 29 December 2017 by responsAbility Investment AG repayable annually over 3 years and interest repayable semi-annually for the same period.

Loan movement schedule

	2017 KShs'000	2016 KShs'000
(a) Group		
At 1 January	8,006,089	9,141,735
Funds received	1,488,240	1,239,717
Payments on principal and interest	(2,170,783)	(2,768,224)
Interest payable	29,884	40,281
Translation differences	(38,731)	352,580
At 31 December	**7,314,699**	**8,006,089**
(b) Company		
At 1 January	6,315,291	8,606,203
Funds received	1,488,240	-
Payments on principal and interest	(1,817,778)	(2,556,122)
Interest payable	13,619	24,397
Translation differences	(34,144)	240,813
At 31 December	**5,965,228**	**6,315,291**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

31. SUBORDINATED DEBT

	2017 KShs'000	2016 KShs'000
(a) Group		
Less than one year	28,532	27,214
One to five years	4,483,783	4,479,964
	4,512,315	**4,507,178**

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 Bank (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.

	2017 KShs'000	2016 KShs'000
(b) Company		
Less than one year	25,666	24,380
One to five years	3,655,000	3,655,000
	3,680,666	**3,679,380**

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.

32. SHARE CAPITAL AND RESERVES

(a) Share capital

	Group and Company	
	2017 KShs'000	2016 KShs'000
Authorised		
1 January and 31 December-30,000,000 Ordinary shares of KShs 100 each	**3,000,000**	**3,000,000**
Issued and fully paid		
1 January and 31 December-28,802,453 Ordinary shares of KShs 100 each	**2,880,245**	**2,880,245**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

32. SHARE CAPITAL AND RESERVES (Continued)

(b) Major shareholders and Share premium

The major shareholders at 31 December 2017 and 2016 were as follows:

	%	Number of shares	Share Capital KShs'000	Share Premium KShs'000
I&M Holdings Limited (2017)	**100**	**28,802,453**	**2,880,245**	**3,773,237**
Acquisition expenses	**-**	**-**	**-**	**(13,613)**
At 31 December	**100**	**28,802,453**	**2,880,245**	**3,759,624**
I&M Holdings Limited (2016)	**100**	**28,802,453**	**2,880,245**	**3,773,237**

(c) Revaluation reserve

The revaluation reserve relates to the revaluation of buildings.

(d) 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.

(e) 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.

(f) 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 2017 (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	2017 KShs'000	2016 KShs'000
Profit before income tax		7,871,653	9,025,473
Adjustments for:			
Depreciation	22	261,919	264,700
Amortisation of intangible asset	23	124,265	96,170
Profit on sale of property and equipment		(2,359)	(2,280)
Write back-intangible assets		-	12
Write off - Equipment		16,034	2,737
Property and equip items expensed		5,248	-
Profit on sale of available for sale securities		(208,885)	(277,478)
Dividend Income		-	(95,000)
Exchange reserves		(62,297)	40,434
		8,005,578	**9,054,768**
(Increase)/decrease in operating assets			
Movement in loans and advances to customers		(5,427,918)	(5,769,614)
Investment in securities		397,670	(10,819,789)
Cash and balances with Central Banks:			
– Cash Reserve Ratio		655,440	(543,543)
Due from group companies		(827,931)	(99,736)
Loan and advances to banks		2,350,020	(4,297)
Other assets		24,334	(646,357)
		(2,828,385)	**(17,883,336)**
Increase/(decrease) in operating liabilities			
Customer deposits		3,925,176	12,950,065
Deposits from banks		-	(238,085)
Long term borrowings		(691,390)	(1,135,646)
Due to group companies		422,454	1,095,207
Other liabilities		295,882	510,526
		3,952,122	**13,182,067**
Cash flows generated from operating activities		**9,129,315**	**4,353,499**
Tax paid	13(b)	(3,512,174)	(2,613,282)
Net cash flows generated from operating activities		**5,617,141**	**1,740,217**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

