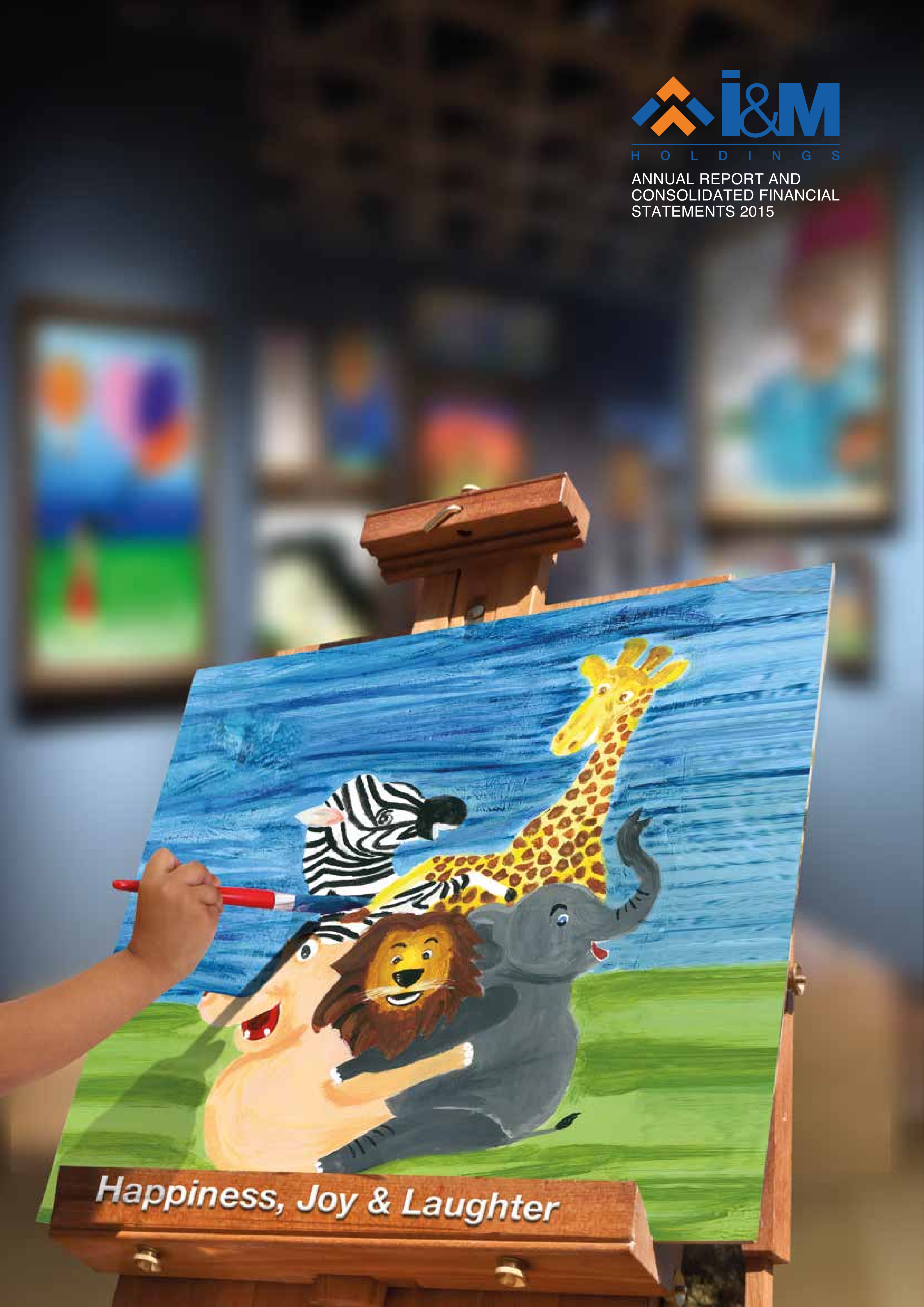
I&M HOLDINGS

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 2015



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Happiness, Joy & Laughter

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

BOARD OF DIRECTORS

FROM LEFT STANDING:
Michael Turner | SBR Shah | Damien Braud
SEATED: Nyambura Koigi

FROM RIGHT STANDING:
Sachit S Raja Shah | Sarit S Raja Shah | Oliver Fowler | Daniel Ndonye - Chairman
SEATED: Virginia Ndunge - Company Secretary

DIRECTORS, OFFICIALS AND ADMINISTRATION

BOARD OF DIRECTORS

Daniel Ndonye	Chairman
SBR Shah, MBS	
Sarit S Raja Shah	
Michael Turner**	
Sachit S Raja Shah	(Appointed 10 July 2015)
Oliver Fowler	(Appointed 21 August 2015)
Nyambura Koigi	(Appointed 28 October 2015)
Damien Braud*	(Appointed 23 December 2015)

* French ** British

COMPANY SECRETARY

Virginia Ndunge (CPS Kenya)
Kaplan & Stratton
Williamson House, 4th Ngong Avenue
P O Box 40111 - 00100 GPO
Nairobi

AUDITORS

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

REGISTERED OFFICE

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

BANKERS

I&M Bank Limited
P O Box 30238 - 00100 GPO
Nairobi

LEGAL ADVISORS

Kaplan & Stratton
Williamson House
4th Ngong Avenue
P O Box 40111 - 00100 GPO
Nairobi

DIRECTORS, OFFICIALS AND ADMINISTRATION (Continued)

Banking Entities Registered Offices

I&M BANK LIMITED

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

I&M BANK (T) LIMITED

Maktaba Square
Maktaba Street
P O Box 1509
Dar es Salaam
Tanzania

I&M BANK (RWANDA) LIMITED

11, Boulevard de la Revolution
P O Box 354
Kigali
Rwanda

BANK ONE LIMITED

16 Sir William Newton Street
Port Louis
Mauritius

I&M NEWS
I&M KENYA NEWS

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

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

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

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

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

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

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

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

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

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

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

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

The VISA Kenya team during the golf tournament.

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

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

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

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

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

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

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

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

I&M BANK, KENYA HOSTS CAMPAIGNS FOR THE DIASPORA

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

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

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

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

I&M NEWS (Continued)

I&M KENYA NEWS (Continued)

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

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

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

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

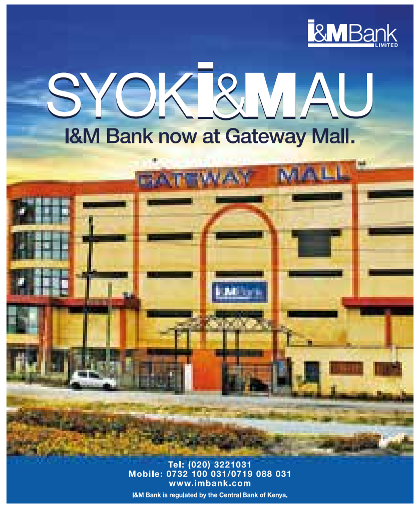
Last year, I&M Bank, Kenya launched a unique customer reward scheme dubbed the IMBA Rewards programme which incentives customers to transact on their I&M Bank accounts.

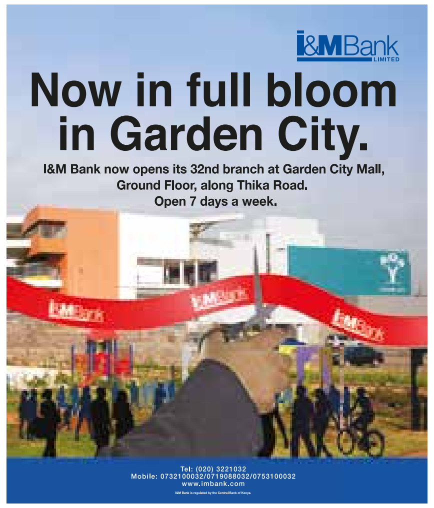
The programme attracts reward points known as IMBA points every time a customer makes a chargeable transaction. The points are accumulated automatically, and converted to cash which is subsequently credited to the customer's account at the end of every quarter.

BRANCH OPENING

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

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





I&M NEWS (Continued)

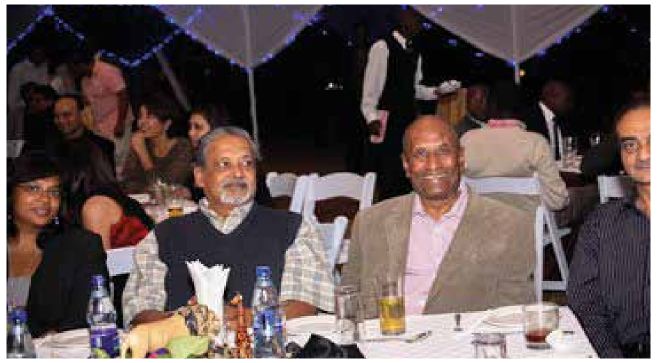
I&M KENYA NEWS (Continued)

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

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

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

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



I&M NEWS (Continued)

I&M TANZANIA NEWS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

I&M NEWS (Continued)

I&M RWANDA NEWS

I&M BANK (RWANDA) LIMITED INTRODUCES NEW MD

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

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

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

LAUNCH OF NEW MORTGAGE FINANCE PRODUCTS

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

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

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

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

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

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

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

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

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

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

I&M NEWS (Continued)
BANK ONE MAURITIUS NEWS

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

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

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

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

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

BANK ONE SPONSORS MAURITIUS GOLF MASTERS 2015

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

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

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

Golfer evaluating the shot.

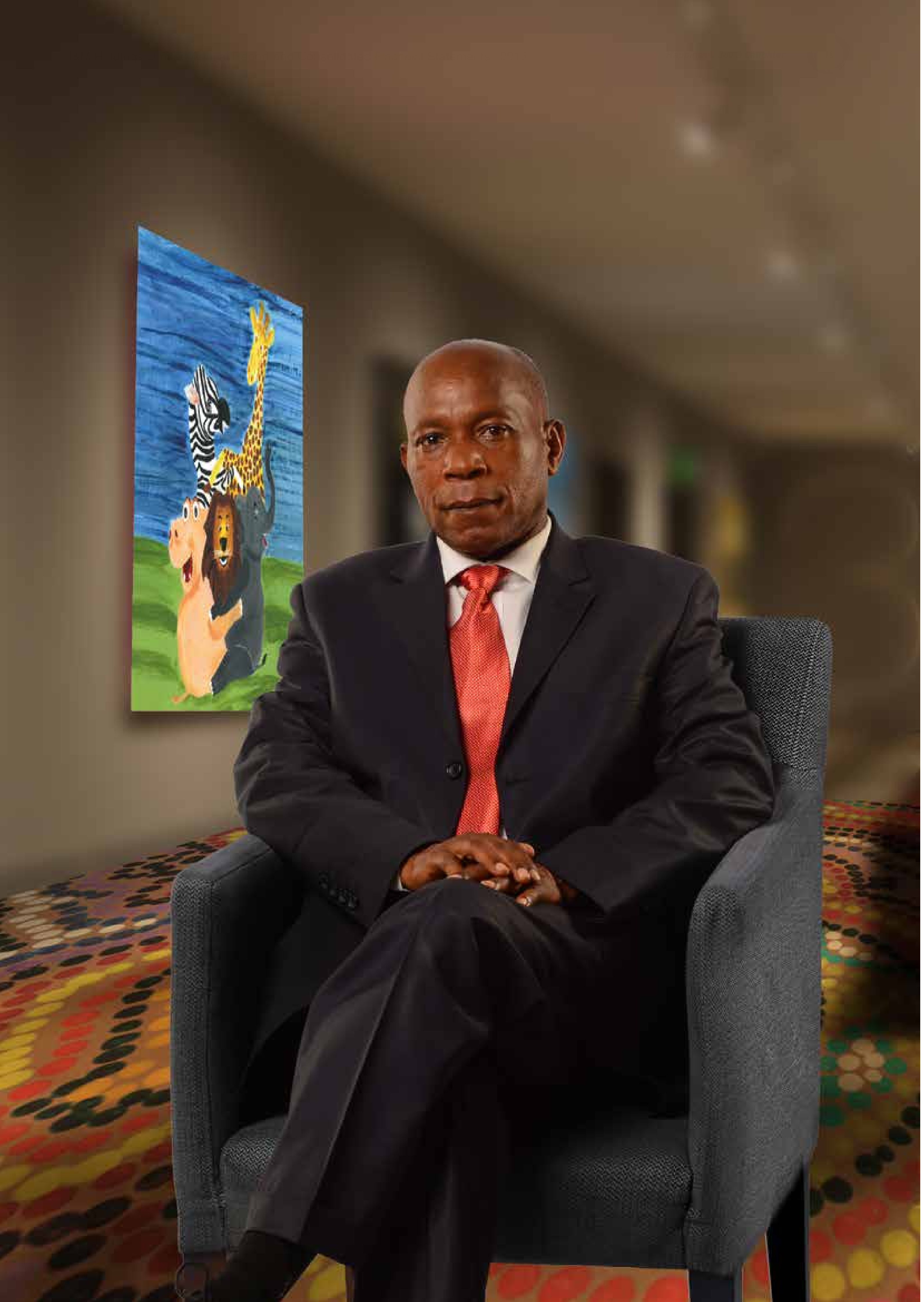
I&M NEWS (Continued)
BANK ONE MAURITIUS NEWS (Continued)

BANK ONE RELOCATES CUREPIPE BRANCH

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

New Curepipe branch lit up for its launching ceremony.

Happiness, Joy & Laughter
Happiness, Joy & Laughter



CHAIRMAN'S STATEMENT

The global banking industry continued to grapple with emerging risks resulting from a slow and uneven recovery of the world economy. The steady drop in oil prices took the oil & gas industry by surprise and the slowdown in China has left the prices of raw materials in a state of flux. After the financial meltdown in 2008, regulators have tightened compliance ratios, a number of those regulations have largely been pegged to levels of capitalization. Banks have in turn raised capital to meet the minimum thresholds.

There is also pressure on margins which has affected the profitability of most global banks. Compliance and regulatory risk has become an industry buzz word, and we have seen regulators in the United States imposing heavy penalties on banks for non-compliance to anti-money laundering and 'Know Your Customer' requirements. Coupled with the recent hike in interest rates and increasing regulatory pressures, there has been a move away from so called "high-risk/emerging" markets that is likely to have unforeseen consequences in our part of the world. We have however been fortunate that with improved regional integration, trade between neighbouring countries has remained fairly robust. With the steady improvement in communications and the need for more investments in infrastructure, we remain optimistic about stable and long term economic growth and believe this will also benefit Mauritius.

For the most part, the banking industry in East Africa remained fairly stable. However, the closure of two prominent banks in Kenya in the recent past, in quick succession, has sent shock waves across the economy. The confidence built over the years has been severely dented in a matter of a few months. Coupled with this, the economic slowdown, especially in the construction sector in Kenya, and delayed payments to contractors, has resulted in a steady deterioration in the loan portfolios of most banks. We do hope the delayed payment situation will reverse in the short term, although most banks are well capitalized and the effect on industry capitalization is likely to be marginal. The effect of increased competition, which has seen margins getting thinner as good customers are able to negotiate better deals and the ever present threat of technology from new-age technology companies seeking to poach transactional business from established "brick and mortar banks" is likely to have an impact on industry earnings.

GROUP STRATEGY

Our Group strategy is to emerge as a one-stop-centre for all the financial needs of our customers. The Group is in the process of acquiring Giro Commercial Bank Limited, and a controlling stake in Burbidge Capital Limited. Burbridge Capital Limited is licensed as an Investment Advisor by the Capital Markets Authority and a Nominated Advisor to companies listed on the Growth Enterprise Market Segment of the Nairobi Securities Exchange. These strategic tie ups will place your Company in a position to take advantage of growth in Kenya and the region, ultimately increasing shareholder value.

Financially, our balance sheet showed an overall growth of 9% from KES 176.5 billion at the end of 2014 to KES 191.7 billion as at December 2015. Profit before income tax increased by 24% from KES 8.23 billion in 2014 to KES 10.17 billion in 2015. Similarly, our Group loan portfolio grew by 14% and customer deposits increased by 16%.

GROUP ENTITY PERFORMANCE

I&M Bank Limited – Kenya

The Bank registered a growth of 8% in the profit before income tax for the year ended 31st December 2015, which increased from KES 7.7 billion in 2014 to stand at KES 8.4 billion. The Bank's loan portfolio increased by 14% from KES 89.9 billion in December 2014 to KES 102.2 billion as at December 2015. Likewise, customer deposits grew by 20 % from KES 86.6 billion to reach KES 103.7 billion. Supported by growth in customer loans and customer deposits, total assets expanded by 8 % during the year to close at KES 147.8 billion.

