I&M HOLDINGS

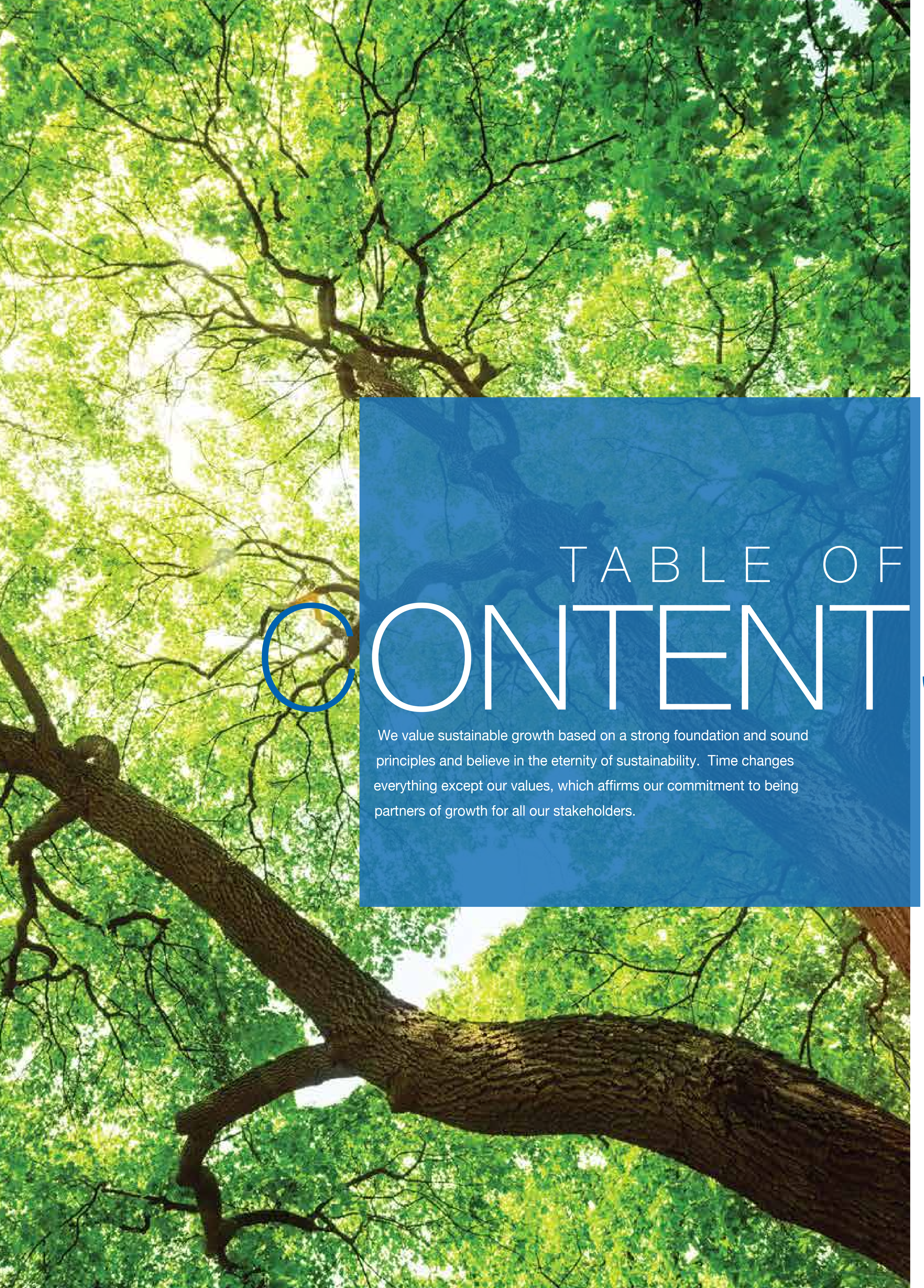
I&M HOLDINGS PLC

ANNUAL REPORT

AND FINANCIAL STATEMENTS | 2018

CREATING SUSTAINABLE GROWTH

Regulated by the Central Bank of Kenya



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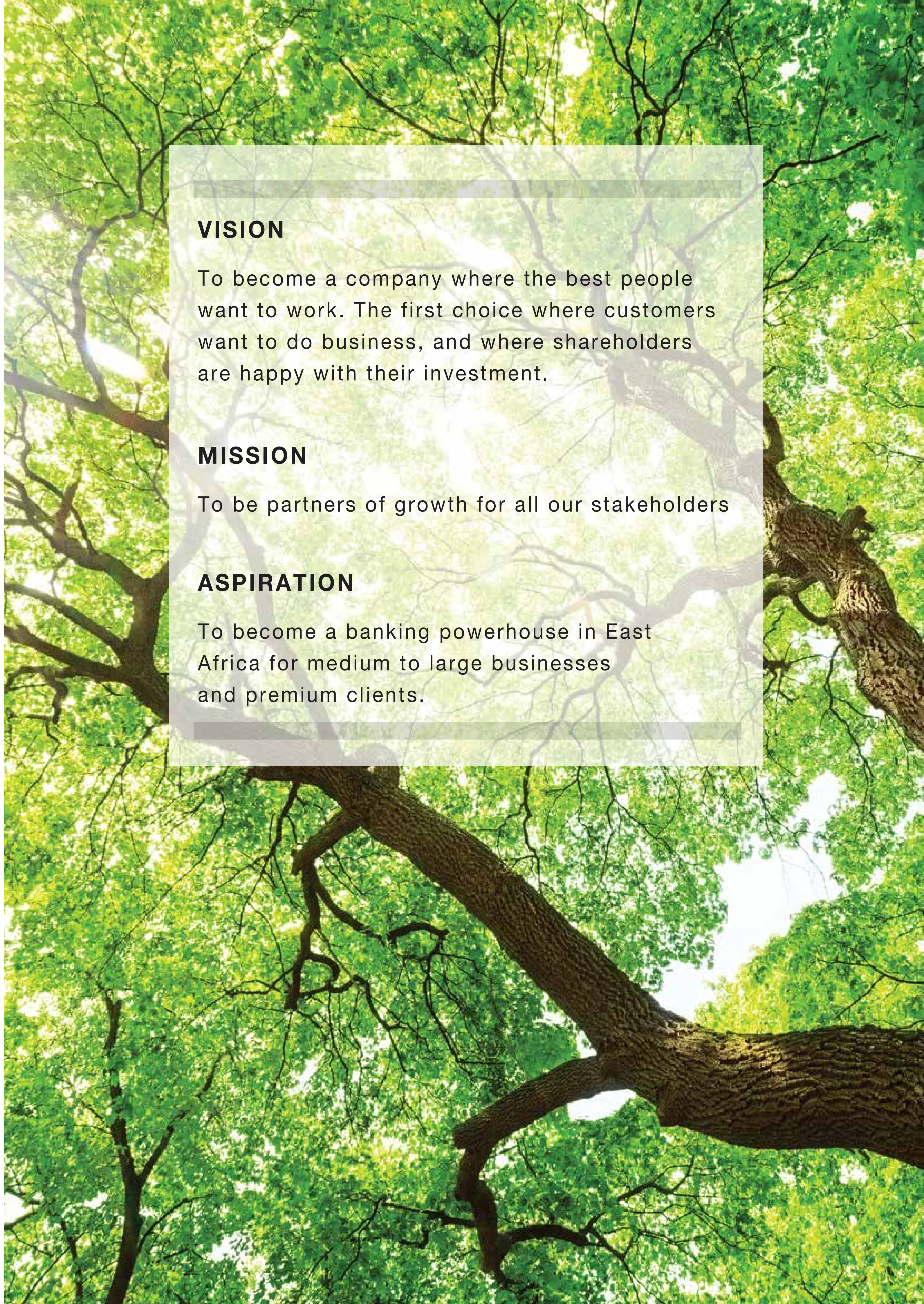
We value sustainable growth based on a strong foundation and sound principles and believe in the eternity of sustainability. Time changes everything except our values, which affirms our commitment to being partners of growth for all our stakeholders.

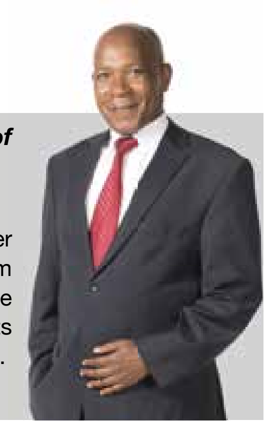
ABBREVIATIONS

In this document we have used the following abbreviations;

AFS	Available-for-sale
AGM	Annual General Meeting
BNRGC	Board Nomination, Remuneration and Governance Committee
CBK	Central Bank of Kenya
CMA	Capital Markets Authority
EAD	Exposure at default
ECL	Expected credit losses
ESOP	Employee Share Ownership Plan
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit and loss
GCBL	Giro Commercial Bank Limited
Group	I&M Holdings PLC together with its subsidiary undertakings
IAS	International Accounting Standards
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IMHP	I&M Holdings PLC
GDP	Gross Domestic Product
GPO	General Post Office
LGD	Loss given default
M&A	Mergers and Acquisition
NSE	Nairobi Securities Exchange
PBT	Profit before tax
PD	Probability of default
SICR	Significant increase in credit risk
SPPI	Solely payments of principal and interest
YIB	Youjays Insurance Brokers Limited



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

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

Suresh B R 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 LIMITED. He has vast experience in the banking industry and in business. In December 2002, he was bestowed the Honour of a Moran of the Order of the Burning Spear.

He sits on the boards of several companies.

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 PLC subsidiaries and associates such as: I&M Bank (T) Limited and GA Insurance Limited.

Nyambura Koigi

Independent Non - Executive 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 Secretaries of Kenya and the Kenya Institute of Management. She sits on the boards of several companies.

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 has had the opportunity to work with AMP Asset management in London and HSBC Bank PLC London.

He sits on the boards of several companies.

Michael Turner

Independent Non - Executive 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, in England and Wales. He sits on the boards of several companies.

He is also the Chairman of the Board Nomination and Remuneration Committee.

Oliver Fowler

Independent Non - Executive Director (Appointed on 21 August 2015)

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

Suleiman Kiggundu Jr.

Independent Non - Executive Director (Appointed on 5 June 2018)

Mr. Kiggundu joined the Board in June 2018. He has served in senior leadership roles at various institutions, including Equator Bank, HSBC Bank Plc and CDC Group Plc. He is a qualified electrical engineer and economist from Yale University. He sits on the boards of several companies. He is also the Chairman of the Board Strategy Steering Committee.

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

Bilha Wanjiru Mwangi

Company Secretary

Bilha W. Mwangi is an advocate of the High Court of Kenya and a company secretary by profession with 11 years' experience in practice. Bilha is a partner at Wanjiru Kinyanjui Advocates LLP and specializes in corporate governance, company secretarial practice, commercial law, banking and securities law and conveyancing.

She was appointed as Company Secretary with effect from 20th December 2017. She holds an Global Executive Masters of Business Administration from United States International University (USIU), an LLB from the University of Nairobi and is a Certified Public Secretary (CPS-K). Bilha is a member of the Institute of Certified Public Secretaries and the Law Society of Kenya.

BOARD OF DIRECTORS

Daniel Ndonye	Chairman
Suresh B R Shah, MBS	
Sarit S Raja Shah	
Michael Turner*	
Sachit S. Raja Shah	
Oliver Fowler	
Nyambura Koigi	
Suleiman Kiggundu Jr. **	(Appointed on 5 June 2018)

* *British*
** *Ugandan*

COMPANY SECRETARY

Bilha Wanjiru Mwangi (CPS Kenya)
12th Floor, Wing A
George Padmore Road, Kilimani
Riverside Green, Riverside Drive
P.O. Box 51922 – 00100 GPO
Nairobi

AUDITORS

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

REGISTERED OFFICE

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

BANKERS

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

LEGAL ADVISORS

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

BANKING ENTITIES REGISTERED OFFICES

I&M BANK LIMITED

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

I&M BANK (T) LIMITED

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

I&M BANK (RWANDA) LIMITED

11, Boulevard de la Revolution
P.O. BOX 354
Kigali
Rwanda

BANK ONE LIMITED

16 Sir William Newton Street
Port Louis
Mauritius

COMPANY REGISTRARS

CDSC Registrars Limited
1st Floor, Occidental Plaza, Muthithi Road, Nairobi
P.O Box 6341 – 00100 GPO
Nairobi
Kenya

Strategy Execution

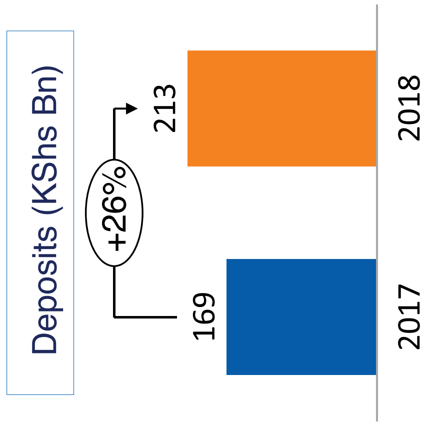
The growth in profitability is attributable to our focus on sustaining customer relationships. We have deepened our relationship management and revamped our customer propositions in line with market expectations.

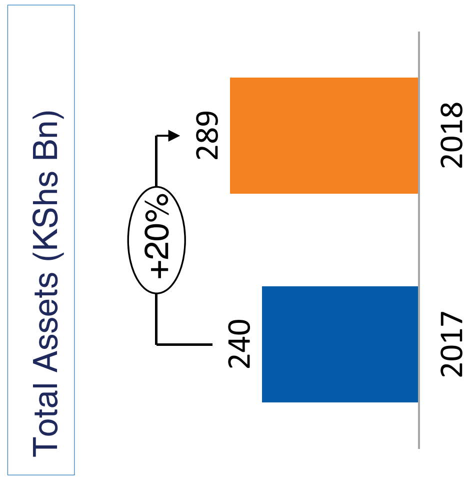
We have made steady progress around product development, revamping of core banking systems and processes which has led to efficient service delivery and improved internal controls.

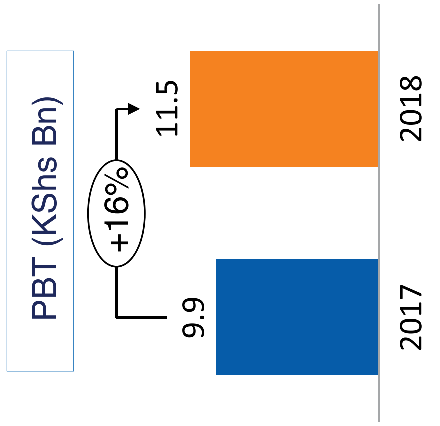
We continue being an employer of choice despite challenges in our core market. Our head count has increased from 1,475 to 1,603 an increase of 8%.

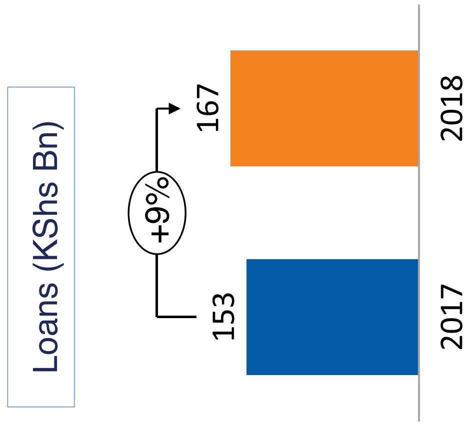
Countries
5

Employees
1,603









MAIN OPERATING SEGMENTS

	Kenya	Rwanda	Tanzania	Mauritius
Profit Before Tax	16%	4%	25%	7%
	2017: 7.80bn 2018: 9.06bn	2017: 1.22bn 2018: 1.27bn	2017: 0.33bn 2018: 0.41bn	2017: 0.55bn 2018: 0.60bn
Total Assets	22%	3%	10%	7%
	2017: 214.6bn 2018: 261.4bn	2017: 32.3bn 2018: 33.4bn	2017: 20.6bn 2018: 22.7bn	2017: 3.8bn 2018: 4.0bn

Successful expansion in the region, underpinned by the increase in profitable subsidiaries

PROFIT BEFORE TAX 2018 SUBSDIARIES CONTRIBUTION

I&M KENYA*	77%
I&M RWANDA*	11%
BANK ONE*	5%
I&M TANZANIA*	3%

KSHS BN
8.8
1.3
0.6
0.4

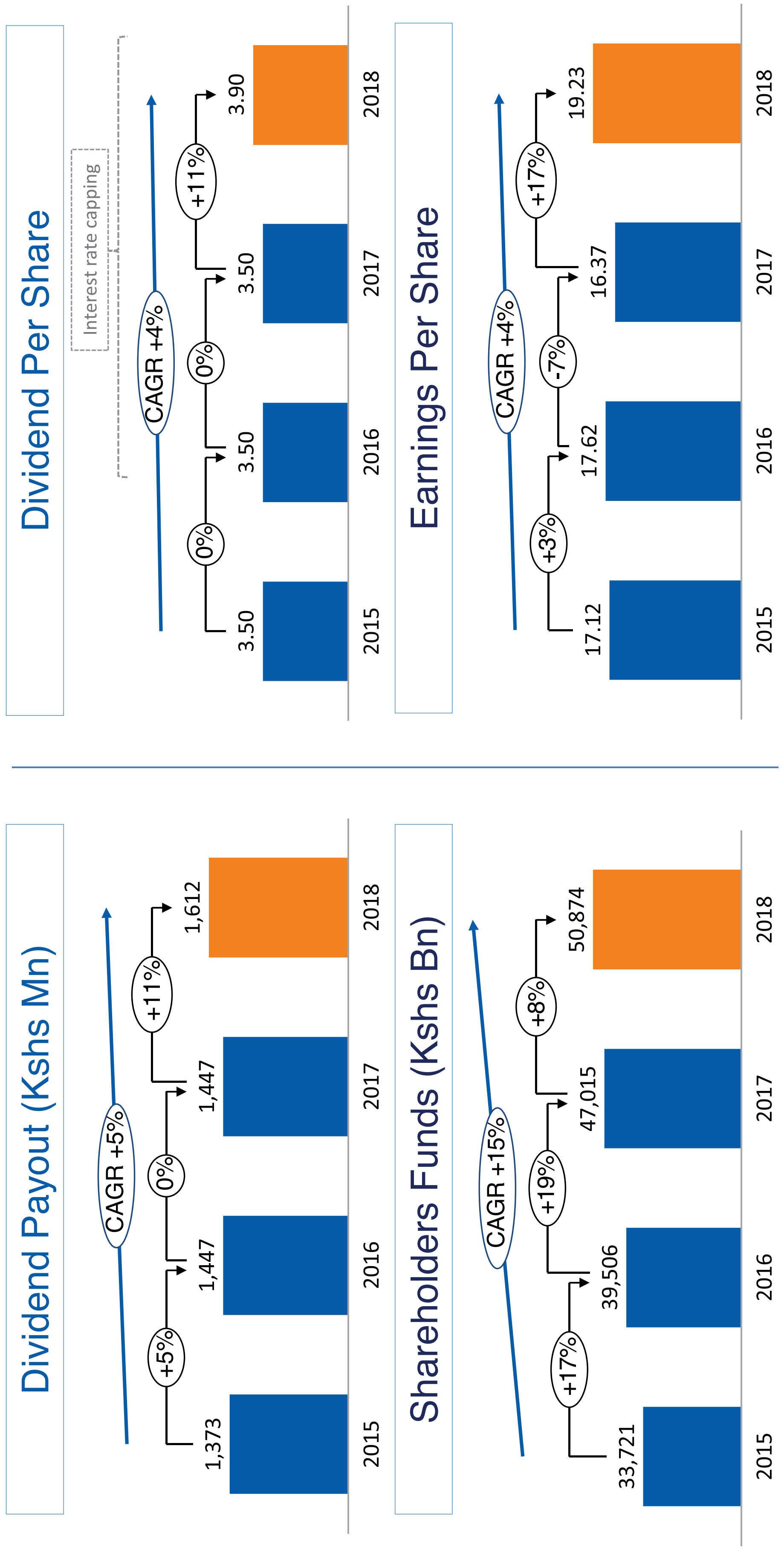
A well diversified model with reliance on home country reduced to

77%

Remaining 3%: Other Subsidiaries and elimination

* Bank Operations & Bancassurance

STEADY GROWTH IN VALUE TO SHAREHOLDERS



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

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

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

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

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

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

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

I&M BANK, KENYA ACQUIRES YOUJAYS INSURANCE BROKERS LIMITED

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

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

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

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

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

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

Under this credit line, the Bank has been able advance loans in US Dollars to eligible borrowers up to a maximum of 50% of the total cost of each of the projects, which comply with the EIB eligibility criteria undertaken by qualifying private enterprises and public sector entities in Kenya.

The funding line will help the Bank's SME, Corporate and Institutional Customers accelerate their business growth and support their expansion efforts as it underscores I&M Bank's purpose on being a partner of growth for all our key stakeholders.

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

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

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

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

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

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

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

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

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

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

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

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

FINACLE 10 CORE BANKING SYSTEM ROLL OUT IN HIGH GEAR

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

ICUBE LAUNCHED FOR TRANSFORMATIVE DIGITAL FINANCIAL SOLUTIONS

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

I&M BANK, KENYA ROLLS OUT LOAN ORIGINATION SYSTEM

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

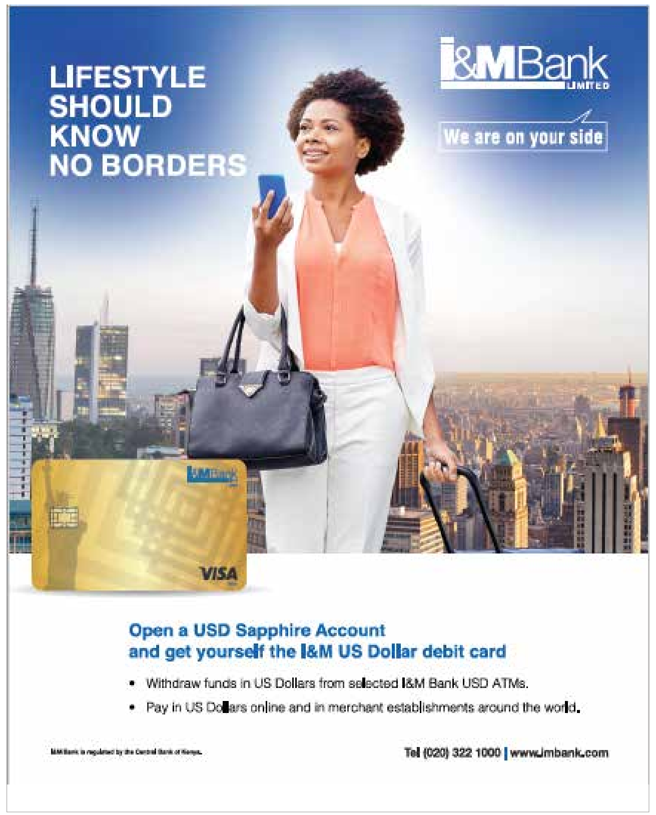
NEW RENT COLLECTIONS SOLUTION IN THE OFFING

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

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

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

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



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

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

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

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

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

CONVENIENT CHEQUE DEPOSIT AND CLEARING SOLUTION UNVEILED FOR CORPORATES AND BUSINESSES

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

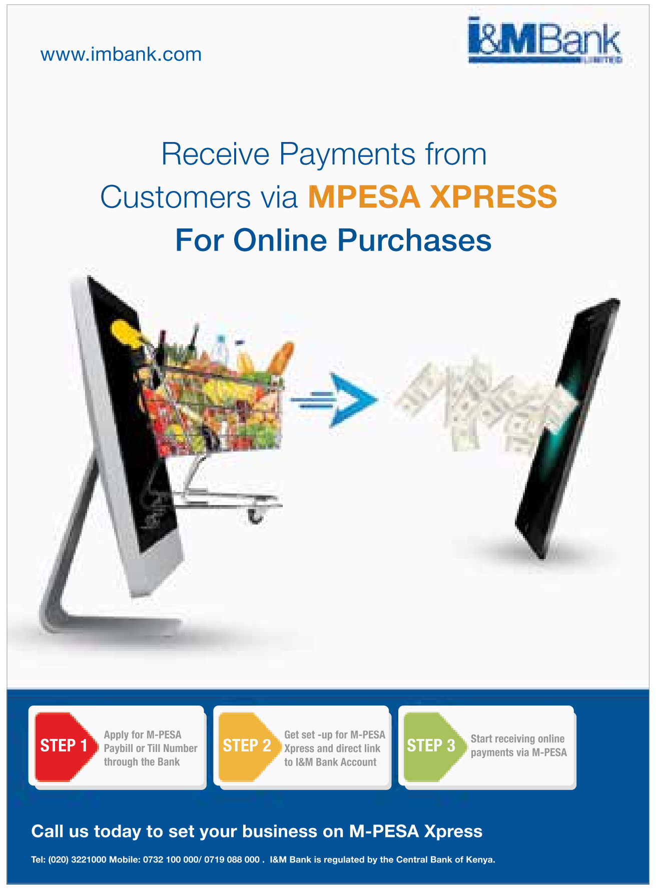
The service aims to mitigate high operational costs experienced by clients, who have to make frequent trips to the Bank to deposit cheques or pile cheques for later deposit thus facing cash flow issues.

