I&M Bank
LIMITED

I&M BANK LIMITED

ANNUAL REPORT

AND FINANCIAL STATEMENTS | 2018

CREATING SUSTAINABLE GROWTH

Regulated by the Central Bank of Kenya

TABLE OF CONTENTS

We value sustainable growth based on a strong foundation and sound principles and believe in the eternity of sustainability. Time changes everything except our values, which affirms our commitment to being partners of growth for all our stakeholders.

AFS	Available-for-sale
AGM	Annual General Meeting
ALCO	Assets and Liabilities Committee
BAC	Board Audit Committee
BCC	Board Credit Committe
BNRC	Board Nominations and Remuneration Committee
BPC	Board Procurement Committee
BRMC	Board Risk Management Committee
BSTC	Board Share Transfers Committee
CBK	Central Bank of Kenya
CEO	Chief Excecutive Officer
CMA	Capital Markets Authority
CRMC	Credit Risk Management Committee
CSR	Corporate Social Responsibility
EAD	Exposure at default
ECL	Expected credit losses
ED	Excecutive Director
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit and loss
GCBL	Giro Commercial Bank Limited
GDP	Gross Domestic Product
GPO	General Post Office
Group	I&M Bank LIMITED together with its subsidiary undertakings
HRC	Human Resources Committee
IAS	International Accounting Standards
ICT	Information and Communication Technology
IFC	International Finance Corporation
IFRSs	International Financial Reporting Standards
IMIAL	I&M Insurance Agency Limited
IMHP	I&M Holdings PLC
ITSC	IT Steering Committee
LGD	Loss given default
M&A	Mergers and Acquisition
NSE	Nairobi Securities Exchange
PBT	Profit before tax
PD	Probability of default
SICR	Significant increase in credit risk
SPPI	Solely payments of principal and interest
YIB	Youjays Insurance Brokers Limited

Suresh B R Shah, MBS

Chairman

Mr. Suresh Bhagwanji Raja Shah is a founder member and Chairman of I&M Bank LIMITED. He has vast experience in the banking industry and in business. In December 2002, he was bestowed the Honour of a Moran of the Order of the Burning Spear.

He sits on the boards of several companies.

Mr Sarit S. Raja Shah

Executive Director

Mr Sarit S Raja Shah has been the Executive Director of I&M Bank since 1993. He holds a Master's degree in Internal Audit and Management from City University London.

He also serves on the boards of several companies including I&M Holdings PLC subsidiaries and associates such as: I&M Bank Limited, I&M Bank (T) Limited and GA Insurance Limited.

Mr Sachit Shah

Non - Executive Director

Mr Sachit Shah joined the board in July 2015. He holds a Bachelor's of Science degree in Banking and Finance from City University London. He is the Executive Director of GA Insurance Limited. He has had the opportunity to work with AMP Asset Management in London and HSBC Bank PLC,, London.

He sits on the boards of several companies.

Mr Soundararajan

Independent Non - Executive Director

Mr Soundararajan, CEO of Delta Corp East Africa Ltd, joined the Board in 2009. He made a name for himself in the banking industry having served in different positions in banks both in Kenya and India. Before joining Delta Corp East Africa, he was the managing Director of CFC Financial Services Ltd and also Managing Director of CFC Bank.

Mr. Nikhil Rustam Hira

Independent Non - Executive Director

Mr. Hira, Director at Bowman and former partner of Deloitte East Africa, joined the Board in February 2019. He holds a BSc Joint Honours in Accountancy and Process Engineering from University of Salford, England. He is a Fellow of the Institute of Chartered Accountants of England and Wales, member of the Institute of Certified Public Accountants of Kenya and also registered with similar institutes in Uganda and Tanzania. He headed the tax practice for Deloitte in the East Africa region and in addition was the Technology, Media and Telecom industry leader. He has specialised in taxation since 1987 in various jurisdictions around the world including the UK and East Africa.

He sits on the Advisory board of Eastern Africa Association

Mr. Edward Muchemi Wambugu

Independent Non - Executive Director

Mr Wambugu, Management Consultant and founder of Sirius Consult, Joined the Board in February 2019. He holds an Honors degree in Commerce, majoring in Management Information Systems from the University of Manitoba, Canada, and a Masters Certificate in Project Management from the University of California-Berkeley, USA. He is a certified member of the Project Management Institute (PMI) and also an ICF certified Executive and Systemic Team Coach.

He sits on the board of several other organisations and institutions.

Dr Nyambura Koigi

Independent Non - Executive Director

Dr. Koigi joined the Board in April 2015. She was the Managing Director of Postbank from 2005 to 2014. She has worked in various capacities in the financial sector including Banking, Business Development and Information Communication Technology. She has extensive training and experience in Leadership, Project Management, Product Development, ICT and Microfinance.

She holds a Doctorate of BA from the Nelson Mandela Metropolitan University, an MBA and a BA both from the University of Nairobi. She is a fellow of the Institute of Certified Public Secretaries of Kenya and the Kenya Institute of Management. She sits on the boards of several companies.

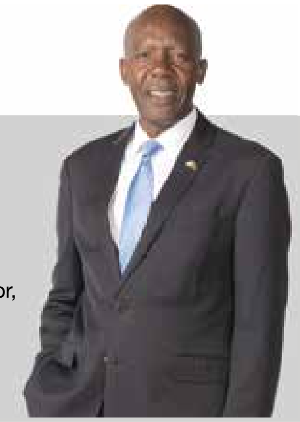
Mr Kihara Maina

Chief Executive Officer

Mr Kihara Maina, joined I&M Bank as the Chief Executive Officer and Board member in May 2016. He holds a Bachelor's degree in Mathematics from Moi University and an Executive MBA from the University of Chicago – Booth School of Business.

He began his banking career in June 1993 at Stanbic Bank Kenya then moved to Barclays Bank Kenya in 1997 where he served extensively over the years ultimately taking up senior leadership positions. Prior to joining I&M Bank, Kihara was the Managing Director of Barclays Bank Tanzania.

Mr. Eric Kimani, MBS



Independent Non - Executive Director

Mr Eric M Kimani, Founder of The Palmhouse Foundation, joined the board in 2005. He is a Certified Public Accountant and an advocate of the High Court of Kenya.

Mr Kimani has previously worked as the Financial Controller, Williamson Tea Kenya, Managing Director, Kenya Tea Development Agency and most recently Managing Director Sameer Africa. He is also the trustee/board member of several charitable and professional associations.

Mr. Mugo Kibati

Independent Non - Executive Director

Mr. Mugo Kibati joined the I&M Bank Limited Board in 2008 as a Director. He also chairs the Boards at M-Kopa Solar and Lake Turkana Wind Power Ltd. Mr Kibati holds Master's degrees from the prestigious Massachusetts Institute of Technology (MIT) and George Washington University in the USA.

He has also served assignments at the Kenya Telecommunications Investment Group and Lucent Technologies, USA and most recently as Group CEO at Sanlam Kenya PLC.

Mr. NP Kothari

Company Secretary

Mr Nalin P Kothari, partner at Axis Kenya joined the board in 1991. He is a Fellow of the Certified Public Secretaries, Kenya and a Fellow of the Institute of Chartered Secretaries and Administrators, UK and holds a degree in Law. Mr Kothari has served as company secretary to number public companies, multinationals overseas branches, charitable trusts and pension and provident schemes. He has also provided company secretarial services for companies in Uganda and Tanzania.

AV Chavda
Director, Credit

L A Sivaramakrishnan
Divisional Head,
Business Development

Lucy Thegeya
Divisional Head,
Business Support

Elias Makau
GM, Finance

Shameer Patel
GM, Strategy and
Transformation

Ruma Shah
GM, Internal Audit

Connie Macharia
GM, Credit

Rohit Gupta
GM, ICT

Stephen Kimwele
GM, Corporate Banking

Henry Kirimania
GM, Treasury

Joseph Njomo
GM, Operations

Priscilla Ndonga
GM, Human Resources

Enodius Makiwa
GM, Personal and
Business Banking

Suprio Sen Gupta
GM, Products
and Marketing

Gauri Gupta
GM, Corporate Advisory

Raphael Mapfumo
GM, Alternate Banking Channels

Chhanda C Mishra
GM, Projects

Anurag Srivastava,
Head of Integration,
Business Development

BOARD OF DIRECTORS

Suresh B R Shah, MBS	(Chairman)
Sarit S Raja Shah	(Executive Director)
Sachit S Raja Shah	
M Soundararajan*	
NR Hira	(Appointed 11 February 2019)
EM Wambugu	(Appointed 11 February 2019)
AN Koigi	
CK Maina	(Chief Executive Officer)
EM Kimani, MBS	(Resigned 22 March 2019)
PCM Kibati	(Resigned 22 March 2019)

* Indian

COMPANY SECRETARY

NP Kothari – FCS (Kenya)

AUDITORS

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

REGISTERED OFFICE

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

CORRESPONDENT BANKS

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

BRANCHES

NAIROBI

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

I&M Bank Tower
Kenyatta Avenue
P.O. Box 30238
00100 Nairobi GPO

Sarit Centre
Karuna Road Westlands
P.O. Box 30238
00100 Nairobi GPO

Ansh Plaza
Biashara Street
P.O. Box 30238
00100 Nairobi GPO

KCC Building
Changamwe Road
P.O. Box 30238
00500 Nairobi

Karen Office Park
Langata Road
P.O. Box 30238
00100 Nairobi GPO

Panari Centre
Mombasa Road
P.O. Box 30238
00100 Nairobi GPO

Centre Point
Parklands Road
P.O. Box 30238
00100 Nairobi GPO

Wilson Airport
Pewin House
P.O. Box 30238
00100 Nairobi GPO

Ongata Rongai
Maasai Mall
P.O. Box 30238
00100 Nairobi GPO

South C Shopping Centre
P.O. Box 30238
00100 Nairobi GPO

Langata Link Complex
Langata South Road
P.O. Box 30238
00100 Nairobi GPO

Kenol Kobil Valley Arcade
Gitanga Road
P.O. Box 30238
00100 Nairobi GPO

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

Gigiri Square
United Nations Avenue
P.O. Box 30238
00100 Nairobi GPO

Lavington Mall
James Gichuru Road
P.O. Box 30238
00100 Nairobi GPO

Lunga Lunga
Lunga Lunga Square
P.O. Box 30238
00100 Nairobi GPO

Yaya Centre
Argwings Kodhek Road
P.O. Box 30238
00100 Nairobi GPO

Gateway Mall
Mombasa road
P.O. Box 30238
00100 Nairobi GPO

Garden City
Thika Road
P.O. Box 30238
00100 Nairobi GPO

Milele Mall
Ngong Town
P.O. Box 30238
00100 Nairobi GPO

Cross Road
Off River Road
P.O. Box 30238
00100 Nairobi GPO

Spring Valley Business Park,
Ground floor, Block B
P.O. Box 30238
00100 Nairobi GPO

Eldama,
Eldama Park
P.O. Box 30238
00100 Nairobi GPO

Industrial Area
Dunga road
P.O. Box 30238
00100 Nairobi GPO

Ridge Court
Parklands
P.O. Box 30238
00100 Nairobi GPO

THIKA
Kenyatta Highway
80 West Place
P.O. Box 1207
01000 Thika

NYERI
Hopewell Place
Gakere Road
P.O. Box 747
301 Nyeri

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

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

NAKURU
Polo Centre
Kenyatta Avenue
P.O. Box 18445
20100 Nakuru

KITALE
Mega Centre Mall
Makasembo Road
P.O. Box 2278
30200 Kitale

ELDORET
Imperial Court
Uganda Road
P.O. Box 9362
30100 Eldoret

KISUMU
Bon Accord House
Oginga Odinga Street
P.O. Box 424
40100 Kisumu

KISII
Royal Towers
Hospital Road
P.O. Box 4474
40200 Kisii

MOMBASA
Biashara Bank Building
Nyerere Avenue
P.O. Box 86357
80100 Mombasa

Nyali Cinemax
Main Nyali Road
P.O. Box 86357
80100 Mombasa

Haile Selassie Avenue
Patel Samaj Building
Mombasa

Changamwe
Refinery Building
Refinery Road
P.O. Box 86357
80100 Mombasa

Mtwapa Mall
Mombasa Malindi Road
P.O. Box 86357
80100 Mombasa

MALINDI
Sabaki Centre
Lamu Road
P.O. Box 1125
80200 Malindi

I&M BANK, KENYA UNVEILS NEW BRAND PROMISE IN BRAND CAMPAIGN

2018 gave I&M Bank, Kenya the opportunity to tell a compelling and engaging story on our purpose "**to be partners of growth for all our key stakeholders-"** customers, shareholders, employees and community, lived through the Bank's core brand values and financial solutions.

Through this story, we launched to our different stakeholders, our brand promise "We are on Your Side," which was a silent theme aimed at achieving the Bank's purpose. The brand promise created a positive association between the I&M Bank brand and the ideals that our different stakeholders hold dear, and affirmed our commitment to walking with our stakeholders in their life's journey, by innovating to give market driven solutions and social impact investments, that help them meet both their lifestyle and financial requirements.

I&M BANK, KENYA LAUNCHES NEW CUSTOMER VALUE PROPOSITIONS, TARGETS THE PREMIUM, YOUNG PROFESSIONALS AND BUSINESS ENTITIES

I&M Bank, Kenya launched new customer value propositions for its business segments in line with its corporate strategy-Imara, in a move expected to further enable the growth of a deeply customer-focused organization responsive to the changing dynamics in the financial sector.

The development enhances I&M Bank's role as a trusted financial partner placing its customers' interests at the heart of its operations and service; and will help enhance customer centricity, dynamism and innovation for the institution.

The customer value propositions namely I&M Premium Select, I&M Premium Esteem, I&M Business and I&M Young Professionals, play an integral part in our strategy, and aims at serving clients across our chosen markets, giving each segment a customized proposition that will complement their lifestyle and financial requirements.

I&M BANK, KENYA ACQUIRES YOUJAYS INSURANCE BROKERS LIMITED

I&M Bank, Kenya, through its wholly owned subsidiary, I&M Insurance Agency Limited (IMIAL) successfully completed its acquisition of Youjays Insurance Brokers Limited (YIB). IMIAL acquired 100 percent of the shareholding of the insurance broking firm simultaneously merging its operations with the Group's Bancassurance division.

The acquisition was completed upon receipt of necessary regulatory approvals from the Central Bank of Kenya, the Competition of Kenya Authority of Kenya and the Insurance Regulatory Authority of Kenya. The deal underpins the Group's efforts in expanding revenue streams for its non-funded income portfolio in line with its iMara corporate strategy which ultimately increases shareholders' value.

Through the acquisition, the Bank's insurance agency benefitted from YIB's long heritage and growing customer base of over 400 customers and, a strong insurance premium portfolio of over Kshs. 400 million.

Kihara Maina, CEO I&M Bank Limited (Right) and Uday Shah, Director, Youjays Insurance Brokers Limited (YIB) (Left) exchange agreements during the signing ceremony to mark completion of the YIB Acquisition by I&M Bank Limited.

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

Last year, the European Investment Bank (EIB) extended a financing facility of upto US $ 40 million to I&M Bank, Kenya to facilitate onward lending to the Bank's SMEs, Corporate, and Institutional customers.

Under this credit line, the Bank has been able advance loans in US Dollars to eligible borrowers up to a maximum of 50% 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 funding line will help the Bank's SME, Corporate and Institutional Customers accelerate their business growth and support their expansion efforts as it underscores I&M Bank's purpose on being a partner of growth for all our key stakeholders.

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, KENYA SECURES FUNDING LINE FOR SMES WITH FMO, THE DUTCH DEVELOPMENT BANK

Last year, the Bank secured a US$40 million (Ksh 4.03 billion) loan from FMO, the Dutch Development Bank, for lending to small business enterprises (SMEs), in a move expected to boost our operations, currently hampered by cautious lending towards the segment.

The facility will be used primarily for onward lending to SMEs, thus supporting the expansion of I&M Bank's strategy to increase its SME loan book, and in the process aid in boosting the local economy.

I&M BANK AND DT DOBIE INK DEAL ON ASSET FINANCING FOR PREMIUM CLIENTS

DT Dobie Kenya and I&M Bank entered into an asset financing deal targeting the Bank's Premium customers and non-customers. The deal has seen the Bank offer upto 90 percent financing for the motor company's brand new Mercedes Passenger vehicles.

Under this financing agreement, customers will have an extended repayment period at competitive interest rates. In addition, the Bank through the Bancassurance arm, will provide an enriched comprehensive motor insurance package at a discounted premium rate.

The Bank will further provide discounted insurance premium financing (IPF) for this Asset Financing option, aimed at easing the burden to make lump sum insurance premium payments in affordable monthly instalments.

The Bank has laid out different initiatives aimed improving its loan book size and quality, and strategic partnerships like these with DT Dobie look to achieve this.

Kihara Maina, CEO I&M Bank, Kenya (Middle Left) and Ian Middleton, Managing Director, DT Dobie Kenya sign agreement on Asset Financing for Mercedes Benz vehicles, where the Bank will provide upto 90 percent Asset Financing. Looking on is Enodius Makiwa, GM Personal and Business Banking, I&M Bank Limited (seated extreme left), Maliha Sheikh, GM Sales Mercedes Benz (seated extreme right) and Peris Wairimu, Head of Legal, I&M Bank Limited (standing left).

NEW CARD MANAGEMENT SYSTEM ROLLED OUT IN I&M BANK, KENYA

I&M Bank, Kenya invested heavily on ensuring that the Bank's systems are easy and efficient to engage with. The Bank successfully migrated all of its prepaid, credit and debit cards into the new card management system. The new, stable and robust platform will definitely improve the infrastructure, to facilitate efficient customer service delivery standards in the Cards space. The new system will also help the Cards Business innovate market driven card products in future.

FINACLE 10 CORE BANKING SYSTEM ROLL OUT IN HIGH GEAR

The Bank ramped up efforts in setting up the upgraded core banking system – Finacle 10, which is expected to be rolled out this year. The Rwandan and Tanzanian subsidiary preceded in rolling out the upgraded core banking system.

ICUBE LAUNCHED FOR TRANSFORMATIVE DIGITAL FINANCIAL SOLUTIONS

The Bank launched the Digital Factory dubbed iCube now charged with the responsibility of developing transformative digital financial solutions. iCube launched the Online Account Onboarding solution aimed at improving our operational efficiencies and enhancing our customer delivery standards. The team also implemented two pilots for advanced analytics use cases for cross-sell and value retention. These analytics have helped the Bank make better informed decisions and generally foster an innovation culture.

I&M BANK, KENYA ROLLS OUT LOAN ORIGINATION SYSTEM

The Bank also unveiled the Loan Origination System that looks to improve and manage the Bank's Credit Application process. The system has enhanced improvement of all credit applications by providing real-time monitoring of the loan application status, monitoring turnaround time for end to end loan application and approval processes, better managing documentation processes pertaining to loan disbursement. The robust platform will further provide capability for development of new lending solutions, as it offers the platform to build additional offerings on Alternate Banking Channels.

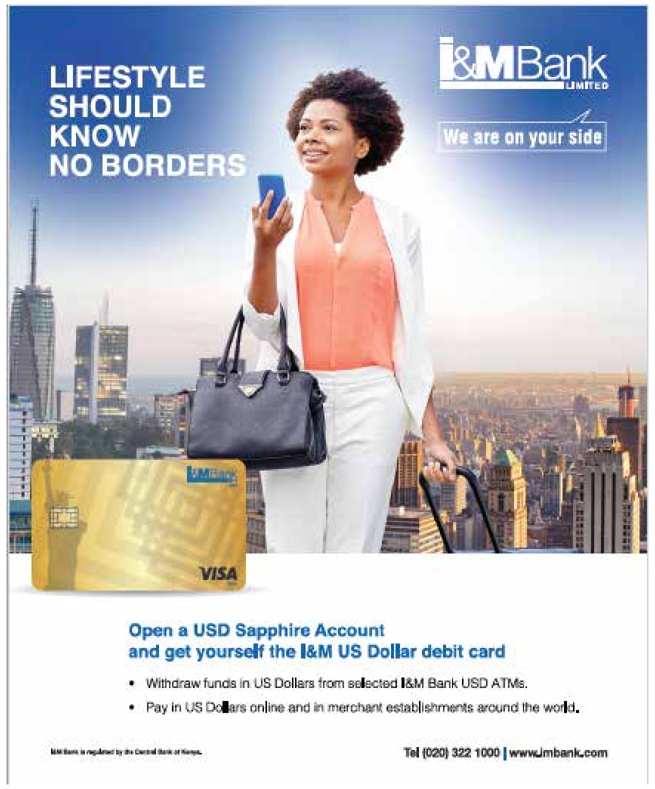
NEW RENT COLLECTIONS SOLUTION IN THE OFFING

I&M Bank, Kenya launched the iRent product, an enhancement of the I&M Business Connect offering aimed at managing rental payments for Property Management companies. The solution has helped facilitate efficient payment of services, incidental to real estate business, by ensuring that payments are validated against data for accuracy purposes and subsequent generation of reports.

The solution has allowed tenants to conveniently pay rent to a property management company through various channels such as: I&M Bank branches, MPESA, PesaLink, RTGS and I&M Karibu Agents.

US DOLLAR SAPPHIRE FOREIGN CURRENCY ACCOUNT UPGRADED WITH US DOLLAR DEBIT CARD

The Bank's USD Sapphire Foreign Currency Account was upgraded with a US Dollar denominated debit card which allows customers to withdraw funds in US dollars from selected I&M Bank USD ATMs, as well as pay in US dollars online and in merchant establishments around the world.



I&M BANK, KENYA AND VISA PARTNER FOR NEW PREMIUM CARD OFFERING

I&M Bank, Kenya partnered with Visa Kenya to launch the I&M Bank Visa Infinite Credit Card and the I&M Visa Platinum Debit Card for its Premium clients.

Both cards come with benefits that cover travel such as global emergency assistance where Visa is able to lock your account in case you lose your card, provide you emergency cash and send you a replacement card. In addition to this, the Infinite Credit card, which is the most premium card product from Visa International, offers I&M Bank cardholders comprehensive travel Insurance, lifestyle benefits such as concierge services and free unlimited airport lounge access in more than 800 LoungeKey lounges globally.

In addition, the cards offer shopping benefits on special visa offers and promotions, worldwide acceptance in over 20 million merchant establishments and digital access to the card benefits. Users of both cards will further enjoy other benefits from I&M Bank such as enhanced security from the I&M Safe Card App, that allows customers to block and unblock their card anywhere anytime straight from their phones, attractive reward points on usage of the card and a supplementary card for the I&M Visa Infinite Credit Card holders' loved ones.

Kihara Maina, I&M Bank Kenya , CEO (Right) and Sunny Walia, GM, Visa East Africa (Left) discuss features of the new I&M Visa Infinite Credit Card at the launch event.

CONVENIENT CHEQUE DEPOSIT AND CLEARING SOLUTION UNVEILED FOR CORPORATES AND BUSINESSES

I&M Bank, Kenya launched the Remote Cheque Scanning solution, which allowes Corporates and SMEs to scan and send cheques to I&M Bank right from their offices for processing by the Bank.

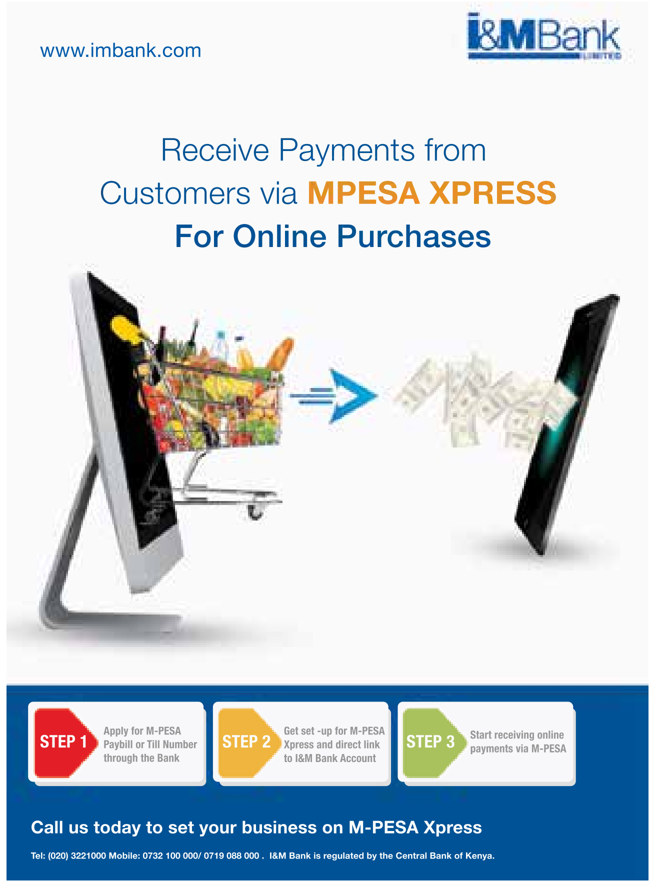
The service aims to mitigate high operational costs experienced by clients, who have to make frequent trips to the Bank to deposit cheques or pile cheques for later deposit thus facing cash flow issues.

