H O L D I N G S

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31 MAR 2017
CAPITAL MARKETS AUTHORITY NAIROBI

Our Ref: I&M/CEO/007/2017

March 31, 2017

Mr. Paul Muthaura
Chief Executive Officer
Capital Markets Authority
Embankment Plaza, 3rd Floor
NAIROBI

Dear Sir,

I&M HOLDINGS LIMITED AUDITED ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Further to our letter dated 27 March 2017 and in compliance with the Continuing Listing Obligations, fifth schedule of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002,

We submit the following:

i) I&M Holdings Audited Annual Report and Financial Statements as at 31 December 2016

Please feel free to get in-touch with the undersigned should you need any further clarification.

Kindly acknowledge receipt on the duplicate copy forwarded herewith.

Yours faithfully

for

Kihara Maina
Authorized Signatory

Encl. a/a

I&M HOLDINGS LIMITED | I&M Bank House | 2nd Ngong Avenue | P.O.Box 30238, 00100-Nairobi, Kenya
Tel: 254 (20) 3221 002 | **Mobile:** 0719 088 002 / 0753 100 001 | **E-mail:** invest@imbank.co.ke | **Web:** www.imbank.com

I&M HOLDINGS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

AT

31 DECEMBER 2016

I&M HOLDINGS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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I&M HOLDINGS LIMITED

DIRECTORS, OFFICIALS AND ADMNISTRATION

BOARD OF DIRECTORS

Daniel Ndonye	Chairman
S B R Shah, MBS	
Sarit S Raja Shah	
Michael Turner**	
Sachit S. Raja Shah	
Oliver Fowler	
Nyambura Koigi	
Damien Braud*	Resigned on 30 September 2016

* French
** British

COMPANY SECRETARY

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

AUDITORS

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
Waiyaki Way
PO Box 4062
00100 Nairobi1 GPO

REGISTERED OFFICE

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

BANKERS

I&M Bank Limited
PO Box 30238, 00100 GPO
Nairobi

LEGAL ADVISORS

Kaplan & Stratton
Williamson House
4th Ngong Avenue
PO Box 50111, 00100 GPO
Nairobi

DIRECTORS OFFICIALS AND ADMINISTRATION (CONTINUED)

BANKING ENTITIES REGISTERED OFFICES

I&M BANK LIMITED

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

I&M BANK (T) LIMITED

Maktaba Square
Maktaba Street
PO Box 1509
Dar es Salaam
Tanzania

I&M BANK (RWANDA) LIMITED

11, Boulevard de la Revolution
PO BOX 354
Kigali
Rwanda

BANK ONE LIMITED

16 Sir William Newton Street
Port Louis
Mauritius

I&M HOLDINGS LIMITED

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

CHAIRMAN'S STATEMENT

The year 2016 was characterized by uneven global economic growth. The year commenced with an anticipated sluggish growth coupled with the unexpected outcomes of UK referendum (BREXIT) in June and the results of the November US presidential elections. These unexpected outcomes resulted in uncertainty and high volatility in the markets. The US Dollar has been on a bullish run against all major currencies following the much anticipated interest rates hike by 25bps and adjusted at the December, 2016 Fed meeting to between 0.50% - 0.75%, from 0.25% - 0.50% supported by a stable economic growth, the strengthening of the labor market, and rising inflation. To the contrary, the Eurozone suffered major shocks following the geo-political event in UK that voted to leave the Eurozone. The UK exit though to be procedurally effected in 2017, is expected to cause a decline in intra-regional trade, lead to uncertainty over jobs in the UK, and result in a decline in consumer spending.

Sub-Saharan Africa continued to register slow GDP growth with IMF forecasting economic growth to drop to its lowest level in over 2 decades to 1.4% in 2016 from 3.5% in 2015. This decline is mainly attributed to critical drought in some regions, the declining oil prices and terrorism and humanitarian crimes as well as global flight to safety following unfavorable macroeconomic environment in the region. This also resulted in the Sub-Saharan African currencies losing ground against all the major global currencies. The Kenyan economy has however been resilient and the economy has done well having grown by 5.9% in Q1, 6.2% In Q2 and 5.7% in Q3. It is anticipated the overall 2016 growth will be between 5.7% and 6.0% a bit stronger that the 2015 growth of 5.6% in line with IMF projections. This growth was underpinned by low oil prices, stable agricultural performance, supportive monetary policy, Government initiated infrastructure projects and the recovery of tourism sector.