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

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

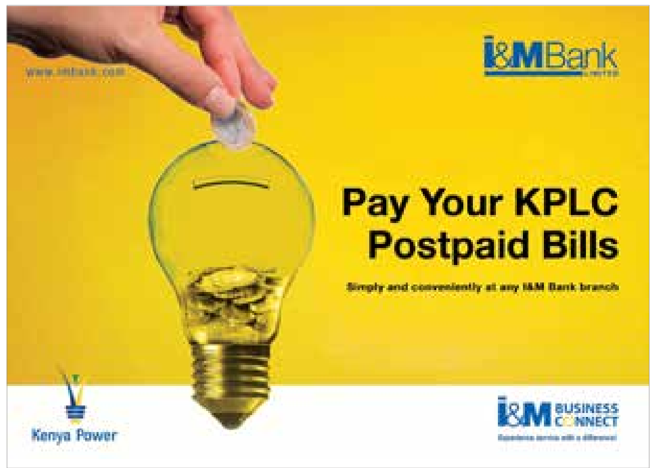
MPESA XPRESS LAUNCHED FOR E-COMMERCE CLIENTS

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



KENYA POWER AND LIGHTING COMPANY BULK PAYMENT SERVICE LAUNCHED

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



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

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

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

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

A customer tees off during the Corporate Golf Day.

MALAIKAS HOSTED AT COCKTAIL EVENT

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

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

A section of the customers attending the Malaika event.

BUSINESS BANKING CUSTOMERS HOSTED AT NON – CONVENTIONAL ENERGY SEMINAR

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

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

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

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

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

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

REALIGNMENT OF THE BUSINESS DEVELOPMENT DIVISION

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

INTERNET BANKING PLATFORM UNVEILED IN I&M BANK, TANZANIA

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

iClick
Just a Click Away

JIDABO CAMPAIGN

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

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

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

BRANCH RELOCATION AND RENOVATIONS

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

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

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

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

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

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

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

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

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

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

I&M BANK (T) LIMITED CELEBRATES CUSTOMERS

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

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

I&M BANK, RWANDA AND BLOCKBONDS LAUNCH COST FREE BANKING APP

Last year, I&M Bank Rwanda partnered with Blockbonds to launch the first blockchain based platform in Rwanda called SPENN. The service is a cost free mobile banking app powered the Bank, covering both personal and business accounts.

Blockbonds is a technology payments solution provider, which focuses on democratizing access to financial markets for everyone, by bridging the gap between payments technology and traditional finance.

By downloading the cost free SPENN mobile banking app, one can access a SPENN bank account and transact by making money transfers, payments in stores, withdrawals and deposits, at any I&M Bank Rwanda Ltd branch throughout Rwanda at no charge.

The service is available for all smartphone users and all one needs to register is their phone number, full names and National Identification Agency number. The launch of the service has been very successful with 179,016 subscribers enrolled in 2018.

An I&M Bank (Rwanda) PLC customer is attended to at the branch while transacting on the Spenn App.

NEW CORE BANKING SYSTEM AND INTERNET BANKING PLATFORM UNVEILED

In 2018, I&M Bank Rwanda rolled out the new core banking system – Finacle 10 aimed at giving customers improved user experience, as they continue to interact with the Bank's various products and services. The Bank further launched iClick, an internet banking platform that now allows customers to have full access to their accounts 24/7 from wherever they are at any time.

iClick
Just a Click Away

I&M BANK, RWANDA PARTICIPATES IN THE KIGALI INTERNATIONAL TRADE FAIR (EXPO)

I&M Bank, Rwanda participated at the 20th Kigali International Trade Fair (Expo 2018) to showcase different financial solutions. The Bank heavily focused on the digital financial products that it offers with the objective promoting a cashless economy.

The Bank's exhibition stand comprised of a Branch where customers could easily access and transact on their bank accounts.

A section of the I&M Bank (Rwanda) PLC stand during the Kigali International Trade Fair (Expo).

LAUNCH OF KIREHE BRANCH AND REOPENING OF NYABUGOGO BRANCH

I&M Bank, Rwanda continued to expand its footprint last year and opened a new branch in Kirehe District in the Eastern Province of Rwanda. The new branch is envisaged to strengthen the Bank's partnership with the UN Missions in Rwanda especially the UNHCR. The branch now serves UNHCR staff, all their stakeholders and other customers in Kirehe District.

In addition, the Bank reopened the Nyabugongo branch which had been closed for renovation, with the objective of serving customers better. The extended branch network represents I&M Bank, Rwanda's continued commitment to our customers to bring services as close to them as possible.

The new branch at Kirehe district.

AWARDS AND RECOGNITIONS

In 2018, I&M Bank, Rwanda continued added more features to its cap by achieving several recognitions of excellence. Key to note were the Best Bank in Rwanda Award by Global Finance, Best SME and Best Customer Service Bank in Rwanda award from Global Banking and Finance Review for 3 years in a row.

The Bank also won Best Investor by the Rwanda Development Board (RDB) Business Excellence Awards. In addition, the Bank was also awarded the best Taxpayer of the Year Award by the Rwanda Revenue Authority for the 2nd time in a row. The Bank has dedicated these Awards to its customers, staff and shareholders for their continued support and belief in their products and services.

BANK ONE TURNS 10

Bank One marked its 10th year anniversary last year, at a colourful celebration hosted for its staff members at the Trianon Convention Center. It was a time to reflect on the various milestones achieved over the last decade, celebrating different staff members who had contributed to the Bank's success over the years.

The event culminated with the launch of an Employee Recognition Program which aims at recognizing outstanding individuals who at the Bank. The event also provided a platform for the Bank's CEO, Mr. Ravneet Chowdhury to update the staff on the implementation of the Vision 2020 corporate strategy.

In addition, the Bank hosted a 10th year anniversary event for its clients at the Sugar Beach Resort in Flic-en-Flac. The event was graced by the Bank's Board of Directors and was hosted by the CEO, Ravneet Chowdhury. The customers were taken through the different milestones and successes that the Bank had achieved over the decade positioning the Bank as a partner of growth for customers.

CEO, Bank One, Mr. Ravneet Chowdhury addressing staff during the 10th Anniversary celebrations.

BANK ONE PARTNERS WITH UNION PAY INTERNATIONAL (UPI) FOR CARD ACQUIRING

Bank One was the first medium sized bank to launch e-commerce acquiring activities in 2012. In line with this pioneering spirit and drive to innovate, the Bank signed an agreement with UnionPay International (UPI) to offer business clients the ability to accept payments from UnionPay cardholders, representing a market of nearly 6 billion cards worldwide.

The partnership is envisaged to open up new growth opportunities for business customers within the e-commerce space, allowing them to accept payments for goods and services from approximately 6 billion UPI cardholders worldwide.

Furthermore, given an increasing number of local customers travelling to China or buying products on Chinese e-commerce websites, the Bank has seen the need to allow payments in Chinese Yuan (CNY) and will extend this collaboration with UPI to issue Bank One UPI Prepaid Cards. Looking ahead, Bank One and UPI will jointly leverage on the growing need for payment solutions in Africa whilst bridging the gap between merchants and customers in Africa and Asia.

The UnionPay delegation during the partnership launch.

BANK ONE SPONSORS CRAZY GOLF

Bank One last year, through its Private Banking arm co-sponsored the Crazy Golf tournament at the Ile Aux Cerfs Golf Club. This competition attracted over 60 players from across the country 60 players who enjoyed hilarious challenges in the magical setting of Ile aux Cerfs Golf Club, a picturesque 18-hole Par 72 championship golf course in Mauritius designed by the two-time Masters Champion Bernhard Langer.

On Hole No. 2 sponsored by Bank One Private Banking, players were offered shots of ginger, vanilla and coffee-flavoured rum and also conducted blind fold tee offs.

One of the players tees off during the tournament.

BANK ONE LAUNCHES HAPPY HOUR FOR CORPORATE CLIENTS

Last year, the Bank's Corporate Banking division launched the Happy Hour cocktail event for its clients. The event looked to provide a platform for clients to network, strengthen their business relationships and share insights with like-minded individuals in the Business world.

Customers and Bank One staff networking at the event.

BANK ONE HOSTS INVESTOR'S CIRCLE

Last year, the Private Banking and Wealth Management arm at Bank One hosted the first edition of Investor's Circle cocktail at its headquarters in November 2018. The objective of the event was to bring together Asset Managers, Private Investors, Institutions and Service Providers to engage on emerging trends in this sector's financial solutions and identify opportunities through which they can do business together. The event was very successful and the Bank plans to host subsequent events of this nature.

Customers and Bank One staff networking at the investor's circle.

INTERNATIONAL BANKING NETWORKING MIXER

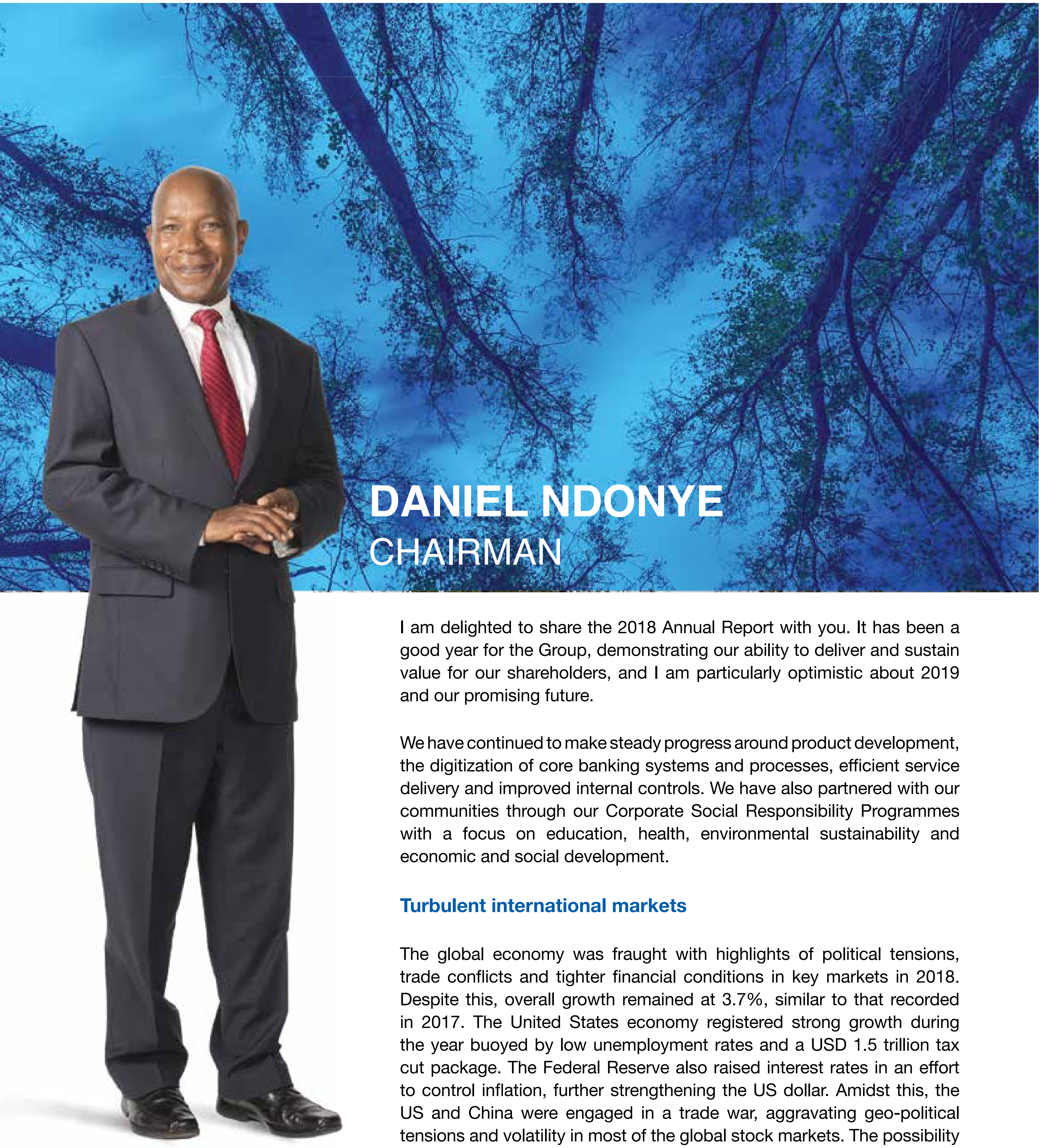
Bank One last year hosted a networking mixer for its International Banking clients at the Hennessey Park Hotel in Port Louis. The forum provided a platform to network and enlighten customers on the Bank's financial solutions. In attendance also were business partners and fund management companies. The event received positive feedback from its attendees and will be conducted henceforth.

Some of the attendees at the International Banking Networking Mixer.

Customers at the International Banking Networking Mixer.

SUSTAINING THE PROGRESS

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



DANIEL NDONYE
CHAIRMAN

I am delighted to share the 2018 Annual Report with you. It has been a good year for the Group, demonstrating our ability to deliver and sustain value for our shareholders, and I am particularly optimistic about 2019 and our promising future.

We have continued to make steady progress around product development, the digitization of core banking systems and processes, efficient service delivery and improved internal controls. We have also partnered with our communities through our Corporate Social Responsibility Programmes with a focus on education, health, environmental sustainability and economic and social development.

Turbulent international markets

The global economy was fraught with highlights of political tensions, trade conflicts and tighter financial conditions in key markets in 2018. Despite this, overall growth remained at 3.7%, similar to that recorded in 2017. The United States economy registered strong growth during the year buoyed by low unemployment rates and a USD 1.5 trillion tax cut package. The Federal Reserve also raised interest rates in an effort to control inflation, further strengthening the US dollar. Amidst this, the US and China were engaged in a trade war, aggravating geo-political tensions and volatility in most of the global stock markets. The possibility of a no-Brexit deal in Europe, the Venezuelan crisis and higher oil prices in the Middle East further deterred economic growth. Emerging and frontier markets suffered a substantial hit as currencies weakened against the dollar and investors took a risk averse stance.

The Sub-Saharan Africa landscape

Against this backdrop of uncertainty, Sub-Saharan Africa remained resilient. The World Bank reported that the region recorded a 2.7% GDP growth in 2018, a rise from 2.3% recorded in 2017. Even though the region's three largest economies, Nigeria, Angola and South Africa, experienced sluggish expansion during the period spurred by political tensions and economic recessions, economic activity in East Africa remained stable supported by increased agricultural production, stronger household consumption and increased government spending on infrastructure development.

I&M Bank Group: Resilient Growth

Your Company reported a 16% increase in Profit before Tax supported by a 20% increase in total assets which increased from KShs 240.1 billion reported for fiscal year 2017 to KShs 288.5 billion as at close of 2018. The increase followed a 9% growth in loan book and a 26% increase in customer deposits. The gross Non-performing loan book increased by 15% to KShs 22.5 billion in the wake of a similar rise in the non-performing loans in the Kenyan and Tanzanian banking entities. The Board maintains the assurance that this is a reflection of the respective countries' economic headwinds and credit contraction rather than a systemic weakness in the Banks' portfolio.

The Group implemented a number of its strategic initiatives throughout its subsidiaries. Kenya launched the Customer Value propositions comprising I&M Premium Select, I&M Premium Esteem, I&M Young Professionals and I&M Business, which play an integral part in the Group's intent to serve customers in a personalized manner giving them an offering that complements their lifestyle and financial requirements. Rwanda and Tanzania launched an e-wallet payment solution SPENN based on an application powered by Block chain. Through a mobile based app, the Bank is able to provide a payment solution free of cost to users thereby connecting the banked with the unbanked population. Mauritius launched a new custody offering for its HNI clientele and which earned it the award for the Best Private Bank in Mauritius.

The banking entities in Tanzania, Rwanda and Mauritius upgraded their core banking system to Finacle version 10. The Group has also made significant strides in technology and innovation, with rollout of its Digital Factory aptly named iCUBE in addition to launch of products such as the Remote Cheque Scanning, an enhanced customer loyalty program dubbed "XtraValue", iRent and SPENN, among others.

The Group not only completed the acquisition of Youjays Insurance Brokers Limited but also successfully managed to merge the operations with the Group's Bancassurance division. The acquisition aimed at augmenting the Group's non-funded income has helped scale up the Bancassurance business with customers benefitting from a wider range of insurance solutions.

Several initiatives were implemented across the Group to drive performance, nurture talent, and build capacities, for instance, through the induction of new staff and conducting of technical trainings through internal and external programs including availability of an online e-learning platform. We also conducted staff satisfaction surveys and provided a comprehensive Group Life Insurance to all the employees in the Bank.

The Group Operating Model was further enriched with the set-up of the Group Executive Office and the appointment of a Group Executive Director.

Focus remained on strengthening Corporate Governance practices across the various entities with enhanced disclosures on its website as well as introduction of additional policies and procedures. I am also pleased to note that during the year, your Company subjected itself to an independent Legal and Compliance Audit in addition to the annual Governance Audit and results from both these were reassuring. These have been separately disclosed in this annual report.

I&M Bank Limited, Kenya

Kenya's economy picked up in 2018 with the GDP estimated at 5.5% up from 4.9% in 2017. This was in light of a reduction in interest rates to 9%, exchange rate stability, improved diaspora remittances and improved investor confidence in the country following the conclusion of the 2017 presidential elections. However, the year was not without its challenges. Corruption scandals, the high fiscal deficit, and external pressures from the global environment threatened to dampen economic growth.

The Bank's performance for the year 2018 recorded a 23% increase in total assets from the previous year on the back of a 30% growth in customer deposits. Loans and advances to customers increased by 9.0%, while profit before tax achieved a sturdy 16% increase. However, due to significant market challenges experienced in 2017/2018, non-performing loans increased by 15% during the year. The bank is closely monitoring this matter and is confident that the non-performing loans will decrease over time in line with the prospects of economic recovery.

I&M Bank Limited added to its ever growing portfolio of awards, bagging the Visa Affluent Usage Award 2018 from Visa International in Kenya for its successful efforts in developing and launching the Visa Infinite Credit Card.

In an effort to improve systems and operational efficiency, I&M Bank set up the iCube Digital Factory – a significant milestone in developing transformative digital financial solutions aimed at improving operational efficiencies and enhancing customer deliver standards. Other noteworthy achievements include the successful rollout and migration of prepaid and debit cards into the new card management system and the successful rollout of the Loan Origination System that has not only enhanced the loan origination and documentation processes but is also expected to enable real time monitoring of loan application process and improve debt recovery and collections process.

During the year the Bank secured a USD 40 million loan from FMO, the Dutch development bank, to be used for onward lending to SMEs. This facility will not only enable the bank to increase its SME loan book but also to contribute to Kenya's economic development. DT Dobie Kenya and I&M Bank also entered into an asset financing deal that has seen the bank offer up to 90% financing for the motor company's new Mercedes Passenger vehicles.

I&M Bank (T) Limited, Tanzania

Tanzania recorded a mixed performance in 2018, with the World Bank estimating GDP growth for the year at 6.8%. Imports increased driven by increased infrastructure spending thereby leading to a widening of the balance of payments deficit as well as an increase in the fiscal deficit caused by additional debt repayments. The financial sector remained broadly stable with adequate capitalization and liquidity ratios whilst the domestic currency depreciated in value against a stronger US dollar.

2018 was a challenging year for banks in Tanzania as they adjusted to the changes in the regulatory environment, resulting in widespread consolidation within the sector, decreased lending in favor of government securities and declining profit margins. The implementation of the IFRS 9 standard and changes in the regulation requirements on the asset classification and write-offs further impacted the industry.

Despite the challenges in the banking sector, the Bank achieved a positive fiscal performance. The Bank's balance sheet exceeded the half trillion mark, growing by 15.2% to close at Tshs 510 billion. This is an important milestone for the bank, driven in part by a 10.5% increase in the loan book and a 29.3% growth in profit before tax.

In 2018, the bank developed a comprehensive Medium Term Strategy with an aspiration to be "the banking powerhouse for medium to large businesses and premium clients in the country", and successfully implemented a number of strategic initiatives geared towards enhancing market share, brand positioning and driving growth in corporate and retail banking. These included the hiring of new managerial staff, the rollout of employee welfare and development initiatives, media and marketing campaigns to increase brand visibility, and a significant investment in product development and IT systems.

Other notable developments during the year include the relocation of the Mwanza branch to a more strategic location, the renovation of the Arusha branch and the inauguration of an offsite ATM at Shamo Towers.

I&M Bank (Rwanda) Limited, Rwanda

According to the National Institute of Statistics of Rwanda, Rwanda's economy expanded by 8.6% in 2018 due to improved performance of all sectors of the economy. The country maintained its position at 29th in global rankings and 2nd in Africa in the World Bank's 2018 Ease of Doing Business Report.

The year was yet another successful one for the Bank, delivering strong business performance across all key financial metrics. Growth in interest income and trading income led to a 13.0% increase in headline earnings, with profit after tax recording a remarkable 14.6% increase from the previous year. The Bank strengthened its balance sheet with a 13.0% growth in its asset base, a 15.4% increase in its loan book, a strong capital adequacy ratio of 17.3% and an 18.1% return on equity, reflecting the bank's robust performance.

Major developments during the year included the implementation of the new IFRS 9 accounting standard, and the adoption of a new computation of the Bank's capital charge which now includes charges for market and operational risk.

The Bank also made significant progress with key strategic initiatives - launching a new Core Banking System and commencement of a programme to develop end-to-end value proposition for small and medium clients in partnership with the IFC. The Bank also launched an e-learning platform for its staff with mandatory programs on banking and related controls, and continues to sponsor key staff for professional banking and leadership programs.

To mark the bank's extra-ordinary achievements, the bank was awarded a number of accolades including: Best Bank in Rwanda awarded by Global Finance, Best SME and Best Customer Service Bank in Rwanda awarded by the Global Banking and Finance Review, Investor of the Year Award in the RDB Business Excellence Awards, and Best Taxpayer of the year awarded by the Rwanda Revenue Authority.

Bank One Limited, Mauritius: The Jubilee Year

2018 was a remarkable year for Mauritius! The country celebrated its 50th Anniversary of Independence with much grandeur and a spectacular parade of fireworks and entertainment. In addition, Mauritius retained its number one rank in Sub Saharan Africa in the World Bank's Ease of Doing Business Report. The country's GDP grew by 3.7% and unemployment numbers eased.

Joining the country's golden jubilee celebrations, Bank One celebrated its 10th Anniversary – a momentous achievement further solidified by improved profitability and international recognition as the Best Private Bank in Mauritius. We applaud the board, management, staff and all the associated stakeholders for their concerted efforts in achieving this significant milestone.

During the year, Bank One delivered strong financial performance driven by better service delivery, re-engineering of key processes, improved internal controls and increased capacity for growth. The bank upgraded its Core Banking Software and IT Systems, increased investment in cybersecurity, refurbished its branches, welcomed new management heads, and strengthened its capital base. These efforts resulted in a 47% growth in top line revenues, 25% growth in its asset base and an 18% increase in customer deposits.

I&M Burbidge Capital Limited, Kenya & Uganda

2018 was a record year for our advisory business having advised on and successfully closed on a number of transactions and achieved a 62% growth in revenue from 2017 and a 118% growth in profit before tax. This performance follows the implementation of new strategic initiatives aimed at increasing efficiency and timely service delivery to clients.

For its outstanding efforts in executing capital raising and M&A transactions for its clients during the year, the firm bagged the 1st runners up position in the Financial Advisors by Deal Flow Category at the Deal Makers Africa Annual Gala Awards Dinner.

I&M Realty Limited, Kenya

I am pleased to announce that the Group's new headquarters at the junction of 1st Parklands Avenue and Limuru Road, Nairobi is near completion. Additionally, as of 2018, and in continuation of the planned restructuring, the property located at Eldama Park, previously owned by Giro Commercial Bank Limited, was transferred to I&M Realty Limited consolidating all of the Group's real estate investments in this subsidiary.