A WIN FOR I&M BUSINESS CLIENTS WITH UNSECURED BID BONDS

The Bank's commitment is to constantly innovate while keeping our customers interests in mind and at the heart of our operations in line with iMara. It is in line with this I&M Bank, Kenya rolled out unsecured bid bonds, which allows businesses to apply for bid bonds without the requirement of providing tangible security and further enabling them to effectively submit their tenders' applications in good time, as we have committed to process their requests within 30 minutes.

MPESA XPRESS LAUNCHED FOR E-COMMERCE CLIENTS

In 2018, I&M Bank, Kenya unveiled the Mpesa Xpress online platform that has improved the user journey, when making M-Pesa payments. The platform allows businesses to provide their customers with an alternative payment method (similar to Visa and MasterCard) where they can accept payments online from their customers. It provides their customers an alternative payment option, whereby they can pay through Mpesa while making online payments.



KENYA POWER AND LIGHTING COMPANY BULK PAYMENT SERVICE LAUNCHED

Last year, I&M Bank. Kenya introduced the efficient Kenya Power and Lighting Company (KPLC) Bulk Payment service, which allows customers to pay multiple KPLC post-paid bills at one go or with one payment. The solution aimed at enhancing operational efficiency to the usually cumbersome and tedious process of processing each bill individually.

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

The Bank successfully hosted yet another edition of the I&M Annual Golf day that was held at the Sigona Golf Club. The event has over the years provided a platform for the Bank to continue to remain visible amongst our target segments premised on our pillar on Building Relationships.

This year, the Bank had the opportunity to partner with DT Dobie for the hole in one competition where a VW Tiguan went unclaimed.

The Bank also partnered with EABL for a whisky tasting activation at the event. The brewing company further provided whisky prizes for several categories of the golf day winners.

A customer tees off during the Corporate Golf Day.

MALAIKAS HOSTED AT COCKTAIL EVENT

I&M Bank, Kenya hosted over 80 Malaikas for a night of cocktails and dinner at the Le Grenier Pain restaurant themed "It's about me."

The event comprised of talks from the Bank's different merchants covering health, wellness, beauty and lifestyle. The Malaika merchants also got the opportunity to display their products and services and the Malaikas received from discounted prize vouchers from the merchants.

A section of the customers attending the Malaika event.

BUSINESS BANKING CUSTOMERS HOSTED AT NON – CONVENTIONAL ENERGY SEMINAR

Last year, I&M Bank, Kenya hosted over 50 I&M Business customers at a seminar held at the Azure Hotel. The informative platform gave the customers an opportunity to learn more about non – conventional energy with key learnings from the key note speaker – Dinesh Timbekar, CEO, Leans Solutions Group – a non-conventional energy solutions provider.

Reflective of I&M Bank's commitment to sustainable financing, the Bank has embedded environmental protection practices into the Bank's operations, and has continued to influence our clients, business partners and suppliers to adopt progressive environmental practices for their operations. Through this session, we helped our customers learn how to adopt non-conventional energy in their businesses, to help create sustainable environments which in the long run will positively impact their business' performance.

Further, the Bank took the opportunity to shed more light on new financial solutions targeting SMEs such as: Unsecured Bid Bonds, Remote Cheque Scanning, iRent, and Mpesa Xpress among others.

A section of customers at the Business Banking Non – Conventional Energy Seminar.

I&M BANK (T) LIMITED UPGRADES CORE BANKING SYSTEMS

I&M Bank (T) Limited last year upgraded its core banking system from Finacle 7 to Finacle 10. The upgraded system is aimed at providing customers with a seamless banking experience as they continue to interact with the Bank's products and services. The new version is expected to support the future roll out of market driven innovations for our customers.

REALIGNMENT OF THE BUSINESS DEVELOPMENT DIVISION

Last year, I&M Bank (T) Limited adopted a new structure for Business Development by introducing the Corporate and Retail Banking divisions. The reorganization was done with the objective of realigning the organization to better serve its customers. Mr. Krishnan Ramachandran, who joined the Bank from Standard Chartered Bank, India was appointed as the Head of Corporate Banking Department, while Ms. Ndabu Swere who joined the Bank from Ecobank, Tanzania was appointed as Head of Retail Banking Department. Mr. Emmanuel Wilson also joined the Bank from ABC Bank, Tanzania as the Head of Risk Department.

INTERNET BANKING PLATFORM UNVEILED IN I&M BANK, TANZANIA

I&M Bank (T) Limited last year launched iClick, an advanced online banking service designed to enhance convenience of accessing the bank's services. The platform has enabled customers to perform banking transactions on a web based platform in a more convenient and secure way.

JIDABO CAMPAIGN

I&M Bank (T) Limited last year ran a three month promotion campaign dubbed the Jidabo campaign. The campaign's objective was to increase the Current and Savings Accounts and Deposits. To participate in the promotion, new customers were required to open a Saving Account, Current Account, Salary Account or Young Savers Account with any I&M Bank (T) Limited branch from 1st October, 2018 to 31st December, 2018.

For existing customers, in order to participate in promotion, they were required to keep a minimum balance of TZS 200,000 for the Current Account and TZS 100,000 for the rest of the Accounts.

A total of 5 winners were awarded at monthly draws in the presence of the Gaming Board of Tanzania. The Bank doubled their average balance reflecting in their account in a specific month for up to TZS 5,000,000/=. A total amount of TZS 43,718,307 was given to winning customers and 1162 new accounts were opened with TZS 3.02 billion value.

BRANCH RELOCATION AND RENOVATIONS

Last year, the Bank relocated the Mwanza Branch to a more spacious and convenient location in Gradia House along Uhuru Street. The Branch was opened at a ceremony graced by the Mwanza Regional Commissioner, Hon. John Mongella. In attendance also was I&M Bank (T) Limited's Board Director, Mr. Michael Shirima.

The Bank further renovated the Arusha Branch to create more ambience to enhance brand visibility.

In addition, I&M Bank (T) Limited set up an additional ATM at Shamo Tower in Dar es Salaam with the objective of the bringing service closer to its customers.

Mwanza Regional Commisioner, John Mongella co-ordinate ribbon cutting to mark the official opening of relocated I&M Bank (T) Ltd Mwanza branch.

I&M BANK, (T) LIMITED UNVEILS COST FREE MOBILE BANKING APP

The Bank in partnership with BlockBonds, launched Spenn, a mobile banking payment wallet that facilitates payments between the users at no cost. The app has several advanced features such as free transactions, unique user-based QR codes, and an innovative geo-location interface. Customers can easily download the cost free app, conduct money transfers, payments in stores, and withdraw or deposit cash at any I&M Bank branch in Tanzania at no cost.

I&M Bank (T) Ltd customer chooses a raffle ticket in one of the draws conducted during "JIDABO na I&M Bank" promotion. 15 customers emerged as winners during the promotion whereby the Bank doubled their account balances up to TZS 5,000,000/= .

I&M BANK (T) LIMITED CUSTOMERS HOSTED FOR IFTAR

Last year, the Bank held an Iftar dinner for its Muslim customers at the Serena Hotel in Dar es Salaam. The dinner was hosted by CEO, Mr. Baseer Mohammed and graced with the presence of Mr. Alan Mchaki and Ambassador Bertha Semu-Somi who are Directors at I&M Bank (T) Limited's Board.

Customers of I&M Bank (T) Ltd enjoying Iftar dinner with the senior management members and board directors of the Bank. The Iftar dinner was yet another opportunity for the Bank to interact with its Muslim customers during Holy Month of Ramadan.

I&M BANK (T) LIMITED CELEBRATES CUSTOMERS

October presented an opportunity for I&M Bank (T) Limited to share our appreciation and celebrate customers during the International Customer Service Week. Themed on CX (Customer Experience) Excellence, the event comprised of various heartwarming activities across the branches aimed at reinforcing the Bank's commitment on excellence in service for all our customers.

Branch Manager of I&M Bank (T) Ltd Oysterbay branch, Mr. Abbasali Remtulla giving a piece of cake to a branch customer as a token of appreciation during celebrations of Customer Service Week.

SUSTAINING THE PROGRESS

Sustainable growth ensures a future for our youth. Our roots are steadily ingrained by our desire to enrich the lives of all our stakeholders, because success tastes better shared.

I have the pleasure of presenting the I&M Bank Limited Annual Report for the year 2018 on behalf of the Board of Directors.

The year was not devoid of challenges, but also presented opportunities that I&M Bank Limited was able to leverage on to record a steady growth trajectory on its business performance.

ECONOMIC PERFORMANCE

Kenya's economy began to rebound last year as a result of stability in the political environment which led to improved business confidence. Various macroeconomic factors impacted both the banking industry and the country's economy. The country's GDP grew at an estimated 5.5% from 4.9% in 2017. The Central Bank of Kenya reduced their benchmark interest rate, the CBR to 9% in July 2018 from 9.5% at the start of the year. The exchange rate remained stable in 2018 helping to reduce uncertainty for businesses in the economy. While the Kenyan economy growth outlook for 2019 and beyond remains stable, concern around inclusivity and corruption still abound. These remain the biggest challenges holding the country back, as they divert resources away from the many deserving priorities outlined in the country's long-term Vision 2030 plan. Our expectations are that the government will prioritize addressing these challenges to enable and spur economic growth.

Following the reading of the Budget for the financial year 2018/19 by the Cabinet Secretary for the National Treasury & Planning, The Finance Bill, 2018 (Bill) was introduced under the Provisional Collection of Taxes and Duties Act. The Bill sought to introduce a number of amendments to the tax regime to mobilize revenues to finance the Government's budget. Part of the amendments to the Act under this bill was the repeal of the interest

rate capping law. The country continues to feel the impact of this law by the reduced levels of lending to the productive sectors and undermining Kenya`s position as a premier regional economic powerhouse.

The Kenyan Government's Big Four Agenda introduced in late 2017, focusing on manufacturing, affordable housing, universal health coverage and food and nutrition security, is expected to provide opportunities to the overall economy whilst addressing social and economic challenges that have bedevilled the country since independence. As a premier, Kenyan based financial institution we plan to support our various customers who may be playing significant roles in implementation of this noble Agenda.

The global environment will also continue to impact the country's economy which will in turn affect the industry's performance. Factors such as the trade wars attributed to Brexit, commodity prices and the US monetary policy are expected to affect the global economy. The Government is expected to continue to monitor these developments and make plans on how to mitigate any negative impact on our economy.

FINANCIAL PERFORMANCE

During the year, the Group's total assets increased to KShs 249Bn in 2018 from KShs 203Bn in 2017. Customer Deposits increased by 30% to KShs 191Bn, while loans and advances to customers increased by 9% to KShs 148Bn.

Profit Before Tax increased by 17% to close at Kshs 9.1Bn in spite of the challenges. The Group's non-funded income increased by 43% compared to 2017. The Group is continuing its efforts towards containing Non-Performing loans, which increased as a result of significant challenges experienced in the economic and operating environment in 2018 and challenges experienced by many businesses in 2017 and 2018. The portfolio of Non-Performing loans closed at KShs 21.8Bn, an increase of 15% compared to 2017. We are confident that this figure will decrease over time with renewed optimism in the prospects of economic recovery slowly bearing fruits even as the Group applies innovative and concerted efforts on loan recoveries.

RECOGNITION

I&M Bank Limited was awarded the Visa Affluent Usage Award 2018 from Visa International in Kenya. The Award was a recognition for the successful efforts in developing and launching the Visa Infinite Credit Card which has addressed the needs of our high net worth clients (Premium Select and Premium Esteem) in line with our Customer Value Propositions.

RE-PLATFORMING OF OUR BUSINESS

In line with the Bank's Corporate strategy, we endeavour to make our systems easy and efficient to engage with. To this effect, the Bank rolled out various initiatives aimed at achieving this objective as follows:

- I&M Bank Limited set up its Digital Factory, branded iCube –, which is a major milestone in the Bank's digital transformation journey, aimed at improving our operational efficiencies and enhancing our customer centricity. The factory has already launched the first use case of the Online Account Onboarding solution that allows customers to open accounts online in real-time. This was a significant milestone in developing transformative digital financial solutions, aimed at improving our operational efficiencies and enhancing our customer delivery standards. The digital factory has also implemented two pilots for advanced analytics use cases for enabling effective product penetration and increasing customer retention. These analytics use cases will help the Bank make better informed decisions and more generally foster a culture of innovation. I look forward to more innovations in the coming year as we edge closer to achieving the Bank's aspirations.

- The successful roll out and migration of prepaid and debit cards into the new card management system was a major achievement in 2018. The new, stable and robust platform has improved the infrastructure to facilitate efficient customer service delivery standards in the Cards space. The new system will also help the Cards Business innovate market driven card products in future.

- I&M Bank Limited successfully rolled out the Loan Origination System, which has now enhanced the Bank's efficiency in the loan origination and documentation processes. The system has enhanced automation of all credit applications, enabled real-time monitoring of the loan application process, improved the debt recovery and collections process and eased the ability to monitor turnaround time for loan requests.

STRATEGIC PARTNERSHIPS

Funding Lines

Last year, I&M Bank Limited formed strategic partnerships that continued to place the Group in a position to take advantage of growth in the industry, which ultimately increases our shareholders' value.

The Bank secured a US$40 million (Ksh 4.03 billion) loan from FMO, the Dutch Development Bank. The facility will be used primarily for onward lending to SMEs, thus supporting the expansion of I&M Bank's strategy to increase its SME loan book, and in the process aid in boosting the local economy. The bank also signed an agreement with the European Investment Bank for a further US$ 40 million similarly targeted at enhancing financing for the SME sector.

Youjays Insurance Brokers Limited Acquisition

I&M Insurance Agency Limited acquired 100 percent of the shareholding of the insurance broking firm Youjays Insurance Brokers, simultaneously merging its operations with the Bank's Bancassurance business.

The move has complemented the Group's efforts in expanding revenue streams for its non-funded income portfolio, and will definitely scale up the Bank's Bancassurance business portfolio, where customers will continue to enjoy a wider range of insurance solutions via our network.

Asset Financing Agreement

DT Dobie Kenya and I&M Bank entered into an asset financing deal targeting the Bank's customers. The financing arrangement is also available to interested parties who may not currently be our Customers. The deal has seen us offer up to 90 percent financing for the motor company's brand new Mercedes Passenger vehicles.

Under this financing agreement, customers have an extended repayment period at competitive interest rates. In addition, the Bank through the Bancassurance arm will provide an enriched comprehensive motor insurance package.

The Bank also provides discounted insurance premium financing (IPF) in respect of this arrangement, aimed at easing the burden of making lump sum insurance premium payments.

PRODUCTS

Premised on the iMara strategy, I&M Bank Limited continued to develop market driven solutions aimed at meeting our customers' financial needs. Key to note was:

- Customer Value Propositions (CVPs), comprising of I&M Premium Select, I&M Premium Esteem, I&M Young Professionals, and I&M Business, which play an integral part in the Bank's strategy, aimed at serving clients across our chosen markets, by giving each segment a customized proposition complementing their lifestyle and financial requirements. In addition, the Bank also launched specially packaged bundles of products for each of these target market segments.

- The I&M Visa Infinite Credit Card and the I&M Visa Platinum Debit Card which offer customers unparralled services and privileges, both locally and abroad that look to enhance exclusive lifestyles with no boundaries.

- The upgrade of the USD Sapphire Foreign Currency Account with the US dollar denominated card, which allows customers to withdraw funds in US dollars from selected I&M Bank USD ATMs, as well as pay in US dollars online and in merchant establishments around the world.

- Remote Cheque Scanning which allows corporates and SMEs to scan their cheques directly to the Bank from their offices for clearance.

- iRent, aimed at managing rental payments for Property Management companies.

- I&M Unsecured Bid Bonds which allows businesses to enjoy bid bonds without the requirement of providing tangible security and further enabling them to effectively submit their tender applications in good time, as we have committed to process their requests within 30 minutes.

- Mpesa Express which has improved the user journey, when making M-Pesa payments, where a customer can initiate payments for selected goods on a website, Point of Sale (POS) system or mobile application.

- KPLC Bulk Payment service that allows customers to pay multiple KPLC post-paid bills at one go or with one payment on the I&M Business Connect platform.

FUTURE OUTLOOK

I&M Bank Limited's business ethos is grounded on our purpose – "To be partners of growth for all our stakeholders". We count as stakeholders our customers, shareholders, community and staff. We shall remain focused on delivering on the key objectives set out in our iMara strategy in order to fulfil our purpose.

2018 demonstrated the continued ability of I&M Bank to deliver consistent profitable growth as we endeavored to be partners of growth for all our stakeholders. The Bank was able to navigate through a challenging operating environment owed to different regulatory developments, which affected most players in the industry.

Looking ahead, we have developed various initiatives identified aimed at supporting the implementation of the Bank's Corporate strategy and enhance our business performance.

The Bank will focus on growing quality interest earning assets and enhance the contribution of Non-Funded Income to our Total Income through continually developing market driven solutions aimed at making I&M Bank a financial institution that meets all our customers' financial needs. We will further entrench the Bank's Brand Promise – **We are on Your Side**, which was launched last year, through different initiatives that allow the Bank to embrace customer centricity, dynamism and innovation.

I&M Bank will continue to build an environment that allows all our stakeholders to easily interact with our products and services. The Digital Factory – iCube will continue to spearhead the Bank's digital transformational journey through development of unmatched digital financial solutions.

Significant strides were also made in setting up of the I&M Foundation last year. Reflective of I&M Bank's commitment to sustainable financing, the Bank through its Corporate Social Investments programme has over the years endeavoured to improve the quality of life in our society. The I&M Foundation will help support these interventions in a more structured framework by focusing on key thematic areas namely: Environment and Conservation, Education and Skills Training, Economic Empowerment, and Philanthropy. The Bank will this year ramp up the activities of the Foundation. We have already recruited the Head of the I&M Foundation who will focus on implementation of the Foundations strategy.

ACKNOWLEDGMENT

I take this opportunity to thank our different stakeholders who kept true to the Bank's shared vision, and helped us fulfil our mission through our banking solutions and shared growth agenda. I would therefore like to appreciate all our stakeholders as follows:

1) To our customers for their continued belief in our bid to provide financial solutions that help meet your lifestyle and financial requirements. We affirm our commitment to walk with you in the journey of life, by continuing to innovate market driven solutions that meet your needs. We value your feedback and shall continue to strengthen this relationship that we have built with you over the years.

2) To our shareholders for their continued trust in our policies and investment decisions. We remain optimistic in the opportunities presented to us this year and will leverage on them in order to continue to enhance your shareholder value at the Bank.

3) Our staff and the management team for understanding how each of their roles contribute to the Bank's aspiration. For their commitment, diligence and sense of purpose as they execute for the different stakeholders of the Bank. Your efforts over time are highly appreciated.

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

5) To our regulators including: Central Bank of Kenya, Capital Markets Authority (CMA), the Competition Authority of Kenya, Insurance Regulatory Authority and others, whose guidance has helped us achieve major successes that we continue to celebrate.

With best wishes,

S. B. R. SHAH
CHAIRMAN

UPLIFTING THE COMMUNITY

We are only as strong as the community we are in. We pride ourselves in developing our community and investing in the education of an infinite resource that keeps on giving- our youth.

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2018, 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, I&M Insurance Agency Limited and Youjays Insurance Brokers 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- Youjays Insurance Brokers Limited

On 25 October 2017, I&M Insurance Agency Limited (IMIAL), a wholly owned subsidiary of I&M Holdings Limited, entered into a Share Purchase Agreement with the shareholders of Youjays Insurance Brokers Limited (YIB) to acquire 100% shareholding in YIB.

Following the receipt of all regulatory approvals and the satisfactory completion of all conditions precedent outlined in the Sale and Purchase Agreement, IMIAL successfully completed this acquisition on 31 March 2018. The results of YIB are consolidated in the Group`s financials.

3. Results / Business review

The consolidated results for the year are as follows:

	2018 KShs'000	2017 KShs'000
Profit before income tax	9,180,415	7,871,653
Income tax expense	(2,544,384)	(2,145,835)
Net profit for the year after tax	**6,636,031**	**5,725,818**

Net profit closed at KShs 6.6 billion, an increase 15.9% despite significant challenges in the banking industry. Net operating income increased by KShs 1.8 billion partially offset by operating expenses by KShs 0.5 billion.

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

4. Dividend

The Directors paid an interim dividend of KShs 53.00 per share amounting to KShs 1,579,400,000 for the year ended 31 December 2018. The Directors do not recommend a final dividend for the year ended 31 December 2018. On the 31 March 2018, a final dividend of KShs 38.50 per share amounting to KShs 1,108,894,441 was paid with respect to the year ended 31 December 2017.

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 8. 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

In accordance with section 719 of the Companies Act, 2015 and Section 24 of the Banking Act (Cap 488), a resolution is to be proposed at the Annual General Meeting for the appointment of KPMG Kenya as auditors of the Company.

8. Approval of financial statements

The financial statements were approved and authorised for issue at a meeting of the Directors held on 22 March 2019.

BY ORDER OF THE BOARD

Secretary
Date: 22 March 2019

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 and 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 PLC (formerly I&M Holdings Limited) ("IMHP"). IMHP 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.

The Board of Directors

Constitution, Appointment and Composition

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

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

Roles & Responsibilities

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

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

Board Meetings

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

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

Board Evaluation

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

Governance Principles

The Board ensures that Accountability among staff is enhanced through a system of objective goal setting and periodic performance appraisals. Additionally, the Board has delegated financial and other powers with clearly defined accountabilities for each.
In order to ensure that high levels of efficiency and effectiveness are maintained, the Bank has a good pool of well-trained staff with the appropriate skills required to perform their duties. Further, the Bank ensures that all staff undergo regular training to improve and develop their skills.
The Code of Ethics that all staff are expected to adhere to, encompasses, inter alia, matters touching upon safety and health, environment, compliance with laws and regulations, confidentiality of customer information, financial integrity and relationships with external parties. This Code of Ethics is reviewed periodically and amendments incorporated if necessary.

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

Board Committees:

Board Audit Committee (BAC)

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

Board Risk Management Committee (BRMC)

The BRMC, comprising five members, is chaired by an independent non-executive Director, and meets at least once every quarter. Through the Bank's risk management function, the BRMC is responsible for translating the Risk Management Framework established by the Board of Directors into specific policies, processes and procedures that can be implemented and verified within the different business units, so that risks faced by the Bank are adequately considered and mitigated.

Board Credit Committee (BCC)

The BCC, which consists of six Directors is chaired by an independent non-executive Director and is responsible for review of the Bank's overall lending policy, conducting independent loan reviews, delegation and review of lending limits. It also ensures compliance with all Statutory and Regulatory requirements and is responsible for the overall management of credit risk. The Credit Risk Management Committee (CRMC) assists the BCC in its role.

Board Procurement Committee (BPC)

The BPC comprising five members, excluding the Secretary, is chaired by an independent non-executive Director. It meets at least half-yearly and on other occasions to deal with specific matters. The BPC is responsible for reviewing and approving significant procurement proposals as well as proposed consultancy assignments and unbudgeted capital expenditure. In addition, the BPC also vets any agreements with and procurement from related parties.