The Bank continues to grow its branch network across the country in a focused manner with a total of 3 branches in Garden City Mall, Gateway Mall and Ngong Town having been opened during the year; bringing the Bank's branch network to 33 branches. The Bank's ATM network also expanded to 49 ATMS.

CHAIRMAN'S STATEMENT (Continued)

In 2015, the Bank launched its agency banking platform with the introduction of "I&M Karibu" – a service delivery channel that is expected to increase and enhance interaction with customers. I&M Bank was also the first in the Kenyan banking industry to introduce a loyalty based reward programme for our customers dubbed "IMBA". Through this programme, customers are now able to earn points that will be redeemed for cash for each transaction that they undertake through I&M Bank. In continuance of its commitment to deliver innovative solutions, I&M Bank set a new trend by being the first bank to introduce an integrated mobile platform. This mobile banking platform not only makes banking easier for customers, it also provides a platform for other Bank products such as Bancassuarance while supporting clients' businesses by providing them with an avenue to market their products to other customers.

Bank One Limited -Mauritius

In Mauritius, the MCCI Business Confidence Indicator (BCI) measures the change in the overall awareness of business activity for firms from the main sectors of the economy (Services, Wholesale/Retail Trade and Manufacturing). This indicator shows the perception of entrepreneurs about the situation of their businesses, the level of firm orders, and the expectations on the evolution of affairs during the quarter. By the end of 2015, the BCI had increased to 93.40, above the general average of 92.16 over the last 10 years, an indication of the confidence in the continued growth of the economy.

Bank One made a number of successful changes in its strategic and operating model during the year. As a result, the Bank's total assets grew by 12 % to close at MUR 20.9 billion (KES 57.8 billion), while total profits before taxes for the year increased by 76% to close at MUR 211.1 million (KES 601.7 million).

I&M Bank (T) Limited - Tanzania

In July 2015, I&M Bank (T) welcomed a new CEO – Mr. Mohammed Abdul Baseer, who brings on board over 20 years' experience in the banking industry. We look forward to seeing the business grow under his leadership.

2015 was a challenging year for the country with a significant and swift depreciation of the Tanzania shillings by approximately 25%. The economy was generally slow for most part of the year. However, with the now successfully concluded elections that were held in November, wherein we saw a peaceful transition and change of Government, we are buoyant about business growth and prospects going forward.

As at the end of December 2015, this bank's profits before tax, increased by 28 % from TZS 6.27 billion (KES 329 million) to stand at TZS 8.04 billion (KES 381.4 million). The Bank's loan portfolio increased by 20 % from TZS 224 billion (KES 11.8 billion) in December 2014 to TZS 268 billion (KES 12.7 billion) as at December 2015. Customer deposits grew by 6 % from TZS 297 billion (KES 15.6 billion) to reach TZS 316 billion (KES 15.0 billion). This resulted in a balance sheet growth of 12 % since December 2014, to stand at TZS 385 billion (KES 18.3 billion) as at December 2015.

During the year, the Bank received subordinated debt of USD 8 million as Tier II Capital from DEG, the German Developmental Finance Institution (DFI), providing a boost to the Bank's capital adequacy ratios. The Bank similarly signed an agreement with FMO, the Dutch DFI, to receive USD 12 million for onward lending. The Bank expanded its service offering to customers, enabling corporate customers to undertake bulk cash deposits in any branch of choice. I am very pleased to report that in 2015, our Tanzanian subsidiary was nominated for the Brand Excellence Award in the Banking and Financial Services Category under the aegis of the Tanzania Leadership Awards.

I&M Bank (Rwanda) Limited - Rwanda

I&M Bank (Rwanda) also welcomed Mr. Robin Bairstow as the new CEO in September 2015. Mr. Bairstow comes on board with over 23 years' experience in the financial services sector from both domestic and international banking organizations. We look forward to seeing I&M Bank (Rwanda) blossom under his able leadership.

The Bank's profit before tax for 2015 increased by 10% from Rwf 6.46 billion (KES 861 million) to Rwf 7.12 billion

CHAIRMAN'S STATEMENT (Continued)

(KES 977 million). The Bank's loan portfolio grew by 14 % from Rwf 82.75 billion (KES 11 billion) to stand at Rwf 94.03 billion (KES 12.9 billion). Likewise customer deposits grew to Rwf 119.9 billion (KES 16.4 billion), representing a 5 % growth as compared to the previous year. The Bank continued its tradition of being a leading player in the SME sector.

RISK MITIGATION INITIATIVES

Globally, the industry is facing increasing levels of cyber-attacks, and criminals are using all means to get around controls. In East Africa, we are also witnessing increasing levels of cybercrime. We have so far been fortunate that most attempted frauds were foiled in time by our vigilant staff. To remain ahead of fraudsters the Group continues to invest in systems which are able to monitor external threats and reduce the risk of cyber-attacks.

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

OUTLOOK

While Kenya remains the dominant player within the EAC region, we are witnessing increasingly strong growth in the other EAC economies – Tanzania, Rwanda and Uganda, further affirming our goal to increase our presence in the region. With the expected Kenyan elections in 2017, we anticipate that there will likely be a slowdown in uptake of credit as campaigns intensify and businesses hold off on making long-term commitments pending the elections. However, we are confident in the stability of the Kenyan economy and believe that our leaders will continue to legislate and ensure an environment that supports our economy and its people.

I take this opportunity to thank the Board of Directors for their continued support, commitment and determination as we look to take this Company to greater heights. In 2015, Mr. Guédi Ainache (representing Proparco) and Mr. Michael Karanja resigned from the Board. We hold them in great esteem and thank them for faithfully serving with us on the Board and for their valuable contributions. On the other hand, we enthusiastically welcome Mr. Sachit Shah, Mr. Oliver Fowler, Dr. Nyambura Koigi and Mr. Damien Braud as Board members, and look forward to their invaluable input as we work together to grow the Institution.

On behalf of all my fellow Directors on the Board, I take this opportunity to extend our heartfelt gratitude to all our investors and shareholders for their continued and unwavering faith in the Group, as we look forward to achieving our vision to be the Company where our shareholders are proud to own IMHL shares.

More importantly, I would like to acknowledge and express our sincere appreciation to each of the Boards, Management and staff of each of the Group's entities in Kenya, Tanzania, Rwanda and Bank One in Mauritius; it is through their tireless efforts, dedication, and commitment that the Group continues to grow in a focused, and sustainable manner.

DANIEL NDONYE
CHAIRMAN

24 March 2016


Happiness, Joy & Laughter
Happiness, Joy & Laughter

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2015

The directors have pleasure in submitting their annual report together with the audited financial statements of I&M Holdings Limited ("the Company") and its subsidiaries (together "the Group") for the year ended 31 December 2015, which shows the state of affairs of the group and of the company.

1. Principal activities

The Group provides an extensive range of banking, financial and related services through its banking subsidiaries in Kenya, Tanzania, Rwanda and a joint venture in Mauritius. The Group comprises I&M Holdings Limited, I&M Bank Limited, I&M Capital Limited, I&M Realty Limited and I&M Insurance Agency Limited, Kenya, Bank One Limited, Mauritius, I&M Bank (T) Limited, Tanzania and I&M Bank (Rwanda) Limited, Rwanda. The Company is listed on the Nairobi Securities Exchange and is regulated by the Capital Markets Authority and the Central Bank of Kenya as a non-operational holding company.

2. Acquisitions

a) Giro Commercial Bank Limited

On 5 September 2015 I&M Holdings Limited entered into a Share Purchase Agreement with the shareholders of Giro Commercial Bank Limited, to acquire 100% shareholding in Giro Commercial Bank Limited. The purchase consideration is the aggregate of 50% cash consideration of KShs 2,547,295,000 and the remaining 50% by issue of 21,043,330 new shares of KShs 1 each of I&M Holdings Limited. The proposed acquisition, upon completion, envisages the immediate merger of Giro Commercial Bank's business into I&M Bank Limited.

b) Burbidge Capital Limited

On 5 October 2015 I&M Holdings Limited entered into a Share Purchase Agreement with the shareholders of Burbidge Capital Limited, to acquire 65% of the share capital of Burbidge Capital Limited. The aggregate consideration for the acquisition is to be paid by a cash consideration of KShs 55,737,500, representing 87.5% of the purchase consideration and share consideration of 65,722 shares in I&M Holdings Limited.

The acquisitions are individually conditional to the approval of the shareholders and various regulatory authorities including the Central Bank of Kenya, the Capital Markets Authority and the Competition Authority of Kenya. At the reporting date, the Group had obtained approval from the Competition Authority of Kenya for the Giro Commercial Bank transaction.

3. Results

The consolidated results for the year are as follows:

	2015 KShs'000	2014 KShs'000
Profit before income tax	10,167,661	8,229,894
Income tax expense	(3,023,250)	(2,495,881)
Profit for the year	**7,144,411**	**5,734,013**

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

The directors recommend a dividend of KShs 3.50 per share amounting to KShs 1,373,267,137 for the year ended 31 December 2015. A dividend of Kshs 2.90 per share amounting to KShs 1,137,849,913 in respect of the year ended 31 December 2014 was paid on 26 May 2015.

4. Directors

The present members of the Board are shown on page 2.

5. Auditors

The auditors, KPMG Kenya, who were appointed during the year, have expressed their willingness to continue in office in accordance with Section 159 (2) of the Kenyan Companies Act (Cap.486).

6. Approval of financial statements

The financial statements were approved at a meeting of the directors held on 24 March 2016.

BY ORDER OF THE BOARD
Secretary

Date: 24 March 2016

STATEMENT ON CORPORATE GOVERNANCE

Introduction

This statement outlines the key aspects of the group's corporate governance framework. The Board has consistently placed great importance on good corporate governance practices of the Company, its subsidiaries and joint venture (together the 'Group') as it believes that this is vital for the Group's strong business performance on a sustainable basis. The Group's corporate governance framework takes into consideration the Capital Markets Authority Guidelines on Corporate Governance as well as global best practices. This enables the Group to effectively consider and critically evaluate the business activities of its subsidiaries and joint venture on an on-going basis, in order to maintain these at acceptable risk levels. A similar approach is adopted when considering any new investments, both in country and across the region. The Group's corporate governance framework also ensures that the Group maintains and promotes high standards of integrity, transparency and accountability across all levels.

Shareholders

Significant shareholders

The Company's top 10 shareholders as at 31 December 2015 are given below:

		Shares	%
1	Minard Holdings Limited	88,325,016	22.51%
2	Tecoma Limited	75,774,808	19.31%
3	Ziyungi Limited	73,548,000	18.74%
4	DEG	24,516,000	6.25%
5	Proparco	17,365,500	4.43%
6	Bhagwanji Raja Charitable Foundation The Registered Trustees	9,458,830	2.41%
7	Investments & Mortgages Nominees Ltd (A/C 0001229)	8,479,286	2.16%
8	Investments & Mortgages Nominees Ltd (A/C 0004047)	8,371,860	2.13%
9	Shah Kantaben Amritlal Hirji	2,603,322	0.66%
10	Shah Kantilal Hirji Shah & Vinumati Kantilal	2,603,322	0.66%

Distribution of shareholders

The distribution of shareholders as at 31 December 2015 was as follows:

Share Range	No. of Shareholders	Shares Held	% Shareholding
Less than 1 million shares	2,384	70,408,718	17.95%
> 1 million < 2 million shares	6	8,686,477	2.21%
> 2 million < 3 million shares	3	7,427,544	1.89%
> 3 million shares	8	305,839,300	77.95%
Total	**2,401**	**392,362,039**	**100.00%**

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Shareholder Relations and Communication

The Group communicates to its shareholders through its website (www.imbank.com), annual reports, annual general meetings of shareholders and public announcements published in the local dailies. The website is regularly updated with half-yearly and audited annual financial statements, as well as other news relating to the Group. Significant shareholders are also able to follow closely the affairs of the Group on a quarterly basis through their representatives, being present at Board and Board Committee levels.

Any other corporate issues relevant to the Shareholders are immediately brought to their attention by the Company Secretary upon instruction from the Board of Directors.

Board Constitution and Appointment

The Board of I&M Holdings Limited currently constitutes of eight directors, whose membership details are set out below:

Director	Board Membership	Position / Title	Committee Membership	
			BARMC	BNRC
Daniel Ndonye	Non-Executive, Independent	Chairman	√	√
Suresh Bhagwanji Raja Shah, MBS	Non-Executive	-	-	-
Sarit S Raja Shah	Non-Executive	-	√	√
Michael Turner	Non-Executive, Independent	-	√	√
Sachit S Raja Shah	Non-Executive	-	-	-
Oliver Fowler	Non-Executive, Independent	-	-	-
Nyambura Koigi	Non-Executive, Independent	-	-	-
Damien Braud	Non-Executive	-	-	-

Appointments

Director	Board Membership	Date of Appointment
Sachit S Raja Shah	Non-Executive	10 July 2015
Oliver Fowler	Non-Executive, Independent	21 August 2015
Nyambura Koigi	Non-Executive, Independent	28 October 2015
Damien Braud	Non-Executive	23 December 2015

Resignations

Director	Board Membership	Date of Resignation
Guédi MM Aïnaché	Non-Executive	31 July 2015
Michael Karanja	Non-Executive, Independent	30 October 2015

STATEMENT ON CORPORATE GOVERNANCE (Continued)

The Board is constituted such that at least one third of the Board constitutes Non-Executive, Independent Directors.

In the appointment of new directors, consideration is given to each individual director's personal qualities and abilities, the collective Board members' skills and aptitudes for conducting oversight of the Group as well as discharging duties and obligations as imposed by law and expected by the shareholders of the Company.

The Company's directors, collectively bring a myriad of years of experience from expansive backgrounds including banking, general business administration, investment analysis and management, all which are skills relevant to the business of I&M Holdings Limited. The unique collective experiences of the directors provide a superior mix of skills which the Board requires in order to effectively discharge its responsibilities.

Given below are brief profiles of the new Directors:

Sachit S Raja Shah – Non-Executive

Mr. Sachit Shah joined the board in July 2015. He is the Executive Director of GA Insurance Limited. His previous professional experiences include Citibank London, AMP Asset Management in London and HSBC Bank Plc, London. He holds a B.Sc. in Banking and International Finance from the City University Business School, London. He serves on the boards of various other companies including I&M Bank Limited, Kenya and Coastal Bottlers Limited.

Oliver Fowler – Non-Executive, Independent

Mr. Fowler joined the board in August 2015. He is a qualified Kenyan Advocate and an English Solicitor and is a Senior Partner at Kaplan & Stratton Advocates. His work encompasses commercial work, particularly financial, corporate and taxation matters and has been extensively involved in project finance, capital markets, banking and foreign investments sectors. He holds an LLB from University of Bristol and was admitted to the Kenyan High Court in 1979.

Nyambura Koigi – Non-Executive, Independent

Dr. Koigi joined the Board in October 2015. She was the Managing Director of Postbank from 2005 to 30 June 2015. 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 Business Administration 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.

Damien Braud – Non-Executive

Mr. Braud joined the board in December 2015. He is the East Africa Regional Representative at Proparco, where he has worked since 2012. He holds an MSc in Telecommunications Engineering and a HEC Specialized Masters in International Finance.

Board Charter

The overall obligation of the Board is to provide effective and responsible leadership, characterised by ethical values of responsibility, accountability, fairness and transparency in order to promote the long-term success of the Group by creating and delivering sustainable shareholder value. The Board Charter defines the governance parameters within which the Board exists and operates. It also sets out specific responsibilities to be discharged by the Board, its committees and directors collectively as well as certain roles and responsibilities binding upon the directors as individuals.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

The role of the Board includes but is not limited to the following:

- Providing entrepreneurial leadership to the Group and overseeing the overall conduct of its business to ensure that it is being properly managed
- Overseeing the formulation and implementation of the Group's strategies, including ensuring that there are adequate structures, systems and processes to successfully implement these strategies
- Determining the level of Delegated Authority and Terms of Reference for all Board Committees as well as regular review of the performance of these Committees
- Monitoring the Group's performance against its strategic plans and objectives on a regular basis. The Board meets formally on a quarterly basis or more regularly, when required
- Review and approval of guiding principles and policies to be implemented by the respective entities in the Group
- Approval of the Quarterly and Half Year financial statements for publication
- Review of effectiveness of the systems for monitoring and ensuring compliance with applicable laws, regulations and guidelines as well as industry rules and standards
- Review of the Group's capital levels to ensure adequacy for each entity within the group and that there is adequate capacity for intended growth and expansion within the strategic cycle
- Review and approval of all major capital expenditure items, acquisitions and divestitures

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. Board members receive board papers well in advance of their meetings, thereby facilitating meaningful deliberations therein.

