I&M HOLDINGS

I&M HOLDINGS LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS | 2017

Transforming Tomorrow

iMara is a Swahili word for stable. This is the foundation of our existence as a leading financial institution and also the basis of our strategic vision going forward - which is: To become a banking powerhouse in East Africa for medium to large businesses and premium clients.

With this in mind, we entitled our strategic vision accordingly, and the name iMara came to birth.

It is our promise to achieve this vision, so each of our stakeholders can progress on this path towards success.

Made up of our iconic initials 'iM', iMara is infused in our DNA.

Transforming Tomorrow

FROM LEFT:
Nyambura Koigi | Daniel Ndonye – Chairman | Sarit S Raja Shah | SBR Shah

FROM RIGHT:
Sachit S Raja Shah | Oliver Fowler | Michael Turner | Bilha Wanjiru Mwangi – Company Secretary

BOARD OF DIRECTORS

Daniel Ndonye	Chairman
S B R Shah, MBS	
Sarit S Raja Shah	
Michael Turner*	
Sachit S Raja Shah	
Oliver Fowler	
Nyambura Koigi	

**British*

COMPANY SECRETARY

Bilha Wanjiru Mwangi (CPS Kenya) (Appointed on 20 December 2017)
Zenith Secretarial Services
1st Floor, Acacia Suite
Riverside Green, Riverside Drive
P.O. Box 19500,
00100 Nairobi GPO

AUDITORS

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
Waiyaki Way
P.O. Box 40621,
00100 Nairobi GPO

REGISTERED OFFICE

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

BANKERS

I&M Bank LIMITED
P.O. Box 30238,
00100 Nairobi GPO

LEGAL ADVISORS

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

COMPANY REGISTRARS

Central Depository and Settlement Corporation
Nation Center
10th Floor, Kimathi Street, Nairobi
P.O. Box 3464,
00100 Nairobi GPO

BANKING ENTITIES REGISTERED OFFICES

I&M BANK LIMITED

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2nd Ngong Avenue
P.O. Box 30238,
00100 Nairobi GPO
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

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

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

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

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

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

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

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

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

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

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

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

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

CASH DEPOSIT MACHINES UNVEILED

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

IMPROVED FOREX RATES IN THE OFFING

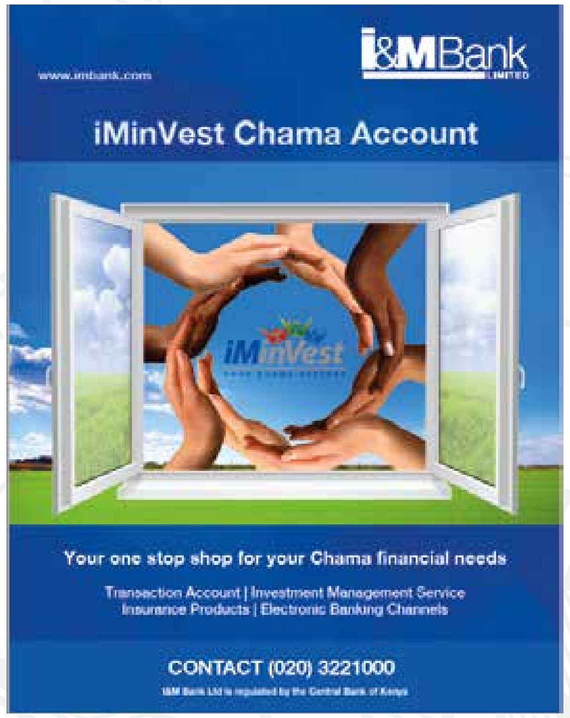
In a bid to grow I&M Bank Kenya's Non-Funded Income portfolio, the Bank in 2017 posted fine rates of exchange on the I&M Bank mobile app, as a way to incentivize retail and personal banking customers to transact foreign exchange via the mobile phone. This initiative positioned I&M Bank as having the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

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

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

IMINVEST ACCOUNT FOR CHAMAS LAUNCHED

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



I&M BANCASSURANCE LAUNCHES CHILD EDUCATION POLICY

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

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

INSURANCE PREMIUM FINANCING FOR MEDICAL INSURANCE UNVEILED

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

END TO END RTGS PROCESSING UNVEILED FOR IMPROVED OPERATIONAL EFFICIENCIES

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

I&M BANK, KENYA FETED FOR EXCELLENCE

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

I&M BANK, KENYA EXTENDS FOOTPRINT

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

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

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

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

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

A section of customers at the Bank One cocktail

GIRO CUSTOMERS HOSTED AT WELCOME COCKTAIL

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

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

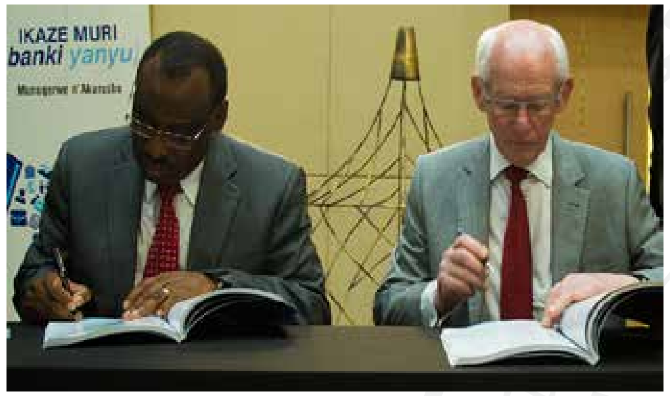
CONSTRUCTION OF NEW I&M HEAD OFFICE BUILDING COMMENCES

I&M Bank, Rwanda commenced the construction of its new Head Office in January 2017 and is expected to have delivered this by 2019. On completion, the building will create a modern working environment for the Bank's employees and various offices will also be let out to different companies in a bid to diversify the Bank's revenue streams.

The new I&M Bank Rwanda Head Office

OFFER FOR SALE

On February 14, 2017 as part of its ongoing divestiture program, the Government of Rwanda rolled out an Initial Public Offering for the sale of 99,030,400 shares, which represents 19.81% of the issued share capital of I&M Bank, Rwanda Ltd. The IPO opened at Rwf90 with a minimum share purchase of 1,000. The venture is in line with the Rwandan government's policy of divesting from public enterprises, and is expected to contribute towards the development of the Rwanda capital markets. The IPO was very successful where in only 3 weeks, the Offer For Sale (OFS) got a 209% over-subscription. The Bank is now listed on the Rwanda Stock Exchange where the share value has remained relatively stable throughout the year.



I&M Bank, Rwanda Board Chairman Bill Irwin (right) signs IPO documents with Finance Minister Claver Gatete (Left)

I&M BANK, RWANDA UPGRADES ITS CORE BANKING SYSTEM

In the third quarter of 2018, I&M Bank Rwanda started the migration of the core banking system from Delta to Finacle 10, as part of a strategic effort by the I&M Group to digitize its business with an objective of increasing operational efficiencies for the Bank. Test cases and scenarios are currently ongoing and the project is expected to last 18 months and projected to go live in August 2018. Through this upgrade, I&M Bank Rwanda customers will now have improved customer experiences as they interact with our different banking solutions.

BRD OFFERS I&M BANK A CREDIT LINE TO FINANCE EXPORTS ORIENTED SMES

The Development Bank of Rwanda (BRD) signed an agreement with I&M Bank Rwanda to extend a €6 million facility to finance export-oriented SME's under the Export Growth Fund. The agreement was signed on 30th March 2017 by BRD's CEO, Mr. Eric Rutabana and I&M Bank Rwanda's Managing Director, Robin C. Bairstow.

The credit line is part of a Financing and Project Agreement between BRD and the German Development Bank (KfW), to provide loans to financial institutions for on-lending to export-oriented SME's as well as capacity building to support the implementation of the project.

I&M Bank, Rwanda MD, Robin Bairstow (Left) signing the agreement together with BRD CEO, Eric Rutabana (Right)

BRANCH UPDATE

In early 2018, I&M Bank Rwanda relocated its Kacyiru Branch to a modern and spacious office at Kigali Heights. The branch is now the home of Select Banking which is a service that offers a targeted customer segment a highly personalized approach to banking. The Bank also undertook a revamp of branch operations and as part of the exercise, added customer service representatives and business advisors in each branch to make customers' banking experience more outstanding and hospitable.

Rwandan His Excellency, President Paul Kagame visits the Kigali Heights Branch at the inauguration ceremony of the building

CUSTOMER OUTREACH

In the month of October from the 2nd to 6th, I&M Bank Rwanda joined the whole world in celebrating the customer service week. Banking halls were decorated, staff members had special dress codes throughout the week, snacks and refreshments were served for all customers and customer visits were conducted by different Senior Managers throughout the week.

To reach all categories of their customers, I&M Bank, Rwanda Board of Directors also organized a dinner for top corporate and business customers that took place on the 29th November 2017 at Kigali Serena Hotel. Customers got the opportunity to interact with the Bank's Board Members and Senior Managers.

The Managing Director, Robin Bairstow conducted branch visits and also visited different customers' businesses across the country. He hosted top customer luncheons and dinners to thank them for their continued partnership. Customers also got a chance to give feedback to the Managing Director on how the Bank can make their experience more delightful.

I&M Bank , Rwanda Managing Director, Robin Bairstow serving cupcakes to Kigali Branch customers during the customer service week

STRATEGY DEVELOPMENT

In third quarter of 2018, I&M Bank, Rwanda carried out a review of its 5 year strategy. The new Corporate Strategy will help the Bank lay more emphasis on sustainable growth through leveraging on technology to deliver innovative banking solutions for our customers, a strong employee base and customer focused business development.

I&M Bank, Rwanda Board of Directors and Senior Managers during a Strategy Meeting

KIRA CAMPAIGN 2017

In September 2017, I&M Bank, Rwanda launched the 2nd Edition of the KIRA Account Opening campaign themed on "BIBA USARURE". The campaign's objective was to extend financial inclusion to different segments of society and provide access to reliable financial services. The bank gained more than 5700 new relationships.

In addition to this, 3 new products were launched during the campaign including: Malaika women's account, FuturePro student's account, Young Savers, and a new segment was added to the current account which is called Young Professionals. The campaign complemented the Bank's efforts to provide affordable banking for those previously unbanked where we were able to get 5700 new relationships.

I&M Bank, Rwanda MD, Robin Bairstow presents dummy cheque to one of the winners of the 5,000,000frw during the Kira Campaign.

CORPORATE GOVERNANCE

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

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

STRATEGIC HUMAN RESOURCES INITIATIVES

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

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

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

RECURRING DEPOSIT SCHEME

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

BRANCH RELOCATION

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

I&M RICHES CAMPAIGN

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

I&M Bank (T) Limited Hosts Golf Days

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

BANK ONE LAUNCHES NEW WEBSITE

Bank One launched its new website, which followed after a major revamp of its user interface, layout and design. The new website looks to improve user-friendliness coupled with an overall optimization of the navigation structure.

CHEMIN GRENIER BRANCH RELOCATION

Bank One rebranded in 2016 with an objective of positioning its growth and evolution journey. The rebrand was effected in all branches where the Bank looked to maintain uniform brand consistency countrywide. In July last year, Bank One relocated its Chemin Grenier branch to a fairly new location. Its look and feel is now consistent to all other branches and also now has modern facilities to improve customers' user experience as they interact with the Bank's products and services.

The new branch exterior, interior and ATM look

BANK ONE'S VISION 2020 STRATEGY UNVEILED

Bank One unveiled its vision for 2020 to 350 engaged staff members on 26th October 2017 at the Trianon Convention Centre. The event marked the beginning of a new journey for Bank One as it sets out to become 'the ONE bank of choice' in Mauritius and the region. Employees gathered to reaffirm their commitment towards the vision, mission and values and to better understand their role in achieving the objectives for the Bank by 2020.

A section of the Management Team during the launch of the Bank One Vision 2020 Strategy

NEW INTRANET PLATFORM LAUNCHED

In November 2017, Bank One launched One Pulse, a new platform for employees to engage and share ideas on how to execute for our different stakeholders through seamless collaboration between teams and across the organization.

CUSTOMER REFERRAL PROGRAMME ROLLED OUT

Bank One, in November 2017 launched a Customer Referral Programme aimed at acquiring new customers via referrals from existing satisfied customers. For each successful referral for personal loans or home loans, the referee obtains a cash reward credited on the Kestrel prepaid card.

CASH DISCOUNT PROGRAMME MOOTED

In November 2017, Bank One partnered with Visa to launch a card discount programme designed to build and strengthen customer loyalty with regards to payment card services. Under this programme, customers would benefit from discounts at various retail merchant establishments that Bank One has partnerships with.

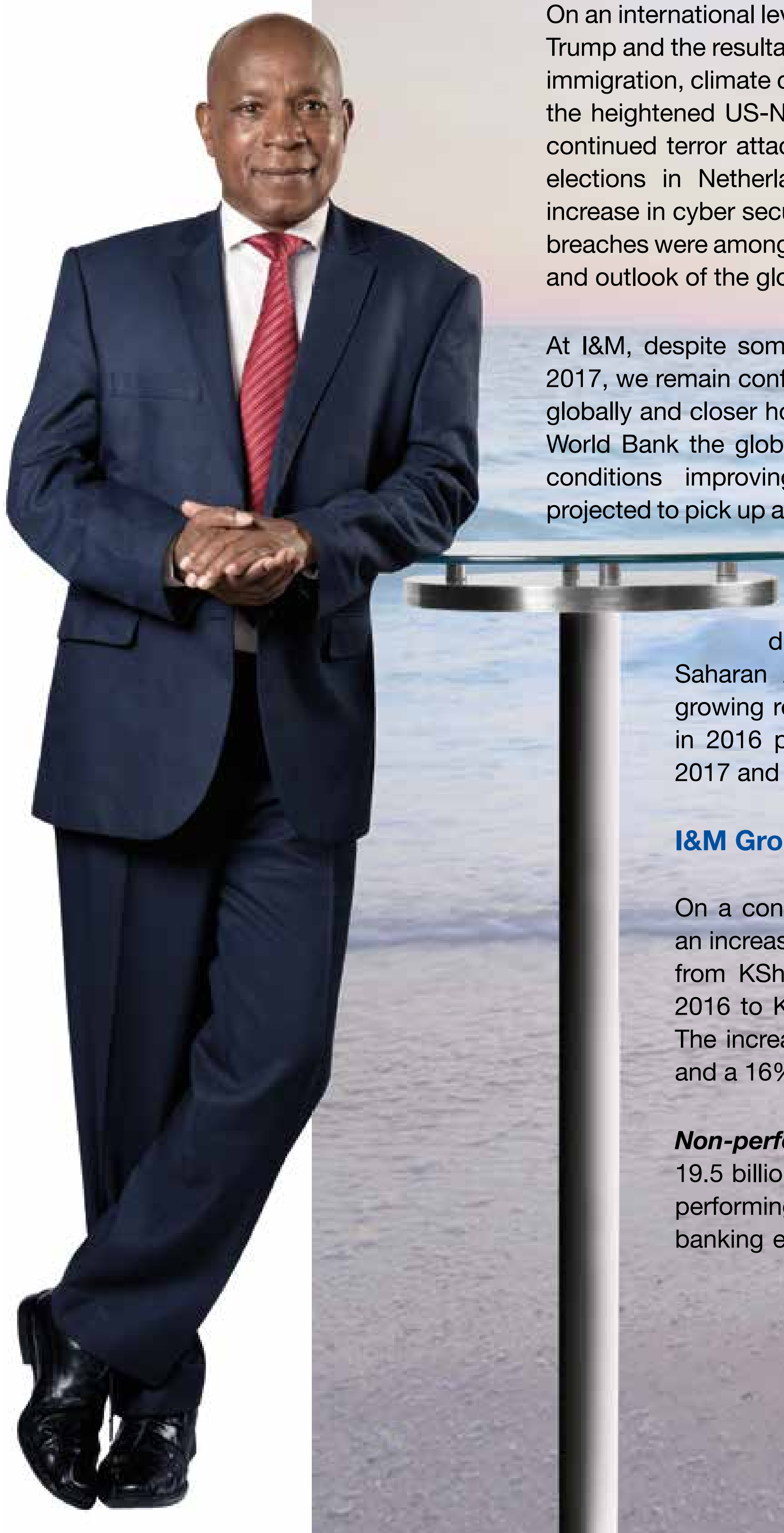
E-COMMERCE ACQUISITION

Benchmarking on Innovation as a key pillar of Bank One's business model, the organization launched a new e-commerce payment service in January 2018, through a partnership with Union Pay International (UPI), commonly known as China Union Pay (CUP), to allow its e-commerce merchants to accept payments from UPI Card holders for goods & services sold online.

UPI cards, as a means of payments, has a significant presence in the land of economic giants and emerging economies like China, Hong Kong, Singapore, Malaysia, Indonesia Vietnam, Philippines and even Australia & New Zealand and also rivals with established card schemes like Visa and MasterCard.

Bank One's partnership with UPI shall open the doors for its e-commerce merchants in maximising opportunities for selling online in these countries while extending Bank One's footprint across Asia. Once the UPI ecommerce acquiring project is set up & established, Bank One will launch further payments ventures including plans to start issuing Union Pay pre-paid cards for both retail and corporate customers.

CHAIRMAN'S STATEMENT



It is with great optimism and hopes for a brighter and more promising future that I present to you the annual report for I&M Group.

2017 has undoubtedly been a challenging year for most companies operating in Kenya with the political uncertainty and prolonged electioneering period amidst the drought, burgeoning debt levels, and rising fiscal and inflation deficit levels.

On an international level, events such as inauguration of Donald Trump and the resultant change in the United States' free trade, immigration, climate change and nuclear disarmament policies, the heightened US-North Korea geo-political tensions, Brexit, continued terror attacks, increased unrest in the Middle East, elections in Netherlands, France and Germany, a marked increase in cyber security crimes with multiple high profile data breaches were amongst the key influencers for the performance and outlook of the global economy.

At I&M, despite some of the gloom and doom witnessed in 2017, we remain confident and optimistic of a turnaround both globally and closer home. According to a recent report by the World Bank the global economic recovery will see economic conditions improving in Sub-Saharan Africa. Activity is projected to pick up across the region over the forecast horizon, helped by firming commodity prices and gradually strengthening domestic demand. Further, within the broader Sub-Saharan Africa, East Africa remains the fastest growing region, with an estimated growth of 5.1% in 2016 projected to grow to 5.4% and 5.8% in 2017 and 2018 respectively.

I&M Group

On a consolidated basis, your Company reported an increase of 14% in Total Assets which increased from KShs 211 billion reported for financial year 2016 to KShs 240 billion as at the close of 2017. The increase followed a 14% growth in loan book and a 16% increase in customer deposits.

Non-performing loan book increased to KShs 19.5 billion in the wake of a similar rise in the non-performing loans in the Kenyan and Tanzanian banking entities. Your Board has however assured itself that this is a reflection of the respective countries' economic headwinds and credit contraction that lasted throughout the year rather than a systemic weakness in the Banks' portfolio. In Kenya particularly, a few other factors have contributed to this outcome namely – the prolonged electioneering period resulting in economic lull, and the aggressive asset classification and provisioning policy followed by the Bank following implementation of an early warning system to detect future defaults and guide on preventive actions and begin remediation at an early stage.

On the positive side, following an ***IFRS 9 impact assessment*** for each of the banking subsidiaries across the Group, no significant changes in provisioning levels as compared to the existing regulatory provisioning levels are anticipated going forward. Impact of the change under IFRS 9 as compared to the previous reporting standard IAS 39 have been separately disclosed in the Annual report.

It is heartening to note the ***successful integration*** of the business of the erstwhile Giro Commercial Bank Limited within I&M Bank. This was not an easy task by any standard and I congratulate the Bank's leadership in steering this process with minimal disruptions and loss of business.

As part of its revised Strategy, I&M Group also revamped and refined its *Group Operating Model* in 2017 aimed at exploiting synergies from unlocking additional revenues and cost savings through greater integration, improved coordination and control, enhancing risk management across the group, driving talent mobility and sharing of best practices. This is steadily being ingrained though the senior leadership and the various group functionaries.

In 2017, the Group embarked on an ambitious project to upgrade its core banking system to Finacle version 10 across all the banking entities in Kenya, Tanzania, Rwanda, and Mauritius. This is expected to be completed in 2018 and will vastly enhance user experience as customers continue to interact with our various products and services.

The Group remains committed to upholding the highest level of integrity, transparency and accountability across all levels. In this spirit and continuation of this commitment, I am happy to note the Group's compliance with the Code of Corporate Governance issued by the Capital Markets Authority. We also subjected ourselves to an independent Governance Audit, results of which are disclosed under the Statement of Corporate Governance.

I&M Bank LIMITED, Kenya

The Kenyan economy is expected to rebound to its 2016 levels with a targeted GDP growth rate of 5.8% on the back of completion of ongoing infrastructure projects, the resolution of slow credit growth and the strengthening of the global economy and tourism. It is also reassuring to note that Kenya met some of its Millennium Development Goals (MDGs) targets such as reduced child mortality, near universal primary school enrolment, and narrowed gender gaps in education. Interventions and increased spending on health and education are paying dividends and remain key investment sectors. All in all, Kenya's youthful and growing population, its dynamic private sector, highly skilled workforce and continuous improvements in its physical and digital infrastructure give it the potential to be one of Africa's great success stories and we look forward to playing our role in this journey.

I am proud to report that I&M Bank made immense headways in 2017 with the entrenchment of its new 'iMara' strategy that underpins the Bank's aspiration - ***"To become a banking powerhouse in East Africa for medium to large businesses and premium clients."***

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

During the year, customer deposits increased by 14% to close at KShs 132 billion while loans and advances portfolio grew by 13% to reach KShs 121 billion. Profitability closed at KShs 5.49 billion, being a decrease of 13.5%

compared to prior year attributed to full year impact of interest capping and a significant rise in provisions for bad and doubtful debts against the challenge of containing the rising non-performing loans experienced over the year given the tough economic and operating environment.

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

Continuing on its journey of innovation and customer excellence, the Bank launched its I&M WebPay, an e-commerce service that provides its customers an efficient way to accept payments from their customers who buy products or services, through the internet using their Visa or MasterCard payment cards. The Bank was also recognized as the winner in the Visa E-Commerce Acquiring Award for achieving the highest volumes in E-Commerce in 2017.

The Bank also extended its footprint to 58 ATMs and 42 fully fledged branches with the formal opening of Meru and Spring Valley branches.

Benchmarking on the iMara strategy, I&M Bank continued to expand its product portfolio with an objective of providing a one stop shop for all financial requirements and a more efficient way to help our customers better engage with our products and services. These include the Pesa Link, iMinvest Product, the Business Connect, launch of the German desk and introduction of cash deposit machines, and some more under the Bancassurance division.

Moving forward, the Bank endeavours to build a stronger brand presence in the region within our target segments comprising of Premium, Personal (Middle Income and Young Professionals) and Business customers.