Board Share Transfers Committee (BSTC)

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

Board Nomination and Remuneration Committee (BNRC)

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

Management Committees:

Business Strategy & Coordination Committee

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

Executive Committee (EXCO)

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

Assets & Liabilities Committee (ALCO)

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

Credit Risk Management Committee (CRMC)

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

Human Resources Committee (HRC)

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

IT Steering Committee (ITSC)

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

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

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 the ED &/or CEO	• 2 Independent Non-Executive Directors • 1 Executive Director • Chief Executive Officer (CEO) • Divisional Head, Business Support • Manager Procuremnet (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

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 rustee

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	Chief Executive Officer (CEO)
Members	ED, CEO, • Division Head, Business Development • Division Head, Business Support • General Manager ICT • General Manager Risk • General Manager Strategy & Transformation office • General Manager Finance • General Manager HR • Manager CEOs Office (Secretary)	ED, CEO, • Division Head, Business Development • Division Head, Business Support • All General Managers • Manager – CEO's Office (Secretary) **Invitees:** • General Manager – Internal Audit	ED, CEO, • Division Head, Business Development • General Manager Finance • General Manager Treasury • General Manager Risk (Secretary) • Manager, Middle Office (Market Risk)	ED, CEO, • Senior General Manager • Divisional Head, Business Development • General Manager Credit (Secretary)	ED, CEO, • Division Head, Business Development • Division Head, Business Support • General Manager HR • Manager HR (Secretary)	CEO • Division Head, Business Development • Division Head, Business Support • General Manager ICT • General Manager Operations • General Manager Projects • General Manager ABC • Assistant General Manager ICT(Secretary
Frequency of meetings	Quarterly	Monthly	Monthly	Fortnightly	Once every 2 months	Quarterly
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

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 of the Bank's Human Resources policies to business needs • 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	22 March 2018	18 June 2018	20 July 2018	02 October 2018	03 December 2018	Total Board meetings attended in 2018
Suresh B R Shah (Chairman)	√	√	√	X	√	80%
Eric M Kimani	√	√	√	X	√	80%
Sarit S Raja Shah	√	√	√	√	√	100%
Sachit S Raja Shah	√	√	X	√	√	80%
Paul C M Kibati	√	√	X	√	√	80%
M Soundararajan	√	√	√	√	√	100%
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.

The Directors are responsible for the preparation and presentation of the consolidated and separate financial statements of I&M Bank LIMITED (the "Group" and "Company") set out on pages 42 to 170 which comprise the consolidated and company statements of financial position as at 31 December 2018, 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 financial position and the profit or loss 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 that 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 Group and Company will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the consolidated and separate financial statements

The consolidated and separate financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 22 March 2019.

Suresh B R Shah, MBS **Director**	**Sarit S Raja Shah** **Director**	**A.N Koigi** **Director**

Date: 22 March 2019

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 42 to 170 which comprise the consolidated and company statements of financial position as at 31 December 2018, the consolidated and company statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the consolidated and company's financial position of I&M Bank LIMITED as at 31 December 2018 and the consolidated and company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015.

Basis for opinion

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

Other information

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

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

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

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

Directors' responsibilities for the consolidated and separate financial statements

As stated on page 37, 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 financial statements, Directors are responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so. The Directors are responsible for overseeing the Group's and Company's financial reporting process.

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

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

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

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

- Identify and assess the risks of material misstatement of the 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 auditors' report. However, future events or conditions may cause the Group or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the 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.

KPMG

Report on other legal and regulatory requirements

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

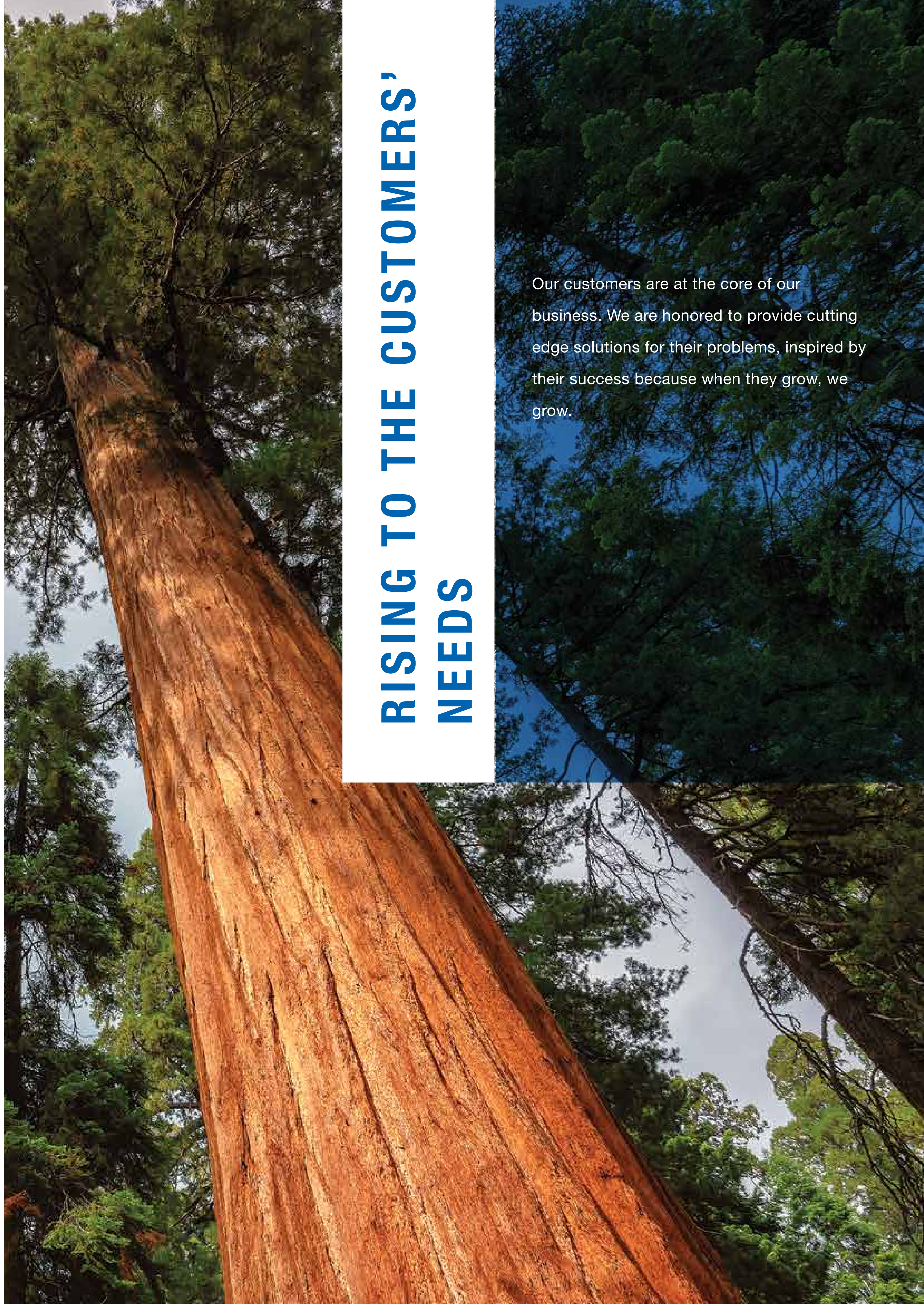
(i) in our opinion, the information in the report of the Directors on pages 26 and 27 is consistent with the financial statements; and
(ii) we have issued an unqualified audit report on the consolidated and separate financial statements.

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

KPMG Kenya

Certified Public Accountants
P.O. Box 40612, 00100
Nairobi

Date: 22 March 2019



RISING TO THE CUSTOMERS' NEEDS

Our customers are at the core of our business. We are honored to provide cutting edge solutions for their problems, inspired by their success because when they grow, we grow.

	Note	2018 KShs'000	2017 KShs'000
Interest income	8(a)	22,329,707	21,554,526
Interest expense	9(a)	(9,201,860)	(8,011,287)
Net interest income		**13,127,847**	**13,543,239**
Fee and commission income	10(a)	3,571,783	2,739,176
Fee and commission expense	10(a)	(168,589)	(157,619)
Net fee and commission income	10(a)	**3,403,194**	**2,581,557**
Revenue		**16,531,041**	**16,124,796**
Net trading income	11(a)	2,727,847	1,677,167
Other operating income	12(a)	62,478	87,333
Net operating income before change in expected credit losses and other credit impairment charges		**19,321,366**	**17,889,296**
Net impairment losses on financial assets	21(c)	(3,691,665)	(4,059,368)
Net operating income		**15,629,701**	**13,829,928**
Staff costs	13(a)	(3,130,510)	(2,861,931)
Premises and equipment costs	13(a)	(748,192)	(685,512)
General administrative expenses	13(a)	(2,186,456)	(2,024,648)
Depreciation and amortisation	13(a)	(384,128)	(386,184)
Operating expenses		**(6,449,286)**	**(5,958,275)**
Profit before income tax	14(a)	**9,180,415**	**7,871,653**
Income tax expense	15(a)(i)	(2,544,384)	(2,145,835)
Net profit for the year after tax		**6,636,031**	**5,725,818**

(Continued Page 43)

The notes set out on page 53 to 170 form an integral part of these financial statements.

	Note	2018 KShs'000	2017 KShs'000
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Net change in fair value of FVOCI financial assets - Equity instruments		196,169	-
Deferred tax on fair value of FVOCI financial assets - Equity instruments		(58,851)	-
Items that are or may be reclassified to profit or loss:			
Net change in fair value of FVOCI financial assets- Debt instruments		(86,236)	-
Deferred tax on fair value of FVOCI financial assets - Debt instruments		25,871	-
Net change in fair value of AFS financial assets	22	-	296,499
Deferred tax on fair value of AFS financial assets	26(a)	-	(88,964)
Foreign currency translation differences		(148,152)	(175,317)
Total other comprehensive income for the year		**(71,199)**	**32,218**
Total comprehensive income for the year		**6,564,832**	**5,758,036**
Profit attributable to:			
Equity holders of the company		6,552,909	5,658,265
Non-controlling interest		83,122	67,553
		6,636,031	**5,725,818**
Comprehensive income attributable to:			
Equity holders of the company		6,519,427	5,687,494
Non - controlling interest		45,405	70,542
		6,564,832	**5,758,036**
Basic and diluted earnings per share - (KShs)	16	**219.90**	**190.67**

The notes set out on pages 53 to 170 form an integral part of these financial statements.

	Note	2018 KShs'000	2017 KShs'000
Interest income	8(b)	20,324,529	19,602,751
Interest expense	9(b)	(8,346,835)	(7,175,806)
Net interest income		**11,977,694**	**12,426,945**
Fee and commission income	10(b)	3,161,426	2,431,864
Fee and commission expense	10(b)	(154,824)	(140,664)
Net fee and commission income	10(b)	**3,006,602**	**2,291,200**
Revenue		**14,984,296**	**14,718,145**
Net trading income	11(b)	2,591,680	1,582,073
Other operating income	12(b)(i)	69,370	94,983
Dividend income	12(b)(ii)	57,500	32,359
Net operating income before change in expected credit losses and other credit impairment charges		**17,702,846**	**16,427,560**
Net impairment losses on financial assets	21(c)	(3,415,940)	(3,853,113)
Net operating income		**14,286,906**	**12,574,447**
Staff costs	13(b)	(2,694,710)	(2,435,688)
Premises and equipment costs	13(b)	(671,108)	(607,775)
General administrative expenses	13(b)	(1,890,002)	(1,699,906)
Depreciation and amortisation	13(b)	(305,760)	(314,698)
Operating expenses		**(5,561,580)**	**(5,058,067)**
Profit before income tax	14(b)	**8,725,326**	**7,516,380**
Income tax expense	15(a)(ii)	(2,386,470)	(2,028,889)
Net profit for the year after tax		**6,338,856**	**5,487,491**
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Net change in fair value of FVOCI financial assets - Equity instruments		196,169	-
Deferred tax on fair value of FVOCI financial assets - Equity instruments		(58,851)	-
Items that are or may be reclassified to profit or loss:			
Net change in fair value of FVOCI financial assets		70,767	-
Deferred tax on fair value of FVOCI financial assets	26(b)	(21,230)	-
Net change in fair value of AFS financial assets		-	282,116
Deferred tax on fair value of AFS financial assets		-	(84,635)
Total other comprehensive income for the year		**186,855**	**197,481**
Total comprehensive income for the year		**6,525,711**	**5,684,972**
Basic and diluted earnings per share - (KShs)	16	**212.71**	**184.92**

The notes set out on pages 53 to 170 form an integral part of these financial statements.

	Note	2018 KShs '000	2017 KShs '000
ASSETS			
Cash and balances with central banks	18(a)	12,002,031	8,730,570
Items in the course of collection	19(a)	764,460	378,462
Loans and advances to banks	20(a)	31,205,610	2,612,377
Loans and advances to customers	21(a)(i)	147,623,509	135,098,394
Financial assets at fair value through profit or loss (FVTPL)	22(a)(i)	13,144,378	711,396
Financial assets measured at fair value through other comprehensive income (FVOCI)	22(b)(i)	13,943,848	25,039,662
Other financial assets at amortised cost	22(c)(i)	22,736,727	24,531,410
Property and equipment	24(a)	827,527	856,764
Intangible assets - goodwill	25(a)(i)	707,729	507,009
Intangible assets - software	25(b)(i)	1,194,657	281,725
Tax recoverable	15(b)(i)	84,281	548,383
Deferred tax asset	26(a)	2,219,356	1,504,199
Due from group companies	27(a)(i)	853,185	854,052
Other assets	28(a)	1,332,268	990,610
TOTAL ASSETS		**248,639,566**	**202,645,013**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	29(a)	1,339,255	2,118,079
Deposits from customers	30(a)	191,334,148	147,582,171
Due to group companies	27(b)(ii)	2,069,611	2,032,125
Tax payable	15(b)(i)	31,488	5,635
Other liabilities	31(a)	2,346,862	3,211,141
Long term debt	32(a)	7,619,933	7,314,699
Subordinated debt	33(a)	4,511,679	4,512,315
		209,252,976	**166,776,165**
Shareholders' equity (Page 49-50)			
Share capital	34(a)	2,980,000	2,880,245
Share premium	34(b)	5,531,267	3,759,624
Funds awaiting shares allotment	34(c)	-	1,871,398
Retained earnings		28,804,385	25,429,367
Statutory credit risk reserve	34(d)	1,656,304	1,619,262
Fair value reserve	34(f)	(158,278)	(151,215)
Translation reserve	34(e)	(425,151)	(314,716)
Equity attributable to owners of the company		**38,388,527**	**35,093,965**
Non - controlling interest		998,063	774,883
Total shareholders' equity		**39,386,590**	**35,868,848**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**248,639,566**	**202,645,013**

The financial statements set out on pages 42 to 170 were approved and authorised for issue by the Board of Directors on **22 March 2019** and were signed on its behalf by:

Suresh B R Shah, MBS	Sarit S Raja Shah	AN Koigi	NP Kothari
Director	**Director**	**Director**	**Secretary**

The notes set out on pages 53 to 170 form an integral part of these financial statements.

	Note	2018 KShs '000	2017 KShs '000
ASSETS			
Cash and balances with Central Bank of Kenya	18(b)	10,110,215	7,037,263
Items in the course of collection	19(b)	763,445	374,006
Loans and advances to banks	20(b)	30,858,283	2,544,525
Loans and advances to customers	21(a)(ii)	132,319,259	120,656,819
Financial assets at fair value through profit or loss (FVTPL)	22(a)(ii)	13,144,378	711,396
Financial assets measured at fair value through other comprehensive income (FVOCI)	22(b)(ii)	14,339,916	25,002,154
Other financial assets at amortised cost	22(c)(ii)	18,306,701	20,747,773
Investment in subsidiaries	23	2,750,753	2,324,125
Property and equipment	24(b)	633,417	627,695
Intangible assets - goodwill	25(a)(ii)	-	10,747
Intangible assets - software	25(b)(ii)	1,037,775	239,811
Tax recoverable	15(b)(ii)	64,449	545,305
Deferred tax asset	26(b)	1,950,464	1,338,451
Due from group companies	27(a)(ii)	1,663,796	876,329
Other assets	28(b)	1,218,283	916,118
TOTAL ASSETS		**229,161,134**	**183,952,517**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	29(b)	496,100	1,446,278
Deposits from customers	30(b)	176,753,511	132,800,892
Due to group companies	27(b)(ii)	2,173,854	2,085,237
Other liabilities	31(b)	2,105,193	2,950,705
Long term debt	32(b)	5,612,229	5,965,228
Subordinated debt	33(b)	3,681,657	3,680,666
		190,822,544	**148,929,006**
Shareholders' equity (page 51-52)			
Share capital	34(a)	2,980,000	2,880,245
Share premium	34(b)	5,531,267	3,759,624
Funds awaiting shares allotment	34(c)	-	1,871,398
Retained earnings		28,440,796	25,113,725
Statutory credit risk reserve	34(d)	1,441,955	1,556,786
Fair value reserve	34(f)	(55,428)	(158,267)
		38,338,590	**35,023,511**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**229,161,134**	**183,952,517**

The financial statements set out on pages 42 to 170 were approved and authorised for issue by the Board of Directors on **22 March 2019** and were signed on its behalf by:

Suresh B R Shah, MBS	Sarit S Raja Shah	AN Koigi	NP Kothari
Director	**Director**	**Director**	**Secretary**

The notes set out on pages 53 to 170 form an integral part of these financial statements.

	Note	2018 KShs'000	2017 KShs'000
Net cash flows generated from operating activities	35(a)	**33,920,994**	**3,442,648**
Cash flows from investing activities			
Purchase of property and equipment	24(a)	(231,191)	(218,308)
Purchase of intangible assets	25(b)(i)	(1,059,375)	(196,983)
Transfer of net assets from Giro Limited	35(f)	-	1,195,612
Acquisition of Youjays Insurance Brokers Limited	35(c)	(273,440)	-
Proceeds from disposal of property and equipment		3,731	2,644
Net cash used in/(from) investing activities		**(1,560,275)**	**782,965**
Cash flows from financing activities			
Restructuring costs - Giro Limited		-	(13,613)
Dividend paid to shareholders of the company		(2,688,294)	(3,947,008)
Rights issue - I&M Bank (T) Limited		183,762	-
Dividend paid to non-controlling interest		-	(9,410)
Net cash flow used in financing activities		**(2,504,532)**	**(3,970,031)**
Net increase in cash and cash equivalents	35(b)	**29,856,187**	**255,582**
Cash and cash equivalents at start of the year	35(b)	**3,752,944**	**3,497,362**
Cash and cash equivalents at end of the year	35(b)	**33,609,131**	**3,752,944**

The notes set out on pages 53 to 170 form an integral part of these financial statements.

	Note	2018 KShs'000	2017 KShs'000
Net cash flows generated from operating activities	35(d)	**33,824,559**	**3,149,721**
Cash flows from investing activities			
Purchase of property and equipment	24(b)	(203,635)	(176,548)
Purchase of intangible assets	25(b)(ii)	(910,387)	(180,769)
Proceeds from disposal of property and equipment		7,872	2,621
Purchase of additional shares in a subsidiary - I&M Bank (T) Limited	23	(426,628)	-
Transfer of net assets from Giro Limited	35(f)	-	1,195,612
Dividends received	12(b)(ii)	57,500	32,359
Net cash used in investing activities		**(1,475,278)**	**873,275**
Cash flows from financing activities			
Capital restructuring costs		-	(13,613)
Dividend paid		(2,688,294)	(3,947,324)
Net cash outflow from financing activities		**(2,688,294)**	**(3,960,937)**
Net increase in cash and cash equivalents	35(e)	**29,660,987**	**62,059**
Cash and cash equivalents at start of the year	35(e)	**3,704,434**	**3,642,375**
Cash and cash equivalents at end of the year	35(e)	**33,365,421**	**3,704,434**

The notes set out on pages 53 to 170 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital KShs'000	Share premium KShs'000	Shares for allocation KShs'000	Retained earnings KShs'000	Statutory credit risk reserve KShs'000	Fair value reserve KShs'000	Translation reserve KShs'000	Total KShs'000	Non controlling interest KShs'000	Total KShs'000
At 1 January 2018	**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**
Day one IFRS 9 transition adjustments (Note 42(b))	-	-	-	99,689	(746,197)	(120,023)	-	(766,531)	(8,553)	(775,084)
Deferred tax on IFRS 9 transition adjustments (Note 25)	-	-	-	193,953	-	36,007	-	229,960	2,566	232,526
Adjusted balance at 1 January 2018	**2,880,245**	**3,759,624**	**1,871,398**	**25,723,009**	**873,065**	**(235,231)**	**(314,716)**	**34,557,394**	**768,896**	**35,326,290**
Profit for the year	-	-	-	6,552,909	-	-	-	6,552,909	83,122	6,636,031
Other comprehensive income	-	-	-	(783,239)	783,239	76,953	(110,435)	(33,482)	(37,717)	(71,199)
Total comprehensive income	**-**	**-**	**-**	**5,769,670**	**783,239**	**76,953**	**(110,435)**	**6,519,427**	**45,405**	**6,564,832**
Transactions with owners recorded directly in equity										
Other transactions	99,755	1,771,643	(1,871,398)	-	-	-	-	-	183,762	183,762
Final dividend - 2017	-	-	-	(1,108,894)	-	-	-	(1,108,894)	-	(1,108,894)
Interim dividend - 2018	-	-	-	(1,579,400)	-	-	-	(1,579,400)	-	(1,579,400)
Transactions with owners for the year	**99,755**	**1,771,643**	**(1,871,398)**	**(2,688,294)**	**-**	**-**	**-**	**(2,688,294)**	**183,762**	**(2,504,532)**
At December 2018	**2,980,000**	**5,531,267**	**-**	**28,804,385**	**1,656,304**	**(158,278)**	**(425,151)**	**38,388,527**	**998,063**	**39,386,590**

The notes set out on pages 53 to 170 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

	Share capital KShs`000	Share premium KShs`000	Shares for allocation KShs`000	Retained earnings KShs`000	Statutory credit risk 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**	**-**	**24,535,706**	**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**
Transactions with owners recorded directly in equity										
Other transactions	-	(13,613)	1,871,398	-	123,249	-	-	**1,981,034**	-	**1,981,034**
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**	**(3,947,008)**	**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**

The notes set out on pages 53 to 170 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital KShs`000	Share premium KShs`000	Shares for allocation KShs`000	Retained earnings KShs`000	Statutory credit risk reserve KShs`000	Fair value reserve KShs`000	Total KShs`000
At 1 January 2018	**2,880,245**	**3,759,624**	**1,871,398**	**25,113,725**	**1,556,786**	**(158,267)**	**35,023,511**
Day one IFRS 9 transition adjustments (Note 42(b))	-	-	-	120,023	(746,198)	(120,023)	(746,198)
Deferred tax on IFRS 9 transition adjustments (Note 25)	-	-	-	187,853	-	36,007	223,860
Adjusted balance at 1 January 2018	**2,880,245**	**3,759,624**	**1,871,398**	**25,421,601**	**810,588**	**(242,283)**	**34,501,173**
Profit for the year	-	-	-	6,338,856	-	-	6,338,856
Other comprehensive income	-	-	-	(631,367)	631,367	186,855	186,855
Total comprehensive income	**-**	**-**	**-**	**5,707,489**	**631,367**	**186,855**	**6,525,711**
Transactions with owners recorded directly in equity							
Other transactions	99,755	1,771,643	(1,871,398)	-	-	-	-
Final dividend - 2017	-	-	-	(1,108,894)	-	-	(1,108,894)
Interim dividend - 2018	-	-	-	(1,579,400)	-	-	(1,579,400)
Transactions with owners for the year	**99,755**	**1,771,643**	**(1,871,398)**	**(2,688,294)**	**-**	**-**	**(2,688,294)**
At December 2018	**2,980,000**	**5,531,267**	**-**	**28,440,796**	**1,441,955**	**(55,428)**	**38,338,590**

The notes set out on pages 53 to 170 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

	Share capital KShs'000	Share premium KShs'000	Shares for allocation KShs'000	Retained earnings 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**	**-**	**24,376,705**	**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
Interim dividend - 2017	-	-	-	(3,947,324)	-	-	(3,947,324)
Transactions with owners for the year	**-**	**(13,613)**	**1,871,398**	**(3,947,324)**	**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**

The notes set out on pages 53 to 170 form an integral part of these financial statements.

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 2018 comprise the Bank and its subsidiaries (together referred to as the "Group"). The address of its registered office is as follows:

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

The Bank has 70.38% shareholding in I&M Bank (T) Limited (2017 – 70.38%) and 100% shareholding in I&M Insurance Agency Limited (incorporated on 23 July 2014) which owns 100% of Youjays Insurance Brokers Limited (effective 31 March 2018) together with the parent (I&M Bank LIMITED) referred to as "Group".

2. BASIS OF PREPARATION

(a) Statement of compliance

The Group's consolidated and separate financial statements for the year 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS). Additional information required by the regulatory bodies is included where appropriate. Details of the significant accounting policies are included in Note 3.