I&M Foundation

We took significant strides in 2018 to establish the I&M Foundation. The foundation's framework will focus on key thematic areas namely: Environment and Conservation, Education and Skills Training, Economic Empowerment and Philanthropy. To advance its completion, we hired the Head of the Foundation whom we believe will be instrumental in the successful implementation of the foundation's structure.

Outlook for the Future

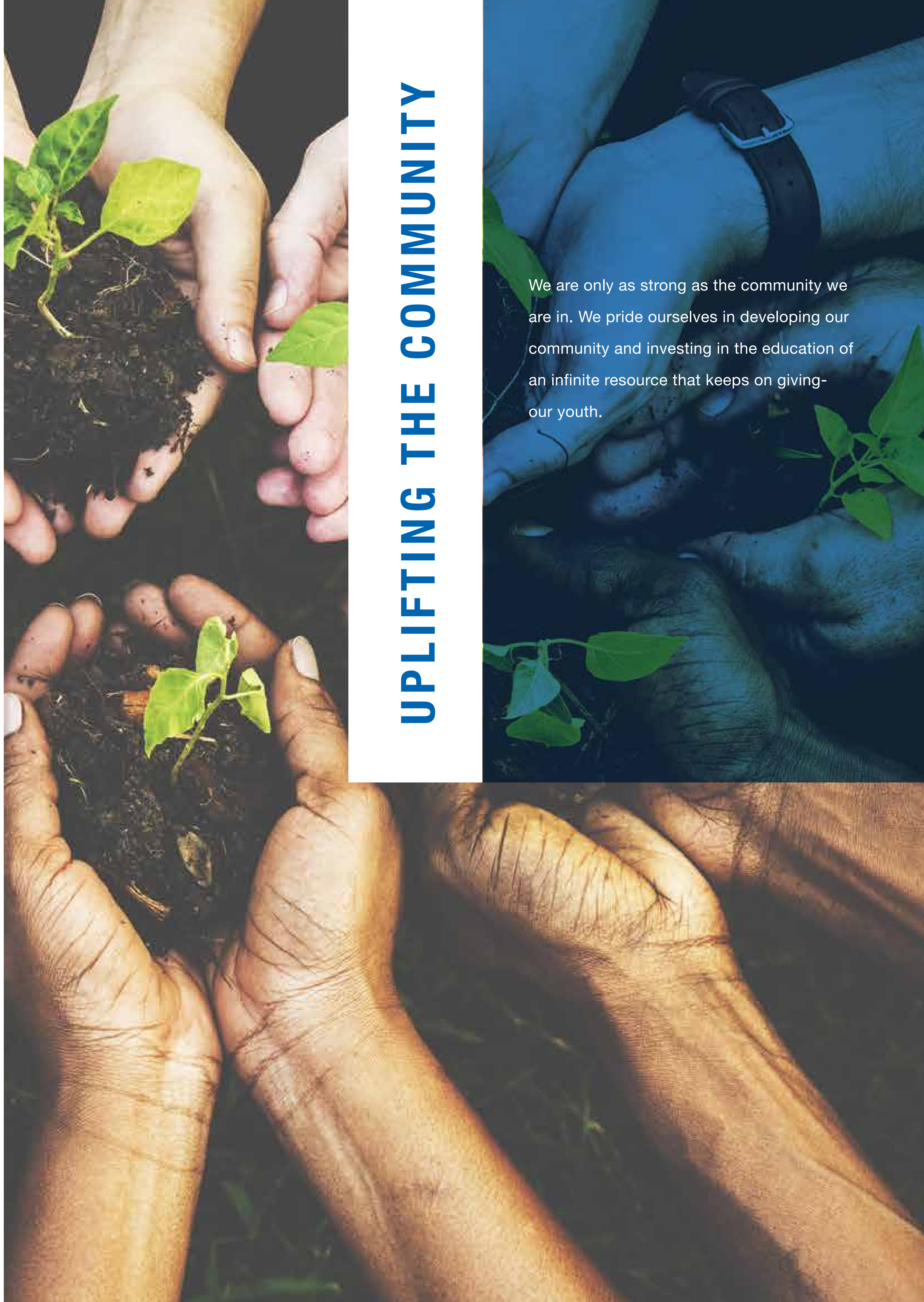
According to the African Development Bank, East Africa is projected to achieve growth of 5.9% in 2019. I am confident that the ongoing implementation of our strategic initiatives, together with the positive economic outlook and, most importantly, your continued support, will enable us to improve our performance for our shareholders and clients.

Appreciation

In conclusion, I would like to express my most heartfelt thanks to each of our stakeholders – first and foremost to our customers for their unwavering loyalty and continued support to you our shareholders and investors for your belief and trust in the Group, to each of the regulators in the region for their guidance, support and cooperation, to the staff and management of each of the entities in the Group for their commitment and dedication, to our partners across the spectrum – development financial institutions, correspondent banks, service providers and suppliers for your patronage and last but not least to my fellow Board members and members of the Board of every entity in the Group for their dynamic leadership and guidance. I am honored to steward this Company!

DANIEL NDONYE
CHAIRMAN

26 March 2019



UPLIFTING THE COMMUNITY

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

The Directors have pleasure in submitting their annual report together with the audited financial statements of I&M Holdings PLC (formerly I&M Holdings Limited) ("the Company"), its subsidiaries and its joint venture (together "the Group") for the year ended 31 December 2018, 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 Companies that make up the Group are contained on Note 1. 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 of Youjays Insurance Brokers Limited (YIB)

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

Following the receipt of all regulatory approvals and the satisfactory completion of all conditions precedent outlined in the Sale and Purchase Agreement, I&M Insurance Agency Limited, the Group's Bancassurance business arm successfully completed this acquisition on 31 March 2018. The results of YIB are consolidated in the Group`s financials.

3. Results / Business review

The consolidated results for the year are as follows:

	2018 KShs'000	2017 KShs'000
Profit before income tax	11,497,780	9,894,574
Income tax expense	(2,994,423)	(2,630,325)
Profit for the year	**8,503,357**	**7,264,249**

Net profit closed at KShs 8.5 billion, an increase of 16% (or KShs 1.2 billion) compared to prior year. This was mainly due to increased operating income before impairment charges which rose by KShs 1.8 billion, on account of non-interest income a key deliverable under iMara strategy. The Directors and employees re-affirm their commitment to achieving the laid down iMara strategies and consequently delivering key value to shareholders.

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

4. Dividends

The Directors declared an interim dividend of KShs 3.90 per share amounting to KShs 1,612,281,000 for the year ended 31 December 2018. A final dividend of KShs 3.50 per share amounting to KShs 1,446,918,791 in respect of the year ended 31 December 2017 was paid on 24 May, 2018. The directors do not recommend payment of a final dividend for the year ended 31st December 2018.

5. Bonus issue

The Board has resolved to recommend the issuance of bonus share of one (1) new fully paid up bonus share of a par value KShs 1.00 for every one (1) ordinary shares of par value KShs 1.00 to be issued to the shareholders registered on the Company's register at the close of business on 10 May 2019. The bonus issue is subject to approval by the Capital Markets Authority and the shareholders at the Annual General Meeting to be held on 23 May 2019. Upon receipt of the requisite approvals, shareholders will be credited with the bonus shares on or immediately after 23 May 2019.

6. Directors

The Directors who served during the year and up to the date of this report are set out on page 2. The Company provides professional indemnity for all the Directors.

7. Relevant audit information

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

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

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

8. Auditors

To note that Messrs KPMG Kenya continue in office as Auditors by virtue of section 721 of the Companies Act, 2015 and subject to section 24(1) of the Banking Act (Cap. 488) and to authorise the Directors to fix the Auditors' remuneration for the ensuing financial year.

9. Approval of financial statements

The financial statements were approved and authorised for issue at a meeting of the Board of Directors held on **26 March 2019.**

BY ORDER OF THE BOARD
Secretary

Date: 26 March 2019

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 on-going 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 PLC (IMHP or the Company) was incorporated in August 1950, and was one of the oldest companies to list on the (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, IMHP became the parent company of the I&M Bank Group. On 29 March 2018, the company changed its name to I&M Holdings PLC (formerly I&M Holdings Limited).

Significant shareholders

The Company's top 10 shareholders as at 31 December 2018 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%
Standard Chartered Kenya Nominees A/C K/E002796	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%
Investments & Mortgages Nominees Ltd A/C 002983	6,000,000	1.45%
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 2018 was as follows:

Share Range	No. of Shareholders	Shares Held	Shareholding %
Less than 1 million shares	2,479	67,279,944	16.28%
> 1 million < 2 million shares	5	7,742,557	1.87%
> 2 million < 3 million shares	3	7,775,355	1.88%
> 3 million shares	13	330,607,513	79.97%
Grand Total	**2,500**	**413,405,369**	**100.00%**

Shareholder Relations & Communication

I&M Holdings PLC, 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 PLC currently constitutes eight 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 Secretaries of Kenya.

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

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

Suresh B R 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 LIMITED. He has vast experience in the banking industry and in business. In December 2002, he was bestowed the Honour of a Moran of the Order of the Burning Spear.

He sits on the boards of several companies.

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 PLC subsidiaries and associates such as: I&M Bank (T) Limited and GA Insurance Limited.

Michael Turner

Independent Non - Executive 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, in 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 has had the opportunity to work with AMP Asset management in London and HSBC Bank PLC London.

He sits on the boards of several companies.

Oliver Fowler

Independent Non - Executive Director (Appointed on 21 August 2015)

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

He sits on the boards of several companies.

Board of Directors (Continued)

Board Constitution and Appointment (Continued)

Nyambura Koigi

Independent Non - Executive Director (Appointed on 28 October 2015)

Dr. Koigi joined the board on 28 October 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 Secretaries of Kenya and the Kenya Institute of Management.

She sits on the boards of several companies.

Suleiman Kiggundu Jr.

Independent Non - Executive Director (Appointed on 5 June 2018)

Mr. Kiggundu joined the Board in June 2018. He has served in senior leadership roles at various institutions, including Equator Bank, HSBC Bank Plc and CDC Group Plc. He is a qualified electrical engineer and economist from Yale University. He sits on the boards of several companies. He is also the Chairman of the Board Strategy Steering Committee.

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 as 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 PLC. 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.

Board Charter (Continued)

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

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

Board Meetings

The Board meets at least quarterly each year for scheduled meetings and on other occasions when required to deal with specific matters between scheduled meetings. Board members receive board papers well in advance of their meetings, thereby facilitating meaningful deliberations therein.

Board of Directors – Summary of attendance

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

Directors	15 January 2018	26 March 2018	9 July 2018	16 October 2018	Total Board meetings attended in 2018
Daniel Ndonye	√	√	√	√	4
Suresh B R Shah	√	√	√	X	3
Sarit S Raja Shah	√	√	√	√	4
Michael Turner	√	X	√	√	3
Oliver Fowler	√	√	√	√	4
Sachit S Raja Shah	√	√	√	X	3
Nyambura Koigi	√	√	√	√	4
Suleiman Kiggundu*	N/A	N/A	√	√	2

*Appointed on 5 June 2018

√ Attended
X Not Attended
N/A Not Applicable / Meeting preceded appointment and regulatory approval.

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, Remuneration and Governance Committee (BNRGC)

The BNRGC consists of two independent Directors and one non-executive Director. It is chaired by a Non- Executive, Independent Director. The BNRGC 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.

In addition, the Committee provides oversight in relation to the development and implementation of governance related policies at the Group level and ensures compliance with the prevailing corporate governance regulations and principles.

Board Strategy Steering Committee (BSSC)

The BSSC consists of one non-executive Director, an Executive Director and 4 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 Merger & Acquisition transactions).

Delegation of Authority

I&M Holdings PLC 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 co-ordinating and discharging its mandate, it receives regular structured and timely reports from the respective entity level boards as well as those from BARMC, 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 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.

Delegation of Authority (Continued)

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.

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.

Management committees (Continued)

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 Capital Markets Authority (CMA) Code of Governance practices for Issuers of Securities to the Public 2015 (CMA Code), Central Bank of Kenya (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.

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.

Conflict 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 38.

Whistle Blowing Policy

The Boards of I&M Holdings PLC and subsidiaries have adopted a Whistle blowing policy to enhance committed 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.
- 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.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Procurement Policy (Continued)

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:

- 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 a functions within each entity to continuously monitor the Company and its subsidiaries' compliance with applicable laws, rules and regulations, codes and standards.

All policies 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.

Risk Management Framework, Internal Control and Internal Audit

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

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

Risk Management Framework, Internal Control and Internal Audit (Continued)

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

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

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

While the Board is responsible for the overall risk management and internal control systems, oversight of the Group's risk management process has been delegated to the Board Audit and Risk Management Committee. The internal audit function is responsible for providing assurance to the Board regarding the implementation, operation and effectiveness of internal control and risk management within the Group.

Sustainability & Corporate Social Responsibility (CSR)

I&M Holdings PLC 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

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 first year that the Company undertook this Governance Audit was in 2017.

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.

Legal and Compliance Audit

I&M Holdings Plc (the Company) is a non-operating holding company which is listed on the Nairobi Securities Exchange and regulated by the Capital Markets Authority of Kenya. The Company procured a legal audit for the financial year ending 31 December 2018 in accordance with the Corporate Governance Code for Issuers of Securities to the Public, 2015 (the Code). The Code requires that a comprehensive independent legal audit is carried out at least once every two years by a legal professional in good standing with the Law Society of Kenya. For the financial year ending 31 December 2018, an independent legal audit was carried out by Anjarwalla & Khanna Advocates. The outcome of the audit process has confirmed that during the year in review the Company was generally compliant with applicable legislation, regulations, standards and codes. In addition, the Company generally complied with the Prudential Guideline on Non-Operating Holding Companies (CBK/PG/24) prescribed by the Central Bank of Kenya which is its primary Regulator.

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 PLC 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 2018

The Governance Audit Report was adopted by the Board of Directors on **26 March 2019.**

Daniel Ndonye
Chairman

Sarit S Raja Shah
Director

Date: 26 March 2019

The Directors are responsible for the preparation and presentation of the consolidated and separate financial statements of I&M Holdings PLC (the "Group" or "Company") set out on pages 60 to 169 which comprise the consolidated and separate statements of financial position at 31 December 2018, the consolidated and separate statements of profit or loss and other comprehensive income, the 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 **26 March 2019.**

Daniel Ndonye
Chairman

Sarit S Raja Shah
Director

Suleiman Kigundu Jr.
Director

Date: 26 March 2019.

The Board Nomination and Remuneration Committee [BNRC] of I&M Holdings PLC is pleased to present the Directors' remuneration report for the year ended 31 December 2018. This report is in compliance with the IMHP's Board Charter on Director's reward and remuneration, the Code of Corporate Governance Guidelines issued by the Capital Markets Authority on Directors' remuneration and the new Companies Act, 2015, 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.

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

Board Remuneration

At IMHP, 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 will be 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 BNRGC is tasked with ensuring that Directors remuneration levels are reviewed with sufficient regularity and are subject to external benchmarking to ensure that IMHP 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 BNRGC carried out a review of fees paid to directors and adopted the following:

Particulars	Annual retainer fees 2018 KShs	Annual retainer fees 2017 KShs
Chairman	1,000,000	962,500
Director	575,000-800,000	556,250 – 775,000

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' Contract of Service

Directors who serve on the Board of IMHP are elected to office during the AGM, and offer themselves up for re-election as mandated in the Companies Act, 2015. 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 by 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	Appointment Date	Last Re-election Date	Notice period
Daniel Ndonye	Non-Executive, Independent	14-June-13	25-May-17	3 months
Suresh Bhagwanji Raja Shah, MBS	Non-Executive	14-June-13	24-May-18	3 months
Sarit S Raja Shah	Non-Executive	14-June-13	24-May-18	3 months
Michael Turner	Non-Executive, Independent	01-August-14	25-May-17	3 months
Sachit S Raja Shah	Non-Executive	10-July-15	18-May-16	3 months
Oliver Fowler	Non-Executive, Independent	21-August-15	18-May-16	3 months
Nyambura Koigi	Non-Executive, Independent	28-October-15	18-May-16	3 months
Suleiman Kiggundu	Non-Executive, Independent	05-June-18	N/A	3 months

Directors Shareholding

Directors' direct and indirect interests as at 31st December 2018 are tabulated below.

Name of Director	Number of Shares	% Shareholding
Mr. Suresh B R Shah, MBS	44,161,625	10.68%
Mr. Sarit S. Raja Shah	8,479,286	2.05%
Mr. 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 2018, are summarised below:

Director	2018 Annual Retainer KShs	2018 Fees KShs	2018 Fees earned in Subsidiaries KShs	2018 Total KShs	2017 Annual Retainer KShs	2017 Fees KShs	2017 Fees earned in Subsidiaries KShs	2017 Total KShs
Daniel Ndonye	1,000,000	1,180,000	-	2,180,000	962,500	780,000	-	1,742,500
Suresh Bhagwanji Raja Shah, MBS	575,000	220,000	1,268,000	2,063,000	556,250	265,000	1,296,750	2,118,000
Sarit S Raja Shah	575,000	770,000	335,597	1,680,597	556,250	955,000	462,257	1,973,507
Michael Turner	800,000	580,000	1,215,094	2,595,094	775,000	375,000	1,703,724	2,853,724
Sachit S Raja Shah	575,000	220,000	1,945,000	2,740,000	556,250	265,000	1,807,500	2,628,750
Oliver Fowler	800,000	385,000	-	1,185,000	775,000	110,000	-	885,000
Nyambura Koigi	575,000	275,000	4,102,500	4,952,500	556,250	265,000	3,432,500	4,253,750
Suleiman Kiggundu Jr.	454,795	390,000	-	844,795	-	-	-	-
	5,354,795	**4,020,000**	**8,866,191**	**18,240,986**	**4,737,500**	**3,015,000**	**8,702,731**	**16,455,231**

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

Details	2018	2017
	KShs	KShs
Salary	30,490,200	29,520,000
Bonus	3,465,000	8,800,000
Pension	2,154,165	2,079,000
Insurance	2,690,154	2,254,815
Total	**38,799,519**	**42,653,815**

In the AGM held on 24 May 2018, the Directors remuneration was approved unanimously.

Information on aggregate amount of emoluments and fees paid to directors are disclosed in note 15 of the financial statements.

Other Key Policies Influencing Directors Remuneration

Discretions retained by the BNRGC

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

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

Daniel Ndonye
Chairman

Date: 26 March 2019

A Z A L I

Introduction

We have performed the Governance Audit for I&M Holdings PLC covering the year ended 31 December 2018 which comprised assessment of Governance Practices, Structures and Systems put in place by the Board.

Board responsibility

The Board is responsible for putting in place governance structures and systems that support the practice of good governance in the organization. The responsibility includes planning, designing and maintaining governance structures through policy formulation necessary for efficient and effective management of the organization. The Board is responsible for ensuring its proper constitution and composition; ethical leadership and corporate citizenship; accountability, risk management and internal control; transparency and disclosure; members' rights and obligations; members' relationship; compliance with laws and regulations; and sustainability and performance management.

Governance auditor's responsibility

Our responsibility is to express an opinion on the existence and effectiveness of Governance instruments, policies, structures, systems and practices in the organization within the legal and regulatory framework and in accordance with best governance practices as envisaged under proper Board constitution and composition; ethical leadership and corporate citizenship; accountability, risk management and internal control; transparency and disclosure; members' rights and obligations; members' relationship; compliance with laws and regulations; and sustainability and performance management, based on our audits.

We conducted our audits in accordance with ICPSK Governance Audit Standards and Guidelines which conform to global Standards. These standards require that we plan and perform the governance audit to obtain reasonable assurance on the adequacy and effectiveness of the organizations policies, systems, practices and processes. We believe that our governance audits provide a reasonable basis for our opinion.

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Opinion

In our opinion, the Board has put in place effective, appropriate and adequate governance structures in the organization which are in compliance with the legal and regulatory framework and in line with good governance practices for the interest of stakeholders.

CS. Madren Oluoch-Olunya
ICPSK GA No. 00192

CS. Martin Oduor-Otieno
ICPSK GA No. 00110

For: Azali Certified Public Secretaries LLP, Ken
25 March 2019

KPMG

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 PLC (Formerly I&M Holdings Limited) (the "Group" and "Company") set out on pages 60 to 169 which comprise the consolidated and separate statements of financial position at 31 December 2018, 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 PLC (Formerly I&M Holdings Limited) as at 31 December 2018, and consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) 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 allowances on loans and advances at amortised cost including off balance sheet elements of the allowance
The disclosure associated with credit risk is set out in the financial statements in the following notes
— Note 3 (f) (iii) – Impairment on financial assets (page 78 – 81) — Note 5(a) – Credit risk (page 101 – 114) — Note 21 (c) – Change in expected credit losses and other credit impairment charges (page 141) — Note 41 (a) – IFRS 9 transition note (page 165 – 167)

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

Key audit matters (Continued)

Impairment allowances on loans and advances at amortised cost including off balance sheet elements of the allowance (Continued)	
The key audit matter	**How the matter was addressed in our audit**
Subjective estimate IFRS 9 was implemented by the Group on 1 January 2018. This new and complex standard requires the group to recognise expected credit losses ("ECL") on financial instruments which involves significant judgement and estimates and resulted in an increase in credit loss provisions from KShs 7.25 billion as at 31 December 2017 under IAS 39 to KShs 8.04 billion as at 1 January 2018 under IFRS 9. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the group's implementation of IFRS 9 are: *Economic scenarios* IFRS 9 requires the Group to measure ECLs on a forward-looking basis reflecting a range of future economic conditions. Significant management judgment is applied to determining the economic scenarios used and the probability weightings applied to them especially for the corporate portfolios. *Significant increase in credit risk ("SICR")* For the retail and corporate portfolios the criteria selected to identify a significant increase in credit risk is a key area of judgement within the group's ECL calculation as these criteria determine whether a 12 month or lifetime provision is recorded. *Model estimations* Inherently judgemental modelling is used to estimate ECL which involves determining probabilities of default ("PD"), loss given default ("LGD"), and exposures at default ("EAD"). The PD models used in the retail and corporate portfolios are the key drivers of the group's ECL results and are therefore the most significant judgemental aspect of the group's ECL modelling approach. *Disclosure quality* The disclosures regarding the Group's application of IFRS 9 are key to understanding the change from IAS 39 as well as explaining the key judgements and material inputs to the IFRS 9 ECL results.	Our audit procedures in this area included, among others: - Involving our own Data and Analytics specialists in evaluating the appropriateness of the group's IFRS 9 impairment methodologies and independently assessing the accuracy of probability of default, loss given default and exposure at default computations and assumptions. - Involving our own Financial Risk Management specialists in: assessing the appropriateness of the Group's methodology for determining the economic variables used which included agreeing them to independent external sources; and assessing the overall reasonableness of the economic forecasts applied by the group. Selecting a sample of facilities from the Group's loan book and carrying out tests to establish whether significant facilities are correctly staged/ classified and valued based on IFRS. - Testing of a sample of key data inputs and assumptions impacting ECL calculations to assess the reasonableness of PD and LGD assumptions applied. - Evaluating the appropriateness of the Group's IFRS 9 methodologies including the SICR criteria used. - Testing the impairment calculations to check if the correct parameters – Probability of Default (PDs), Loss Given Default (LGDs), and Exposure at Default (EADs) were applied in the model. - Assessing whether the disclosures appropriately disclose the key judgements and assumptions used in determining the expected credit losses.

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 25 – 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 and analysing the internal reporting of the Group to assess how results are monitored and reported. - Evaluating the forecasting process undertaken by the Group by assessing the precision of prior year forecast cash flows by comparing with actual outcomes. - Involving our own valuation specialists to assist us in challenging the Group's valuation methodologies, discount rates and growth rates. This includes 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 goodwill to confirm the accuracy of the impairment charge, where impairment had been recognized.

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.	Our audit procedures in this area 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.

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

Key audit matters (Continued)

Information Technology (IT) systems and controls	
The key audit matter	**How the matter was addressed**
	- With the support of IT specialists, testing 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 and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information 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 46, 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.