I&M Bank (T) Limited, Tanzania

The Tanzanian banking sector exhibited significant resilience despite the economic and regulatory turbulence witnessed during the year. Against the background of protracted credit contraction, reduced profitability and a marked increase in average non-performing loan ratio in the industry, I&M Bank (T) Limited reported a growth of 5.3% in total assets to close at KShs 20.5 billion (TShs 443.5 billion). This was supported by a 12.3% growth in customer deposits and a 4.7% growth in the loan book. While profit before credit impairment grew by 10.1% to reach KShs 526 million (TShs 11.3 billion) as compared to KShs 477 million (TShs 10.3 billion) in the previous year, the profit after tax was lower by 10.6% achieved in 2016 on account of significantly higher loan loss provisions.

The Bank developed a comprehensive strategy during the year focused on enhancement of user experience by reshaping the interactions through the digitization of various systems and processes and introduction of innovative products and technological solutions. A new account branded "Recurring Deposits" was introduced to encourage a consistent savings culture in the community. To cater to the growing needs the Bank also introduced an internationally accepted VISA debit card issued for USD savings accounts which can be used across the global VISA network of ATMs and POS machines. The Bank also introduced an Insurance Premium Financing product to facilitate payment of premiums by customers over a convenient tenor.

In tune with the philosophy of maintaining high standards of Corporate Governance, the Bank further strengthened the Board with the appointment of Mr Bharat Karsandas Ruparelia, as an independent director who brings with him a wealth of wisdom in view of his strong background in entrepreneurship and setting up various businesses. In addition the membership of various Board Committees was also realigned to enhance the level of membership of 'independent' directors in the various committees.

I&M Bank (Rwanda) Limited, Rwanda

The Bank recorded significant growth in its business levels attributed to the increased focus on its target markets including the development sector. With a reported profit before tax of Kshs 1.2 billion (Rwf 9.85 billion) being an increase of 17%, the return on average equity stood at 19.9% far above the industry average of 6.2%. Its asset base expanded by 26% to KShs 31.8 billion (Rwf 260 billion). Loans and Advances increased by 32% to reach KShs 17.9 billion (Rwf 146.5 billion). This was backed by an almost matched growth of 32% in customer deposits which closed at KShs 21.7 billion (Rwf 177 billion). At the same time, the Bank managed to maintain a low NPL ratio of 2.49% due to improvements made in its credit risk assessment and the implementation of a more effective recoveries strategy.

Following valuable insights and feedback received from its customers, the Bank expanded its product offering under Retail Banking with the roll out of three new products including a savings product for minors – I&M Young Savers, a FuturePro students' account and a new Malaika account for women. The annual account opening campaign – KIRA, supported this venture and was resoundingly successful with over 10,000 new customer relationships added.

In 2017, the Bank embarked on a new 5 year strategic plan based on the 4 pillars of revenue diversification, operational excellence, digital channel optimization and business growth while continuing to invest in its people. 20 senior managers attended a six-month Leadership Development Program with Strathmore Business School while more than 85% of its staff benefited from a job related technical training.

During the year, and in compliance with the local regulations, the Bank commenced the development of its new headquarters. Work on this iconic two-tower complex is progressing well with completion scheduled for quarter 3 2019.

Bank One Limited, Mauritius

Mauritius remained the island of calm in a turbulent environment, ranking #1 in sub-Saharan Africa, on the World Bank's Doing Business Report. The Bank of Mauritius while continuing its accommodative stance to support economic growth also issued several new guidelines on Corporate Governance, Credit and Liquidity Risk Management, Anti-Money Laundering, Credit Concentration and Internal Control Systems.

In 2017, the Bank focused on strategy building and organizational alignment by establishing a Vision 2020 strategy. A comprehensive programme, directly linked to the stated mission and vision, was also launched to reinforce the values, establish new communication channels and create a unified corporate culture.

Private Banking and International Banking entered new areas of activity. The finalization of the offer of Custodial Services, Investment Advisory and Lombard Loans to its high net worth customers are some of the Private Banking initiatives. Bank One also increased its participation in International Loan Syndications and widened the scope of its FI business giving it more visibility in the international arena.

The Board also underwent a number of changes given the completion of term in office of the outgoing directors. I take this opportunity to welcome on board the new directors - Mr. Juan Carlos Albizzati, Mr. Leonard Mususa, Ms. Gauri Gupta, and Mr. Nikhil Treebhoohun all of whom bring a wealth of experience and knowledge in the areas of audit, risk management banking, corporate finance, strategic planning, trade & development planning techniques and policy formulation.

On the financial front, Bank One reported a strong growth of 25% in its asset base in 2017 and an increase of 26% in its profit after tax as compared to the previous year. The gross NPL ratio was also brought down from 8.71% last year to 6.05% as at December 2017 and is expected to improve further in 2018.

I&M Burbidge Capital Limited, Kenya & Burbidge Capital Limited, Uganda

The advisory business, despite the challenges surrounding the prolonged electioneering period in Kenya continued to improve its track record in executing capital raising and M&A transactions for its clients during the year.

Primed with a new Strategy, the firm is progressively looking at a wider and diversified service offering to support the identified growth drivers while continuously enhancing the quality and time lines for delivery. I am also pleased to report that significant progress was made in augmenting the enterprise risk management and compliance framework for this subsidiary.

It is encouraging to see increased synergies between the Group's banking entities in the region and the advisory firm in a focused and deliberate approach to ensure that the Group is able to offer its customers solutions for all their financial and advisory needs. This is expected to further intensify in 2018 and beyond.

I&M Realty Limited, Kenya

I am pleased to announce that development of the Group's new headquarters at the junction of 1st Parklands Avenue and Limuru Road, Nairobi is progressing well and is expected to be completed by end of 2018. The development aptly named ***"1st Park Avenue"*** comprises construction of a commercial building of 7 floors, roof level and 4 parking basements with over 380 bays and a total gross plinth area of about 365,000 sq. ft.

I&M Foundation

I am delighted to advise that having worked on this for the last couple of years, the Group is ready to launch I&M Foundation whose objective will be to push I&M's vision of shared growth and corporate social responsibility agenda. The Foundation is envisioned to help I&M remain impactful in the different communities that it continues to engage in through a more structured and transparent approach.

Outlook

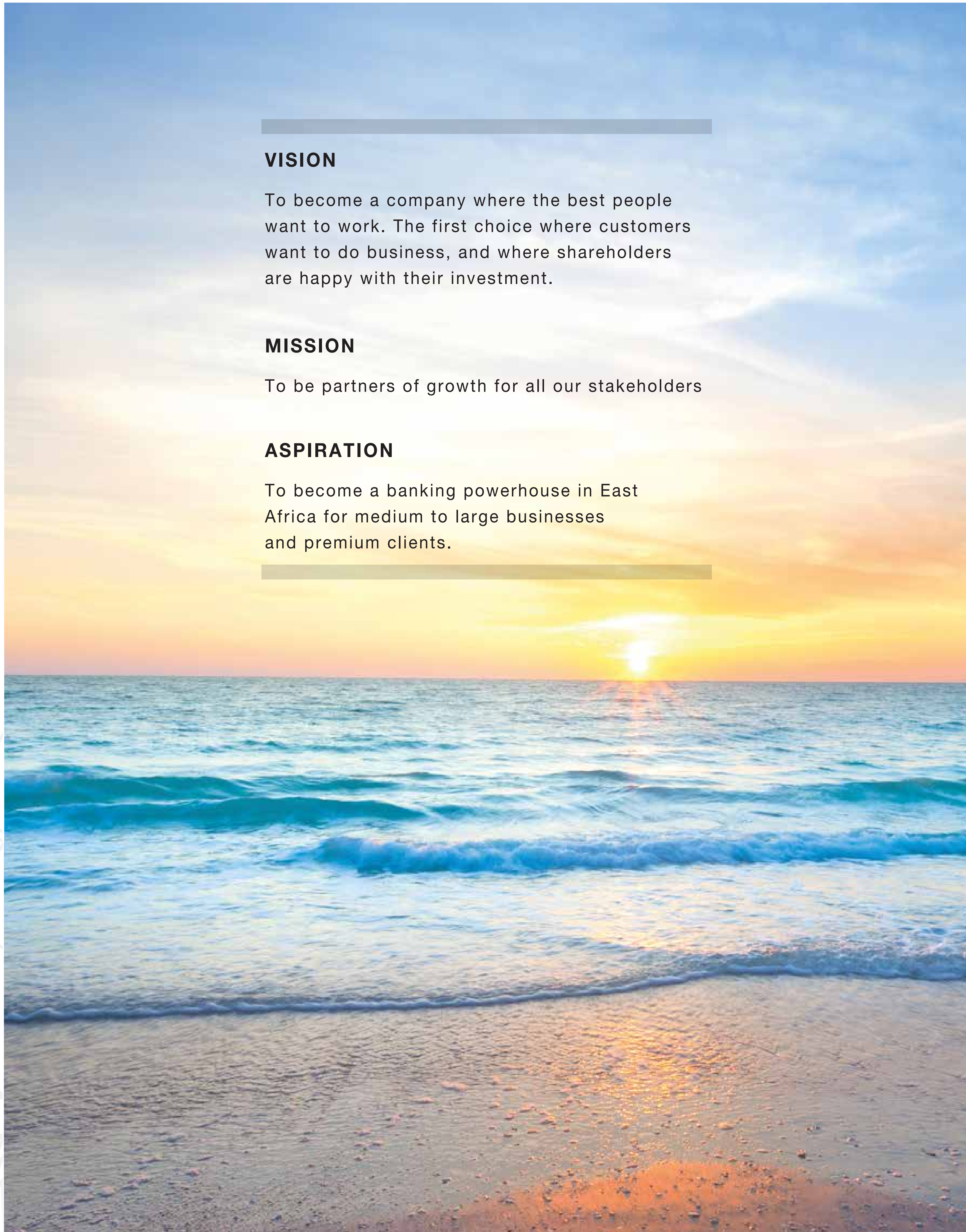
With the headwinds resulting from a combination of drought and elevated political and policy uncertainty starting to ease, stronger growth is expected across East Africa in 2018 emanating from a recovery in agriculture. The Group is well positioned to ride this wave by tapping into the opportunities presented under the iMARA strategy. With a focused customer centric approach supported by an increased rigour towards process optimization, digitization and automation, there is little doubt about the Group's ability and propensity to continue on its growth path.

Appreciation

Last but definitely not the least, I would like to place on record my deepest appreciation to each of our stakeholders. To (i) our customers for their unwavering loyalty and support, (ii) our shareholders and investors for your continued belief and trust in the Group, (iii) each of the regulators in the region for their guidance, support and cooperation, (iv) the staff and management of each of the entities in the group for all their commitment and continued efforts to fulfil our strategic goals in a challenging environment, (v) our partners across the spectrum – development financial institutions, correspondent banks, service providers and suppliers for your patronage and (vi) my fellow Board members and members of the Board of every entity in the group for their dynamic leadership and guidance – I say Asante Sana !

DANIEL NDONYE
CHAIRMAN

27 March 2018



The directors have pleasure in submitting their annual report together with the audited financial statements of I&M Holdings Limited ("the Company"), its subsidiaries and its joint venture (together "the Group") for the year ended 31 December 2017, 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, I&M Bank (Rwanda) Limited, Rwanda and I&M Burbidge Capital Limited (Kenya and Uganda). 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 (GCBL)

On 5 September 2015 I&M Holdings Limited entered into a Share Purchase Agreement with the shareholders of Giro Limited [formerly Giro Commercial Bank Limited (GCBL)], to acquire 100% shareholding in GCBL. The purchase consideration was the aggregate of 50% cash consideration of KShs 2,547,295,000 and the remaining 50% by issue of 21,043,330 new shares of KShs 1 each of I&M Holdings Limited.

On 13 February 2017, I&M Holdings Limited acquired the entire issued share capital of GCBL following the receipt of all regulatory approvals and being satisfied that all conditions precedent stipulated in the Share Purchase Agreement were met. Subsequently, the entire GCBL' s banking business was transferred into that of I&M Bank LIMITED. The results of GCBL are consolidated in these financials.

(b) Youjays Insurance Brokers Limited

On 25 October 2017, I&M Insurance Agency Limited, a wholly owned subsidiary of I&M Holdings Limited, entered into a Share Purchase Agreement with the shareholders of Youjays Insurance Brokers Limited [YIB] to acquire 100% shareholding in YIB. The proposed acquisition, upon completion, envisages the immediate transfer of YIB business to I&M Insurance Agency Limited, the group's Bancassurance business arm.

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

3. Results / Business review

The consolidated results for the year are as follows :

	2017 KShs'000	2016 KShs'000
Profit before income tax	9,894,574	10,603,188
Income tax expense	(2,630,325)	(2,843,026)
Profit for the year	**7,264,249**	**7,760,162**

Net profit closed at KShs 7.3 billion, a 6% drop compared to prior year attributed to full year impact of interest capping in I&M Bank LIMITED and a 40% rise in provisions for bad and doubtful debts in the Group. The Directors and employees are committed to achieving the laid down strategies and delivering key value to shareholders.

The directors recommend a first and final dividend of KShs 3.50 per share amounting to KShs 1,446,918,791 for the year ended 31 December 2017. A dividend of KShs 3.50 per share amounting to KShs 1,446,918,791 in respect of the year ended 31 December 2016 was paid on 25 May, 2017. The principal risks and uncertainties facing the Group are outlined in Note 4 of the consolidated and separate financial statements.

4. Directors

The directors who served during the year and up to the date of this report are set out on page 4. The Company provides professional indemnity for all the Directors.

5. Auditors

To note that Messrs KPMG Kenya have indicated their willingness to continue in office as Auditors by virtue of section 721(2) of the Companies Act, 2015 and to authorise the Directors to fix the Auditor's remuneration for the ensuing financial year.

6. Relevant audit information

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

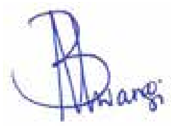
(i) There is no relevant audit information of which the Company's auditor is unaware; and

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

7. Approval of financial statements

The financial statements were approved and authorised for issue at a meeting of the Board of Directors held on **27 March 2018.**

BY ORDER OF THE BOARD
Secretary



Date: 27 March 2018

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 investments (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 Code 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 ongoing basis, in order to maintain these at acceptable risk levels.

A similar approach is adopted when considering any new investments, both in the 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.

I&M Holdings Limited (IMHL or the Company) was incorporated in August 1950, and was one of the oldest companies to list on the Nairobi Securities Exchange (NSE). It is regulated by the Central Bank of Kenya as a non operating bank holding company, the Capital Markets Authority and the Nairobi Securities Exchange.

Following a major corporate restructuring in 2013-2014, IMHL became the parent company of all the regional banking entities of the I&M Bank Group and rebranded from its previous name - City Trust Limited to I&M Holdings Limited.

Significant shareholders

The Company's top 10 shareholders as at 31 December 2017 are given below:

Holder Names	Shares	% Holding
Minard Holdings Limited	88,325,016	21.37%
Tecoma Limited	76,044,808	18.39%
Ziyungi Limited	73,548,000	17.79%
CDC Group Plc	41,881,500	10.13%
Bhagwanji Raja Charitable Foundation The Registered Trustees	9,458,830	2.29%
Investments & Mortgages Nominees Ltd A/C 0001229	8,479,286	2.05%
Investments & Mortgages Nominees Ltd A/C 0004047	8,395,468	2.03%
Aunali Fidahussein Rajabali and Sajjad Fidahussein Rajabali	6,401,000	1.55%
Blanford Investments Limited	4,578,602	1.11%
Lombard Holdings Limited	3,686,362	0.89%

Distribution of shareholders

The distribution of shareholders as at 31 December 2017 was as follows:

Share Range	No. of Shareholders	Shares Held	Shareholding %
Less than 1 million shares	2,437	65,875,944	15.93%
> 1 million < 2 million shares	6	8,745,557	2.12%
> 2 million < 3 million shares	3	7,775,355	1.88%
> 3 million shares	13	331,008,513	80.07%
Grand Total	**2,459**	**413,405,369**	**100.00%**

Shareholder Relations & Communication

I&M Holdings Limited believes in maintaining full and open communication with its shareholders and observing the highest standards in corporate governance and shareholder communications. To this end, it has put in place a Shareholder Communication policy which sets out its policy for communication with its shareholders. This Policy also outlines the processes which the Company has in place to facilitate and encourage participation at shareholder meetings.

The policy is aimed at nurturing the loyalty and confidence of the Company's shareholders through frequent, full and forthright communication, both directly to shareholders and indirectly through analysts and the media. The Company seeks to ensure that each investor interaction with the Company meets the highest levels of professionalism and quality. A copy of the policy is available on the Group's website.

Board of Directors

Board Constitution and Appointment

The Board of I&M Holdings Limited currently constitutes seven directors. Their brief profile is as set out below:

Daniel Ndonye

Independent Chairman (Appointed as Independent Director in October 2010 and Chairman of the Board on 14 June 2013)

Mr. Daniel Ndonye is a chartered accountant by profession, having worked with Deloitte & Touche for over 30 years, 20 of which he was the Managing/Senior Partner. He holds a Bachelor of Commerce degree from the University of Nairobi. He is a fellow of the Institute of Chartered Accountants in England and Wales, the Institute of Certified Public Accountants of Kenya and the Institute of Certified Public Secretaries of Kenya.

He sits on the boards of several companies, three (3) of which are listed on the Nairobi Securities Exchange.

He is also the Chairman of the Board Audit and Risk Management Committee.

SBR Shah, MBS

Non- Executive Director (Appointed on 14 June 2013)

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

He sits on the boards of several companies.

Board of Directors (Continued)

Board Constitution and Appointment (Continued)

Sarit S Raja Shah

Non-Executive Director (Appointed on 14 June 2013)

Mr. Sarit S Raja Shah has been the Executive Director of I&M Bank since 1993. He holds a Masters degree in Internal Audit and Management from City University London. He also serves on the boards of several companies including I&M Holdings Limited subsidiaries and associates such as: I&M Bank (T) LIMITED and GA Insurance Limited.

Michael Turner

Independent Director (Appointed on 1 August 2014)

Mr. Michael Turner joined the board in August 2014. He is the Managing Director of Actis (East Africa). He holds a BSC. in Civil Engineering from the University of Southampton and is a Fellow of the Institute of Chartered Accountants, England and Wales. He sits on the boards of several companies. He is also the Chairman of the Board Nomination and Remuneration Committee.

Sachit S Raja Shah

Non- Executive Director (Appointed on 10 July 2015)

Mr. Sachit Shah joined the board in July 2015. He holds a Bachelors of Science degree in Banking and Finance from City University London. He is the Executive Director of GA Insurance Limited. He sits on the boards of several companies. He has had the opportunity to work with AMP Asset management in London and HSBC Bank PLC London.

Oliver Fowler

Independent Director (Appointed on 21 August 2015)

Mr. Fowler joined the board in August 2015. He is a qualified Kenyan Advocate, an English Solicitor and 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. He sits on the boards of several companies.

Nyambura Koigi

Independent Director (Appointed on 28 October 2015)

Dr. Koigi joined the board on October 28, 2015. She was the Managing Director of Postbank from 2005 to 2014. She has worked in various capacities in the financial sector including banking, business development and information communication technology. She has extensive training and experience in leadership, project management, product development, ICT and Microfinance. She holds a Doctorate of 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. She sits on the boards of several companies.

Board of Directors (Continued)

Board Constitution and Appointment (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.

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.

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	17 January 2017	27 March 2017	11 July 2017	16 October 2017	Total Board meetings attended in 2017
Daniel Ndonye	√	√	√	√	4
Suresh B R Shah	√	√	√	√	4
Sarit S Raja Shah	√	√	√	√	4
Michael Turner	√	√	√	X	3
Oliver Fowler	X	X	√	√	2
Sachit S Raja Shah	√	√	√	√	4
Nyambura Koigi	√	√	√	√	4

√ Attended X Not Attended

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

Board Committees

The I&M Holdings Board has set up three Board Committees to assist in discharging its responsibilities. These include:

Board Audit and Risk Management Committee (BARMC)

The BARMC consists of two independent directors 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.

Board Committees (Continued)

Board Strategy Steering Committee (BSSC)

The BSSC consists of one Executive Director and 6 members. The BSSC assists and provides guidance to the Board in fulfilling its responsibilities by considering matters pertaining to the Group's overall long term strategic direction as well as corporate objectives. The BSSC assists the Board in review of the optimum level of the Group's capital structure to support the Group's strategic and financial goals and review the Group's major strategic and investment decisions (including M&A transactions).

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 three Committees, BARMC, BNRC and BSSC. For purposes of coordinating and discharging its mandate it receives regular structured and timely reports from the respective entity level boards as well as those from BARMC, BRNC and BSSC. Each entity in the Group has various Board and Management Committees to oversee the effective conduct of its business. The key committees for the subsidiaries in the group comprises of the following:

Board Audit Committee (BAC)

The BAC assists the Board in fulfilling its responsibilities by reviewing the financial condition of the Bank, its internal controls, performance and findings of the Internal Audit functions. Two BAC meetings are held in each year independent of management giving the internal and external auditors an opportunity to raise matters directly with members of the BAC.

Board Risk Management Committee (BRMC)

The BRMC, through the risk management function, is responsible for translating the Risk Management Framework established by the Board of Directors into specific policies, processes and procedures that can be implemented and verified within the different business units, so that risks faced by the Bank are adequately considered and mitigated.

Board Credit Committee (BCC)

The BCC 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.

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.

Management Committees (Continued)

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 & ideas. EXCO is also tasked with tracking developments in the industry and impact of changes in regulations / legislation on each entity.

Assets & Liabilities Committee (ALCO)

ALCO's primary functions include setting, monitoring and reviewing financial risk management policy and controls, including devising the most appropriate strategy for the Bank in terms of the mix of assets and liabilities and this is based on the committee expectations of the future and the potential impact of interest-rate movements, liquidity constraints, foreign-exchange exposure and capital adequacy.

Credit Risk Management Committee (CRMC)

CRMC is the link between the Board and Management in terms of 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 .

Board Evaluation

It is crucial that new directors receive a proper induction when being appointed in office to ensure that they are familiarized, as soon as possible, with the Group's operations business environment and corporate strategy, as well as their fiduciary duties and responsibilities as directors. Accordingly, new directors receive a comprehensive induction and pack, containing a brief presentation on the affairs of the Group, the governance structure & conduct of meetings, the director's duties & responsibilities, the Company's Constitution and such other useful documents.

In line with the CMA Code of Governance practices for Issuers of Securities to the Public 2015 (CMA Code), CBK Guideline on Corporate Governance CBK./PG/02 and best practices, the Board has established a mechanism to evaluate the performance of the Board and its members with the process being reviewed and refined periodically. The review and evaluation includes; the functioning of the Board and Board committees as collective bodies, and the performance of the Chairperson, individual directors, and Company Secretary.

All Directors have access to the advice and services of the Company Secretary, who is responsible for providing guidance to the Directors as to their duties, responsibilities and powers .

They also have access to Senior Executives to obtain information on items to be discussed at board meetings or meetings of board committees or on any other area they consider to be appropriate. The Board and its Committees also have the authority to obtain such outside or other independent professional advice as they consider necessary to carry out their duties.

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.

Code of Ethics (Continued)

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

Conflicts of Interest

The Board has in place a policy to provide guidance on what constitutes a conflict of interest and expects its members, both individually and collectively, to act ethically and in a manner consistent with the values of the business. Each director as far as practically possible, minimize the possibility of any conflict of interest with the Company or the Group by restricting involvement in other businesses that would be likely to lead to a conflict of interest. Where conflicts of interest do arise, Directors will excuse themselves from the relevant discussions and will not exercise their right to vote in respect of such matters. At the Group subsidiaries, policy is directed not only to Directors but to all Senior management and employee who can influence any decisions of these subsidiaries.