The global banking industry continues to grapple with new risks resulting from a slow and uneven recovery of the world economy. For most part, banking industry in East Africa remained fairly stable but is nevertheless struggling with rising bad debts. This, coupled with interest rate caps in Kenya is seen to have an adverse impact on the Kenyan economy and the full extent of the impact will be felt in a few more months even though the Government has hinted to a review of the rate capping laws.
Your Board has taken cognizance of the recent amendment to the Banking Act in respect of interest capping and its resultant impact on the Banking industry in Kenya and more specifically on I&M Bank LIMITED. I&M Bank in Kenya is the Group's flagship entity contributing approx. 75% in terms of assets and 88% in terms of revenue. The Board is of the view that notwithstanding these recent changes, fundamentals of the banking sector in East Africa in the long run remain strong. Some of the recent changes witnessed in Kenya in terms of enhanced corporate governance mechanisms, independent review of IT systems of Banks, introduction of an Internal Capital Adequacy Assessment Process (popularly known as ICAAP), an increased focus on ensuring adequate provisioning are all steps in the right direction, and will help move the Banking industry to a position of strength, compelling the Banks to reassess their strategies, innovate and digitize and thereby steering the sector to become more robust, and efficient.

GROUP STRATEGY

In the year 2016, our Group embarked on an exciting strategy review process having completed its cycle. The various developments in the operating environment also significantly defined the need to refresh the Group strategy. Our new strategy gives us the opportunity to collaborate further and not only unleash our creativity & innovation but also stand out as a customer centric organization ready for the growth articulated as the promise to the Group stakeholders.

CHAIRMAN'S STATEMENT (continued)

The Group aspires ''To become the Corporate and Affluent banking powerhouse of East Africa,'' and its new strategy, depicts resilience, strength and stability.

The Group completed the acquisition of a strategic stake of 65% in I&M Burbidge Capital Limited on 16th August 2016. This entity, which is licensed as an Investment Advisor by the Capital Markets Authority and a Nominated Advisor to companies listing on the Growth Enterprise Market Segment of the Nairobi Securities Exchange now serves as the Financial Services Subsidiary of the Group. In addition, on 13th February 2017, the acquisition Giro Commercial Bank Limited was completed and this will further strengthen the Group's position in the Kenyan market and enhance its growth story. Additionally, CDC Group Plc (a UK based Development Financial Institution) acquired significant stake in Company following the completion of the investment horizon of DEG and Proparco our former DFI shareholders on 30th September 2016. CDC Group Plc's current shareholding is 10.13% in the Company.

Financially, our balance sheet showed an overall growth of 10% from KES 191.7 billion at the end of 2015 to KES 210.5 billion as at December 2016. Profit before tax increased by 4 % from KES 10.17 billion in 2015 to KES 10.6 billion in 2016. Similarly, our group loan portfolio grew by 5 % while customer deposits increased by 10 %.

GROUP ENTITY PERFORMANCE

I&M Bank Limited – Kenya

The Bank registered a growth of 3 % in the profit before tax for the year ended 31st December 2016 which increased from KES 8.4 billion in 2015 to stand at KES 8.7 billion. At the same time the Bank's loan portfolio increased by 4 % from KES 102.2 billion in December 2015 to KES 106.6 billion as at December 2016. Likewise, customer deposits grew by 13 % from KES 103.7 billion to reach KES 117.3 billion. Supported by the growth in loans and advances and customer deposits, total assets expanded by 11 % during the year to close at KES 164.1 billion.

The Bank currently has a total 43 branches. The branch network expanded following the acquisition of Giro Commercial Bank Limited which had 7 branches in additional to I&M's own new branches opened in Nanyuki, Crossroad in Nairobi CBD and Meru. The Bank's ATM network also expanded to 50 ATMS.

In 2016, the legislative environment presented a major challenge to the banking industry, where Banks witnessed the signing of the Banking Amendment Bill 2015 into law; geared towards regulating interest rates applicable to banks' loans and deposits. The Banking sector has been steadfast in implementing the new law however this has been faced with its challenges and opportunities. On the upside the industry and I&M has had to reassess their strategies, get more innovative, digitize to become more efficient in all respects – better credit risk management, better management of liquidity and capital adequacy, improvement in cost to income ratios by diversify income streams.