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

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

Our objectives are to obtain reasonable assurance about whether the 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.
- 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

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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)

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:

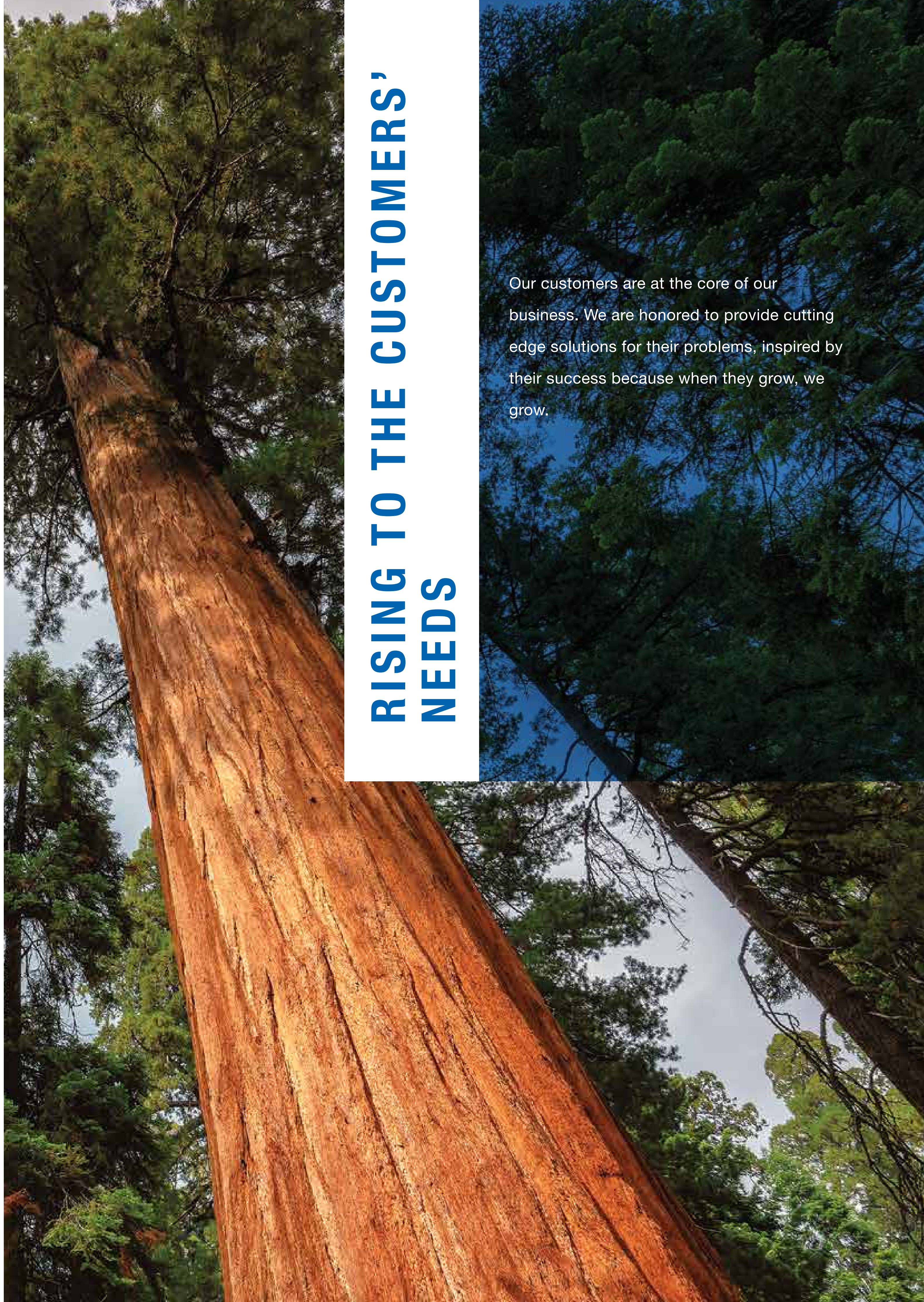
(i) In our opinion the information given in the *Report of the directors* on pages 32 and 33 is consistent with the consolidated and separate financial statements;
(ii) The auditable part of the *Directors' remuneration report* on pages 47 to 50 has been properly prepared in accordance with the Kenyan Companies Act, 2015; and
(iii) We have issued an unqualified audit report on the consolidated and separate annual financial statements.

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

KPMG Kenya

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

Date: 26 March 2019



RISING TO THE CUSTOMERS' NEEDS

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

	Note	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Interest income	9	25,998,868	24,423,762	34,441	36,744
Interest expense	10	(10,404,686)	(8,869,275)	-	-
Net interest income		**15,594,182**	**15,554,487**	**34,441**	**36,744**
Fee and commission income	11	3,936,092	3,324,275	-	-
Fee and commission expense	11	(258,305)	(226,416)	-	-
Net fee and commission income	11	**3,677,787**	**3,097,859**	**-**	**-**
Revenue		**19,271,969**	**18,652,346**	**34,441**	**36,744**
Net trading income	12	3,107,748	2,038,336	619	548
Other operating income	13	553,501	400,215	2,875,570	4,196,638
Net operating income before change in expected credit losses and other credit impairment charges		**22,933,218**	**21,090,897**	**2,910,630**	**4,233,930**
Change in expected credit losses and other credit impairment charges	21(c)	(3,807,345)	(4,143,521)	-	-
Net operating income		**19,125,873**	**16,947,376**	**2,910,630**	**4,233,930**
Staff costs	14	(4,108,876)	(3,752,209)	-	-
Premises and equipment costs	14	(748,058)	(693,479)	-	-
Other expenses	14	(2,769,620)	(2,600,469)	(29,039)	(29,922)
Depreciation and amortisation expenses	14	(596,849)	(561,610)	(11)	(94)
Operating expenses		**(8,223,403)**	**(7,607,767)**	**(29,050)**	**(30,016)**
Operating profit		**10,902,470**	**9,339,609**	**2,881,580**	**4,203,914**
Share of profit of joint venture	23(a)	595,310	554,965	-	-
Profit before income tax	15	**11,497,780**	**9,894,574**	**2,881,580**	**4,203,914**
Income tax expense	16(a)	(2,994,423)	(2,630,325)	(5,679)	(4,595)
Profit for the year		**8,503,357**	**7,264,249**	**2,875,901**	**4,199,319**

(Continued Page 61)

The notes set out on pages 68 to 169 form an integral part of these consolidated and separate financial statements.

	Note	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Other Comprehensive Income					
Items that will not be reclassified to profit or loss:					
Actuarial gains/(losses) on re-measurement of defined benefit scheme net of deferred tax	34(g)	15,744	(39,361)	-	-
Revaluation surplus on property and equipment net of deferred tax charge		16,477	23,016	-	-
Movement in fair value reserve for FVOCI - Equity Instruments net of deferred taxes		(182,566)	-	-	-
Items that may be classified to profit or loss:					
Movement in fair value reserve for FVOCI debt instruments		(63,951)	-	2,977	-
Net gains on investments in debt instruments measured at AFS		-	281,570	-	-
Foreign operations-foreign currency translation differences		(690,980)	(121,814)	-	-
Total other comprehensive income for the year		**(905,276)**	**143,411**	**2,977**	**-**
Total comprehensive income for the year		**7,598,081**	**7,407,660**	**2,878,878**	**4,199,319**
Profit attributable to:					
Equity holders of the Company		7,950,819	6,766,256	2,875,901	4,199,319
Non-controlling interest		552,538	497,993	-	-
		8,503,357	**7,264,249**	**2,875,901**	**4,199,319**
Total comprehensive income attributable to:					
Equity holders of the Company		7,240,716	7,118,881	2,875,901	4,199,319
Non-controlling interest		357,365	288,779	-	-
		7,598,081	**7,407,660**	**2,875,901**	**4,199,319**
Basic and diluted earnings per share - (KShs)	17	**19.23**	**16.37**	**6.96**	**10.16**

The notes set out on pages 68 to 169 form an integral part of these consolidated and separate financial statements.

	Note	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
ASSETS					
Cash and balances with central banks	18	14,867,139	11,879,815	-	-
Items in the course of collection	19	764,460	495,649	-	-
Loans and advances to banks	20	33,675,193	6,379,973	-	-
Loans and advances to customers	21(a)	166,736,729	153,018,152	-	-
Financial assets at fair value through profit or loss (FVTPL)	22(a)	13,145,126	2,911,654	-	-
Financial assets measured at fair value through other comprehensive income (FVOCI)	22(b)	10,853,371	21,733,286	133,223	193,523
Other financial assets at amortised cost	22(c)	28,158,101	27,022,965	-	-
Investment in Joint Venture	23(a)	4,535,205	4,267,166	1,679,971	1,679,971
Investment in subsidiaries	23(b)	-	-	25,662,294	23,790,896
Property and equipment	24	6,724,561	5,335,853	-	11
Intangible assets - Goodwill	25(a)	3,136,312	2,972,556	-	-
Intangible assets - Software	25(b)	1,735,882	527,964	-	-
Prepaid operating lease rentals	26	246,271	265,940	-	-
Tax recoverable	16(b)	126,609	606,193	6,347	5,799
Deferred tax asset	27	1,929,345	1,066,497	-	-
Due from group companies		-	-	1,648,515	152,452
Other assets	28	1,887,745	1,627,078	499	1,999
TOTAL ASSETS		**288,522,049**	**240,110,741**	**29,130,849**	**25,824,651**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Deposit from banks	29	5,647,101	5,996,295	-	-
Items in course of collection	19	177,736	-	-	-
Deposits from customers	30	213,139,370	169,282,314	-	-
Tax payable	16(b)	130,130	290,630	-	-
Due to group companies		-	-	1,881,898	10,909
Other liabilities	31	4,797,580	4,863,525	1,687,364	71,834
Long term debt	32	8,246,775	8,150,179	-	-
Subordinated debt	33	5,508,909	4,512,315	-	-
		237,647,601	**193,095,258**	**3,569,262**	**82,743**
Shareholders' equity (pages 63 - 66)					
Share capital	34(a)	413,405	413,405	413,405	413,405
Share premium	34(b)	18,805,359	18,805,359	18,805,359	18,805,359
Retained earnings		26,931,401	22,621,210	6,339,846	6,523,144
Revaluation reserve	34(c)	820,277	805,901	-	-
Fair value reserve	34(d)	(454,825)	(125,292)	2,977	-
Translation reserve	34(e)	(766,356)	(278,028)	-	-
Statutory credit risk reserve	34(f)	2,190,131	2,163,403	-	-
Defined benefit reserve	34(g)	(70,361)	(86,105)	-	-
Equity attributable to Owners of the Company		**47,869,031**	**44,319,853)**	**25,561,587**	**25,741,908**
Non-controlling interest		3,005,417	2,695,630	-	-
TOTAL SHAREHOLDERS' EQUITY		**50,874,448**	**47,015,483**	**25,561,587**	**25,741,908**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**288,522,049**	**240,110,741**	**29,130,849**	**25,824,651**

The financial statements set out on pages 60 to 169 were approved and authorised for issue by the Board of Directors on 26 March 2019 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 68 to 169 form an integral part of these consolidated and separate financial statements.

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

	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	Fair value reserve KShs`000	Translation reserve KShs`000	Total KShs`000	Non-controlling interest KShs`000	Total KShs`000
At 1 January 2018	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
Day one IFRS 9 transition adjustments (Note 41(b))	-	-	43,723	-	(808,889)	-	(110,672)	-	(875,838)	(34,771)	**(910,609)**
Deferred tax on IFRS 9 transition adjustments (Note 27)	-	-	210,297	-	-	-	33,202	-	243,499	10,431	**253,930**
Adjusted balance at 1 January 2018	413,405	18,805,359	22,875,230	(86,105)	1,354,514	805,901	(202,762)	(278,028)	43,687,514	2,671,290	46,358,804
Profit for the year	-	-	7,950,819	-	-	-	-	-	7,950,819	552,538	**8,503,357**
Other comprehensive income	-	-	(835,449)	15,744	835,617	14,376	(252,063)	(488,328)	(710,103)	(195,173)	**(905,276)**
Total comprehensive income	-	-	**7,115,370**	**15,744**	**835,617**	**14,376**	**(252,063)**	**(488,328)**	**7,240,716**	**357,365**	**7,598,081**
Transaction with owners recorded directly in equity											
Dividends paid - 2017 final	-	-	(1,446,918)	-	-	-	-	-	(1,446,918)	(207,000)	**(1,653,918)**
Dividends declared - 2018	-	-	(1,612,281)	-	-	-	-	-	(1,612,281)	-	**(1,612,281)**
Other transactions	-	-	-	-	-	-	-	-	-	183,762	**183,762**
Transactions with owners for the year	-	-	**(3,059,199)**	-	-	-	-	-	**(3,059,199)**	**(23,238)**	**(3,082,437)**
At December 2018	**413,405**	**18,805,359**	**26,931,401**	**(70,361)**	**2,190,131**	**820,277**	**(454,825)**	**(766,356)**	**47,869,031**	**3,005,417**	**50,874,448**

The notes set out on page 68 to 169 form an integral part of these consolidated and separate financial statements.

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

	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**

The notes set out on page 68 to 169 form an integral part of these consolidated and separate financial statements.

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

2018:	Share capital KShs '000	Share premium KShs '000	Retained Earnings KShs '000	Fair value reserve KShs '000	Total KShs '000
At 1 January 2018	**413,405**	**18,805,359**	**6,523,144**	**-**	**25,741,908**
Comprehensive income for the year					
Profit for the year	-	-	2,875,901	-	**2,875,901**
	-	**-**	**2,875,901**	**-**	**2,875,901**
Other comprehensive income					
Fair value reserve	-	-	-	2,977	**2,977**
Total other comprehensive income	**-**	**-**	**-**	**2,977**	**2,977**
Total comprehensive income for the year	**-**	**-**	**2,875,901**	**2,977**	**2,878,878**
Transactions with owners recorded directly in equity					
Issue of shares	-	-	-	-	**-**
Dividends paid - 2017	-	-	(1,446,918)	-	**(1,446,918)**
Dividends declared - 2018	-	-	(1,612,281)	-	**(1,612,281)**
Total transactions with owners for the year	**-**	**-**	**(3,059,199)**	**-**	**(3,059,199)**
At 31 December 2018	**413,405**	**18,805,359**	**6,339,846**	**2,977**	**25,561,587**

The notes set out on page 68 to 169 form an integral part of these consolidated and separate financial statements.

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

2017:	Share capital KShs '000	Share premium KShs '000	Retained Earnings KShs '000	Fair value reserve KShs '000	Total KShs '000
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**
	-	-	**4,199,319**	-	**4,199,319**
Transactions with owners recorded directly in equity					
Issue of shares	21,043	1,546,684	-	-	**1,567,727**
Capital restructuring costs	-	(72,835)	-	-	**(72,835)**
Dividends paid - 2016	-	-	(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**

The notes set out on pages 68 to 169 form an integral part of these consolidated and separate financial statements.

	Note	Group 2018 Kshs'000	Group 2017 Kshs'000	Company 2018 Kshs'000	Company 2017 Kshs'000
Net cash flows generated from operating activities	35(a)	**30,000,643**	**1,210,400**	**4,552,285**	**4,148,126**
Cash flows used in investing activities					
Purchase of property and equipment	24	(1,952,270)	(1,593,226)	-	-
Purchase of intangible assets	25(b)	(1,428,774)	(440,403)	-	-
Investment in subsidiary		-	-	-	(2,547,296)
Proceeds from disposal of property and equipment		10,582	3,665	-	-
Acquisition of Giro Limited net of cash and cash equivalents	35(d)	-	(1,351,684)	-	-
Acquisition of Youjays Insurance Brokers Limited net of cash and cash equivalents	35(c)	(273,440)	-	-	-
Net cash used in investing activities		**(3,643,902)**	**(3,381,648)**	**-**	**(2,547,296)**
Cash flows used in financing activities					
Net outflows from term subordinated debt		1,018,500	-	-	-
Dividend paid to shareholders of the company		(1,446,918)	(1,446,918)	(1,612,281)	(1,446,918)
Dividend paid to non-controlling interests		(207,000)	(124,857)	-	-
Rights issue - I&M Bank (T) Limited		183,762	-	-	-
Capital restructuring costs		-	(72,835)	-	(72,835)
Net cash used in financing activities		**(451,656)**	**(1,644,610)**	**(1,612,281)**	**(1,519,753)**
Net increase / (decrease) in cash and cash equivalents	35(b)	**25,905,085**	**(3,815,858)**	**2,940,004**	**81,077**
Cash and cash equivalents at start of the year	35(b)	**8,052,911**	**11,868,769**	**152,452**	**71,375**
Cash and cash equivalents at end of the year	35(b)	**33,957,996**	**8,052,911**	**3,092,456**	**152,452**

The notes set out on pages 68 to 169 form an integral part of these consolidated and separate financial statements.

1. REPORTING ENTITY

I&M Holdings PLC (Formerly 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 2018 comprise of entities in Kenya – I&M Bank Limited, I&M Capital Limited, I&M Realty Limited, Giro Limited, I&M Insurance Agency Limited, Youjays Insurance Brokers Limited, I&M Bank (T) Limited in Tanzania, I&M Bank (Rwanda) PLC in Rwanda, I&M Burbidge Capital Limited in Kenya and Uganda 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), which owns 100% of Youjays Insurance Brokers Limited (effective 31 March 2018).

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 54.47% 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 I&M Burbidge Capital (U) Limited (formerly Burbidge Capital (U) Limited) – 65% Shareholding, and;
(vii) Giro Limited – 100% Shareholding

2. BASIS OF PREPARATION

(a) Statement of compliance

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

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

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 financial assets classified as Fair Value through Profit or Loss (FVTPL) and Fair Value through Other Comprehensive Income (FVOCI) and buildings which are measured at fair value.

2. BASIS OF PREPARATION (Continued)

(c) Functional and presentation currency

These consolidated and separate financial statements are presented in Kenya Shillings (KShs), which is also the Group's functional currency. All financial information presented in KShs has been rounded to the nearest thousand (KShs'000) except where otherwise stated.

(d) Use of estimates and judgments

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

Business combination

(i) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(ii) Subsidiaries

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

Business combination (Continued)

(iii) 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.

(b) Foreign currencies

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

Foreign currency non-monetary items measured at fair value are translated into functional currency using the rate of exchange at the date the fair value was determined. Foreign currency gains and losses on non-monetary items are recognized in the Consolidated Statement of Income or Consolidated Statement of Comprehensive Income consistent with the gain or loss on the non-monetary item.

(c) Foreign operations

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign operations (Continued)

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

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

(d) Income recognition

Policy applicable from 1 January 2018

(i) Net interest income

Effective interest rate and amortised cost

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

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

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

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income recognition (Continued)

Policy applicable from 1 January 2018 (Continued)

(i) Net interest income (Continued)

Presentation

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

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

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

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

(ii) Net fee and commission income

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

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

Corporate advisory fees receivable in the normal course of business, are recognised on the basis of terms and conditions stipulated in the client engagement contract, and are recognised over time as the service is provided. The amounts to be collected from customers at period end are recognised as trade receivables. Variable commission are recognised when it is probable that the fee is payable.

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

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income recognition (Continued)

Policy applicable before 1 January 2018

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

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

(i) Net interest income

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

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

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

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

(ii) Fee and commission income

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

(iii) Other operating income

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

(iv) Rental income – other operating income

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

(v) Dividend income

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Income tax expense

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

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

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

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

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

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

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

(f) Financial assets and financial liabilities

Policy applicable from 1 January 2018

(i) Recognition

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Policy applicable from 1 January 2018 (Continued)

(ii) Classification

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Policy applicable from 1 January 2018 (Continued)

(ii) Classification (Continued)

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

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

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

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

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

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

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

Debt instruments measured at amortised cost

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Policy applicable from 1 January 2018 (Continued)

(ii) Classification (Continued)

Debt instruments measured at FVOCI

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

Premiums, discounts and related transaction costs are amortized over the expected life of the instrument to Interest income in the Consolidated Statement of Profit or Loss and Other Comprehensive Income using the effective interest rate method.

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

Debt instruments measured at FVTPL

Debt instruments are measured at FVTPL if assets:

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

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

Debt instruments designated at FVTPL

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

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

Financial assets designated at FVTPL are recorded in the Consolidated Statement of Financial Position at fair value. Changes in fair value are recognized in Non-interest income in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Policy applicable from 1 January 2018 (Continued)

(ii) Classification (Continued)

Equity instruments

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

Reclassifications

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

Financial liabilities

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

(iii) Impairment on financial assets

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

- financial assets that are debt instruments (amortised cost and FVOCI) including loans and advances, trade receivables from Bancassurance and Advisory, and other financial assets measured at armotised cost.
- lease receivables (rental income collected from Investment properties);
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

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

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

Loss allowances for lease receivables (on investment property), and trade receivables (on advisory and bancassurance) are always measured at an amount equal to lifetime ECL.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Policy applicable from 1 January 2018 (Continued)

(iii) Impairment on financial assets (Continued)

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

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

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

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

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

Significant Increase in Credit Risk (SICR)

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

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

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

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

Measurement of ECL (on loans and advances)

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Policy applicable from 1 January 2018 (Continued)

(iii) Impairment on financial assets (Continued)

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

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

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

Government securities (debt instruments)

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Policy applicable from 1 January 2018 (Continued)

(iii) Impairment on financial assets (Continued)

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

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

(iv) De-recognition

Financial assets

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Policy applicable from 1 January 2018 (Continued)

(iv) De-recognition (Continued)

Financial assets (Continued)

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

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

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

The Group securitises various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Group transferring substantially all of the risks and rewards of ownership. The securitisation vehicles in turn issue securities to investors. Interests in the securitised financial assets are generally retained in the form of senior or subordinated tranches, interest-only strips or other residual interests (retained interests). Retained interests are recognised as investment securities and carried at FVOCI. Gains or losses on securitisation are recorded in other revenue.

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

Financial liabilities

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

(v) Modifications of financial assets and financial liabilities

Financial assets

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Policy applicable from 1 January 2018 (Continued)

(v) Modifications of financial assets and financial liabilities (Continued)

Financial liabilities

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

(vi) Offsetting of financial assets and financial liabilities

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

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

Policy applicable before 1 January 2018

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Policy applicable before 1 January 2018 (Continued)

(ii) Classification (Continued)

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

Loans and receivables

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

Held to maturity

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

Available-for-sale

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

(iii) Identification and measurement of impairment of financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Policy applicable before 1 January 2018 (Continued)

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

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

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

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

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

(iv) De-recognition

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

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

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

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

(v) Offsetting of financial assets and financial liabilities

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

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

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

Policy applicable before 1 January 2018 (Continued)

(vii) Amortized cost measurement

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

(g) Fair value measurement

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Cash and cash equivalents

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

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

(i) Property and equipment

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

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

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

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

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

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

(j) Intangible assets

(i) Computer software

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

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

(ii) Goodwill

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

(k) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Leases (Continued)

(ii) Finance lease receivables

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

(l) Impairment of non-financial assets

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

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

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

(m) Derivative financial instruments

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

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

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

(n) Employee benefits

(i) Defined contribution plan

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Employee benefits (Continued)

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

New standard or amendments	Effective for annual periods beginning on or after
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments (2014)	1 January 2018
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
IAS 40 Transfers of Investment Property	1 January 2018
Annual improvements cycle (2014-2016)	1 January 2018

IFRS 15 Revenue from Contracts with Customers

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

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

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

The impact of adoption of IFRS 15 was limited to disclosures on Note 3(d).

IFRS 9: Financial Instruments (2014)

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

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

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

The key changes to the Group and Company's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Note 3(f), Note 5(a) and Note 41.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

IFRS 9: Financial Instruments (2014) (Continued)

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Group and Company classifies financial assets under IFRS 9, see Note 3(f)(ii) and Note 41.

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

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

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

Impairment of financial assets

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

The following clarifications and amendments are contained in the pronouncement:

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

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

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

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

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

— IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

— Transfers of Investment property (Amendments to IAS 40)

The IASB has amended the requirements in IAS 40 Investment property on when a company should transfer a property asset to, or from, investment property. The adoption of this standard did not have a material impact on the amounts and disclosures of the Group and Company's financial statements.

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

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

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

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

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

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

IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over income tax treatments	1 January 2019
IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
Annual improvements cycle (2015-2017)	1 January 2019
IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019
IFRS 3 Definition of a Business	1 January 2020
Amendments to references to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2022
IFRS 17 Insurance contracts	1 January 2020
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

— IFRS 16: Leases

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

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

A Company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases.

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

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

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

The standard does not require a Company to recognise assets and liabilities for:
(a) short-term leases (i.e. leases of 12 months or less) and;
(b) leases of low-value assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

— *IFRIC 23 Clarification on accounting for Income tax exposures*

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

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

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

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

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

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

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

The amendments clarify that:

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

— IFRS 3 Definition of a Business

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

— Amendments to References to the Conceptual Framework in IFRS Standards

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

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

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

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

— IAS 1 and IAS 8 Definition of Material

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

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

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

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

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

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

— IFRS 17 Insurance Contracts

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

— *IFRS 17 Insurance Contracts (Continued)*

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

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

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

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

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

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

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

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

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

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

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

4. CHANGES IN ACCOUNTING POLICIES

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

A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements. (See Note 3(v) for further details).