Board of Directors – Summary of attendance

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

Directors	13 January 2015	26 March 2015	10 July 2015	16 October 2015	Total Board meetings attended in 2015
Daniel Ndonye	√	√	√	√	4
Suresh B R Shah	√	√	√	√	4
Guedi Ainache	√	√	X	-	2
Sarit S Raja Shah	√	√	√	√	4
Michael Turner	√	√	√	√	4
Oliver Fowler	-	-	-	√	1
Sachit S Raja Shah	-	-	-	√	1
Damien Braud	-	-	-	-	-
Nyambura Koigi	-	-	-	-	-

√ Attended X Not Attended - Meetings held before appointment

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. Michael Karanja was indisposed up to the point of resignation on 30 October 2015.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Board Committees

The Board has set up two Board Committees to assist in discharging its responsibilities. These include:

Board Audit and Risk Management Committee (BARMC)

The BARMC consists of three independent directors (there is one vacancy following resignation of one of the Directors in October 2015) and one Non-Executive Director. It is led by a Non-Executive, Independent Director.

The key responsibilities of the BARMC are to assist the Board in fulfilling its statutory and fiduciary responsibilities, by providing an objective and independent review of the effectiveness of the external reporting of financial information and the internal control environment of the Group. The BARMC is also responsible for the oversight of the Group's risk management framework and reviewing the Group's risk appetite from time to time.

Board Nomination and Remuneration Committee (BNRC)

The BNRC consists of two independent directors and one Non-Executive Director. It is chaired by a Non-Executive, Independent Director. The BNRC assists the Board in fulfilling its responsibilities by undertaking structured assessment of candidates for membership of the Board and Board Committees, and the establishment of an appropriate framework for remuneration of the Board and Board Committees, in line with clearly defined remuneration principles.

Delegation of Authority

I&M Holdings Limited is a non-operating holding company. The Group's subsidiaries are governed by different statutory and regulatory requirements across the region. The Holding company board provides strategic direction to the Group's business and meets quarterly to review overall performance and progress on significant initiatives. It has delegated authority to the boards of its respective subsidiaries, Joint Venture investment and its two Committees, BARMC and BNRC. For puposes of co-ordinating and discharging its mandate, it receives regular structured and timely reports from the respective entity level boards as well as those from BARMC and BRNC. Each entity in the Group has various Board and Management Committees to oversee the effective conduct of its business. The key committees include the following;

Board Audit Committee (BAC)

The BAC assists the Board in fulfilling its responsibilities by reviewing the financial condition of the Group, its internal controls, performance and findings of the Internal Audit functions. Two BAC meetings are held 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, through the risk management function, BRC is responsible for translating the risk management framework established by the Board of Directors into specific policies, processes and procedures that can be implemented and verified within the different business units, so that risks faced by the entity are adequately considered and mitigated.

Board Credit Committee (BCC)

The BCC is responsible for review of the overall lending policy, conducting independent loan reviews, delegation and review of lending limits. It also ensures compliance with all statutory and regulatory requirements and is responsible for the overall management of credit risk. The Credit Risk Management Committee (CRMC) assists the BCC in its role.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Board Procurement Committee (BPC)

The BPC is responsible for reviewing and approving significant procurement proposals as well as proposed consultancy assignments and unbudgeted capital expenditure. In addition, the BPC also vets any agreements with and procurement from related parties.

Management committees

Business Strategy & Coordination Committee

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

Executive Committee (EXCO)

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

Assets & Liabilities Committee (ALCO)

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

Credit Risk Management Committee (CRMC)

CRMC is the link between the Board and Management in terms of establishing and implementing the credit and lending policies of each entity. It is responsible for the sanction of credit proposals in line with the each entity's Credit Policy, effective management and follow-up of all credit-related matters and review of non-performing accounts.

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 each entity's HR policies and practices to ensure each entity remains competitive and able to attract and retain competent talent for its business.

Code of Ethics

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

The Code of Ethics 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.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Insider Trading

The Board has adopted an Insider Trading Policy that prohibits directors, staff and contractors of the Group from:

- Dealing in the Company's shares except during the open period following the publication of the results of the banking entities within the trading jurisdiction. This is done to avoid trading when in possession of unpublished price-sensitive information
- Communicating unpublished price-sensitive information to other people

Risk Management Framework

The Group has an integrated risk management framework in place to identify, assess, manage and report risks and risk adjusted returns on a consistent and reliable basis. I&M Holdings Limited maintains a keen focus on ensuring that the risk management framework at a Group level is robust enough to safeguard the business processes and products of each entity.

Given that risk taking is core to the Group's innovation capacity and ultimately its entrepreneurial success, I&M Holdings Limited's approach to risk management is characterized by strong risk oversight at the Board level and a strong risk management culture at all levels and across all functions. Such an approach supports and facilitates decision making processes across the Group.

The risk management framework is set so that risks identified are adequately considered and mitigated:

- The Board of Directors at the Group and individual entity level assume the ultimate responsibility for the level of risks taken and are responsible to oversee the effective implementation of the risk strategies
- The organizational risk structure and the functions, tasks and powers of the committees, staff and departments involved in the risk processes are continuously reviewed to ensure their effectiveness and the clarity of their roles and responsibilities
- Risk issues are taken into consideration in all business decisions. Measures are in place to develop risk-based performance measures and this is being supplemented by setting risk limits at the company level
- Risk management has been integrated into various management processes such as strategic planning, annual budgeting and performance measurement
- Identified risks are reported in a transparent and timely manner
- Appropriate and effective controls exist for all processes

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

Corporate Social Responsibility (CSR)

I&M Holdings Limited is very conscious of its responsibility towards the community and those around it. It is in this endeavor that the Group has put in place guidelines that aid in carrying out its Corporate Social Responsibility mandate at each entity's level. The Group, through each of its entities, seeks to deepen its relationship with various stakeholders while providing opportunities to its staff members to participate in various CSR activities, with a focus towards health, education and the environment.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for the preparation and fair presentation of the consolidated and company financial statements of I&M Holdings Limited set out on pages 36 to 99 which comprise the consolidated and company statement of financial position as at 31 December 2015, consolidated and company statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs and the operating results of the group and the company.

The directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, the directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and the company as at the end of the financial year and of the operating results of the group and the company for that year. It also requires the directors to ensure the group and the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the group and the company.

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

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

Approval of the financial statements

The group and company financial statements, as indicated above, were approved by the Board of Directors on 24 March 2016 and were signed on its behalf by:

Daniel Ndonye	Michael Turner	Sarit S Raja Shah
Chairman	**Director**	**Director**

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF I&M HOLDINGS LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of I&M Holdings Limited, its subsidiaries and joint venture, set out on pages 36 to 99, which comprise the consolidated and company statements of financial position as at 31 December 2015, and the consolidated and company statements of profit or loss and other comprehensive income, consolidated and company statements of changes in equity and consolidated statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of financial affairs of the group and of the company as at 31 December 2015 and of their profit and the group cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

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

Report on Other Legal Requirements

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

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and

iii) the company's statement of financial position (balance sheet) and statement profit or loss and other comprehensive income (profit and loss account) are in agreement with the books of account.

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

KPMG Kenya

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

Date: 24 March 2016


Happiness, Joy & Laughter
Happiness, Joy & Laughter

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

	Note	Group 2015 KShs'000	Group 2014 KShs'000	Company 2015 KShs'000	Company 2014 KShs'000
Interest income	8	21,869,337	17,591,479	26,280	9,817
Interest expense	9	(9,222,172)	(7,187,395)	-	-
Net interest income		**12,647,165**	**10,404,084**	**26,280**	**9,817**
Fee and commission income	10	2,499,460	2,221,272	-	-
Fee and commission expense	10	(134,529)	(81,816)	-	-
Net fee and commission income	10	**2,364,931**	**2,139,456**	**-**	**-**
Revenue		**15,012,096**	**12,543,540**	**26,280**	**9,817**
Other operating income	11	2,226,845	1,708,892	1,418,358	4,136,177
Operating income		**17,238,941**	**14,252,432**	**1,444,638**	**4,145,994**
Staff costs	12	(3,266,810)	(2,884,496)	-	-
Premises and equipment costs	12	(522,590)	(448,380)	-	-
General administrative expenses	12	(2,121,829)	(1,580,589)	(18,347)	(18,594)
Depreciation and amortisation	12	(501,019)	(418,889)	(86)	-
Operating expenses		**(6,412,248)**	**(5,332,354)**	**(18,433)**	**(18,594)**
Operating profit before impairment losses and tax		**10,826,693**	**8,920,078**	**1,426,205**	**4,127,400**
Net impairment losses on loans and advances	19(c)	(982,495)	(857,788)	-	-
		9,844,198	**8,062,290**	**1,426,205**	**4,127,400**
Share of profit of Joint Venture	21(a)	323,463	167,604	-	-
Profit before income tax	13	**10,167,661**	**8,229,894**	**1,426,205**	**4,127,400**
Income tax expense	14(a)	(3,023,250)	(2,495,881)	(7,831)	(2,945)
Profit for the year		**7,144,411**	**5,734,013**	**1,418,374**	**4,124,455**

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

	Note	Group 2015 KShs'000	Group 2014 KShs'000	Company 2015 KShs'000	Company 2014 KShs'000
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Actuarial loss on re-measurement of defined benefit scheme net of deferred tax		3,156	(6,095)	-	-
Cancellation of shares - Rwanda		(815)	-	-	-
Items that may be classified to profit or loss:					
Available for sale financial assets – changes in fair value net of deferred tax		(173,028)	(175,465)	-	-
Foreign operations - foreign currency translation differences		(102,826)	(41,591)	-	-
Revaluation of property and equipment		-	(4,920)	-	-
Related tax		-	11,492	-	-
Total other comprehensive income for the year		**(273,513)**	**(216,579)**	**-**	**-**
Total comprehensive income for the year		**6,870,898**	**5,517,434**	**1,418,374**	**4,124,455**
Profit attributable to:					
Equity holders of the company		6,717,452	5,320,885	1,418,374	4,124,455
Non-controlling interest		426,959	413,128	-	-
		7,144,411	**5,734,013**	**1,418,374**	**4,124,455**
Total comprehensive income attributable to:					
Equity holders of the company		6,526,739	5,129,991	1,418,374	4,124,455
Non-controlling interest		344,159	387,443	-	-
		6,870,898	**5,517,434**	**1,418,374**	**4,124,455**
Basic and diluted earnings per share - (KShs)	15	**17.12**	**13.56**	**3.61**	**10.51**

The notes set out on pages 42 to 99 form an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	Note	Group 2015 KShs'000	Group 2014 KShs'000	Company 2015 KShs'000	Company 2014 KShs'000
ASSETS					
Cash and balances with central banks	16	9,948,128	11,274,508	-	-
Items in the course of collection	17	527,596	567,941	-	-
Placements with financial institutions	18	4,981,777	4,937,238	-	-
Loans and advances to customers	19(a)	127,823,778	112,491,329	-	-
Investment securities	20	39,135,807	38,461,486	-	-
Investment in Joint Venture	21(a)	3,062,350	2,573,560	1,679,971	1,498,815
Investment in subsidiaries	21(b)	-	-	19,604,666	19,599,661
Property and equipment	22	2,935,233	2,763,692	199	-
Intangible assets - Goodwill	23(a)	1,174,601	1,174,601	-	-
Intangible assets - Software	23(b)	245,434	300,365	-	-
Prepaid operating lease rentals	24	284,606	290,314	-	-
Tax recoverable	14(b)	4,456	24,488	-	-
Deferred tax asset	25(a)	515,997	574,512	-	-
Due from group companies	36 (b)(iv)	-	-	142,660	61,850
Other assets	26	1,083,779	1,030,417	23,825	2,457
TOTAL ASSETS		**191,723,542**	**176,464,451**	**21,451,321**	**21,162,783**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Deposits from banks	27	7,971,475	17,205,630	-	-
Deposits from customers	28	132,980,678	114,201,280	-	-
Deferred tax liability	25(b)	67,744	78,821	-	-
Tax payable	14(b)	145,434	24,698	772	51
Due to group companies	36 (b)(iv)	-	-	11,715	12,917
Other liabilities	29	2,766,373	2,175,313	47,457	38,962
Long term borrowings	30	9,575,455	10,697,172	-	-
Subordinated debt	31	4,495,084	3,975,395	-	-
		158,002,243	**148,358,309**	**59,944**	**51,930**
Shareholders' equity (pages 16 and 17)					
Share capital	32(a)	392,362	392,362	392,362	392,362
Share premium	32(b)	17,331,510	17,331,510	17,331,510	17,331,510
Retained earnings		12,971,933	7,360,529	3,667,505	3,386,981
Revaluation reserve	32(c)	446,744	448,726	-	-
Available-for-sale reserve	32(d)	(502,206)	(342,834)	-	-
Translation reserve	32(e)	(65,102)	6,346	-	-
Statutory credit risk reserve	32 (f)	912,617	905,486	-	-
Defined benefit reserve	32 (g)	(39,725)	(42,881)	-	-
Equity attributable to owners of the company		**31,448,133**	**26,059,244**	**21,391,377**	**21,110,853**
Non-controlling interest		2,273,166	2,046,898	-	-
TOTAL SHAREHOLDERS' EQUITY		**33,721,299**	**28,106,142**	**21,391,377**	**21,110,853**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**191,723,542**	**176,464,451**	**21,451,321**	**21,162,783**

The financial statements set out on pages 36 to 99 were approved by the Board of Directors on 24 March 2016 and were signed on its behalf by:

Daniel Ndonye	Damien Braud	Sarit S Raja Shah	Virginia Ndunge
Director	**Director**	**Director**	**Secretary**

The notes set out on pages 42 to 99 form an integral part of these financial statements.

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

	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Statutory credit risk KShs'000	Defined benefit reserve KShs'000	Revaluation reserve KShs'000	Available for sale reserve KShs'000	Translation reserve KShs'000	Total KShs'000	Non-controlling interest KShs'000	Total KShs'000
At 1 January 2015	**392,362**	**17,331,510**	**7,360,529**	**905,486**	**(42,881)**	**448,726**	**(342,834)**	**6,346**	**26,059,244**	**2,046,898**	**28,106,142**
Profit for the year	-	-	6,717,452	-	-	-	-	-	6,717,452	426,959	7,144,411
Other comprehensive income	-	-	38,933	-	3,156	(1,982)	(159,372)	(71,448)	(190,713)	(82,800)	(273,513)
Total comprehensive income / (loss)	-	-	**6,756,385**	-	**3,156**	**(1,982)**	**(159,372)**	**(71,448)**	**6,526,739**	**344,159**	**6,870,898**
Statutory credit risk	-	-	(7,131)	7,131	-	-	-	-	-	-	-
Transactions with owners:											
Dividends paid	-	-	(1,137,850)	-	-	-	-	-	(1,137,850)	(117,891)	(1,255,741)
At 31 December 2015	**392,362**	**17,331,510**	**12,971,933**	**912,617**	**(39,725)**	**446,744**	**(502,206)**	**(65,102)**	**31,448,133**	**2,273,166**	**33,721,299**
At 1 January 2014	**392,362**	**17,331,510**	**3,707,988**	**218,048**	**(36,786)**	**442,154**	**(161,585)**	**16,468**	**21,910,159**	**1,767,797**	**23,677,956**
Profit for the year	-	-	5,320,885	-	-	-	-	-	5,320,885	413,128	5,734,013
Other comprehensive income	-	-	-	-	(6,095)	6,572	(181,249)	(10,122)	(190,894)	(25,685)	(216,579)
Total comprehensive income / (loss)	-	-	**5,320,885**	-	**(6,095)**	**6,572**	**(181,249)**	**(10,122)**	**5,129,991**	**387,443**	**5,517,434**
Statutory credit risk	-	-	(687,438)	687,438	-	-	-	-	-	-	-
Transactions with owners:											
Dividends paid	-	-	(980,906)	-	-	-	-	-	(980,906)	(108,342)	(1,089,248)
At 31 December 2014	**392,362**	**17,331,510**	**7,360,529**	**905,486**	**(42,881)**	**448,726**	**(342,834)**	**6,346**	**26,059,244**	**2,046,898**	**28,106,142**

The notes set out on page 42 to 99 form an integral part of these financial statements.