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

(b) Analysis of cash and cash equivalents - Group

	Note	2017 KShs'000	2016 KShs'000	Change KShs'000
Cash and balances with central banks – excluding CRR	16	2,877,985	2,146,200	731,785
Items in the course of collection	17	378,462	441,789	(63,327)
Loans and advance to banks	18(b)	2,612,377	3,172,614	(560,237)
Deposits from banks	26(b)	58,613	(2,263,241)	2,321,854
		5,927,437	**3,497,362**	**2,430,075**

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

	Note	2017 KShs'000	2016 KShs'000
Cash flow from operating activities			
Profit before income tax		7,516,380	8,651,034
Adjustments for:			
Depreciation	22	218,095	223,452
Amortisation of intangible asset	23	96,603	73,111
Profit on sale of property and equipment		(2,421)	(1,979)
Write off - intangible assets		16,034	12
Write off - property and equipment		4,985	2,737
Profit on disposal of subsidiary (I&M Realty Limited)		-	(5,019)
Profit on sale of available for sale securities		(208,885)	(277,478)
Dividend income	10	(32,359)	(137,822)
		7,608,432	**8,528,048**
Increase/(decrease) in operating assets			
Movement in loans and advances to customers		(5,097,467)	(4,397,573)
Investment in securities		1,374,561	(8,623,520)
Due from group companies		(717,761)	(70,295)
Loans and advances to Banks		2,269,365	-
Cash and balances with Central Bank of Kenya:			
– Cash Reserve Ratio		303,326	(547,345)
Other assets		51,112	(657,274)
		(1,816,864)	**(14,296,007)**
Increase/(decrease) in operating liabilities			
Customer deposits		2,610,533	12,534,120
Balances due to group companies		371,708	992,928
Deposits from banks		(2,174,493)	(26,592)
Long-term borrowings		(350,063)	(2,290,912)
Other liabilities		217,806	484,691
		675,491	**11,694,235**
Cash flows generated from operating activities		**6,467,059**	**5,926,276**
Tax paid	13(b)(ii)	(3,317,338)	(2,453,954)
Net cash flows generated from operating activities		**3,149,721**	**3,472,322**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

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

(d) Analysis of cash and cash equivalents - Company

	Note	2017 KShs'000	2016 KShs'000	Change KShs'000
Cash and balances with Central Bank of Kenya – excluding CRR	16	2,229,982	1,549,387	680,595
Items in the process of collection	17	374,006	449,306	(75,300)
Loans and advances to banks	18(b)	2,544,525	2,729,611	(185,086)
Deposits from banks	26(b)	(1,444,079)	(1,085,929)	(358,150)
		3,704,434	**3,642,375**	**62,059**

(e) Transfer of assets and liabilities from Giro limited (Formerly Giro Commercial Bank Limited)

On 13 February 2017, I&M Holdings Limited acquired the entire issued share capital of Giro Limited (formerly Giro Commercial Bank Limited) following the receipt of all regulatory approvals and being satisfied that all conditions precedent as stipulated in the Share Purchase Agreement were met. Subsequently, the entire banking business was merged into that of I&M Bank LIMITED. An agreement to transfer assets was signed by both companies and the transaction was approved by the Central Bank of Kenya to take effect from 13 February 2017.

Subsequently, certain assets and liabilities of Giro Limited (formerly Giro Commercial Bank Limited) were transferred to I&M Bank LIMITED at net book values. The transfer of assets and liabilities had the following effect on the Group's assets and liabilities on transfer date.

2017:	KShs'000	Cash and Cash Equivalents KShs'000	Transferred assets net of cash and Cash Equivalents KShs'000
Cash and balances with CBK	1,201,763	(1,201,763)	-
Loans and advances to Banks	2,269,365	-	2,269,365
Investment securities	4,361,780	-	4,361,780
Loans and advances to Customers	8,850,365	-	8,850,365
Other Assets	277,060	-	277,060
Total Assets	**16,960,333**	**(1,201,763)**	**15,758,570**
Deposits from banks	6,151	(6,151)	-
Deposits from customers	14,020,928	-	14,020,928
Other Liabilities	2,933,254	-	2,933,254
Total liabilities	**16,960,333**	**(6,151)**	**16,954,182**
	-	**(1,195,612)**	**(1,195,612)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

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:

Group	2017 KShs'000	2016 KShs'000
Contingencies related to:		
Letters of credit	9,943,520	7,222,062
Guarantees	19,268,581	14,310,869
Acceptances	12,567,828	11,135,938
	41,779,929	**32,668,869**
Commitments related to:		
Outstanding spot/forward contracts	16,276,455	16,588,064
	58,056,384	**49,256,933**
Company		
Contingencies related to:		
Letters of credit	8,928,635	6,869,306
Guarantees	18,716,580	13,961,574
Acceptances	11,374,715	9,281,795
	39,019,930	**30,112,675**
Commitments related to:		
Outstanding spot/forward contracts	16,276,455	16,588,064
	55,296,385	**46,700,739**

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

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 as assessed and objected to all other items which were in the directors' view erroneously assessed. The KRA confirmed the assessment on 13 March 2017 amounting to KShs. 238,811,243. The bank lodged a case in the High Court for adjudication; subsequently, the High Court referred the matter to the Tax Appeals Tribunal for a decision.

At the date of approval of these financial statements, the matter is pending at the Tax Appeals Tribunal. Based on the prevailing Tax Procedure Act that defines, inter alia, timeframes in conduct of tax assessments, the directors in consultation with the bank legal and tax advisors are of the opinion the claim will be successfully defended. As a consequence, no provisions have been made in these financial statements.

36. ASSETS PLEDGED AS SECURITY

Group and Company

As at 31 December 2017, Treasury Bonds with a face value of KShs 1,270,000,000 (2016 – KShs 1,270,000,000) 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.

	2017 KShs	2016 KShs
(a) Transactions with directors/shareholders		
(i) Loans to directors/shareholders	**47,009**	**46,150**
Interest Income from loans to directors/shareholders	2,709	7,970
(ii) Deposits from directors/shareholders	**2,504,758**	**2,506,324**
Interest expense on deposits from directors/shareholders	163,335	197,426
(b) Transactions with related companies		
(i) Loans to related companies	**361,685**	**412,807**
Interest income from loans to related companies	42,920	50,059
(ii) Deposits from related companies	**2,647,135**	**1,675,873**
Interest expense on deposits from related companies	78,679	80,619
(iii) Amounts due from group companies subsidiaries/joint venture	**11,997**	**158,568**
Interest income on amounts due from subsidiaries and joint venture	-	187,464

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

37.RELATED PARTY TRANSACTIONS (Continued)

	2017 KShs	2016 KShs
(b) Transactions with related companies (Continued)		
(iv) Amounts due to group companies subsidiaries/joint venture	**-**	**1,199,065**
Interest expense on amounts due from subsidiaries and joint venture	-	40
(c) Transactions with employees		
Staff loans	**1,316,392**	**1,107,075**
Interest earned on these loans was KShs	88,846	78,279
(d) Management fees received from subsidiaries	**78,097**	**58,168**
(e) Management compensation	**92,134**	**80,014**

(f) 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 are market interest rates. There were no provisions held towards impairment of any of the advances to related parties.

38. CAPITAL COMMITMENTS

	2017 KShs	2016 KShs
Group	**2,195,401**	**1,588,870**
Company	**1,860,000**	**1,417,794**

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 492,973,000 (2016 – KShs 404,108,000) was charged to the Profit or loss statement in respect of operating leases. Future minimum lease payments under these operating leases are as follows:

	2017 KShs	2016 KShs
Less than one year	418,184	345,931
One to five years	2,933,970	1,797,088
Over five years	725,390	203,355
	4,077,544	**2,346,374**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (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 431,150,000 (2016 – KShs 339,813,000) was charged to the Profit or loss statement in respect of operating leases. Future minimum lease payments under these operating leases are as follows:

	2017 KShs'000	2016 KShs'000
Less than one year	415,998	313,630
One to five years	2,751,659	1,658,337
Over five years	725,390	165,686
	3,893,047	**2,137,653**

40. EVENTS AFTER THE REPORTING DATE

In January 2018 the European Investment Bank (EIB) approved a new US Dollar 40 million financing facility with I&M Bank LIMITED that will support investment by businesses across Kenya. Under this credit line, the Company will advance loans in US Dollars to eligible borrowers up to a maximum of 50% of total cost of each of the projects, which comply with EIB eligibility criteria undertaken by qualifying private enterprises and public sector entities in Kenya.