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

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

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

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

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

5. FINANCIAL RISK MANAGEMENT

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

Financial risk

The more significant types of risk to which the Group is exposed are credit risk, liquidity 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 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.

Derivative financial instruments

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

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Credit-related commitment risks

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

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

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

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

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

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

Exposure to credit risk

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

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

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

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

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

Group **Risk classification**	**12 month ECL (Stage 1) KShs'000**	**Lifetime ECL Credit Impaired (Stage 2) KShs'000**	**Lifetime ECL Credit Impaired (Stage 3) KShs'000**	**Total 31 December 2018 KShs'000**	**Total 31 December 2017 KShs'000**
Loans and advances to Customers at amortised cost					
Normal (Stage 1)	136,701,338	-	-	136,701,338	116,423,812
Watch (Stage 2)	-	19,367,483	-	19,367,483	24,357,908
Non-Performing loans (Stage 3)	-	-	22,492,452	22,492,452	19,484,639
Gross carrying amount	**136,701,338**	**19,367,483**	**22,492,452**	**178,561,273**	**160,266,359**
Loss allowance	(825,900)	(1,396,700)	(9,601,944)	(11,824,544)	(7,248,207)
Net carrying amount	**135,875,438**	**17,970,783**	**12,890,508**	**166,736,729**	**153,018,152**

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

		Group		**Company**	
	Note	**2018 KShs'000**	**2017 KShs'000**	**2018 KShs'000**	**2017 KShs'000**
Balances with central banks	18	12,458,135	9,469,806	-	-
Items in the course of collection	19	764,460	495,649	-	-
Loans and advances to banks	20	33,675,193	6,379,973	-	-
Financial assets at fair value through other comprehensive income (FVOCI) - Debt instruments	22	10,853,371	21,733,286	133,223	193,523
Other financial assets at amortised cost; Government securities	22	28,158,101	27,022,965	-	-
Due from group companies	38	-	-	1,648,515	152,452
		85,909,260	**65,101,679**	**1,781,738**	**345,975**

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

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

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

Group: **Loans and advances to customers**	**2018** **KShs'000**	**2017** **KShs'000**
Identified impairment:		
Grade 3: Substandard	2,745,279	3,776,412
Grade 4: Doubtful	18,005,413	14,727,991
Grade 5: Loss	1,741,760	980,236
	22,492,452	**19,484,639**
Specific allowances for impairment	(9,601,944)	(6,176,817)
Carrying amounts	**12,890,508**	**13,307,822**
Unidentified impairment:		
Grade 2: Watch	19,367,483	24,357,908
Grade 1: Normal	136,701,338	116,423,812
	156,068,821	**140,781,720**
Portfolio allowances for impairment	(2,222,600)	(1,071,390)
Carrying amounts	**153,846,221**	**139,710,330**
Total carrying amounts	**166,736,729**	**153,018,152**

	Gross **KShs'000**	**Net** **KShs'000**
Identified impairment:		
31 December 2018		
Grade 3: Substandard	2,745,279	2,114,920
Grade 4: Doubtful	18,005,413	9,951,882
Grade 5: Loss	1,741,760	823,706
	22,492,452	**12,890,508**
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**
Unidentified impairment:		
31 December 2018		
Grade 1: Normal	136,701,338	135,875,438
Grade 2: Watch	19,367,483	17,970,783
	156,068,821	**153,846,221**
31 December 2017		
Grade 1: Normal	116,423,812	115,574,034
Grade 2: Watch	24,357,908	24,136,296
	140,781,720	**139,710,330**

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

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

Impaired loans and securities

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

Neither past due nor impaired

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

Past due but not impaired loans

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

(ii) Credit quality analysis – Trade receivables

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

2018:	**Gross** **KShs'000**	**Impairment** **KShs'000**	**Net** **KShs'000**	**Credit impaired**
Current	48,257	7,106	41,151	No
Past due:				
30-90 days	18,543	1,900	16,643	No
91-180 days	14,956	6,488	8,468	Yes
180-360 days	34,708	25,100	9,608	Yes
Over 360 days	3,513	3,513	-	Yes
	119,977	**44,107**	**75,870**	

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

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

2017:	Gross KShs'000	Impairment KShs'000	Net KShs'000	Credit impaired
Current	77,095	-	77,095	No
Past due:				
30-90 days	2,879	-	2,879	No
91-180 days	13,499	-	13,499	No
180-360 days	29,209	20,820	8,389	Yes
Over 360 days	4,339	4,339	-	Yes
	127,021	**25,159**	**101,862**	

Impairment loss movement on trade receivables

	2018 KShs'000	2017 KShs'000
At 1 January	25,159	14,808
Day one IFRS 9 adjustment	14,493	-
Acquisition of Youjays Insurance Brokers Limited	5,858	-
Charge for the year	349	10,351
Write off during the year	(1,752)	-
At 31 December	**44,107**	**25,159**

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

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

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

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

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

(iii) Collateral and other security enhancements

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

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

Group	2018 KShs'000	2017 KShs'000
Fair value of collateral held – against impaired loans	12,096,746	5,895,688

(iv) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

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

Significant increase in credit risk

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

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

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

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

Credit risk grading

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) Amounts arising from ECL (Continued)

Credit risk grading (Continued)

In addition, the prudential guidelines are supplemented

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

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

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

Customer loans and advances

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

Generating the term structure of PD

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

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

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

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

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

Modified financial assets

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) Amounts arising from ECL (Continued)

Modified financial assets (Continued)

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

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

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

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

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

Definition of default

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

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

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

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

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

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

Incorporation of forward-looking information

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) Amounts arising from ECL (Continued)

Incorporation of forward-looking information (Continued)

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

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

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

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

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

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

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

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

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

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) Amounts arising from ECL (Continued)

Incorporation of forward-looking information (Continued)

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

I&M Bank (Rwanda) PLC				
		2019		
Macro-Economic variable	**Coefficient/ Sensitivity**	**Base %**	**Upside %**	**Downside %**
Weighting		**90.00%**	**5.00%**	**5.00%**
Repo rate	(0.63)	3.65%	5.50%	1.80%
Treasury bills 182 days	(0.53)	7.05%	9.74%	4.36%
Lending rate	0.87	16.98%	17.82%	16.14%
GDP	0.12	6.78%	7.70%	5.85%
Constant	0.06	-	-	-

Measurement of ECL

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

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

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

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) Amounts arising from ECL (Continued)

Measurement of ECL (Continued)

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

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

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

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

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

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

Loss allowance

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) Amounts arising from ECL (Continued)

Loans and advances to Customers at amortised cost

Group	Provisions (ECL allowance)				Exposure (Gross balance)			
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Lifetime ECL credit impaired (Stage 3) KShs'000	Total KShs'000
Balance at 31 December 2017	**857,092**	**214,299**	**6,176,816**	**7,248,207**	**116,423,812**	**24,357,908**	**19,484,639**	**160,266,358**
Day one IFRS 9 transition adjustment (Note 41(b))	(366,019)	644,851	-	**278,832**	-	-	-	-
Adjusted balance at 1 January 2018	**491,073**	**859,150**	**6,176,816**	**7,527,039**	**116,423,811**	**24,357,908**	**19,484,639**	**160,266,358**
Transfer from 12 months ECL (Stage 1)	(26,995)	22,510	4,485	-	(3,428,968)	2,873,958	555,010	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	225,080	(347,016)	121,936	-	5,586,364	(9,768,890)	4,182,526	-
Transfer from Lifetime ECL credit impaired (Stage 3)	131,625	428,081	(559,706)	-	369,085	2,527,658	(2,896,743)	-
Net remeasurement of loss allowance	(101,886)	392,715	3,887,721	**4,178,550**	5,731,493	(586,397)	2,632,461	**7,777,557**
New financial assets originated or purchased	136,461	52,920	207,846	**397,227**	20,586,823	530,081	421,553	**21,538,457**
Financial assets derecognised	(22,710)	(7,212)	(179,676)	**(209,598)**	(6,815,552)	(401,330)	(1,755,597)	**(8,972,479)**
Translation difference	(6,748)	(4,448)	(57,478)	**(68,674)**	(1,751,718)	(165,505)	(131,397)	**(2,048,620)**
Balance at 31 December 2018	**825,900**	**1,396,700**	**9,601,944**	**11,824,544**	**136,701,338**	**19,367,483**	**22,492,452**	**178,561,273**

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) Amounts arising from ECL (Continued)

Loan commitments and financial guarantee contracts

Group	Provisions (ECL allowance)			Exposure (Gross balance)		
	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Total KShs'000	12 month ECL (Stage 1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Total KShs'000
Balance at 31 December 2017	**-**	**-**	**-**	**51,362,545**	**3,621,460**	**54,984,005**
Day one IFRS 9 transition adjustment (Note 41(b))	341,495	170,538	**512,033**	11,036	-	**11,036**
Adjusted balance at 1 January 2018	**341,495**	**170,538**	**512,033**	**51,373,581**	**3,621,460**	**54,995,041**
Transfer from 12 months ECL (Stage 1)	(7,639)	7,639	**-**	(1,358,855)	1,358,855	**-**
Transfer from Lifetime ECL not credit impaired (Stage 2)	71,214	(71,214)	**-**	2,029,010	(2,029,010)	**-**
Net remeasurement of loss allowance	(84,356)	(25,451)	**(109,807)**	3,666,353	(190,073)	**3,476,280**
New financial assets originated or purchased	24,864	20,332	**45,196**	6,674,614	207,649	**6,882,263**
Financial assets derecognised	(109,330)	(8,215)	**(117,545)**	(9,485,773)	(273,500)	**(9,759,273)**
Translation difference	(573)	(34)	**(607)**	2,778,813	11,817	**2,790,630**
Balance at 31 December 2018	**235,675**	**93,595**	**329,270**	**55,677,743**	**2,707,198**	**58,384,941**

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk

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

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

	Kenya		Tanzania		Rwanda	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
At 31 December	45%	35%	30%	28%	35%	47%
Average for the period	41%	37%	29%	31%	43%	47%
Highest for the period	47%	41%	37%	34%	50%	50%
Lowest for the period	33%	34%	35%	28%	35%	45%

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

Group **31 December 2018**	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
LIABILITIES						
Deposits from banks	2,625,864	2,198,292	863,475	-	-	**5,687,631**
Items in the course of collection	177,736	-	-	-	-	**177,736**
Deposits from customers	73,051,001	104,302,050	37,577,720	436,029	-	**215,366,800**
Other liabilities	1,037,219	2,115,871	-	-	-	**3,153,090**
Long term debt	11,088	3,091	1,851,445	7,037,337	115,977	**9,018,938**
Subordinated debt	-	3,795,789	12,963	1,910,023	-	**5,718,775**
Contractual off-balance sheet financial liabilities	-	-	95,873,549	-	-	**95,873,549**
Capital commitments	-	-	6,034,326	-	-	**6,034,326**
Leases	-	-	504,957	2,583,267	504,666	**3,592,890**
At 31 December 2018	**76,902,908**	**112,415,093**	**142,718,435**	**11,966,656**	**620,643**	**344,623,735**

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

Group 31 December 2017	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
LIABILITIES						
Deposits from banks	3,072,964	617,242	2,331,478	-	-	**6,021,684**
Deposits from customers	61,558,551	84,379,086	24,731,337	164,860	-	**170,833,834**
Other liabilities	1,408,160	2,492,686	-	-	-	**3,900,846**
Long term debt	76,838	22,121	2,341,296	6,335,422	226,693	**9,002,370**
Subordinated debt	-	2,867	27,655	5,843,442	-	**5,873,964**
Contractual off-balance sheet financial liabilities	-	-	61,005,582	-	-	**61,005,582**
Capital commitments	-	-	6,079,440	-	-	**6,079,440**
Leases	-	-	504,248	2,974,638	728,356	**4,207,242**
At 31 December 2017	**66,116,513**	**87,514,002**	**97,021,036**	**15,318,362**	**955,049**	**266,924,962**

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

(c) Market risk

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

All trading instruments are subject to market risk, the risk that the future changes in market conditions may make an instrument less valuable or more onerous. The Group manages its use of trading instruments in response to changing market conditions. The Board of Directors of the individual Group entities have delegated responsibility for management of Market Risk to their respective Board Risk Committees. Exposure to market risk is formally managed within Risk Limits and Policy Guidelines issued by the Board, on recommendation of the Board Risk Committee. ALCO, a Management Committee is charged with the responsibility of ensuring implementation and monitoring of the risk management framework in line with policy guidelines. The Group is primarily exposed to Interest Rate and Foreign Exchange Risk. The policy guidelines and procedures in place are adequate to effectively manage these risks.

Exposure to interest rate risk

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

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk (Continued)

Group 31 December 2018	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS							
Cash and balances with central banks	-	12,083	-	-	-	14,855,056	**14,867,139**
Items in the course of collection	-	-	-	-	-	764,460	**764,460**
Loans and advances to banks	20,122,062	12,329,192	-	-	-	1,223,939	**33,675,193**
Loans and advances to customers	147,827,056	4,447,308	2,063,684	7,673,034	4,725,647	-	**166,736,729**
Financial assets at fair value through profit or loss (FVTPL)	-	1,966,474	4,525,423	1,230,538	5,422,691	-	**13,145,126**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	3,861,048	4,961,266	1,995,122	35,935	**10,853,371**
Other financial assets at amortised cost	541,089	4,688,182	11,938,049	6,395,930	4,594,851	-	**28,158,101**
Other assets	-	11,711	-	-	-	1,876,034	**1,887,745**
At 31 December 2018	**168,490,207**	**23,454,950**	**22,388,204**	**20,260,768**	**16,738,311**	**18,755,424**	**270,087,864**
LIABILITIES							
Deposits from banks	3,126,643	238,883	1,855,483	182,611	243,481	-	**5,647,101**
Items in the course of collection	-	-	-	-	-	177,736	**177,736**
Deposits from customers	60,451,067	105,688,165	37,849,900	3,080,534	3,481,478	2,588,226	**213,139,370**
Other liabilities	-	-	-	-	-	4,797,580	**4,797,580**
Long term debt	11,088	3,091	1,789,006	6,343,610	99,980	-	**8,246,775**
Subordinated debt	-	3,681,658	12,963	1,814,288	-	-	**5,508,909**
At 31 December 2018	**63,588,798**	**109,611,797**	**41,507,352**	**11,421,043**	**3,824,939**	**7,563,542**	**32,570,393**
Interest rate gap	**104,901,409**	**(86,156,847)**	**(19,119,148)**	**8,839,725**	**12,913,372**	**11,191,882**	**237,517,471**

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk (Continued)

Group 31 December 2017	Within 1 month KShs'000	Due within 1-3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS							
Cash and balances with central banks	-	-	-	-	-	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	859,146	**51,667,905**
Other assets	-	-	-	-	138,361	1,488,717	**1,627,078**
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 debt	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**

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

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

5. FINANCIAL RISK MANAGEMENT (Continued)

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 31 December 2018 200 basis points	Profit or loss Increase/decrease in basis points ('000)	Equity net of tax Increase/decrease in basis points ('000)
Assets	5,036,738	3,525,717
Liabilities	(4,599,079)	(3,219,355)
Net position	**437,660**	**306,362**

31 December 2017	Profit or loss	Equity net of tax
Assets	4,193,155	2,935,208
Liabilities	(3,341,154)	(2,338,808)
Net position	**852,001**	**596,400**

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk

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

Group At 31 December 2018	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with central banks	1,799,375	195,411	308,770	16,783	**2,320,339**
Items in the course of collection	58,576	-	530	-	**59,106**
Loans and advances to banks	21,112,280	12,122,915	3,183,269	336,745	**36,755,209**
Loans and advances to customers	58,998,785	1,801,019	1,776,277	4,355	**62,580,436**
Other assets	102,000	-	2,813	4	**104,817**
At 31 December 2018	**82,071,016**	**14,119,345**	**5,271,659**	**357,887**	**101,819,907**
LIABILITIES					
Deposits from banks	2,304,125	62,444	200,030	8,034	**2,574,633**
Items in the course of collection	11,111	971	64	-	**12,146**
Deposits from customers	56,285,383	13,939,264	3,934,737	291,031	**74,450,415**
Other liabilities	410,633	13,204	49,289	23,096	**496,222**
Long term debt	6,752,055	-	451,681	-	**7,203,736**
Subordinated debt	1,565,975	-	-	-	**1,565,975**
At 31 December 2018	**67,329,282**	**14,015,883**	**4,635,801**	**322,161**	**86,303,127**
Net on statement of financial position	**14,741,734**	**103,462**	**635,858**	**35,726**	**15,516,780**
Net notional off balance sheet position	**(14,737,580)**	**(142,426)**	**(460,694)**	**4,852**	**(15,335,848)**
Overall net position – 2018	**4,154**	**(38,964)**	**175,164**	**40,578**	**180,932**

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Currency rate risk (Continued)

Group (Continued)

At 31 December 2017	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with central banks	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 debt	5,388,020	-	1,378,126	-	**6,766,146**
Subordinated debt	5,359,482	-	672,351	-	**6,031,833**
At 31 December 2017	**58,625,810**	**3,119,352**	**4,430,657**	**462,611**	**66,638,430**
Net on statement of financial position	**2,115,047**	**16,995**	**(1,252,450)**	**43,352**	**922,944**
Net notional off balance sheet position	**(7,969,607)**	**109,726**	**115,353**	**(20,830)**	**(7,765,358)**
Overall net position – 2017	**(5,854,560)**	**126,721**	**(1,137,097)**	**22,522**	**(6,842,414)**

5. 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.

Group:

At 31 December 2018	Profit or loss Strengthening/ weakening of currency KShs'000	Equity net of tax Strengthening/ weakening of currency KShs'000
USD (± 2.5% movement)	104	73
GBP (± 2.5% movement)	(974)	(682)
EUR (± 2.5% movement)	4,379	3,065
At 31 December 2017		
USD (± 2.5% movement)	(146,364)	(102,455)
GBP (± 2.5% movement)	3,168	2,218
EUR (± 2.5% movement)	(28,427)	(19,899)

(d) Capital management

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

Regulatory capital – Kenya

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

5. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk (Continued)

(d) Capital management (Continued)

Regulatory capital – Kenya (Continued)

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.

5. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk (Continued)

(d) Capital management (Continued)

Regulatory capital – Kenya (Continued)

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

		2018 KShs'000	2017 KShs'000
Core capital (Tier 1)			
Share capital		2,980,000	2,880,245
Share premium		5,531,267	3,759,624
Retained earnings		28,378,965	23,613,726
Other reserves		-	1,871,398
		36,890,232	**32,124,993**
Less: Goodwill		-	(10,747)
Investment in subsidiary		(2,750,753)	(2,324,025)
Total Core capital		**34,139,479**	**29,790,221**
Supplementary capital (Tier 2)			
Term subordinated debt		141,667	880,357
Statutory loan loss reserve		1,010,650	1,556,786
		1,152,317	**2,437,143**
Total capital		**35,291,796**	**32,227,364**
Risk weighted assets			
Credit risk weighted assets		160,849,757	138,500,542
Market risk weighted assets		7,850,180	6,875,704
Operational risk weighted assets		28,081,682	28,078,833
Total risk weighted assets		**196,781,619**	**173,455,079**
Deposits from customers		**178,452,689**	**136,135,203**
Capital ratios	**Minimum***		
Core capital/Total deposit liabilities	**8.0%**	**19.13%**	**21.88%**
Core capital /Total risk weighted assets	**10.5%**	**17.35%**	**17.17%**
Total capital /Total risk weighted assets	**14.5%**	**17.93%**	**18.58%**

As defined by the Central Bank of Kenya

5. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk (Continued)

(d) 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 1 Capital should not be less than 10 percent of the risk weighted assets and premises investments should not exceed 50 percent of the Core capital and movable assets should not exceed 20% of Core capital.

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

5. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk (Continued)

(d) Capital management (Continued)

Regulatory capital – Tanzania

		2018 TZS'000	2017 TZS'000
Core capital (Tier 1)			
Share capital		16,202,000	2,792,000
Share premium		18,090,228	17,995,751
Retained earnings		34,024,364	33,038,798
		68,316,592	**53,826,549**
Less: Prepaid expenses		(1,636,884)	(1,379,744)
Deferred tax asset		(5,145,013)	(3,550,713)
Intangible assets		(3,357,199)	(639,227)
Total Core capital		**58,177,496**	**48,256,865**
Supplementary capital (Tier 2)			
Term subordinated debt		12,908,000	14,336,000
General provisions in equity		7,286,602	2,520,857
Fair value reserve		217,700	217,700
		20,412,302	**17,074,557**
Total capital		**78,589,798**	**65,331,422**
Risk weighted assets			
On balance sheet		338,717,810	303,547,002
Off balance sheet		48,782,755	38,592,243
Capital charge for market risk		2,312,875	572,730
Operational risk weighted assets		37,249,586	32,382,065
Total risk weighted assets		**427,063,026**	**375,094,040**
Capital ratios	**Minimum***		
Core capital /Total risk weighted assets	**10.0%**	**13.62%**	**13.01%**
Total capital /Total risk weighted assets	**12.0%**	**18.40%**	**17.51%**

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

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

5. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk (Continued)

(d) Capital management (Continued)

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.

		2018 Frw'000	2017 Frw'000
Core capital (Tier 1)			
Share capital		5,050,000	5,050,000
Share premium		400,000	400,000
Retained earnings		29,657,845	23,404,666
		35,107,845	**28,854,666**
Less:			
Other reserves		500,000	812,065
Intangible assets		(4,785,353)	(51,944)
Total Core capital (Tier 1 Capital)		**30,822,492**	**29,614,787**
Supplementary capital			
Revaluation reserves		512,474	535,100
Term subordinated debt		8,791,009	-
		9,303,483	**535,100**
Total capital (Tier 2 Capital)		**40,125,975**	**30,149,887**
Total risk weighted assets		**223,931,345**	**152,194,191**
Capital ratios	Minimum*		
Core capital /Total risk weighted assets	**10.0%**	**13.76%**	**19.46%**
Total capital /Total risk weighted assets	**15.0%**	**17.92%**	**19.81%**

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

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

5. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk (Continued)

(d) Capital management (Continued)

Regulatory capital – Mauritius

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

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

The Bank's objectives when managing capital are:

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

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

1 *Core capital or Tier 1 Capital:* Comprising Share capital, profit and loss, and reserves created by appropriations of retained earnings. The book value of goodwill and other intangible assets is deducted in arriving at core capital; and

2 *Supplementary capital or Tier 2 Capital:* Qualifying perpetual and term subordinated debts, collectively assessed impairment allowances, regulatory reserve, and fair value gains arising on revaluation of holdings of land and buildings and available-for sale equities and debt securities.
Investment in subsidiaries, significant investments in non-subsidiary companies and shares, and investments in other banks' equity are deducted 50 % from Tier-1 capital and 50% from supplementary capital to arrive at the eligible capital.

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

The ratio of its capital to aggregate risk weighted assets being the Capital Adequacy Ratio as at 31 December 2018 was 12.96% (2017 - 12.96%).

6. USE OF ESTIMATES AND JUDGEMENT

Key sources of estimation uncertainty

(a) Allowance for credit losses

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

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

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

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 2(d).