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

	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Total KShs'000
At 1 January 2015	392,362	17,331,510	3,386,981	21,110,853
Total comprehensive income for the year	-	-	1,418,374	1,418,374
Dividends paid	-	-	(1,137,850)	(1,137,850)
At 31 December 2015	**392,362**	**17,331,510**	**3,667,505**	**21,391,377**
At 1 January 2014	392,362	17,331,510	243,432	17,967,304
Total comprehensive income for the year	-	-	4,124,455	4,124,455
Dividends paid	-	-	(980,906)	(980,906)
At 31 December 2014	**392,362**	**17,331,510**	**3,386,981**	**21,110,853**

The notes set out on pages 42 to 99 form an integral part of these financial statements.

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

	Note	2015 KShs'000	2014 KShs'000
Net cash flows generated from /(used in) operating activities	33(a)	**10,845,303**	**(6,080,180)**
Cash flows from investing activities			
Purchase of property and equipment	22(a)	(519,985)	(599,769)
Purchase of intangible assets	23(b)	(134,538)	(161,345)
Purchase of prepaid operating lease rentals		-	(445)
Proceeds from disposal of property and equipment		11,361	12,063
Additional investment in Joint venture	21(a)	(181,156)	-
Net cash used in investing activities		**(824,318)**	**(749,496)**
Cash flows from financing activities			
Net inflows/(outflows) from term subordinated debt		519,689	(298,843)
Dividend paid to shareholders of the company		(1,137,850)	(980,906)
Dividend paid to non-controlling interests		(117,891)	(108,342)
Cancellation of shares		(815)	-
Net cash used in financing activities		**(736,867)**	**(1,388,091)**
Net increase/(decrease) in cash and cash equivalents	33(b)	**9,284,118**	**(8,217,767)**

The notes set out on pages 42 to 99 form an integral part of these financial statements.

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

1. REPORTING ENTITY

I&M Holdings Limited (the "Company"), is a non-operating holding company licensed by the Central Bank of Kenya under the Kenyan Banking Act (Chapter 488). The Company is incorporated in Kenya under the Kenyan Companies Act and comprises banking subsidiaries in Kenya, Tanzania, Rwanda and a joint venture in Mauritius. The consolidated financial statements as at and for the year ended 31 December 2015 comprise of entities in Kenya – I&M Bank Limited, I&M Capital Limited, I&M Realty Limited and I&M Insurance Agency Limited, I&M Bank (T) Limited in Tanzania, and I&M Bank (Rwanda) Limited in Rwanda and a joint venture - Bank One Limited in Mauritius (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

Through I&M Bank Limited, the Company has:

(i) 55.03% (2014 - 55.03%) shareholding in I&M Bank (T) Limited;
(ii) 100% shareholding in I&M Realty Limited (incorporated on 30 October 2014); and
(iii) 100% shareholding in I&M Insurance Agency Limited (incorporated on 23 July 2014).

The Company owns the following entities directly:

(i) Bank One Limited - 50% interest in Bank One Limited, a joint venture in a bank licensed in Mauritius;
(ii) I&M Bank Limited – 100% shareholding; and
(iii) I&M Bank (Rwanda) Limited – effective interest of 54.99% in I&M Bank (Rwanda) Limited through a 68.742% holding in BCR Investment Company Limited (Mauritius) which owns 80% shareholding in I&M Bank (Rwanda) Limited.
(iV) I&M Capital Limited - 100% shareholding

2. BASIS OF PREPARATION

(a) Statement of compliance

The Group's consolidated financial statements for the year 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS). Additional information required by the regulatory bodies is included where appropriate.

For the Kenyan Companies Act 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 comprehensive income.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

2. BASIS OF PREPARATION (Continued)

(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.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Adoption of new and revised international financial reporting standards (IFRS)

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

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

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

- set out in the formal terms of the plan;
- linked to service; and
- Independent of the number of years of service.

When contributions are eligible for practical experience, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The amendments apply retrospectively for annual periods beginning on or after 1 July 2014.

The Group has no transactions affected by these amendments. Therefore, the application of these amendments has no material impact on the disclosures or on the amounts recognised in the Group's financial statements.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Adoption of new and revised international financial reporting standards (IFRS) (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Adoption of new and revised international financial reporting standards (IFRS) (Continued)

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

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

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

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

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

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

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

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

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

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

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

• *IFRS 14 Regulatory Deferral Accounts*

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Adoption of new and revised international financial reporting standards (IFRS) (Continued)

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

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

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

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

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

• *Disclosure Initiative (Amendments to IAS 1)*

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

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

• *IFRS 15 Revenue from Contracts with Customers*

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

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

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

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

• *IFRS 9: Financial Instruments (2014)*

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

This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Adoption of new and revised international financial reporting standards (IFRS) (Continued)

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

• *IFRS 9: Financial Instruments (2014) (Continued)*

In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected cr edit loss" model.

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

• *IFRS 16: Leases*

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

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

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

(a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments.

(b) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and

(c) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows.

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

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

(a) short-term leases (i.e. leases of 12 months or less) and;

(b) leases of low-value assets

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all its subsidiaries for the year ended 31 December, 2015. A list of the company's subsidiaries is set out in note 21(b).

Subsidiaries are those entities in which the group has power to exercise control over their operations. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are included in the consolidated financial statements from the date group gains effective control. Entities controlled by the group are consolidated until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Intra-group balances and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

The acquisition method of accounting is used when subsidiaries are acquired by the group. The cost of an acquisition in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the consideration transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the acquired identifiable assets and the liabilities assumed are generally measured and recognized at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

In the event that the amounts of net assets acquired is in excess of the aggregate of the consideration transferred, the amount of non-controlling interest and the fair value of Group's previously held equity interest, the difference is recognised immediately in the profit or loss as a bargain purchase.

In a business combination achieved in stages, the previously held equity interest is re-measured at the acquisition-date fair value with the resulting gain or loss recognised in the profit or loss. Changes in the group's ownership interest in a subsidiary that do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

(c) Joint Arrangements

The group has assessed the nature of its joint arrangements and determined it to be a joint venture. The group applies the equity method of accounting in the consolidated financial statements. The consolidated statement of financial position includes the initial recognition of the investment in the Joint venture at cost, and the carrying amount is increased or decreased to recognise the group's share of the profit or loss of the joint venture after the date of the acquisition. The Joint venture is accounted for at cost in the separate financial statements.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Foreign currencies

(i) Functional and presentation currency

The financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kenya Shillings, which is the group's functional and presentational currency.

(ii) Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement,

in a foreign currency are translated into the respective functional currencies of the operations using the exchange rates prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency 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 through profit or loss.

(iii) Foreign operations

The results and financial position of Group entities that have a functional currency different from the presentation currency are retranslated into the presentation currency as follows:

- For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Kenyan shillings using exchange rates prevailing at the reporting date. Income and expense items of foreign operations are retranslated at average exchange rates for the period.
- Foreign currency exchange differences are reported as 'exchange differences on translations of foreign operations' and are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity.

(e) Income recognition

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

Net interest income

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Income recognition (Continued)

Net interest income (Continued)

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.

Fee and commission income

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

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 and dividend income and gain on disposal of property and equipment.

- Rental income is recognised in the profit or loss on a straight-line basis over the term of the lease.
- Dividend income is recognised when the right to receive income is established. Dividends are reflected as a component of operating income.

(f) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences are utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from good will or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates that have been enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial assets and financial liabilities

(i) Recognition

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

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

(ii) Classification

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

Financial assets at fair value through profit or loss

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

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

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

Loans and receivables

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

Held to maturity

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial assets and financial liabilities (Continued)

(ii) Classification (Continued)

Available-for-sale

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

(iii) Identification and measurement of impairment of financial assets

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset than can be estimated reliably.

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial assets and financial liabilities (Continued)

(iv) De-recognition

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

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

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

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

(v) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported on 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 IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(vi) Fair value of financial assets and financial liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, in the principal, or in its absence, the most advantageous market to which the group has access at that date.

(vii) Amortized cost measurement

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

(h) Fair value measurement

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) 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.

(i) Cash and cash equivalents

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

(j) 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.

Professional valuations are carried out in accordance with the group's policy of revaluing buildings. The fair value is determined based on the market comparable approach that reflects recent transaction prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Property and equipment (Continued)

Increases in the carrying amounts of property resulting from revaluation is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in carrying amount arising on the revaluation of buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.Each year the difference between depreciation based on the revalued carrying amount of an asset (the depreciation charged to profit or loss) and depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

Depreciation is charged on a straight line basis to allocate the cost of each asset, to its residual value over its estimated useful life as follows:

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

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

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

(k) Investment property

Investment property, which is property held to earn rentals, is stated at its fair value, at the reporting date as determined through its revaluation by external valuers on the basis of the highest and best use. Gains or losses arising from changes in fair value of the investment property are included in profit or loss in the period in which they arise net of deferred taxes.

(l) 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 periods. Costs associated with maintaining software are recognised as an expense as incurred.

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

(ii) Goodwill

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) 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.

(n) 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.

(o) Derivative financial instruments

Banking entities in the Group use financial instruments to hedge their exposures 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.

(p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made

(q) 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 Banking entities within the Group. The Group's contributions are recognised in profit or loss in the period to which they relate.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Employee benefits (Continued)

(i) Defined contribution plan (Continued)

The employees of each of the Banking entities within the Group also contribute to their respective Social Security Funds. Contributions are determined by local statute and the entities' contributions are charged to the income statement in the period to which they relate.

(ii) Leave accrual

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

(r) Share capital

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.

(s) Earnings per share

Earnings per share are calculated based on the profit attributable to shareholders 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 period. During the period there were no outstanding shares with dilutive potential.

(t) Dividends

Dividends on ordinary shares are recognised as a liability in the period in which they are declared.

(u) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds 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.

(v) Fiduciary activities

Banking entities in 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.

(w) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (Group management). The management then allocates resources to each operating segment of the Group and assesses their performance. The operating segments are based on the Group's management and internal reporting structure. In accordance with IFRS 8, Operating Segments, the Group only has the geographical segments for its operations in the various countries it operates in (see note 7).

(x) Comparatives

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

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

4. RISK MANAGEMENT

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

Financial risk

The more significant types of risk to which the group is exposed are liquidity risk, credit risk, market risk and operational risk. Market risk includes currency risk and interest rate risk.

(a) Credit risk

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

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 Management 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.

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

4. RISK MANAGEMENT (Continued)

Financial risk (Continued)

(a) Credit risk (Continued)

Exposure to credit risk

Group	**2015 KShs'000**	**2014 KShs'000**
Loans and advances to customers		
Individually impaired:		
Grade 3: Substandard	1,602,604	961,433
Grade 4: Doubtful	2,948,013	1,031,807
Grade 5: Loss	1,779,561	897,335
	6,330,178	**2,890,575**
Allowance for impairment	(3,158,700)	(1,777,148)
Carrying amounts	**3,171,478**	**1,113,427**
Collectively impaired:		
Grade 1: Normal	110,257,291	99,742,297
Grade 2: Watch	14,881,459	12,539,188
	125,138,750	**112,281,485**
Portfolio impairment provision	(486,450)	(903,583)
Carrying amounts	**124,652,300**	**111,377,902**
Total carrying amounts	**127,823,778**	**112,491,329**

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 graded 2 (Watch) in the Group's internal credit risk and grading system.

Loans with renegotiated terms

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

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

4. RISK MANAGEMENT (Continued)

Financial risk (Continued)

(a) Credit risk (Continued)

Allowances for impairment

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

Write off policy

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

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

Loans and advances - Group	Gross KShs'000	Net KShs'000
Individually impaired:		
31 December 2015		
Grade 3: Substandard	1,602,604	1,091,456
Grade 4: Doubtful	2,948,013	1,785,096
Grade 5: Loss	1,779,561	294,926
	6,330,178	**3,171,478**
31 December 2014		
Grade 3: Substandard	961,433	312,740
Grade 4: Doubtful	1,031,807	734,103
Grade 5: Loss	897,335	66,584
	2,890,575	**1,113,427**
Collectively impaired:		
31 December 2015		
Grade 1: Normal	110,257,292	109,825,605
Grade 2: Watch	14,881,458	14,826,695
	125,138,750	**124,652,300**
31 December 2014		
Grade 1: Normal	99,742,296	99,117,674
Grade 2: Watch	12,539,189	12,260,228
	112,281,485	**111,377,902**

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

4. RISK MANAGEMENT (Continued)

Financial risk (Continued)

(a) Credit risk (Continued)

The Group holds collaterals against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. 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 2015 or 2014.

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

Loans and advances to customers	2015 KShs'000	2014 KShs'000
Group		
Fair value of collateral held - Against impaired loans	**3,627,384**	**1,132,666**

(b) Liquidity risk

Liquidity risk includes the risk of being unable to meet the Group's financial obligations as they fall due because of inability to liquidate assets at a reasonable price and in an appropriate timeframe. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy. In addition, the Group holds a portfolio of liquid assets as part of its liquidity risk management strategy. The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2015 to the contractual maturity date:

Group

31 December 2015:

	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
LIABILITIES						
Deposits from banks	3,723,129	3,772,297	476,049	-	-	**7,971,475**
Deposits from customers	49,979,793	71,461,279	11,345,541	154,383	39,682	**132,980,678**
Other liabilities	1,407,920	1,358,453	-	-	-	**2,766,373**
Long term borrowings	16,896	237,142	2,262,101	6,453,240	606,076	**9,575,455**
Subordinated debt	-	-	63,686	4,010,422	420,976	**4,495,084**
At 31 December 2015	**55,127,738**	**76,829,171**	**14,147,377**	**10,618,045**	**1,066,734**	**157,789,065**

31 December 2014:

	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
LIABILITIES						
Deposits from banks	5,534,263	9,636,922	1,915,514	118,931	-	**17,205,630**
Deposits from customers	39,634,490	64,917,373	9,535,367	114,050	-	**114,201,280**
Other liabilities	788,199	866,320	414,193	106,601	-	**2,175,313**
Long term borrowings	-	196,809	1,856,251	7,219,449	1,424,663	**10,697,172**
Subordinated debt	-	170,395	150,000	-	3,655,000	**3,975,395**
At 31 December 2014	**45,956,952**	**75,787,819**	**13,871,325**	**7,559,031**	**5,079,663**	**148,254,790**

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

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

4. RISK MANAGEMENT (Continued)

Financial risk (Continued)

(c) Market risk

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

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:

31 December 2015:

	Within 1month 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	-	-	-	-	-	9,948,128	**9,948,128**
Items in the course of collection	-	-	-	-	-	527,596	**527,596**
Placements with financial institutions	1,488,837	1,138,044	426,518	-	-	1,928,378	**4,981,777**
Loans and advances to customers	112,709,381	2,815,083	2,124,765	7,533,387	2,641,162	-	**127,823,778**
Investment securities	685,625	4,642,796	15,619,390	11,352,686	6,835,310	-	**39,135,807**
Other assets	-	-	-	-	-	1,083,779	**1,083,779**
At 31 December 2015	**114,883,843**	**8,595,923**	**18,170,673**	**18,886,073**	**9,476,472**	**13,487,881**	**183,500,865**
LIABILITIES							
Deposits from banks	2,930,668	3,772,297	476,049	-	-	792,462	**7,971,476**
Deposits from customers	33,487,049	71,494,368	11,015,237	154,383	39,682	16,789,959	**132,980,678**
Other liabilities	-	-	-	-	-	2,766,373	**2,766,373**
Long term borrowings	16,896	1,215,166	7,577,529	740,277	25,587	-	**9,575,455**
Subordinated debt	-	-	3,718,686	355,422	420,976	-	**4,495,084**
At 31 December 2015	**36,434,613**	**76,481,831**	**22,787,501**	**1,250,082**	**486,245**	**20,348,794**	**157,789,066**
Interest rate gap	**78,449,230**	**(67,885,908)**	**(4,616,828)**	**17,635,991**	**8,990,227**	**(6,860,913)**	**25,711,799**

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

4. RISK MANAGEMENT (Continued)

Financial risk (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk (Continued)

	Within 1month 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	-	-	-	-	-	11,274,508	**11,274,508**
Items in the course of collection	-	-	-	-	-	567,941	**567,941**
Placements with financial institutions	4,464,701	26,947	262,982	182,608	-	-	**4,937,238**
Loans and advances to customers	100,537,706	940,326	2,445,462	6,485,142	2,082,693	-	**112,491,329**
Investment securities	1,250,722	3,898,732	14,539,936	11,293,215	7,400,803	-	**38,383,408**
Other assets	-	-	-	-	-	1,108,495	**1,108,495**
At 31 December 2014	**106,253,129**	**4,866,005**	**17,248,380**	**17,960,965**	**9,483,496**	**12,950,944**	**168,762,919**
LIABILITIES							
Deposits from banks	1,398,451	13,772,733	1,915,514	118,932	-	-	**17,205,630**
Deposits from customers	52,393,358	39,185,829	9,724,050	251,408	-	12,646,635	**114,201,280**
Other liabilities	-	-	-	-	-	2,175,313	**2,175,313**
Long-term borrowings	-	1,815,759	8,108,966	740,470	23,550	8,427	**10,697,172**
Subordinated debt	-	320,395	3,655,000	-	-	-	**3,975,395**
At 31 December 2014	**53,791,809**	**55,094,716**	**23,403,530**	**1,110,810**	**23,550**	**14,830,375**	**148,254,790**
Interest rate gap	**52,461,320**	**(50,228,711)**	**(6,155,150)**	**16,850,155**	**9,459,946**	**(1,879,431)**	**20,508,129**

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.