Insider Trading & Related Party Transactions

The Group 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.

The Group Board has adopted a related party policy that outlines how to deal with related parties in a transparent manner and at arm's length on Related Party Transactions. Related parties, whether body corporate or natural persons, fall into two main groups:

- those that are related to the Group because of ownership interest; and
- those that related otherwise, such as directors and senior officers who may also have some ownership interest in the Group.

In line with the above-mentioned guideline, the Board has adopted a policy which sets out the rules governing the identification of related parties, the terms and conditions applicable to transactions entered into with them. All related party dealings/transactions are disclosed in note 36.

Insider dealings were only transacted during open periods in compliance with the policy

Whistle Blowing Policy

The Board's of I&M Holdings Limited and subsidiaries have adopted a Whistle blowing policy to enhance commitment to the highest standards of openness, probity and accountability. An important aspect of accountability and transparency is a mechanism to enable staff of the Group to voice concerns in a responsible and effective manner.

The policy is designed to enable employees of the Group to raise concerns internally and at a high level and to disclose information which the individual believes shows malpractice or impropriety. The policy aims to:

- Encourage employees to feel confident in raising their apprehensions and to question any act that may raise concerns about practice that may bring disrepute to the Group and or cause financial or other loss to the Group and or any malicious act that may adversely affect a staff member.
- Provide avenues for employees to raise those concerns and receive feedback on any action taken
- Reassure employees that they will be protected from possible reprisals or victimization if they have reasonable belief that they have made any disclosure in good faith

Whistle Blowing Policy (Continued)

- Minimize the Group's exposure to the damage that can occur when employees circumvent internal mechanisms.
- Let employees know the Group is serious about adherence to the code of conduct and the various policies in place.

The Whistle blowing policy is also available on the Company website.

Procurement Policy

I&M has put in place a Group Procurement policy aimed at guiding the approach to procurement in the areas of systems implementation or significant upgrades of existing systems, acquisition of significant ICT infrastructure, deployment of standardized specifications such as for branding and marketing and for provision of critical services across the Group entities.

The coordinated approach to procurement of major Goods and Services is designed to deliver benefits in terms of standardized specifications, platforms for delivery of critical business operations and for deriving synergies, competitive pricing arising from economies of scale, a harmonized approach to business continuity in major business and operational matters and more importantly an efficient and reliable financial and management reporting as may be required from time to time by various stakeholders.

The policy is guided by key governance principles to maintain the highest level of integrity and transparency. It is a pre requisite that no entity shall seek to gain undue advantage over another in pursuance of any one procurement initiative at Group level. Additionally;

- No officer from any of the entities shall participate in the procurement of goods or services where a clear conflict of interest exists.
- No officer of the Group shall solicit or accept gifts in order to influence procurement decisions. Any officer found engaging in such activities shall be in contravention of the Group's policy and shall be liable to disciplinary action.
- The Group will uphold high ethical standards in all procurement related matters and demand the same of its suppliers/service providers such as conducting due diligence on the suppliers before contracting each supplier/service provider executing a Declaration Form confirming that they have not been accused/involved in breach of applicable Anti-Corruption/related legislation in any jurisdiction, whether convicted or not.

Information Technology (IT) Policy

The Group has implemented an appropriate Information Technology in its business processes to provide IT enabled solutions to its customers. The Group acknowledges that it is essential for its continued successful operation that the availability, integrity and confidentiality of its information systems and associated data are maintained, in a cost-effective manner and at a level that is appropriate to its business needs. The need for such protection arises because information systems are potentially vulnerable to unwanted events, or threats.

The Group's Information Security Policy is aimed at enhancement of its ability to collect, store, process and transmit Information. Information Systems and Information Processing are vital to the various entities in the Group in pursuit of its business objectives, and it is important that it is managed with regard to:

Information Technology (IT) Policy (Continued)

- **Confidentiality:** ensuring that information is accessible only to those authorised to have access Integrity-safeguarding the accuracy and completeness of information and processing methods
- **Availability:** ensuring that authorised users have access to information and associated assets when required
- **Effectiveness:** the capability to produce the desired results especially to ensure that regulatory, operational and contractual requirement are fulfilled
- **Efficiency**: the extent to which resources are used to achieve the desired results

Compliance with Laws, Regulations and Standards

The Board ensures that laws, rules and regulations, codes and standards applicable to the Group have been identified, documented and observed. The boards of the Group entities, have set up functions within each entity to continuously monitor the Company and its subsidiaries' compliance with applicable laws, rules and regulations, codes and standards.

All polices and procedures are tailored to ensure that the Group processes are fully compliant with all relevant laws and regulations. The Board on a best effort basis, ensures compliance with all laws and regulations by continuously monitoring the Compliance review report.

Sustainability & 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.

Governance Audit

The Board ensures that it subjects the Company to an annual Governance Audit by an accredited Governance Auditor as required by Section 2.11 of the Code of Corporate Governance practices for issuers of securities to the public 2015, issued by the Capital Markets Authority. The Board is committed to ensure that the company has sound Corporate Governance practices and strives for continuous improvement by seeking to identify any loopholes and gaps in the Company's governance structures and processes.

This is the first year that the Company is undertaking a Governance Audit.

The Board Nomination and Remuneration Committee [BNRC] of I&M Holdings Limited [IMHL] is pleased to present the Directors' remuneration report for the year ended 31 December 2017. This report is in compliance with the IMHL's Board Charter on Directors' reward and remuneration, the Code of Corporate Governance Guidelines issued by the Capital Markets Authority on Directors' remuneration and the new Companies Act, enacted in September 2015, which became operational in June 2016. In the course of executing these policies, the Board's desire is to align rewards with a clear and measurable linkage to business performance.

IMHL is regulated by the Capital Markets Authority and the Central Bank of Kenya as a non operational holding company. IMHL Board is therefore comprised of Non-Executive directors as detailed out on the corporate information page.

Board Remuneration

At IMHL, Directors' remuneration is paid in the form of (i) Directors' Sitting Fees and (ii) Annual Retainer fees. The fees available to be paid to Directors is subject to shareholder ratification/approval as appropriate and in accordance with the provisions of the Companies Act, 2015 and the CMA Regulations and Guidelines on Corporate Governance.

The BNRC is tasked with ensuring that Directors' remuneration levels are reviewed with sufficient regularity and are subject to external benchmarking to ensure that IMHL continuously offers competitive reward packages for its Directors. The remuneration to Directors is comprised of the following:

1. Fixed Annual Retainer Fees

These fees are determined taking into account market rates of pay. Fees are reviewed with sufficient regularity to align to prevailing market movements. Any increases are determined in accordance with the business' ability to fund the increase. Retainer Fees are paid quarterly in arrears.

2. Sitting or Attendance Fees

All Directors are paid sitting or attendance fee in recognition of the time spent attending Board or Committee meetings. The level of fees paid are also benchmarked to market rates and trends.

During the year, the BRNC carried out a review of fees paid to directors and adopted the following:

Particulars	Annual retainer fees 2017	Annual retainer fees 2016
Chairman	962,500	850,000
Director	556,250 - 775,000	500,000 - 700,000

Non-Executive Directors are not entitled to any pension, bonus or long term incentive plans. There will be no changes to these policies in the next financial year.

Directors' Contracts of Service

Directors who serve on the Board of IMHL are elected to office during the AGM and offer themselves up for re-election as mandated in the Companies Act. The tenure of the Directors is for a period of three years, upon which the Directors can elect to offer themselves for re-election, in accordance with Article No.112 of the Company's Articles of Association. A Director's appointment ceases immediately upon termination by resignation, or a resolution of the shareholders and no further remuneration accrues to the Director thereafter. The tenures of the Directors in office at the end of the last financial year are tabulated below:

Director	Board Membership	Start of contract	End of contract	Notice period	Payable
Daniel Ndonye	Non-Executive, Independent	25 May 2017	24 May 2020	N/A	N/A
SBR Shah, MBS	Non-Executive	12 May 2015	11 May 2018	N/A	N/A
Sarit S Raja Shah	Non-Executive	18 May 2016	17 May 2019	N/A	N/A
Michael Turner	Non- Executive, Independent	25 May 2017	24 May 2020	N/A	N/A
Sachit S Raja Shah	Non-Executive	18 May 2016	17 May 2019	N/A	N/A
Oliver Fowler	Non-Executive, Independent	18 May 2016	17 May 2019	N/A	N/A
Nyambura Koigi	Non-Executive, Independent	18 May 2016	17 May 2019	N/A	N/A

Directors' Shareholding

Directors' direct and indirect interests as at 31st December 2017 are tabulated below.

Name of Director	Number of Shares	% Shareholding
SBR Shah, MBS	44,161,625	10.68%
Sarit S Raja Shah	8,479,286	2.05%
Sachit S Raja Shah	8,395,468	2.03%

The other members of the Board do not hold shares in their personal capacity in the Company.

Share Options and long term incentive schemes

Directors are not entitled to any share option arrangement or long term share incentive schemes.

Non-Executive Directors

Non-Executive Directors receive fees and other emoluments in recognition of their contribution to the Company for Board and Committee meetings. The attendance fees is payable after the occurrence of the meetings. The Non-Executive Directors do not receive any performance-based remuneration.

DIRECTORS' REMUNERATION REPORT (Continued)

The remuneration paid to Directors in the year under review, and comparative figures for 2016, are summarised below:

Director	2017 Annual Retainer Kshs	2017 Attendance Fees Kshs	2017 Fees earned in Subsidiaries Kshs	2017 Total Kshs	2016 Annual Retainer Kshs	2016 Attendance Fees Kshs	2016 Fees earned in Subsidiaries Kshs	2016 Total Kshs
Daniel Ndonye	962,500	780,000	-	1,742,500	850,000	750,000	-	1,600,000
SBR Shah, MBS	556,250	265,000	1,296,750	2,118,000	500,000	150,000	975,000	1,625,000
Sarit S Raja Shah	556,250	955,000	462,257	1,973,507	500,000	550,000	468,043	1,518,043
Michael Turner	775,000	375,000	-	1,150,000	700,000	500,000	-	1,200,000
Sachit S Raja Shah	556,250	265,000	1,807,500	2,628,750	500,000	150,000	1,807,500	2,457,500
Oliver Fowler	775,000	110,000	-	885,000	700,000	150,000	-	850,000
Nyambura Koigi	556,250	265,000	3,432,500	4,253,750	500,000	250,000	3,432,500	4,182,500
	4,737,500	**3,015,000**	**6,999,007**	**14,751,507**	**4,250,000**	**2,500,000**	**6,683,043**	**13,433,043**

Mr. Sarit S Raja Shah also received the following remuneration from I&M Bank Limited, a wholly owned subsidiary of I&M Holdings Limited:

Details	2017	2016
Salary	29,520,000	28,200,000
Bonus	8,800,000	7,435,800
Pension	2,079,000	1,980,000
Insurance	2,254,815	2,174,249
Total	**42,653,815**	**39,790,049**

At the AGM held on 25 May 2017, the Directors' remuneration was approved unanimously.

Information on aggregate amount of emoluments and fees paid to directors are disclosed in note 13 of the financial statements.

Other Key Policies Influencing Directors Remuneration

Discretions retained by the BNRC

The Company does not operate any long term incentive plan such as a Share Option Plan or a Share Performance Plan. There are therefore no areas of discretion to disclose.

Insurance Cover

IMHL provides professional indemnity for all the Directors in line with best practice.

For **Michael Turner**
Chairman, Board Nomination and Remuneration Committee
27 March 2018

AZALI

A Governance Audit is an independent assessment of an organization with a view to expressing an opinion on the adequacy and effectiveness of the organization's governance policies, structures and practices. Governance Audits are critical in providing assurance to stakeholders that the organization has embraced sound corporate governance practices to achieve its strategic objectives.

In compliance with the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 as gazetted by the Capital Markets Authority ("the Code"), the Board appointed Azali CPS LLP, to conduct a Governance Audit ("the Audit") of I&M Holdings Limited ("the Company") for the year ended 31 December 2017.

Being the inaugural Governance Audit for the Company, we reviewed the level to which the Company had aligned its governance policies, structures and practices to the standards set out in the Code. We also considered that the Code, which became fully applicable with effect from 4 March 2017, and the Companies Act, 2015 ("the Act") are relatively new and organizations are in the process of implementing their provisions. The structure of the report, findings and recommendations provides a baseline for future governance audits.

Scope of the audit

The scope of the Audit was derived from the Code, the Act and the Governance Audit Standards developed by the Institute of Certified Public Secretaries of Kenya. More specifically, the Audit covered the following nine areas: Ethical leadership and strategic management; Transparency and disclosure; Compliance with laws and regulations; Communication with stakeholders; Board independence and governance; Board policies, systems, practices and procedures; Consistent shareholder and stakeholder value enhancement; Corporate Social Responsibility and Investment and Sustainability.

To obtain Audit evidence, we conducted a review of documents that are fundamental to the Company's governance framework, including the Board's self-assessment of its effectiveness. We also interviewed a number of Board members and Senior Management to seek further evidence and clarification. The documents review and interviews provided us with tangible insights into governance practices within the Company.

Our responsibility

Our responsibility is to express an independent opinion on the appropriateness, adequacy and effectiveness of the Company's governance practices and to issue a governance audit report that includes our opinion. We conducted our Audit in accordance with the Governance Audit Standards issued by the Institute of Certified Public Secretaries of Kenya. The Audit involved obtaining audit evidence on a sample basis about the governance policies, structures and practices of the Company. We believe that the audit evidence we obtained was sufficient and appropriate to provide a basis for our opinion.

AZALI

Matters of governance interest

Matters of governance interest are those key matters that in our professional judgment, were of most significance in our audit of the Company's governance practices for the year. These matters are highlighted below:

Matters of governance interest	How the Matter was addressed in our Audit
Ethical Leadership and Strategic Management	**Our audit procedures in this area included, among others:** - Assessing recent trends in governance with regard to the provisions of the Code, the Act and best practice; - Evaluating the Board's commitment to good governance, interviewing Board members on the practice of governance across various leadership parameters and considering the likely impact on the Company's sustainability and reputation and using this information to focus our testing on the key governance areas; - Reviewing the Company's strategic planning process in particular, the development, approval and implementation as well as the role of the Board in providing oversight.
Board policies, systems, practices and procedures	**Our audit procedures in this area included, among others:** - Reviewing the governance documentation and assessing the adequacy and appropriateness of the policies; testing the frequency and consistency of governance practices and processes to assess their effectiveness so as to arrive at a decision on the soundness of the governance framework; - Interviewing Board members and Management to confirm their understanding and assessment of the effectiveness of the Company's policies, systems, practices and procedures.

Opinion

We have conducted the governance audit for I&M Holdings Limited for the year ended 31 December 2017 in accordance with the Institute of Certified Public Secretaries of Kenya Governance Audit Standards and as required by the Capital Markets Authority Code of Corporate Governance Practices for Issuers of Securities to the Public 2015. In our assessment, the Corporate Governance Statement set out on pages 24 to 33 represents the practices as evidenced during our audit, and in this regard, we issue an unqualified opinion.

Madren Oluoch-Olunya
Governance Auditor
Accreditation Number: GA/00192

Martin Oduor-Otieno
Governance Auditor
Accreditation Number: GA/00110

For: Azali CPS LLP
Nairobi, Kenya
Date: 27 March 2018

Updates on Key Risk Priorities In 2017

2017 was a landmark in the Group as we commenced the implementation of the Group approved enhanced, robust integrated and holistic COSO Enterprise Risk Management Framework. This was in line with our 5 years Group strategy plan.

The choice of COSO Framework has been informed by our desire to align and standardize our Enterprise Risk Management Framework across the Group in line with our strategic aspiration 'To become a banking powerhouse in East Africa for medium to large businesses and premium clients'. The framework identified the principal risks which the Group is exposed to, outlined the assessment and measurement process, defined the mitigation strategies, and instituted a consolidated risk appetite framework both qualitatively and quantitatively. Similarly, the Group introduced risk appetite and philosophy statements to enhance the risk culture and strengthened its organization structure to manage these risks across subsidiaries. The implementation of the framework has brought in a disciplined and focused approach to managing risks across the Group and its subsidiaries.

Embedding Bank-wide Enterprise Risk Management Culture

The Group's risk culture is driven by the tone and statements from the I&M Holdings Limited Board on zero tolerance for non-compliance with internal policies and regulatory guidelines. This is in addition to the day to day Senior Management Risk Oversight of the respective subsidiaries led by their respective Chief Executive Officer.

In our effort to embed the Enterprise Risk Management (ERM) culture across the Group, we conducted Group-wide Enterprise Risk Management, Anti-Money Laundering (AML/CFT) trainings and enhanced the risk champions' process across all subsidiaries. In addition to this, we initiated a quarterly publication of a Group ERM Newsletter. The main objective of this publication is to educate and integrate risk culture in our day to day decisions making process. The focus has been on enhancing first line of defence ownership of risk with a view of entrancing the culture of three lines of defence in the Enterprise Risk Management Framework. This risk awareness culture has facilitated more dynamic approach to risk management with clear linkage to business strategy.

Subsidiary Risk Governance

Oversight Function

The Group acknowledges that subsidiaries and the joint venture are separate entities with independent local Board of Directors and regulatory authorities for which they have to render stewardship support.

Subsidiary Board Representation

In addition to the above, I&M Holdings Limited Board has appointed Nominated Directors on Boards at each of the respective subsidiaries and joint venture. The Nominated Directors are appointed as independent directors, including senior experienced officers at I&M Bank LIMITED, Kenya. The Nominated directors play a critical governance role of ensuring the subsidiaries are governed in line with the principle of the Group. They further provide guidance and direction to the respective entities at the Board level in tandem with the requirements for the Group. The Nominated Directors report regularly to I&M Holdings Limited board on matters relating to corporate planning, business development situations, risk management and compliance.

Group Risk Management Oversight Function

Risk related issues are taken into consideration in all business decisions and the Group strives to maintain a balance between risk and revenue consideration. Continuous education and awareness of risk management has strengthened the risk management culture across the Group.

Consequently, the Group approach to the implementation of uniform Enterprise Risk Management across the subsidiaries and joint venture is to develop a set of risk standards and policies in line with global best practices such as Basel Committee for Banking Supervision for which the subsidiaries are expected to bench-mark and adopt as long as those guidelines do not contradict local regulations and guidelines.

Subsidiary Risk Governance (Continued)

Group Risk Management Oversight Function (Continued)

The Group Board Audit and Risk Management Committee (BARMC) is responsible for the overall risk oversight for the subsidiaries and joint venture. The following are the responsibilities and function of the committee in relation to Risk Management:

- Ensure that there is adequate review and monitoring of the various risk indicators, and the Group's overall risk profile in accordance with structure and the periodicity as defined under the Risk Management Process of the Group
- Receive quarterly reports that highlight the overall risk profile of the Group and changes therein, and provide direction on any mitigation concerns and ensure the uniform implementation of the appropriate risk management techniques, across Group entities
- Review and recommend for approval by the I&M Holdings Limited board, the quantitative and the qualitative risk appetite

In discharging the above responsibilities the BARMC is supported by the Group Chief Risk Officer (GCRO) In addition to the above, the scope of the GCRO covers the following key functions:

- Review the subsidiary quarterly risk report and make recommendations to BARMC on the adequacy and effectiveness of the subsidiary ERM Framework
- Critically review the Group's Risk Strategy and ensure that all significant risks are clearly identified with adequate measures put in place to effectively manage these risks
- In liaison with the Board Audit & Risk Management Committee (BARMC) at IMHL level, ensure the Group's Risk Appetite is clearly defined and the respective Key Risk Indicators (KRIs) are incorporated in a comprehensive Risk Management Framework
- Provide effective oversight and technical support to the respective Chief Risk Officers across the group, to ensure each Entity's Risk Management Framework is comprehensive and aligned to the Group's strategy

Risk Management Approach

The Group addresses the challenge of risks comprehensively through an enterprise-wide risk management framework and a risk governance policy by applying leading practices such as Basel principles and standards that are supported by a robust governance structure consisting of board level and executive management committees. The Board drives the risk governance and compliance process through its committees. The Group Internal audit committee provides oversight on the systems of internal control, financial reporting and compliance. The respective subsidiary's Board credit committee reviews the credit policies and approves all loans above the defined limits for Executive Management. The local Board Risk Committee sets the risk philosophy, policies and strategies as well as provides guidance on the various risk elements and their management. The various local Board Risk Control Functions are supported by various management committees and sub committees (Credit Risk Management Committee, Assets and Liabilities Committee (ALCO) and Risk Management & Compliance committee) that help it develop and implement various risk strategies.

The Group Risk Management & Compliance department is responsible for optimising the risk and return opportunities inherent in the business operations across the Group. The risk management infrastructure encompasses a comprehensive and integrated approach to identifying, managing, monitoring and reporting risks with focus on Strategic, Market, Operational, Liquidity, Compliance, Reputational, Environmental & Social, Social Media, Country, and Information Communication Technology Risks across the Group and its subsidiaries.

Group Risk Appetite

The Group Risk appetite expresses the level of risk that the group is willing to assume within its risk capacity in order to achieve its business objectives. It includes a set of minimum quantitative metrics and qualitative standards adopted by all subsidiaries in the achievement of their specific country objectives.

Qualitative

- Managed Risk Appetite that aligns with our vision
- I&M Holdings Limited Risk Philosophy is that ***'Sustainability of the bank's business and enhancement of our stakeholder's value will always inform our business decisions'***
- Implementation of the three lines of defense approach to strengthen and embed risk culture where everyone within the bank has responsibility for risk and control

Quantitative

The Group's risk appetite framework will involve the following:

- Return on Equity (ROE) above cost of equity
- Aggregate Operational loss not to exceed 0.375% of Gross Revenue
- At all times ensure the Group's Capital Adequacy ratio exceeds that of required by regulator, plus buffer and
- Low levels of non-performing assets to total lending that conveys a significant level of prudence in levels of provisioning

Group Risk appetite statement

The Group's Risk Appetite is summarized in a statement as.
"In serving our chosen business segments, IMHL adopts a managed risk appetite aligned to our vision. At IMHL, risk and control is everyone's responsibility'.'

Group Risk Philosophy Statement

IMHL Risk Management Philosophy describes its attitude to risk taking. It is the driving force behind its officers' behavior in the conduct of business activities and operations from a risk perspective. This is summarized as:
"Sustainability of the bank's business and enhancement of our stakeholder's value will always inform our business decisions"

Risk Response

The Group responds to risk events through identification and evaluation of possible actions or developing options to enhance opportunities or reduce the threats created by the risk. This occurs through any of the following ways:

- Evaluating options in relation to the entity's risk appetite, cost vs. benefit of potential risk responses, and degree to which a response will reduce impact and/or likelihood.
- Selecting and executing responses based on evaluation of the catalogue of risks. Risk response strategies are:
  - Avoid the risk by avoiding the business activity that is not within the appetite.
  - Transfer the risk to another party – insurance.
  - Share the risk – common among the multinational and regional banks.
  - Reduce or mitigate the risk by increasing level of controls.
  - Accept the risk.
  - Reject the risk.
  - Delay the risk until another time.
  - Compensate the risk by offsetting against other benefits associated with it and make risk/reward decisions.