This is the first set of the Consolidated and separate annual financial statements in which IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been applied. Changes to significant accounting policies are described in Note 4.

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

(b) Basis of measurement

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

(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 (KShs'000) except where otherwise stated.

(d) Use of estimates and judgments

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

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

In particular information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 5.

2. BASIS OF PREPARATION (Continued)

(d) Use of estimates and judgments (Continued)

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

The impairment of financial instruments includes the assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses (ECL). See Notes 3(f)(iii), 5(a) and 6(a).

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

(iii) 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.

Foreign currency non-monetary items measured at fair value are translated into functional currency using the rate of exchange at the date the fair value was determined. Foreign currency gains and losses on non-monetary

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Foreign currencies (Continued)

items are recognized in the Consolidated Statement of Income or Consolidated Statement of Comprehensive Income consistent with the gain or loss on the non-monetary item.

(c) Foreign operations

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

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

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

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

(d) Income recognition

Policy applicable from 1 January 2018

(i) Net interest income

Effective interest rate and amortised cost

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income recognition (Continued)

Policy applicable from 1 January 2018 (Continued)

(i) Net interest income (Continued)

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

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

Calculation of interest income and expense

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

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

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

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

Presentation

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

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/ expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income recognition (Continued)

Policy applicable from 1 January 2018 (Continued)

(ii) Net fee and commission income

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

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

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

Other fee and commission expenses relate mainly to transaction and service fees, which are recognised at a point in time as the service is performed.

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

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

Policy applicable before 1 January 2018

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, were 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, were 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 was recognised in profit or loss.

(iv) Net interest income

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

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

Once a financial asset or a group of similar financial assets had been written down as a result of an impairment loss, interest income was 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 were considered to be incidental to the Group's trading operations are presented in net interest income.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income recognition (Continued)

Policy applicable from 1 January 2018 (Continued)

(v) Fee and commission income

Fee and commission income and expenses that were integral to the effective interest rate of a financial asset or liability were included in the measurement of the effective interest rate. Other fee and commission expenses related mainly to transaction and service fees, which were expensed as the services were received.

Policy applicable before and after 1 January 2018

(vi) 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.

(vii) 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.

(viii) Dividend income

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

(d) Income tax expense

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Income tax expense (Continued)

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

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

(f) Financial assets and financial liabilities

Policy applicable from 1 January 2018

(i) Recognition

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

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

(ii) Classification

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Policy applicable from 1 January 2018 (Continued)

(ii) Classification (Continued)

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Policy applicable from 1 January 2018 (Continued)

(ii) Classification (Continued)

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

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

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

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

Debt instruments measured at amortised cost

Debt instruments are measured at amortized cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortized cost. Interest income on these instruments is recognized in interest income using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortized cost is calculated by taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate.

Impairment on debt instruments measured at amortized cost is calculated using the expected credit loss approach. Loans and debt securities measured at amortized cost are presented net of the allowance for credit losses (ACL) in the statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Policy applicable from 1 January 2018 (Continued)

(ii) Classification (Continued)

Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income (OCI), unless the instrument is designated in a fair value hedge relationship. When designated in a fair value hedge relationship, any changes in fair value due to changes in the hedged risk are recognized in non-interest income in the Consolidated Statement of profit or loss and other comprehensive income. Upon derecognition, realized gains and losses are reclassified from OCI and recorded in non-interest income in the consolidated Statement of Profit or Loss and Other Comprehensive Income on an average cost basis. Foreign exchange gains and losses that relate to the amortized cost of the debt instrument are recognized in the consolidated statement of profit or loss and other comprehensive income.

Premiums, discounts and related transaction costs are amortized over the expected life of the instrument to Interest income in the consolidated statement of profit or loss and other comprehensive income using the effective interest rate method.

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

Debt instruments measured at FVTPL

Debt instruments are measured at FVTPL if assets:

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Policy applicable from 1 January 2018 (Continued)

(ii) Classification (Continued)

Debt instruments designated at FVTPL

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

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

Financial assets designated at FVTPL are recorded in the Consolidated Statement of Financial Position at fair value. Changes in fair value are recognized in Non-interest income in the statement of profit or loss.

Equity instruments

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

Reclassifications

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

Financial liabilities

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

(iii) Impairment on financial assets

The Group recognises loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets (amortised cost and FVOCI) including debt instruments, loans and advances and trade receivables from Bancassurance.
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Policy applicable from 1 January 2018 (Continued)

(iii) Impairment on financial assets (Continued)

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

Loss allowances for trade receivables (bancassurance) are always measured at an amount equal to lifetime ECL.

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Significant Increase in Credit Risk (SICR)

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Policy applicable from 1 January 2018 (Continued)

(iii) Impairment of financial assets (Continued)

Significant Increase in Credit Risk (SICR) (Continued)

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

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

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

Measurement of ECL

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

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

Restructured financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Policy applicable from 1 January 2018 (Continued)

(iii) Impairment of financial assets (Continued)

Credit-impaired financial assets

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

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

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

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

Government securities (debt instruments)

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

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

Presentation of allowance for ECL in the statement of financial position

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Policy applicable from 1 January 2018 (Continued)

(iii) Impairment of financial assets (Continued)

Write-off

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

(iv) De-recognition

Financial assets

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

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

From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Policy applicable from 1 January 2018 (Continued)

(iv) De-recognition (Continued)

Financial assets (Continued)

Before 1 January 2018, retained interests were primarily classified as available-for-sale investment securities and measured at fair value.

Financial liabilities

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

(v) Modifications of financial assets and financial liabilities

Financial assets

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

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

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

Financial liabilities

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

(vi) Offsetting of financial assets and financial liabilities

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Policy applicable before 1 January 2018

(vii) 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.

(viii) Classification

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

Financial assets at fair value through profit or loss

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

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

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

Loans and receivables

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

Held to maturity

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Policy applicable before 1 January 2018 (Continued)

(viii) Classification (Continued)

Available-for-sale

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

(ix) Identification and measurement of impairment of financial assets

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Policy applicable before 1 January 2018 (Continued)

(x) De-recognition

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

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

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

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

(xi) 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.

(xii) 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.

(xiii) 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.

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

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (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 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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Impairment of non-financial assets

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

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

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

(m) Derivative financial instruments

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

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

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

(n) Employee benefits

(i) Defined contribution plan

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Earnings per share

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

(q) Dividends

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

(r) Contingent liabilities

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

(s) Provisions

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

(t) Fiduciary activities

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

(u) Comparative information

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

(v) New standards, amendments and interpretations

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

The Group has adopted the following new standards and amendments during the year ended 31 December 2018, including consequential amendments to other standards with the date of initial application by the Group being 1 January 2018. The nature and effects of the changes are as explained here in.

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)

New standard or amendments	Effective for annual periods beginning on or after
— 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
— Annual improvements cycle (2014-2016)	1 January 2018

— 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 the Group will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

The Group applied IFRS 15 on 1 January 2018 using the modified retrospective approach in which the cumulative effect of initially applying this Standard is recognised at the date of initial application as an adjustment to the opening balance of retained earnings as at 1 January 2018 without restating comparative periods.

There was no material impact of application of IFRS 15 and no adjustment to retained earnings was required.

The impact of adopting IFRS 15 is limited to a new disclosure requirement on Note 3(d).

— IFRS 9: Financial Instruments (2014)

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

The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.

The key changes to the Group accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Note 4(a) and Note 5(a).

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)

— IFRS 9: Financial Instruments (2014) (Continued)

Classification of financial assets and financial liabilities
IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).
IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Group classifies financial assets under IFRS 9, see Note 3(f) (ii).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Group classifies financial liabilities under IFRS 9, see Note 3(f)(ii), 4 and 41.

Impairment of financial assets
IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see Note 3(f) (iii) and Note 5(a).

Transition
Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9. The Group used the exemption not to restate comparative periods.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- Determination of factors to consider in determining whether there has been a significant increase in credit risk.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 4.

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)

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

The following clarifications and amendments are contained in the pronouncement:

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

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

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

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

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

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

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

The amendments were effective for annual periods beginning on or after 1 January 2018. Earlier application was permitted. The amendments were to be applied prospectively. However, retrospective application was allowed if 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 this standard did not have a material impact on 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.

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)

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

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

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

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

— 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 this standard did not have a material impact on 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 this standard did not have a material impact on the amounts and disclosures of the Group's financial statements.

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)

— Annual improvement cycle (2014 – 2016) – various standards

Standards	Amendments
IFRS 1 First-time Adoption of IFRS	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.

The adoption of these standards did not have a material impact on the amounts and disclosures of the Group's financial statements.

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2018

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2018, and have not been applied in preparing these financial statements.

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

— IFRS 16 Leases	1 January 2019
— IFRIC 23 Uncertainty over income tax treatments	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
— Annual improvements cycle (2015-2017)	1 January 2019
— IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019
— IFRS 3 Definition of a Business	1 January 2020
— Amendments to references to the Conceptual Framework in IFRS Standards	1 January 2020
— Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020
— IFRS 17 Insurance contracts	1 January 2022
— Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2018 (Continued)

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

— 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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2018 (Continued)

— IFRS 16: Leases (Continued)

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 currently in the process of assessing existing contractual relationships to identify the existing population of leases that would be recorded on the balance sheet under the new standard. The Group continues to evaluate the potential impact to the existing IT systems and processes and next steps include performing an initial quantification of the existing obligations and reviewing the additional disclosures required by the new standard. During 2019, the Group will also complete its assessment of various practical expedients and formulate its accounting policies under IFRS 16.

— 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 new Standard is effective for annual periods beginning on or after 1 January 2019.

The Group is assessing the potential impact on its financial statements resulting from the application of IFRIC 23.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2018 (Continued)

— 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.

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

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

— 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 amendments apply for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

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

— Annual improvement cycle (2015 – 2017) – various standards

Standards	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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2018 (Continued)

— Annual improvement cycle (2015 – 2017) – various standards (Continued)

The amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The adoption of these amendments is not expected to affect the amounts and disclosures of the Group's financial statements.

— IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments clarify that:

- on amendment, curtailment or settlement of a defined benefit plan, a Company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and
- the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).

Consistent with the calculation of a gain or loss on a plan amendment, entities will now use updated actuarial assumptions to determine the current service cost and net interest for the period. Previously, entities would not have updated the calculation of these costs until the year-end.

Further, if a defined benefit plan is settled, any asset ceiling would be disregarded when determining the plan assets as part of the calculation of gain or loss on settlement.

The amendments apply for plan amendments, curtailments or settlements that occur on or after 1 January 2019, or the date on which the amendments are first applied. Earlier application is permitted.

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

— IFRS 3 Definition of a Business

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

- Optional concentration test

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

- Substantive process

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

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

The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. The adoption of this standard will not have an impact on the financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2018 (Continued)

— Amendments to References to the Conceptual Framework in IFRS Standards

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

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

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

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

— IAS 1 and IAS 8 Definition of Material

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

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

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

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

The amendments are effective from 1 January 2020 but may be applied earlier.

The Group is assessing the potential impact on its financial statements resulting from the application of the refined definition of materiality.

— 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2018 (Continued)

— IFRS 17 Insurance Contracts (Continued)

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

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

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

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

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

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

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

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

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

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

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

The Group did not early adopt new or amended standards in the year ended 31 December 2018.

4. CHANGES IN ACCOUNTING POLICIES

The Group has initially adopted IFRS 9 and IFRS 15 from 1 January 2018. Also, the Group early adopted Prepayment Features with Negative Compensation (Amendments to IFRS 9), issued in October 2017.

A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

Due to the transition method chosen by the Group in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The adoption of IFRS 15 did not materially impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Group. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets (see Note 21(c));
- additional disclosures related to IFRS 9 (see Notes 3(f), 4, 5(a), 6(a) and 41); and
- additional disclosures related to IFRS 15(see Note 3(d)).

Except for the changes in Note 3(v)(i), the Group has consistently applied the accounting to all periods presented in these consolidated financial statements.

5. FINANCIAL RISK MANAGEMENT

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

Financial risk

The 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 the Group's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

Derivative financial instruments

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Credit-related commitment risks

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

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

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

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

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

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

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

Exposure to credit risk

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

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

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

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt instruments (2018) and available-for-sale debt assets (2017). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively. See accounting policy on note 3(f)(iii) for the explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired.

Group

Risk classification	12 month ECL (Stage 1) KShs'000	Lifetime ECL Not Credit Impaired (Stage 2) KShs'000	Lifetime ECL Credit Impaired (Stage 3) KShs'000	Total 31 December 2018 KShs'000	Total 31 December 2017 KShs'000
Loans and advances to Customers at amortised cost					
Normal (Stage 1)	118,821,953	-	-	118,821,953	99,701,179
Watch (Stage 2)	-	18,226,029	-	18,226,029	23,327,502
Non-Performing loans (Stage 3)	-	-	21,895,604	21,895,604	18,940,696
Gross carrying amount	**118,821,953**	**18,226,029**	**21,895,604**	**158,943,586**	**141,969,377**
Loss allowance	(769,849)	(1,339,011)	(9,211,217)	(11,320,077)	(6,870,983)
Carrying amount	**118,052,104**	**16,887,018**	**12,684,387**	**147,623,509**	**135,098,394**

Company

Risk classification	12 month ECL (Stage 1) KShs'000	Lifetime ECL Not Credit Impaired (Stage 2) KShs'000	Lifetime ECL Credit Impaired (Stage 3) KShs'000	Total 31 December 2018 KShs'000	Total 31 December 2017 KShs'000
Loans and advances to Customers at amortised cost					
Normal (Stage 1)	106,732,028	-	-	106,732,028	88,038,949
Watch (Stage 2)	-	16,391,036	-	16,391,036	21,236,443
Non-Performing loans (Stage 3)	-	-	19,775,933	19,775,933	17,668,514
Gross carrying amount	**106,732,028**	**16,391,036**	**19,775,933**	**142,898,997**	**126,943,906**
Loss allowance	(746,969)	(1,321,239)	(8,511,530)	(10,579,738)	(6,287,087)
Carrying amount	**105,985,059**	**15,069,797**	**11,264,403**	**132,319,259**	**120,656,819**

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

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

The Group has estimated that the ECL for the following financial assets is not material as at 31 December 2018. These financial assets have been assessed to be in Stage 1 (low credit risk). Consequently, no ECL has been carried in the books.

		Group		Company	
	Note	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Balances with central banks	18	10,158,473	6,696,404	8,607,502	5,251,820
Items in the course of collection	19	764,460	378,462	763,445	374,006
Loans and advances to banks	20	31,205,610	2,612,377	30,858,283	2,544,525
Financial assets at fair value through other comprehensive income (FVOCI) - Debt instruments	22	13,943,848	25,039,662	14,339,916	25,002,154
Other financial assets at amortised cost; Government securities	22	22,688,163	24,497,866	18,306,701	20,747,773
Due from group companies	27	853,185	854,052	1,663,796	876,329
		79,613,739	60,078,823	74,539,643	54,796,607

The following shows the grading of loans and advances to customers in line with local prudential guidelines

Group:	2018 KShs'000	2017 KShs'000
Loans and advances to customers		
Identified impairment:		
Grade 3: Substandard	2,652,733	3,702,833
Grade 4: Doubtful	17,730,807	14,541,507
Grade 5: Loss	1,512,064	696,356
	21,895,604	**18,940,696**
Specific allowances for impairment	(9,211,217)	(5,876,547)
Carrying amounts	**12,684,387**	**13,064,149**
Unidentified impairment:		
Grade 2: Watch	18,226,029	23,327,502
Grade 1: Normal	118,821,953	99,701,179
	137,047,982	**123,028,681**
Portfolio allowances for impairment	(2,108,860)	(994,436)
Carrying amounts	**134,939,122**	**122,034,245**
Total carrying amounts	**147,623,509**	**135,098,394**

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

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

Company:	2018 KShs '000	2017 KShs '000
Loans and advances to customers		
Identified impairment:		
Grade 3: Substandard	1,537,074	2,991,734
Grade 4: Doubtful	17,106,473	14,148,110
Grade 5: Loss	1,132,386	528,670
	19,775,933	**17,668,514**
Specific allowance for impairment	(8,511,530)	(5,421,605)
Carrying amounts	**11,264,403**	**12,246,909**
Unidentified impairment:		
Grade 2: Watch	16,391,036	21,236,443
Grade 1: Normal	106,732,028	88,038,949
	123,123,064	**109,275,392**
Portfolio allowances for impairment	(2,068,208)	(865,482)
Carrying amounts	**121,054,856**	**108,409,910**
Total carrying amounts	**132,319,259**	**120,656,819**

Group:	Gross KShs'000	Net KShs'000
Identified impairment:		
31 December 2018		
Grade 3: Substandard	2,652,733	2,063,636
Grade 4: Doubtful	17,730,807	9,853,941
Grade 5: Loss	1,512,064	766,810
	21,895,604	**12,684,387**
31 December 2017		
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**
Unidentified impairment:		
31 December 2018		
Grade 1: Normal	118,821,953	118,052,104
Grade 2: Watch	18,226,029	16,887,018
	137,047,982	**134,939,122**
31 December 2017		
Grade 1: Normal	99,701,179	98,928,356
Grade 2: Watch	23,327,502	23,105,889
	123,028,681	**122,034,245**

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

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

Company:	Gross KShs'000	Net KShs'000
Identified impairment:		
31 December 2018		
Grade 3: Substandard	1,537,074	1,184,677
Grade 4: Doubtful	17,106,473	9,495,958
Grade 5: Loss	1,132,386	583,768
	19,775,933	**11,264,403**
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**
Unidentified impairment:		
31 December 2018		
Grade 1: Normal	106,732,028	105,985,059
Grade 2: Watch	16,391,036	15,069,797
	123,123,064	**121,054,856**
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**

Impaired loans and securities

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

Neither past due nor impaired

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

Past due but not impaired loans

These are loans where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group. These loans are stage 2 (Watch) in the Group's internal credit risk and grading system.

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(i) Credit quality analysis – Trade receivables

The Group's exposure to trade receivables credit risk is influenced mainly by the individual characteristics of each customer. The Group uses an allowance matrix, using the simplified approach, to measure the lifetime ECLs of trade receivables for customers. Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off.

	Gross KShs'000	Impairment KShs'000	Net KShs'000	Credit impaired
2018:				
Current	24,457	4,945	19,512	No
Past due:				
30-90 days	17,922	1,701	16,221	No
91-180 days	12,527	4,555	7,972	Yes
180-360 days	8,619	3,760	4,859	Yes
Over 360 days	3,513	3,513	-	Yes
	67,038	**18,474**	**48,564**	
2017:				
Current	29,129	-	29,129	No
Past due:				
30-90 days	2,073	-	2,073	No
91-180 days	2,104	-	2,104	No
180-360 days	418	418	-	Yes
Over 360 days	4,339	4,339	-	Yes
	38,063	**4,757**	**33,306**	

Impairment loss movement on trade receivables

	2018 KShs'000	2017 KShs'000
At 1 January	4,757	4,271
Day one IFRS 9 adjustment	12	-
Acquisition of Youjays insurance Brokers Limited	5,858	-
Charge for the year	7,847	486
At 31 December	**18,474**	**4,757**

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(i) Credit quality analysis – Trade receivables (Continued)

Loss rates are based on actual credit loss experience over the past three years. All trade receivables that are past due over 180 days are considered uncollectible and fully impaired. Effective 1 January 2018, all financial assets that are contractually 90 days in arrears are automatically classified as impaired under IFRS 9. The group therefore is of the view that due to the short term nature of these instruments, the impact of economic conditions is immaterial. Consequently, the impact of forward looking information has not been taken on these financial statements.

The risk management committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes, if they are available; financial statements, credit agency information, industry information and in some cases references from other credible sources. Credit limits are established for each customer and reviewed frequently. Any credit exceeding those limits require approval from the risk management committee.

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

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

(ii) Collateral and other security enhancements

The Group holds collaterals against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimate of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowings activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2018 or 2017.

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

Loans and advances to customers	2018 KShs'000	2017 KShs'000
Group		
Fair value of collateral held – against impaired loans	12,096,746	5,462,724
Company		
Fair value of collateral held - against impaired loans	11,264,402	4,593,937

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

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

Significant increase in credit risk

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

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

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

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

Credit risk grading

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

In addition, the prudential guidelines are supplemented

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

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Amounts arising from ECL (Continued)

Inputs, assumptions and techniques used for estimating impairment (Continued)

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

Customer loans and advances

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

Generating the term structure of PD

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

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

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

Based on advice from the Risk Committees and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

The Group has applied a simpler methodology (lifetime ECL) for its other exposures including lease receivables and trade receivables.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(f)(v).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) Amounts arising from ECL (Continued)

Modified financial assets (Continued)

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) Amounts arising from ECL (Continued)

Incorporation of forward-looking information

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

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

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

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

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

In determining the likelihood of each of the three macroeconomic scenarios, a weighting of 90% (base case), 5% (upside case) and 5% (downside case) was applied.

The economic scenarios used as at 31 December 2018 included the following ranges of key indicators;

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) Amounts arising from ECL (Continued)

Incorporation of forward-looking information (Continued)

I&M Bank LIMITED				
2019				
Macro-Economic variable	**Coefficient/ Sensitivity**	**Base %**	**Upside %**	**Downside %**
Weighting		**90.00%**	**5.00%**	**5.00%**
Savings rate	0.15	4.00%	6.25%	1.75%
Lending rates	(0.11)	12.74%	16.07%	9.42%
Housing price index	(0.49)	0.39%	1.24%	-0.46%
Public debt to GDP	0.31	60.90%	68.16%	53.66%
Constant	(0.06)	60.90%	68.16%	53.66%

The correlation of the above factors with the Banking Industry non-performing loans (NPL %) were also used to determine whether these factors should be lagged.

Based on this analysis, Lending Rate was lagged by 4 months and Public debt to GDP ratio was lagged by 2 months.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets were developed based on analysing historical data over the past 3 to 5 years.