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

4. RISK MANAGEMENT (Continued)

Financial risk (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk (Continued)

Sensitivity analysis

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

	Profit or loss Increase/ decrease in basis points KShs'000	Equity net of tax Increase/ decrease in basis points KShs'000
31 December 2015:		
200 basis points		
Assets	3,400,260	2,380,182
Liabilities	(2,748,805)	(1,924,164)
Net position	**651,455**	**456,018**
31 December 2014:		
200 basis points		
Assets	3,116,240	2,181,368
Liabilities	(2,668,488)	(1,867,942)
Net position	**447,752**	**313,426**

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

4. RISK MANAGEMENT (Continued)

Financial risk (Continued)

(c) Market risk (Continued)

Currency risk

The Group is exposed to currency risk through transactions in foreign currencies. The Group's transactional exposure gives rise to foreign currency gains and losses that are recognised in the profit or loss. In respect of monetary assets and liabilities in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. The table below analyses the currencies which the Group is exposed to as at 31 December 2015 and 31 December 2014.

31 December 2015:	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with Central Banks	1,536,757	119,405	132,713	4,544	**1,793,419**
Items in the course of collection	11,046	-	2,436	-	**13,482**
Placements with financial institutions	2,718,508	244,803	963,631	109,360	**4,036,302**
Loans and advances to customers	50,621,277	2,097,271	1,571,566	-	**54,290,114**
Other assets	302,945	9,864	13	-	**312,822**
At 31 December 2015	**55,190,533**	**2,471,343**	**2,670,359**	**113,904**	**60,446,139**
LIABILITIES					
Deposits from banks	6,199,000	144,857	80,047	13,972	**6,437,876**
Deposits from customers	29,637,703	1,825,244	2,101,942	48,176	**33,613,065**
Other liabilities	221,255	21,695	47,808	17,164	**307,922**
Long-term borrowings	8,239,752	-	1,254,450	-	**9,494,202**
Subordinated debt	819,418	-	-	-	**819,418**
At 31 December 2015	**45,117,128**	**1,991,796**	**3,484,247**	**79,312**	**50,672,483**
Net on statement of financial position	**10,073,405**	**479,547**	**(813,888)**	**34,592**	**9,773,656**
Net notional off balance sheet position	(10,117,893)	(462,921)	497,058	(12,594)	**(10,096,350)**
Overall net position – 2015	**(44,488)**	**16,626**	**(316,830)**	**21,998**	**(322,694)**

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

4. RISK MANAGEMENT (Continued)

Financial risk (Continued)

(c) Market risk (Continued)

Currency risk (Continued)

31 December 2014:	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with Central Banks	1,741,314	65,667	174,354	5,009	**1,986,344**
Items in the course of collection	22,073	541	428	-	**23,042**
Placements with financial institutions	3,409,564	84,060	435,398	31,236	**3,960,258**
Loans and advances to customers	41,242,886	1,836,072	1,347,502	-	**44,426,460**
Other assets	176,057	10,118	-	-	**186,175**
At 31 December 2014	**46,591,894**	**1,996,458**	**1,957,682**	**36,245**	**50,582,279**
LIABILITIES					
Deposits from banks	10,391,080	32,994	168	14,147	**10,438,389**
Deposits from customers	21,501,073	1,538,968	1,355,770	29,771	**24,425,582**
Other liabilities	312,978	60,057	86,583	17,499	**477,117**
Long-term borrowings	9,031,120	-	1,102,664	-	**10,133,784**
At 31 December 2014	**41,236,251**	**1,632,019**	**2,545,185**	**61,417**	**45,474,872**
Net on statement of financial position	**5,355,643**	**364,439**	**(587,503)**	**(25,172)**	**5,107,407**
Net notional off balance sheet position	(5,837,701)	(342,239)	615,838	38,787	**(5,525,315)**
Overall net position – 2014	**(482,058)**	**22,200**	**28,335**	**13,615**	**(417,908)**

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

4. RISK MANAGEMENT (Continued)

Financial risk (Continued)

(c) Market risk (Continued)

Currency 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
31 December 2015:		
USD (2.5% movement)	(1,112)	(779)
GBP (2.5% movement)	416	291
EUR (2.5% movement)	(7,921)	(5,545)
31 December 2014:		
USD (2.5% movement)	(12,051)	(8,436)
GBP (2.5% movement)	555	389
EUR (2.5% movement)	708	496

(d) Operational risk

The overall responsibility of managing Operational Risks - the risk arising from failed or inadequate internal processes, people, systems and external events - is vested with the Board of Directors of the individual banking entities within the Group. These Boards, through their respective Board Risk Committees, issue policies that guide management on appropriate practices of operational risk mitigation. An independent Risk Manager at each of the individual Banking entity assures its respective Board Risk Committee of the implementation of the said policies.

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

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

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

4. RISK MANAGEMENT (Continued)

Financial risk (Continued)

(d) Operational risk (Continued)

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

(e) Capital management

Regulatory capital – Kenya

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

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

- Is adequate to protect its depositors and creditors
- Is commensurate with the risks associated with its activities and profile
- Promotes public confidence in the bank

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

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

- The minimum level of regulatory capital of Kshs 1 billion
- A core capital of not less than 10.5% of total risk weighted assets, plus risk weighted off -balance sheet items
- A core capital of not less than 10.5% of its total deposit liabilities
- A total capital of not less than 14.5% of its total risk weighted assets, plus risk weighted off-balance sheet items

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, subordinated debt not exceeding 50% of core capital, collective impairment allowances and any other approved reserves

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

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

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

4. RISK MANAGEMENT (Continued)

Financial risk (Continued)

(e) Capital management (Continued)

Regulatory capital – Kenya (Continued)

The regulatory capital position for I&M Bank Limited being the Kenyan banking subsidiary was as follows:

	2015 KShs'000	2014 KShs'000
Core capital (Tier 1)		
Share capital	2,880,245	2,880,245
Share premium	3,773,237	3,773,237
Retained earnings	19,413,194	13,602,065
	26,066,676	**20,255,547**
Less: Goodwill	(10,747)	(10,747)
Investment in subsidiary	(1,122,911)	(1,122,911)
Total core capital	**24,933,018**	**19,121,889**
Supplementary capital (Tier 2)		
Term subordinated debt	2,359,762	3,115,952
Statutory loan loss reserve	625,190	625,190
	2,984,952	**3,741,142**
Total capital	**27,917,970**	**22,863,031**
Risk weighted assets		
Credit risk weighted assets	116,332,346	101,383,557
Market risk weighted assets	5,163,855	6,071,469
Operational risk weighted assets	16,682,595	13,804,685
Total risk weighted assets	**138,178,796**	**121,259,711**
Deposits from customers	**104,467,260**	**87,185,430**
Capital ratios		
Core capital/total deposit liabilities (CBK min 10.50%)	22.50%	21.93%
Core capital/total risk weighted assets (CBK min 10.50%)	17.05%	15.77%
Total capital/total risk weighted assets (CBK min 14.50%)	19.21%	18.85%

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

4. RISK MANAGEMENT (Continued)

Financial risk (Continued)

(e) Capital management (Continued)

Regulatory capital – Tanzania

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

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

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

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

The Group's Tanzanian banking subsidiary had the following capital adequacy ratios as at 31 December 2015:

Tier I (Minimum required 10%)	-	11.22%	(2014: 12.54%)
Tier I + Tier II (Minimum required 12%)	-	17.72 %	(2014: 12.54%)

Regulatory capital – Rwanda

The Bank's objectives when managing capital, which is a broader concept than the "equity" on the balance sheet, are:

- To comply with the capital requirements set by the National Bank of Rwanda
- To safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders
- To maintain a strong capital base to support the development of its business

The National Bank of Rwanda (BNR) sets and monitors capital requirements for the banking industry as a whole. In implementing its current capital requirements, BNR, requires Banks in Rwanda to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank's regulatory capital consists only of Tier 1 capital, which includes ordinary share capital, retained earnings, revaluation reserves and statutory reserves. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank's Tier 1 capital expressed as a percentage of risk-weighted assets was 24% as at 31 December 2015 (2014 – 23%).

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

4. RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

Regulatory Capital – Mauritius

Under the BASEL II methodology, Bank of Mauritius has issued guidelines for the measurement of Credit Risk, Market Risk and Operational Risk. The minimum required capital as set by the Bank of Mauritius, under BASEL II guidelines, is a capital to Risk Weighted Assets of 10%.

The Bank's capital management policy is to provide sufficient capital for the banking business to achieve its strategic objectives, taking into account the regulatory, economic and commercial environment in which it operates. The capital adequacy framework is supported by a Board approved Internal Capital Adequacy Assessment Process (ICAAP), which encompasses capital planning for current and future periods, taking into consideration strategic focus and business plan and assessment of all material risks under stress conditions.

The Bank's objectives when managing capital are:

- To comply to the capital requirements set by the regulator
- To safeguard the Bank's ability to continue its business as a going concern
- To maximize returns to shareholders and optimize the benefits to stakeholders
- To maintain a strong capital base to support the development of its business

The Bank's eligible capital as managed by the Bank's management is divided into two tiers:

1. *Core capital or Tier 1 Capital:* Comprising share capital, profit and loss, and reserves created by appropriations of retained earnings. The book value of goodwill and other intangible assets is deducted in arriving at core capital; and
2. *Supplementary capital or Tier 2 Capital:* Qualifying perpetual and term subordinated debts, collectively assessed impairment allowances, regulatory reserve, and fair value gains arising on revaluation of holdings of land and buildings and available-for sale equities and debt securities. Investment in subsidiaries, significant investments in non-subsidiary companies and shares, and investments in other banks' equity are deducted 50 % from Tier-1 capital and 50% from supplementary capital to arrive at the eligible capital.

Capital Adequacy and the use of eligible capital are monitored regularly by Management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by Bank of Mauritius for supervisory purposes. The required information is submitted to the Bank of Mauritius on a quarterly basis.

The ratio of its capital to aggregate risk weighted assets being the Capital Adequacy Ratio as at 31 December 2015 was 12.92% (2014 – 12.70%).

(f) Compliance and regulatory risk

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

(g) Environmental and social risks

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

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

4. RISK MANAGEMENT (Continued)

Financial risk (Continued)

(g) Environmental and social risks (Continued)

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 Government of Kenya). An Environmental and Social Management system is being put in place to ensure due diligence and monitoring of the environmental and social risk is done efficiently. Compliance to these laws is monitored by the compliance function.

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

5. USE OF ESTIMATES AND JUDGEMENT

Key sources of estimation uncertainty

Allowance for credit losses

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

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

Income taxes

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

Property and equipment

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

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

5. USE OF ESTIMATES AND JUDGEMENT (Continued)

Impairment of goodwill

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

Critical accounting judgements in applying the Group's accounting policies

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

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

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

6. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE

Accounting classifications and fair values

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

Group

31 December 2015

	Carrying amounts						Fair value	
	Held to maturity KShs'000	Loans and receivables KShs'000	Available for sale KShs'000	Other amortized cost KShs'000	Other financial liabilities KShs'000	Total KShs'000	Level 1 KShs'000	Total KShs'000
Financial assets								
Cash and balances with central banks	-	9,948,128	-	-	-	**9,948,128**	-	**-**
Items in the course of collection	-	-	-	527,596	-	**527,596**	-	**-**
Investment securities	22,066,667	-	17,069,140	-	-	**39,135,807**	17,069,140	**17,069,140**
Loans and advances to banks	-	4,981,777	-	-	-	**4,981,777**	-	**-**
Loans and advances to customers	-	127,823,778	-	-	-	**127,823,778**	-	**-**
Other assets	-	-	-	1,083,779	-	**1,083,779**	-	**-**
	22,066,667	**142,753,683**	**17,069,140**	**1,611,375**	**-**	**183,500,865**	**17,069,140**	**17,069,140**
Financial liabilities								
Deposits from banks	-	-	-	-	7,971,475	**7,971,475**	-	**-**
Deposits from customers	-	-	-	-	132,980,678	**132,980,678**	-	**-**
Long term borrowings	-	-	-	-	9,575,455	**9,575,455**	-	**-**
Subordinated debt	-	-	-	-	4,495,084	**4,495,084**	-	**-**
Other liabilities	-	-	-	-	2,766,377	**2,766,377**	-	**-**
	-	**-**	**-**	**-**	**157,789,069**	**157,789,069**	**-**	**-**

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

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

Accounting classifications and fair values (Continued)

Group

31 December 2014

	Carrying amounts						Fair Value	
	Held to maturity KShs'000	Loans and receivables KShs'000	Available for sale KShs'000	Other amortized cost KShs'000	Other financial liabilities KShs'000	Total KShs'000	Level 1 KShs'000	Total KShs'000
Financial assets								
Cash and balances with central banks	-	11,274,508	-	-	-	**11,274,508**	-	**-**
Items in course of collection	-	-	-	567,941	-	**567,941**		
Investment securities	21,690,382	-	16,771,104	-	-	**38,461,486**	16,771,104	**16,771,104**
Loans and advances to banks	-	4,937,238	-	-	-	**4,937,238**	-	**-**
Loans and advances to customers	-	112,491,329	-	-	-	**112,491,329**	-	**-**
Other assets	-	-	-	1,030,417	-	**1,030,417**	-	**-**
	21,690,382	**128,703,075**	**16,771,104**	**1,598,358**	**-**	**168,762,919**	**16,771,104**	**16,771,104**
Financial liabilities								
Deposits from banks	-	-	-	-	17,205,630	**17,205,630**	-	**-**
Deposits from customers	-	-	-	-	114,201,280	**114,201,280**	-	**-**
Long term borrowings	-	-	-	-	10,697,172	**10,697,172**	-	**-**
Subordinated debt	-	-	-	-	3,975,395	**3,975,395**		
Other liabilities	-	-	-	-	2,175,313	**2,175,313**	-	**-**
	-	**-**	**-**	**-**	**148,254,790**	**148,254,790**	**-**	**-**

Measurement of fair values

(i) Valuation techniques and significant unobservable inputs

Financial assets measured at fair value - At 31 December 2015 and 31 December 2014

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Investment securities – AFS	Prices quoted in an active market	None	Not applicable

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

7. OPERATING SEGMENTS

The Group operations are within four geographical segments, Kenya, Tanzania, Rwanda and Mauritius. The table below contains segmental information for the year ended 31 December 2015.