When you need to take
care of your wealth
We are on your side

I&M CSR NEWS
I&M KENYA CSR

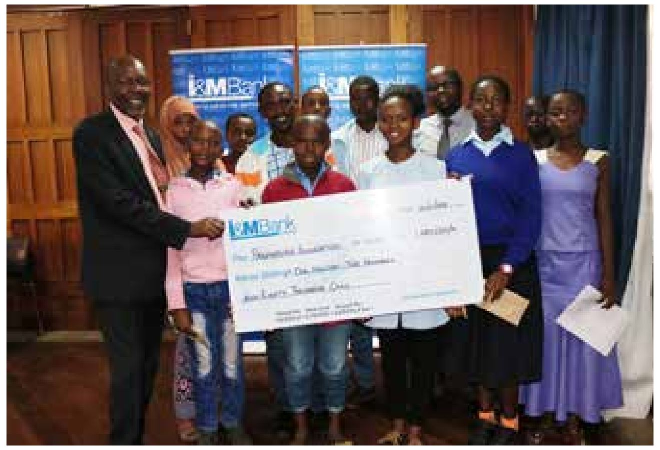
I&M Bank endeavors to be partners of growth for all its key stakeholders among them the community. Through its CSR arm, the Bank continued to spearhead its various Corporate Social Responsibility programmes in its key focus areas of: Education, Health, Community Service and Environment.

EDUCATION

The Bank continued to play a key role in partnering with various like - minded organizations to drive initiatives that promote quality education such as: scholarships for bright though needy students, mentorship programmes and school's constructions and refurbishments.

I&M Bank, Kenya Supports the Palmhouse Foundation Mentorship Programme

I&M Bank, Kenya continued to sponsor secondary school scholarships for upto 100 students who are beneficiaries of the Palmhouse Foundation. The Bank donated over Kshs.1 million towards this noble initiative. Over and above the education scholarships, the Bank volunteered its staff members to impart knowledge, motivation and wisdom towards the students at a full day mentorship forum.



Eric Kimani founder Palmhouse Foundation (Left) accompanied by Allan Obenjo (Right) of I&M Bank, Kenya, CSR presents dummy cheque to some of the beneficiaries

I&M Bank, Kenya provides Strathmore University Scholarships

In 2017, the Bank continued to support University education at Strathmore University. The Bank donated over KShs 6 million for students pursuing Finance related degrees. In addition to the scholarships, the beneficiaries of this initiative continued to join the Management Trainee programme, giving them an opportunity to get first hand on the job training at the Group.

Completion of the St. Ann's Suresh Raja Girls School in Kairi

Earlier in 2016, I&M Bank, Kenya embarked on a school construction project in Kairi. The school's construction now complete has been fully sponsored by the Bank at a cost in excess of KShs 200 million, and bears the name of St. Ann of Luzern as well as the name of the Bank's Chairman and Founder, Mr. Suresh B. Raja Shah St Ann's Suresh Raja Girl's High School, Kairi.

This grand milestone for the Bank underscores our commitment to driving sustainability through our shared growth agenda under the iMara strategy. St. Ann's Suresh Raja Girls High School Kairi aspires to be a center of excellence offering the best learning facilities to girls coming from disadvantaged/financially constrained backgrounds. The school admitted its first class of 42 students who joined Form 1 in 2018.

The first Form One intake of the St.Ann's Suresh Raja Girls School

I&M Bank, Kenya Supports Teule Kenya Beneficiaries

The Bank in 2017, continued to support education scholarships worth over KShs 600,000, for selected beneficiaries of the Teule Kenya Children's Home in various schools such as Kangundo High School, Mwingi Boys School, All Saints Academy, Kangema High School, Chamakanga Girls School, Ngenia High School among others. Teule Kenya is a Christian Non-Profit organization that rescues and supports abandoned, orphaned, abused or neglected children by providing a nurturing environment, which supports excellence in education and personal development.