Credit Risk Management

The group defines Credit Risk as the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from loans and advances to customers, financial institutions/banks and investment securities. Credit risk is the most critical risk for the Group as credit exposures arising from lending activities account for the major portion of the Group's assets and source of its revenue. Thus, the Group ensures that Credit Risk related exposures are properly monitored, managed and controlled.

The Relationship Management Team and Segment Heads are the risk owners and the first line of defence since they are the originator and underwriter of credit applications and expected to identify, assess and mitigate risks inherent in each application based on the Groups' credit risk strategy, appetite and policy. The Credit team provides a second level independent review and is responsible for identifying, controlling, monitoring and reporting Credit Risk related issues. The team also serves as the secretariat for the Credit Risk Management Committees.

The respective subsidiaries Credit teams are responsible for managing the credit exposures, which may arise as a result of the lending and investment activities as well as other unfunded credit exposures that have default probabilities, such as contingent liabilities. The teams continuously inculcate the credit risk culture, advice on the formulation of the credit risk strategy, appetite and policy, conduct stress testing of the portfolio and advice Management and the Board.

In 2017, the Group enhanced its credit risk management practices through the implementation of the following strategies:

- Established a delegated authority system that ensures independent credit approval processes between the origination and approval
- Automated credit underwriting process
- Implemented a proactive early warning and monitoring process to detect problematic loans early and remediate
- Established clear processes, systems and tools for the collections function
- Revamped the NPL management framework by increasing the remediation options that are actively deployed, creating a tailored approach to collections for each cluster of bad loans and implementing "crash actions" initiatives
- Established a framework and built an internal model to implement IFRS 9

Market Risk Management

The Group defines Market risk as the risk that the value of on and off-balance sheet positions of the Group will be adversely affected by movements in market rates or prices such as interest rates, foreign exchange rates, equity prices, credit spreads and/or commodity prices resulting in a loss to earnings and capital.

Supported by the respective subsidiaries' and joint venture, Assets and Liability Management Committee (ALCO), the Board of Directors through the respective Country's Board Risk Management Committee have the overall oversight of the market risk management. The ALCO has been mandated by the Board to manage the respective subsidiaries' and joint venture market risk control framework, and the monitoring of market limits approved by the Board within the context of the risk appetite on a daily basis.

The respective ALCO Committee meets monthly to review the asset and liabilities position, project exogenous factors, develop an assets & liability strategy and follow up with the implementation of the strategy.

The objective of the Group market risk is to focus on controlling and managing risk exposures while optimizing the return on risk and still maintain an industry profile as one of the foremost providers of financial products and services.

The most significant Market Risks the Group faces are: interest rate risk both on the trading and banking book, foreign exchange and investment risks.

Market Risk Management (Continued)

The group defines Interest Rate Risk: is the current or prospective risk to earnings and capital of the Group arising from adverse movements in interest rates both in the trading and banking book. The Group manages its interest rate risk exposures on the banking and trading book using re-pricing gap analysis, net interest income sensitivity analysis and stress testing.

The group defines Foreign Exchange Risk: is the current or prospective risk to earnings and capital of the Group arising from adverse movements in currency exchange rates. The Group is exposed to foreign exchange risk because it trades in various currencies on behalf of our clients. This risk is managed using net- open foreign exchange position, value at risk and stress testing.

The group defines Price Risk: is the risk that a Group may experience loss in its investment portfolio of government securities due to unfavourable movements in market prices. We manage the price risk in the investment portfolio using modified duration, mark to market, basis point movement and stress testing.

In addition to all of the above, the respective ALCO's monitor trends and development in the foreign exchange and fixed income markets to ensure that business units keep within the Groups' market risk appetite threshold.

Capital Allocation for Market Risk

All the subsidiaries and joint ventures across the Group have adopted the standardized approach to measure its market risk exposure and allocate capital in line with the prudential requirements and Basel II Accord.

Operational Risk Management

The Group has defined Operational Risk as the direct or indirect risk of loss resulting from inadequate and/or failed internal processes, people, and systems or from external events. Operational risks may arise from the broad scope of activities carried out across the Group.

Operational Risk Tolerance: is the amount of uncertainty the Group is prepared to accept in total or more narrowly in pursuance of the Group's strategy objective.

The Board has articulated the broad operational risk appetite through a quantitative statement in line with the Group's overall risk management objectives. The board has approved the operational loss risk tolerance of 0.375% of Gross Revenue.

The first line of defense has the responsibility to conduct inherent risk assessment of their processes, products, people and system and offer adequate controls to mitigate the identified risks while the Operational Risk Management team provides independent review of such assessment to ensure it is adequate enough to mitigate the identified risks, monitor emerging risks implications to the Group.

The following practices, tools and methodologies have been deployed across the group for the purpose of Operational Risk identification and Management:

Risk Event and Loss Incident Reporting: Loss incidents are reported to Operational Risk by all business areas across the Group. All staff are encouraged to report operational risk events as they occur in their respective business spaces whether these risks crystallize into actual losses or not. The Group plans to implement a robust automated operational risk management software in 2018.

Risk Assessments of the Bank's new and existing products, services, branches and vendors/contractors are also carried out. This process tests the quality of controls the Bank has in place to mitigate likely risks.

Operational Risk Management (Continued)

Risk Control self-assessments (RCSA)

RCSA (Risk Control Self-Assessment) are conducted across all business units across the Group. Management and staff of all levels collectively identify and evaluate risks and associated controls. The RCSA integrates risk management culture into the way staff undertake their jobs, and business units achieve their objectives and ensure that the identification, recognition and evaluation of business objectives and risks are consistent across all levels of the Group.

Business Continuity Management (BCM): To ensure the resilience of our business to arising from any disruptive eventuality, the Group has in place a robust Business Continuity Plan (BCP). Various testing and exercising programs are conducted to ensure that recovery coordinators are aware of their roles and responsibilities.

Operational Risk Capital Calculation: The Group has adopted and implemented Basic Indicator Approach under Basel II Pillar 1 for the calculation of its Operational Risk Economic Capital for internal risk monitoring and decision-making as we build our loss data base to migrate to standardized approach. The Estimated Operational Risk Capital Charge is reported to the Board and Management for guidance in Capital Planning and decision making.

Liquidity Risk Management

The Group defines Liquidity Risk as the risk to the Group's earnings or capital arising from its inability to meet its obligations as they fall due, without incurring significant costs or losses. The oversight for liquidity risk management resides with the respective Country Board of Directors through the local Board Risk Committee. The subsidiaries' liquidity risk management process is primarily the responsibility of the Country Asset and Liability Management Committee (ALCO). Treasury is the first line of defence and risk owner for managing liquidity of the bank on daily basis in liaison with ALCO while the Market Risk Function is the second line control function that performs independent monitoring and oversight of the market risk management practices of the first line of defence.

The Group manages its liquidity risk using metrics and measurement tools such as Liquidity Ratio, Liquidity Coverage Ratio, Net Stable Funding Ratio, and Loan to deposit ratio, Liquidity Maturity, Gap Analysis and Assets & Liability Committee (ALCO) limits.

Strategic Risk Management

The Group defines Strategic Risk as the current and prospective impact on earnings or capital of the Group arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.

In 2017, the Group was exposed to macroeconomic risk volatilities (high inflation, interest rate capping in Kenya). The Board of Directors through respective Country Board Strategy Committee are responsible for the strategic risk management oversight of each of the subsidiaries while the Country Senior Management Committees (Executive Management Committee, Business Strategy Committee) manages the inherent risks in each of Country's Strategy on daily basis.

Strategic Risk across the Group is measured using quantitative tools such as Corporate Balance Score, Budget, Key Performance Indicators (Return on Equity, PBT, and Cross Selling Ratios) during the monthly Executive Committee, ALCO, bi-monthly Business Strategy Meeting and quarterly report to Board of Directors.

The Strategic risk management team provides an independent review and assessment of the respective Country's strategy and associated business decisions and report to the Executive Management Committee and Board Risk Committee on a monthly and quarterly basis.

Information and Communication Technology Risk

Technology is one of the key enablers in our Strategy across the group and to this extent will continue to play a critical role in the Group's operations and in the fulfilment of its strategic objectives. The Group ICT department, being a risk owner, has in place a framework to identify, monitor, control and report on IT related risks. The Group IT governance framework liaise with subsidiaries to (Management IT Steering Committee) align Country IT strategy with its overall business objective and Group position. The Board of directors, through the respective Country's Board Committees, provides guidance to Management on information technology issues and monitors the effectiveness of information technology within the Bank and the adequacy of controls. The management has also established a more detailed framework of supporting policies, standards and procedures that demonstrates how they will operate within the broader risk parameters established by the Board.

Management of Cyber Risk

As part of the process to combat the increasing Cyber Crime, we have developed Cyber Security Policy in line with regulatory guidelines and global best practice to manage Cyber Risks. Similarly, the Group adopted and implemented several mitigation strategies across the subsidiaries to manage information security risks. The information and cyber security risk within the Group is currently governed via the respective Country Board Risk Committee. Also in 2017, the Group organises training across all subsidiaries on Cyber Risk for both staff, Management and Board to sensitize all about Cyber Criminal activities and how to manage it.

Compliance Risk Management

The Group defines Compliance risk as the risk of exposure to legal penalties, financial forfeiture and material loss the Group faces when it fails to act in accordance with industry laws and regulations, internal policies or prescribed best practices. The respective subsidiaries and joint venture Bank have established compliance function which sets priorities for the management of compliance risk.

Group Governance on Anti Money Laundering

The Group through BARMC approves minimum standards for subsidiaries adoption on AML/KYC Compliance Framework management on regulatory and compliance matters.

The Group AML/KYC Policy contains Board approved guidelines on Politically Exposed Persons (PEP) Policy, Risk Based AML/KYC, Correspondence Banking, etc.

The oversight responsibility on compliance risk resides with respective Bank's Board of Directors through local Board Risk Committee. The Senior Management through each Country Risk Management and Compliance Committee (RISKCO) are responsible for the daily operations and management of money laundering risks.

Compliance Risk Management involves close monitoring of KYC compliance by the respective entities, escalation of Audit non-conformances, Complaints Management, and observance of the entities's zero-tolerance culture to regulatory breaches. It also entails an oversight role for monitoring adherence to regulatory guidelines and global best practices on an on-going basis.

Anti-bribery & corruption implementation

The Group has a zero-tolerance approach to bribery and corruption. The Group conducts business affairs in a manner that shuns the use of corrupt practices or acts of bribery to obtain unfair advantage in our dealings within the markets and the communities we operate. The Group approved minimum standards for which subsidiaries, employees, directors, business associates as well as relevant partners, suppliers, vendors and other stakeholders have to adhere in their conduct of businesses and transactions. These standards are communicated to all stakeholders on the need to maintain high ethical and professional conduct in the course of doing business.

Reputational & Social Media Risk Management

The Group defines Reputational Risk as the potential that negative publicity regarding respective subsidiaries' brand, business practices, whether true or not, can have resulting in a decline in the customer base, costly litigation or revenue reductions.

Social Media Risk is defined as the risk to Group's earnings or capital arising negative publicity about the bank on social media. Social Media in the Group is defined as forms of electronic communication (as Web sites for social networking and microblogging) through which users (both customers and non-customers) create online communities to share information, ideas, personal messages, and other content (as videos).

Risk arises when the Group's reputation is impacted by negative publicity from one or more reputational/social media events regarding the organization's business practices, services, staff conduct or financial condition. It measures the change in perception of the Bank by its stakeholders. It is linked with customers' expectations regarding the Bank's ability to conduct business securely and responsibly.

All staff within the Group are brand ambassadors of the Group and bank and are expected to conduct their services to the client in a professional and dignified way while Country Corporate and Marketing Communications department is the risk owner and saddled with managing the bank's brand and visibility. The department is mandated to protect the Bank from potential threats to its reputation. The team continuously uses proactive means in minimizing the effects of reputational events, thereby averting the likelihood of major reputational crises with the view of ultimately ensuring the survival of the organization.

The respective Country Bank's Reputational Risk Management Team is the second line of defence that liaise with risk owner to put in place, a framework, and policy to properly articulate, analyse and manage reputational risk factors. All adverse trends identified are reported to relevant stakeholders for timely redress. The Risk Management team report negative media events and management action to the Risk Management & Compliance Committee and Board Risk Committee on a monthly and quarterly basis. The Group has established minimum standard policy for the management of reputational and social media risks.

Environmental and Social Risk Management

The Group identifies Environmental and Social Management risk as the risk to the earnings and capital of the bank due to potential negative consequences suffered as a result of its financing businesses that impact negatively (or perceived impacts) on the natural environment (i.e. air, water, soil) or communities of people (e.g. employees, customers, local residents).

As a Group, we are committed to sustainable banking and sustainable finance in our business relationships and as a good corporate citizen to protect and preserve the environment under which we operate.

Consequently, the Board has approved the Group Minimum Standards on Environmental and Social Management System (ESMS), a system and workflow process that envisages and identifies and mitigates Environmental & Social risks in the projects / companies that the Group through its subsidiaries finances. This system is an integral part of the Credit Evaluation Process at the Bank, with the credit analysts, being risk owners, expected to identify and assess the Environment and Social Risks in credit applications and categorize them appropriately in line with the Bank's E&S Policy and Procedure Manuals.

The Credit team at the subsidiaries' level provides an independent level review of such credit applications of Environmental & Social Risk Projects being financed by the Bank and ensure it complies with the Bank's E & S Policy and procedure manuals and report to Credit Risk Management Committee and Board Credit Committee on bi-weekly and bi-monthly basis. Also, the Environmental and Social Risk Management team at Country Level provides additional independent review and monitor projects being financed through joint calls with Relationship Managers to ensure such projects being financed by the Bank comply with all the performance standards we have subscribed to as a Bank. Quarterly report on such projects are reported to Board Risk Management Committee.

Environmental and Social Risk Management (Continued)

The Group's policy is guided by the commitments to the following local and global best Environment and Social Risk Principles which it has subscribed to:

- IFC Performance Standards (eight principles).
- Respective Country Local legislation in particular Environmental Management Coordination Act (EMCA), 1999, and the Occupational Health & Safety Act, 2007.
- Environmental and Social Policies and Guidelines of the World Bank Group and in particular the IFC Performance Standards for high risk clients.
- ILO Core Labour Standards and ILO Basic Terms and Conditions of Employment as ratified by Kenya.

The Bank's Environmental and Social Risk Appetite is not to finance projects mentioned in the Environmental and Social Exclusion List.

Also, in our lending activities, we will provide finance to the businesses that align with 5 Sustainable Finance Initiative (SFI) Guiding Principles. These principles are to ensure that we realign client's business goals with the economy's future priorities and socio-environmental concerns. Such businesses must comply with the following five principles:

- Principle 1: Financial Returns versus Economic Viability
- Principle 2: Growth through Inclusivity & Innovation
- Principle 3: Managing & Mitigating Associated Risks
- Principle 4: Resource Scarcity and Choice
- Principle 5: Business Ethics & Values

Capital Management and Capital Adequacy

Internal Capital Adequacy Assessment Program (ICAAP)

Annually, the Group prepares an ICAAP report which provides management with a view of the impact of severe and unexpected events on earnings, balance sheet positions, reserves and capital. The Group's ICAAP integrates stress testing scenarios with capital planning and is used to assess the adequacy of its capital to support current and future activities. The ICAAP document includes the following key elements:

- Summary of Pillar 1 Risks capital requirement
- Summary of Pillar 2 Risks capital requirement
- Summary of Other Risks capital requirement
- Comparison of ICAAP computed Capital ratios and Regulatory capital ratios
- A five year capital plan and;
- Analysis of the impact of stress testing on Profit and Loss, Balance Sheet and Regulatory Capital
- Management Actions

In line with Pillar 2 of Basel II implementation which establishes the Supervisory Review Process. The Group's ICAAP was a two- step phase; the Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation process (SREP). The Group conducts an assessment of its internal capital requirements via the ICAAP which details approaches and procedures on how the bank measures and computes its various risks and capital requirements whilst the Central Bank of Kenya (CBK) conducts its assessment of the Group via the SREP in order to ascertain the reliability of the bank's self-assessment and to proffer recommendations and corrective measures where necessary.

Capital Management and Capital Adequacy (Continued)

Internal Capital Adequacy Assessment Program (ICAAP) (Continued)

The Group's ICAAP document computed the Group's economic capital required to cope with unexpected losses arising from the implementation of the iMara Strategy. In determining regulatory capital, the Group uses Risk Weighted Assets for credit risk capital, Standardized measurement for market risk capital and Basic Indicator approach (BIA) for determining operational risk capital.

The Group ICAAP report is reviewed by the BARMC and approved by the Group Board of Directors. As such, the Group's risk management processes and capital assessment assumptions are regularly being challenged and a conscious effort is made to ensure that the Group continues to monitor and mitigate the risks it faces.

The Board of Directors is the cornerstone of Corporate Governance. The codification of the fiduciary duties of Directors in the Kenyan Companies Act, 2015 ("the Act") set out the Kenya Government's goal in ensuring that companies are well governed and shareholder' investments are properly managed. The Act not only confirmed the common law duties of Directors but went further and made Directors personally liable for breach of some of the duties stipulated in the Act.

The Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 ("the Code") has also emphasized not only the importance of good Corporate Governance but also the role of the Board in ensuring that listed Companies are well governed and that in as much as possible, shareholders are assured of a return on investments. The Code provides the minimum standards required from Shareholders, Directors, Chief Executive Officers and Management of listed companies so as to promote high standards of conduct as well as to ensure that they exercise their duties and responsibilities with clarity, assurance and effectiveness.

In general, Directors are required to act in good faith and more specifically they have a duty to promote the success of the Company for the benefit of its members. Directors also have a duty to exercise reasonable care, skill and diligence and to ensure that conflicts of interest are avoided or where they occur, that there is a process for managing them.

The Board of Directors of I&M Holdings Limited is committed to the highest standards of good Corporate Governance and strives for continuous improvement by seeking to identify any loopholes and gaps in the Company's governance structures and processes. It is on this premise that the Board commissioned a Governance Audit with the aim of ensuring that all processes that are necessary for directing and controlling the Company are in place.

Adoption of the Governance Audit Report for the year 2017

The Governance Audit Report was adopted by the Board of Directors on **27 March 2018**.

Daniel Ndonye
Chairman

SBR Shah
Director

The Directors are responsible for the preparation and presentation of the consolidated and separate financial statements of I&M Holdings Limited (the "Group" and "Company") set out on pages 60 to 139 which comprise the consolidated and separate statements of financial position at 31 December 2017, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and the notes to the financial statements including a summary of significant accounting policies and other explanatory information, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, 2015, the Directors are required to prepare financial statements for each financial period which give a true and fair view of the financial position of the Group and the Company as at the end of the financial period and of the profit or loss of the Group and the Company for that period. It also requires the Directors to ensure the Company, its subsidiaries and joint venture keep proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Company.

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

The Directors have made an assessment of the Group and Company'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 consolidated and separate financial statements

The consolidated and separate financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on **27 March 2018.**

Daniel Ndonye
Chairman

SBR Shah
Director

Sachit S Raja Shah
Director

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of I&M Holdings Limited (the "Group" and "Company") set out on pages 60 to 139 which comprise the consolidated and separate statements of financial position at 31 December 2017, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of I&M Holdings Limited as at 31 December 2017, and consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act, 2015.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances to customers	
See accounting policy note 3(f)(iii) - Significant accounting policies and disclosure note 19 – Loans and advances to customers	
The key audit matter	**How the matter was addressed in our audit**
Impairment of loans and advances to customers is a key audit matter due to the significance of the balances, and complexity and subjectivity over estimating timing and amount of impairment. The risk is that the amount of impairment may be misstated.	Our audit procedures in this area included, among others: - Assessing the trends in the local credit environment, considering their likely impact on the Group's exposures and using this information to focus our testing on the key risk areas;

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

Key audit matters (Continued)

Impairment of loans and advances to customers (Continued)	
See accounting policy note 3(f)(iii) - Significant accounting policies and disclosure note 19 – Loans and advances to customers	
The key audit matter	**How the matter was addressed in our audit**
The estimation of the impairment loss allowance on an individual basis requires management to make judgements to determine whether there is objective evidence of impairment and to make assumptions about the financial condition of borrowers and expected future cash flows. The collective impairment loss allowance relates to losses incurred but not yet identified (IBNR loss allowance) on other loans. The audit matters include controls over the models used, accuracy of input and appropriateness of model overlays. The model overlays are required to address certain known data and system issues and to reflect economic conditions at the year end.	- Assessing and testing the design and operating effectiveness of the controls over the Group's loans impairment process; - Testing a sample of model overlays, including evaluating the rationale for adjustments, the source of data used, key assumptions and sensitivity of the overlays to these assumptions. We compared the assumptions used to selected externally available industry, financial and economic data. - Re-performing certain credit procedures as follows: • For individually significant non-performing loans, performing a credit assessment to determine whether the grading was appropriate and assess the reasonableness of the amount and timing of estimated recoverable cash flows, including realisable value of collateral. Where available, we compared the assumptions and estimates made by management to externally available information; • Performing a credit assessment of the performing loans to determine whether their grading was appropriate and testing the accuracy of key inputs into the models, assessing the appropriateness of the impairment calculation methodology and re-performing certain calculations. • Assessing whether disclosures in the financial statements appropriately reflect the Group's exposure to credit risk.

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

Key audit matters (Continued)

Impairment of goodwill	
The key audit matter	**How the matter was addressed**
See accounting policy note 3(j)(ii) – Significant accounting policies; disclosure note 23 – Intangible assets - Goodwill	
Impairment of goodwill is considered a key audit matter because: - The sectors in which the Group operates are highly regulated and have experienced competitive market conditions during the year which increased the uncertainty of forecast cash flows used in the valuation models. - A significant level of judgment is applied when considering management's assessment of impairment. We focused our audit on the Group's valuation methodologies and key inputs such as forecast cash flows, discount rates applied, forecast growth rates and terminal growth rates.	Our audit procedures in this area included, among others: - Assessing management's determination of the Group's Cash Generating Unit (CGU) based on our understanding of the nature of the Group's business. We also analysed the internal reporting of the Group to assess how results are monitored and reported. - Comparing the cash flow forecasts to the Board approved forecasts. We also evaluated the forecasting process undertaken by the Group by assessing the precision of prior year forecast cash flows by comparing with actual outcomes. - Challenging the Group's valuation methodologies, discount rates and growth rates. This included comparing the Group's input to external data such as economic growth projections and interest rates. - Comparing the carrying amount of the assets to management's valuation for the intangible assets to confirm the accuracy of the impairment charge, where impairment had been recognized.