2015	Kenya Kshs'000	Tanzania Kshs'000	Rwanda Kshs'000	Mauritius Kshs'000	Adjustments Kshs'000	Total Kshs'000
Net interest income	10,087,879	956,245	1,603,041	-	-	**12,647,165**
Net fee, commission and other income	3,067,110	368,552	1,156,114	-	-	**4,591,776**
Share of JV profits	-	-	-	323,463	-	**323,463**
Operating income	**13,154,989**	**1,324,797**	**2,759,155**	**323,463**	**-**	**17,562,404**
Operating expenses	(4,150,028)	(756,432)	(1,505,788)	-	-	**(6,412,248)**
Impairment on loans and advances	(553,130)	(141,959)	(287,406)	-	-	**(982,495)**
Profit before tax	**8,451,831**	**426,406**	**965,961**	**323,463**	**-**	**10,167,661**
Profit after tax	**5,835,459**	**320,201**	**665,288**	**323,463**	**-**	**7,144,411**
Loans and advances to customers	**102,188,164**	**12,739,084**	**12,896,530**	**-**	**-**	**127,823,778**
Deposits from customers	**103,487,284**	**13,050,691**	**16,442,703**	**-**	**-**	**132,980,678**
Total assets	**171,911,378**	**17,759,011**	**22,497,187**	**-**	**(20,444,034)**	**191,723,542**
Total liabilities	**124,195,960**	**16,499,996**	**20,219,248**	**-**	**(2,912,961)**	**158,002,243**

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

7. OPERATING SEGMENTS (Continued)

2014	Kenya Kshs'000	Tanzania Kshs'000	Rwanda Kshs'000	Mauritius Kshs'000	Adjustments Kshs'000	Total Kshs'000
Net interest income	8,318,897	785,759	1,299,428	-	-	**10,404,084**
Net fee, commission and other income	2,638,624	238,436	971,288	-	-	**3,848,348**
Share of JV profits	-	-	-	167,604	-	**167,604**
Operating income	**10,957,521**	**1,024,195**	**2,270,716**	**167,604**	**-**	**14,420,036**
Operating expenses	(3,316,420)	(650,825)	(1,365,109)	-	-	**(5,332,354)**
Impairment on loans and advances	(747,385)	(40,575)	(69,828)	-	-	**(857,788)**
Profit before tax	**6,893,716**	**332,795**	**835,779**	**167,604**	**-**	**8,229,894**
Profit after tax	**4,760,523**	**217,104**	**588,782**	**167,604**	**-**	**5,734,013**
Loans and advances to customers	**89,866,260**	**11,744,303**	**10,880,766**	**-**	**-**	**112,491,329**
Deposits from customers	**86,559,077**	**12,590,754**	**15,051,449**	**-**	**-**	**114,201,280**
Total assets	**160,841,131**	**17,980,145**	**19, 764,103**	**-**	**(22,120,928)**	**176,464,451**
Total liabilities	**117,906,366**	**16,278,281**	**16, 921,981**	**-**	**(2,748,319)**	**148,358,309**

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

	Group		Company	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
8. INTEREST INCOME				
Loans and advances to customers	17,742,321	14,412,847	-	-
Placements with financial institutions	229,791	204,114	26,280	9,817
Investment securities:				
- Held-to-maturity	2,052,611	1,812,712	-	-
- Available-for-sale	1,844,614	1,161,806	-	-
	21,869,337	**17,591,479**	**26,280**	**9,817**
9. INTEREST EXPENSE				
Deposits from customers	8,017,621	6,170,252	-	-
Deposits from banks	274,829	113,400	-	-
Long term borrowings	412,581	391,117	-	-
Subordinated debt	517,141	512,626	-	-
	9,222,172	**7,187,395**	**-**	**-**
10. NET FEE AND COMMISSION INCOME				
Fee and commission income				
Commissions	1,780,987	1,445,975	-	-
Service fees	718,473	775,297	-	-
	2,499,460	**2,221,272**	-	-
Fee and commission expense				
Interbank transaction fees	(59,688)	(31,821)	-	-
Other	(74,841)	(49,995)	-	-
	(134,529)	**(81,816)**	-	-
	2,364,931	**2,139,456**	-	-
11. OTHER INCOME				
Other operating income				
Income from foreign exchange dealings	1,852,429	1,242,300	-	-
Rental income	127,859	113,666	-	-
Profit on sale of property and equipment	9,171	10,710	-	-
Profit on sale of available-for-sale investment securities	39,135	122,540	-	-
Other	198,251	219,676	-	-
Dividend income	-	-	1,418,358	4,136,177
	2,226,845	**1,708,892**	**1,418,358**	**4,136,177**

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

	Group		Company	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
12. OPERATING EXPENSES				
Staff costs				
Salaries and wages	2,592,880	2,328,641	-	-
Contribution to defined contribution plan	68,811	48,264	-	-
Statutory contribution	55,477	49,430	-	-
Other staff costs	549,642	458,161	-	-
	3,266,810	**2,884,496**	**-**	**-**
Premises and equipment costs				
Rental of premises	340,856	250,759	-	-
Electricity	71,594	43,291	-	-
Other premises and equipment costs	110,140	154,330	-	-
	522,590	**448,380**	**-**	**-**
General administration expenses				
Deposit protection insurance contribution	145,625	129,715	-	-
Loss on disposal of property and equipment	3,108	138	-	-
Other general administrative expenses	1,973,096	1,450,736	18,347	18,594
	2,121,829	**1,580,589**	**18,347**	**18,594**
Depreciation and amortisation				
Depreciation on property and equipment (Note 22)	344,320	312,507	86	-
Amortisation of intangible assets (Note 23(b)(i))	150,991	100,674	-	-
Amortisation of prepaid operating lease rentals (Note 24)	5,708	5,708	-	-
	501,019	**418,889**	**86**	**-**
13. PROFIT BEFORE INCOME TAX				
Profit before income tax is arrived at after charging/ (crediting):				
Depreciation	334,320	312,507	86	-
Amortisation of intangible assets	150,992	100,674	-	-
Directors' emoluments: - Fees	8,786	6,478	3,506	3,008
- Other	35,806	35,055	1,775	1,875
Auditors' remuneration	19,446	18,217	1,621	1,635
Amortisation of prepaid operating lease rentals	5,708	5,708	-	-
Net (loss) / profit or loss on disposal of property and equipment	(9,292)	138	-	-
Dividend income	-	-	(1,418,358)	(4,136,177)

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

	Group		Company	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
14. INCOME TAX EXPENSE AND TAX PAYABLE				
(a) Income tax expense				
Current period's tax	2,918,714	2,558,999	7,831	2,945
Over provision in prior year - current tax	(9,592)	(3,712)	-	-
	2,909,122	**2,555,287**	**7,831**	**2,945**
Deferred tax charge/(credit) (Note 25)	189,424	(42,813)	-	-
Over provision in prior period - deferred tax	(75,296)	(16,593)	-	-
Income tax expense	**3,023,250**	**2,495,881**	**7,831**	**2,945**
The tax on the accounting profit differs from the theoretical amount using the basic tax rate as follows:				
Accounting profit before income tax	**10,167,661**	**8,229,894**	**1,426,205**	**4,127,400**
Computed tax using the applicable corporation tax rate (30%)	3,050,298	2,468,968	427,861	1,238,220
Over provision in the prior year	(9,592)	(3,712)	-	-
Effect of non-deductible costs/income	73,059	63,420	(420,030)	(1,235,275)
Tax discount in accordance with Rwanda tax laws	(15,219)	(16,202)	-	-
Over provision in prior year - deferred tax	(75,296)	(16,593)	-	-
	3,023,250	**2,495,881**	**7,831**	**2,945**
(b) Tax payable				
At 1 January	210	569,605	51	(107)
Income tax expense (Note 14 (a)(i))	2,909,122	2,555,287	7,831	2,945
Effect of tax in foreign jurisdiction	1,491	(5,217)	-	-
Tax paid	(2,769,845)	(3,119,465)	(7,110)	(2,787)
At 31 December 2015	**140,978**	**210**	**772**	**51**
Tax recoverable	(4,456)	(24,488)	-	-
Tax payable	145,434	24,698	772	51
Net payable	**140,978**	**210**	**772**	**51**
15. EARNINGS PER SHARE				
Profit for the year attributable to equity holders (Kshs '000)	6,717,452	5,320,885	1,418,374	4,124,455
Weighted average number of ordinary shares in issue during the year ('000)	392,362	392,362	392,362	392,362
Earnings per share (KShs)	**17.12**	**13.56**	**3.61**	**10.51**

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

	Group		Company	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
16. CASH AND BALANCES WITH CENTRAL BANKS				
Cash on hand	1,913,814	1,769,443	-	-
Balances with central banks:				
- Restricted balances (Cash Reserve Ratio)	6,944,737	7,008,224	-	-
- Unrestricted balances	1,089,577	2,496,841	-	-
	9,948,128	**11,274,508**	**-**	**-**
17. ITEMS IN THE COURSE OF COLLECTION				
Items in the course of collection	**527,596**	**567,941**	**-**	**-**

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

	Group 2015 KShs'000	Group 2014 KShs'000	Company 2015 KShs'000	Company 2014 KShs'000
18. PLACEMENTS WITH FINANCIAL INSTITUTIONS				
Due within 90 days	4,631,109	4,937,238	-	-
Due after 90 days	350,668	-	-	-
	4,981,777	**4,937,238**	**-**	**-**

The Group's weighted average effective interest rate on placements with financial institutions at 31 December 2015 was 3.33% (2014 – 5.87%).

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

19. LOANS AND ADVANCES TO CUSTOMERS - GROUP

	2015 KShs'000	2014 KShs'000
(a) Classification		
Overdrafts	41,237,807	36,568,985
Loans	85,165,124	75,697,110
Bills discounted	3,153,132	475,922
Hire purchase – Finance leases	1,912,865	2,430,043
Gross loans and advances	**131,468,928**	**115,172,060**
Less: Impairment losses on loans and advances	(3,645,150)	(2,680,731)
Net loans and advances	**127,823,778**	**112,491,329**
Repayable on demand	42,053,954	28,542,668
Less than 3 months	7,775,407	12,504,174
3 months to 1 year	10,176,377	16,572,289
1 to 5 years	45,098,302	36,657,727
5 to 10 years	21,393,007	16,400,845
Over 10 years	4,971,881	4,494,357
Gross loans and advances	**131,468,928**	**115,172,060**

(b) Impairment losses reserve

	Specific impairment allowance KShs'000	Portfolio impairment allowance KShs'000	Total KShs'000
2015			
At 1 January 2015	1,777,148	903,583	**2,680,731**
Impairment made in the year	1,604,420	(412,128)	**1,192,292**
Net recoveries	(185,185)	-	**(185,185)**
Write offs	(40,681)	-	**(40,681)**
Translation difference	2,998	(5,005)	**(2,007)**
At 31 December 2015	**3,158,700**	**486,450**	**3,645,150**
2014			
At 1 January 2014	781,482	1,218,557	**2,000,039**
Impairment made in the year	1,041,849	(303,918)	**737,931**
Net recoveries	(19,919)	(11,056)	**(30,975)**
Write offs	(26,264)	-	**(26,264)**
At 31 December 2014	**1,777,148**	**903,583**	**2,680,731**

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

19. LOANS AND ADVANCES TO CUSTOMERS - GROUP (Continued)

	2015 KShs'000	2014 KShs'000
(c) Impairment losses on loans and advances		
Impairment made in the year	1,192,292	737,931
Recoveries and impairment no longer required	(185,185)	(30,975)
Recoveries of loans written – off in prior years	(30,331)	-
Amounts directly written off during the year	5,719	150,832
	982,495	**857,788**

The Group's weighted average effective interest rate on loans and advances to customers at 31 December 2015 was 12.50% (2014 – 13.75%).

(d) Loans and advances concentration by sector

Group	2015 KShs'000	2015 %	2014 KShs'000	2014 %
Manufacturing	29,933,743	22.77	24,113,502	20.94
Wholesale and retail trade	8,206,727	6.24	7,947,586	6.90
Building and construction	15,106,187	11.49	12,723,812	11.05
Agriculture	7,332,413	5.58	5,632,218	4.89
Real estate	21,014,905	15.98	19,935,729	17.31
Transport and communication	7,599,678	5.78	6,663,130	5.78
Business services (Trade)	21,758,950	16.55	19,313,784	16.77
Electricity and water	125,134	0.10	256,716	0.22
Finance and insurance	1,012,062	0.77	1,229,848	1.07
Mining and quarrying	3,012,415	2.29	4,752,882	4.13
Others	16,366,714	12.45	12,602,853	10.94
	131,468,928	**100.00**	**115,172,060**	**100.00**

20. INVESTMENT SECURITIES – GROUP

	2015 Kshs'000	2014 Kshs'000
Available-for-sale		
Equity investment in TMRC *	25,999	78,077
Corporate bonds available-for-sale	330,769	481,912
Treasury bonds - available-for-sale (Non Liquid)	11,249,347	9,282,103
Treasury bills – available-for-sale (Non Liquid)	5,463,025	6,929,012
	17,069,140	**16,771,104**
Held-to-maturity		
Treasury bonds (Liquid)	615,354	200,835
Treasury bonds (Non Liquid)	9,509,604	11,949,759
Treasury bills (Non Liquid)	10,784,387	7,293,245
Treasury bills (Liquid)	1,157,322	2,246,543
	22,066,667	**21,690,382**
Total investment securities	**39,135,807**	**38,461,486**

* TMRC - refers to Tanzania Mortgage Refinancing Company

The weighted average effective interest rate on government securities at 31 December 2015 was 10.67% (2014 – 10.89%).

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

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

21. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE

The Company holds investments in subsidiaries in Tanzania and, I&M Realty Limited, I&M Insurance Agency through I&M Bank Limited. All three entities have been consolidated with the results of I&M Bank Limited. I&M Bank (Rwanda) Limited, I&M Capital Limited, are subsidiaries of I&M Holdings Limited. I&M Holdings Limited owns 50% of a joint venture in Mauritius (Bank One Limited).

(a) Investment in joint venture

The Company has 50% (2014 - 50%) control over Bank One Limited with the other joint venturer, CIEL Investments Limited. The joint venture was formerly owned through I&M Bank Limited until 22 August 2014 when it was transferred to I&M Holdings Limited.

	2015 KShs'000	2014 KShs'000
Balance at start of the year	2,573,560	2,411,973
Additional investment in the year	181,156	-
Share of:		
Profit from continuing operations	323,463	167,604
Other comprehensive income	(15,829)	(6,017)
Balance at end of the year	**3,062,350**	**2,573,560**
Percentage ownership	**50%**	**50%**
Total assets (including cash and cash equivalents)	57,837,006	51,484,111
Total liabilities (including cash and cash equivalents)	(52,663,118)	(47,287,803)
Net assets (100%)	**5,173,888**	**4,196,308**
Group's share of net assets (50%)	2,586,944	2,098,154
Goodwill	475,406	475,406
Carrying amount of interest in Joint Venture	**3,062,350**	**2,573,560**
Interest income	2,573,563	2,618,428
Interest expense	(839,451)	(1,002,082)
Other income	708,993	448,384
Operating expenses	(1,841,193)	(1,720,366)
Income tax expense	45,014	(9,156)
Profit and total comprehensive income (100%)	**646,926**	**335,208**
Profit and Loss (50%)	323,463	167,604
Group's share of profit and total comprehensive income	**323,463**	**167,604**
Dividends received by the Group	**-**	**-**
Company:		
Bank One Limited	**1,679,971**	**1,498,815**

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

21. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE (Continued)

(b) Investment in subsidiaries

Company	Activity	Shareholding	2015 Kshs'000	2014 Kshs'000
I&M Bank Limited	Banking	100%	17,968,778	17,968,778
I&M Capital Limited	Dormant	100%	6,611	1,606
I&M Bank (Rwanda) Limited	Banking	54.99%	1,629,277	1,629,277
			19,604,666	**19,599,661**

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

Company	Activity	Jurisdiction	Shareholding
I&M Realty Limited	Property Mangement	Kenya	100%
I&M Insurance Agency Limited	Bancassurance	Kenya	100%
I&M Bank (T) Limited	Banking	Tanzania	55.03%

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

21. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE (Continued)

(b) Investment in subsidiaries (Continued)

	I&M Bank Limited		I&M Bank (T) Limited		I&M Bank (Rwanda) Limited	
	2015 KSh'M	2014 KSh'M	2015 KSh'M	2014 KSh'M	2015 KSh'M	2014 KSh'M
Summarized statement of financial position						
Total assets	147,846	137,299	18,273	17,980	23,567	19,764
Total liabilities	121,660	115,485	16,500	16,278	20,212	16,921
Net assets	**26,186**	**21,814**	**1,773**	**1,702**	**3,355**	**2,843**
Summarized statement of profit and loss and other comprehensive income						
Net interest income	**10,061**	**8,309**	**956**	**785**	**1,603**	**1,298**
Profit before income tax	8,367	7,749	401	332	957	835
Income tax expense	(2,556)	(2,130)	(106)	(115)	(295)	(246)
Profit for the year	**5,811**	**5,619**	**295**	**217**	**662**	**589**
Summarised statement of cash flows						
Net cash generated from/(used in) operating activities	13,849	(9,491)	565	71	(2,550)	858
Net cash (used in)/generated from investing activities	(313)	(333)	(112)	(142)	(49)	(98)
Net cash (used in)/generated from financing activities	(1,596)	(1,306)	546	54	(215)	(162)
Net increase/(decrease) in cash and cash equivalents	**11,940**	**(11,130)**	**999**	**(17)**	**(2,814)**	**598**
Cash and cash equivalents at beginning of year	**(9,560)**	**1,570**	**(762)**	**(745)**	**6,083**	**5,485**
Cash and cash equivalents at end of year	**2,380**	**(9,560)**	**237**	**(762)**	**3,269**	**6,083**