(b) Income taxes

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

(c) Property and equipment

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

(d) Impairment of goodwill

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

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

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

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

7. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE

Accounting classifications at carrying amounts and fair values

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

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

Accounting classifications at carrying amounts and fair values (Continued)

Group	Carrying amounts						Fair value			
31 December 2018	Non financial asset KShs'000	Financial assets at amortised cost KShs'000	Financial assets at FVOCI KShs'000	Financial assets at FVTPL KShs'000	Other financial liabilities at amortised cost KShs'000	Total KShs'000	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Cash and balances with central banks	-	14,867,139	-	-	-	**14,867,139**	14,867,139	-	-	**14,867,139**
Items in the course of collection	-	764,460	-	-	-	**764,460**	764,460	-	-	**764,460**
Loans and advances to banks	-	33,675,193	-	-	-	**33,675,193**	-	-	33,675,193	**33,675,193**
Loans and advances to customers	-	166,736,729	-	-	-	**166,736,729**	-	-	166,736,729	**166,736,729**
Financial assets at fair value through profit or loss (FVTPL)	-	-	-	13,145,126	-	**13,145,126**	13,145,126	-	-	**13,145,126**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	10,853,371	-	-	**10,853,371**	10,381,153	-	472,218	**10,853,371**
Other financial assets at amortised cost	-	28,158,101	-	-	-	**28,158,101**	28,132,671	-	-	**28,132,671**
Property and equipment Buildings	2,250,615	-	-	-	-	**2,250,615**	-	2,250,615	-	**2,250,615**
Other assets	-	1,887,745	-	-	-	**1,887,745**	-	-	1,887,745	**1,887,745**
	2,250,615	**246,089,367**	**10,853,371**	**13,145,126**	**-**	**272,338,479**	**67,290,549**	**2,250,615**	**202,771,885**	**272,313,049**
Deposits from banks	-	-	-	-	5,647,101	**5,647,101**	-	-	5,647,101	**5,647,101**
Items in course of collection	-	-	-	-	177,736	**177,736**	-	-	177,736	**177,736**
Deposits from customers	-	-	-	-	213,139,370	**213,139,370**	-	-	213,139,370	**213,139,370**
Other liabilities	-	-	-	-	4,797,580	**4,797,580**	-	-	4,797,580	**4,797,580**
Long term debt	-	-	-	-	8,246,775	**8,246,775**	-	-	8,246,775	**8,246,775**
Subordinated debt	-	-	-	-	5,508,909	**5,508,909**	-	-	5,508,909	**5,508,909**
	-	**-**	**-**	**-**	**237,517,471**	**237,517,471**	**-**	**-**	**237,517,471**	**237,517,471**

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

Accounting classifications at carrying amounts and fair values (Continued)

Group	Carrying amounts						Fair value			
31 December 2017	Non financial assets KShs'000	Held for trading KShs'000	Held to maturity KShs'000	Available for-sale KShs'000	Other liabilities KShs'000	Total KShs'000	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Cash and balances with central banks	-	-	11,879,815	-	-	**11,879,815**	11,879,815	-	-	**11,879,815**
Items in the course of collection	-	-	-	-	495,649	**495,649**	495,649	-	-	**495,649**
Loans and advances to banks	-	-	6,379,973	-	-	**6,379,973**	-	-	6,379,973	**6,379,973**
Loans and advances to customers	-	-	153,018,152	-	-	**153,018,152**	-	-	153,018,152	**153,018,152**
Financial assets at fair value through profit or loss (FVTPL)	-	2,911,654	-	-	-	**2,911,654**	2,911,654	-	-	**2,911,654**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	-	21,733,286	-	**21,733,286**	20,994,775	-	738,511	**21,733,286**
Other financial assets at amortised cost	-	-	27,022,965	-	-	**27,022,965**	23,456,508	-	-	**23,456,508**
Property and equipment Buildings	2,384,324	-	-	-		**2,384,324**	-	2,384,324	-	**2,384,324**
Other assets	-	-	1,627,078	-	-	**1,627,078**	-	-	1,627,078	**1,627,078**
	2,384,324	**2,911,654**	**199,927,983**	**21,733,286**	**495,649**	**227,452,896**	**59,738,401**	**2,384,324**	**161,763,714**	**223,886,439**
Deposits from banks	-	-	-	-	5,996,295	**5,996,295**	-	-	5,996,295	**5,996,295**
Deposits from customers	-	-	-	-	169,282,314	**169,282,314**	-	-	169,282,314	**169,282,314**
Long term borrowings	-	-	-	-	8,150,179	**8,150,179**	-	-	8,150,179	**8,150,179**
Subordinated debt	-	-	-	-	4,512,315	**4,512,315**	-	-	4,512,315	**4,512,315**
Other liabilities		-	-	-	4,863,525	**4,863,525**	-	-	4,863,525	**4,863,525**
	-	**-**	**-**	**-**	**192,804,628**	**192,804,628**	**-**	**-**	**192,804,628**	**192,804,628**

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

Accounting classifications at carrying amounts and fair values (Continued)

Company	Carrying amounts				Fair value		
31 December 2018	Financial assets at amortised cost KShs'000	Financial assets at FVOCI KShs'000	Other financial liabilities at amortised cost KShs'000	Total KShs'000	Level 1 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets							
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	133,223	-	**133,223**	133,223	-	**133,223**
Due from group companies	1,648,515	-	-	**1,648,515**	-	1,648,515	**1,648,515**
Other assets	499	-	-	**499**	-	499	**499**
	1,649,014	**133,223**	**-**	**1,782,237**	**133,223**	**1,649,014**	**1,782,237**
Financial liabilities							
Due to group companies	-	-	1,881,898	**1,881,898**	-	1,881,898	**1,881,898**
Other liabilities	-	-	1,687,364	**1,687,364**	-	1,687,364	**1,687,364**
	-	**-**	**3,569,262**	**3,569,262**	**-**	**3,569,262**	**3,569,262**

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

Accounting classifications at carrying amounts and fair values (Continued)

Company	Carrying amounts				Fair value		
31 December 2017	Available for-sale KShs'000	Other amortised cost KShs'000	Other liabilities KShs'000	Total KShs'000	Level 1 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets							
Financial assets measured at fair value through other comprehensive income (FVOCI)	193,523	-	-	**193,523**	193,523	-	**193,523**
Due from group companies	-	152,452	-	**152,452**	-	152,452	**152,452**
Other assets	-	1,999	-	**1,999**	-	1,999	**1,999**
	193,523	**154,451**	**-**	**347,974**	**193,523**	**154,451**	**347,974**
Financial liabilities							
Due to group companies	-	-	10,909	**10,909**	-	10,909	**10,909**
Other liabilities	-	-	71,834	**71,834**	-	71,834	**71,834**
	-	**-**	**82,743**	**82,743**	**-**	**82,743**	**82,743**

Measurement of fair values

(i) Valuation techniques and significant unobservable inputs

Financial assets measured at fair value - At 31 December 2018 and 31 December 2017

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Investment securities – Fair Value through Other Comprehensive Income	Prices quoted in an active market	None	Not applicable

8. 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 2018.

	KENYA KShs'000	TANZANIA KShs'000	RWANDA KShs'000	MAURITIUS KShs'000	UGANDA KShs'000	ELIMINATION KShs'000	TOTAL KShs'000
2018							
Net interest income	12,065,677	1,148,053	2,380,452	-	-	-	**15,594,182**
Net fee commission and other income	6,195,731	415,334	772,192	-	2,428	(46,649)	**7,339,036**
Results from joint venture	-	-	-	595,310	-	-	**595,310**
Operating income	**18,261,408**	**1,563,387**	**3,152,644**	**595,310**	**2,428**	**(46,649)**	**23,528,528**
Operating expenses	(5,420,535)	(815,713)	(1,592,233)	-	(2,641)	204,568	**(7,626,554)**
Depreciation and Amortisation	(360,355)	(71,751)	(164,727)	-	(16)	-	**(596,849)**
Net impairment losses on loans and advances	(3,416,894)	(267,879)	(122,572)	-	-	-	**(3,807,345)**
Operating expenses	**(9,197,784)**	**(1,155,343)**	**(1,879,532)**	**-**	**(2,657)**	**204,568**	**(12,030,748)**
Profit before tax	**9,063,624**	**408,044**	**1,273,112**	**595,310**	**(229)**	**157,919**	**11,497,780**
Profit after tax	**6,591,402**	**280,627**	**878,277**	**595,310**	**(177)**	**157,918**	**8,503,357**
Loans and advances to customers	**132,319,260**	**15,304,250**	**19,113,219**	**-**	**-**	**-**	**166,736,729**
Deposits from customers	**176,753,511**	**14,580,637**	**21,805,222**	**-**	**-**	**-**	**213,139,370**
Total assets	**261,481,343**	**22,691,036**	**33,432,347**	**4,044,858**	**5,604**	**(33,133,139)**	**288,522,049**
Total liabilities	**190,668,164**	**19,283,552**	**28,618,567**	**1,851**	**1,000**	**(925,533)**	**237,647,601**
Capital expenditure	**2,162,028**	**170,438**	**1,048,578**	**-**	**-**	**-**	**3,381,044**

8. OPERATING SEGMENTS (Continued)

	KENYA KShs'000	TANZANIA KShs'000	RWANDA KShs'000	MAURITIUS KShs'000	UGANDA KShs'000	ELIMINATION KShs'000	TOTAL KShs'000
2017							
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**
Results from joint venture	-	-	-	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	(4,869,136)	(841,555)	(1,493,863)	-	(3,033)	161,430	**(7,046,157)**
Depreciation and Amortisation	(365,713)	(66,624)	(129,251)	-	(22)	-	**(561,610)**
Net impairment losses on loans and advances	(3,863,464)	(205,769)	(74,288)	-	-	-	**(4,143,521)**
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**

	Group		Company	
	2018 KShs '000	2017 KShs '000	2018 KShs '000	2017 KShs '000
9. INTEREST INCOME				
Loans and advances to customers	20,673,770	18,879,611	-	-
Loans and advances to banks	319,888	143,247	16,102	18,725
Investment securities:-				
- At amortised cost (2017: Loans and receivables)	2,829,061	2,812,044	1,763	8,065
- FVOCI - Debt instruments (2017: Available-for-sale)	2,176,149	2,588,860	16,576	9,954
	25,998,868	**24,423,762**	**34,441**	**36,744**
10. INTEREST EXPENSE				
Deposits from customers	8,800,765	7,571,926	-	-
Deposits from banks	584,664	371,272	-	-
Long term debt	433,905	394,040	-	-
Subordinated debt	585,352	532,037	-	-
	10,404,686	**8,869,275**	**-**	**-**
11. NET FEE AND COMMISSION INCOME				
Fee and commission income				
Commissions	2,737,863	2,259,757	-	-
Service fees	1,198,229	1,064,518	-	-
	3,936,092	**3,324,275**	**-**	**-**
Fee and commission expense				
Interbank transaction fees	(85,565)	(101,280)	-	-
Other	(172,740)	(125,136)	-	-
	(258,305)	**(226,416)**	**-**	**-**
Net fee and commission income	**3,677,787**	**3,097,859**	**-**	**-**
12. NET TRADING INCOME				
Foreign exchange income	2,567,418	1,828,903	-	-
Net income on Financial assets measured at fair value through other comprehensive income (FVOCI) (2017: AFS)	-	209,433	619	548
Net income on financial assets at fair value through profit or loss (FVTPL)	540,330	-	-	
	3,107,748	**2,038,336**	**619**	**548**

	Group		Company	
	2018 KShs '000	2017 KShs '000	2018 KShs '000	2017 KShs '000
13. OTHER OPERATING INCOME				
Rental income	76,170	137,510	-	-
Profit on sale of property and equipment	-	1,256	-	-
Other income	477,331	261,449	238	73,652
Dividend income	-	-	2,875,332	4,122,986
	553,501	**400,215**	**2,875,570**	**4,196,638**
14. OPERATING EXPENSES				
Staff Costs				
Salaries and wages	3,330,296	3,035,668	-	-
Contribution to defined contribution plan	128,780	157,977	-	-
Statutory contribution	72,154	28,657	-	-
Other staff costs	577,646	529,907	-	-
	4,108,876	**3,752,209**	**-**	**-**
Premises and equipment's costs				
Rental of premises	489,664	471,431	-	-
Electricity	93,091	59,219	-	-
Other Premises and equipment costs	165,303	162,829	-	-
	748,058	**693,479**	**-**	**-**
Other expenses				
Deposit protection insurance contribution	244,086	223,081	-	-
Loss on disposal of property and equipment	5,796	62	-	-
Other general administrative expenses	2,519,738	2,377,326	29,039	29,922
	2,769,620	**2,600,469**	**29,039**	**29,922**
Depreciation and amortisation				
Depreciation on property and equipment (Note 24)	387,570	406,884	11	94
Amortisation of intangible assets (Note 25)	189,610	135,157	-	-
Amortisation of prepaid operating lease rentals (Note 26)	19,669	19,569	-	-
	596,849	**561,610**	**11**	**94**

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

	Group 2018	Group 2017	Company 2018	Company 2017
Management	1,373	1,270	-	-
Others	230	205	-	-
	1,603	**1,475**	**-**	**-**

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
15. PROFIT BEFORE INCOME TAX				
Profit before income tax is arrived at after charging /(crediting):				
Depreciation	387,570	406,884	11	94
Amortisation of intangible assets	189,610	135,157	-	-
Directors' emoluments:				
- Fees	18,241	16,455	9,375	7,753
- Other	38,800	42,654	-	-
Auditors' remuneration	19,381	19,566	1,913	1,902
Amortisation of prepaid operating lease rentals	19,669	19,573	-	-
Net profit/(loss) on disposal of property and equipment	5,796	(1,194)	-	-
Dividend income	-	-	2,875,332	4,122,986

16. INCOME TAX EXPENSE AND TAX PAYABLE

(a) Income tax expense

	Group 2018	Group 2017	Company 2018	Company 2017
Current tax				
Current year's	3,459,327	3,197,392	5,243	8,038
Under/(Over) provision in prior year	44,299	238,612	436	(3,443)
	3,503,626	**3,436,004**	**5,679**	**4,595**
Deferred tax (Note 27)				
Current year	(381,832)	(559,870)	-	-
Prior year adjustment	(127,371)	(245,809)	-	-
	(509,203)	**(805,679)**	**-**	**-**
Income tax expense	**2,994,423**	**2,630,325**	**5,679**	**4,595**

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

	Group 2018	Group 2017	Company 2018	Company 2017
Accounting profit before income tax	**11,497,780**	**9,894,574**	**2,881,580**	**4,203,914**
Computed tax using the applicable corporation tax rate (30%)	3,449,334	2,968,372	864,474	1,261,174
Under/(Over) provision in the prior year	44,299	238,612	436	(3,443)
Impact of share of joint ventures	(178,593)	(166,490)	-	-
Effect on non-deductible costs /non-taxable income	(193,246)	(164,360)	(859,231)	(1,253,136)
Over provision in prior year - Deferred tax (Note 27)	(127,371)	(245,809)	-	-
	2,994,423	**2,630,325**	**5,679**	**4,595**

16. INCOME TAX EXPENSE AND TAX PAYABLE (Continued)

(b) Tax (recoverable)/payable

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
At 1 January	(315,563)	127,272	(5,799)	(3,954)
Income tax expense (Note 16(a))	3,503,626	3,436,004	5,679	4,595
Effect of tax in foreign jurisdiction	(47,051)	(3,214)	-	-
Acquisition of Giro Limited	-	165,351	-	-
Acquisition of Youjays Insurance Brokers Limited	(2,443)	-	-	-
Tax paid	(3,135,048)	(4,040,976)	(6,227)	(6,440)
At 31 December	**3,521**	**(315,563)**	**(6,347)**	**(5,799)**
Tax recoverable	(126,609)	(606,193)	(6,347)	(5,799)
Tax payable	130,130	290,630	-	-
Net payable	**3,521**	**(315,563)**	**(6,347)**	**(5,799)**

17. EARNINGS PER SHARE

	Group 2018	Group 2017	Company 2018	Company 2017
Profit for the year attributable to equity holders (KShs '000')	7,950,819	6,766,256	2,875,901	4,199,319
Weighted average number of ordinary shares in issue during the year	413,405	413,405	413,405	413,405
Earnings per share (KShs)	**19.23**	**16.37**	**6.96**	**10.16**

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

18. CASH AND BALANCES WITH CENTRAL BANKS

	Group 2018	Group 2017	Company 2018	Company 2017
Cash on hand	2,409,004	2,410,009	-	-
Balances with central banks				
- Restricted balances (CRR*)	10,370,295	7,158,969	-	-
- Unrestricted balances	2,087,840	2,310,837	-	-
	14,867,139	**11,879,815**	**-**	**-**

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 2018, the cash ratio requirement was 5.25% (2017: 5.25%) in Kenya, Tanzania was 10.0% (2017: 10.0%) and 5% (2017: 5%) in Rwanda of eligible deposits.

19. ITEMS IN THE COURSE OF COLLECTION

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Assets	764,460	495,649	-	-
Liabilities	177,736	-	-	-

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

20. LOANS AND ADVANCES TO BANKS

	Group 2018 KShs '000	Group 2017 KShs '000	Company 2018 KShs '000	Company 2017 KShs '000
Due within 90 Days	**33,675,193**	**6,379,973**	**-**	**-**

21. LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

	2018 KShs'000	2017 KShs'000
Overdrafts	52,936,730	48,103,252
Loans	121,690,707	108,675,575
Bills discounted	530,307	675,298
Hire purchase - finance leases	3,403,529	2,812,234
Gross loans and advances	**178,561,273**	**160,266,359**
Less: Impairment losses on loans and advances	(11,824,544)	(7,248,207)
Net loans and advances	**166,736,729**	**153,018,152**

(b) Impairment losses reserve

	Specific impairment allowance KShs'000	Portfolio impairment allowance KShs'000	Total KShs'000
At 1 January 2017	5,536,458	510,596	6,047,054
Transferred from Giro Limited	88,085	131,737	219,822
Net 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	(15,721)	(1,723)	(17,444)
At 31 December 2017	**6,176,817**	**1,071,390**	**7,248,207**

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

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Impairment losses on loans and advances and other financial assets at amortised cost - Group

	2018 Loans and advances to Customers at amortised cost KShs'000	2018 Loan commitments and financial guarantee contracts KShs'000	2018 Total banking related financial assets KShs'000	2018 Other financial assets at amortised cost - trade receivable KShs'000	2018 Total KShs'000	2017 Banking related financial assets KShs'000	2017 Other financial assets at amortised cost - trade receivable KShs'000	2017 Total KShs'000
Net remeasurement of loss allowance	4,178,550	(109,807)	4,068,743	349	4,069,092	4,637,958	10,351	4,648,309
New financial assets originated or purchased	397,227	45,196	442,423	-	442,423	-	-	-
	4,575,777	**(64,611)**	**4,511,166**	**349**	**4,511,515**	**4,637,958**	**10,351**	**4,648,309**
Recoveries and impairment no longer required	(112,531)	(117,573)	(230,104)	-	(230,104)	(308,463)	-	(308,463)
Recoveries of loans and advances previously written off	(636,388)	11,369	(625,019)	-	(625,019)	(198,633)	-	(198,633)
Amounts directly written off during the year	150,348	-	150,348	605	150,953	2,308	-	2,308
	3,977,206	**(170,815)**	**3,806,391**	**954**	**3,807,345**	**4,133,170**	**10,351**	**4,143,521**

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(d) Non-performing loans and advances

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

Group	2018 KShs'000	2017 KShs'000
Interest on impaired loans and advances which have not yet been received in cash	**2,055,118**	**1,596,185**

(e) Loans and advances to customers concentration by sector

	2018		2017	
	KShs'000	%	KShs'000	%
Manufacturing	42,008,094	24%	36,373,695	23%
Wholesale and retail trade	37,898,992	21%	29,142,195	18%
Building and construction	15,413,001	9%	15,173,987	10%
Agriculture	4,838,467	3%	6,844,339	4%
Real estate	31,882,138	18%	29,431,005	18%
Transport and communication	8,854,654	5%	7,427,150	5%
Business services	22,615,277	13%	19,661,813	12%
Electricity and water	429,355	0%	130,765	0%
Finance and insurance	2,261,067	1%	1,720,237	1%
Mining and quarrying	1,513,281	0%	1,961,605	1%
Others	10,846,947	6%	12,399,568	8%
	178,561,273	**100%**	**160,266,359**	**100%**

(f) Finance leases

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

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

22. FINANCIAL ASSETS

(a) Financial assets at fair value through profit or loss (FVTPL)

Group	2018 KShs'000	2017 KShs'000
Corporate bonds	336,136	-
Derivative assets	1,267,793	719,776
Government securities (Non Liquid)	11,541,197	2,191,878
	13,145,126	**2,911,654**

(b) Financial assets measured at fair value through other comprehensive income (FVOCI)

	2018	2017
Group		
Equity investment	472,218	738,511
Corporate bonds	-	331,104
Government securities (Non Liquid)	10,381,153	20,663,671
	10,853,371	**21,733,286**
Company		
Government securities (Non Liquid)	**133,223**	**193,523**

(c) Other financial assets at amortised cost

	2018	2017
Group		
Government securities (Non Liquid)	28,082,231	26,921,103
Trade receivables	75,870	101,862
	28,158,101	**27,022,965**

22. FINANCIAL ASSETS (Continued)

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

	Financial assets at fair value through profit or loss (FVTPL) Government securities KShs'000	Other financial assets at amortised cost Government securities KShs'000	Financial assets measured at fair value through other comprehensive income (FVOCI) Government securities KShs'000	Equity investments KShs'000	Corporate bond KShs'000	Total KShs'000
31 December 2018						
At 1 January 2018	2,911,654	27,022,965	20,663,671	738,511	331,104	51,667,905
Reclassification	5,946,915	2,623,822	(8,239,633)	-	(331,104)	-
Additions	6,008,680	19,491,995	18,005,886	-	-	43,506,561
Disposals and maturities	(2,196,257)	(23,469,488)	(22,132,820)	(12,060)	-	(47,810,625)
Changes in fair value	99,920	-	(84,045)	(260,808)	-	(244,933)
Interest income	540,330	2,829,061	2,168,001	8,148	-	5,545,540
Translation reserve	(166,116)	(340,254)	93	(1,573)	-	(507,850)
At 31 December 2018	**13,145,126**	**28,158,101**	**10,381,153**	**472,218**	**-**	**52,156,598**
31 December 2017						
At 1 January 2017	2,654,500	21,682,643	21,668,333	23,756	330,992	46,360,224
Additions	1,438,629	24,852,779	13,726,176	827,811	-	40,845,395
Disposals and maturities	(1,359,286)	(22,008,933)	(17,719,987)	-	-	(41,088,206)
Changes in fair value	(19,823)	-	400,289	(112,526)	-	267,940
Interest income	257,349	2,554,695	2,588,860	-	112	5,401,016
Translation reserve	(59,715)	(58,219)	-	(530)	-	(118,464)
At 31 December 2017	**2,911,654**	**27,022,965**	**20,663,671**	**738,511**	**331,104**	**51,667,905**

22. FINANCIAL ASSETS (Continued)

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

Financial assets measured at fair value through other comprehensive income (FVOCI)	2018 KShs'000	2017 KShs'000
At 1 January	193,523	111,896
Additions	-	71,673
Disposals and maturities	(79,853)	-
Changes in fair value	2,977	-
Interest income	16,576	9,954
At 31 December	**133,223**	**193,523**

23. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE

The Company holds investments in subsidiaries in I&M Bank (T) Limited and 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 (R) PLC, I&M Capital Limited, I&M Realty Limited, I&M Burbidge Capital Limited are subsidiaries of I&M Holdings PLC (Formerly I&M Holdings Limited). I&M Holdings PLC (Formerly I&M Holdings Limited) owns 50% of a joint venture in Mauritius (Bank One Limited).

(a) Investment in joint venture

The Company has 50% (2017-50%) 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 PLC (Formerly I&M Holdings Limited).

Group	2018 KShs'000	2017 KShs'000
Balance at start of the year	4,267,166	3,508,182
Share of:		
Profit from operations	595,310	554,965
Other comprehensive income	(327,271)	204,019
Balance at end of the year	**4,535,205**	**4,267,166**
Percentage ownership	**50.00%**	**50.00%**
Total assets (including cash and cash equivalents)	118,803,363	97,749,106
Total liabilities (including cash and cash equivalents)	(110,683,763)	(90,165,585)
Net assets (100%)	**8,119,600**	**7,583,521**
Group's share of net assets (50%)	4,059,799	3,791,760
Goodwill	475,406	475,406
Carrying amount of interest in joint venture	**4,535,205**	**4,267,166**
Interest income	4,222,737	3,205,441
Interest expense	(1,336,669)	(1,088,924)
Other income	1,420,327	729,682
Operating expenses	(2,948,668)	(1,657,464)
Income tax expense	(167,107)	(78,805)
Profit and total comprehensive income (100%)	**1,190,620**	**1,109,930**
Profit and loss (50%)	**595,310**	**554,965**
Groups share of other comprehensive income	**268,039**	**758,984**
Company:		
Bank One limited	**1,679,971**	**1,679,971**

23. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE (Continued)

(b) Investment in subsidiaries

Company	Activity	Shareholding	2018 KShs'000	2017 KShs'000
I&M Bank LIMITED	Banking	100.00%	19,840,176	17,968,778
I&M Capital Limited	Dormant	100.00%	6,611	6,611
I&M Bank (Rwanda) PLC through BCR Investment Company Limited	Banking	54.47%	1,629,277	1,629,277
I&M Realty Limited	Real estate	100.00%	5,170	5,170
I&M Burbidge Capital Limited	Investment	65.00%	66,037	66,037
Giro Limited	Dormant	100.00%	4,115,023	4,115,023
			25,662,294	**23,790,896**

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%
Youjays Insurance Brokers Ltd	Bancassurance	Kenya	100.00%

(c) Movement in investment in subsidiaries

	2018 KShs'000	2017 KShs'000
At 1 January	**23,790,896**	**19,675,873**
Acquisition of Giro Limited (Note 23(d))	-	4,115,023
Additional investment in I&M Bank LIMITED	1,871,398	-
At December	**25,662,294**	**23,790,896**

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

On 5 September 2015 I&M Holdings PLC 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 is the aggregate of 50% cash consideration of KShs 2,547,295,000 and the remaining 50% by issue of 21,043,330 new shares of KShs 1 each of I&M Holdings PLC.