Accounting for business acquisitions	
The key audit matter	**How the matter was addressed**
See accounting policy note 3(a) – Significant accounting policies; disclosure note 21 – Investment in subsidiaries and joint venture	
Accounting for business combinations is considered a key audit matter because: - The Group makes acquisitions as part of its business strategy. Such transactions can be complex and judgement is involved in determining whether each transaction is a business combination or the acquisition of an asset, with different accounting treatment applicable.	Our audit procedures in this area included amongst others: - Assessing the Group's processes for the review and the determination of the accounting for business combination. - Reading the reports and checking the computations to allocate the purchase price to the different assets and liabilities acquired in significant business combinations during the period.

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

Key audit matters (Continued)

Accounting for business acquisitions (Continued)	
See accounting policy note 3(a) – Significant accounting policies; disclosure note 21 – Investment in subsidiaries and joint venture	
The key audit matter	**How the matter was addressed in our audit**
- In accounting for a business combination, there is also judgement and inherent uncertainty in the estimation used in allocating the overall purchase price to the different assets and liabilities that make up the acquisition.	- Assessing whether the acquisition during the year met the criteria of a business combination in accordance with the relevant accounting standard; - Comparing the methodologies and key assumptions used in deriving the allocated values to generally accepted market practices and market data; - Assessing the accounting implication of the asset purchase agreement; and - Assessing the appropriateness of disclosure for significant business combinations.

Information Technology (IT) systems and controls	
The key audit matter	**How the matter was addressed**
Many financial reporting controls depend on the correct functioning of related elements of the operational and financial IT systems. This is an area of significant risk in our audit due to the complexity of the IT infrastructure. The calculations, recording and financial reporting of transactions and balances recorded in the financial statements is highly dependent on IT automated system and processes.The possible financial implications of errors or fraud on the financial statements either directly or indirectly will usually be significant.	In this area our audit procedures included, among others: - Testing general IT controls around system access and change management and testing controls over computer operations within specific applications which are required to be operating correctly to mitigate the risk of misstatement in the financial statements; and - With the support of our own IT specialists, we tested these controls through examining whether changes made to the systems were appropriately approved, and assessing whether appropriate restrictions were placed on access to core systems through testing the permissions and responsibilities of those given that access.

Other information

The Directors are responsible for the other information. The other information comprises the *Corporate information, Report of the directors, Statement on corporate governance, Statement of Directors' responsibilities and Directors' remuneration report*, which we obtained prior to the date of this auditors' report, and the other information to be included in the published *Annual Report and Financial Statements*, which is expected to be made available to us after that date.

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

KPMG

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

Other information (Continued)

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

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

Directors' responsibilities for the consolidated and separate financial statements

As stated on page 51, the Directors are responsible for the preparation of the consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

KPMG

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

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

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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

(i) In our opinion the information given in the *Report of the Directors* on pages 22 to 23 is consistent with the consolidated and separate financial statements;
(ii) The auditable part of the *Directors' Remuneration Report* on pages 34 to 37 has been properly prepared in accordance with the Kenyan Companies Act, 2015; and
(iii) We have issued an unqualified audit report on the consolidated and separate annual financial statements.

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

KPMG Kenya

Date: 27 March 2018

SUPPORTING our vision and purpose by embracing the core elements of our organizational culture. That is, customer-centricity, dynamism, innovation and creativity.

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

		Group		Company	
	Note	2017 KShs '000	2016 KShs '000	2017 KShs '000	2016 KShs '000
Interest income	8	24,423,762	24,451,398	36,744	16,940
Interest expense	9	(8,869,275)	(8,929,722)	-	-
Net interest income		**15,554,487**	**15,521,676**	**36,744**	**16,940**
Fee and commission income	10	3,324,275	2,734,967	-	-
Fee and commission expense	10	(226,416)	(182,817)	-	-
Net fee and commission income	**10**	**3,097,859**	**2,552,150**	**-**	**-**
Revenue		**18,652,346**	**18,073,826**	**36,744**	**16,940**
Other operating income	11	2,438,551	2,238,169	4,197,186	1,495,904
Operating income		**21,090,897**	**20,311,995**	**4,233,930**	**1,512,844**
Staff costs	12	(3,752,209)	(3,595,375)	-	-
Premises and equipment costs	12	(693,479)	(571,381)	-	-
General expenses	12	(2,610,820)	(2,540,065)	(29,922)	(32,790)
Depreciation and amortisation	12	(561,610)	(488,975)	(94)	(94)
Operating expenses		**(7,618,118)**	**(7,195,796)**	**(30,016)**	**(32,884)**
Operating profit before impairment, losses and tax		**13,472,779**	**13,116,199**	**4,203,914**	**1,479,960**
Net impairment losses on loans and advances	19(c)	(4,133,170)	(2,956,979)	-	-
		9,339,609	**10,159,220**	**4,203,914**	**1,479,960**
Share of profit of joint venture	21(a)	554,965	443,968	-	-
Profit before income tax	13	**9,894,574**	**10,603,188**	**4,203,914**	**1,479,960**
Income tax expense	14(a)	(2,630,325)	(2,843,026)	(4 ,595)	(3,453)
Profit for the year		**7,264,249**	**7,760,162**	**4,199,319**	**1,476,507**

(Continued Page 61)

The notes set out on pages 67 to 139 form an integral part of these consolidated and separate financial statements.

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

		Group		Company	
	Note	2017 KShs '000	2016 KShs '000	2017 KShs '000	2016 KShs '000
Other Comprehensive Income					
Items that will not be reclassified to Profit or loss:					
Actuarial losses on re - measurement of defined benefit scheme net of deferred tax	32(g)	(39,361)	(7,019)	-	-
Items that may be classified to Profit or loss:					
Available for sale financial assets-changes in fair value net of deferred tax		281,570	148,041	-	-
Foreign operations-foreign currency translation differences		(121,814)	(344,316)	-	-
Revaluation surplus on property and equipment net of deferred tax charge		23,016	392,552	-	-
Total other comprehensive income for the year		**143,411**	**189,258**	**-**	**-**
Total comprehensive income for the year		**7,407,660**	**7,949,420**	**4,199,319**	**1,476,507**
Profit attributable to:					
Equity holders of the company		6,766,256	7,283,625	4,199,319	1,476,507
Non-controlling interest		497,993	476,537	-	-
		7,264,249	**7,760,162**	**4,199,319**	**1,476,507**
Total Comprehensive income attributable to:					
Equity holders of the company		7,118,881	7,473,712	4,199,319	1,476,507
Non-controlling interest		288,779	475,708	-	-
		7,407,660	**7,949,420**	**1,476,507**	**1,476,507**
Basic and diluted earnings per share - (KShs)	15	**16.47**	**18.56**	**10.22**	**3.76**

The notes set out on pages 67 to 139 form an integral part of these consolidated and separate financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	Group 2017 KShs'000	Group 2016 KShs'000	Company 2017 KShs'000	Company 2016 KShs'000
ASSETS					
Cash and balances with central banks	16	11,879,815	11,083,876	-	-
Items in the course of collection	17	495,649	487,791	-	-
Loans and advances to banks	18	6,379,973	6,948,707	-	-
Loans and advances to customers	19(a)	153,018,152	134,675,332	-	-
Investment securities	20	50,846,267	45,834,460	193,523	111,896
Investment in Joint Venture	21(a)	4,267,166	3,508,182	1,679,971	1,679,971
Investment in subsidiaries	21(b)	-	-	23,790,896	19,675,873
Property and equipment	22	5,335,853	3,906,899	11	105
Intangible assets - Goodwill	23(a)	2,972,556	1,207,048	-	-
Intangible assets - Software	23(b)	527,964	233,405	-	-
Prepaid operating lease rentals	24	265,940	253,864	-	-
Tax recoverable	14(b)	606,193	12,541	5,799	3,954
Deferred tax asset	25	1,066,497	421,121	-	-
Due from group companies		-	-	152,452	71,375
Other assets	26	2,448,716	1,969,167	1,999	29,456
TOTAL ASSETS		**240,110,741**	**210,542,393**	**25,824,651**	**21,572,630**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Deposit from banks	27	5,996,295	7,795,856	-	-
Items in course of collection	17	-	7,517	-	-
Deposits from customers	28	169,282,314	146,514,406	-	-
Tax payable	14(b)	290,630	139,813	-	-
Due to group companies		-	-	10,909	11,337
Other liabilities	29	4,863,525	3,272,187	71,834	66,678
Long term borrowings	30	8,150,179	8,759,516	-	-
Subordinated debt	31	4,512,315	4,546,681	-	-
		193,095,258	**171,035,976**	**82,743**	**78,015**
Shareholders' equity (pages 63-65)					
Share capital	32(a)	413,405	392,362	413,405	392,362
Share premium	32(b)	18,805,359	17,331,510	18,805,359	17,331,510
Retained earnings		22,621,210	18,217,056	6,523,144	3,770,743
Revaluation reserve	32(c)	805,901	718,074	-	-
Available- for- sale reserve	32(d)	(125,292)	(353,536)	-	-
Translation reserve	32(e)	(278,028)	(287,996)	-	-
Statutory credit risk reserve	32(f)	2,163,403	1,059,022	-	-
Defined benefit reserve	32(g)	(86,105)	(46,744)	-	-
Equity attributable to owners of the company		**44,319,853**	**37,029,748**	**25,741,908**	**21,494,615**
Non-controlling interest		2,695,630	2,476,669	-	-
TOTAL SHAREHOLDERS' EQUITY		**47,015,483**	**39,506,417**	**25,741,908**	**21,494,615**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**240,110,741**	**210,542,393**	**25,824,651**	**21,572,630**

The financial statements set out on pages 60 to 139 were approved and authorised for issue by the Board of Directors on 27 March 2018 and were signed on its behalf by:

Daniel Ndonye	SBR Shah	Sachit S Raja Shah	Bilha Wanjiru Mwangi
Director	**Director**	**Director**	**Secretary**

The notes set out on pages 67 to 139 form an integral part of these financial statements.

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

	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Defined benefit reserve KShs'000	Statutory credit risk reserve KShs'000	Revaluation reserve KShs'000	Available for sale reserve KShs'000	Translation reserve KShs'000	Total KShs'000	Non-controlling interest KShs'000	Total KShs'000
At 1 January 2017	392,362	17,331,510	18,217,056	(46,744)	1,059,022	718,074	(353,536)	(287,996)	37,029,748	2,476,669	39,506,417
Profit for the year	-	-	6,766,256	-	-	-	-	-	6,766,256	497,993	7,264,249
Other comprehensive income	-	-	(915,184)	(39,361)	981,131	87,827	228,244	9,968	352,625	(209,214)	143,411
Total comprehensive income	-	-	5,851,072	(39,361)	981,131	87,827	228,244	9,968	7,118,881	288,779	7,407,660
Transaction with owners recorded directly in equity											
Dividends paid	-	-	(1,446,918)	-	-	-	-	-	(1,446,918)	(124,857)	(1,571,775)
Other transactions*	21,043	1,473,849	-	-	123,250	-	-	-	1,618,142	55,039	1,673,181
Transactions with owners for the year	21,043	1,473,849	(1,446,918)	-	123,250	-	-	-	171,224	(69,818)	101,406
At December 2017	413,405	18,805,359	22,621,210	(86,105)	2,163,403	805,901	(125,292)	(278,028)	44,319,853	2,695,630	47,015,483

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

The notes set out on pages 67 to 139 form an integral part of these consolidated and separate financial statements.

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

	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Defined benefit reserve KShs'000	Statutory credit risk reserve KShs'000	Revaluation reserve KShs'000	Available for sale reserve KShs'000	Translation reserve KShs'000	Total KShs'000	Non-controlling interest KShs'000	Total KShs'000
At 1 January 2016	392,362	17,331,510	12,971,933	(39,725)	912,617	446,744	(502,206)	(65,102)	31,448,133	2,273,166	33,721,299
Profit for the year	-	-	7,283,625	-	-	-	-	-	7,283,625	476,537	7,760,162
Other comprehensive income	-	-	(146,405)	(7,019)	146,405	271,330	148,670	(222,894)	190,087	(829)	189,258
Total comprehensive income	-	-	7,137,220	(7,019)	146,405	271,330	148,670	(222,894)	7,473,712	475,708	7,949,420
Transaction with owners recorded directly in equity											
Dividends paid	-	-	(1,373,269)	-	-	-	-	-	(1,373,269)	(124,537)	(1,497,806)
Other transactions	-	-	(518,828)	-	-	-	-	-	(518,828)	(147,668)	(666,496)
Transactions with owners for the year	-	-	(1,892,097)	-	-	-	-	-	(1,892,097)	(272,205)	(2,164,302)
At December 2016	392,362	17,331,510	18,217,056	(46,744)	1,059,022	718,074	(353,536)	(287,996)	37,029,748	2,476,669	39,506,417

The notes set out on pages 67 to 139 form an integral part of these consolidated and separate financial statements.

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

	Share capital KShs '000	Share premium KShs '000	Retained earnings KShs '000	Total KShs '000
2017				
At 1 January 2017	392,362	17,331,510	3,770,743	21,494,615
Comprehensive income for the year				
Profit for the year	-	-	4,199,319	4,199,319
Total comprehensive income for the year	-	-	4,199,319	4,199,319
Transactions with owners recorded directly in equity				
Other transactions*	21,043	1,473,849	-	1,494,892
Dividends paid	-	-	(1,446,918)	(1,446,918)
Total transactions with owners for the year	21,043	1,473,849	(1,446,918)	47,974
At 31 December 2017	413,405	18,805,359	6,523,144	25,741,908

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

	Share capital KShs '000	Share premium KShs '000	Retained earnings KShs '000	Total KShs '000
2016				
At 1 January 2016	392,362	17,331,510	3,667,505	21,391,377
Comprehensive income for the year				
Profit for the year	-	-	1,476,507	1,476,507
Total comprehensive income for the year	-	-	1,476,507	1,476,507
Transactions with owners recorded directly in equity				
Dividends paid	-	-	(1,373,269)	(1,373,269)
Total transactions with owners for the year	-	-	(1,373,269)	(1,373,269)
At 31 December 2016	392,362	17,331,510	3,770,743	21,494,615

The notes set out on pages 67 to 139 form an integral part of these consolidated and separate financial statements.

	Note	Group		Company	
		2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Net cash flows generated from operating activities	33(a)	**13,726,150**	**10,610,555**	**4,148,126**	**1,373,191**
Cash flows used in investing activities					
Purchase of property and equipment	22(a)	(1,577,192)	(851,008)	-	
Purchase of intangible assets	23(b)	(440,403)	(87,984)	-	-
Purchase of property and equipment directly expensed		(16,034)	(2,737)	-	-
Acquisition of Burbidge Capital net of cash and cash equivalent	33(d)	-	(54,856)	-	-
Investment in subsidiary		-	-	(2,547,296)	(71,207)
Additional Investment in I&M Bank (T) Limited		-	(819,907)	-	
Proceeds from disposal of property and equipment		3,665	8,163	-	-
Acquisition of Giro Limited net of cash and cash equivalent	33(c)	(1,351,684)	-	-	-
Net cash used in investing activities		**(3,381,648)**	**(1,808,329)**	**(2,547,296)**	**(71,207)**
Cash flows used in financing activities					
Net outflows from term subordinated debt		-	51,597	-	
Dividend paid to shareholders of the company		(1,446,918)	(1,373,269)	(1,446,918)	(1,373,269)
Dividend paid to non-controlling interests		(59,918)	(124,537)	-	-
Rights issue - I&M Bank (T) Limited		-	132,578	-	
Rights issue - I&M Burbidge Capital		-	2,100	-	-
Capital restructuring costs		(72,835)	-	(72,835)	-
Net cash used in financing activities		**(1,579,671)**	**(1,311,531)**	**(1,519,753)**	**(1,373,269)**
Net increase/(decrease) in cash and cash equivalents	33(b)	**8,764,831**	**7,490,695**	**81,077**	**(71,285)**
Cash and cash equivalents at start of the year	33(b)	**11,868,769**	**4,378,074**	**71,375**	**142,660**
Cash and cash equivalents at end of the year	33(b)	**20,633,600**	**11,868,769**	**152,452**	**71,375**

The notes set out on pages 67 to 139 form an integral part of these consolidated and separate financial statements.

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 2017 comprise of entities in Kenya - I&M Bank LIMITED, I&M Capital Limited, I&M Realty Limited, Giro Limited and I&M Insurance Agency Limited, I&M Bank (T) Limited in Tanzania, and I&M Bank (Rwanda) Limited in Rwanda, I&M Burbidge Capital Limited 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) 70.38% (2016 - 70.38%) shareholding in I&M Bank (T) Limited;
(ii) 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;
(iii) I&M Bank (Rwanda) Limited - effective interest of 54.45% in I&M Bank (Rwanda) Limited through a 68.742% holding in BCR Investment Company Limited (Mauritius) which owns 79.208% shareholding in I&M Bank (Rwanda) Limited;
(iv) I&M Capital Limited - 100% Shareholding;
(v) I&M Realty Limited - 100% Shareholding;
(vi) I&M Burbidge Capital Limited, which owns 100% of Burbidge Capital (Uganda) Limited - 65% Shareholding and;
(vii) Giro Limited (formerly Giro Commercial Bank Limited) - 100% Shareholding

2. BASIS OF PREPARATION

(a) Statement of compliance

The Group's consolidated and separate financial statements for the year 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS). Additional information required by the regulatory bodies is included where appropriate. Details of the significant accounting policies are included in note 3.

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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) Basis of consolidation

Business combination

(i) Subsidiaries

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

(ii) Interest in equity-accounted investees

Investments in joint ventures are accounted for using the equity method of accounting in the financial statements. These are undertakings in which the Group has between 20% and 50% of the voting rights and over which the Group exercises significant influence but which it does not control. Under the equity method, the Group's share of its joint ventures' post-acquisition profits or losses is recognised in profit or loss and its share of other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition total comprehensive income or loss (including dividends received from the associate) is adjusted against the carrying amount of the investment.

Losses of a joint venture in excess of the Group's interest in that joint venture are recognised only to the extent that the Group has incurred legal or constructive obligations to make payments on behalf of the associate.

Unrealized gains arising from transaction with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Investments in joint ventures are accounted at cost less impairment loss in the separate financial statements of the Group. They are initially recognised at cost which includes transaction costs.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Foreign currencies

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

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

(c) Foreign operations

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

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

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

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

(d) Income recognition

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

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

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

(i) Net interest income

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income recognition (Continued)

(i) Net interest income (Continued)

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

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

(ii) Fee and commission income

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

(iii) Other operating income

Other operating income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and foreign exchange differences. It also includes rental income and gain on disposal of property and equipment.

(iv) Rental income- other operating income

Rental income is recognised in the profit or loss on a straight-line basis over the term of the lease.

(v) Dividend income

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

(e) Income tax expense

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Income tax expense (Continued)

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

(f) Financial assets and financial liabilities

(i) Recognition

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

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

(ii) Classification

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

Financial assets at fair value through profit or loss

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

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

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

Loans and receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and liabilities (Continued)

Held to maturity

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

Available-for-sale

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

(iii) Identification and measurement of impairment of financial assets

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(iv) De-recognition

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

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

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

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

(v) Offsetting of financial assets and financial liabilities

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

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

(vi) Fair value of financial assets and financial liabilities

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

(vii) Amortized cost measurement

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

(g) Fair value measurement

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fair value measurement (Continued)

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

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

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

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

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

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

(h) Cash and cash equivalents

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

(i) Property and equipment

Items of property and equipment are measured at cost or valuation less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the asset.

Subsequent expenditure is capitalised only when it is probable that future economic benefits of the expenditure will flow to the Group. On-going repairs and maintenance are expensed as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Property and equipment (Continued)

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

Leasehold buildings	2%
Leasehold improvements	10 - 12½% or over the periodof lease if shorter than 8 years
Computer equipment and computer software	20 - 33⅓%
Furniture, fittings and fixtures	10 - 12½%
Motor vehicles	20 - 25%

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

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

(j) Intangible assets

(i) Computer software

The costs incurred to acquire and bring to use specific computer software licences are capitalised. Software is measure at cost less accumulated amortisation and accumulated impairment. The costs are amortised on a straight line basis over the expected useful lives, from the date it is available for use, not exceeding three years. Costs associated with maintaining software are recognised as an expense as incurred.

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

(ii) Goodwill

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

(k) Operating leases

(i) Operating leases

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

(ii) Finance lease receivables

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

(l) Impairment of non-financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Impairment of non-financial assets (Continued)

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

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

(m) Derivative financial instruments

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

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

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

(n) Employee benefits

(i) Defined contribution plan

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

The assets of the defined contribution scheme are held in a separate trustee administered guaranteed scheme managed by an insurance company. Retirement plans are funded by contributions from the employees and the respective entities.

The Group's contributions are recognised in profit or loss in the year to which they relate.

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

(ii) Leave accrual

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

(iii) Employee Share Ownership Plan (ESOP)

The grant date fair value of equity-settled share-based payment awards (i.e. stock options) granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market perfomance conditions at the vesting date.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Employee benefits (Continued)

(iii) Employee Share Ownership Plan (ESOP) (Continued)

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(o) Share capital and share issue costs

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

(p) Earnings per share

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

(q) Dividends

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

(r) Contingent liabilities

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

(s) Provisions

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

(t) Fiduciary activities

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

(u) Comparative information

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards, amendments and interpretations

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

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

New standard or amendments	Effective for annual periods beginning on or after
Disclosure Initiative (Amendments to IAS 7)	1 January 2017
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017

Disclosure Initiative (Amendments to IAS 7)

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

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

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

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

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

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

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

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

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

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

- An entity assesses a deferred tax asset in combination with other deferred ax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

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

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

Annual improvements cycle (2014-2016)

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

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

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

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

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

IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments (2014)	1 January 2018
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
IAS 40 Transfers of Investment Property	1 January 2018
IFRS 16 Leases	1 January 2019
IFRIC 23 Income tax exposures	1 January 2019
IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
IFRS 17 Insurance contracts	1 January 2021

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined
Annual improvement cycle (2014 - 2016) - various standards	1 January 2018
Annual improvement cycle (2015 - 2017) - various standards	1 January 2019

IFRS 15 Revenue from Contracts with Customers

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

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

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

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

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

IFRS 9 Financial Instruments (IFRS 9)

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

Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

IFRS 9 Financial Instruments (IFRS 9) (Continued)

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

Classification and Measurement

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

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

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

Impairment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

IFRS 9 Financial Instruments (IFRS 9) (Continued)

Impairment (Continued)

Impairment Overall Comparison of the New Impairment Model and the Current Model (Continued)

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

Scope

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

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

Measurement of Expected Credit Losses

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument. The measurement of ECLs will be based primarily on the product of the instrument's probability of default (PD), loss given default (LGD), and exposure at default (EAD). The ECL model contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

- Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

IFRS 9 Financial Instruments (IFRS 9) (Continued)

Measurement of Expected Credit Losses (Continued)

- Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses based on the Central Bank of Kenya (CBK) and Banks' policy on curing of loans.

- When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

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

Assessment of Significant Increase in Credit Risk

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

Definition of Default

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

Hedge Accounting

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

The following clarifications and amendments are contained in the pronouncement:

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

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

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

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

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

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

- On such modifications, the original liability recognised in respect of the cash-settled share-based payment is derecognised and the equity settled share-based payment is recognised at the modification date fair value to the extent services have been rendered up to the modification date.