CHAIRMAN'S STATEMENT (continued)

Bank One Limited –Mauritius

The Bank has managed to grow faster than the industry and position itself strongly for the future to acquire additional market share even though it continues to face multiple challenges in the prevailing global economic settings having witnessed political disruptions across the world, which creates both uncertainty and opportunity. Apart from that, the African market, being the Banks main area of focus, is expected to stay tougher with lower growth momentum and general weak sentiment. Even then in all these developments, opportunities are available to be explored and the Bank as always will capitalize on these opportunities to continue the growth story.
In 2016, The Bank undertook an exercise with the leadership team to redefine a new Vision, Mission and Values that encapsulate the beliefs as an organization. As a result, the Bank's total assets grew by 25 % to close at MUR 25.3 billion (KES 72.1 billion), while total profit before tax for the year increased by 65 % to close at MUR 348.8 million (KES 994.0 million).
The bank significantly strengthened its equity base from Rs1.8bn in 2015 to Rs2.1bn by end 2016. The leveraging of EURO 10m as Tier II capital was completed in December 2016 which strengthened further the capital base for future growth.

I&M Bank (T) Limited – Tanzania

The Tanzanian economy was faced with its own share of challenges, the government introduced austerity measures in 2016, greatly affecting the money circulation and reducing credit to the private sector. The Banking industry was affected by the introduced the value-added tax on the financial service charges and a significant increase in the stressed assets in view of the tight liquidity position.
As at the end of December 2016, this bank's profits before tax, remained flat increasing marginally from TZS 8.04 billion (KES 426 million) to stand at TZS 8.1 billion (KES 384 million). The Bank 's loan portfolio increased by 11 % from TZS 268 billion (KES 12.7 billion) in December 2016 to TZS 298 billion (KES 14.1 billion) as at December 2015. Customer deposits grew by 4 % from TZS 275 billion (KES 13.5 billion) to reach TZS 285 billion (KES 13.0 billion). This resulted in a balance sheet growth of 9 % since December 2015, to stand at TZS 421 billion (KES 19.9 billion) as at December 2016.
The Bank also secured the senior debt facility from FMO of USD 12 million for on-lending, USD 8 million drawdown was effected during the year.

I&M Bank (Rwanda) Limited – Rwanda

I&M Bank (Rwanda) continues to grow its branch and ATM network with a new business centered branch at CHIC complex in Muhima, Kigali and Three new ATMs where deployed in high traffic areas around the city to improve accessibility and cater to customer convenience. The Government has been proactively in increasing the penetration of banking services and in support of this initiative, the Bank launched I&M "Kira" Account campaign which was an overwhelming success.

The much-anticipated Government of Rwanda ("GoR") Offer for Sale of Shares held in I&M Bank was launched on the 14th February 2017 and closed on 10th March 2017, this is a huge success with subscription of over %. The objective of the sale of stake is to encourage private equity investment amongst the citizens of Rwanda, and to promote the development of the local capital markets. The GoR is pursuing a privatization programme of state-owned enterprises which kicked off in earnest in 1997 with a total of 72 institutions earmarked for privatization. I&M Bank will be the third Government owned entity to be privatized through an IPO under this Privatization programme.

CHAIRMAN'S STATEMENT (continued)

The Bank, in 2016 was rated as one of the most efficient banks in the industry with a Return on Equity (ROE) of 19% as of December 2016. The Bank registered a growth of 18% in profit before tax which increased to Rwf 8.4 Billion in 2016 from Rwf 7.1Billion in 2015. The asset base expanded to Rwf 206 Billion backed by a 18% growth in customer deposits and the Bank's loan portfolio which also increased similarly by 18%. We also saw a marked decrease in gross non-performing loans with the NPL ratio standing at 2.7% by December 2016.

The Bank's profit before tax for 2016 increased by 18 % from Rwf 7.12 billion (KES 966 million) to Rwf 8.42 billion (KES 1,107 million). The Bank's loan portfolio grew by 18 % from Rwf 94.03 billion (KES 12.9 billion) to stand at Rwf 111.08 billion (KES 14.0 billion). Likewise, customer deposits grew to Rwf 134.2 billion (KES 16.9 billion), representing a 12 % growth as compared to the previous year. The Bank continued its tradition of being a leading player in the SME sector.

Outlook

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

I take this opportunity to thank the Board of Directors for their continued support, enthusiasm and determination as we look to take this Company to new great heights. In 2016, Mr. Damien Braud (representing Proparco) resigned from the Board following the completion of CDC Group Plc acquiring significant stake in I&M Holdings Limited by the acquisition of the stake previously held by DEG and Proparco in the Company. We hold Mr. Braud in great esteem and thank him for faithfully serving with us on the Board and DEG and Proparco for their irreplaceable support.