I&M Bank (T) Limited				
2019				
Macro-Economic variable	**Coefficient/ Sensitivity**	**Base %**	**Upside %**	**Downside %**
Weighting		**90.00%**	**5.00%**	**5.00%**
Savings rate	0.93	4.83%	5.71%	3.94%
Lending rates	(3.02)	2.75%	3.04%	2.46%
Housing price index	0.45	18.11%	18.91%	17.32%
Public debt to GDP	0.45	37.40%	48.40%	26.40%
Constant	(0.09)	-	-	-

Measurement of ECL

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

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) Amounts arising from ECL (Continued)

Measurement of ECL (Continued)

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

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

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

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- segment type;
- credit risk grading; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 3(f)(iii). Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) Amounts arising from ECL (Continued)

Loans and advances to Customers at amortised cost

Group	Provisions (ECL allowance)				Exposure (Gross balance)			
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000
Balance at 1 January 2018	**806,634**	**187,803**	**5,876,546**	**6,870,983**	**99,701,179**	**23,327,502**	**18,940,696**	**141,969,378**
Day one IFRS 9 transition adjustment (Note 42(b))	(368,920)	643,328	-	**274,408**	-	-	-	-
Adjusted balance at 1 January 2018	**437,714**	**831,131**	**5,876,546**	**7,145,391**	**99,701,179**	**23,327,503**	**18,940,696**	**141,969,378**
Transfer from 12 months ECL (Stage 1)	(24,622)	20,746	3,876	-	(2,768,566)	2,442,197	326,369	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	220,856	(339,018)	118,162	-	5,467,042	(9,554,041)	4,086,999	-
Transfer from Lifetime ECL credit impaired (Stage 3)	130,651	426,811	(557,462)	-	367,126	2,523,906	(2,891,032)	-
Net remeasurement of loss allowance	(102,408)	355,951	3,699,060	**3,952,603**	5,552,717	(516,703)	2,632,288	**7,668,302**
New financial assets originated or purchased	130,672	50,620	202,933	**384,225**	16,797,027	470,944	411,724	**17,679,695**
Financial assets derecognised	(20,436)	(6,375)	(104,684)	**(131,495)**	(5,805,377)	(380,065)	(1,521,110)	**(7,706,552)**
Translation difference	(2,578)	(855)	(27,214)	**(30,647)**	(489,195)	(87,712)	(90,330)	**(667,237)**
Balance at 31 December 2018	**769,849**	**1,339,011**	**9,211,217**	**11,320,077**	**118,821,953**	**18,226,029**	**21,895,604**	**158,943,586**

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) Amounts arising from ECL (Continued)

Loans and advances to Customers at amortised cost (Continued)

Company	Provisions (ECL allowance)				Exposure (Gross balance)			
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000
Balance at 1 January 2018	**697,286**	**168,197**	**5,421,604**	**6,287,087**	**88,038,949**	**21,236,443**	**17,668,514**	**126,943,906**
Day one IFRS 9 transition adjustment (Note 42(b))	(383,007)	636,894	-	**253,887**	-	-	-	**-**
Adjusted balance at 1 January 2018	**314,279**	**805,091**	**5,421,604**	**6,540,974**	**88,038,949**	**21,236,443**	**17,668,514**	**126,943,906**
Transfer from 12 months ECL (Stage 1)	(16,397)	13,800	2,597	**-**	(3,119,129)	2,767,600	351,529	**-**
Transfer from Lifetime ECL not credit impaired (Stage 2)	210,142	(326,039)	115,897	**-**	6,324,411	(10,418,700)	4,094,289	**-**
Transfer from Lifetime ECL credit impaired (Stage 3)	123,313	423,327	(546,640)	**-**	569,825	3,132,071	(3,701,896)	**-**
Net remeasurement of loss allowance	6,786	362,289	3,324,892	**3,693,967**	4,501,520	(435,347)	2,324,640	**6,390,813**
New financial assets originated or purchased	129,282	49,146	197,608	**376,036**	14,723,930	434,165	394,452	**15,552,547**
Financial assets derecognised	(20,436)	(6,375)	(4,428)	**(31,239)**	(4,307,478)	(325,196)	(1,355,595)	**(5,988,269)**
Balance at 31 December 2018	**746,969**	**1,321,239**	**8,511,530**	**10,579,738**	**106,732,028**	**16,391,036**	**19,775,933**	**142,898,997**

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) Amounts arising from ECL (Continued)

Loan commitments and financial guarantee contracts

Group	Provisions (ECL allowance)			Exposure (Gross balance)		
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Total KShs'000
Balance at 1 January 2018	-	-	-	**48,583,731**	**3,609,644**	**52,193,375**
Day one IFRS 9 transition adjustment (Note 42(b))	330,545	170,119	**500,664**	-	-	**-**
Adjusted balance at 1 January 2018	**330,545**	**170,119**	**500,664**	**48,583,731**	**3,609,644**	**52,193,375**
Transfer from 12 months ECL (Stage 1)	(7,637)	7,637	**-**	(1,358,079)	1,358,079	**-**
Transfer from Lifetime ECL not credit impaired (Stage 2)	71,190	(71,190)	**-**	2,025,488	(2,025,488)	**-**
Net remeasurement of loss allowance	(82,734)	(25,456)	**(108,190)**	3,031,394	(189,753)	**2,841,641**
New financial assets originated or purchased	24,387	20,326	**44,713**	6,364,991	207,448	**6,572,439**
Financial assets derecognised	(106,870)	(7,843)	**(114,713)**	(8,590,697)	(254,235)	**(8,844,932)**
Translation difference	(188)	(16)	**(204)**	-	-	**-**
Balance at 31 December 2018	**228,693**	**93,577**	**322,270**	**50,056,828**	**2,705,695**	**52,762,523**

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) Amounts arising from ECL (Continued)

Loan commitments and financial guarantee contracts (Continued)

Company	Provisions (ECL allowance)			Exposure (Gross balance)		
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Total KShs'000
Balance at 1 January 2018	**-**	**-**	**-**	**45,918,925**	**3,609,644**	**49,528,569**
Day one IFRS 9 transition adjustment (Note 42(b))	322,191	170,119	**492,310**	-	-	**-**
Adjusted balance at 1 January 2018	**322,191**	**170,119**	**492,310**	**45,918,925**	**3,609,644**	**49,528,569**
Transfer from 12 months ECL (Stage 1)	(7,502)	7,502	**-**	(1,330,448)	1,330,448	**-**
Transfer from Lifetime ECL not credit impaired (Stage 2)	71,190	(71,190)	**-**	2,025,488	(2,025,488)	**-**
Net remeasurement of loss allowance	(82,337)	(26,398)	**(108,735)**	3,350,539	(193,645)	**3,156,894**
New financial assets originated or purchased	23,787	20,326	**44,113**	4,826,850	207,448	**5,034,298**
Financial assets derecognised	(106,782)	(7,843)	**(114,625)**	(7,954,024)	(254,235)	**(8,208,259)**
Balance at 31 December 2018	**220,547**	**92,516**	**313,063**	**46,837,330**	**2,674,172**	**49,511,502**

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by Asset and Liabilities Committee. The Asset and Liabilities Committee (ALCO) also monitors the liquidity gap and at first instance would source funds from market using interbank borrowings and as a last resort, use repo and reverse repo arrangements with the central banks. The Group has also arranged for long term funding as disclosed under Note 32 and Note 33.

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

	Kenya		Tanzania	
	2018	**2017**	**2018**	**2017**
At 31 December	45%	35%	30%	28%
Average for the period	41%	37%	29%	31%
Highest for the period	47%	41%	37%	34%
Lowest for the period	33%	34%	35%	28%

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2018 and 2017 to the contractual maturity date:

Group 31 December 2018	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
LIABILITIES						
Deposits from banks	1,302,454	26,841	13,062	-	-	**1,342,357**
Deposits from customers	57,051,889	103,885,222	32,033,875	436,029	-	**193,407,015**
Due to group companies	2,182,187	768,111	-	-	-	**2,950,298**
Other liabilities	230,988	2,115,874	-	-	-	**2,346,862**
Long term debt	11,088	3,091	1,839,458	6,472,775	-	**8,326,412**
Subordinated debt	-	3,795,789	12,963	817,059	-	**4,625,811**
Contractual off-balance sheet financial liabilities	-	-	91,143,738	-	-	**91,143,738**
Capital commitments	-	-	3,365,472	-	-	**3,365,472**
Leases	-	-	478,119	2,476,446	418,704	**3,373,269**
At 31 December 2018	**60,778,606**	**110,594,928**	**128,886,687**	**10,202,309**	**418,704**	**310,881,234**

5. FINANCIAL 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	Due after 5 years KShs'000	Total KShs'000
LIABILITIES						
Deposits from banks	1,783,527	369,016	2,481	-	-	**2,155,024**
Deposits from customers	46,184,691	83,931,798	18,739,554	164,860	-	**149,020,903**
Due to group companies	2,093,230	-	-	-	-	**2,093,230**
Other liabilities	689,194	2,492,686	-	-	-	**3,181,880**
Long term debt	64,040	22,121	2,160,301	5,734,228	-	**7,980,690**
Subordinated debt	-	2,867	27,655	5,843,442	-	**5,873,964**
Contractual off-balance sheet financial liabilities	-	-	68,469,830	-	-	**68,469,830**
Capital commitments	-	-	2,195,401	-	-	**2,195,401**
Leases	-	-	418,184	2,933,970	725,390	**4,077,544**
At 31 December 2017	**50,814,682**	**86,818,488**	**92,013,406**	**14,676,500**	**725,390**	**245,048,466**

Company 31 December 2018	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
LIABILITIES						
Deposits from banks	459,299	26,841	13,062	-	-	**499,202**
Deposits from customers	51,670,039	101,313,114	25,827,443	15,783	-	**178,826,379**
Due to group companies	2,182,187	-	-	-	-	**2,182,187**
Other liabilities	45,035	2,060,158	-	-	-	**2,105,193**
Long term debt	-	-	1,839,458	4,479,251	-	**6,318,709**
Subordinated debt	-	3,795,789	-	-	-	**3,795,789**
Contractual off-balance sheet financial liabilities	-	-	87,892,717	-	-	**87,892,717**
Capital commitments	-	-	2,624,000	-	-	**2,624,000**
Leases	-	-	472,802	2,350,760	418,704	**3,242,266**
At 31 December 2018	**54,356,560**	**107,195,902**	**118,669,482**	**6,845,794**	**418,704**	**287,486,442**

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

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	Total KShs'000
LIABILITIES						
Deposits from banks	1,111,726	369,016	2,481	-	-	**1,483,223**
Deposits from customers	39,836,547	81,684,833	12,691,647	26,598	-	**134,239,625**
Due to group companies	2,093,230	-	-	-	-	**2,093,230**
Other liabilities	655,136	2,295,569	-	-	-	**2,950,705**
Long term debt	-	-	1,867,738	4,763,480	-	**6,631,218**
Subordinated debt	-	-	27,655	5,014,660	-	**5,042,315**
Contractual off-balance sheet financial liabilities	-	-	65,805,024	-	-	**65,805,024**
Capital commitments	-	-	1,860,000	-	-	**1,860,000**
Leases	-	-	415,998	2,751,659	725,390	**3,893,047**
At 31 December 2017	**43,696,639**	**84,349,418**	**82,670,543**	**12,556,397**	**725,390**	**223,998,387**

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

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spread (not relating to changes in the obligator's/issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments.

All trading instruments are subject to market risk, the risk that the future changes in market conditions may make an instrument less valuable or more onerous. The Group manages its use of trading instruments in response to changing market conditions.

The Board of Directors of the individual Group entities have delegated responsibility for management of Market Risk to their respective Board Risk Committees. Exposure to market risk is formally managed within Risk Limits and Policy Guidelines issued by the Board, on recommendation of the Board Risk Committee. ALCO, a Management Committee is charged with the responsibility of ensuring implementation and monitoring of the risk management framework in line with policy guidelines. The Group is primarily exposed to Interest Rate and Foreign Exchange Risk. The policy guidelines and procedures in place are adequate to effectively manage these risks.

Exposure to interest rate risk

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk (Continued)

Group

31 December 2018	**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	-	12,083	-	-	-	11,989,948	**12,002,031**
Items in the course of collection	-	-	-	-	-	764,460	**764,460**
Loans and advances to banks	20,122,062	11,083,548	-	-	-	-	**31,205,610**
Loans and advances to customers	145,731,996	1,891,513	-	-	-	-	**147,623,509**
Financial assets at fair value through profit or loss (FVTPL)	-	1,966,474	4,525,423	1,229,790	5,422,691	-	**13,144,378**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	3,215,050	4,596,736	6,096,127	35,935	**13,943,848**
Other financial assets at amortised cost	-	3,863,519	10,286,210	5,873,674	2,713,324	-	**22,736,727**
Due from group companies	-	-	-	-	-	853,185	**853,185**
Other assets	-	11,711	-	-	-	1,320,557	**1,332,268**
At 31 December 2018	**165,854,058**	**18,828,848**	**18,026,683**	**11,700,200**	**14,232,142**	**14,964,085**	**243,606,016**
LIABILITIES							
Deposits from banks	1,300,207	26,451	12,597	-	-	-	**1,339,255**
Deposits from customers	54,266,352	102,733,368	31,312,087	434,115	-	2,588,226	**191,334,148**
Due to group companies	-	-	-	-	-	2,069,611	**2,069,611**
Other liabilities	-	-	-	-	-	2,346,862	**2,346,862**
Long term debt	11,088	3,091	1,777,254	5,828,500	-	-	**7,619,933**
Subordinated debt	-	3,681,657	12,963	817,059	-	-	**4,511,679**
At 31 December 2018	**55,577,647**	**106,444,567**	**33,114,901**	**7,079,674**	**-**	**7,004,699**	**209,221,488**
Interest rate gap	**110,276,411**	**(87,615,719)**	**(15,088,218)**	**4,620,526**	**14,232,142**	**7,959,386**	**34,384,528**

5. FINANCIAL 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	4,282,448	**50,282,468**
Due from group companies	-	-	-	-	-	854,052	**854,052**
Other assets	-	-	-	-	-	990,610	**990,610**
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 debt	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**

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.

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk (Continued)

Company 31 December 2018	Effective interest rate KShs'000	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	Non-interest bearing KShs'000	Total KShs'000
ASSETS							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	10,110,215	**10,110,215**
Items in the course of collection	-	-	-	-	-	763,445	**763,445**
Loans and advances to banks	1.1%	19,774,735	11,083,548	-	-	-	**30,858,283**
Loans and advances to customers	11.4%	130,427,746	1,891,513	-	-	-	**132,319,259**
Financial assets at fair value through profit or loss (FVTPL)		-	1,966,474	4,525,423	1,229,790	-	**13,144,378**
Financial assets measured at fair value through other comprehensive income (FVOCI)		-	-	3,372,053	4,596,736	-	**14,339,916**
Other financial assets at amortised cost		-	3,470,066	8,695,667	4,191,445	-	**18,306,701**
Due from group companies	-	-	-	-	-	1,663,796	**1,663,796**
Other assets	-	-	-	-	-	1,218,283	**1,218,283**
At 31 December 2018		**150,202,481**	**18,411,601**	**16,593,143**	**10,017,971**	**13,755,739**	**222,724,276**
LIABILITIES							
Deposits from banks	5.9%	457,052	26,451	12,597	-	-	**496,100**
Deposits from customers	4.6%	51,472,727	100,161,260	25,105,655	13,869	-	**176,753,511**
Due to group companies	-	-	-	-	-	2,173,854	**2,173,854**
Other liabilities	-	-	-	-	-	2,105,193	**2,105,193**
Long term debt		-	-	1,777,254	3,834,975	-	**5,612,229**
Subordinated debt	12.5%	-	3,681,657	-	-	-	**3,681,657**
At 31 December 2018		**51,929,779**	**103,869,368**	**26,895,506**	**3,848,844**	**4,279,047**	**190,822,544**
Interest rate gap		**98,272,702**	**(85,457,767)**	**(10,302,363)**	**6,169,127**	**9,476,692**	**31,901,732**

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk (Continued)

Company 31 December 2017	Effective interest rate KShs'000	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	4,211,396	**46,461,323**
Due from group companies	-	-	-	-	-	-	876,329	**876,329**
Other assets	-	-	-	-	-	-	916,118	**916,118**
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 debt	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**

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk (Continued)

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

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

Sensitivity Analysis

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

Group **31 December 2018** **200 basis points**	**Profit or loss Increase/decrease in basis points ('000)**	**Equity net of tax Increase/decrease in basis points ('000)**
Assets	4,575,979	3,203,185
Liabilities	(4,044,336)	(2,831,035)
Net position	**531,643**	**372,150**
31 December 2017		
Assets	3,674,216	2,571,951
Liabilities	(3,113,379)	(2,179,365)
Net position	**560,837**	**392,586**

Company **31 December 2018** **200 basis points**	**Profit or loss Increase/decrease in basis points ('000)**	**Equity net of tax Increase/decrease in basis points ('000)**
Assets	4,179,371	2,925,560
Liabilities	(3,730,870)	(2,611,609)
Net position	**448,501**	**313,951**
31 December 2017		
Assets	3,309,025	2,316,318
Liabilities	(2,877,861)	(2,014,503)
Net position	**431,164**	**301,815**

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk

The Group is exposed to currency risk through transactions in foreign currencies. The Group's transactional exposure gives rise to foreign currency gains and losses that are recognised in the profit or loss. In respect of monetary assets and liabilities in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. The table below analyses the currencies which the Group is exposed to as at 31 December 2018 and 31 December 2017.

Group

At 31 December 2018	**USD KShs'000**	**GBP KShs'000**	**Euro KShs'000**	**Other KShs'000**	**Total KShs'000**
ASSETS					
Cash and balances with central banks	1,559,951	189,217	217,247	14,695	**1,981,110**
Items in the course of collection	58,576	-	530	-	**59,106**
Loans and advances to banks	16,503,192	12,066,839	2,840,982	210,285	**31,621,298**
Loans and advances to customers	55,873,087	1,801,013	1,775,970	4,355	**59,454,425**
Due from group companies	21,085	-	-	-	**21,085**
Other assets	86,575	-	2,813	-	**89,388**
At 31 December 2018	**74,102,466**	**14,057,069**	**4,837,542**	**229,335**	**93,226,412**
LIABILITIES					
Deposits from banks	2,098,757	62,444	200,030	8,034	**2,369,265**
Deposits from customers	49,059,973	13,855,956	3,468,868	184,829	**66,569,626**
Other liabilities	405,663	13,204	49,289	22,347	**490,503**
Long-term debt	6,742,703	-	451,681	-	**7,194,384**
Subordinated debt	571,941	-	-	-	**571,941**
At 31 December 2018	**58,879,037**	**13,931,604**	**4,169,868**	**215,210**	**77,195,719**
Net on statement of financial position	**15,223,429**	**125,465**	**667,674**	**14,125**	**16,030,693**
Net notional off balance sheet position	**(15,341,040)**	**(129,814)**	**(666,736)**	**15,184**	**(16,122,406)**
Overall net position – 2018	**(117,611)**	**(4,349)**	**938**	**29,309**	**(91,713)**

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk (Continued)

Group (Continued)

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	8643	-	-	-	**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**
Long-term borrowings	1,180,030	-	-	-	**1,180,030**
Subordinated debt	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)**

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk (Continued)

Company

At 31 December 2018	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with Central Bank of Kenya	814,170	82,119	153,973	4,901	**1,055,163**
Items in the course of collection	56,478	-	530	-	**57,008**
Loans and advances to banks	16,503,192	12,066,839	2,840,982	210,285	**31,621,298**
Loans and advances to customers	44,140,306	1,801,013	1,775,970	4,355	**47,721,644**
Due from group companies	21,085	-	-	-	**21,085**
Other assets	36,480	-	2,813	-	**39,293**
At 31 December 2018	**61,571,711**	**13,949,971**	**4,774,268**	**219,541**	**80,515,491**
LIABILITIES					
Deposits from banks	822,104	62,444	200,030	8,034	**1,092,612**
Deposits from customers	40,711,932	13,749,337	3,407,916	184,829	**58,054,014**
Other liabilities	97,887	12,979	46,941	20,236	**178,043**
Long-term debt	4,648,064	-	451,681	-	**5,099,745**
At 31 December 2018	**46,279,987**	**13,824,760**	**4,106,568**	**213,099**	**64,424,414**
Net on statement of financial position	**15,291,724**	**125,211**	**667,700**	**6,442**	**16,091,077**
Net notional off balance sheet position	**(15,341,040)**	**(129,814)**	**(666,736)**	**15,184**	**(16,122,406)**
Overall net position – 2018	**(49,316)**	**(4,603)**	**964**	**21,626**	**(31,329)**

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk (Continued)

Company (Continued)

	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
At 31 December 2017					
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
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)**

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk (Continued)

Sensitivity analysis

A reasonable possible strengthening or weakening of the USD, GBP, EUR against the Kenya shilling (KShs) would have affected the measurement of financial instruments denominated in foreign currency and effected equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates remain constant.

	Profit or loss Strengthening/ weakening of currency KShs'000	Equity net of tax Strengthening/ weakening of currency KShs'000
Group:		
At 31 December 2018		
USD (± 2.5% movement)	(2,940)	(2,058)
GBP (± 2.5% movement)	(109)	(76)
EUR (± 2.5% movement)	23	16
At 31 December 2017		
USD (± 2.5% movement)	(7,095)	(4,967)
GBP (± 2.5% movement)	41	28
EUR (± 2.5% movement)	304	212
Company:		
At 31 December 2018		
USD (± 2.5% movement)	(1,233)	(863)
GBP (± 2.5% movement)	(115)	(81)
EUR (± 2.5% movement)	24	17
At 31 December 2017		
USD (± 2.5% movement)	(6,434)	(4,504)
GBP (± 2.5% movement)	42	29
EUR (± 2.5% movement)	283	198

5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management

The Group's policy is to maintain a strong capital base so as to maintain regulatory, investor, creditor and market confidence and to sustain future development of business. The impact of the level of capital of shareholders' return is also recognized in addition to recognizing the need to maintain a balance between the higher returns that may be possible with greater gearing and the advantages and security afforded by sound capital position.

Regulatory capital – Kenya

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

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

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

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

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

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

Regulatory capital – Kenya (Continued)

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.

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

Company:		2018 KShs'000	2017 KShs'000
Core capital (Tier 1)			
Share capital		2,980,000	2,880,245
Share premium		5,531,267	3,759,624
Retained earnings		28,440,796	23,613,726
Other reserves		-	1,871,398
		36,952,063	**32,124,993**
Less: Goodwill		-	(10,747)
Investment in subsidiary		(2,750,753)	(2,324,125)
Total Core capital		**34,201,310**	**29,790,121**
Supplementary capital (Tier 2)			
Term subordinated debt		141,667	880,357
Statutory loan loss reserve		1,441,955	1,556,786
		1,583,622	**2,437,143**
Total capital		**35,784,932**	**32,227,264**
Risk weighted assets			
Credit risk weighted assets		160,916,162	138,500,542
Market risk weighted assets		7,313,937	6,875,704
Operational risk weighted assets		31,469,719	28,078,833
Total risk weighted assets		**199,699,818**	**173,455,079**
Deposits from customers		**178,452,689**	**136,135,203**
Capital ratios	**Minimum***		
Core capital/Total deposit liabilities	**8.0%**	**19.17%**	**21.88%**
Core capital /Total risk weighted assets	**10.5%**	**17.13%**	**17.17%**
Total capital /Total risk weighted assets	**14.5%**	**17.92%**	**18.58%**

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(d) 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.

		2018 TZS'000	2017 TZS'000
Total risk weighted assets		427,063,026	375,094,040
Capital ratios	**Minimum***		
Core capital /Total risk weighted assets	10.0%	13.68%	12.87%
Total capital /Total risk weighted assets	12.0%	18.46%	17.42%

As defined by the Bank of Tanzania

The minimum level of regulatory capital is TZS 15 billion.

6. USE OF ESTIMATES AND JUDGEMENT

Key sources of estimation uncertainty

(a) Allowance for credit losses

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 3(f)(iii) which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/ market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

6. USE OF ESTIMATES AND JUDGEMENT (Continued)

Key sources of estimation uncertainty (Continued)

(b) Income taxes

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

(c) Property and equipment

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

(d) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy 3(j)(ii) and computed in Note 23. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

(e) Critical accounting judgements made in applying the Group's accounting policies

Critical accounting judgements made in applying the Group's accounting policies include financial asset and liability classification. The Group's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances.

In classifying financial assets as held to maturity, the Group has determined that it has both positive intention and ability to hold the assets until their maturity date as required by the group's accounting policies.

7. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE

Accounting classifications 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.