On 13 February 2017, I&M Holdings PLC 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.

23. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE (Continued)

	I&M Bank LIMITED		I&M Bank (T) Limited		I&M Bank (Rwanda) PLC	
	2018 KShs'M	2017 KShs'M	2018 KShs'M	2017 KShs'M	2018 KShs'M	2017 KShs'M
Summarized statement of financial position						
Total assets	229,161	183,953	22,643	20,509	33,262	32,327
Total liabilities	190,823	148,929	19,284	17,893	28,788	28,038
Net assets	**38,338**	**35,024**	**3,359**	**2,616**	**4,474**	**4,289**
Summarized statement of profit and loss and other comprehensive income						
Net interest income	**12,413**	**12,427**	**1,148**	**1,116**	**2,380**	**1,974**
Profit before income tax	8,725	7,516	408	326	1,273	1,222
Income tax expense	(2,386)	(2,029)	(127)	(98)	(395)	(414)
Profit for the year	**6,339**	**5,487**	**281**	**228**	**878**	**808**
Summarised statement of cash flows						
Net cash generated from operating activities	33,825	3,150	(239)	632	(1,209)	(1,353)
Net cash used in investing activities	(1,475)	873	(170)	(50)	(718)	(876)
Net cash (used in)/generated from financing activities	(2,688)	(3,961)	594	(37)	551	166
Net increase/(decrease) in cash and cash equivalents	**29,662**	**62**	**185**	**545**	**(1,376)**	**(2,063)**
Cash and cash equivalents at beginning of year	**3,704**	**3,642**	**866**	**321**	**3,404**	**5,467**
Cash and cash equivalents at end of year	**33,366**	**3,704**	**1,051**	**866**	**2,028**	**3,404**

24. PROPERTY AND EQUIPMENT

2018:	Buildings KShs'000	Leasehold improvments KShs'000	Furniture, fittings, fixtures and office equipment KShs'000	Computers KShs'000	Motor Vehicles KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost/valuation							
At 1 January 2018	2,510,899	1,211,591	1,278,795	763,598	178,672	1,936,412	7,879,967
Additions	461	64,705	95,270	22,483	54,277	1,715,074	1,952,270
Transfer to intangible work in progress	-	-	-	-	-	(4,010)	(4,010)
On disposals	(15,218)	(43)	(4,327)	(1,856)	(29,073)	-	(50,517)
Items expensed	-	-	-	-	-	(4,532)	(4,532)
Reclassification/internal transfers	-	13,698	24,379	-	6,005	(44,082)	-
Write offs/back	(17,464)	(9,461)	(3,403)	-	-	(69)	(30,397)
Surplus on revaluation	(23,538)	-	-	-	-	-	(23,538)
Translation difference	(60,069)	(7,183)	(30,172)	(9,615)	(7,831)	(73,067)	(187,937)
At 31 December 2018	**2,395,071**	**1,273,307**	**1,360,542**	**774,610**	**202,050**	**3,525,726**	**9,531,306**
At 1 January 2018	126,575	805,444	797,162	669,539	145,394	-	2,544,114
Charge for the year	67,639	102,272	102,589	84,082	30,988	-	387,570
Write-offs	-	(5,756)	(2,109)	-	-	-	(7,865)
Reversal on revaluation	(39,458)	-	-	-	-	-	(39,458)
On disposals	(309)	-	(3,101)	(1,834)	(28,895)	-	(34,139)
Translation differences	(9,991)	(3 ,161)	(18,819)	(5,152)	(6,354)	-	(43,477)
At 31 December 2018	**144,456**	**898,799**	**875,722**	**746,635**	**141,133**	**-**	**2,806,745**
Net book value at 31 December 2018	**2,250,615**	**374,508**	**484,820**	**27,975**	**60,917**	**3,525,726**	**6,724,561**

In 2018, the buildings on LR No: 209/7265 and LR No: 1870/1/579 were revalued by an independent valuer, Kiragu & Mwangi Limited. The valuation is level 3 under the Fair value hierarchy.

24. PROPERTY AND EQUIPMENT (Continued)

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
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	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**
Depreciation							
At 1 January 2017	62,419	652,648	610,863	551,551	140,271	-	2,017,752
Transferred from Giro 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)	(5 61)	(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**

25. INTANGIBLE ASSETS

(a) Goodwill

	2018 KShs'000	2017 KShs'000
I&M Bank LIMITED	1,195	1,195
I&M Bank (T) Limited	475,444	496,262
Biashara Bank of Kenya Limited	-	10,747
I&M Bank (Rwanda) PLC	449,145	485,823
I&M Burbidge Capital Limited	34,105	34,390
Giro Limited	1,944,139	1,944,139
Youjays Insurance Brokers Limited	232,284	-
	3,136,312	**2,972,556**
Movement of Goodwill		
At 1 January	2,972,556	1,207,048
Acquisition of Giro Limited	-	1,944,139
Write off Biashara Bank of Kenya Limited	(10,747)	-
Acquisition of Youjays Insurance Brokers Limited	232,284	-
Exchange differences	(57,781)	(178,631)
At 31 December	**3,136,312**	**2,972,556**

Acquisition of Youjays Insurance Brokers Limited

	2018 KShs'000
Total purchase consideration paid in cash	**282,800**
Total assets	94,201
Total liabilites	(43,685)
Net assets acquired	**50,516**
Goodwill	**232,284**

Acquisition of Giro Limited

	2017 KShs'000
Consideration paid cash	2,547,295
Consideration paid by issue of shares	1,567,729
Total consideration	**4,115,024**
Net Assets acquired (Note 35(d))	2,170,885
Goodwill	**1,944,139**

25. INTANGIBLE ASSETS (Continued)

(a) Goodwill (Continued)

With respect to goodwill assessment for impairment, no impairment losses have been recognised as the recoverable amounts of the Cash Generating Units (CGUs) were determined to be higher than their carrying amounts. The recoverable amounts have been calculated by discounting the future cash flows expected to be generated from the continuing use of the respective CGUs. The key assumptions used in the calculation of value in use were as follows:

2018	I&M Bank (T) Ltd	I&M Bank (R) PLC	I&M Burbidge Capital Limited	Giro Limited
5 year risk free rate	12.00%	11.80%	11.30%	11.30%
Risk premium	13.60%	13.60%	11.64%	9.64%
Terminal growth rate	3.00%	2.50%	3.00%	3.00%
Exchange rate	KShs 1 = Tzs 22.60	KShs 1 = Rwf 8.84	KShs 1 = KShs 1	KShs 1 = KShs 1
Present value of the recoverable amounts KShs in billions	2.318	3.927	0.174	6.083
Goodwill impaired	Nil	Nil	Nil	Nil

2017	I&M Bank (T) Ltd	I&M Bank (R) PLC	I&M Burbidge Capital Limited
5 year risk free rate	13.64%	12.20%	12.51%
Risk premium	13.90%	13.51%	10.40%
Terminal growth rate	3.00%	2.50%	3.00%
Exchange rate	KShs 1 = Tzs 21.40	KShs 1 = Rwf 8.18	KShs 1 = KShs 1
Present value of the recoverable amounts KShs in billions	3.295	3.580	0.120
Goodwill impaired	Nil	Nil	Nil

25. 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, based on the approved Business plans of the respective units.

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

(b) Software

2018:	Software KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost			
At 1 January 2018	1,359,595	292,643	1,652,238
Additions	256,162	1,172,612	1,428,774
Reclassification	631,855	(631,855)	-
Transferred from tangible work in progress	-	4,010	4,010
Translation differences	(41,550)	(15,230)	(56,780)
At 31 December 2018	**2,206,062**	**822,180**	**3,028,242**
Amortisation			
At 1 January 2018	1,124,274	-	1,124,274
Amortisation for the year	189,610	-	189,610
Translation differences	(21,524)	-	(21,524)
At 31 December 2018	**1,292,360**	**-**	**1,292,360**
Carrying amount at 31 December 2018	**913,702**	**822,180**	**1,735,882**

2017:	Software KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost			
At 1 January 2017	1,173,389	39,187	1,212,576
Additions	61,829	378,574	440,403
Reclassification	105,626	(105,626)	-
Transferred from Giro 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			
At 1 January 2017	979,171	-	979,171
Transferred from Giro 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**

26. PREPAID OPERATING LEASE RENTALS

	Group 2018 KShs'000	Group 2017 KShs'000	Company 2018 KShs'000	Company 2017 KShs'000
Cost				
At 1 January	317,623	282,259	-	-
Transferred from Giro Limited	-	35,364	-	-
At 31 December	**317,623**	**317,623**	**-**	**-**
Amortisation				
At 1 January	51,683	28,395	-	-
Transferred from Giro Limited	-	3,719	-	-
Charge for the year	19,669	19,569	-	-
At 31 December	**71,352**	**51,683**	**-**	**-**
As at 31 December	**246,271**	**265,940**	**-**	**-**

27. DEFERRED TAX ASSET - GROUP

	Balance at 1 January KShs'000	Day one IFRS 9 transition adjustments KShs'000	Acquisition of subsidiary KShs'000	Prior year adjustment KShs'000	Recognised in equity KShs'000	Translation differences KShs'000	Recognised in profit or loss KShs'000	Balance at 31 December KShs'000
2018:								
Property and Equipment	(408,906)	-	1,346	1,322	-	22,043	(7,946)	(392,141)
General provisions	265,594	17,746	-	(17)	-	(13,203)	55,580	325,700
Other provisions	1,146,298	223,863	-	126,066	-	(12)	334,198	1,830,413
Fair value reserves	63,511	12,321	-	-	91,275	(1,734)	-	165,373
	1,066,497	**253,930**	**1,346**	**127,371**	**91,275**	**7,094**	**381,832**	**1,929,345**
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**

	Group		Company	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000

28. OTHER ASSETS

Prepayments	372,044	237,771	499	1,999
Other receivables	1,515,701	1,389,307	-	-
	1,887,745	**1,627,078**	**499**	**1,999**

29. DEPOSITS FROM BANKS

Due within 90 Days	4,800,765	3,543,557	-	-
Due after 90 days	846,336	2,452,738	-	-
	5,647,101	**5,996,295**	**-**	**-**

30. DEPOSITS FROM CUSTOMERS

Government and Parastatals	1,788,450	1,396,933	-	-
Private sector and individuals	211,350,920	167,885,381	-	-
	213,139,370	**169,282,314**	**-**	**-**

31. OTHER LIABILITIES

Bankers cheques payable	190,839	329,025	-	-
Accruals	1,438,808	1,397,196	3,880	3,212
Provisions for loan commitments*	329,270	-	-	-
Other accounts payable	1,155,179	3,068,901	-	219
Dividend payable	1,683,484	68,403	1,683,484	68,403
	4,797,580	**4,863,525**	**1,687,364**	**71,834**

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

32. LONG TERM DEBT

Less than one year	1,803,185	2,376,187	-	-
One to five years	6,343,610	5,619,708	-	-
Over five years	99,980	154,284	-	-
	8,246,775	**8,150,179**	**-**	**-**
Loan movement schedule				
At 1 January	8,150,179	8,759,516	-	-
Funds received	2,549,072	1,677,671	-	-
Payments on principal and interest	(2,081,191)	(2,265,536)	-	-
Exchange differences	(371,285)	(21,472)	-	-
At 31 December	**8,246,775**	**8,150,179**	**-**	**-**

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

(viii) 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.

(ix) 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.

(x) 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.

(xi) USD 15,000,000 granted on December 2018 by FMO as senior debts for tenor of 5 years. The interest and principal on the facility is repayable on a quarterly basis.

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

(xiii) EUR 4,272,708 facility granted in October 2014 by European Investment Bank repayable over seven years.

33. SUBORDINATED DEBT

	Group		Company	
	2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Less than one year	3,694,621	28,533	-	-
One to five years	1,814,288	4,483,782	-	-
	5,508,909	**4,512,315**	**-**	**-**

33. SUBORDINATED DEBT (Continued)

Subordinated debt comprises:

In Kenya, 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.

In Tanzania, 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.

In Rwanda, USD 10 Million 5 year subordinated loan with IFC at an interest rate of 9.003%.

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.

34. SHARE CAPITAL AND RESERVES

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

	2018 KShs'000	2017 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	413,405

Movement of share capital and premium

2018:	Number of shares Kshs'000	Share Capital Kshs'000	Share premium Kshs'000	Total Kshs'000
1 January and 31 December 2018	413,405	413,405	18,805,359	19,218,764
2017:				
1 January 2017	392,362	392,362	17,331,510	17,723,872
Issued in business combination	21,043	21,043	1,546,684	1,567,727
Issue related costs	-	-	(72,835)	(72,835)
31 December 2017	413,405	413,405	18,805,359	19,218,764

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.

34. SHARE CAPITAL AND RESERVES (Continued)

(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) Fair value reserve

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

(e) Translation reserve

The translation reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations. Details of the Group investments outside Kenya are disclosed in Note 1.

(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 PLC) 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.

35. NOTES TO THE STATEMENT OF CASH FLOWS

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

	Note	Group		Company	
		2018 KShs'000	2017 KShs'000	2018 KShs'000	2017 KShs'000
Profit before income tax		11,497,780	9,894,574	2,881,580	4,203,914
Adjustments for:					
Depreciation	24	387,570	406,884	11	94
Amortisation of intangible asset	25(b)	189,610	135,157	-	-
Amortisation of prepaid lease rentals	26	19,669	19,569	-	-
Loss / (Gain) on sale of property and equipment		5,796	(1,194)	-	-
Property and equipment of items expensed		5,288	16,034	-	-
Profit on sale of available for sale securities		(540,330)	(132,861)	-	-
Write off to profit or loss - intangible assets		10,747	5,248	-	-
Write off to profit or loss - property and equipment		27,064	-	-	-
Profit from Joint Venture	23(a)	(595,310)	(554,965)	-	-
Exchange reserves		(571,218)	(200,236)	-	-
		10,436,666	**9,588,210**	**2,881,591**	**4,204,008**
Increase / (decrease) in operating assets					
Movement in loans and advances to customers		(13,997,409)	(9,369,205)	-	-
Financial assets at fair value through profit or loss		(4,286,557)	(257,154)	-	-
Financial assets measured at fair value through other comprehensive income (FVOCI)		2,393,983	2,459,585	60,300	(81,627)
Other financial assets at amortised cost		1,579,542	(5,331,804)	-	-
Loans and advances to banks		-	2,385,857	-	-
Cash and balances with Central Banks					
– Cash Reserve Ratio	18	(3,211,326)	(650,944)	-	-
Other assets		(263,798)	(370,873)	1,500	27,457
		(17,785,565)	**(11,134,538)**	**61,800**	**(54,170)**
Increase / (decrease) in operating liabilities					
Customer deposits		43,857,056	8,746,980	-	-
Deposits from banks		(1,606,402)	(2,355,726)	-	-
Long term debt		467,881	(587,865)	-	-
Other liabilities		(2,233,944)	994,315	1,615,530	5,156
Amounts due to group company		-	-	(409)	(428)
		40,484,591	**6,797,704**	**1,615,121**	**4,728**
Cash flows generated from operating activities		**33,135,692**	**5,251,376**	**4,558,512**	**4,154,566**
Tax paid	16(b)	(3,135,049)	(4,040,976)	(6,227)	(6,440)
Net cash flows generated from operating activities		**30,000,643**	**1,210,400**	**4,552,285**	**4,148,126**

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

(b) Analysis of cash and cash equivalents - Group

	Note	2018 KShs'000 a	2017 KShs'000 b	Change KShs'000 c =(a – b)
Cash and balances with Central Banks – excluding CRR*	18	4,496,844	4,720,846	(224,002)
Items in the process of collection	19	586,724	495,649	91,075
Loans and advances to banks	20	33,675,193	6,379,973	27,295,220
Deposits from banks	29	(4,800,765)	(3,543,557)	(1,257,208)
		33,957,996	**8,052,911**	**25,905,085**

CRR* - Cash Reserve Ratio

(c) Acquisition of Youjays Insurance Brokers Limited

	2018 KShs'000
Acquisition of Youjays Insurance Brokers [YIB] Limited net of cash and cash equivalents	
Net assets acquired	50,516
Less: Cash and cash equivalents	(9,360)
Net cash outflow	**41,156**
Goodwill (Note 25)	232,284
Net Cash flow on acquisition	**273,440**

(d) 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 (Note 25)	1,944,139
Net Cash outflow	**1,351,684**

36. OFF BALANCE SHEET CONTINGENT LIABILITIES AND COMMITMENTS - GROUP

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Group as at 31 December 2018. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

(b) Contractual off-balance sheet financial liabilities

In the ordinary course of business, 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

	2018 KShs'000	2017 KShs'000
Contingencies related to:		
Letters of credit	25,194,569	10,236,746
Guarantees	21,195,359	21,924,553
Other credit commitments	10,315,849	12,567,828
Commitments related to:		
Outstanding spot/forward contracts	39,167,772	16,276,455
	95,873,549	**61,005,582**

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 I&M Bank LIMITED (Subsidiary of IMHP) in June 2015. The Bank immediately settled amounts not in dispute and objected to all other items which were in the directors' view erroneously assessed. The KRA confirmed the assessment on 13 March 2017 amounting to KShs. 238,811,243. I&M Bank LIMITED (Subsidiary of IMHP) lodged a case in the High Court for adjudication; subsequently, the High Court referred the matter to the Tax Appeals Tribunal for a decision.

At the date of approval of these financial statements, the matter is pending at the Tax Appeals Tribunal. Based on the prevailing Tax Procedure Act that defines, inter alia, timeframes in conduct of tax assessments, the directors in consultation with the bank legal and tax advisors are of the opinion the claim will be successfully defended.

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

37. ASSETS PLEDGED AS SECURITY - GROUP

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

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

38. 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.

	2018 KShs'000	2017 KShs'000
(a) Transactions with directors/shareholders		
(i) Loans to directors/shareholders	**84,425**	**52,727**
Interest Income from loans to directors/shareholders	7,118	3,696
(ii) Deposits from directors/shareholders	**2,653,664**	**2,504,758**
Interest expense on deposits from directors/ shareholders	65,199	163,335
(iii) The Directors remuneration is disclosed in Note 15		
(b) Transactions with related companies		
(i) Loans to related companies	**1,590,128**	**361,685**
Interest income from loans to related companies	169,709	42,920
(ii) Deposits from related companies	**1,160,726**	**2,647,135**
Interest expense on deposits from related companies	47,474	78,679
(iii) Amounts due from group companies subsidiaries/joint venture	**1,648,515**	**152,452**
Interest income on amounts due from subsidiaries and joint venture	-	-
(iv) Amounts due to group companies subsidiaries/joint venture	**1,881,898**	**10,909**
Interest expense on amounts due from subsidiaries and joint venture	-	-
(c) Transactions with employees		
Staff loans	**1,624,094**	**1,704,676**
Interest earned on these loans was KShs	110,740	88,846
(d) Management compensation	**220,072**	**287,181**

39. CAPITAL COMMITMENTS

	2018 KShs'000	2017 KShs'000
Group	6,034,326	6,079,440

40. 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:

	2018 KShs'000	2017 KShs'000
Less than one year	504,957	504,248
One to five years	2,583,267	2,974,638
Over five years	504,666	728,356
	3,592,890	**4,207,242**

(b) Lessor

Less than one year	136,454	134,370
One to five years	112,277	368,779
	248,731	**503,149**

41. IFRS 9 TRANSITION ON THE DATE OF INITIAL APPLICATION

(a) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 31 December 2017.

		31 December 2017			1 January 2018		
Group	**Note**	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39 KShs`000**	**Re-classification KShs`000**	**Re-measurment* KShs`000**	**New carrying amount under IFRS 9 KShs`000**
Financial assets							
Balances with Central banks	18	Loans and receivables	Amortised cost	9,469,806	-	-	9,469,806
Items in the course of collection	19			495,649	-	-	495,649
Loans and advances to banks	20			6,379,973	-	-	6,379,973
Loans and advances to customers	21(a)			153,018,152	-	(278,832)	152,739,320
Other financial assets at amortised cost	22(c)	Held to maturity		27,022,965	2,623,822	(119,744)	29,527,043
Financial assets at fair value through profit or loss (FVTPL)	22(a)	FVPTL designated	FVTPL	2,911,654	5,946,915	-	8,858,569
Financial assets measured at fair value through other comprehensive income (FVOCI)	22(b)	Available for sale	FVOCI	21,733,286	(8,570,737)	-	13,162,549
Total financial assets				**221,031,485**	**-**	**(398,576)**	**220,632,909**

*Day one transition adjustment (Note 4(a).

41. IFRS 9 TRANSITION ON THE DATE OF INITIAL APPLICATION (Continued)

(a) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (Continued)

Group	31 December 2017			1 January 2018		
	Original classification under IAS 39 KShs`000	New classification under IFRS 9 KShs`000	Original carrying amount under IAS 39 KShs`000	Re-classification KShs`000	Re-measurement KShs`000	New carrying amount under IFRS 9 KShs`000
Financial liabilities						
Deposits from banks	Other liabilities	Amortised cost	5,996,295	-	-	5,996,295
Deposits from customers			169,282,314	-	-	169,282,314
Other liabilities			4,863,525	-	512,033	5,375,558
Long term debt			8,150,179	-	-	8,150,179
Subordinated debt			4,512,315	-	-	4,512,315
Total financial liabilities			**192,804,628**	**-**	**512,033**	**193,316,661**

41. IFRS 9 TRANSITION ON THE DATE OF INITIAL APPLICATION (Continued)

(a) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (Continued)

Company	Note	31 December 2017			1 January 2018
		Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 KShs`000	New carrying amount under IFRS 9 KShs`000
Financial assets					
Due from group companies		Loans and receivables	Amortised cost	152,452	152,452
Financial assets measured at fair value through other comprehensive income (FVOCI)	22(b)	Available for sale	FVOCI	193,523	193,523
Total financial assets				**345,975**	**345,975**
Financial liabilities					
Due to group companies		Other liabilities	Amortised cost	10,909	10,909
Other liabilities				71,834	71,834
Total financial liabilities				**82,743**	**82,743**

41. IFRS 9 TRANSITION ON THE DATE OF INITIAL APPLICATION (Continued)

(b) Day one IFRS 9 transition adjustment on impairment loss allowance

Group	12 month ECL (Stage1) KShs'000	Lifetime ECL not credit impaired (Stage 2) KShs'000	Other financial assets at amortised cost KShs'000	Total KShs'000
Day one adjustment				
Loans and advances to Customers at amortised cost	(366,019)	644,851	-	278,832
Loan commitments and financial guarantee contracts	341,495	170,538	-	512,033
Trade receivables	-	-	14,493	14,493
Government securities	-	-	105,251	105,251
	(24,524)	**815,389**	**119,744**	**910,609**

42. OTHER DISCLOSURES

(a) Operational risk

The overall responsibility of managing operational risks - the risk arising from failed or inadequate internal processes, people, systems and external events - is vested with the Board of Directors. The Board through the Board Risk Committee, issues policies that guide management on appropriate practices of operational risk mitigation. An independent Risk Manager assures the Board Risk Committee of the implementation of the said policies.

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

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

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

(b) Compliance and regulatory risk

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

42. OTHER DISCLOSURES (Continued)

(c) Environmental and social risks

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

The Group is aware that it has a responsibility to ensure that its internal practice and its lending activities do not have negative environmental and social impacts and is thus committed to ensure that such risks are sufficiently managed through its environmental and social management policy and by adopting the country's labour and environmental laws. The Group also adheres to international best practice i.e. International Finance Corporation (IFC) performance standards and International Labour Organisation (ILO) standards, as ratified by the Kenya government. An environmental and social management system is being put in place to ensure due diligence and monitoring of the environmental and social risk is done efficiently. Compliance to these laws is monitored by the compliance function.

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

SUSTAINING THE PROGRESS

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

Reflective of I&M Bank's commitment to sustainable financing, the Bank through its Corporate Social Investments arm has over the years endeavoured to improve the quality of life in our society, in its key focus areas namely: Education, Environment, Health and Community Service. As a partner of growth to all our stakeholders including the community, the Bank continued to share in its success through the following initiatives:

EDUCATION

The Bank continued to drive various initiatives to help promote quality education, through partnerships with organizations that support education requirements for needy but bright students across the country. These initiatives included scholarships, education infrastructure developments and refurbishments.