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

22. PROPERTY AND EQUPMENT - GROUP

	Buildings KShs'000	Leasehold improvements KShs'000	Furniture, fittings, fixtures and office equipment KShs'000	Computers KShs'000	Motor vehicles KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost/valuation							
At 1 January 2014	1,817,431	688,384	813,913	510,428	217,230	182,247	**4,229,633**
Additions	1,869	204,044	90,792	79,551	39,475	184,038	**599,769**
Reclassification from capital work in progress	7,832	1,801	14,149	19,147	-	(42,929)	**-**
Transfers to intangible assets	-	-	-	-	-	(65,683)	**(65,683)**
Transfers to prepaid operating leases	-	-	-	-	-	(54,252)	**(54,252)**
Disposals/write off	(3,426)	-	(624)	(60)	(24,189)	(15,248)	**(43,547)**
Translation differences	8,892	(2,885)	3,719	796	2,530	(15)	**13,037**
At 31 December 2014	**1,832,598**	**891,344**	**921,949**	**609,862**	**235,046**	**188,158**	**4,678,957**
At 1 January 2015	1,832,598	891,344	921,949	609,862	235,046	188,158	**4,678,957**
Reclassifications	(7,800)	(2)	(7,874)	(109,709)	(26,253)	(32,116)	**(183,754)**
Transfers from intangible assets	-	2,181	8,801	33,362	-	(55)	**44,289**
Additions	-	64,620	109,778	83,401	15,273	246,913	**519,985**
Reclassification from capital work in progress	-	22,795	29,201	78,771	24,686	(155,453)	**-**
Write-offs	-	2,536	792	(676)	-	(6,594)	**(3,942)**
Disposals	-	(12,440)	(52,900)	(5,399)	(42,668)	-	**(113,407)**
Translation differences	20,452	(13,939)	(1,919)	3,744	4,507	(407)	**12,438**
At 31 December 2015	**1,845,250**	**957,095**	**1,007,828**	**693,356**	**210,591**	**240,446**	**4,954,566**

In 2013, the building on LR No: 209/7265 was revalued after 4 years by an independent valuer, Kiragu & Mwangi Limited. The valuation is level 3 under the Fair value hierarchy.

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

22. PROPERTY AND EQUIPMENT - GROUP (Continued)

	Buildings KShs'000	Leasehold improvements KShs'000	Furniture, fittings, fixtures and office equipment KShs'000	Computers KShs'000	Motor vehicles KShs'000	Capital work in progress KShs'000	Total KShs'000
Depreciation							
At 1 January 2014	123,838	400,310	522,228	399,212	175,849	-	1,621,437
Charge for the year	53,879	75,997	78,423	77,930	26,278	-	312,507
On disposals	(3,426)	-	(384)	(60)	(22,710)	-	(26,580)
Translation differences	2,385	(640)	2,546	1,605	2,005	-	7,901
At 31 December 2014	**176,676**	**475,667**	**602,813**	**478,687**	**181,422**	**-**	**1,915,265**
At 1 January 2015	176,676	475,667	602,813	478,687	181,422	-	1,915,265
Reclassification	(7,802)	(1)	(60,992)	(56,588)	(26,254)	-	(151,637)
Charge for the year	51,777	92,678	97,216	71,816	30,833	-	344,320
Write-offs	-	823	998	3,164	(888)	-	4,097
On disposals	-	(12,208)	(48,421)	(5,286)	(42,194)	-	(108,109)
Translation differences	6,627	(3,492)	3,915	4,335	4,012	-	15,397
At 31 December 2015	**227,278**	**553,467**	**595,529**	**496,128**	**146,931**	**-**	**2,019,333**
Net book value at 31 December 2015	**1,617,971**	**403,628**	**412,299**	**197,228**	**63,660**	**240,447**	**2,935,233**
Net book value at 31 December 2014	**1,655,922**	**415,677**	**319,136**	**131,175**	**53,624**	**188,158**	**2,763,692**

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

23. INTANGIBLE ASSETS

	2015 KShs'000	2014 KShs'000
(a) Goodwill		
Group		
I&M Bank (K) Limited	1,195	1,195
I&M Bank (T) Limited	608,953	608,953
Biashara Bank of Kenya Limited	10,747	10,747
I&M Bank (Rwanda) Limited	553,706	553,706
	1,174,601	**1,174,601**

The recoverable amounts for I&M Bank (T) Limited and I&M Bank (Rwanda) Limited have 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 Kenya's share were Kshs 2.78 billion (2014; KShs 2.38 billion) and Kshs 3.09 billion (2014; KShs 2.2 billion) for I&M Bank (T) Limited and I&M Bank (Rwanda) Ltd respectively. No impairment losses were recognised during 2015, because the recoverable amounts of these CGUs were determined to be higher than their carrying amounts. The key assumptions used in the calculation of value in use were as follows:

2015	**I&M (T) Ltd**	**I&M Rwanda Ltd**
5 year risk free rate	9.18%	11.95%
Risk premium	12.5%	14.00%
Terminal growth rate	3.00%	2.50%
Exchange rate	Kshs 1= Tzs 21.11	Kshs 1= Rwf 7.31
2014		
5 year risk free rate	9.18%	11.88%
Risk premium	12.5%	14.00%
Terminal growth rate	3.00%	2.50%
Exchange rate	Kshs 1= Tzs 19.09	Kshs 1= Rwf 7.61

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

These cash flows have been projected for 4 years for I&M Bank (T) Limited and 5 years for I&M Bank (Rwanda) Limited, based on the approved Business plans of the respective units. For I&M Bank (T) Limited, and I&M Bank (Rwanda) Limited, the terminal growth rates estimated were 3.00% and 2.50% respectively.

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

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

23. INTANGIBLE ASSETS (Continued)

(b) Computer software

Group

2014

	Software KShs'000	Work in progress KShs'000	Total KShs'000
Cost			
At 1 January	830,767	-	830,767
Transfers	-	65,683	65,683
Additions	24,547	136,798	161,345
Translation differences	1,467	-	1,467
At 31 December 2014	**856,781**	**202,481**	**1,059,262**
2015			
At 1 January	856,781	202,481	1,059,262
Reclassification from capital work in progress	53,333	(53,333)	-
Transfer to property and equipment	-	(65,683)	(65,683)
Transfers to intangible	53,505	-	53,505
Transfers from intangible	-	(32,112)	(32,112)
Additions	127,528	7,010	134,538
Reclassification	13,835	(16,028)	(2,193)
Write offs	(14,532)	-	(14,532)
Disposals	(10)	-	(10)
Translation differences	(832)	-	(832)
At 31 December 2015	**1,089,608**	**42,335**	**1,131,943**
Amortisation			
2014			
At 1 January	655,759	-	655,759
Amortisation for the period	100,674	-	100,674
Translation differences	2,464	-	2,464
At 31 December 2014	**758,897**	**-**	**758,897**
2015			
At 1 January	758,897	-	758,897
Amortisation for the period	150,991	-	150,991
Write offs	(26,789)	-	(26,789)
On disposals	(10)	-	(10)
Translation differences	3,420	-	3,420
At 31 December 2015	**886,509**	**-**	**886,509**
Net carrying amount			
31 December 2015	**203,099**	**42,335**	**245,434**
31 December 2014	**97,884**	**202,481**	**300,365**

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

24. PREPAID OPERATING LEASE RENTALS – GROUP

	2015 KShs'000	2014 KShs'000
Cost		
At 1 January	317,650	262,953
Transfer from property and equipment	-	54,252
Additions	-	445
At 31 December	**317,650**	**317,650**
Amortisation		
At 1 January	27,336	21,628
Charge for the period	5,708	5,708
As at 31 December	**33,044**	**27,336**
As at 31 December	**284,606**	**290,314**

25. DEFERRED TAX (ASSET/LIABILITIES) - GROUP

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

(a) Deferred tax asset

Group

2015

	Balance at 1 January KShs'000	Prior year under/ (over) provision KShs'000	Recognized in equity KShs'000	Translation differences KShs'000	Recognized in profit or loss KShs'000	Balance at 31 December KShs'000
Property and equipment	(129,756)	41,553	-	1,850	(74,632)	(160,985)
General provisions	323,037	33,743	-	(5,872)	(50,390)	300,518
Other provisions	225,746	-	-	-	(65,788)	159,958
Available-for-sale reserves	155,485	-	61,021	-	-	216,506
	574,512	**75,296**	**61,021**	**(4,022)**	**(190,810)**	**515,997**

2014

	Balance at 1 January KShs'000	Prior year under/ (over) provision KShs'000	Recognized in equity KShs'000	Translation differences KShs'000	Recognized in profit or loss KShs'000	Balance at 31 December KShs'000
Property and equipment	(126,051)	-	-	570	(4,275)	(129,756)
General provisions	341,301	-	-	(919)	(17,345)	323,037
Other provisions	139,178	3,317	-	657	82,594	225,746
Available-for-sale reserves	72,649	-	82,836	-	-	155,485
	427,077	**3,317**	**82,836**	**308**	**60,974**	**574,512**

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

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

(b) Deferred tax liability

2015	Balance at 1 January KShs'000	Prior year under/(over) provision KShs'000	Recognized in equity KShs'000	Translation differences KShs'000	Recognized in profit or loss KShs'000	Balance at 31 December KShs'000
Property and equipment	65,307	-	-	2,782	(1,384)	66,705
Other provisions	371	-	-	16	-	387
Available for sale reserves	13,143	-	(13,057)	566	-	652
	78,821	**-**	**(13,057)**	**3,364**	**(1,384)**	**67,744**

2014	Balance at 1 January KShs'000	Prior year under/(over) provision KShs'000	Recognized in equity KShs'000	Translation differences KShs'000	Recognized in profit or loss KShs'000	Balance at 31 December KShs'000
Property and equipment	59,238	-	-	1,184	4,885	65,307
Other provisions	7,842	(13,276)	5,469	196	140	371
Available for sale reserves	-	-	13,136	7	-	13,143
	67,080	**(13,276)**	**18,605**	**1,387**	**5,025**	**78,821**

26. OTHER ASSETS

	Group		Company	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Rent receivable	41,243	14,254	-	-
Prepayments	391,225	330,465	-	-
Other receivables	651,311	685,698	23,825	2,457
	1,083,779	**1,030,417**	**23,825**	**2,457**

27. DEPOSITS FROM BANKS

Group	2015 KShs'000	2014 KShs'000
Due within 90 days	5,556,698	17,124,885
Due after 90 days	2,414,777	80,745
	7,971,475	**17,205,630**

The Group's weighted average effective interest rate on deposits from other banks and banking institutions at 31 December 2015 was 2.83 % (2014 – 2.91%).

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

28. DEPOSITS FROM CUSTOMERS

Group	2015 KShs'000	2014 KShs'000
Government and parastatals	3,585,538	714,852
Private sector and individuals	129,395,140	113,486,428
	132,980,678	**114,201,280**

The Group's weighted average effective interest rate on interest bearing deposits from customers at 31 December 2015 was 6.14% (2014 – 5.84%).

29. OTHER LIABILITIES

	Group		Company	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Bankers cheques payable	482,499	353,634	-	-
Accruals	1,340,428	1,020,033	-	-
Other accounts payables	943,446	801,646	47,455	38,962
	2,766,373	**2,175,313**	**47,455**	**38,962**

30. LONG TERM BORROWINGS - GROUP

Less than one year	2,516,139	2,244,650	-	-
One to five years	6,453,240	7,219,577	-	-
Over five years	606,076	1,232,945	-	-
	9,575,455	**10,697,172**	**-**	**-**

Long term borrowings constituted the following:

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

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

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

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

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

(vi) USD 5,000,000 facility granted on 3 July 2012 by PROPARCO repayable semi-annually over seven years four months.

(vii) Rwf 1,000,000,000 corporate bond issued on 25 January 2008 repayable semi-annually over 10 years.

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

30. LONG TERM BORROWINGS - GROUP (Continued)

(viii) A corporate bond at a nominal value of Rwanda Francs 1 billion through the Rwanda over the counter market in January 2008. The bond has a maturity period of 10 Years and is unsecured.

(ix) A loan of Rwf 1,382,764,094 from the National Bank of Rwanda as a result of a swap transaction. The loan accrues interest at a fixed rate of 8% and will mature on 27 November 2017.

(x) EUR 3,000,000 facility granted on 21 December 2006 by European Investment Bank repayable semi-annually over nine years.

(xi) EUR 1,573,000 facility granted in October 2014 by European Investment Bank repayable over seven years.

The Group's average effective interest rate on long term borrowings was 3.41% (2014 – 3.64%).

Loan movement schedule

	2015 KShs'000	2014 KShs'000
Group		
At 1 January	10,697,172	6,880,088
Funds received	154,242	4,216,508
Repayments of principal and interest	(2,787,704)	(723,562)
Interest payable	83,014	17,967
Translation differences	1,428,731	306,171
At 31 December	**9,575,455**	**10,697,172**

31. SUBORDINATED DEBT

	2015 KShs'000	2014 KShs'000
Group		
Less than one year	63,685	320,395
One to five years	4,010,422	3,655,000
Over five years	420,977	-
	4,495,084	**3,975,395**

Subordinated debt comprises:

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

USD 10 Million granted in January 2015 by DEG of which USD 8 Million was received in January 2015. The effective rate on the debt 5.74%.

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

The Group's average effective interest rate on subordinated debt was 10.87% (2014 – 12.49%).

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

32. SHARE CAPITAL AND RESERVES

(a) Share capital and share premium - Company

	2015 KShs'000	2014 KShs'000
Authorised:		
500,000,000 ordinary shares of KShs 1 each	**500,000**	**500,000**
Issued and fully paid:		
392,362,039 ordinary shares of KShs 1 each	**392,362**	**392,362**

Movement of share capital and premium

2015	Number of shares KShs'000	Share capital KShs'000	Share premium KShs'000	Total KShs'000
31 December 2015	**392,362**	**392,362**	**17,331,510**	**17,723,872**
2014				
31 December 2014	**392,362**	**392,362**	**17,331,510**	**17,723,872**

(b) Share premium

Share premium is the amount which the company raises in excess of the par value/nominal value of the shares.

(c) Revaluation reserve

The revaluation reserve arises on revaluation of buildings. When revalued property is disposed, the portion of the revaluation reserve that relates to that asset is transferred to retained earnings.

(d) Available-for-sale reserve

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

(e) Translation reserve

The translation reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations namely the joint venture in Bank One Limited, Mauritius, (ii) I&M Bank (T) Limited, Tanzania and (iii) I&M Bank (Rwanda) Limited, Rwanda into the functional currency of the Parent company.

(f) Statutory credit risk statutory reserve

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

(g) Defined benefit reserve

Bank one Limited operates a defined benefit scheme. The net obligation is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The calculation is performed annually by a qualified actuary using the projected unit credit method. Actuarial gains or losses arising from the calculation are recognised in other comprehensive income.