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

Accounting classifications at carrying amounts and fair values (Continued)

Group	Carrying amounts					Fair value			
31 December 2018	Financial assets at amortised cost KShs'000	Financial assets at FVOCI KShs'000	Financial assets at FVTPL KShs'000	Other financial liabilities at amortised cost KShs'000	Total KShs'000	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets									
Cash and balances with central banks	12,002,031	-	-	-	**12,002,031**	12,002,031	-	-	**12,002,031**
Items in the course of collection	764,460	-	-	-	**764,460**	764,460	-	-	**764,460**
Loans and advances to banks	31,205,610	-	-	-	**31,205,610**	-	-	31,205,610	**31,205,610**
Loans and advances to customers	147,623,509	-	-	-	**147,623,509**	-	-	147,623,509	**147,623,509**
Financial assets at fair value through profit or loss (FVTPL)	-	-	13,144,378	-	**13,144,378**	13,144,378	-	-	**13,144,378**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	13,943,848	-	-	**13,943,848**	9,514,653	4,429,195	-	**13,943,848**
Other financial assets at amortised cost	22,736,727	-	-	-	**22,736,727**	22,711,297	-	-	**22,711,297**
Due from group companies	853,185	-	-	-	**853,185**	-	-	853,185	**853,185**
Other assets	1,332,268	-	-	-	**1,332,268**	-	-	1,332,268	**1,332,268**
	216,517,790	**13,943,848**	**13,144,378**	**-**	**243,606,016**	**58,136,819**	**4,429,195**	**181,014,572**	**243,580,586**
Financial liabilities									
Deposits from banks	-	-	-	1,339,255	**1,339,255**	-	-	1,339,255	**1,339,255**
Deposits from customers	-	-	-	191,334,148	**191,334,148**	-	-	191,334,148	**191,334,148**
Due to group companies	-	-	-	2,069,611	**2,069,611**	-	-	2,069,611	**2,069,611**
Long term borrowings	-	-	-	7,619,933	**7,619,933**	-	-	7,619,933	**7,619,933**
Subordinated debt	-	-	-	4,511,679	**4,511,679**	-	-	4,511,679	**4,511,679**
Other liabilities	-	-	-	2,346,862	**2,346,862**	-	-	2,346,862	**2,346,862**
	-	**-**	**-**	**209,221,488**	**209,221,488**	**-**	**-**	**209,221,488**	**209,221,488**

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

Accounting classifications at carrying amounts and fair values (Continued)

Group	Carrying amounts						Fair value			
31 December 2017	Held for trading KShs'000	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 2 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets										
Cash and balances with central banks	-	-	8,730,570	-	-	**8,730,570**	8,730,570	-	-	**8,730,570**
Items in the course of collection	-	-	-	-	378,462	**378,462**	378,462	-	-	**378,462**
Loans and advances to banks	-	-	2,612,377	-	-	**2,612,377**	-	-	2,612,377	**2,612,377**
Loans and advances to customers	-	-	135,098,394	-	-	**135,098,394**	-	-	135,098,394	**135,098,394**
Financial assets at fair value through profit or loss (FVTPL)	711,396	-	-	-	-	**711,396**	711,396	-	-	**711,396**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	-	25,039,662	-	**25,039,662**	20,801,252	738,410	3,500,000	**25,039,662**
Other financial assets at amortised cost	-	24,531,410	-	-	-	**24,531,410**	20,964,953	-	-	**20,964,953**
Due from group companies	-	-	854,052	-	-	**854,052**	-	-	854,052	**854,052**
Other assets	-	990,610	-	-	-	**990,610**	-	-	990,610	**990,610**
	711,396	**25,522,020**	**147,295,393**	**25,039,662**	**378,462**	**198,946,933**	**51,586,633**	**738,410**	**143,055,433**	**195,380,476**
Financial liabilities										
Deposits from banks	-	-	-	-	2,118,079	**2,118,079**	-	-	2,118,079	**2,118,079**
Deposits from customers	-	-	-	-	147,582,171	**147,582,171**	-	-	147,582,171	**147,582,171**
Due to group companies	-	-	-	-	2,032,125	**2,032,125**	-	-	2,032,125	**2,032,125**
Long term borrowings	-	-	-	-	7,314,699	**7,314,699**	-	-	7,314,699	**7,314,699**
Subordinated debt	-	-	-	-	4,512,315	**4,512,315**	-	-	4,512,315	**4,512,315**
Other liabilities	-	-	-	-	3,211,141	**3,211,141**	-	-	3,211,141	**3,211,141**
	-	**-**	**-**	**-**	**166,770,530**	**166,770,530**	**-**	**-**	**166,770,530**	**166,770,530**

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

Measurement of fair values

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 – Fair Value through Other Comprehensive Income	Prices quoted at securities exchanges	None	Not applicable

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

Accounting classifications at carrying amounts and fair values (Continued)

Company	Carrying amounts					Fair value			
31 December 2018	Financial assets at amortised cost KShs'000	Financial assets at FVOCI KShs'000	Financial assets at FVTPL KShs'000	Other financial liabilities at amortised cost KShs'000	Total KShs'000	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets									
Balances with Central Bank of Kenya	10,110,215	-	-	-	**10,110,215**	-	-	10,110,215	**10,110,215**
Items in the course of collection	763,445	-	-	-	**763,445**	-	-	-	**-**
Financial assets at fair value through profit or loss (FVTPL)	-	-	13,144,378	-	**13,144,378**	13,144,378	-	-	**13,144,378**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	14,339,916	-	-	**14,339,916**	9,514,653	436,283	4,388,980	**14,339,916**
Other financial assets at amortised cost	18,306,701	-	-	-	**18,306,701**	18,281,271	-	-	**18,281,271**
Loans and advances to banks	30,858,283	-	-	-	**30,858,283**	-	-	30,858,283	**30,858,283**
Loans and advances to customers	132,319,259	-	-	-	**132,319,259**	-	-	132,319,259	**132,319,259**
Due from group companies	1,663,796	-	-	-	**1,663,796**	-	-	1,663,796	**1,663,796**
Other assets	-	1,218,283	-	-	**1,218,283**	-		1,218,283	**1,218,283**
	194,021,699	**15,558,199**	**13,144,378**	**-**	**222,724,276**	**40,940,302**	**436,283**	**180,558,816**	**221,935,401**
Financial liabilities									
Deposits from banks	-	-	-	496,100	**496,100**	-	-	496,100	**496,100**
Deposits from customers	-	-	-	176,753,511	**176,753,511**	-	-	176,753,511	**176,753,511**
Due to group companies	-	-	-	2,173,854	**2,173,854**	-	-	2,173,854	**2,173,854**
Long term borrowings	-	-	-	5,612,229	**5,612,229**	-	-	5,612,229	**5,612,229**
Subordinated debt	-	-	-	3,681,657	**3,681,657**	-	-	3,681,657	**3,681,657**
Other liabilities	-	-	-	2,105,193	**2,105,193**	-	-	2,105,193	**2,105,193**
	-	**-**	**-**	**190,822,544**	**190,822,544**	**-**	**-**	**190,822,544**	**190,822,544**

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

Accounting classifications at carrying amounts and fair values (Continued)

Company 31 December 2017	Carrying amounts						Fair value			
	Held for trading KShs'000	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 2 KShs'000	Level 3 KShs'000	Total
Financial assets										
Cash and balances with Central Bank of Kenya	-	-	7,037,263	-	-	**7,037,263**	-	-	7,037,263	**7,037,263**
Items in the course of collection	-	-	-	-	374,006	**374,006**	374,006	-	-	**374,006**
Financial assets at fair value through profit or loss (FVTPL)	711,396	-	-	-	-	**711,396**	711,396	-	-	**711,396**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	-	25,002,154	-	**25,002,154**	21,502,154	700,902	3,500,000	**25,703,056**
Other financial assets at amortised cost	-	20,747,773	-	-	-	**20,747,773**	17,181,316	-	-	**17,181,316**
Loans and advances to banks	-	-	2,544,525	-	-	**2,544,525**	-	-	2,544,525	**2,544,525**
Loans and advances to customers	-	-	120,656,819	-	-	**120,656,819**	-	-	120,656,819	**120,656,819**
Due from group companies	-	-	-	-	876,329	**876,329**	-	-	876,329	**876,329**
Other assets	-	916,118	-	-	-	**916,118**	-	-	916,118	**916,118**
	711,396	**21,663,891**	**130,238,607**	**25,002,154**	**1,250,335**	**178,866,383**	**39,768,872**	**700,902**	**135,531,054**	**176,000,828**
Financial liabilities	-									
Deposits from banks	-	-	-	-	1,446,278	**1,446,278**	-	-	1,446,278	**1,446,278**
Deposits from customers	-	-	-	-	132,800,892	**132,800,892**	-	-	132,800,892	**132,800,892**
Due to group companies	-	-	-	-	2,085,237	**2,085,237**	-	-	2,085,237	**2,085,237**
Long term borrowings	-	-	-	-	5,965,228	**5,965,228**	-	-	5,965,228	**5,965,228**
Subordinated debt	-	-	-	-	3,680,666	**3,680,666**	-	-	3,680,666	**3,680,666**
Other liabilities	-	-	-	-	2,950,705	**2,950,705**	-	-	2,950,705	**2,950,705**
	-	**-**	**-**	**-**	**148,929,006**	**148,929,006**	**-**	**-**	**148,929,006**	**148,929,006**

		2018 KShs '000	2017 KShs'000
8.	**INTEREST INCOME**		
(a)	**Group**		
	Loans and advances to customers	17,727,941	16,545,444
	Loans and advances to banks	247,614	51,054
	Investment securities:-		
	- At amortised cost (2017: Loans and receivables)	2,533,514	2,546,630
	- FVOCI - Debt instruments (2017: Available-for-sale)	1,820,638	2,411,398
		22,329,707	**21,554,526**
(b)	**Company**		
	Loans and advances to customers	16,147,964	15,056,578
	Loans and advances to banks	242,885	31,697
	Investment securities:-		
	- At amortised cost (2017: Loans and receivables)	2,113,042	2,103,078
	- FVOCI - Debt instruments (2017: Available-for-sale)	1,820,638	2,411,398
		20,324,529	**19,602,751**
9.	**INTEREST EXPENSE**		
(a)	**Group**		
	Deposits from customers	8,147,609	6,956,427
	Deposits from banks	163,546	198,336
	Long term debt	343,100	324,487
	Subordinated debt	547,605	532,037
		9,201,860	**8,011,287**
(b)	**Company**		
	Deposits from customers	7,500,855	6,296,570
	Deposits from banks	114,355	175,150
	Long term debt	263,840	235,838
	Subordinated debt	467,785	468,248
		8,346,835	**7,175,806**
10.	**NET FEE AND COMMISSION INCOME**		
(a)	**Group**		
	Fee and commission income		
	Commissions	2,456,429	1,748,561
	Service fees	1,115,354	990,615
		3,571,783	**2,739,176**
	Fees and commission expense		
	Interbank transaction fees	(72,360)	(81,389)
	Other	(96,229)	(76,230)
		(168,589)	**(157,619)**
	Net fee and commission income	**3,403,194**	**2,581,557**

10. NET FEE AND COMMISSION INCOME (Continued)

		2018 KShs '000	2017 KShs'000
(b)	**Company**		
	Fee and commission income		
	Commissions	2,149,559	1,521,377
	Service fees	1,011,867	910,487
		3,161,426	**2,431,864**
	Fees and commission expense		
	Interbank transaction fees	(61,011)	(66,421)
	Other	(93,813)	(74,243)
		(154,824)	**(140,664)**
	Net fee and commission income	**3,006,602**	**2,291,200**

11. NET TRADING INCOME

		2018 KShs '000	2017 KShs'000
(a)	**Group**		
	Income from foreign exchange dealings	2,188,135	1,468,282
	Net income on Financial assets measured at fair value through other comprehensive income (FVOCI)	-	208,885
	Net income on financial assets at fair value through profit or loss (FVTPL)	539,712	-
		2,727,847	**1,677,167**
(b)	**Company**		
	Income from foreign exchange dealings	2,051,968	1,373,188
	Net income on Financial assets measured at fair value through other comprehensive income (FVOCI)	-	208,885
	Net income on financial assets at fair value through profit or loss (FVTPL)	539,712	-
		2,591,680	**1,582,073**

12. OTHER OPERATING INCOME

		2018 KShs '000	2017 KShs'000
(a)	**Group**		
(i)	***Other income***		
	Profit on sale of property and equipment	8,066	2,421
	Management fees income	13,693	58,861
	Other income	40,719	26,051
		62,478	**87,333**
(b)	**Company**		
(i)	***Other income***		
	Profit on sale of property and equipment	7,828	2,421
	Management fees	43,490	78,097
	Other income	18,052	14,465
		69,370	**94,983**
(ii)	***Dividend income***		
	Dividend income - I&M Bank (T) Limited	-	32,359
	Dividend income - I&M Insurance Agency Limited	57,500	-
		57,500	**32,359**

13. OPERATING EXPENSES

		2018 KShs '000	2017 KShs'000
(a)	**Group**		
	Staff costs		
	Salaries and wages	2,496,071	2,257,336
	Contribution to defined benefit and contribution plan	128,780	120,903
	Statutory contribution	29,526	28,635
	Other staff costs	476,133	455,057
		3,130,510	**2,861,931**
	Premises and equipment costs		
	Rental of premises	516,570	492,973
	Utilities	71,393	56,448
	Other premises and equipment costs	160,229	136,091
		748,192	**685,512**
	General administrative expenses		
	Deposit protection insurance contribution	228,393	207,707
	Loss on disposal of property and equipment	4,623	62
	Other general administrative expenses	1,953,440	1,816,879
		2,186,456	**2,024,648**
	Depreciation and amortisation		
	Depreciation on property and equipment (Note 24)	241,561	261,919
	Amortisation of intangible assets (Note 25)	142,567	124,265
		384,128	**386,184**

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

	2018	2017
Management	1,021	939
Others	208	173
	1,229	**1,112**

		2018 KShs '000	2017 KShs'000
(b)	**Company**		
	Staff costs		
	Salaries and wages	2,178,973	1,942,833
	Contribution to defined benefit and contribution plan	127,550	119,819
	Statutory contribution	2,284	2,159
	Other staff costs	385,903	370,877
		2,694,710	**2,435,688**
	Premises and equipment costs		
	Rental of premises	458,065	431,150
	Utilities	58,369	46,099
	Other premises and equipment costs	154,674	130,526
		671,108	**607,775**
	General administrative expenses		
	Deposit protection insurance contribution	207,104	186,489
	Other general administrative expenses	1,682,898	1,513,417
		1,890,002	**1,699,906**

13. OPERATING EXPENSES (Continued)

(b) Company (Continued)

	2018 KShs '000	2017 KShs'000
Depreciation and Amortisation		
Depreciation on property and equipment (Note 24)	193,337	218,095
Amortisation of intangible assets (Note 25)	112,423	96,603
	305,760	**314,698**
The average number of employees employed by the Company are as follows:		
Management	836	785
Others	189	143
	1,025	**928**

14. PROFIT BEFORE INCOME TAX

(a) Group

	2018 KShs '000	2017 KShs'000
Profit before income tax is arrived at after charging:		
Depreciation	241,561	261,919
Amortisation of intangible assets	142,567	124,265
Directors' emoluments: -fees	19,323	15,789
Directors' emoluments: -other	100,222	94,367
Auditors' remuneration	9,062	10,530
Net profit on sale of property and equipment	3,205	2,359

(b) Company

	2018 KShs '000	2017 KShs'000
Profit before income tax is arrived at after charging:		
Depreciation	193,337	218,095
Amortisation of intangible assets	112,423	96,603
Directors' emoluments: -fees	19,038	15,396
Directors' emoluments: -other	100,222	94,367
Auditors' remuneration	6,838	6,521
Net profit on sale of property and equipment	7,828	2,421

15. INCOME TAX EXPENSE AND TAX PAYABLE

(a) Income tax expense

(i) Group

	2018 KShs '000	2017 KShs'000
Current tax		
Current year's tax	3,012,185	2,735,604
Under provision in prior year	54,657	224,484
	3,066,842	**2,960,088**
Deferred tax (Note 26)		
Current year	(392,620)	(566,236)
Prior year adjustment	(129,838)	(248,017)
	(522,458)	**(814,253)**
Income tax expense	**2,544,384**	**2,145,835**

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

15. INCOME TAX EXPENSE AND TAX PAYABLE (Continued)

(a) Income tax expense (Continued)

(i) Group (Continued)

	2018 KShs'000	2017 KShs'000
Accounting profit before tax	**9,180,415**	**7,871,653**
Computed tax using the applicable corporation tax rate at 30%	2,754,125	2,361,496
Under provision in prior year	54,657	224,484
Effect on non-deductible costs/non-taxable income	(134,560)	(192,128)
Over provision in prior year - deferred tax	(129,838)	(248,017)
	2,544,384	**2,145,835**

(ii) Company

	2018 KShs'000	2017 KShs'000
Current tax		
Current year's tax at 30%	2,800,148	2,549,565
Under provision in prior year	54,557	224,483
	2,854,705	**2,774,048**
Deferred tax (Note 26)		
Current year	(338,397)	(498,829)
Prior year adjustment	(129,838)	(246,330)
	(468,235)	**(745,159)**
Income tax expense	**2,386,470**	**2,028,889**

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

	2018 KShs'000	2017 KShs'000
Accounting profit before tax	**8,725,326**	**7,516,380**
Computed tax using the applicable corporation tax rate at 30%	2,617,598	2,254,914
Under provision in prior year	54,557	224,483
Effect on non-deductible costs /non-taxable income	(155,847)	(204,178)
Under provision in prior year - deferred tax	(129,838)	(246,330)
	2,386,470	**2,028,889**

(b) Tax recoverable

(i) Group

	2018 KShs'000	2017 KShs'000
At 1 January	(542,748)	9,097
Income tax expense (Note 15(a)(i))	3,066,842	2,960,088
Effect of tax in foreign jurisdiction	(806)	241
Acquisition of Youjays Insurance Brokers Limited	(2,443)	-
Tax paid (Note 35(a))	(2,573,637)	(3,512,174)
At 31 December	**(52,793)**	**(542,748)**
Tax recoverable	(84,281)	(548,383)
Tax payable	31,488	5,635
	(52,793)	**(542,748)**

15. INCOME TAX EXPENSE AND TAX PAYABLE (Continued)

		2018 KShs'000	2017 KShs'000
(b)	**Tax recoverable (Continued)**		
ii)	**Company**		
	At 1 January	(545,305)	(2,015)
	Income tax expense (Note 15(a)(ii))	2,854,705	2,774,048
	Tax paid (Note 35(d))	(2,373,849)	(3,317,338)
	At 31 December	**(64,449)**	**(545,305)**

16. EARNINGS PER SHARE

	Group		Company	
	2018	2017	2018	2017
Net profit after tax attributable to owners of the company (KShs '000')	6,552,909	5,658,265	6,338,856	5,487,491
Weighted average number of ordinary shares in issue during the year ('000)	29,800	29,675	29,800	29,675
Earnings per share (KShs)	219.90	190.67	212.71	184.92

There were no potentially dilutive shares outstanding at 31 December 2018 (2017-Nil)

17. DIVIDEND PER SHARE

	2018 KShs'000	2017 KShs'000
The calculation of dividend per share is based on:		
Final dividend proposed during the year (KShs'000)	1,579,400	1,108,894
	1,579,400	**1,108,894**
Number of ordinary shares in issue as at 31 December ('000)	29,800	28,802
Final dividend per share (KShs.)	53.00	38.50

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.

18. CASH AND BALANCES WITH CENTRAL BANKS

		2018 KShs'000	2017 KShs'000
(a)	**Group**		
	Cash on hand	1,843,558	2,034,166
	Balances with central banks:		
	- Restricted balances (Cash reserve ratio)	9,036,312	5,852,585
	- Unrestricted balances	1,122,161	843,819
		12,002,031	**8,730,570**
(b)	**Company**		
	Cash on hand	1,502,713	1,785,443
	Balances with Central Bank of Kenya:		
	- Restricted balances (Cash reserve ratio)	7,883,019	4,807,281
	- Unrestricted balances	724,483	444,539
		10,110,215	**7,037,263**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

18. CASH AND BALANCES WITH CENTRAL BANKS (Continued)

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 2018, the cash ratio requirement was 5.25% (2017: 5.25%) in Kenya and, 10.0% (2017: 10.0%) in Tanzania of eligible deposits.

19. ITEMS IN THE COURSE OF COLLECTION

		2018 KShs'000	2017 KShs'000
(a)	**Group**		
	Assets	**764,460**	**378,462**
(b)	**Company**		
	Assets	**763,445**	**374,006**

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

20. LOANS AND ADVANCES TO BANKS

(a)	**Group**		
	Due within 90 days	**31,205,610**	**2,612,377**
(b)	**Company**		
	Due within 90 Days	**30,858,283**	**2,544,525**

21. LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

		2018 KShs'000	2017 KShs'000
(i)	***Group***		
	Overdrafts	48,769,118	43,624,502
	Loans	106,240,632	94,857,342
	Bills discounted	530,307	675,299
	Finance leases	3,403,529	2,812,234
	Gross loans and advances	**158,943,586**	**141,969,377**
	Less: Impairment losses on loans and advances	(11,320,077)	(6,870,983)
	Net loans and advances	**147,623,509**	**135,098,394**
(ii)	***Company***		
	Overdrafts	43,484,380	37,671,305
	Loans	95,480,781	85,785,068
	Bills discounted	530,307	675,299
	Finance leases	3,403,529	2,812,234
	Gross loans and advances	**142,898,997**	**126,943,906**
	Less: Impairment losses on loans and advances	(10,579,738)	(6,287,087)
	Net loans and advances	**132,319,259**	**120,656,819**

21. 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	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)
Write offs	(3,323,997)	-	(3,323,997)
Translation differences	(8,621)	(2,368)	(10,989)
At 31 December 2017	**5,876,547**	**994,436**	**6,870,983**

(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	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**

The 2018 movement in impairment loss reserves in compliance with IFRS 9 in disclosed on Note 5(a)(iv).

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Impairment losses on loans and advances - Group

	2018					2017		
	Loans and advances to Customers at amortised cost KShs'000	Loan commitments and financial guarantee contracts KShs'000	Total banking related financial assets KShs'000	Other financial assets at amortised cost - trade receivable KShs'000	Total KShs'000	Loans and advances to Customers KShs'000	Other financial assets at amortised cost - trade receivable KShs'000	Total KShs'000
Net remeasurement of loss allowance	3,952,603	(108,190)	3,844,413	7,847	3,852,260	4,478,558	486	4,479,044
New financial assets originated or purchased	384,225	44,713	428,938	-	428,938	-	-	-
	4,336,828	**(63,477)**	**4,273,351**	**7,847**	**4,281,198**	**4,478,558**	**486**	**4,479,044**
Recoveries and impairment no longer required	(31,239)	(114,625)	(145,864)	-	(145,864)	(298,579)	-	(298,579)
Recoveries of loans and advances previously written off	(594,017)	-	(594,017)	-	(594,017)	(121,097)	-	(121,097)
Amounts directly written off during the year	150,348	-	150,348	-	150,348	-	-	-
	3,861,920	**(178,102)**	**3,683,818**	**7,847**	**3,691,665**	**4,058,882**	**486**	**4,059,368**

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Impairment losses on loans and advances - Company

	2018			2017
	Loans and advances to Customers at amortised cost KShs'000	Loan commitments and financial guarantee contracts KShs'000	Total banking KShs'000	Loans and advances to Customers KShs'000
Net remeasurement of loss allowance	3,693,967	(108,735)	3,585,232	4,272,789
New financial assets originated or purchased	376,036	44,113	420,149	-
	4,070,003	**(64,622)**	**4,005,381**	**4,272,789**
Recoveries and impairment no longer required	(31,239)	(114,625)	(145,864)	(298,579)
Recoveries of loans and advances previously written off	(594,017)	-	(594,017)	(121,097)
Amounts directly written off during the year	150,440	-	150,440	-
	3,595,187	**(179,247)**	**3,415,940**	**3,853,113**

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(d) Non-performing loans and advances

Non-performing loans and advances net of impairment losses and estimated value of securities are disclosed in note 5(a)

(i) Group

	2018 KShs'000	2017 KShs'000
Interest on impaired loans and advances which has not yet been received in cash	**1,986,059**	**1,496,722**

(ii) Company

	2018 KShs'000	2017 KShs'000
Interest on impaired loans and advances which has not yet been received in cash	**1,626,397**	**1,304,005**

(e) Loans and advances concentration by sector

(i) Group

	2018 KShs'000	%	2017 KShs'000	%
Manufacturing	37,925,439	24%	33,201,055	23%
Wholesale and retail trade	33,796,251	21%	25,688,692	18%
Building and construction	13,244,694	8%	12,752,086	9%
Agriculture	4,443,604	3%	5,167,395	4%
Real estate	31,882,138	20%	29,431,005	21%
Transport and communication	7,193,205	5%	6,510,271	5%
Business services	22,615,277	14%	19,661,813	14%
Electricity and water	189,884	0%	130,765	0%
Finance and insurance	2,261,067	1%	1,720,237	1%
Mining and quarrying	1,489,928	1%	1,774,233	1%
Others	3,902,099	2%	5,931,825	4%
	158,943,586	**100%**	**141,969,377**	**100%**

(ii) Company

	2018 KShs'000	%	2017 KShs'000	%
Manufacturing	34,276,661	24%	29,876,340	24%
Wholesale and retail trade	31,477,098	22%	22,840,401	18%
Building and construction	12,841,912	9%	12,361,283	10%
Agriculture	3,760,466	3%	4,679,373	4%
Real estate	28,020,077	20%	25,869,903	20%
Transport and communication	6,290,525	4%	5,281,299	4%
Business services	20,383,440	14%	18,151,097	14%
Electricity and water	189,884	0%	130,765	0%
Finance and insurance	2,261,067	2%	1,720,237	1%
Mining and quarrying	1,094,515	1%	1,401,217	1%
Others	2,303,352	2%	4,631,991	4%
	142,898,997	**100%**	**126,943,906**	**100%**

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(f) Finance leases

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

		2018 KShs'000	2017 KShs'000
(i)	***Group***		
	Receivable no later than 1 year	394,077	566,681
	Receivable later than 1 year and no later than 5 years	3,009,452	2,245,553
		3,403,529	**2,812,234**
(ii)	***Company***		
	Receivable no later than 1 year	394,077	566,681
	Receivable later than I year and no later than 5 years	3,009,452	2,245,553
		3,403,529	**2,812,234**

22. FINANCIAL ASSETS

(a) Financial assets at fair value through profit or loss (FVTPL) (2017 - Held for Trading(HFT))

		2018 KShs'000	2017 KShs'000
(i)	***Group***		
	Corporate bonds	336,136	-
	Derivative assets	1,267,045	711,396
	Government securities (Non Liquid)	11,541,197	-
		13,144,378	**711,396**
(ii)	***Company***		
	Corporate bonds	336,136	-
	Derivative assets	1,267,045	711,396
	Government securities (Non Liquid)	11,541,197	-
		13,144,378	**711,396**

22. FINANCIAL ASSETS (Continued)

(b) Financial assets measured at fair value through other comprehensive income (FVOCI) (2017 – Available for Sale (AFS))

		2018 KShs'000	2017 KShs'000
(i)	***Group***		
	Equity investment	472,218	738,410
	Preference shares investment in I&M Realty Limited*	3,956,977	3,500,000
	Corporate bonds	-	331,104
	Government securities (Non Liquid)	9,514,653	20,470,148
		13,943,848	**25,039,662**
(ii)	***Company***		
	Equity investment	436,283	700,902
	Corporate bonds	-	331,104
	Preference shares investment	4,388,980	3,500,000
	Government securities (Non Liquid)	9,514,653	20,470,148
		14,339,916	**25,002,154**

* 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.