- Any difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date would be recognised in profit and loss immediately.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

Transfers of Investment property (Amendments to IAS 40)

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

IFRS 16: Leases (Continued)

Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

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

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

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

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

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

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

IFRIC 23 Clarification on accounting for Income tax exposures

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

IFRIC 23 Clarification on accounting for Income tax exposures (Continued)

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

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

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

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

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

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

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

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

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

Long-term Interests in Associates and Joint Ventures (Amendment to L4S 28)

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

IFRS 17 Insurance Contracts

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

IFRS 17 Insurance Contracts (Continued)

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

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

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

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

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

Annual improvements cycle (2014- 2016)- various standards

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

IFRS 17 Insurance Contracts (Continued)

Annual improvements cycle (2015-2017) - various standards

Standard	Amendments
IFRS3 Business Combinations and IFRS 11 Joint Arrangements	Clarifies how a company accounts for increasing its interest in a joint operation that meets the definition of a business: - If a party maintains (or obtains) joint control, then the previously held interest is not remeasured. - If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value .

Standard	Amendments
IAS 12 Income taxes	Clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits - i.e. in profit or loss, OCI or equity.
IAS 23 Borrowing costs	Clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale - or any non-qualifying assets are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments .

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

4. FINANCIAL RISK MANAGEMENT

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

Financial risk

The 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.

4. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk (Continued)

(a) Credit risk (Continued)

Exposure to credit risk

Loans and advances to customers	2017 KShs'000	2016 KShs'000
Individually impaired:		
Grade 3: Substandard	3,776,412	2,186,701
Grade 4: Doubtful	14,727,991	5,802,451
Grade 5: Loss	980,236	1,438,825
	19,484,639	**9,427,977**
Specific allowances for impairment	(6,176,817)	(5,536,457)
Carrying amounts	**13,307,822**	**3,891,520**
Collectively impaired:		
Grade 1: Normal	116,423,812	114,253,701
Grade 2: Watch	24,357,908	17,040,708
	140,781,720	**131,294,409**
Portfolio allowances for impairment	(1,071,390)	(510,597)
Carrying amounts	**139,710,330**	**130,783,812**
Total carrying amounts	**153,018,152**	**134,675,332**

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.

4. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk (Continued)

(a) Credit risk (Continued)

Loans with renegotiated terms

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

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually 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.

4. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk (Continued)

(a) Credit risk (Continued)

Loans and advances - Group	**Gross KShs'000**	**Net KShs'000**
Individually impaired:		
31 December 2017		
Grade 3: Substandard	3,776,412	3,299,939
Grade 4: Doubtful	14,727,991	9,767,625
Grade 5: Loss	980,236	240,258
	19,484,639	**13,307,822**
31 December 2016		
Grade 3: Substandard	2,186,701	1,444,640
Grade 4: Doubtful	5,802,451	2,300,546
Grade 5: Loss	1,438,825	146,334
	9,427,977	**3,891,520**
Collectively impaired:		
31 December 2017		
Grade 1: Normal	116,423,811	115,574,034
Grade 2: Watch	24,357,909	24,136,296
	140,781,720	**139,710,330**
31 December 2016		
Grade 1: Normal	114,253,701	113,642,608
Grade 2: Watch	17,040,708	17,141,204
	131,294,409	**130,783,812**

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 2017 or 2016.

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

	2017 KShs'000	**2016 KShs'000**
Group		
Fair value of collateral held against impaired loans	**5,895,688**	**4,232,458**

4. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk (Continued)

(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 2017 to the contractual maturity date:

	Kenya		Tanzania		Rwanda	
	2017	2016	2017	2016	2017	2016
At 31 December	35%	37%	28%	31%	47%	55%
Average for the period	37%	36%	31%	31%	47%	51%
Highest for the period	41%	39%	34%	34%	50%	54%
Lowest for the period	34%	32%	28%	25%	45%	49%

Group

31 December 2017	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
LIABILITIES						
Deposits from banks	3,192,532	595,642	2,208,121	-	-	**5,996,295**
Deposits from customers	61,406,428	83,448,148	24,266,102	161,636	-	**169,282,314**
Other liabilities	2,370,840	2,492,685	-	-	-	**4,863,525**
Long term borrowings	76,836	22,121	2,277,230	5,619,708	154,284	**8,150,179**
Subordinated debt	-	2,867	25,666	4,483,782	-	**4,512,315**
At 31 December 2017	**67,046,636**	**86,561,463**	**28,777,119**	**10,265,126**	**154,284**	**192,804,628**

Group

31 December 2016	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
LIABILITIES						
Deposits from banks	4,257,476	2,427,315	1,111,065	-	-	**7,795,856**
Items in the course of collection	7,517	-	-	-	-	**7,517**
Deposits from customers	49,738,935	78,022,358	17,680,464	1,072,649	-	**146,514,406**
Other liabilities	749,200	2,319,058	203,929	-	-	**3,272,187**
Long term borrowings	78,617	114,740	1,778,463	6,653,810	133,886	**8,759,516**
Subordinated debt	14,335	-	39,798	4,492,548	-	**4,546,681**
At 31 December 2016	**54,846,080**	**82,883,471**	**20,813,719**	**12,219,007**	**133,886**	**170,896,163**

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

4. FINANCIAL 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.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk (Continued)

Group 31 December 2017	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS							
Cash and balances with central banks	-	-	-	-	-	11,879,815	**11,879,815**
Items in the course of collection	-	-	-	-	-	495,649	**495,649**
Loans and advances to banks	5,565,394	41,450	85,616	-	-	687,513	**6,379,973**
Loans and advances to customers	140,387,616	2,612,297	1,945,671	6,087,428	1,985,140	-	**153,018,152**
Investment securities	2,982,669	6,029,197	19,811,814	8,597,235	13,387,844	37,508	**50,846,267**
Other assets	-	-	-	-	138,361	2,310,355	**2,448,716**
At 31 December 2017	**148,935,679**	**8,682,944**	**21,843,101**	**14,684,663**	**15,511,345**	**15,410,840**	**225,068,572**
LIABILITIES							
Deposits from banks	1,764,855	1,682,053	1,121,710	-	-	1,427,677	**5,996,295**
Deposits from customers	44,849,970	83,448,148	21,366,828	161,635	-	19,455,733	**169,282,314**
Other liabilities	-	-	-	-	-	4,863,525	**4,863,525**
Long term borrowings	1,235,559	1,324,152	4,940,214	495,970	154,284	-	**8,150,179**
Subordinated debt	-	831,649	3,680,666	-	-	-	**4,512,315**
At 31 December 2017	**47,850,384**	**87,286,002**	**31,109,418**	**657,605**	**154,284**	**25,746,935**	**192,804,628**
Interest rate gap	**101,085,295**	**(78,603,058)**	**(9,266,317)**	**14,027,058**	**15,357,061**	**(10,336,095)**	**32,263,944**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk (Continued)

31 December 2016	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS							
Cash and balances with central banks	-	-	-	-	-	11,083,876	**11,083,876**
Items in the course of collection	-	-	-	-	-	487,791	**487,791**
Loans and advances to banks	4,213,378	1,794,571	166,212	-	-	774,546	**6,948,707**
Loans and advances to customers	129,723,819	144,704	679,817	3,416,537	710,455	-	**134,675,332**
Investment securities	2,596,623	6,101,824	13,503,729	16,078,495	7,530,137	23,652	**45,834,460**
Other assets	-	-	-	-	-	1,969,167	**1,969,167**
At 31 December 2016	**136,533,820**	**8,041,099**	**14,349,758**	**19,495,032**	**8,240,592**	**14,339,032**	**200,999,333**
LIABILITIES							
Deposits from banks	2,506,757	3,576,676	1,111,065	-	-	601,358	**7,795,856**
Items in the course of collection	-	-	-	-	-	7,517	**7,517**
Deposits from customers	34,807,683	78,004,158	17,680,464	1,072,649	-	14,949,452	**146,514,406**
Other liabilities	-	-	-	-	-	3,272,187	**3,272,187**
Long term borrowings	78,617	428,111	6,284,565	1,834,337	133,886	-	**8,759,516**
Subordinated debt	12,584	-	265,798	4,266,548	-	1,751	**4,546,681**
At 31 December 2016	**37,405,641**	**82,008,945**	**25,341,892**	**7,173,534**	**133,886**	**18,832,265**	**170,896,163**
Interest rate gap	**99,128,179**	**(73,967,846)**	**(10,992,134)**	**12,321,498**	**8,106,706**	**(4,493,233)**	**30,103,170**

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.

4. FINANCIAL 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.

Group

	Profit or loss Increase/ decrease in basis points KShs ('000)	Equity net of tax Increase/ decrease in basis points KShs ('000)
31 December 2017		
Assets	4,193,155	2,935,208
Liabilities	(3,341,154)	(2,338,808)
Net position	**852,001**	**596,400**
31 December 2016		
Assets	3,733,206	2,613,244
Liabilities	(3,041,278)	(2,128,895)
Net position	**691,928**	**484,349**

4. FINANCIAL 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 2017 and 31 December 2016.

	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with central banks	1,171,801	266,396	246,093	5,384	**1,689,674**
Items in the course of collection	22,012	-	446	-	**22,458**
Loans and advances to banks	2,751,627	704,178	1,156,168	492,221	**5,104,194**
Loans and advances to customers	56,022,337	2,109,021	1,774,879	307	**59,906,544**
Investment securities	700,902	-	-	-	**700,902**
Other assets	72,178	56,752	621	8,051	**137,602**
At 31 December 2017	**60,740,857**	**3,136,347**	**3,178,207**	**505,963**	**67,561,374**
LIABILITIES					
Deposits from banks	2,632,512	120,758	538,253	9,883	**3,301,406**
Deposits from customers	43,350,370	2,984,684	1,802,888	416,211	**48,554,153**
Other liabilities	1,895,426	13,910	39,039	36,517	**1,984,892**
Long term borrowings	5,388,020	-	1,378,126	-	**6,766,146**
At 31 December 2017	**53,266,328**	**3,119,352**	**3,758,306**	**462,611**	**60,606,597**
Net on statement of financial position	**7,474,529**	**16,995**	**(580,099)**	**43,352**	**6,954,777**
Net notional off balance sheet position	**(7,969,607)**	**109,726**	**115,353**	**(20,830)**	**(7,765,358)**
Overall net position – 2017	**(495,078)**	**126,721**	**(464,746)**	**22,522**	**(810,581)**

4. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk (Continued)

(c) Market risk (Continued)

Currency rate risk – (Continued)

	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with central banks	1,287,506	161,234	210,494	1,455	1,660,689
Items in the course of collection	20,568	-	66	-	20,634
Loans and advances to banks	4,718,430	450,730	1,073,057	239,764	6,481,981
Loans and advances to customers	51,141,774	1,269,764	1,235,084	2	53,646,624
Other assets	124,104	9,366	-	374	133,844
At 31 December 2016	**57,292,382**	**1,891,094**	**2,518,701**	**241,595**	**61,943,772**
LIABILITIES					
Deposits from banks	5,745,740	41,176	151,793	17,171	5,955,880
Deposits from customers	33,503,152	2,309,747	2,251,232	188,967	38,253,098
Other liabilities	1,954,193	18,056	44,993	15,895	2,033,137
Long term borrowings	6,432,253	-	1,452,584	-	7,884,837
At 31 December 2016	**47,635,338**	**2,368,979**	**3,900,602**	**222,033**	**54,126,952**
Net on statement of financial position	**9,657,044**	**(477,885)**	**(1,381,901)**	**19,562**	**7,816,820**
Net notional off balance sheet position	**(9,875,162)**	**482,581**	**1,091,101**	**(5,979)**	**(8,307,459)**
Overall net position – 2016	**(218,118)**	**4,696**	**(290,800)**	**13,583**	**(490,639)**

4. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk (Continued)

(c) Market risk (Continued)

Currency rate risk – (Continued)

Sensitivity Analysis

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

	Profit or loss Strengthening/ weakening of currency KShs'000	Equity net of tax Strengthening/ weakening of currency KShs'000
31 December 2017		
USD (± 2.5% movement)	(12,377)	(8,664)
GBP (± 2.5% movement)	3,168	2,218
EUR (± 2.5% movement)	(11,619)	(8,133)
31 December 2016		
USD (± 2.5% movement)	(5,453)	(3,817)
GBP (± 2.5% movement)	117	82
EUR (± 2.5% movement)	(7,270)	(5,089)

(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

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.

4. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk (Continued)

(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.

4. FINANCIAL 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:

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

** As defined by the Central Bank of Kenya*

4. FINANCIAL 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 analysed 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 I 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.

	2017 TZS'000	2016 TZS'000
Core capital (Tier 1)		
Share capital	2,792,000	2,792,000
Share premium	17,995,751	17,995,751
Retained earnings	33,038,798	28,781,303
Available -for-sale reserve	217,700	-
	54,044,249	**49,569,054**
Less: Prepaid expenses	(1,379,744)	(1,486,052)
Deferred tax asset	(3,550,713)	(2,176,943)
Intangible assets	(639,227)	(933,662)
Total Core capital	**48,474,565**	**44,972,397**
Supplementary capital (Tier 2)		
Term subordinated debt	14,336,000	15,696,000
General provisions in equity	2,520,857	2,703,950
	16,856,857	**18,399,950**
Total capital	**65,331,422**	**63,372,347**

4. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk (Continued)

(e) Capital management (Continued)

Regulatory capital – Tanzania (Continued)

	Minimum*	2017 TZS'000	2016 TZS'000
Risk weighted assets			
On balance sheet		303,547,002	292,372,229
Off balance sheet		38,592,243	30,759,731
Capital charge for market risk		572,730	497,997
Operational risk weighted assets		32,382,065	-
Total risk weighted assets		**375,094,040**	**323,629,957**
Capital ratios			
Core capital /Total risk weighted assets	**12.5%**	**13.01%**	**14.23%**
Total capital /Total risk weighted assets	**14.5%**	**17.51%**	**19.92%**

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

- The minimum level of regulatory capital is TZS 15 billion.

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 recognized and the Bank recognizes 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.

4. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk (Continued)

(e) Capital management (Continued)

Regulatory capital – Rwanda (Continued)

		2017 RWF'000	2016 RWF'000
Core capital (Tier 1)			
Share capital		5,050,000	5,000,000
Share premium		400,000	-
Retained earnings		23,404,666	20,380,455
		28,854,666	**25,380,455**
Less:			
Other reserves		812,065	709,229
Intangible assets		(51,944)	(139,126)
Total Core capital (Tier 1 Capital)		**29,614,787**	**25,950,558**
Supplementary capital			
Revaluation reserves		535,100	535,100
		535,100	**535,100**
Total capital (Tier 2 Capital)		**30,149,887**	**26,485,658**
Total risk weighted assets		**152,194,191**	**119,300,838**
Capital ratios	Minimum*		
Core capital /Total risk weighted assets	**10.00%**	**19.46%**	**21.75%**
Total capital /Total risk weighted assets	**15.00%**	**19.81%**	**22.20%**
Share capital			

**** As defined by the Bank of Rwanda***

- The minimum level of regulatory capital is RWF 5 billion.

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.

4. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk (Continued)

(e) Capital management (Continued)

Regulatory capital – Mauritius (Continued)

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 I 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 supplementmy 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 2017 was 12.96% (2016 - 12.93%).

IFRS 9

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

	Impairment charge before taxes KShs '000	Total capital /Total risk weighted assets		
		From %	To %	Change %
I&M Bank LIMITED	746,197	18.58%	18.23%	-0.35%
I&M Bank (T) Limited	15,904	17.42%	17.34%	-0.08%
I&M Bank (Rwanda) Limited	16,650	19.81%	19.74%	-0.07%

4. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk (Continued)

(e) Capital management (Continued)

IFRS 9 (Continued)

	Impairment charge before taxes KShs '000	Core Capital /Total risk weighted assets		
		From %	To %	Change %
I&M Bank LIMITED	746,197	17.17%	17.25%	0.08%
I&M Bank (T) Limited	15,904	12.92%	12.94%	0.02%
I&M Bank (Rwanda) Limited	16,650	19.46%	19.48%	0.02%

The impact is primarily attributable to:

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

Management will continue to monitor and refine certain elements of impairment process.

(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.

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

(a) 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(f)(iii). 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.

(b) Income taxes

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

(c) Property and equipment

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

(d) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy 3(g)(ii) and computed in note 23. 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 AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

6. FAIR VALUE HIERARCHY 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.

Accounting classifications at carrying amounts and fair values

Group 31 December 2017	Carrying amounts					Fair value			
	Held to maturity KShs'000	Loans and receivables KShs'000	Available for sale KShs'000	Other amortized cost KShs'000	Total KShs'000	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets									
Cash and balances with central banks	-	11,879,815	-	-	**11,879,815**	2,410,009	-	-	**2,410,009**
Items in the course of collection	-	-	-	495,649	**495,649**	-	-	-	**-**
Investment securities	29,112,981	-	21,733,286	-	**50,846,267**	15,772,013	2,423,765	3,537,508	**21,733,286**
Loans and advances to banks	-	6,379,973	-	-	**6,379,973**	-	-	-	**-**
Loans and advances to customers	-	153,018,152	-	-	**153,018,152**	-	-	-	**-**
Other assets	-	-	-	719,776	**719,776**	-	-	-	**-**
	29,112,981	**171,277,940**	**21,733,286**	**1,215,425**	**223,339,632**	**18,182,022**	**2,423,765**	**3,537,508**	**24,143,295**
Financial liabilities									
Deposits from banks	-	-	-	5,996,295	**5,996,295**	-	-	-	**-**
Deposits from customers	-	-	-	169,282,314	**169,282,314**	-	-	-	**-**
Long term borrowings	-	-	-	8,150,179	**8,150,179**	-	-	-	**-**
Subordinated debt	-	-	-	4,512,315	**4,512,315**	-	-	-	**-**
	-	**-**	**-**	**187,941,103**	**187,941,103**	**-**	**-**	**-**	**-**

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

6. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE

Accounting classifications and fair values (Continued)

31 December 2016	Carrying amounts					Fair value			
	Held to maturity KShs'000	Loans and receivables KShs'000	Available for sale KShs'000	Other amortized cost KShs'000	Total KShs'000	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets									
Cash and balances with central banks	-	11,083,876	-	-	**11,083,876**	2,089,675	-	-	**2,089,675**
Items in the course of collection	-	-	-	487,791	**487,791**	-	-	-	**-**
Investment securities	23,775,542	-	22,058,918	-	**45,834,460**	16,459,882	2,075,384	3,523,652	**22,058,918**
Loans and advances to banks	-	6,948,707	-	-	**6,948,707**	-	-	-	**-**
Loans and advances to customers	-	134,675,332	-	-	**134,675,332**	-	-	-	**-**
Other assets	-	-	-	525,764	**525,764**	-	-	-	**-**
	23,775,542	**152,707,915**	**22,058,918**	**1,013,555**	**199,555,930**	**18,549,557**	**2,075,384**	**3,523,652**	**24,148,593**
Financial liabilities									
Deposits from banks	-	-	-	7,795,856	**7,795,856**	-	-	-	**-**
Items in the course of collection	-	-	-	7,517	**7,517**	-	-	-	**-**
Deposits from customers	-	-	-	146,514,406	**146,514,406**	-	-	-	**-**
Long term borrowings	-	-	-	8,759,516	**8,759,516**	-	-	-	**-**
Subordinated debt	-	-	-	4,546,681	**4,546,681**	-	-	-	**-**
	-	**-**	**-**	**167,623,976**	**167,623,976**	**-**	**-**	**-**	**-**

Measurement of fair values

(i) Valuation techniques and significant unobservable inputs

Financial assets measured at fair value - At 31 December 2017 and 31 December 2016

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

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

7. OPERATING SEGMENTS

The Group operations are within five geographical segments, Kenya, Tanzania, Rwanda, Uganda and Mauritius. The table below contains segmental information for the year ended 31 December 2017.