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

33. NOTES TO THE STATEMENT OF CASH FLOWS - GROUP

	2015 KShs'000	2014 KShs'000
(a) Reconciliation of profit before tax to cash flows generated from / (used in) operating activities		
Profit before income tax	10,167,661	8,229,894
Adjustments for:		
Depreciation	344,320	312,507
Amortisation of intangible asset	150,991	100,674
Amortisation of prepaid operating lease rentals	5,708	5,708
Loss on sale of property and equipment	(6,063)	(10,584)
Property and equipment items expensed	-	14,988
Write back to profit or loss - intangible assets	(10,064)	-
Write off to profit or loss - property and equipment	8,039	-
Profit from Joint Venture	(323,463)	(167,604)
Exchange reserves	(21,137)	301,501
	10,315,992	**8,787,084**
(Increase)/decrease in operating assets		
Movement in loans and advances to customers	(15,332,449)	(20,608,665)
Cash and balances with Central Banks:		
– Cash Reserve Ratio (CRR)	63,487	(1,255,250)
Loans and advance to banks	(350,668)	-
Investment securities	(1,608,245)	(9,991,460)
Other assets	(53,362)	(461,836)
	(17,281,237)	**(32,317,211)**
Increase / (decrease) in operating liabilities		
Customer deposits	18,779,398	17,055,712
Deposits from banks	2,334,032	80,745
Long term borrowing	(1,121,717)	3,054,384
Other liabilities	588,680	378,571
	20,580,393	**20,569,412**
Cash flows generated from / (used in) operating activities	**13,615,148**	**(2,960,715)**
Tax paid	(2,769,845)	(3,119,465)
Net cash flows generated from / (used in) operating activities	**10,845,303**	**(6,080,180)**

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

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

(b) Analysis of cash and cash equivalents

	2015 KShs'000	2014 KShs'000	Change during the year KShs'000
Cash and balances with central banks – excluding CRR* (Note 16)	3,003,391	4,266,284	(1,262,893)
Items in the course of collection (Note 17)	527,596	567,941	(40,345)
Placement with financial institutions (Note 18)	4,631,109	4,937,238	(306,129)
Investment securities (Note 20)	1,772,676	2,447,378	(674,702)
Deposits from banks (Note 27)	(5,556,698)	(17,124,885)	11,568,187
	4,378,074	**(4,906,044)**	**9,284,118**

*Cash Reserve Ratio

34. OFF BALANCE SHEET CONTINGENT LIABILITIES AND COMMITMENTS - GROUP

(a) Legal proceedings

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

(b) Contractual off-balance sheet financial liabilities

In the ordinary course of business, banking entities in the Group conduct business involving guarantees, acceptances and letters of credit. These facilities are offset by corresponding obligations of third parties. At the period end, the contingent liabilities were as follows:

	2015 KShs'000	2014 KShs'000
Contingencies related to:		
Letters of credit	7,160,794	12,083,881
Guarantees	15,492,062	10,558,794
Acceptances	10,552,924	-
	33,205,780	**22,642,675**
Commitments related to:		
Outstanding spot/forward contracts	19,246,757	21,285,664
	52,452,537	**43,928,339**

(c) Nature of contingent liabilities

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

Letters of Credit commit a bank to make payment to third parties, on production of documents, which are subsequently reimbursed by customers.

An *Acceptance* is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group expects most Acceptances to be presented, and reimbursement by the customer is almost immediate.

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

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

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

34. OFF BALANCE SHEET CONTINGENT LIABILITIES AND COMMITMENTS - GROUP (Continued)

(d) Other contingent liabilities

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

35. ASSETS PLEDGED AS SECURITY - GROUP

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

36. RELATED PARTY TRANSACTIONS

In the normal course of business, the 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 at market interest rates. There were no provisions held towards impairment of any of the advances to related parties.

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

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

(b) Transactions with related companies

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

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

	2015 KShs'000	2014 KShs'000
(ii) Deposits from related companies	**617,869**	**609,577**

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

	2015 KShs'000	2014 KShs'000
(iii) Loans and advances due from subsidiarie and joint venture	**142,660**	**61,850**

Interest income on balances due from subsidiaries and joint venture was KShs 26,280,000 (2014 – KShs 9,817,000).

	2015 KShs'000	2014 KShs'000
(iv) Deposits from subsidiaries and joint venture	**11,715**	**12,917**

Interest expense on deposits from subsidiary and joint venture was KShs Nil (2014 –Nil).

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

36. RELATED PARTY TRANSACTIONS (Continued)

	2015 KShs'000	2014 KShs'000
(c) Transactions with employees		
Staff loans	**868,624**	**454,452**

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

37. CAPITAL COMMITMENTS

	2015 KShs'000	2014 KShs'000
Consolidated	**909,768**	**1,150,000**

Capital commitments relate to planned new branches and a new head office building.

38. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

(a) Lessee

The Group leases bank premises under operating leases. The leases typically 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. Future minimum lease payments under these operating leases are as follows:

	2015 KShs'000	2014 KShs'000
Less than one year	328,424	162,801
One to five years	1,223,689	614,266
Over five years	408,122	8,820
	1,960,235	**785,887**

(b) Lessor

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

	2015 KShs'000	2014 KShs'000
Less than one year	279,626	83,213
One to five years	1,435,489	519,581
Over five years	368,826	-
	2,083,941	**602,794**

39. EVENTS AFTER THE REPORTING DATE

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

I&M KENYA CSR

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

EDUCATION

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

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

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

Strathmore University

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

Palmhouse Foundation

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

Amara Charitable Trust

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

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

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

I&M CSR NEWS (Continued)

I&M KENYA CSR (Continued)

Afya Elimu Helb Fund

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

HEALTH

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

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

Annual Blood Donation Drive

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

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

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

I&M Bank Medical Camp

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

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

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

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

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

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

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

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

ENVIRONMENT

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

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

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

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

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

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

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

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

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

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

COMMUNITY SERVICE

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

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

Kamiti Youth Correctional Centre

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

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

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

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

Muthurwa Primary School

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

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

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

Seeds Orphanage Children's Home

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

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

Jogoo Children's Home

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

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

New Life Home Trust

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

St. Martin's Kibagare

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

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

COMMUNITY SERVICE

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

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

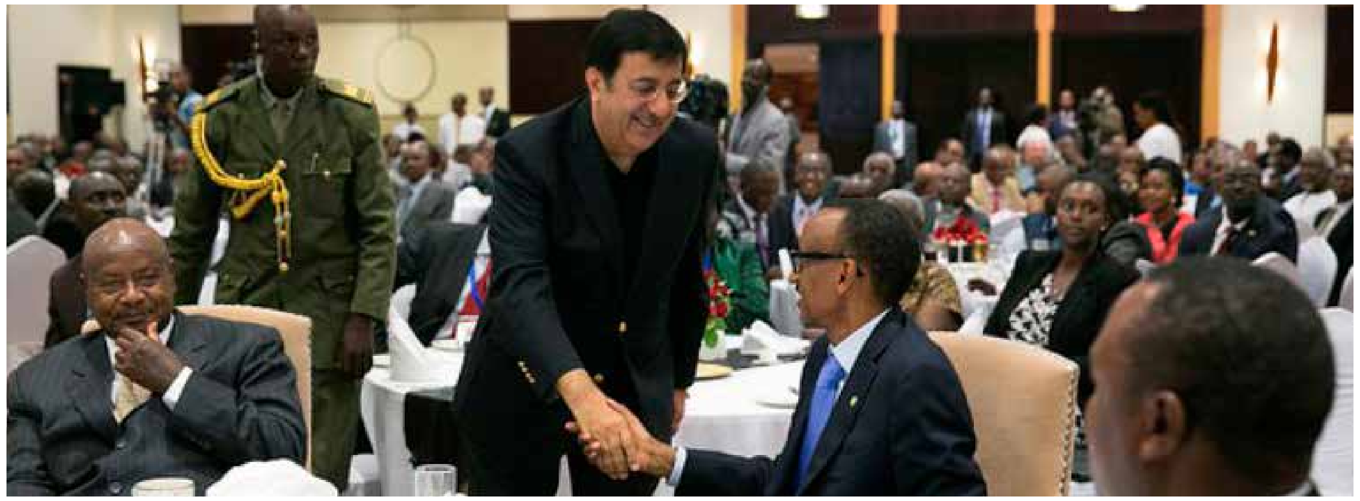
I&M Bank staff also participated in the 21st Kwibuka commemoration event. During the event, the Bank reiterated its commitment to supporting families of the victims of genocide, including those who were formerly employed at I&M Bank. The Bank provides internship opportunities for some of the victims,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

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

EDUCATION AND CAPACITY BUILDING

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

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



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

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

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

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

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

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

HEALTH

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

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

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

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

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

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

COMMUNITY SERVICE

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

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

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

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

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

BANK ONE MAURITIUS CSR

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

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

The various activities conducted under the programme included:

We CARE for Vacoas

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

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

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

We CARE for SOS Children's Villages for Bambous

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

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

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

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

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YOUR REFERENCE:

OUR REFERENCE: KNK/VNM/HO/139/1

DATE: 15 April 2016

I&M Holdings Limited

Notice of the Annual General Meeting

Notice is hereby given that the Sixty Fourth Annual General Meeting of the shareholders of I& M Holdings Limited will be held at The Sarova Panafric Hotel, Nairobi, on Wednesday 18th May, 2016 at 10.00a.m for the following purposes.

A: ORDINARY BUSINESS

1. To receive the Group's audited financial statements for the year ended 31st December, 2015 together with the Chairman's, Directors' and Auditors' reports thereon.

2. To approve the Directors' remuneration as provided in the accounts for the year ended 31st December, 2015.

3. To approve payment of a dividend of KShs 3.50 per share amounting to KShs 1,373,267,137 for the year ended 31st December 2015. A dividend of Kshs 2.90 per share amounting to KShs 1,137,849,913 in respect of the year ended 31st December 2014 was paid on the 26th May 2015.

   The dividend will be paid to the shareholders in the Company's Register of Members at the close of business on 4th May 2016 and will be paid on or around 23rd May 2016.

4. To re-elect Directors:

(i) In accordance with Article No. 112 of the Company's Articles of Association, Sarit S Raja Shah, retires by rotation and being eligible offers himself for re-election.

(ii) Mr. Sachit S Raja Shah who was appointed as a director of the Company with effect from 10th July 2015, retires in accordance with the Company's Articles of Association and being eligible, offers himself for re-election.

(iii) Mr. Oliver M Fowler who was appointed as a director of the Company with effect from 21st August 2015, retires in accordance with the Company's Articles of Association and being eligible, offers himself for re-election.

(iv) Mr. Damien Braud who was appointed as a director of the Company with effect from 28th October 2015, retires in accordance with the Company's Articles of Association and being eligible, offers himself for re-election.

(v) Dr. Nyambura Koigi who was appointed as a director of the Company with effect from 28th October 2015, retires in accordance with the Company's Articles of Association and being eligible, offers herself for re-election.

5. To note the resignation of Mr. Guèdi Aïnachè and Mr. Michael Karanja as directors of the Company with effect from 31st July 2015 and 30th October 2015 respectively.

6. To note that the auditors Messrs. KPMG Kenya Certified Public Accountants (K) having expressed their willingness, continue in office in accordance with section 159 (2) of the Companies Act Cap. 486 and to authorize the Directors to fix their remuneration for the ensuing financial year.

7. To transact any other business which may be properly transacted at an Annual General Meeting

B: SPECIAL BUSINESS

1. To pass the following resolution as an Ordinary Resolution;

The Acquisition of Shares in Burbidge Capital Limited

THAT subject to and conditional upon the receipt of regulatory approvals being received from Central Bank of Kenya pursuant to the provisions of the Banking Act (Cap 488), the acquisition by the Company of 34,477 ordinary shares (representing 65% of the issued share capital) of Burbidge Capital Limited, in accordance to the terms and conditions set out in the Share Purchase Agreement dated 15th October 2015 be and is hereby approved. Details of this transaction have been provided in a circular attached to this notice.

2. To pass the following resolution as a Special Resolution;

Amendment to the Articles of Association

THAT, the Articles of Association of the Company be amended so as to insert new clauses in substitution for and to the exclusion of the existing clauses as outlined in the note attached herewith. The change in Articles is approved subject to and to take effect from completion of the share purchase agreement executed on 14th April 2016 between CDC Group plc on one hand as purchaser and DEG and Proparco on the other hand as sellers.

BY ORDER OF THE BOARD

Virginia Ndunge
Company Secretary
P.O Box 40111 -00100 GPO
Nairobi

15th April, 2016

Note:
A member entitled to attend and vote is entitled to appoint a proxy to attend and vote on his/her behalf and such a proxy need not be a member of the Company. To be valid, proxy forms must be deposited at the Registered Office of the Company not less than 48 hours before the appointed time of the meeting.

I&M HOLDINGS IMITED

TO: The Company Secretary,
P.O. Box 40111-00100 GPO

NAIROBI

PROXY FORM

I/We …………………………………………………………………………………………

of …………………………………………………………………………………………….

being a member/members of the above Company,…………………………………….

hereby appoint ………………………………………………………………………………

of …………………………………………………………………………………………..

or failing him ……………………………………………………………………………..

of …………………………………………………………………………………………..

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on **18th May, 2016** and at any adjournment thereof.

Signed/Sealed this …………. Day of ……………………………..…………..…., 2016

……………………………………

……………………………………..

NOTE:

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote in his stead and a proxy need not be a member of the Company.

2. In case of a member being a limited Company this proxy form should be completed under its common seal or under the hand of an officer or attorney duly authorised in writing.

3. Proxies must be in the hands of the Secretary not later than 48 hours before the meeting.


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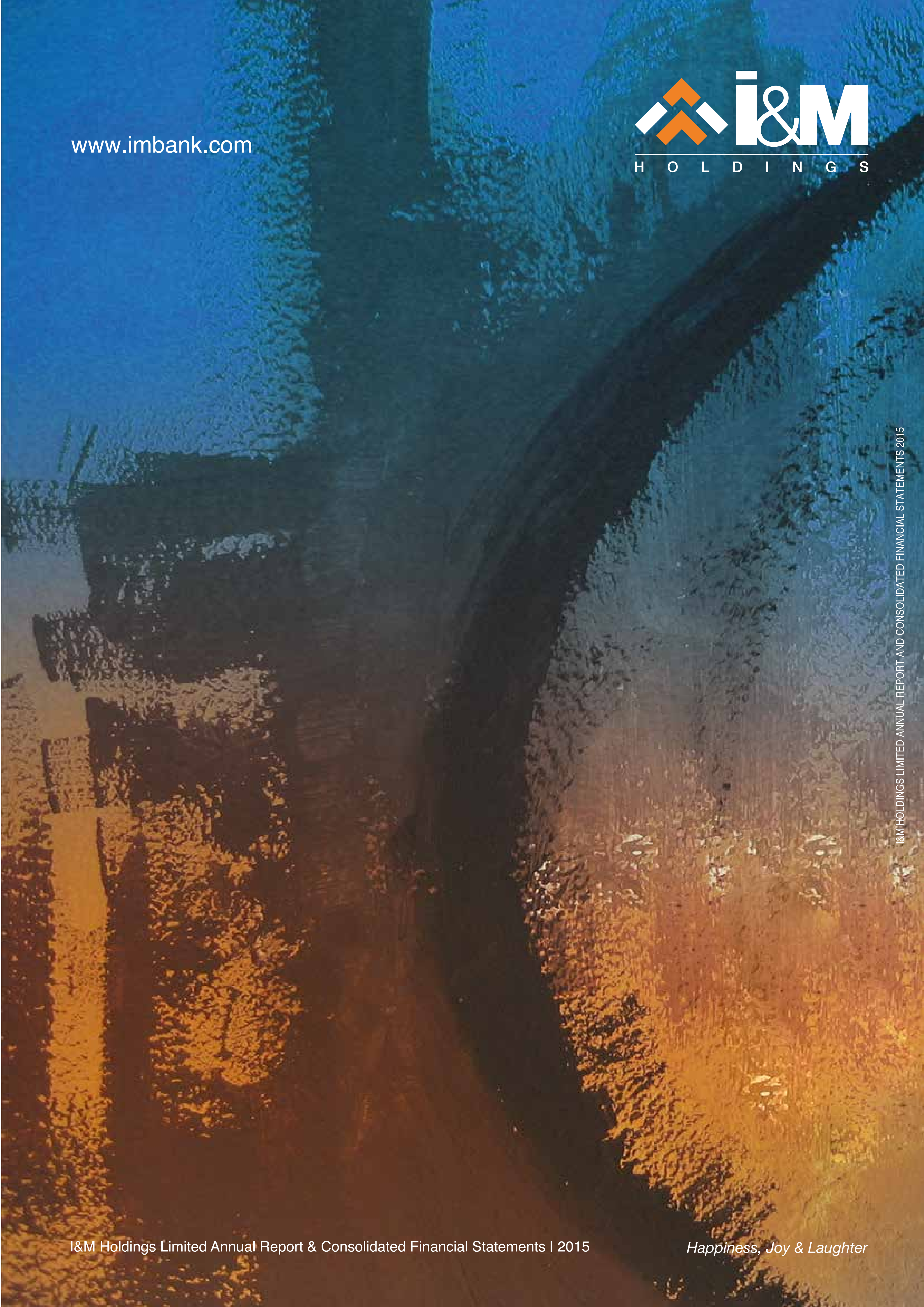
Happiness, Joy & Laughter



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I&M
HOLDINGS

I&M HOLDINGS LIMITED ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 2015

I&M Holdings Limited Annual Report & Consolidated Financial Statements I 2015

Happiness, Joy & Laughter