COMMISSIONING OF THE ST. ANN'S SURESH RAJA GIRLS HIGH SCHOOL

The Bank successfully completed the construction of the St. Ann's Suresh Raja Girls High School in Kairi. This Kshs. 200m investment was a worthwhile milestone that highlighted the Bank's commitment in supporting initiatives aimed at promoting quality education.

This achievement also presented the opportunity to connect with the students not only through provision of education scholarships and learning infrastructure, but also through mentorship programmes. The Bank further set up an academic prize of excellence in the Maths subject aligned to our industry dubbed the Suresh Shah Prize. The school admitted its first class in 2018 and has a total of 42 students who joined Form 1.

Students at St. Ann's Suresh Raja Girls High School entertain guests during the school's commissioning ceremony.

I&M BANK, KENYA SUPPORTS PALMHOUSE FOUNDATION SCHOLARSHIPS AND MENTORSHIP PROGRAMME

I&M Bank, Kenya continued to support the Palmhouse Foundation through provision of education scholarships for bright but needy students in secondary schools. The Bank donated over Kshs. 5,000,000 to cover education needs for different students from the year 2018 to 2021.

Over and above the school scholarships, the Bank's staff members attended the Foundation's annual mentorship forum to encourage, train and impart wisdom on the beneficiaries of the Foundation.

Christopher Mwirigi of I&M Bank, Kenya (Left), hands over dummy cheque to Margaret Kimani, Founder, Palmhouse Foundation, (Right), flanked by beneficiaries of the Foundation, during an event where they received scholarships that will cater for their secondary school education.

I&M BANK, KENYA SUPPORTS STUDENTS AT TANGAZA COLLEGE

I&M Bank, Kenya in 2018 sponsored needy but academically talented students in an early childhood development education program at Christ the Teacher Institute for Education at the Tangaza College.

I&M BANK, KENYA PROVIDES SCHOLARSHIPS FOR TEULE KENYA BENEFICIARIES

The Bank in 2018, continued to sponsor education scholarships worth over Kshs. 400,000 for beneficiaries of Teule Kenya. The organization rescues and supports abandoned, orphaned, abused or neglected children by providing a nurturing environment, which supports excellence in education and personal development. They also provide basic needs for the children like food, shelter, clothing and education.

I&M BANK, KENYA BUILDS DINING FACILITY FOR ST. JOSEPH SCHOOL, HURUMA

The Bank in 2018 built a Dining Facility for St. Joseph School run by the Sisters of Mother Teresa Missionaries. The school caters for the children living in the surrounding slums – Kiamaiko, Mathare and Huruma and gives them a basic foundation of education before assimilating them to main stream primary schools. In addition, the Bank put up a water tank to harness rain water with an objective of providing a constant water supply for the school.

Students at St. Ann's Suresh Raja Girls High School entertain guests during the school's commissioning ceremony.

COMMUNITY SERVICE

The Bank continued to conduct various community service initiatives for the less fortunate in society. Below are some of the key activities that the Bank was involved in:

KIBAGARE FEEDING PROGRAMME

I&M Bank, Kenya has over the last 18 years supported different needs of the Kibagare Good News Center. In 2018, the Bank revived the monthly feeding programme where staff members donated their time to feed over 1000 children at the centre. The Bank continued to support the cost of the feeding programme throughout the year.

In addition, the Bank donated a van aimed at supporting the centre's transport needs. The Bank contributed over KShs. 700,000 towards these initiatives.

Kihara Maina, CEO, I&M Bank, Kenya cuts the ribbon during the van handover ceremony at Kibagare Good News Centre.

I&M BANK, KENYA SUPPORTS NEST CHILDREN'S HOME

I&M Bank, Kenya last year supported the Nest Children's Home by providing baby formula milk and baby food for the babies being cared for by the Home. The total cost of the donation was over Kshs. 900,000. The Nest Children's Home has been providing care for children whose mothers are imprisoned. The Nest program reaches out to prevent the children of imprisoned mothers from fighting for survival on the streets. The Home rescues affected children and rehabilitates and later reintegrates them and their released mothers with their extended families.

ENVIRONMENT

I&M Bank, Kenya through its Environment Pillar for CSR has identified challenges facing efforts in protecting and restoring natural and sustainable environments in the country. The Bank realises and appreciates that sustainable environments play a critical role in achieving the country's economic growth plans, therefore we have set up inclusive and measurable programmes and interventions to address these challenges. Below are some of the initiatives.

I&M BANK, KENYA SUPPORTS THE FRIENDS OF RUIRU DAM

Last year, the Bank donated KShs. 150,000 towards the Friends of Ruiru Dam Golf and the Friends of Ruiru Dam marathon. The activities aimed at raising at least a KShs. 1 million to support conservation efforts of the Dam.

I&M BANK, KENYA REHABILITATES KARURA FOREST

I&M Bank, Kenya continued to donate towards the rehabilitation of the Karura Forest. The Bank donated KShs. 78,000 towards this purchase of tree seedlings. The Bank has previously organized tree planting activities for staff and their families at the 25 acre I&M Bank forest in Karura. So far, the Bank has planted over 3000 trees and targets to plan 1 million trees.

HEALTH

I&M Bank, Kenya continued to partner with various stakeholders in the health sector to address various social determinants of health that widen the gap between poor health and socio-economic growth, by working with them to support quality healthcare systems. Below are some of the key initiatives that the Bank supported in health:

I&M BANK, KENYA DONATES TOWARDS KAMILI MENTAL HEALTH ORGANIZATION

I&M Bank, Kenya donated Kshs. 75,000 per month towards monthly salaries for a dedicated nurse at the Kamili Mental Health Organization who oversees the care for over 3300 patients and their families. Kamili's mission is to provide those suffering from mental health illnesses in Kenya equal access to services and to affordable care in order to improve their quality of life. The total contribution towards this donation from the Bank was Kshs. 525,000.

I&M BANK, KENYA CONTINUES TO SUPPORT FARAJA CANCER SUPPORT TRUST

I&M Bank, Kenya last year donated Kshs. 500,000 to Faraja Cancer Support Trust aimed at supporting the Center's needs in Cancer support. The Faraja Cancer Support Trust was founded in 2010 and provides a safe haven for Cancer patients and their carers by providing emotional, practical and healing support.

HEALTH

I&M BANK (T) LIMITED SUPPORTS THE WORLD AUTISM WALK

For third consecutive year, the Bank partnered with Al Muntazir Special Education Needs in hosting World Autism Day-Awareness Walk, which was held in Dar es Salaam on March 25, 2018. The walk aims to raise awareness and contribute in changing the future for all those who are struggling with autism.

The Bank contributed $5000 for the walk to support activities aimed at supporting victims of Autism. The walk was graced by Deputy Speaker of Tanzania National Assembly, Dr. Tulia Ackson Mwansasu, Deputy Minister Health, Community Development, Gender, Elderly and Children, Dr. Faustine Ndugulile and other members of parliament.

World Autism Awareness Day celebrates the unique talents and skills of persons with autism and is a day when individuals with autism are warmly welcomed in community events around the globe.

Deputy Speaker of Tanzania National Assembly, Dr. Tulia Ackson Mwansasu (third on the right) and Deputy Minister Health, Community Development, Gender, Elderly and Children, Dr. Faustine Ndugulile (second on the right) leading the autism awareness walk sponsored by I&M Bank (T) Ltd.

I&M BANK (T) LIMITED SUPPORTS SEKOU TOURE HOSPITAL AND CORNEL NGALEKU CHILDREN'S CENTER

Last year, the Bank donated TZS 10,000,000 to improve services at the pediatric ward in Sekou Toure Hospital in Mwanza, which is a state-owned hospital. The handover event was graced by Ilemela District Commissioner on behalf of Mwanza Regional Commissioner. In addition, the Bank continued to support the Cornel Ngaleku Children's Centre through staff and customers' donations at the teller counters in all branches. On the other hand, for the second consecutive year the Bank has kept donation boxes for Cornel Ngaleku Children's Centre at the teller counters at all branches.

Ilemela District Commissioner, Dr. Severine M. Lalika (Middle left) with I&M Bank (T) Ltd staff and Sekou Toure staff during the handing over of dummy cheque worth TZS 10m/- to Sekou Toure Hospital in Mwanza. The donation was made by the Bank in order to improve services in the pediatric ward at the hospital.

COMMUNITY SERVICE

I&M BANK (RWANDA) PLC PARTICIPATES KWIBUKA 24

I&M Bank (Rwanda) PLC once again participated in the commemoration ceremony – Kwibuka 24 1994 genocide, held on Friday, April 27th, 2018, at Nyanza-Kicukiro Genocide Memorial Site. The site is the final resting place for more than 5000 victims of the Genocide. I&M Bank (Rwanda) PLC staff visited the memorial site where they were taken through various parts of Genocide Memorial and later on a night vigil followed.

In addition, the staff members travelled to Rwabicuma sector, Nyanza province for the handover ceremony of a house built for Ms Elina Mukandekezi, who is a genocide survivor. This CSR activity was as a result of the Bank's partnership with Avega agahozo, Ibuka and Aegis Trust. It is through these partnerships that the Bank continues to fulfil its commitment to help survivors rebuild their lives, as well as contribute to the prevention of future conflicts through education and confronting the prejudices that lead to genocide.

I&M Bank (Rwanda) PLC staff members during the Kwibuka 24 memorial event.

I&M BANK (RWANDA) PLC DONATES TOWARDS UMUGANDA AND MEDICAL INSURANCE

Throughout 2018, the Bank joined the Rubavu district in Umuganda community service, this was also an opportunity to announce to the Rubavu, Huye and Musanze districts officials that the Bank will cover medical insurance for 2000 vulnerable people in 2019. The Bank, pledged our continued support to the community in areas of health, education and capacity building.

I&M Bank (Rwanda) PLC staff members during the Umuganda Community Service at Rubavu district.

HEALTH

I&M BANK, RWANDA PLC PARTICIPATES IN THE RWANDA CHILDREN'S CANCER RELIEF AWARENESS WALK

The Bank joined the Rwanda Children's Cancer Relief and the general public in the 5th Cancer Awareness Annual Walk, as part of conducting awareness on sensitization about symptoms of cancer and cure upon early detection. Participants included high school students, children cancer survivors, medical students, government officials and I&M Bank. Rwanda PLC representatives.

Diana Kwarisima, head of HR receiving a certificate of appreciation from the RCCR Executive Director.

EDUCATION

CONSTRUCTION OF AN EARLY CHILDHOOD DEVELOPMENT CENTER

In August last year, USAID Twiyubake in collaboration with Huye district inaugurated the community owned Igihozo Early Childhood Development center, which was newly refurbished through a sponsorship donated by I&M Bank (Rwanda) PLC. The donation was part of the Bank's Corporate Social Responsibility efforts to improve communities within which the Bank operates in.

The refurbished Igihozo Early Childhood Development Center.

Bank One Corporate Social Investment's strategy is underpinned by a commitment to contribute towards economic development in the country and improving the quality of life of the local communities where we operate. We aim at making a social and ecological impact towards building a sustainable society.

Several programmes were conducted in 2018 with the objective of improving the quality of life of the local communities for a more sustainable society. The Bank's partnership with Caritas in the Vacoas region remained unchanged; on a need-driven basis, together with Caritas, Bank One provided continuous support to the underprivileged families in Vacoas and vicinity areas to ensure they are able to emerge out of the poverty trap and aspire to a better life.

The Bank focused on the following pillars to support the community: Taking Care of the Community, Alleviating Poverty, Becoming a Leader in Environment Sustainability and Children's Education and Wellbeing. Below are some of the activities carried out last year:

BANK ONE ORGANISED A BRING AND SHARE EVENT

A 'Bring & Share' was organised for all staff members of Bank One with funds collected going towards homeless people in the Port Louis region. An amount of MUR 55,000 was raised from staff contributions alone and food hampers were purchased for 300 homeless people.

The activity was a first of its kind and enabled our staff members to come together as ONE and enjoy a team breakfast / lunch, whilst at the same time raising funds for a good cause. Staff members subsequently spent a Sunday afternoon with the homeless spending quality time with them and offering them food hampers and refreshments.

BANK ONE SPONSORS FERNEY TRAIL 2018

Bank One once again participated in the Ferney Trail 2018 event. The Bank sponsored handicapped children from NGO Inclusion Mauritius through purchase of running shoes, to help them participate in the trail run. The donation amounted to MUR 15,000 for this purpose.

A section of the participants at the Ferney Trail 2018.

BANK ONE CONDUCTS ENERGY SAVING CAMPAIGN

Bank One marked World Environment Day 2018 by running an awareness campaign on Energy-saving for its staff and customers. The campaign's objective was to enlighten customers and staff on the different tenets of energy saving hence promote eco-responsible behaviour at the workplace and at home.

BANK ONE CONTINUES TO DONATE TOWARDS THE MAURITIUS KESTREL BIRD PRESERVATION

Bank One demonstrates its commitment towards biodiversity conservation in Mauritius through its Kestrel Visa Prepaid Card launched in 2016.

Indeed, for every prepaid card issued, MUR 100 has over time donated to the Mauritian Wildlife Foundation to fund its activities towards the preservation of the endangered Mauritian Kestrel bird. In a short 2-year period, a total of MUR 642,400 has been contributed by Bank One towards the Kestrel Preservation Programme as at 31st December, 2018.

CHILDREN'S EDUCATION AND WELLBEING

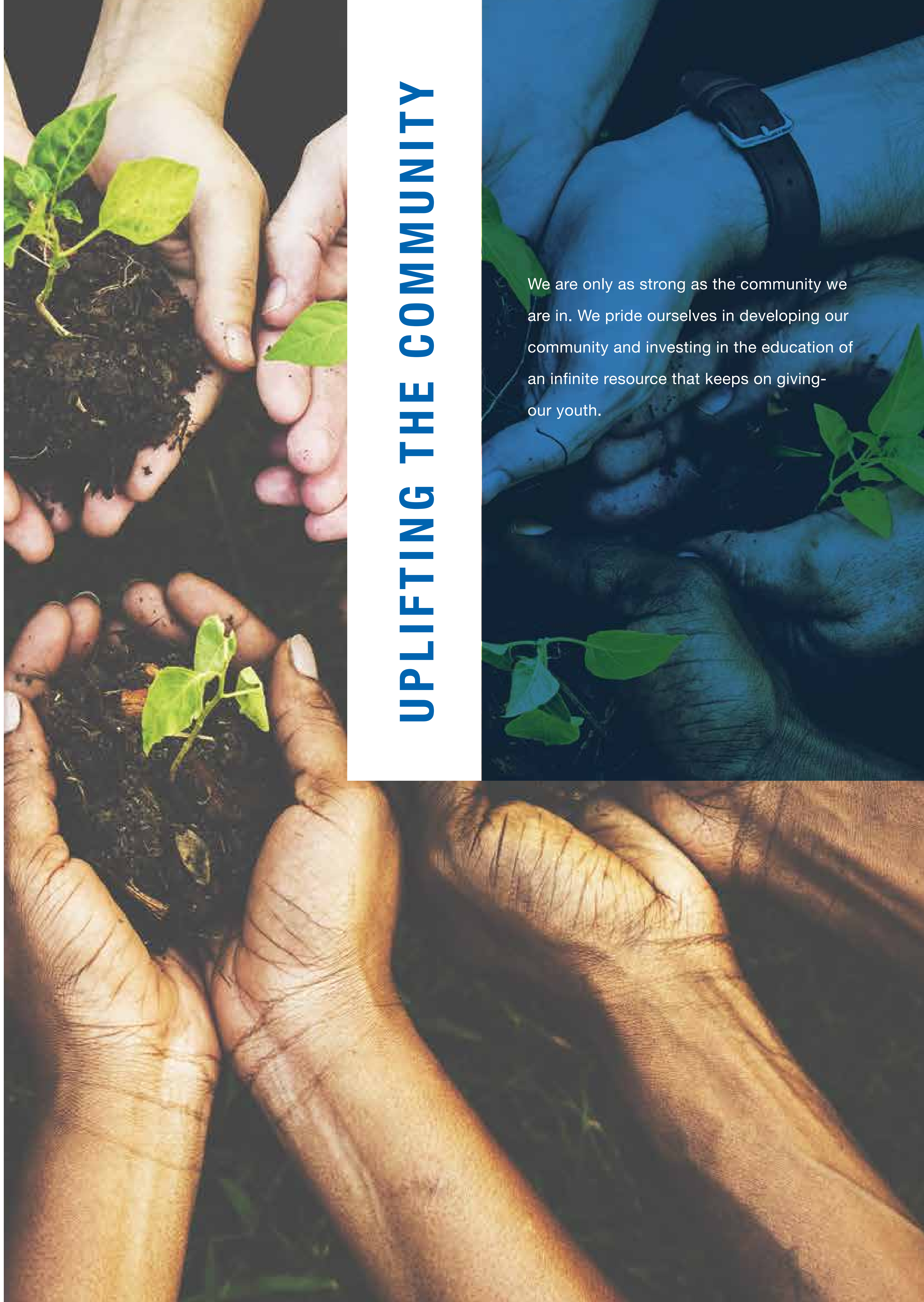
Bank One continued to support children at Caritas in Vacoas in 2018. The Bank sponsored school meals for upto 90 children under the care of Caritas at Vacoas throughout the year.

As a result, both attendance and pass rates have improved significantly for these children. Like every year, the children under the care of Caritas at Vacoas were also provided with school uniforms and materials in preparation for the next academic year. The Bank also organized an outing at Casela World of Adventures, an outdoor amusement park, and a Christmas party for these children.

A section of the beneficiaries of the Bank One activities at Caritas in Vacoas accompanied by some staff members at Bank One.

BANK ONE DONATES TO NGO ENSAM

Bank One donated MUR 30,000 as financial aid to the NGO Ensam that takes care of 30 underprivileged children in the Pointes aux Sables region, to meet their day-to-day living expenses.



UPLIFTING THE COMMUNITY

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

ZENITH SECRETARIAL

Date: 16th April, 2019

I&M HOLDINGS LIMITED

Notice of the Annual General Meeting

Notice is hereby given that the Sixty Seventh Annual General Meeting of the Shareholders of I&M Holdings Plc will be held at Sarova Panafric Hotel, Nairobi on Thursday 23rd May, 2019 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 2018 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, 2018.

3. To re-elect directors:
   i. Mr. Suleiman Kiggundu who was appointed as a director of the Company with effect from 5th June 2018 retires in accordance with Article No. 111 of the Company's Articles of Association and being eligible offers himself for re-election.
   ii. In accordance with Article No. 112 of the Company's Articles of Association Mr. Sachit S. Raja Shah, retires by rotation and being eligible offers himself for re-election.
   iii. In accordance with Article No. 112 of the Company's Articles of Association Mr. Oliver Merrick Fowler, retires by rotation and being eligible offers himself for re-election.

4. 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.

5. 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.

B. SPECIAL BUSINESS

6. **Approval of bonus issue** – To consider and if thought fit to pass the following resolution as an **ORDINARY RESOLUTION**;
   THAT subject to receipt of requisite regulatory approvals the sum of Kenya Shillings Four Hundred and Thirteen Million Four Hundred and Five Thousand Three Hundred and Sixty

ZENITH SECRETARIAL
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P.O Box 51922-00100, Nairobi
CONTACT US.
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(+254) 0746 513077

Nine (Kshs 413,405,369) being part of the amount standing to the credit of share premium reserves be capitalised and accordingly that such sum be set free for distribution amongst the shareholders of existing ordinary shares in the capital of the Company in the share register as at 10th May 2019, to be allocated on or about 23rd May 2019, on condition that, the same not be paid in cash but applied in paying up in full at par Four Hundred and Thirteen Million Four Hundred and Five Thousand Three Hundred and Sixty Nine (413,405,369) of the unissued ordinary shares of Kshs 1.00 each in the authorised share capital of the Company. That such Four Hundred and Thirteen Million Four Hundred and Five Thousand Three Hundred and Sixty Nine (413,405,369) shares credited as fully paid up be accordingly allotted to such shareholders in the proportion of one (1) of such new share for every one (1) of existing issued and paid up shares then held by such shareholders respectively, and that, the shares so distributed shall be treated for all purposes as an increase of the nominal amount of the capital of the Company held by each such shareholder and not as income and further that such shares shall rank pari passu for all purposes with the existing shares in the capital of the Company. That the directors be and are hereby authorised and directed to give effect to this resolution.

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

BY ORDER OF THE BOARD

Bilha Wanjiru Mwangi
Company Secretary,
P.O. Box 51922-00100,
Nairobi.

16th April, 2019

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.

I&M HOLDINGS PLC

TO: **The Company Secretary,**
P.O. Box 51922-00100,
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 **23rd May, 2019** and at any adjournment thereof.

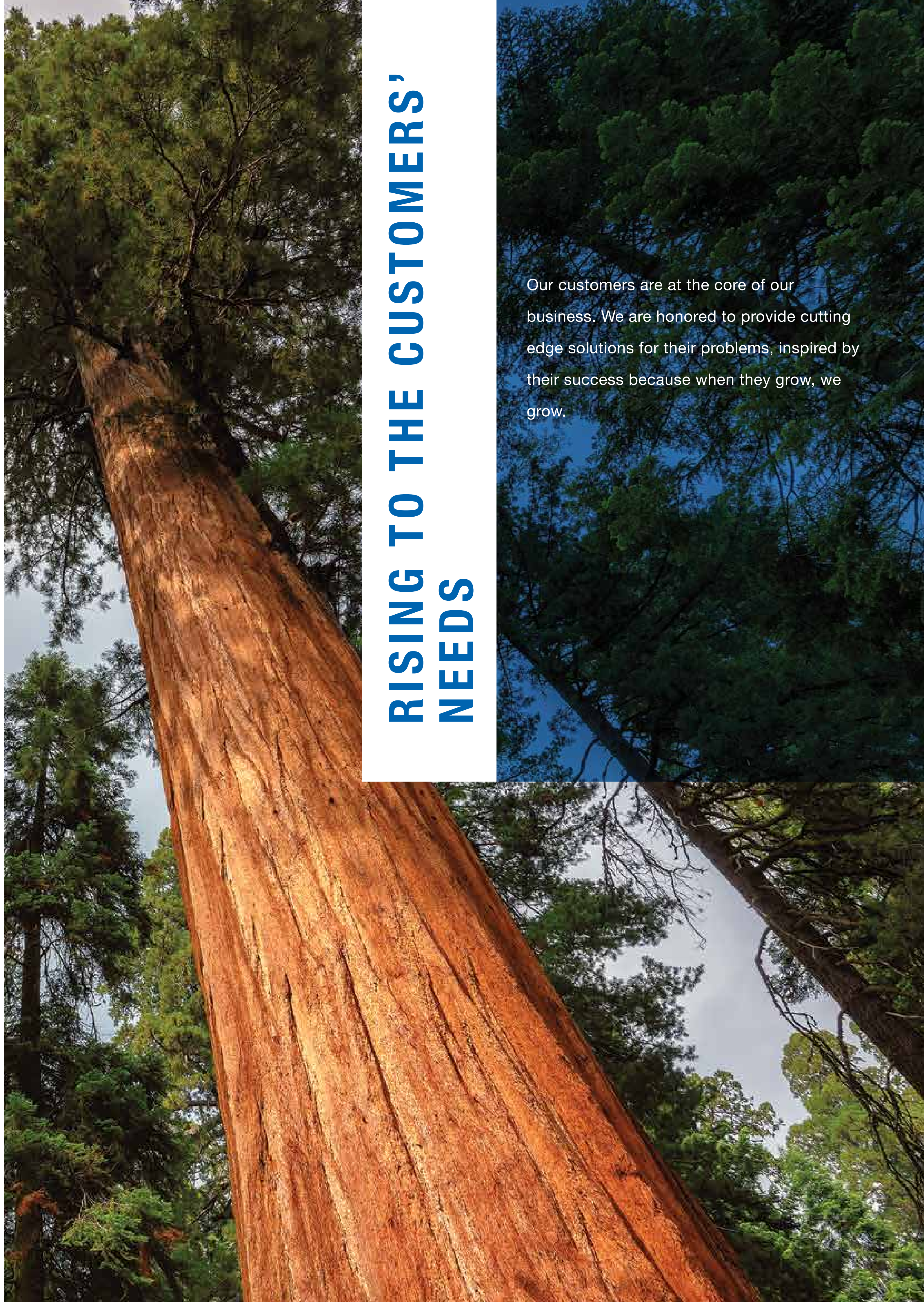
Signed/Sealed this …………….. Day of ……………………………………………., 2019

……………………………………

……………………………………

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.



RISING TO THE CUSTOMERS' NEEDS

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

www.imbank.com

I&M HOLDINGS PLC ANNUAL REPORT AND FINANCIAL STATEMENTS | 2018

CREATING SUSTAINABLE GROWTH