(c) Other financial assets at amortised cost (2017 – Held to Majority (HTM) Loans and receivables)

		2018 KShs'000	2017 KShs'000
(i)	***Group***		
	Government securities (Non Liquid)	22,688,163	24,497,866
	Trade receivables	48,564	33,544
		22,736,727	**24,531,410**
(ii)	***Company***		
	Government securities (Non Liquid)	**18,306,701**	**20,747,773**

22. FINANCIAL ASSETS (Continued)

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

	Financial assets at fair value through profit or loss (FVTPL)	Other financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income (FVOCI)				
	Government securities KShs'000	Government securities KShs'000	Government securities KShs'000	Preference shares KShs'000	Equity investments KShs'000	Corporate bond KShs'000	Total KShs'000
31 December 2018							
At 1 January 2018	711,396	24,531,410	20,470,148	3,500,000	738,410	331,104	50,282,468
Reclassification	7,973,311	-	(7,642,207)	-	-	(331,104)	-
Additions	2,779,317	14,342,778	9,782,293	-	-	-	26,904,388
Disposals and maturities	1,034,472	(18,513,670)	(14,821,835)	-	(11,959)	-	(32,312,992)
Changes in fair value	106,170	-	(86,236)	456,977	(260,808)	-	216,103
Amortisation of discounts and premiums, unearned interest and interest receivable	539,712	2,533,514	1,812,490	-	8,148	-	4,893,864
Translation reserve	-	(157,305)	-	-	(1,573)	-	(158,878)
At 31 December 2018	**13,144,378**	**22,736,727**	**9,514,653**	**3,956,977**	**472,218**	**-**	**49,824,953**
31 December 2017							
At 1 January 2017	525,764	19,607,259	21,592,275	3,500,000	23,652	330,992	45,579,942
Additions	185,632	17,226,089	13,862,826	-	827,811	-	32,102,358
Disposals and maturities	-	(14,848,568)	(17,764,561)	-	-	(40,703)	(32,653,832)
Changes in fair value	-	-	409,025	-	(112,526)	-	296,499
Amortisation of discounts and premiums, unearned interest and interest receivable	-	2,546,630	2,370,583	-	-	40,815	4,958,028
Translation reserve	-	-	-	-	(527)	-	(527)
At 31 December 2017	**711,396**	**24,531,410**	**20,470,148**	**3,500,000**	**738,410**	**331,104**	**50,282,468**

22. FINANCIAL ASSETS (Continued)

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

	Financial assets at fair value through profit or loss (FVTPL)	Other financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income (FVOCI)				
	Government securities KShs'000	Government securities KShs'000	Government securities KShs'000	Preference shares KShs'000	Equity investments KShs'000	Corporate bond KShs'000	Total KShs'000
31 December 2018							
At 1 January 2018	711,396	20,747,773	20,470,148	3,500,000	700,902	331,104	46,461,323
Reclassification	7,973,311	-	(7,642,207)	-	-	(331,104)	-
Additions	2,779,317	11,112,886	9,782,293	275,000	-	-	23,949,496
Disposals and maturities	1,034,472	(15,667,000)	(14,821,835)	-	(11,959)	-	(29,466,322)
Changes in fair value	106,170	-	(86,236)	613,980	(260,808)	-	373,106
Amortisation of discounts and premiums, unearned interest and interest receivable	539,712	2,113,042	1,812,490	-	8,148	-	4,473,392
At 31 December 2018	**13,144,378**	**18,306,701**	**9,514,653**	**4,388,980**	**436,283**	**-**	**45,790,995**
31 December 2017							
At 1 January 2017	525,764	16,848,441	21,592,275	3,500,000	-	330,992	42,797,472
Additions	185,632	17,636,004	13,862,826	-	827,811	-	32,512,273
Disposals and maturities	-	(15,839,750)	(17,764,561)	-	-	(40,703)	(33,645,014)
Changes in fair value	-	-	409,025	-	(126,909)	-	282,116
Amortisation of discounts and premiums, unearned interest and interest receivable	-	2,103,078	2,370,583	-	-	40,815	4,514,476
At 31 December 2017	**711,396**	**20,747,773**	**20,470,148**	**3,500,000**	**700,902**	**331,104**	**46,461,323**

23. INVESTMENT IN SUBSIDIARIES

			2018		2017	
	Country of incorporation	Sector	KShs'000	% Ownership	KShs'000	% Ownership
I&M Bank (T) Limited	Tanzania	Banking	2,750,653	70.38%	2,324,025	70.38%
I&M Insurance Agency Limited	Kenya	Insurance	100	100%	100	100%
			2,750,753		**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 October 2016) and a buyout of Proparco shares in I&M Bank (T) Limited (effective 26 October 2016), the group stake in the subsidiary has increased to 70.38%.

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

A summary of the subsidiaries performance is shown below;

	Year	Revenue KShs'000 a	Expenses KShs'000 b	Profit before tax KShs'000 c=(a-b)	Profit after tax KShs'000 d
I&M Tanzania Limited	2018	1,413,094	(887,464)	**525,630**	**280,626**
	2017	1,333,539	(908,179)	**425,360**	**228,066**
I&M Insurance Agency Limited	2018	158,657	(66,073)	**92,584**	**67,224**
	2017	99,956	(38,593)	**61,363**	**42,938**
Youjays Insurance Brokers Limited	2018	3,392	(208)	**3,184**	**2,229**

	Bank	
	2018 KShs'000	**2017 KShs'000**
At 1 January	2,324,125	2,324,125
Additional investment in I&M Bank (T) Limited	426,628	-
At 31 December	**2,750,753**	**2,324,125**

24. PROPERTY AND EQUIPMENT

(a) Group

	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 2018	1,169,031	979,190	546,642	90,484	48,905	2,834,252
Additions	64,705	67,320	18,697	31,910	48,559	231,191
Disposals	(43)	(625)	(457)	(19,604)	-	(20,729)
Reclassification/internal transfers	13,697	4,827	-	6,005	(24,529)	-
Write offs/back	(9,461)	(3,403)	-	-	(4,532)	(17,396)
Translation differences	(7,182)	(8,194)	(1,279)	(667)	(119)	(17,441)
At 31 December 2018	**1,230,747**	**1,039,115**	**563,603**	**108,128**	**68,284**	**3,009,877**
Depreciation						
At 1 January 2018	780,276	606,522	523,159	67,531	-	1,977,488
Charge for the year	96,952	71,828	52,563	20,218	-	241,561
Write-offs	(5,756)	(2,109)	-	-	-	(7,865)
On disposal	-	(581)	(434)	(19,426)	-	(20,441)
Translation differences	(3,160)	(3,785)	(1,023)	(425)	-	(8,393)
At 31 December 2018	**868,312**	**671,875**	**574,265**	**67,898**	-	**2,182,350**
Net book value at 31 December 2018	**362,435**	**367,240**	**(10,662)**	**40,230**	**68,284**	**827,527**

24. PROPERTY AND EQUIPMENT (Continued)

(a) Group (Continued)

Cost/ Valuation	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
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	39,226	74,483	45,375	-	-	159,084
Disposal	-	(519)	(600)	(4,571)	-	(5,690)
Reclassification/internal transfers	52,494	101,879	(49,875)	-	(104,498)	-
Write offs/Back	-	(1,211)	(290)	-	(4,985)	(6,486)
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	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)
Disposals	-	(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**

24. PROPERTY AND EQUIPMENT (Continued)

(b) Company

2018	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 2018	1,005,734	722,249	597,440	73,821	25,553	2,424,797
Additions	45,260	59,369	18,537	31,910	48,559	203,635
Disposals	-	(625)	-	(18,110)	-	(18,735)
Reclassification/internal transfers	8,130	4,827	-	6,005	(18,962)	-
Items expensed through P&L	-	-	-	-	(4,532)	(4,532)
At 31 December 2018	**1,059,124**	**785,820**	**615,977**	**93,626**	**50,618**	**2,605,165**
Depreciation						
At 1 January 2018	713,343	501,914	523,396	58,449	-	1,797,102
On disposals	-	(581)	-	(18,110)	-	(18,691)
Charge for the year	74,722	54,932	46,822	16,861	-	193,337
At 31 December 2018	**788,065**	**556,265**	**570,218**	**57,200**	**-**	**1,971,748**
Net book value at 31 December 2018	**271,059**	**229,555**	**45,759**	**36,426**	**50,618**	**633,417**

24. PROPERTY AND EQUIPMENT (Continued)

(b) Company (Continued)

2017	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	39,226	74,483	45,377	-	-	159,086
Disposal	-	(519)	-	(3,900)	-	(4,419)
Reclassification/internal transfers	52,494	20,975	31,029	-	(104,498)	-
Items expensed through P&L	-	-	-	-	(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	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**

Assets that are fully depreciated amounted to KShs 1,497,408,943 (2017 - KShs 1,182,759,719). If depreciation had been charged during the year on the cost of these assets at a nominal rate, it would have amounted to KShs 345,955,849 (2017 – KShs 263,430,829).

25. INTANGIBLE ASSETS

(a) Goodwill

	2018 KShs'000	2017 KShs'000
(i) Group		
I&M Bank (T) Limited	475,445	496,262
Biashara Bank of Kenya Limited	-	10,747
Youjays Insurance Brokers Limited	232,284	-
Balance as 31 December	**707,729**	**507,009**
(ii) Company		
Goodwill on assets purchased from Biashara Bank of Kenya Limited	-	10,747
(iii) Movement of Goodwill		
At 1 January	507,009	619,700
Addition	232,284	-
Write off - Biashara Bank of Kenya Limited	(10,747)	-
Exchange differences	(20,817)	(112,691)
At 31 December	**707,729**	**507,009**

The recoverable amounts for I&M Bank (T) Limited has been calculated based on their value in use, determined by discounting the future cash flows expected to be generated from the continuing use of the Cash Generating Unit (CGU). The present value of the recoverable amounts on I&M Bank LIMITED share were Kshs 2.318 billion (2017: Kshs 3.295 billion) for I&M Bank (T) Limited. No impairment losses were recognised during 2018 (2017: 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) Limited
	2018
5 year risk free rate	12.00%
Risk premium	13.60%
Terminal growth rate	3.00%
Exchange rate	KShs 1 = Tzs 22.60
	2017
5 year risk free rate	13.64%
Risk premium	13.90%
Terminal growth rate	3.00%
Exchange rate	KShs 1 = Tzs 21.40

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.

25. INTANGIBLE ASSETS (Continued)

(b) Computer software

(i) Group

2018:	Computer Software KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost			
At 1 January	**1,099,216**	**106,489**	**1,205,705**
Additions	247,501	811,874	1,059,375
Reclassification from capital work in progress	114,437	(114,437)	-
Translation differences	(5,316)	(3,125)	(8,441)
At 31 December 2018	**1,455,838**	**800,801**	**2,256,639**
Amortisation			
At 1 January	**923,980**	**-**	**923,980**
Amortisation for the year	142,567	-	142,567
Translation differences	(4,565)	-	(4,565)
At 31 December 2018	**1,061,982**	**-**	**1,061,982**
Carrying amount at 31 December 2018	**393,856**	**800,801**	**1,194,657**

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	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	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**

25. INTANGIBLE ASSETS (Continued)

(b) Computer software (Continued)

(ii) Company

2018: Cost	Computer Software KShs'000	Capital work in progress KShs'000	Total KShs'000
At 1 January	**1,007,548**	**52,983**	**1,060,531**
Additions	244,403	665,984	910,387
Reclassification from capital work in progress	114,437	(114,437)	-
At 31 December 2018	**1,366,388**	**604,530**	**1,970,918**
Amortisation			
At 1 January	**820,720**	**-**	**820,720**
Amortisation for the year	112,423	-	112,423
At 31 December 2018	**933,143**	**-**	**933,143**
Carrying amount at 31 December 2018	**433,245**	**604,530**	**1,037,775**

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	27,491	-	27,491
Items 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	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**

The Company's computer software with a gross value of KShs 753,898,974 (2017 – KShs 519,569,458) are fully amortised but still in use.

26. DEFERRED TAX ASSETS

Deferred tax assets at 31 December 2018 and 31 December 2017 are attributable to the following:

(a) Group

2018:	Balance at 1 January KShs'000	Day one IFRS 9 transition adjustments KShs'000	Acquisition KShs'000	Prior year adjustment 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	114,410	-	1,346	1,322	-	739	1,942	119,759
General provisions	246,808	8,663	-	-	-	(9,099)	64,630	311,002
Impairment allowances	1,079,470	223,863	-	128,516	-	(12)	326,048	1,757,885
Fair value reserves	63,511	-	-	-	(32,980)	179	-	30,710
	1,504,199	**232,526**	**1,346**	**129,838**	**(32,980)**	**(8,193)**	**392,620**	**2,219,356**

2017:	Balance at 1 January KShs'000	Prior year adjustment 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
Impairment allowances	311,309	246,330	-	(7)	521,838	1,079,470
Available-for-sale reserves	152,460	-	(88,964)	15	-	63,511
	781,962	**248,017**	**(88,964)**	**(3,052)**	**566,236**	**1,504,199**

26. DEFERRED TAX ASSETS (Continued)

(b) Company

2018:	Balance at 1 January KShs'000	Day one IFRS 9 transition adjustments KShs'000	Prior year adjustment KShs'000	Recognised in equity KShs'000	Recognized in profit or loss KShs'000	Balance at 31 December KShs'000
Equipment	131,919	-	1,322	-	(391)	132,850
General provisions	79,395	-		-	14,279	93,674
Impairment allowances	1,059,311	223,859	128,516	-	324,509	1,736,195
Fair value reserves	67,826	-	-	(80,081)		(12,255)
	1,338,451	**223,859**	**129,838**	**(80,081)**	**338,397**	**1,950,464**

2017:	Balance at 1 January KShs'000	Day one IFRS 9 transition adjustments KShs'000	Prior year adjustment KShs'000	Recognised in equity 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
Impairment allowances	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**

27. (a) DUE FROM RELATED PARTY

	2018 KShs'000	2017 KShs'000
(i) Group		
I&M Realty Limited	841,447	853,503
I&M Bank (Rwanda) PLC	-	549
Giro Limited	11,738	-
	853,185	**854,052**
(ii) Company		
I&M Realty Limited	841,447	853,503
I&M Bank (T) Limited	768,111	22,277
I&M Bank (Rwanda) PLC	-	549
I&M Insurance Agency Limited	42,500	-
Giro Limited	11,738	-
	1,663,796	**876,329**

(b) Due to related party

	2018 KShs'000	2017 KShs'000
(i) Group		
Giro Limited	236,524	353,770
I&M Holdings PLC	1,648,515	78,800
I&M Realty Limited	21,216	913,324
I&M Bank (Rwanda) PLC	151,842	671,281
I&M Burbidge Capital Limited	5,222	9,011
I&M Capital Limited	6,292	5,939
	2,069,611	**2,032,125**
(ii) Company		
Giro Limited	236,524	353,770
I&M Holdings PLC	1,648,515	78,800
I&M Realty Limited	21,216	913,324
I&M Bank (T) Limited	48,057	17,362
I&M Bank (Rwanda) PLC	151,842	671,281
I&M Insurance Agency Limited	56,186	35,750
I&M Burbidge Capital Limited	5,222	9,011
I&M Capital Limited	6,292	5,939
	2,173,854	**2,085,237**

Mostly relates to deposits held with the Bank

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

		2018 KShs'000	2017 KShs'000
28.	**OTHER ASSETS**		
(a)	**Group**		
	Prepayments	256,924	235,189
	Other receivables	1,075,344	755,421
		1,332,268	**990,610**
(b)	**Company**		
	Prepayments	184,327	171,139
	Other receivables	1,033,956	744,979
		1,218,283	**916,118**
29.	**DEPOSITS FROM BANKS**		
(a)	**Group**		
	Due within 90 Days	1,326,658	2,115,880
	Due after 90 days	12,597	2,199
		1,339,255	**2,118,079**
(b)	**Company**		
	Due within 90 Days	483,503	1,444,079
	Due after 90 days	12,597	2,199
		496,100	**1,446,278**
30.	**DEPOSITS FROM CUSTOMERS**		
(a)	**Group**		
	Government and Parastatals	1,014,884	1,396,933
	Private sector and individuals	190,319,264	146,185,238
		191,334,148	**147,582,171**
(b)	**Company**		
	Government and Parastatals	272,913	509,489
	Private sector and individuals	176,480,598	132,291,403
		176,753,511	**132,800,892**
31.	**OTHER LIABILITIES**		
(a)	**Group**		
	Accruals	1,149,273	1,108,080
	Other accounts payables	714,345	1,947,380
	Provisions for loan commitments*	322,270	-
	Bankers cheques payable	160,974	155,681
		2,346,862	**3,211,141**
(b)	**Company**		
	Accruals	1,071,314	1,030,096
	Other accounts payables	575,524	1,781,584
	Provisions for loan commitments*	313,063	-
	Bankers cheques payable	145,292	139,025
		2,105,193	**2,950,705**

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

32. LONG TERM BORROWINGS

(a) Group

	2018 KShs'000	2017 KShs'000
Less than one year	1,791,433	1,978,813
One to five years	5,828,500	5,335,886
	7,619,933	**7,314,699**

The Group's long term borrowings constituted those in note 32(b) and following in I&M (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.

The second long term borrowing of USD 15 million granted on December 2018 by FMO as a senior debt for tenor of 5 years, of which an amount of USD 10 Million was received during the month of December 2018. The interest and principal on the facility is repayable on a quarterly basis. The effective interest rate on the second long term borrowing is 6.68% p.a.

(b) Company

	2018 KShs'000	2017 KShs'000
Less than one year	1,777,255	1,812,239
One to five years	3,834,974	4,152,989
	5,612,229	**5,965,228**

The Company's borrowings constituted the following:

(i) USD 50,000,000 facility granted on 16 July 2013 by International Finance 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

32. LONG TERM BORROWINGS (Continued)

(b) Company (Continued)

(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.
(vii) USD 15,000,000 facility granted on 9 November 2018 by FMO repayable semi-annually over 4 and a half years after an initial one year grace period.

Loan movement schedule

(a) Group

	2018 KShs'000	2017 KShs'000
At 1 January	7,314,699	8,006,089
Funds received	2,549,072	1,488,240
Payments on principal and interest	(2,010,051)	(2,170,783)
Interest payable	75,368	29,884
Translation differences	(309,155)	(38,731)
At 31 December	**7,619,933**	**7,314,699**

(b) Company

	2018 KShs'000	2017 KShs'000
At 1 January	5,965,227	6,315,291
Funds received	1,527,750	1,488,240
Payments on principal and interest	(1,608,704)	(1,817,778)
Interest payable	13,388	13,619
Translation differences	(285,432)	(34,144)
At 31 December	**5,612,229**	**5,965,228**

33. SUBORDINATED DEBT

(a) Group

	2018 KShs'000	2017 KShs'000
Less than one year	3,694,621	28,532
One to five years	817,058	4,483,783
	4,511,679	**4,512,315**

The Group's subordinated debts constitute that in note 33(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) Limited.

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.

33. SUBORDINATED DEBT (Continued)

(b) Company

	2018 KShs'000	2017 KShs'000
Less than one year	3,681,657	25,666
One to five years	-	3,655,000
	3,681,657	**3,680,666**

The Companies' subordinated debts constitute KShs 3,655,000,000 medium term unsecured subordinated fixed and floating rate notes issued on 16 December 2013 for a tenor of 5 years with redemption on the maturity date.

34. SHARE CAPITAL AND RESERVES

(a) Share capital

	Group and Company	
	2018 KShs'000	**2017 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 - 28,802,453 and 31 December - 29,800,000 Ordinary shares of KShs 100 each	**2,980,000**	**2,880,245**

(b) Major shareholders and Share premium

The major shareholders at 31 December 2018 and 2017 were as follows:

	%	Number of shares KShs'000	Share Capital KShs'000	Share Premium KShs'000
I&M Holdings PLC (2018)	**100**	**28,802,453**	**2,880,245**	**3,759,624**
Allocation of shares	**-**	**997,547**	**99,755**	**1,771,643**
At 31 December	**100**	**29,800,000**	**2,980,000**	**5,531,267**
I&M Holdings PLC (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**

(c) Funds awaiting shares for allotment

The amounts represent shareholders fund received awaiting share allotment.

(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.

34. SHARE CAPITAL AND RESERVES (Continued)

(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) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of FVOCI investments
(2017 and prior years – Available-for-sale), excluding impairment losses, until the investment is derecognised.