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

I&M Bank, Kenya Participates in Central Bank's Mountain Expedition

The Central Bank of Kenya (CBK) organized an expedition to climb Mt. Kilimanjaro to raise funds to support St. Kizito Litein School for the Deaf (Kericho), a mixed (girls and boys) boarding primary school in Kericho county, established in 1985. I&M Bank participated in the initiative and sponsored KShs 1,000,000 to support the school. The initiative sought to raise KShs 20 million to meet various needs of the school through the mountain expedition.

The team that participated in the expedition

ENVIRONMENT

In our bid to help build sustainable environments, I&M Bank, Kenya continued to engage in various activities under the Environment pillar in CSR. Key among them was:

I&M Bank, Kenya Rehabilitates I&M Bank Forest in Karura

Over time, I&M Bank, Kenya has organized annual tree planting days for staff members and their families at the I&M Bank forest in Karura. The 25 acre I&M Bank forest was rehabilitated to create room to plant more trees. So far, the Bank has planted over 3,000 trees and targets to plant 1 million trees.

I&M Bank, Kenya Funds Kibagare River Rehabilitation

In 2017, I&M Group, supported the rehabilitation of the Kibagare River through funding a Research initiative championed by Friends of City Park, under the Nature Kenya Initiative. The Research sought solutions on the development of a conceptual design for the most natural and financially sustainable solutions for restoring of the river. The Group donated KShs 432,000 towards this initiative through the I&M Realty subsidiary.

HEALTH

I&M Bank has partnered with various health organizations to support their initiatives with the objective of improving the quality of life of their beneficiaries. Last year, I&M Bank ventured into various activities under this pillar among them:

I&M Hope Campaign

I&M Bank, Kenya staff members continued to express their spirit of sharing hope with the less fortunate in society through the I&M Hope Campaign. This campaign was in support of the Faraja Cancer Support Trust; and was conducted in October Breast Cancer Awareness month. Staff members from I&M Bank donated over KShs 600,000 to support the Trust and the Bank matched the contribution made by staff members. The I&M Hope Campaign also presented an opportunity on the sensitisation prevention and care on Cancer. The Faraja Cancer Support Trust offers cancer patients palliative care, information, advice, counselling and complementary therapies.

I&M Bank, Kenya Donates Towards Kamili Mental Health Organization

I&M Bank, Kenya donated over KShs 300,000 to support initiatives spearheaded by the Kamili Organization, a Kenyan NGO set up to support the few mental hospitals running in Kenya. The organization champions various initiatives in Mental Health such as training of nurses and setting up of outreach clinics to support the growing demand for Mental Health Care in the country.

COMMUNITY SERVICE

I&M Bank, Kenya in 2017 supported various Community Service initiatives for the less fortunate in our society. The Bank invested over KShs 2,000,000 towards this initiatives. Key among them was:

I&M Bank, Kenya Supports Nest Children's Home

I&M Bank, Kenya continued to support the Nest Children's home in the year 2017 through provision of formula milk for the young ones. The Nest Children's home is a Project for the rescue, rehabilitation and Integration of Children in Conflict with the Law & Children of Imprisoned Mothers. The program reaches out to prevent the children of imprisoned mothers from fighting for survival in the streets.

I&M Bank, Kenya Donates Towards St. Martin's Kibagare Feeding Programme

The Bank through its commitment over the years in helping less fortunate orphaned children from Kibagare slums in Nairobi, donated towards a monthly feeding programme that benefits 1,500 children from the St. Martin's Kibagare Children's home. The center was set up by the Catholic Church's Assumption Sisters of Nairobi and has continued to rescue neglected children from the slums.

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

ENVIRONMENT

I&M Bank (T) Limited Participates Usafi Day

In support of President's initiative of dedicating a special day in a month for general cleanliness, the Bank participated in cleaning Coco Beach area in Dar es Salaam in October last year. I&M Bank (T) Limited has set up various initiatives aimed at building sustainable environments through its Environment pillar in CSR.

I&M Bank (T) Limited CEO, Mr. Baseer Mohammed (first from the right) leading the team by example

COMMUNITY SERVICE

I&M Bank (T) Limited Sets Up Donation Centers for Cornel Ngaleku Children's Centre

The Bank last year set up donation centers for Cornel Ngaleku Children's Centre, at the teller counters in all branches for customers to donate towards the home. The Bank's customers were able to donate TZS 535,076, which was credited to the Centre's account.

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