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

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

DANIEL NDONYE
CHAIRMAN

27 March 2017

I&M HOLDINGS LIMITED

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2016

The directors have pleasure in submitting their annual report together with the audited financial statements of I&M Holdings Limited ("the Company") and its subsidiaries (together "the Group") for the year ended 31 December 2016, which shows the state of affairs of the group and of the company.

1. **Principal activities**

The Group provides an extensive range of banking, financial and related services through its banking subsidiaries in Kenya, Tanzania, Rwanda and a joint venture in Mauritius. The Group comprises I&M Holdings Limited, I&M Bank Limited, I&M Capital Limited, I&M Realty Limited and I&M Insurance Agency Limited, Kenya, Bank One Limited, Mauritius, I&M Bank (T) Limited, Tanzania, I&M Bank (Rwanda) Limited, Rwanda, I&M Burbidge Capital Limited (KE &UG). 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 and Restructuring**

(a) **Giro Commercial Bank Limited (GCBL)**

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

On 13 February 2017, I&M Holdings Limited acquired the entire issued share capital of GCBL following the receipt of all regulatory approvals and being satisfied that all conditions precedent stipulated in the Share Purchase Agreement were met. Subsequently, the entire GCBL's banking business was merged into that of I&M Bank LIMITED. The results of GCBL have not been consolidated in these financials.

(b) **I&M Realty Limited**

— As part of Group restructuring, I&M Realty Limited was transferred from I&M Bank LIMITED to I&M Holdings Limited. The transfer was carried out at the net asset value of I&M Realty Limited as at 31 December 2015. The purchase consideration paid to I&M Bank LIMITED by I&M Holdings Limited in respect of the transfer amounted to Kshs 5,119,100.

(c) **I&M Burbidge Capital Limited (Formerly Burbidge Capita Limited)**

On 5 October 2015 I&M Holdings Limited entered into a Share Purchase Agreement with the shareholders of Burbidge Capital Limited, to acquire 65% of the share capital of Burbidge Capital Limited. The aggregate consideration for the acquisition was paid by a cash consideration of KShs 55,737,500, representing 87.5% of the purchase consideration and share consideration of 65,722 shares in I&M Holdings Limited. The acquisition was completed on 16 August 2016 upon receipt of all regulatory approvals and satisfied that all other conditions stipulated in the Share Purchase Agreement were met.

3. Results

The consolidated results for the year are as follows:

	2016 KShs'000	2015 KShs'000
Profit before taxation	10,603,188	10,167,661
Taxation	(2,843,026)	(3,023,250)
Profit after taxation	**7,760,162**	**7,144,411**

The directors recommend a first and final dividend of KShs 3.50 per share amounting to KShs 1,446,918,791.25 for the year ended 31 December 2016. A dividend of Kshs 3.5 per share amounting to KShs 1,373,267,137 in respect of the year ended 31 December 2015 was paid on the 23rd May, 2016.

4. Directors

The directors who served during the year and up to the date of this report are set out on page 1.

5. Auditors

The auditors, KPMG Kenya, continue in office in accordance with the Kenyan Companies Act, 2015.

6. Relevant audit information

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

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

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

7. Approval of financial statements

The financial statements were approved at a meeting of the Board of Directors held on ____________.

BY ORDER OF THE BOARD

Secretary

VIRGINIA M. NDUNGE
CPS No. 1531
P. O. Box 40111 - 00100
NAIROBI, KENYA.
KAPLAN & STRATTON ADVOCATES

Date: ____________

I&M HOLDINGS LIMITED

STATEMENT ON CORPORATE GOVERNANCE

Introduction

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

Shareholders

Significant shareholders

The Company's top 10 shareholders as at 31 December 2016 are given below:

Holder Names	Shares	% Holding
Minard Holdings Limited	88,325,016	22.51%
Tecoma Limited	76,044,808	19.38%
Ziyungi Limited	73,548,000	18.74%
Cdc Group Plc	41,881,500	10.67%
Bhagwanji Raja Charitable Foundation The Registered Trustees	9,458,830	2.41%
Investments & Mortgages Nominees Ltd A/C 0001229	8,479,286	2.16%
Investments & Mortgages Nominees Ltd A/C 0004047	8,371,860	2.13%
Rajabali Aunali Fidahussein Rajabali And Sajjad Fidahussein	3,989,800	1.02%
Shah Kantilal Hirji Shah And Vinumati Kantilal	2,603,322	0.66%
Shah Kantaben Amritlal Hirji	2,603,322	0.66%