35. NOTES TO THE STATEMENT OF CASH FLOWS

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

	Note	2018 KShs'000	2017 KShs'000
Profit before income tax		9,180,415	7,871,653
Adjustments for:			
Depreciation	24(a)	241,561	261,919
Amortisation of intangible assets	25(b)(i)	142,567	124,265
Profit on sale of property and equipment		(3,443)	(2,359)
Goodwill write off - Biashara Bank of Kenya Limited	25(a)(ii)	10,747	-
Write off -property and equipment		-	16,034
Property and equip items expensed		9,531	5,248
Profit on sale of available for sale securities		(539,712)	(208,885)
Exchange reserves		(418,160)	(101,028)
		8,623,506	**7,966,847**
(Increase)/decrease in operating assets			
Movement in loans and advances to customers		(13,279,866)	(5,427,918)
Financial assets at fair value through profit or loss (FVTPL)		(4,251,063)	(185,632)
Financial assets measured at fair value through other comprehensive income (FVOCI)		3,563,540	(4,307,305)
Other financial assets at amortised cost		1,858,295	4,890,607
Cash and balances with Central Banks:			
– Cash Reserve Ratio		(3,183,727)	655,440
Due from group companies		867	(827,931)
Loans and advances to banks		-	2,350,020
Other assets		(343,205)	24,334
		(15,635,159)	**(2,828,385)**
Increase/(decrease) in operating liabilities			
Customer deposits		43,751,977	3,925,176
Deposits from banks		10,398	(2,174,493)
Long term borrowings		614,389	(652,659)
Due to group companies		37,486	422,454
Other liabilities		(907,966)	295,882
		43,506,284	**1,816,360**
Cash flows generated from operating activities		**36,494,631**	**6,954,822**
Tax paid	15(b)(i)	(2,573,637)	(3,512,174)
Net cash flows generated from operating activities		**33,920,994**	**3,442,648**

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

(b) Analysis of cash and cash equivalents – Group

Note	Note	2018 KShs'000	2017 KShs'000	Change KShs'000
Cash and balances with central banks – excluding CRR	18(a)	2,965,719	2,877,985	87,734
Items in the course of collection	19(a)	764,460	378,462	385,998
Loans and advance to banks	20(a)	31,205,610	2,612,377	28,593,233
Deposits from banks	29(a)	(1,326,658)	(2,115,880)	789,222
		33,609,131	**3,752,944**	**29,856,187**

(c) Acquisition of Youjays Insurance Brokers Limited

	2018 KShs'000
The details of the fair value of the assets and liabilities acquired and goodwill arising are as follows:	
Total purchase consideration paid in cash	**282,800**
Total assets	94,201
Total liabilites	(43,685)
Net assets acquired	**50,516**
Goodwill	**232,284**

Acquisition of Youjays Insurance Brokers Limited [YIB] net of cash and cash equivalents

Net assets acquired	50,516
Less: Cash and cash equivalent	(9,360)
Net cash outflow	**41,156**
Goodwill	232,284
Net Cash flow on acquisition	**273,440**

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

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

	Note	2018 KShs'000	2017 KShs'000
Cash flows from operating activities			
Profit before income tax		8,725,326	7,516,380
Adjustments for:			
Depreciation on property and equipment	24(b)	193,337	218,095
Amortisation of intangible asset	25(b)(ii)	112,423	96,603
Profit on sale of property and equipment		(7,828)	(2,421)
Goodwill write off - Biashara Bank of Kenya Limited		10,747	-
Write off -property and equipment		-	16,034
Property and equip items expensed		4,532	4,985
Profit on sale of available for sale securities		(539,712)	(208,885)
Dividend income	12(b)(ii)	(57,500)	(32,359)
		8,441,325	**7,608,432**
Increase/(decrease) in operating assets			
Movement in loans and advances to customers		(12,408,638)	(5,097,467)
Financial assets at fair value through profit or loss (FVTPL)		(4,695,523)	4,852,668
Financial assets measured at fair value through other comprehensive income (FVOCI)		3,020,031	421,225
Other financial assets at amortised cost		2,441,072	(3,899,332)
Due from group companies		(787,467)	(717,761)
Loans and advances to Banks		-	2,269,365
Cash and balances with Central Bank of Kenya:			
– Cash Reserve Ratio		(3,075,738)	303,326
Other assets		409,230	51,112
		(15,097,033)	**(1,816,864)**
Increase/(decrease) in operating liabilities			
Customer deposits		43,952,619	2,610,533
Balances due to group companies		88,617	371,708
Deposits from banks		10,398	(2,174,493)
Long-term borrowings		(67,567)	(350,063)
Other liabilities		(1,129,951)	217,806
		42,854,116	**675,491**
Cash flows generated from operating activities		**36,198,408**	**6,467,059**
Tax paid	15(b)(ii)	(2,373,849)	(3,317,338)
Net cash flows generated from operating activities		**33,824,559**	**3,149,721**

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

(e) Analysis of cash and cash equivalents – Company

	Note	2018 KShs'000	2017 KShs'000	Change KShs'000
Cash and balances with Central Bank of Kenya – excluding CRR	18(b)	2,227,196	2,229,982	(2,786)
Items in the process of collection	19(b)	763,445	374,006	389,439
Loans and advances to banks	20(b)	30,858,283	2,544,525	28,313,758
Deposits from banks	29(b)	(483,503)	(1,444,079)	960,576
		33,365,421	**3,704,434**	**29,660,987**

(f) Transfer of assets and liabilities from Giro Limited

On 13 February 2017, I&M Holdings Limited acquired the entire issued share capital of Giro 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 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 2018 (Continued)

36. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Group at 31 December 2018. 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	2018 KShs'000	2017 KShs'000
Contingencies related to:		
Letters of credit	24,415,047	9,943,520
Guarantees	18,031,627	19,268,581
Other credit commitments	10,315,849	22,981,274
	52,762,523	**52,193,375**
Commitments related to:		
Outstanding spot/forward contracts	38,381,215	16,276,455
	91,143,738	**68,469,830**
Company		
Contingencies related to:		
Letters of credit	22,955,219	8,928,635
Guarantees	16,946,244	18,716,580
Other credit commitments	9,610,039	21,883,354
	49,511,502	**49,528,569**
Commitments related to:		
Outstanding spot/forward contracts	38,381,215	16,276,455
	87,892,717	**65,805,024**

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.

37. 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 on June 2015. The Bank immediately settled amounts not in dispute and objected to all other items which were in the directors' view erroneously assessed. The KRA confirmed the assessment on 13 March 2017 amounting to KShs 238,811,243. The 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.

38. ASSETS PLEDGED AS SECURITY

The below are government securities held under lien in favour of the Central Banks.

	2018 KShs'000	2017 KShs'000
Group	1,447,236	1,454,996
Company	1,270,000	1,270,000

39. 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.

			2018 KShs'000	2017 KShs'000
(a)	**Transactions with directors/shareholders**			
	(i)	Loans to directors/shareholders	19,898	47,009
		Interest Income from loans to directors/shareholders	682	2,709
	(ii)	Deposits from directors/shareholders	2,448,666	2,504,758
		Interest expense on deposits from directors/shareholders	59,944	163,335
	(iii)	Loans from Shareholders	-	-
	(iv)	The Directors remunerations are in Note 14		

(b) Transactions with related companies

		2018 KShs'000	2017 KShs'000
(i)	Loans to related companies	1,518,048	361,685
	Interest income from loans to related companies	169,709	42,920

40. RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with related companies (Continued)

		2018 KShs'000	2017 KShs'000
(ii)	Deposits from related companies	1,160,726	2,647,135
	Interest expense on deposits from related companies	47,474	78,679
(iii)	Amounts due from group companies subsidiaries/joint venture	53,636	11,997
	Interest income on amounts due from subsidiaries and joint venture	-	-
(iv)	Amounts due to group companies subsidiaries/joint venture	2,069,611	2,032,125
	Interest expense on amounts due from subsidiaries and joint venture	-	-
(v)	Preference shares in I&M Realty Limited	3,500,000	3,500,000
(vi)	Preference shares I&M Insurance Agency Limited	275,000	-
(c)	**Transactions with employees**		
	Staff loans	1,263,413	1,326,950
	Interest earned on these loans was KShs	110,740	88,846
(d)	**Management fees received**	43,490	78,097
(e)	**Management compensation**	100,222	92,134

(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.

40. CAPITAL COMMITMENTS

	2018 KShs'000	2017 KShs'000
Group	3,365,472	2,195,401
Company	2,624,000	1,860,000

41. 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. Amounts charged to the Profit or loss statement in respect of operating leases are disclosed on note 13. Future minimum lease payments under these operating leases are as follows:

Company

	2018 KShs'000	2017 KShs'000
Less than one year	478,119	418,184
One to five years	2,476,446	2,933,970
Over five years	418,704	725,390
	3,373,269	**4,077,544**

(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. Amounts charged to the Profit or loss statement in respect of operating leases are disclosed on note 13. Future minimum lease payments under these operating leases are as follows:

	2018 KShs'000	2017 KShs'000
Less than one year	472,802	415,998
One to five years	2,350,760	2,751,659
Over five years	418,704	725,390
	3,242,266	**3,893,047**

42. IFRS 9 TRANSITION ON THE DATE OF INITIAL APPLICATION

(a) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 31 December 2017.

		31 December 2017			1 January 2018		
	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 KShs`000	Re-classification KShs`000	Re-measurement* KShs`000	New carrying amount under IFRS 9 KShs`000
Financial assets							
Balances with Central banks	18(a)	Loans and receivables	Amortised cost	6,696,404	-	-	6,696,404
Items in the course of collection	19(a)			378,462	-	-	378,462
Loans and advances to banks	20(a)			2,612,377	-	-	2,612,377
Loans and advances to customers	21(a)(i)			135,098,394	-	(274,408)	134,823,986
Due from group companies	27(a)(i)			854,052	-	-	854,052
Other financial assets at amortised cost	22(c)(i)	Held to maturity		24,531,410	-	(12)	24,531,398
Financial assets at fair value through profit or loss (FVTPL)	22(a)(i)	FVPTL designated	FVTPL	711,396	7,642,207	-	8,353,603
Financial assets measured at fair value through other comprehensive income (FVOCI)	22(b)(i)	Available for sale	FVOCI	25,039,662	(7,642,207)	-	17,397,455
Total financial assets				**195,922,157**	**-**	**(274,420)**	**195,647,737**

*Day one transition adjustment (Note 4(a)).

42. IFRS 9 TRANSITION ON THE DATE OF INITIAL APPLICATION (Continued)

(a) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (Continued)

	31 December 2017			1 January 2018		
	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 KShs`000	Re-classification KShs`000	Re-measurement KShs`000	New carrying amount under IFRS 9 KShs`000
Financial liabilities						
Deposits from banks	Amortised cost	Amortised cost	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
Other liabilities			3,211,141	-	(500,664)	2,710,477
Long term debt			7,314,699	-	-	7,314,699
Subordinated debt			4,512,315	-	-	4,512,315
Total financial liabilities			**166,770,530**	**-**	**(500,664)**	**166,269,866**

The application of the Group's policies in line with IFRS 9 did not result in any reclassification.

42. IFRS 9 TRANSITION ON THE DATE OF INITIAL APPLICATION (Continued)

(a) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (Continued)

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as at 31 December 2017.

		31 December 2017			1 January 2018		
	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 KShs`000	Re-classification KShs`000	Re-measurement* KShs`000	New carrying amount under IFRS 9 KShs`000
Financial assets							
Balances with Central Bank of Kenya	18(b)	Loans and receivables	Amortised cost	5,251,820	-	-	5,251,820
Items in the course of collection	19(b)			374,006	-	-	374,006
Loans and advances to banks	20(b)			2,544,525	-	-	2,544,525
Loans and advances to customers	21(a)(ii)			120,656,819		(253,887)	120,402,932
Due from group companies	27(a)(ii)			876,329	-	-	876,329
Other financial assets at amortised cost	22(c)(ii)	Held to maturity		20,747,773	-	-	20,747,773
Financial assets at fair value through profit or loss (FVTPL)	22(a)(ii)	FVPTL designated	FVTPL	711,396	7,642,207	-	8,353,603
Financial assets measured at fair value through other comprehensive income (FVOCI)	22(b)(ii)	Available for sale	FVOCI	25,002,154	(7,642,207)	-	17,359,947
Total financial assets				**176,164,822**	**-**	**(253,887)**	**175,910,935**

*Day one transition adjustment (Note 4(a)).

42. IFRS 9 TRANSITION ON THE DATE OF INITIAL APPLICATION (Continued)

(a) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (Continued)

	31 December 2017			1 January 2018		
	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 KShs`000	Re-classification KShs`000	Re-measurement KShs`000	New carrying amount under IFRS 9 KShs`000
Financial liabilities						
Deposits from banks	Amortised cost	Amortised cost	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
Other liabilities			2,950,705	-	492,310	3,443,015
Long term debt			5,965,228	-	-	5,965,228
Subordinated debt			3,680,666	-	-	3,680,666
Total financial liabilities			**148,929,006**	**-**	**492,310**	**149,421,316**

The application of the Company's policies in line with IFRS 9 did not result in any reclassification.

42. IFRS 9 TRANSITION ON THE DATE OF INITIAL APPLICATION (Continued)

(b) Day one IFRS 9 transition adjustment on impairment loss allowance

Group

	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	ECL on trade receivables KShs'000	Total KShs'000
Day one adjustment				
Loans and advances to Customers at amortised cost	(368,920)	643,328	-	274,408
Loan commitments and financial guarantee contracts	330,545	170,119	-	500,664
Trade receivables	-	-	12	12
	(38,375)	**813,447**	**12**	**775,084**

Company

	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Total KShs'000
Day one adjustment			
Loans and advances to Customers at amortised cost	(383,007)	636,894	253,887
Loan commitments and financial guarantee contracts	322,191	170,119	492,310
	(60,816)	**807,013**	**746,197**

43. 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.

44. OTHER DISCLOSURES

(a) Operational risk

The overall responsibility of managing operational risks - the risk arising from failed or inadequate internal processes, people, systems and external events - is vested with the Board of Directors. The Board 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.

44. OTHER DISCLOSURES (Continued)

(a) Operational risk (Continued)

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

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

The entire operational risk management framework is subjected to periodic independent audits (internal) in order for the 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.

(b) Compliance and regulatory risk

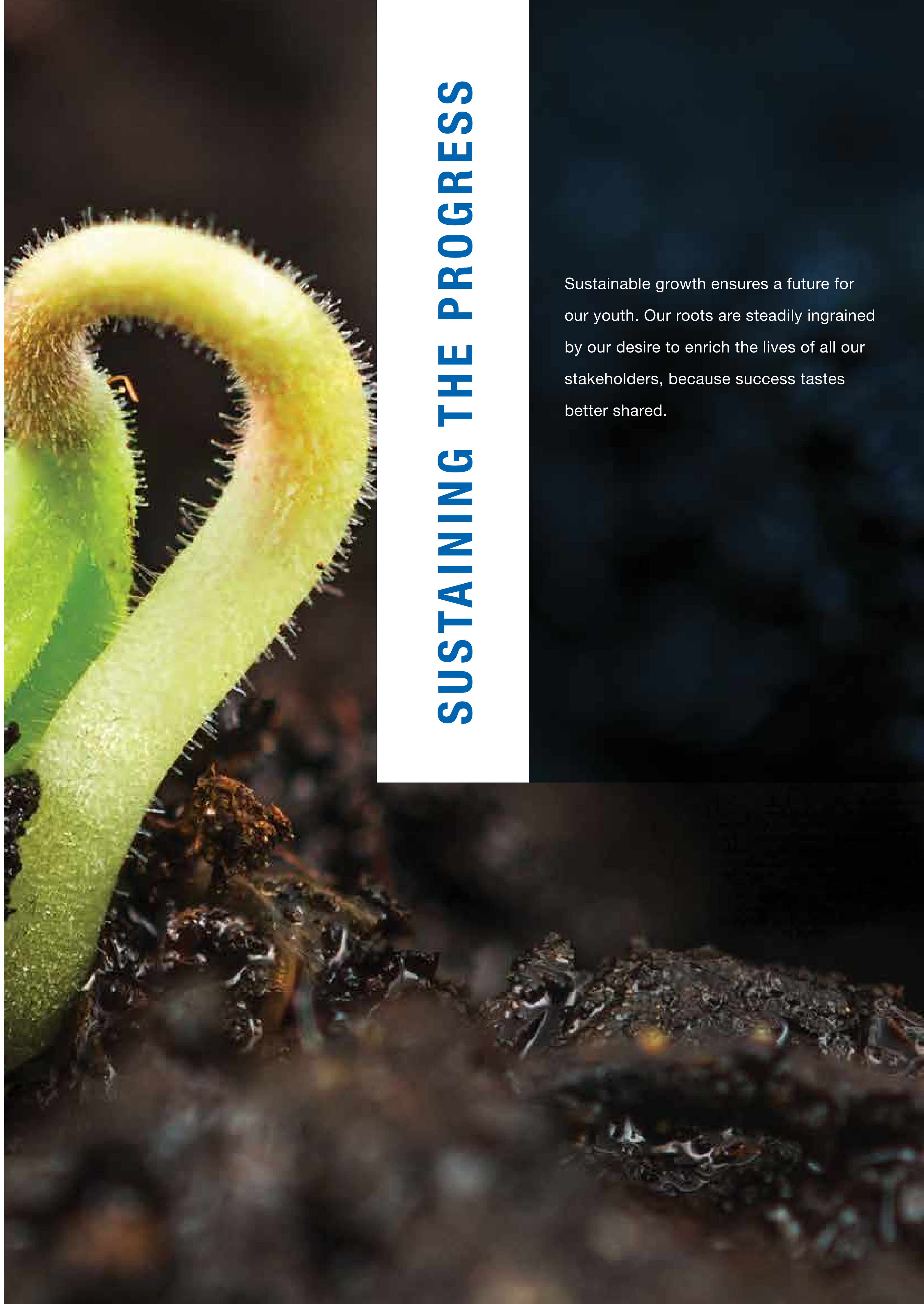
Compliance and regulatory risk includes the risk of bearing the consequences of non-compliance with regulatory requirements. The compliance function is responsible for establishing and maintaining an appropriate framework of Group compliance policies and procedures. Compliance with such policies and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

(c) Environmental and social risks

Environmental and social risks are the risks that the Group could bear the consequences of socio-environmental fall-out of transactions. Such risks could arise from failure of the 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.



Reflective of I&M Bank's commitment to sustainable financing, the Bank through its Corporate Social Investments arm has over the years endeavoured to improve the quality of life in our society, in its key focus areas namely: Education, Environment, Health and Community Service. As a partner of growth to all our stakeholders including the community, the Bank continued to share in its success through the following initiatives:

EDUCATION

The Bank continued to drive various initiatives to help promote quality education, through partnerships with organizations that support education requirements for needy but bright students across the country. These initiatives included scholarships, education infrastructure developments and refurbishments.

COMMISSIONING OF THE ST. ANN'S SURESH RAJA GIRLS HIGH SCHOOL

The Bank successfully completed the construction of the St. Ann's Suresh Raja Girls High School in Kairi. This Kshs. 200m investment was a worthwhile milestone that highlighted the Bank's commitment in supporting initiatives aimed at promoting quality education.

This achievement also presented the opportunity to connect with the students not only through provision of education scholarships and learning infrastructure, but also through mentorship programmes. The Bank further set up an academic prize of excellence in the Maths subject aligned to our industry dubbed the Suresh Shah Prize. The school admitted its first class in 2018 and has a total of 42 students who joined Form 1.

Students at St. Ann's Suresh Raja Girls High School entertain guests during the school's commissioning ceremony.

I&M BANK, KENYA SUPPORTS PALMHOUSE FOUNDATION SCHOLARSHIPS AND MENTORSHIP PROGRAMME

I&M Bank, Kenya continued to support the Palmhouse Foundation through provision of education scholarships for bright but needy students in secondary schools. The Bank donated over Kshs. 5,000,000 to cover education needs for different students from the year 2018 to 2021.

Over and above the school scholarships, the Bank's staff members attended the Foundation's annual mentorship forum to encourage, train and impart wisdom on the beneficiaries of the Foundation.

Christopher Mwirigi of I&M Bank, Kenya (Left), hands over dummy cheque to Margaret Kimani, Founder, Palmhouse Foundation, (Right), flanked by beneficiaries of the Foundation, during an event where they received scholarships that will cater for their secondary school education.

I&M BANK, KENYA SUPPORTS STUDENTS AT TANGAZA COLLEGE

I&M Bank, Kenya in 2018 sponsored needy but academically talented students in an early childhood development education program at Christ the Teacher Institute for Education at the Tangaza College.

I&M BANK, KENYA PROVIDES SCHOLARSHIPS FOR TEULE KENYA BENEFICIARIES

The Bank in 2018, continued to sponsor education scholarships worth over Kshs. 400,000 for beneficiaries of Teule Kenya. The organization rescues and supports abandoned, orphaned, abused or neglected children by providing a nurturing environment, which supports excellence in education and personal development. They also provide basic needs for the children like food, shelter, clothing and education.

I&M BANK, KENYA BUILDS DINING FACILITY FOR ST. JOSEPH SCHOOL, HURUMA

The Bank in 2018 built a Dining Facility for St. Joseph School run by the Sisters of Mother Teresa Missionaries. The school caters for the children living in the surrounding slums – Kiamaiko, Mathare and Huruma and gives them a basic foundation of education before assimilating them to main stream primary schools. In addition, the Bank put up a water tank to harness rain water with an objective of providing a constant water supply for the school.

Students at the St. Joseph School at the newly built dining facility.

COMMUNITY SERVICE

The Bank continued to conduct various community service initiatives for the less fortunate in society. Below are some of the key activities that the Bank was involved in:

KIBAGARE FEEDING PROGRAMME

I&M Bank, Kenya has over the last 18 years supported different needs of the Kibagare Good News Center. In 2018, the Bank revived the monthly feeding programme where staff members donated their time to feed over 1000 children at the centre. The Bank continued to support the cost of the feeding programme throughout the year.

In addition, the Bank donated a van aimed at supporting the centre's transport needs. The Bank contributed over KShs. 700,000 towards these initiatives.

Kihara Maina, CEO, I&M Bank, Kenya cuts the ribbon during the van handover ceremony at Kibagare Good News Centre.

I&M BANK, KENYA SUPPORTS NEST CHILDREN'S HOME

I&M Bank, Kenya last year supported the Nest Children's Home by providing baby formula milk and baby food for the babies being cared for by the Home. The total cost of the donation was over Kshs. 900,000. The Nest Children's Home has been providing care for children whose mothers are imprisoned. The Nest program reaches out to prevent the children of imprisoned mothers from fighting for survival on the streets. The Home rescues affected children and rehabilitates and later reintegrates them and their released mothers with their extended families.

ENVIRONMENT

I&M Bank, Kenya through its Environment Pillar for CSR has identified challenges facing efforts in protecting and restoring natural and sustainable environments in the country. The Bank realises and appreciates that sustainable environments play a critical role in achieving the country's economic growth plans, therefore we have set up inclusive and measurable programmes and interventions to address these challenges. Below are some of the initiatives.

I&M BANK, KENYA SUPPORTS THE FRIENDS OF RUIRU DAM

Last year, the Bank donated KShs. 150,000 towards the Friends of Ruiru Dam Golf and the Friends of Ruiru Dam marathon. The activities aimed at raising at least a KShs. 1 million to support conservation efforts of the Dam.

I&M BANK, KENYA REHABILITATES KARURA FOREST

I&M Bank, Kenya continued to donate towards the rehabilitation of the Karura Forest. The Bank donated KShs. 78,000 towards this purchase of tree seedlings. The Bank has previously organized tree planting activities for staff and their families at the 25 acre I&M Bank forest in Karura. So far, the Bank has planted over 3000 trees and targets to plan 1 million trees.

HEALTH

I&M Bank, Kenya continued to partner with various stakeholders in the health sector to address various social determinants of health that widen the gap between poor health and socio-economic growth, by working with them to support quality healthcare systems. Below are some of the key initiatives that the Bank supported in health:

I&M BANK, KENYA DONATES TOWARDS KAMILI MENTAL HEALTH ORGANIZATION

I&M Bank, Kenya donated Kshs. 75,000 per month towards monthly salaries for a dedicated nurse at the Kamili Mental Health Organization who oversees the care for over 3300 patients and their families. Kamili's mission is to provide those suffering from mental health illnesses in Kenya equal access to services and to affordable care in order to improve their quality of life. The total contribution towards this donation from the Bank was Kshs. 525,000.

I&M BANK, KENYA CONTINUES TO SUPPORT FARAJA CANCER SUPPORT TRUST

I&M Bank, Kenya last year donated Kshs. 500,000 to Faraja Cancer Support Trust aimed at supporting the Center's needs in Cancer support. The Faraja Cancer Support Trust was founded in 2010 and provides a safe haven for Cancer patients and their carers by providing emotional, practical and healing support.

HEALTH

I&M BANK (T) LIMITED SUPPORTS THE WORLD AUTISM WALK

For third consecutive year, the Bank partnered with Al Muntazir Special Education Needs in hosting World Autism Day-Awareness Walk, which was held in Dar es Salaam on March 25, 2018. The walk aims to raise awareness and contribute in changing the future for all those who are struggling with autism.

The Bank contributed $5000 for the walk to support activities aimed at supporting victims of Autism. The walk was graced by Deputy Speaker of Tanzania National Assembly, Dr. Tulia Ackson Mwansasu, Deputy Minister Health, Community Development, Gender, Elderly and Children, Dr. Faustine Ndugulile and other members of parliament.

World Autism Awareness Day celebrates the unique talents and skills of persons with autism and is a day when individuals with autism are warmly welcomed in community events around the globe.

Deputy Speaker of Tanzania National Assembly, Dr. Tulia Ackson Mwansasu (third on the right) and Deputy Minister Health, Community Development, Gender, Elderly and Children, Dr. Faustine Ndugulile (second on the right) leading the autism awareness walk sponsored by I&M Bank (T) Ltd.

I&M BANK (T) LIMITED SUPPORTS SEKOU TOURE HOSPITAL AND CORNEL NGALEKU CHILDREN'S CENTER

Last year, the Bank donated TZS 10,000,000 to improve services at the pediatric ward in Sekou Toure Hospital in Mwanza, which is a state-owned hospital. The handover event was graced by Ilemela District Commissioner on behalf of Mwanza Regional Commissioner. In addition, the Bank continued to support the Cornel Ngaleku Children's Centre through staff and customers' donations at the teller counters in all branches. On the other hand, for the second consecutive year the Bank has kept donation boxes for Cornel Ngaleku Children's Centre at the teller counters at all branches.

Ilemela District Commissioner, Dr. Severine M. Lalika (Middle left) with I&M Bank (T) Ltd staff and Sekou Toure staff during the handing over of dummy cheque worth TZS 10m/- to Sekou Toure Hospital in Mwanza. The donation was made by the Bank in order to improve services in the pediatric ward at the hospital.

www.imbank.com

I&M BANK LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS | 2018

CREATING SUSTAINABLE GROWTH

Regulated by the Central Bank of Kenya