2017	Kenya KShs'000	Tanzania KShs'000	Rwanda KShs'000	Mauritius KShs'000	Uganda KShs'000	Elimination KShs'000	Total KShs'000
Net interest income	12,464,090	1,116,295	1,974,102	-	-	-	15,554,487
Net fee commission and other income	4,434,039	323,257	945,212	-	1,625	(167,723)	5,536,410
Share of joint venture profits	-	-	-	554,965	-	-	554,965
Operating income	**16,898,129**	**1,439,552**	**2,919,314**	**554,965**	**1,625**	**(167,723)**	**21,645,862**
Operating expenses	(4,879,487)	(841,555)	(1,493,863)	-	(3,033)	161,430	(7,056,508)
Depreciation and amortisation	(365,713)	(66,624)	(129,251)	-	(22)	-	(561,610)
Net impairment losses on loans and advances	(3,853,113)	(205,769)	(74,288)	-	-	-	(4,133,170)
Operating expenses	**(9,098,313)**	**(1,113,948)**	**(1,697,402)**	**-**	**(3,055)**	**161,430**	**(11,751,288)**
Profit before tax	**7,799,816**	**325,604**	**1,221,912**	**554,965**	**(1,430)**	**(6,293)**	**9,894,574**
Profit after tax	**9,953,366**	**228,066**	**808,137**	**486,668**	**(2,090)**	**(4,209,898)**	**7,264,249**
Loans and advances to customers	**120,656,818**	**14,441,576**	**17,919,758**	**-**	**-**	**-**	**153,018,152**
Deposits from customers	**132,800,892**	**14,781,279**	**21,700,143**	**-**	**-**	**-**	**169,282,314**
Total assets	**214,620,959**	**20,557,303**	**32,326,621**	**3,780,623**	**4,020**	**(31,178,785)**	**240,110,741**
Total liabilities	**150,100,214**	**17,893,287**	**28,037,949**	**-**	**2,967**	**(2,939,159)**	**193,095,258**
Capital expenditure	**1,327,458**	**50,234**	**639,903**	**-**	**-**	**-**	**2,017,595**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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7. OPERATING SEGMENTS (Continued)

2016	Kenya KShs'000	Tanzania KShs'000	Rwanda KShs'000	Mauritius KShs'000	Uganda KShs'000	Elimination KShs'000	TOTAL KShs'000
Net interest income	12,562,051	1,019,508	1,907,368	-	-	32,749	15,521,676
Net fee, commission and other income	3,858,109	310,276	906,180	-	2,873	(287,119)	4,790,319
Results from joint venture	-	-	-	443,968	-	-	443,968
Operating income	**16,420,160**	**1,329,784**	**2,813,548**	**443,968**	**2,873**	**(254,370)**	**20,755,963**
Operating expenses	(4,529,631)	(778,178)	(1,537,307)	-	(6,885)	145,180	(6,706,821)
Depreciation and amortisation	(329,498)	(62,687)	(96,772)	-	(18)	-	(488,975)
Net impairment losses on loans and advances	(2,778,703)	(105,378)	(72,898)	-	-	-	(2,956,979)
Profit before tax	**8,782,328**	**383,541**	**1,106,571**	**443,968**	**(4,030)**	**(109,190)**	**10,603,188**
Profit after tax	**6,501,825**	**258,172**	**763,094**	**437,675**	**(3,126)**	**(197,478)**	**7,760,162**
Loans and advances to customers	**106,585,738**	**14,111,125**	**13,978,469**	**-**	**-**	**-**	**134,675,332**
Deposits from customers	**116,169,431**	**13,466,636**	**16,881,465**	**-**	**-**	**(3,126)**	**146,514,406**
Total Assets	**188,723,305**	**19,911,983**	**25,979,415**	**3,022,287**	**5,808**	**(26,534,902)**	**210,542,393**
Total Liabilities	**132,119,752**	**17,439,313**	**22,151,030**	**7,430**	**1,524**	**(683,073)**	**171,035,976**
Capital expenditure	**700,933**	**22,205**	**215,954**	**-**	**-**	**-**	**939,092**

	Group		Company	
	2017 KShs '000	2016 KShs'000	2017 KShs'000	2016 KShs'000

8. INTEREST INCOME

	Group 2017 KShs '000	Group 2016 KShs'000	Company 2017 KShs'000	Company 2016 KShs'000
Loans and advances to customers	18,879,611	19,217,129	-	-
Loans and advances to banks	143,247	138,060	18,725	15,711
Investment securities:-				
- Held-to-maturity	2,812,044	2,533,513	8,065	-
- Available-for-sale	2,588,860	2,562,696	9,954	1,229
	24,423,762	**24,451,398**	**36,744**	**16,940**

9. INTEREST EXPENSE

	Group 2017 KShs '000	Group 2016 KShs'000	Company 2017 KShs'000	Company 2016 KShs'000
Deposits from customers	7,571,926	7,712,342	-	-
Deposits from banks	371,272	279,934	-	-
Long term borrowings	394,040	412,297	-	-
Subordinated debt	532,037	525,149	-	-
	8,869,275	**8,929,722**	**-**	**-**

10. NET FEE AND COMMISSION INCOME

	Group 2017 KShs '000	Group 2016 KShs'000	Company 2017 KShs'000	Company 2016 KShs'000
Fee and commission income				
Commissions	2,259,757	1,852,600	-	-
Service fees	1,064,518	882,367	-	-
	3,324,275	**2,734,967**	**-**	**-**
Fee and commission expense				
Interbank transaction fees	(101,280)	(66,247)	-	-
Other	(125,136)	(116,570)	-	-
	(226,416)	**(182,817)**	**-**	**-**
Net fee and commission income	**3,097,859**	**2,552,150**	**-**	**-**

11. OTHER INCOME

	Group 2017 KShs '000	Group 2016 KShs'000	Company 2017 KShs'000	Company 2016 KShs'000
Other operating income				
Income from foreign exchange dealings	1,828,903	1,797,461	-	-
Rental income	137,510	73,312	-	-
Profit on sale of property and equipment	1,256	-	-	-
Profit on sale of available-for-sale investment securities	209,433	277,583	548	105
Other income	261,449	89,813	73,652	60
Dividend income	-	-	4,122,986	1,495,739
	2,438,551	**2,238,169**	**4,197,186**	**1,495,904**

12. OPERATING EXPENSES

	Group 2017 KShs '000	Group 2016 KShs'000	Company 2017 KShs'000	Company 2016 KShs'000
Staff Costs				
Salaries and wages	3,035,668	2,988,131	-	-
Contribution to defined contribution plan	157,977	141,329	-	-
Statutory contribution	28,657	2,120	-	-
Other staff costs	529,907	463,795	-	-
	3,752,209	**3,595,375**	**-**	**-**
Premises and equipment's costs				-
Rental of premises	471,431	379,412	-	-
Electricity	59,219	77,819	-	-
Other premises and equipment costs	162,829	114,150	-	-
	693,479	**571,381**	**-**	**-**
General expenses				
Deposit protection insurance contribution	223,081	168,965	-	-
Loss on disposal of property and equipment	62	1,027	-	-
Other general administrative expenses	2,387,677	2,370,073	29,922	32,790
	2,610,820	**2,540,065**	**29,922**	**32,790**
Depreciation and amortisation				
Depreciation on property and equipment (Note 22)	406,884	373,489	94	94
Amortisation of intangible assets (Note 23)	135,157	109,778	-	-
Amortisation of prepaid operating lease rentals (Note 24)	19,569	5,708	-	-
	561,610	**488,975**	**94**	**94**

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

	Group 2017	Group 2016	Company 2017	Company 2016
Management	1,270	1,145	-	-
Others	205	293	-	-
	1,475	**1,438**	**-**	**-**

13. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	Group 2017 KShs '000	Group 2016 KShs'000	Company 2017 KShs'000	Company 2016 KShs'000
Depreciation	406,884	373,489	94	94
Amortisation of intangible assets	135,157	109,778	-	-
Directors' emoluments: - Fees	14,752	13,433	7,753	6,750
- Other	42,654	39,790	-	-
Auditors' remuneration	19,566	20,337	1,902	1,696
Amortisation of prepaid operating lease rentals	19,573	5,708	-	-
Net profit/on disposal of property and equipment	1,194	2,675	-	-
Dividend income	-	-	4,122,986	1,495,739

14. INCOME TAX EXPENSE AND TAX PAYABLE

	Group 2017 KShs '000	Group 2016 KShs'000	Company 2017 KShs '000	Company 2016 KShs'000
(a) Income tax expense				
Current year's tax	3,197,392	3,098,082	8,038	5,047
Under/(Over) provision in prior year - Current tax	238,612	(87,348)	(3,443)	(1,594)
Current tax expense	**3,436,004**	**3,010,734**	**4,595**	**3,453**
Deferred tax credit - Current year (Note 25)	(559,870)	(103,121)	-	-
- Prior year (Note 25)	(245,809)	(64,587)	-	-
Income tax expense	**2,630,325**	**2,843,026**	**4,595**	**3,453**
The tax on the accounting profit differs from the theoretical amount using the basic tax rate as follows:				
Accounting profit before income tax	**9,894,574**	**10,603,188**	**4,203,914**	**1,479,960**
Computed tax using the applicable corporation tax rate (30%)	2,968,372	3,180,956	443,988	443,988
Under (Over) provision in the prior year	238,612	(87,348)	(3,443)	-
Impact of share of joint venture	(166,490)	(133,190)	-	-
Effect on non-deductible costs/non-taxable income	(164,360)	(52,805)	(435,950)	(438,941)
Over provision in prior year - Deferred tax	(245,809)	(64,587)	-	(1,594)
	2,630,325	**2,843,026**	**4,595**	**3,453**
(b) Tax (recoverable)/payable				
At 1 January	127,272	140,978	(3,954)	772
Income tax expense (Note 14 (a) (i))	3,436,004	3,010,734	4,595	3,453
Effect of tax in foreign jurisdiction	(3,214)	(8,589)	-	-
Acquisition of Giro Limited (formerly Giro Commercial Bank Limited)	165,351	-	-	-
Acquisition of I&M Burbidge Capital Limited	-	(572)	-	-
Tax paid	(4,040,976)	(3,015,279)	(6,440)	(8,179)
At 31 December	**(315,563)**	**127,272**	**(5,799)**	**(3,954)**
Tax recoverable	(606,193)	(12,541)	(5,799)	(3,954)
Tax payable	290,630	139,813	-	-
Net payable	**(315,563)**	**127,272**	**(5,799)**	**(3,954)**

15. EARNINGS PER SHARE

	Group 2017	Group 2016	Company 2017	Company 2016
Profit for the year attributable to equity holders (KShs '000')	6,766,256	7,283,625	4,199,319	1,476,507
Weighted average number of ordinary shares in issue during the year	410,775	392,362	410,775	392,362
Earnings per share (KShs)	**16.47**	**18.56**	**10.22**	**3.76**

16. CASH AND BALANCES WITH CENTRAL BANKS

	Group 2017 KShs '000	Group 2016 KShs'000	Company 2017 KShs '000	Company 2016 KShs'000
Cash on hand	2,410,009	2,089,675	-	-
Balances with central banks				
- Restricted balances (Cash reserve ratio)	7,158,969	6,508,025	-	-
- Unrestricted balances	2,310,837	2,486,176	-	-
	11,879,815	**11,083,876**	**-**	**-**

CRR* - Cash Reserve Ratio

The Group's Cash Reserve Ratio is non-interest earning and is based on the value of deposits as adjusted for the respective central banks requirements. At 31 December 2017, the cash ratio requirement was 5.25% (2016: 5.25%) in Kenya, Rwanda was 5% (2016: 5%) and, 10.0% (2016: 10.0%) in Tanzania of eligible deposits.

17. ITEMS IN THE COURSE OF COLLECTION

	Group 2017	Group 2016	Company 2017	Company 2016
Assets	495,649	487,791	-	-
Liabilities	-	7,517	-	-

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

18. LOANS AND ADVANCES TO BANKS

	Group 2017	Group 2016	Company 2017	Company 2016
Due within 90 days	6,379,973	6,832,215	-	-
Due after 90 days	-	116,492	-	-
	6,379,973	**6,948,707**	**-**	**-**

19. LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

	2017 KShs'000	2016 KShs'000
Overdrafts	48,103,252	46,490,096
Loans	108,675,575	90,893,764
Bills discounted	675,299	861,323
Hire purchase - finance leases	2,812,234	2,477,203
Gross loans and advances	**160,266,360**	**140,722,386**
Less: Impairment losses on loans and advances	(7,248,208)	(6,047,054)
Net loans and advances	**153,018,152**	**134,675,332**
Repayable on demand	42,871,873	27,266,289
Less than 3 months	15,712,997	12,596,026
3 months to 1 year	24,176,550	29,157,710
1 to 5 years	44,153,622	37,770,257
5 to 10 years	29,246,504	27,000,351
Over 10 years	4,104,814	6,931,753
Gross loans and advances	**160,266,360**	**140,722,386**

(b) Impairment losses reserve

	Specific impairment allowance KShs'000	Portfolio Impairment Provision KShs'000	Total KShs'000
At 1 January 2017	5,536,458	510,596	6,047,054
Giro Limited (formerly Giro Commercial Bank Limited)	88,085	131,737	219,822
Impairment made in the year	4,204,810	433,148	4,637,958
Net recoveries	(308,463)	-	(308,463)
Write offs	(3,328,352)	(2,368)	(3,330,720)
Translation differences	(15,719)	(1,724)	(17,443)
At 31 December 2017	**6,176,819**	**1,071,389**	**7,248,208**
At 1 January 2016	3,158,700	486,450	3,645,150
Impairment made in the year	3,018,001	38,440	3,056,441
Net recoveries	(246,464)	(10,038)	(256,502)
Write offs	(359,991)	-	(359,991)
Translation differences	(33,788)	(4,256)	(38,044)
At 31 December 2016	**5,536,458**	**510,596**	**6,047,054**

19. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Impairment losses on loans and advances

	2017 KShs'000	2016 KShs'000
Impairment made in the year	4,637,958	3,056,441
Recoveries and impairment allowance no longer required	(308,463)	(256,502)
Recoveries of loans and advances written - off in prior years	(198,633)	(1,487)
Amounts written off during the year	2,308	158,527
	4,133,170	**2,956,979**

(d) Loans and advances concentration by sector

	2017		2016	
	KShs '000	(%)	KShs '000	(%)
Manufacturing	36,373,695	23%	30,714,879	22%
Wholesale and retail trade	29,142,195	18%	28,615,284	20%
Building and construction	15,173,987	9%	17,254,948	12%
Agriculture	6,844,339	4%	8,281,806	6%
Real estate	29,431,005	18%	23,716,621	17%
Transport and communication	7,427,150	5%	8,149,642	6%
Business services	19,661,813	12%	11,967,545	9%
Electricity and water	130,765	0%	80,338	0%
Finance and insurance	1,720,237	1%	2,219,247	2%
Mining and quarrying	1,961,605	1%	2,256,458	2%
Others	12,399,569	9%	7,465,618	4%
	160,266,360	**100%**	**140,722,386**	**100%**

20. INVESTMENT IN SECURITIES

	Group		Company	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Available-for-sale				
Equity investment	738,511	23,755	-	-
Corporate bonds (Non Liquid)	331,104	330,992	-	-
Treasury bonds (Non Liquid)	15,249,669	15,612,575	140,286	-
Treasury bills (Non Liquid)	5,414,002	6,091,596	53,237	111,896
	21,733,286	**22,058,918**	**193,523**	**111,896**
Held-to-maturity				
Treasury bonds (Liquid)	2,191,879	2,092,900	-	-
Treasury bonds (Non Liquid)	14,151,863	8,753,999	-	-
Treasury bills (non -Liquid)	2,380,429	12,053,722	-	-
Treasury bills (Liquid)	10,388,810	874,921	-	-
	29,112,981	**23,775,542**	**-**	**-**
Total investment securities	**50,846,267**	**45,834,460**	**193,523**	**111,896**

21. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE

The Company holds investments in subsidiaries in I&M Bank (T) Limited, I&M Insurance Agency through I&M Bank Limited. All the three entities have been consolidated with the results of I&M Bank Limited. I&M Bank (Rwanda) Limited, I&M Capital Limited, I&M Realty Limited, I&M Burbidge Capital 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% (2016-50%) control over Bank One Limited with the other joint venture, 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.

Group	**2017 KShs'000**	**2016 KShs'000**
Balance at start of the year	3,508,182	3,062,350
Share of:		
Profit from operations	554,965	443,968
Other comprehensive income	204,019	1,864
Balance at end of the year	**4,267,166**	**3,508,182**
Percentage ownership	**50.00%**	**50.00%**
Total assets (including cash and cash equivalents)	97,749,106	72,065,826
Total liabilities (including cash and cash equivalents)	(90,165,585)	(66,000,273)
Net assets (100%)	**7,583,521**	**6,065,553**
Group's share of net assets (50%)	3,791,760	3,032,776
Goodwill	475,406	475,406
Carrying amount of interest in joint venture	**4,267,166**	**3,508,182**
Interest income	3,205,441	2,914,874
Interest expense	(1,088,924)	(922,001)
Other income	729,682	844,207
Operating expenses	(1,657,464)	(1,843,007)
Income tax expense	(78,805)	(106,137)
Profit and total comprehensive income (100%)	**1,109,930**	**887,936**
Profit and loss (50%)	**554,965**	**443,968**
Group's share of profit and total comprehensive income	**758,984**	**445,832**
Company:		
Bank One Limited	**1,679,971**	**1,679,971**

21. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE (Continued)

(b) Investment in subsidiaries

Company	**Activity**	**Shareholding**	**2017 KShs'000**	**2016 KShs'000**
I&M Bank LIMITED	Banking	100.00%	17,968,778	17,968,778
I&M Capital Limited	Dormant	100.00%	6,611	6,611
I&M Bank (Rwanda) Limited through BCR Investment Company Limited	Banking	54.45%	1,629,277	1,629,277
I&M Realty Limited	Real estate	100.00%	5,170	5,170
I&M Burbidge Capital Limited and Burbidge Capital (Uganda) Limited	Investment	65.00%	66,037	66,037
Giro Limited (formerly Giro Commercial Bank Limited)	Dormant	100.00%	4,115,023	-
			23,790,896	**19,675,873**

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

Company	**Activity**	**Jurisdiction**	**Shareholding**
I&M Insurance Agency Limited	Bancassurance	Kenya	100.00%
I&M Bank (T) Limited	Banking	Tanzania	70.38%

(c) Movement in investment in subsidiaries

	2017 KShs'000	**2016 KShs'000**
At 1 January	**19,675,873**	**19,604,666**
Acquisition of Burbidge Capital Limited	-	66,037
Acquisition of I&M Realty Limited from I&M Bank group	-	5,170
Acquisition of Giro Limited (formerly Giro Commercial Bank Limited) (Note 21 (d))	4,115,023	-
At December	**23,790,896**	**19,675,873**

(d) Giro Limited (formerly Giro Commercial Bank Limited)

On 5 September 2015 I&M Holdings Limited entered into a Share Purchase Agreement with the shareholders of Giro Commercial Bank Limited (GCBL), to acquire 100% shareholding in GBCL. The purchase consideration is the aggregate of 50% cash consideration of KShs 2,547,295,000 and the remaining 50% by issue of 21,043,330 new shares of KSh 1 each of I&M Holdings Limited.

On 13 February 2017, I&M Holdings Limited acquired the entire issued share capital of GCBL following the receipt of all regulatory approvals. Subsequently, the entire GCBL's banking business was transferred into that of I&M Bank LIMITED. The results of GCBL are consolidated in these financials.

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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21. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE (Continued)

	I&M Bank LIMITED		I&M Bank (T) Limited		I&M Bank (Rwanda) Limited	
	2017 KSh'M	2016 KSh'M	2017 KSh'M	2016 KSh'M	2017 KSh'M	2016 KSh'M
Summarized statement of financial position						
Total assets	183,953	164,116	20,509	19,912	32,327	25,979
Total liabilities	148,929	132,811	17,893	17,439	28,038	22,151
Net assets	**35,024**	**31,305**	**2,616**	**2,473**	**4,289**	**3,828**
Summarized statement of profit and loss and other comprehensive income						
Net interest income	**12,427**	**12,545**	**1,116**	**1,020**	**1,974**	**1,825**
Profit before income tax	7,516	8,651	326	384	1,222	1,107
Income tax expense	(2,029)	(2,308)	(98)	(125)	(414)	(343)
Profit for the year	**5,487**	**6,343**	**228**	**259**	**808**	**764**
Summarised statement of cash flows						
Net cash generated from operating activities	3,150	3,472	632	(340)	3,832	3,942
Net cash used in investing activities	873	(1,286)	(50)	(22)	(353)	(363)
Net cash (used in)/generated from financing activities	(3,961)	(1,374)	(37)	446	105	108
Net increase/(decrease) in cash and cash equivalents	**62**	**812**	**545**	**84**	**3,584**	**3,687**
Cash and cash equivalents at beginning of year	**3,641**	**2,829**	**321**	**237**	**6,956**	**3,269**
Cash and cash equivalents at end of year	**3,703**	**3,641**	**866**	**321**	**10,540**	**6,956**

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

22. PROPERTY AND EQUIPMENT - GROUP

2017	Buildings KShs'000	Leasehold improvements KShs'000	Furniture, fittings, fixtures and office equipment KShs'000	Computers KShs'000	Motor Vehicles KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost/valuation							
At 1 January 2017	2,269,791	1,025,444	1,048,418	665,891	183,861	731,246	5,924,651
Additions	2,094	55,439	63,642	52,126	11,307	1,408,618	1,593,226
Revaluation reserve	100,000	-	-	-	-	-	100,000
Transferred from Giro Limited (formerly Giro Commercial Bank Limited)	148,538	81,611	74,483	45,375	-	-	350,007
On disposals	(8,783)	-	(519)	(600)	(13,522)	-	(23,424)
Items expensed	-	-	-	-	-	(4,985)	(4,985)
Reclassification/internal transfers	22,480	52,494	104,772	7,755	-	(187,501)	-
Write offs/back	-	-	(1,211)	(290)	-	-	(1,501)
Translation difference	(23,221)	(3,397)	(10,790)	(6,659)	(2,974)	(10,966)	(58,007)
At 31 December 2017	**2,510,899**	**1,211,591**	**1,278,795**	**763,598**	**178,672**	**1,936,412**	**7,879,967**
At 1 January 2017	62,419	652,648	610,863	551,551	140,271	-	2,017,752
Transferred from Giro Limited (formerly Giro Commercial Bank Limited)	15,715	52,499	65,508	43,204	-	-	176,926
Reclassification	-	-	21,782	(21,782)	-	-	-
Charge for the year	75,700	101,660	106,924	101,763	20,837	-	406,884
Write offs	-	-	(979)	(259)	-	-	(1,238)
Reversal on revaluation	(18,223)	-	-	-	-	-	(18,223)
On disposals	(6,597)	-	(519)	(561)	(13,276)	-	(20,953)
Translation differences	(2,439)	(1,363)	(6,417)	(4,377)	(2,438)	-	(17,034)
At 31 December 2017	**126,575**	**805,444**	**797,162**	**669,539**	**145,394**	**-**	**2,544,114**
Net book value at 31 December 2017	**2,384,324**	**406,147**	**481,633**	**94,059**	**33,278**	**1,936,412**	**5,335,853**

In 2017, the building on LR No: 209/7265 was revalued by an independent valuer, Kiragu & Mwangi Limited. The valuation is level 3 under the Fair value hierarchy.

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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
At 1 January 2016	1,845,250	957,095	1,007,828	693,356	210,591	240,446	4,954,566
Acquisition of I&M Burbidge Capital Limited	-	-	4,970	2,129	-	-	7,099
Additions	16,317	63,163	96,514	11,554	10,217	655,978	853,743
Write offs	(136,173)	-	(72,651)	(27,546)	(28,853)	-	(265,223)
Items expensed	-	-	-	-	-	(2,737)	(2,737)
Reclassification/internal transfers	-	-	17,664	-	-	(17,664)	-
Revaluation reserve	484,777	-	-	-	-	-	484,777
Transfers to intangible assets	-	-	-	-	-	(5,655)	(5,655)
Transfers from intangible assets	99,613	5,525	18,193	(439)	1,282	(130,066)	(5,892)
Translation difference	(39,993)	(339)	(24,100)	(13,163)	(9,376)	(9,056)	(96,027)
At 31 December 2016	**2,269,791**	**1,025,444**	**1,048,418**	**665,891**	**183,861**	**731,246**	**5,924,651**
Depreciation							
At 1 January 2016	227,278	553,467	595,529	496,128	146,931	-	2,019,333
Acquisition of I&M Burbidge Capital Limited	-	-	2,146	1,510	-	-	3,656
Charge for the year	51,984	99,297	100,529	92,571	29,108	-	373,489
Write-offs	(130,814)	-	(71,426)	(27,462)	(28,067)	-	(257,769)
Reversal on revaluation	(76,012)	-	-	-	-	-	(76,012)
Translation differences	(10,017)	(116)	(15,915)	(11,196)	(7,701)	-	(44,945)
At 31 December 2016	**62,419**	**652,648**	**610,863**	**551,551**	**140,271**	**-**	**2,017,752**
Net book value at 31 December 2016	**2,207,372**	**372,796**	**437,555**	**114,340**	**43,590**	**731,246**	**3,906,899**

23. INTANGIBLE ASSETS

	2017 KShs'000	2016 KShs'000
(a) Goodwill		
I&M Bank LIMITED	1,195	1,195
I&M Bank (T) Limited	496,262	608,953
Biashara Bank of Kenya Limited	10,747	10,747
I&M Bank (Rwanda) Limited	485,823	553,706
I&M Burbidge Capital Limited	34,390	32,447
Giro Limited (formerly Giro Commercial Bank Limited)	1,944,139	-
	2,972,556	**1,207,048**
Movement of Goodwill		
At 1 January	1,207,048	1,207,048
Acquisition of Giro Limited (formerly Giro Commercial Bank Limited) (Note 33(c))	1,944,139	-
Exchange differences	(178,631)	-
At 31 December	**2,972,556**	**1,207,048**

Acquisition of Giro Limited (formerly Giro Commercial Bank Limited)	
Consideration paid cash	2,547,295
Consideration paid by issue of shares	1,567,729
Total consideration	**4,115,024**
Net Assets acquired (Note 33(c))	2,170,885
Goodwill	**1,944,139**

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 Bank LIMITED's share were KShs 3.295 billion (2016; KShs 2.07 billion) and KShs 3.295 billion (2016; KShs 3.03 billion) for I&M Bank (T) Limited and I&M Bank (Rwanda) Ltd respectively. No impairment losses were recognised during 2017, 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:

2017	**I&M (T) Ltd**	**I&M Rwanda Ltd**
5 year risk free rate	13.64%	12.20%
Risk premium	13.90%	13.51%
Terminal growth rate	3.00%	2.50%
Exchange rate	KShs 1 = Tzs 21.40	KShs 1 = Rwf 8.18
2016		
5 year risk free rate	17.96%	12.25%
Risk premium	12.50%	14.00%
Terminal growth rate	3.00%	2.50%
Exchange rate	KShs 1 = Tzs 17.15	KShs 1 = Rwf 6.07

23. INTANGIBLE ASSETS (Continued)

(a) Goodwill - Continued

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

These cash flows have been projected for 5 years for the two subsidiaries, 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.