Distribution of shareholders

The distribution of shareholders as at 31 December 2016 was as follows:

Share Range	No. of Shareholders	Shares Held	Shareholding %
Less than 1 million shares	2,439	67,810,738	17.28%
> 1 million < 2 million shares	6	9,245,557	2.36%
> 2 million < 3 million shares	2	5,206,644	1.33%
> 3 million shares	8	310,099,100	79.03%
Grand Total	**2,455**	**392,362,039**	**100.00%**

Shareholder Relations & Communication

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

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

Board of Directors

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

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

Resignation

Director	Board Membership	Date of Resignation
Damien Braud	Non-Executive	30 September 2016

Board of Directors (Continued)

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

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

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

Board Charter

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

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

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

Board Meetings

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

Board Meetings (continued)

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	18 January 2016	24 March 2016	12 July 2016	14 September 2016	27 October 2016	Total Board meetings attended in 2016
Daniel Ndonye	√	√	√	√	√	5
Suresh B R Shah	√	√	X	√	X	3
Sarit S Raja Shah	√	√	√	√	√	5
Michael Turner	√	√	√	√	√	5
Oliver Fowler	√	√	√	X	X	3
Sachit S Raja Shah	√	√	X	√	X	3
Damien Braud	√	√	√	X	-	3
Nyambura Koigi	√	√	√	√	√	5

√ Attended

X Not Attended

\- Had resigned

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

Board Committees

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

Board Audit and Risk Management Committee (BARMC)

The BARMC consists of two independent directors and one non-executive Director. It is led by a Non-Executive, Independent Director.

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

Board Nomination and Remuneration Committee (BNRC)

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

Board Strategy Steering Committee (BSSC)

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

Delegation of Authority

I&M Holdings Limited is a non-operating holding company. The Group's subsidiaries are governed by different statutory and regulatory requirements across the region. The Holding company board provides strategic direction to the Group's business and meets quarterly to review overall performance and progress on significant initiatives. It has delegated authority to the boards of its respective subsidiaries, Joint Venture investment and its three Committees, BARMC, BNRC and BSSC. For purposes of 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.

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.

Human Resources Committee (HRC)

HRC assists the Board in fulfilling its Human Resource Management responsibilities with due recognition to this key resource. HRC oversees implementation of all major HR initiatives, rendering support and guidance as appropriate.

It also facilitates periodic review of each entity's HR policies and practices to ensure each entity remains competitive and able to attract and retain competent talent for its business.

Code of Ethics

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

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

Insider Trading

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.

Risk Management Framework

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

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

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

- The Board of Directors at the Group and individual entity level assume the ultimate responsibility for the level of risks taken and are responsible 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.

Corporate Social Responsibility (CSR)

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

I&M HOLDINGS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for the preparation and fair presentation of the consolidated and company financial statements of I&M Holdings Limited set out on pages 24 to 101 which comprise the Consolidated and Company statements of financial position as at 31 December 2016, Consolidated and Company statements of profit or loss and other comprehensive income, statements of changes in equity and Consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs and the operating results of the Group and the Company.

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

Under the Kenyan Companies Act, 2015 the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and the company as at the end of the financial year and of the operating results of the group and the company for that year. It also requires the Directors to ensure the group and the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the group and the company.

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

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

Approval of the financial statements

The group and company financial statements, as indicated above, were approved by the Board of Directors on **27 March 2017** and were signed on its behalf by:

Daniel Ndonye

Chairman

Michael Turner

Director

Sarit S Raja-Shah

Director

Date: 27 March 2017

I&M HOLDINGS LIMITED

DIRECTORS' REMUNERATION REPORT

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

IMHL is regulated by the Capital Markets Authority and the Central Bank of Kenya as a non-operational holding company. IMHL board therefore constitutes of non-executive directors as detailed out on page 2.

At IMHL, Directors' remuneration will be paid in the form of (i) Directors' Sitting Fees and (ii) Fixed 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, Cap 486 of the Laws of Kenya and the CMA Regulations and Guidelines on Corporate Governance.

The Board has put in place a Board Nomination and Remuneration Committee that is tasked with ensuring that Directors remuneration levels are reviewed with sufficient regularity and are subject to external benchmarking to ensure that IMHL continuously offers competitive total reward packages for its Directors.

For the financial year ended 31 December 2016, fees and other remuneration paid to the Directors is disclosed under note 13 of the Annual Financial Statements.

The list of the reward components are as follows:

1. Fixed Annual Retainer Fees

This is competitive 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.

3. Insurance Cover

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

By order of the Board

Virginia Ndunge (CPS Kenya)

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

Report On the Audit of the Financial Statements

Opinion

We have audited the financial statements of I&M Holdings Limited set out on pages 24 to 101 which comprise the Consolidated and Company statements of financial position as at 31 December 2016, the Consolidated and Company statements of profit or loss and other comprehensive income, statements of changes in equity and Consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the Consolidated and Company financial position of I&M Holdings Limited as at 31 December 2016, and the Consolidated and Company's financial performance and the Consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act, 2015.

Basis for opinion

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

Key audit matters

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

Impairment of loans and advances to customers

See accounting policy note 3 (f) (iii) - Significant accounting policies and disclosure note 19 – Loans and advances to customers

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

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

Report On the Audit of the Financial Statements (Continued)

Key audit matters (continued)

Impairment of loans and advances to customers (continued)

See accounting policy note 3 (f) (iii) - Significant accounting policies and disclosure note 19 – Loans and advances to customers

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

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

Report On the Audit of the Financial Statements (Continued)

Key audit matters (continued)

Impairment of goodwill	
The key audit matter	**How the matter was addressed**
See accounting policy note 3 (j) (ii) – Significant accounting policies; disclosure note 23 – Intangible assets	
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. — We applied a significant level of judgment when considering management's assessment of impairment. We focused our audit on the Group's valuation methodologies and key inputs such as forecast cash flows, discount rates applied, forecast growth rates and terminal growth rates.	Our audit procedures in this area included, among others: — Assessing management's determination of the Group's Cash Generating Unit (CGU) based on our understanding of the nature of the Group's business. We also analysed the internal reporting of the Group to assess how results are monitored and reported. — Comparing the cash flow forecasts to the Board approved forecasts. We also evaluated the forecasting process undertaken by the Group by assessing the precision of prior year forecast cash flows by comparing with actual outcomes. — Involving our own valuation specialists to assist us in challenging the Group's valuation methodologies, discount rates and growth rates. This included comparing the Group's input to external data such as economic growth projections and interest rates. We also cross checked the valuation results against multiples inherent in the value of other similar entities. — Comparing the carrying amount of the assets to management's valuation for the intangible assets to confirm the accuracy of the impairment charge, where impairment had been recognized.

Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Report On the Audit of the Financial Statements (Continued)

Directors' responsibilities for the financial statements

As stated on page 17, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the 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 ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

Report On the Audit of the Financial Statements (Continued)

Auditors' responsibilities for the audit of the financial statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group and Company audit. We remain solely responsible for our audit opinion.

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

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and 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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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

(i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
(ii) In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and
(iii) The statement of financial position and statement of profit or loss of the Company are in agreement with the books of account.

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

KPMG Kenya

Date: 27 March 2017

I&M HOLDINGS LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Group 2016 Kshs '000	Group 2015 Kshs '000	Company 2016 Kshs '000	Company 2015 Kshs '000
Interest income	8	24,451,398	21,869,337	16,940	26,280
Interest expense	9	(8,929,722)	(9,222,172)	-	-
Net interest income		**15,521,676**	**12,647,165**	**16,940**	**26,280**
Fee and commission income	10	2,734,967	2,499,460	-	-
Fee and commission expense	10	(182,817)	(134,529)	-	-
Net fee and commission income	10	**2,552,150**	**2,364,931**	-	-
Revenue		**18,073,826**	**15,012,096**	**16,940**	**26,280**
Other operating income	11	2,238,169	2,226,845	1,495,904	1,418,358
Operating Income		**20,311,995**	**17,238,941**	**1,512,844**	**1,444,638**
Staff costs	12	(3,595,375)	(3,266,810)	-	-
Premises and equipment costs	12	(571,381)	(522,590)	-	-
General administration expenses	12	(2,540,065)	(2,121,829)	(32,790)	(18,347)
Depreciation and amortisation	12	(488,975)	(501,019)	(94)	(86)
Operating expenses		**(7,195,796)**	**(6,412,248)**	**(32,884)**	**(18,433)**
Operating profit before impairment, losses and tax		**13,116,199**	**10,826,693**	**1,479,960**	**1,426,205**
Net impairment losses on loans and advances	19(c)	**(2,956,979)**	**(982,495)**	-	-
		10,159,220	**9,844,198**	**1,479,960**	**1,426,205**
Share of profit of joint venture	21(a)	**443,968**	**323,463**	-	-
Profit before income tax	13	**10,603,188**	**10,167,661**	**1,479,960**	**1,426,205**
Income tax expense	14(a)	(2,843,026)	(3,023,250)	(3,453)	(7,831)
Profit for the year		**7,760,162**	**7,144,411**	**1,476,507**	**1,418,374**