(b) Software

	Software KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost 2017			
At 1 January	1,173,389	39,187	1,212,576
Additions	61,829	378,574	440,403
Reclassification	105,626	(105,626)	-
Transferred from Giro Limited (formerly Giro Commercial Bank Limited)	27,491	-	27,491
Write offs	-	(16,034)	(16,034)
Translation differences	(8,740)	(3,458)	(12,198)
At 31 December 2017	**1,359,595**	**292,643**	**1,652,238**
Amortisation 2017			
At 1 January	979,171	-	979,171
Transferred from Giro Limited (formerly Giro Commercial Bank Limited)	17,518	-	17,518
Amortisation for the year	135,157	-	135,157
Translation differences	(7,572)	-	(7,572)
At 31 December 2017	**1,124,274**	**-**	**1,124,274**
Carrying amount			
At 31 December 2017	**235,321**	**292,643**	**527,964**

23. INTANGIBLE ASSETS (Continued)

(b) Software - Continued

	Software KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost 2016			
At 1 January	1,089,608	42,335	1,131,943
Transfers to intangible assets	-	5,892	5,892
Transfers from Intangible assets	5,655	-	5,655
Additions	48,795	39,189	87,984
Reclassification	48,217	(48,217)	-
Write offs	-	(12)	(12)
Translation differences	(18,886)	-	(18,886)
At 31 December 2016	**1,173,389**	**39,187**	**1,212,576**
Amortisation 2016			
At 1 January	886,509	-	886,509
Amortisation for the year	109,778	-	109,778
Translational differences	(17,116)	-	(17,116)
At 31 December 2016	**979,171**	**-**	**979,171**
Carrying amount			
At 31 December 2016	**194,218**	**39,187**	**233,405**

24. PREPAID OPERATING LEASE RENTALS

	Group		Company	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Cost				
At 1 January	282,259	317,650	-	-
Transferred from Giro Limited (formerly Giro Commercial Bank Limited)	35,364	-	-	-
Disposal	-	(35,391)	-	-
At 31 December	**317,623**	**282,259**	**-**	**-**
Amortisation				
At 1 January	28,395	33,044	-	-
Transferred from Giro Limited (formerly Giro Commercial Bank Limited)	3,719	-	-	-
Charge for the year	19,569	5,708	-	-
Disposal	-	(10,357)	-	-
At 31 December	**51,683**	**28,395**	**-**	**-**
As at 31 December	**265,940**	**253,864**	**-**	**-**

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25. DEFERRED TAX ASSET - GROUP

	Balance at 1 January KShs '000	Acquisition of subsidiary KShs '000	Prior year under/over provision KShs '000	Recognised in equity KShs '000	Translation differences KShs '000	Recognised in profit or loss KShs '000	Balance at 31 December KShs '000
2017:							
Property and equipment	(365,519)	(34,506)	1,692	(35,467)	6,048	18,846	(408,906)
General provisions	261,035	-	-	-	(3,481)	8,040	265,594
Other provisions	373,145	3,869	244,117	-	(7,817)	532,984	1,146,298
Available-for-sale reserves	152,460	-	-	(88,949)	-	-	63,511
	421,121	**(30,637)**	**245,809**	**(124,416)**	**(5,250)**	**559,870**	**1,066,497**
2016:							
Plant and equipment	(227,690)	(37)	45,279	(168,236)	6,197	(21,032)	(365,519)
General provisions	300,518	-	-	-	(3,261)	(36,222)	261,035
Other provisions	159,958	34,463	19,308	-	(588)	160,004	373,145
Available-for-sale reserves	216,506	-	-	(64,046)	-	-	152,460
	449,292	**34,426**	**64,587**	**(232,282)**	**2,348**	**102,750**	**421,121**

	Group 2017 KShs'000	Group 2016 KShs'000	Company 2017 KShs'000	Company 2016 KShs'000
26. OTHER ASSETS				
Rent receivable	-	54,229	-	-
Prepayments	237,771	303,418	1,999	23,825
Other receivables	1,491,169	1,085,756	-	5,631
Derivative assets (Note 34(b))	719,776	525,764	-	-
	2,448,716	**1,969,167**	**1,999**	**29,456**
27. DEPOSITS FROM BANKS				
Due within 90 days	3,543,557	2,987,392	-	-
Due after 90 days	2,452,738	4,808,464	-	-
	5,996,295	**7,795,856**	**-**	**-**
28. DEPOSITS FROM CUSTOMERS				
Government and parastatals	1,396,933	1,319,806	-	-
Private sector and individuals	167,885,381	145,194,600	-	-
	169,282,314	**146,514,406**	**-**	**-**
29. OTHER LIABILITIES				
Bankers cheques payable	329,025	408,209	-	-
Accruals	1,397,196	1,568,075	3,212	4,750
Other accounts payables	3,137,304	1,295,903	68,622	61,928
	4,863,525	**3,272,187**	**71,834**	**66,678**
30. LONG TERM BORROWINGS				
Less than one year	2,376,187	1,971,820	-	-
One to five years	5,619,708	6,653,810	-	-
Over five years	154,284	133,886	-	-
	8,150,179	**8,759,516**	**-**	**-**
At 1 January	8,759,516	9,575,455	-	-
Funds received	1,677,671	1,550,505	-	-
Payments on principal and interest	(2,265,536)	(2,689,158)	-	-
Exchange differences	(21,472)	322,714	-	-
At 31 December	**8,150,179**	**8,759,516**	**-**	**-**

30. LONG TERM BORROWINGS (Continued)

Long term borrowings constituted the following:

(i) 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.
(ii) Kshs 3,655,000,000 medium term unsecured subordinated fixed and floating rate notes issued on 16 December 2013 for a tenor of 5 years with redemption on the maturity date.
(iii) USD 26,000,000 facility granted on 21 March 2014 by PROPARCO repayable semi annually over seven years four months after an initial one year grace period.
(iv) EUR 10,000,000 facility granted on 21 March 2014 by PROPARCO repayable semi annually over seven years four months after an initial one year grace period.
(v) USD 7,000,000 facility granted on 22 December 2017 by Bank One Limited for a tenor of 2 years with redemption on maturity date and interest repayable semi-annually.
(vi) USD 7,400,000 facility granted on 29 December 2017 by Responsability Investment AG repayable annually over 3 years and interest repayable semi-annually for the same period.
(vii) USD 5,000,000 facility granted on 3 July 2012 by PROPARCO repayable in semi annually with a final repayment date of 31 October 2019.
(viii) TZS 3,250 million facility granted on 14 July 2014 by Tanzania Mortgage Refinance Company Limited (TMRC). The interest on the facility repayable quarterly over 3 years with redemption on maturity.
(ix) USD 12,000,000 granted on 16th March 2016 by FMO as senior debts for tenor of 6 years. The interest and principal on the facility is repayable on a quarterly basis. Final Repayment date is 10 October 2021.
(x) Rwf 1,000,000,000 corporate bond issued on 25 January 2008 repayable semi-mmually over 10 years.
(xi) 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.
(xii) EUR 1,573,000 facility granted in October 2014 by European Investment Bank repayable over seven years.

31. SUBORDINATED DEBT

	Group		Company	
	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Less than one year	28,533	3,679,380	-	-
One to five years	4,483,782	827,799	-	-
Over five years	-	39,502	-	-
	4,512,315	**4,546,681**	-	-

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.

USD 10 Million granted on January 2015 by DEG of which USD 8 Million was received in January 2015 and will mature on September 2021.

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 and Company has not had any defaults of principal or interest with respect to these debts.

32. SHARE CAPITAL AND RESERVES

(a) Share capital and share premium - Group and Company

	2017 KShs'000	2016 KShs'000
Authorised:		
500,000,000 ordinary shares of KShs 1 each	**500,000**	**500,000**
Issued and fully paid:		
Ordinary shares of KShs 1 each at 31 December	**413,405**	**392,362**

Movement of share capital and premium;

2017	Number of shares	Share Capital KShs'000	Share premium KShs'000	Total KShs'000
1 January 2017	**392,362,000**	**392,362**	**17,331,510**	**17,723,872**
Issued in business combination - Note 21 (d)	21,043,000	21,043	1,546,684	1,567,727
Issue related costs	-	-	(72,835)	(72,835)
31 December 2017	**413,405,000**	**413,405**	**18,805,359**	**19,218,764**
2016				
1 January and 31 December 2016	**392,362,000**	**392,362**	**17,331,510**	**17,723,872**

The ordinary shares rank equally with regard to the company residual assets and are entitled to receive dividends as declared from time to time and to one vote per share at general meetings of the company .

(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.

32. SHARE CAPITAL AND RESERVES (Continued)

(e) Translation reserve

The translation reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations namely 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 (a joint venture for I&M Holdings 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. The Group share of actuarial gains or losses arising from the calculation are recognised in other comprehensive income.

33. NOTES TO THE STATEMENT OF CASH FLOWS

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

		Group		Company	
	Note	2017 KShs'000	2016 KShs'000	2017 KShs'000	2016 KShs'000
Profit before income tax		9,894,574	10,603,188	4,203,914	1,479,960
Adjustments for:					
Depreciation	22	406,884	373,489	94	94
Amortisation of intangible asset	23(b)	135,157	109,778		
Amortisation of prepaid lease rentals	24	19,569	5,708	-	-
Gain on sale of property and equipment		(1,194)	(2,675)	-	-
Property and equipment of items expensed		16,034	2,737	-	-
Profit on sale of available for sale securities		(132,861)	(277,583)	-	-
Write off to profit or loss - intangible assets		5,248	12	-	
Profit from Joint Venture	21(a)	(554,965)	(443,968)	-	-
Exchange reserves	10	(201,616)	20,554	-	-
		9,586,830	**10,391,240**	**4,204,008**	**1,480,054**
Increase/(Decrease) in operating assets					
Movement in loans and advances to customers		(9,369,205)	(6,851,554)	-	-
Investment in securities		9,442,796	(5,013,867)	(81,627)	(111,896)
Loans and advances to banks		2,385,857	234,176	-	-
Cash and balances with Central Banks – Cash Reserve Ratio	16	(650,944)	436,712	-	-
Other assets		(425,914)	(858,883)	27,457	(5,631)
		1,382,590	**(12,053,416)**	**(54,170)**	**(117,527)**
Increase in operating liabilities					
Customer deposits		8,746,980	13,533,728	-	-
Deposits from banks		(2,355,726)	2,393,687	-	-
Long term borrowings		(587,865)	(1,138,653)	-	-
Other liabilities		994,317	499,248	5,156	19,221
Amounts due to group company		-	-	(428)	(378)
		6,797,706	**15,288,010**	**4,728**	**18,843**
Cash flows generated from operating activities		**17,767,126**	**13,625,834**	**4,154,566**	**1,381,370**
Tax paid	14(b)	(4,040,976)	(3,015,279)	(6,440)	(8,179)
Net cash flows generated from operating activities		**13,726,150**	**10,610,555**	**4,148,126**	**1,373,191**

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

(b) Analysis of cash and cash equivalents – Group

	Note	2017 KShs'000 a	2016 KShs'000 b	Change KShs'000 c =(a – b)
Cash and balances with Central Banks – excluding CRR*	16	4,720,846	4,575,851	144,995
Items in the process of collection	17	495,649	480,274	15,375
Loans and advances to banks	18(b)	6,379,973	6,832,215	(452,242)
Investment securities	20(b)	12,580,689	2,967,821	9,612,868
Deposits from banks	27(b)	(3,543,557)	(2,987,392)	(556,165)
		20,633,600	**11,868,769**	**8,764,831**

*Cash Reserve Ratio

(c) Acquisition of Giro Limited net of cash and cash equivalents

	2017 KShs'000
Total Assets	17,077,432
Total Liabilities	(14,783,297)
Statutory reserve	(123,250)
Net Assets Acquired	**2,170,885**
Consideration paid in kind	(1,567,728)
Cash and Cash equivalents	(1,195,612)
Goodwill	1,944,139
Net Cash outflow	**1,351,684**

(d) Acquisition of I&M Burbidge Capital net of cash and cash equivalents

	2016 KShs'000
Total Assets	51,669
Total Liabilities	5,992
Net Assets	**45,677**
Less Share of Minority Interest (35%)	15,987
Net Assets Acquired	**29,690**
Less Cash and Cash equivalents	(7,281)
Add Goodwill	32,447
Net Cash outflow	**54,856**

34. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS – GROUP

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Group as at 31 December 2017. 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:

Group	2017 KShs'000	2016 KShs'000
Contingencies related to:		
Letters of credit	10,236,746	8,386,592
Guarantees	21,924,553	15,504,077
Acceptances	12,567,828	11,135,938
Commitments related to:		
Outstanding spot/forward contracts	16,276,455	16,588,064
	61,005,582	**51,614,671**

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.

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

34. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS – GROUP (Continued)

(c) Other contingent liabilities - Continued

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

35. ASSETS PLEDGED AS SECURITY - GROUP

As at 31 December 2017, Treasury Bonds with a face value of KShs 1,270,000,000 (2016 - KShs 1,270,000,000) were held under lien in favour of the Central Bank of Kenya.

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.

	2017 KShs'000	2016 KShs'000
(a) Transactions with directors/shareholders		
(i) Loans to directors/shareholders	**52,727**	**46,150**
Interest income from loans to directors/shareholders	3,696	7,970
(ii) Deposits from directors/shareholders	**2,504,758**	**2,506,324**
Interest expense on deposits from directors/shareholders	163,335	197,426
(iii) The Directors remuneration is disclosed in note 13		
(b) Transactions with related companies		
(i) Loans to Related companies	**361,685**	**412,807**
Interest Income from loans to related companies	42,920	50,059
(ii) Deposits from related companies	**2,647,135**	**1,675,873**
Interest expense on loans from related companies	78,679	80,619
(iii) Amounts due from group companies subsidiaries/joint venture	**11,997**	**158,568**
Interest income on amounts due from subsidiaries and joint venture	-	187,464
(iv) Amounts due to group companies subsidiaries/joint venture	**723,450**	**1,199,065**
Interest expense on amounts due from subsidiaries and joint venture	-	40

36. RELATED PARTY TRANSACTIONS (Continued)

	2017 KShs'000	2016 KShs'000
(c) Transactions with employees		
Staff loans	**1,704,676**	**1,107,075**
Interest earned on these loans was KShs	88,846	78,279
(d) Management compensation	**287,181**	**251,552**

37. CAPITAL COMMITMENTS

Group	**6,079,440**	**6,253,077**

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:

	2017 KShs'000	2016 KShs'000
Less than one year	504,248	423,659
One to five years	2,974,638	1,886,014
Over five years	728,356	203,355
	4,207,242	**2,513,028**

(b) Lessor

Less than one year	134,370	175,122
One to five years	368,779	455,814
	503,149	**630,936**

39. EVENTS AFTER THE REPORTING DATE

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

STEERING towards growth by building brand equity and optimizing the customer purchase journey.

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

EDUCATION

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

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

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

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

I&M Bank, Kenya provides Strathmore University Scholarships

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

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

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

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

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

I&M Bank, Kenya Supports Teule Kenya Beneficiaries

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

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

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

The team that participated in the expedition

ENVIRONMENT

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

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

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

I&M Bank, Kenya Funds Kibagare River Rehabilitation

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

HEALTH

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

I&M Hope Campaign

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

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

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

COMMUNITY SERVICE

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

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

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

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

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

COMMUNITY SERVICE

I&M Bank, Rwanda Participates in Kwibuka 23

In 2018, I&M Bank, Rwanda once again participated in the Kwibuka 23 1994 genocide commemoration.
The commemoration events that took a series of days started with refurbishment of some beneficiaries' homes who Genocide survivors are recovering from mental health conditions emanating from Trauma.

I&M Bank, Rwanda staff also organized a night vigil to honor the memory of the 1994 Tutsi Genocide victims among them 22 members of staff. The Bank is committed to help improving Genocide survivors' welfare and to keep contributing in the country's rebuilding process.

I&M Bank, Rwanda MD, Robin Bairstow leads staff during the Kwibuka 23 memorial

HEALTH

I&M Bank, Rwanda Conducts Cancer Awareness Activities

As the main sponsor of Rwanda Children's Cancer Relief (RCCR) activities since its creation in 2014, I&M Bank, Rwanda participated in different Awareness activities like the Childhood Cancer Awareness annual walk on Friday, 22nd September 2017. In addition to this, the Bank's staff members also joined the Monthly Community Service day at Umuganda where they used the event as a sensitization platform on Cancer issues. To culminate the Cancer Awareness month programme, the Bank also covered health insurance for 1,500 residents in 5 districts Rusizi, Gicumbi, Huye, Karongi and Rwamagana, as well as building latrines and planted trees in Muhazi Sector.

EDUCATION

I&M Bank, Rwanda partners with Edified Generation Rwanda for School Scholarships

In the education sector, the Bank in partnership with Edified Generation Rwanda, sponsored school fees and materials for 10 best performing needy students. The Edified Generation Rwanda has benefitted over 4,000 students through mentorship programmes, children rights promotion, and education scholarships.

I&M Bank, Rwanda partners with AIESEC for Savings Campaign

I&M Bank, Rwanda in partnership with AIESEC hosted 60 students on a Savings Culture workshop where the students learnt on the various ways of developing good savings habits. The students also got the opportunity to sit at different departments to get mentorship and guidance in charting their future career paths.

ENVIRONMENT

I&M Bank (T) Limited Participates Usafi Day

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

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

COMMUNITY SERVICE

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

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

Bank One Sponsors Ferney Trail 2017

Bank One, in 2017, sponsored the 10th edition of the Ferney Trail event which is an annual Fundraiser organized by the Ciel Group. The event's objective is to increase awareness on Biodiversity conservation in Mauritius and to raise necessary funds to support the Inclusion Mauritius initiative that supports 12 NGOs working closely with persons with physical or intellectual disabilities.

Some of the participants of the Ferney Trail 2017

Bank One Organizes Children's Visit at La Vallée de Ferney

Bank One planned a nature trail for less fortunate children under its CARE programme, to view the Mauritian endemic birds in their natural habitat at La Vallée de Ferney. The trail encompassed a guided tour of the forest where the children were treated to beautiful sceneries of endemic species of plants and birds, and watched the feeding of the famous Mauritian Kestrel bird. The escapade was then followed by a Draw a Bird competition that was conducted in conjunction with the Mauritius Wildlife Foundation.

A section of the Vaocas beneficiaries during the visit at La Vallée de Ferney

Bank One Organizes Talent Show for Less Fortunate Children

Bank One organised a talent show for the less fortunate children under its CARE programme during the winter school break. The talent show provided a platform for the children to showcase their talents as singers, dancers and musicians.

Children showcase their dancing talent during the Talent Show

Bank One Hosts Children's Christmas Party

Bank One once again organized a Christmas Party for the less fortunate children under its CARE programme. The Christmas party was yet another magical moment for the children, where they got to experience the true spirit of Christmas. The children were engaged in various fun activities such as interactions with Santa Claus, gifts and lunch.

The Vaocas beneficiaries pose of a photo during the Christmas Celebration

ZENITH SECRETARIAL SERVICES
COMPANY SECRETARIES

Our Ref: 017/COMM/Z001/020/BK Date: 17th April, 2018

I&M HOLDINGS LIMITED

Notice of the Annual General Meeting

Notice is hereby given that the Sixty Sixth Annual General Meeting of the Shareholders of I&M Holdings Limited will be held at The Azure Hotel, Nairobi on Thursday 24th May, 2018 at 10.00 a.m. for the following purposes.

A. ORDINARY BUSINESS

1. To receive the Group's audited financial statements for the year ended 31st December 2017 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, 2017.
3. To approve payment of a first and final dividend of Kshs. 3.50 per share amounting to Kshs. 1,446,918,792 for the year ended 31st December 2017. A dividend of Kshs. 3.50 per share amounting to Kshs. 1,446,918,792 in respect of the year ended 31st December 2016 was paid on the 25th May 2017.

   The dividend will be paid to the shareholders in the Company's Register of Members at the close of business on 30th April 2018 and will be paid on or around 24th May 2018.
4. To re-elect directors:
   i. In accordance with Article No. 112 of the Company's Articles of Association Mr. Suresh Bhagwanji Raja Shah, retires by rotation and being eligible offers himself for re-election.
   ii. In accordance with Article No. 112 of the Company's Articles of Association Mr. Sarit S Raja Shah, retires by rotation and being eligible offers himself for re-election.
5. Pursuant to the provisions of Section 769 of the Companies Act, 2015, Mr. Daniel Ndonye, Mr. Sarit S. Raja and Mr. Michael Turner, being members of the Board Audit and Risk Management Committee, be elected to continue to serve as Members of this Committee.
6. To note that the auditors Messrs. KPMG Kenya Certified Public Accountants (K), having expressed their willingness, continue in office in accordance with Section 721 (2) of the Companies Act, 2015 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.

BY ORDER OF THE BOARD

Mwang

Bilha Wanjiru Mwangi
Company Secretary,
P.O. Box 19500-00100,
Nairobi.

17th April, 2018

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 or send to the Company Secretary not less than 48 hours before the appointed time of the meeting.

Acacia Suite, 1st Floor | Riverside Green - Riverside Drive | P.O. Box 19500 - 00100, Nairobi, Kenya
T: (20) 445 4423 / 4 / 5 | M: (0) 711 232 636, (0) 751 232 636 | F: (20) 445 4426 Intl Code: +254
E: info@kemboylaw.com | Nairobi Dropping Zone Box Number 22

I&M HOLDINGS LIMITED

TO: The Company Secretary,
P.O. Box 19500-00100,
NAIROBI.

PROXY FORM

I/We
………

of ………

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

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

of ………

or failing him/her ………………………………………………………………………………………

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 **24th May, 2018** and at any adjournment thereof.

Signed/Sealed this …………….. Day of ……………………………………., 2018

……………………………………

……………………………………

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.

The unshaken foundation of **iMara** ensures that the Group goes on to be a more agile organisation that embraces customer-centricity, dynamism, innovation and creativity.

This will further enhance the core element of our organisational culture, which is fairness to all our partners.

As we have embraced the strategic aspiration – to become a banking powerhouse in East Africa for medium to large businesses and premium clients, The Group commits to always keep the gears turning, ensuring that every envisioned objective of iMara comes to manifest.

www.imbank.com

I&M HOLDINGS

I&M HOLDINGS LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS | 2017

Transforming Tomorrow

Regulated by the Central Bank of Kenya