(Continued Page 25)

The notes set out on pages 31 to 101 forms an integral part of these financial statement

I&M HOLDINGS LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE FOR THE YEAR ENDED 31 DECEMBER 2016 INCOME (Continued)

		Group		Company	
	Note	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Other Comprehensive Income					
Items that will not be reclassified to Profit or loss:					
Actuarial (losses)/gains on re-measurement of defined benefit scheme net of deferred tax	32(g)	(7,019)	3,156	-	-
Cancellation of shares- I&M Bank Rwanda		-	(815)	-	-
Items that may be classified to Profit or loss:					
Available for sale financial assets- changes in fair value net of deferred tax		148,041	(173,028)	-	-
Foreign operations-foreign currency translation differences		(344,316)	(102,826)	-	-
Revaluation surplus on property and equipment net of deferred tax charge		392,552	-	-	-
Total other comprehensive income for the year		**189,258**	**(273,513)**	**-**	**-**
Total comprehensive income for the year		**7,949,420**	**6,870,898**	**1,476,507**	**1,418,374**
Profit attributable to:					
Equity holders of the company		7,283,625	6,717,452	1,476,507	1,418,374
Non -controlling interest		476,537	426,959	-	-
		7,760,162	**7,144,411**	**1,476,507**	**1,418,374**
Total Comprehensive income attributable to:					
Equity holders of the company		7,473,712	6,526,739	1,476,507	1,418,374
Non-controlling interest		475,708	344,159	-	-
		7,949,420	**6,870,898**	**1,476,507**	**1,418,374**
Basic and diluted earnings per share - (Kshs)	15	**18.56**	**17.12**	**3.76**	**3.61**

The notes set out on pages 31 to 101 forms an integral part of these financial statements.

I&M HOLDINGS LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	Group 2016 Kshs'000	Group 2015 Kshs'000	Company 2016 Kshs'000	Company 2015 Kshs'000
ASSETS					
Cash and balances with central banks	16	11,083,876	9,948,128	-	-
Items in the course of collection	17	487,791	527,596	-	-
Loans and advances to banks	18	6,948,707	4,981,777	-	-
Loans and advances to customers	19(a)	134,675,332	127,823,778	-	-
Investment securities	20	45,834,460	39,135,807	111,896	-
Investment in Joint Venture	21(a)	3,508,182	3,062,350	1,679,971	1,679,971
Investment in subsidiaries	21(b)	-	-	19,675,872	19,604,666
Property and equipment	22	3,906,899	2,935,233	105	199
Intangible assets - Goodwill	23(a)	1,207,048	1,174,601	-	-
Intangible assets - Software	23(b)	233,405	245,434	-	-
Prepaid operating lease rentals	24	253,864	284,606	-	-
Tax recoverable	14(b)	12,541	4,456	3,954	-
Deferred tax asset	25(a)	421,121	449,292	-	-
Due from group companies	36(c)(i)	-	-	71,375	142,660
Other assets	26	1,969,167	1,083,779	29,456	23,825
TOTAL ASSETS		**210,542,393**	**191,656,837**	**21,572,629**	**21,451,321**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Deposit from banks	27	7,795,856	7,971,475	-	-
Items in course of collection	17	7,517	-	-	-
Deposits from customers	28	146,514,406	132,980,678	-	-
Deferred tax liability	25 (b)	-	1,039	-	-
Tax payable	14 (b)	139,813	145,434	-	772
Due to group companies	36(c)(ii)	-	-	11,337	11,715
Other liabilities	29	3,272,187	2,766,373	66,677	47,457
Long term borrowings	30	8,759,516	9,575,455	-	-
Subordinated debt	31	4,546,681	4,495,084	-	-
		171,035,976	**157,935,538**	**78,014**	**59,944**
Shareholders' equity (pages 23 - 25)					
Share capital	32 (a)	392,362	392,362	392,362	392,362
Share premium	32 (b)	17,331,510	17,331,510	17,331,510	17,331,510
Retained earnings		18,217,056	12,971,933	3,770,743	3,667,505
Revaluation reserve	32 (c)	718,074	446,744	-	-
Available- for- sale reserve	32 (d)	(353,536)	(502,206)	-	-
Translation reserve	32 (e)	(287,996)	(65,102)	-	-
Statutory loan loss reserve	32 (f)	1,059,022	912,617	-	-
Defined benefit reserve	32 (g)	(46,744)	(39,725)	-	-
Equity attributable to owners of the Company		**37,029,748**	**31,448,133**	**21,494,615**	**21,391,377**
Non-controlling interest		2,476,669	2,273,166	-	-
TOTAL SHAREHOLDERS' EQUITY		**39,506,417**	**33,721,299**	**21,494,615**	**21,391,377**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**210,542,393**	**191,656,837**	**21,572,629**	**21,451,321**

The financial statements set out on pages 24 to 101 were approved by the Board of Directors on 27 March 2017 and were signed on its behalf by:

Director Director Director Secretary

The notes set out on pages 31 to 101 form an integral part of these financial statements.

VIRGINIA M. NDUNG'U CPS No. 1531

I&M HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Defined benefit KShs'000	Statutory credit risk KShs'000	Revaluation reserve KShs'000	Available for sale reserve KShs'000	Translation reserve KShs'000	Total KShs'000	Non-controlling interest KShs'000	Total KShs'000
At 1 January 2016	**392,362**	**17,331,510**	**12,971,933**	**(39,725)**	**912,617**	**446,744**	**(502,206)**	**(65,102)**	**31,448,133**	**2,273,166**	**33,721,299**
Comprehensive income for the year											
Net profit after tax	-	-	7,283,625	-	-	-	-	-	**7,283,625**	476,537	**7,760,162**
	-	-	**7,283,625**	-	-	-	-	-	**7,283,625**	**476,537**	**7,760,162**
Other comprehensive income											
Translation reserve	-	-	-		-	-	-	(222,894)	**(222,894)**	(121,422)	**(344,316)**
Available for sale reserve	-	-	-	-	-	-	212,716	-	**212,716**	(629)	**212,087**
Tax charge - available for sale reserve	-	-	-	-	-	-	(64,046)	-	**(64,046)**	-	**(64,046)**
Revaluation reserve	-	-	-	-	-	387,615	-	-	**387,615**	173,174	**560,789**
Tax charge - revaluation reserve	-	-	-	-	-	(116,284)	-	-	**(116,284)**	(51,952)	**(168,237)**
Defined benefit plan	-	-	-	(7,019)	-	-	-	-	**(7,019)**	-	**(7,019)**
Statutory credit risk	-	-	(146,405)	-	146,405	-	-	-	-	-	-
Total other comprehensive income	-	-	**(146,405)**	**(7,019)**	**146,405**	**271,330**	**148,670**	**(222,894)**	**190,087**	**829**	**189,258**
Total comprehensive income	-	-	**7,137,220**	**(7,019)**	**146,405**	**271,330**	**148,670**	**(222,894)**	**7,473,712**	**475,708**	**7,949,420**
Transactions with owners											
Acquisitions of additional shares in I&M Bank (T) Ltd	-	-	(518,828)	-	-	-	-	-	**(518,828)**	(301,079)	**(819,907)**
Rights issue - I&M Bank(T) Ltd	-	-	-	-	-	-	-	-	-	132,578	**132,578**
Acquisition of I&M Burbidge Capital Limited	-	-	-		-	-	-	-	-	18,733	**18,733**
Dividends paid-2015 final	-	-	(1,373,269)	-	-	-	-	-	**(1,373,269)**	(124,537)	**(1,497,806)**
Rights issue I&M Burbidge Capital	-	-		-	-	-	-	-	-	2,100	**2,100**
Total transactions with owners for the year	-	-	**(1,892,097)**	-	-	-	-	-	**1,892,097**	**272,205**	**2,164,302**
At 31 December 2016	392,362	17,331,510	18,217,056	(46,744)	1,059,022	718,074	(353,536)	(287,996)	37,029,748	2,476,669	39,506,417

The notes set out on page 31 to 101 form an integral part of these financial statements.

I&M HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Statutory credit risk KShs'000	Defined benefit Reserve Kshs'000	Revaluation reserve KShs'000	Available for sale Reserve KShs'000	Translation reserve KShs'000	Total KShs'000	Non-controlling interest KShs'000	Total KShs'000
At 1 January 2015	**392,362**	**17,331,510**	**7,360,529**	**905,486**	**(42,881)**	**448,726**	**(342,834)**	**6,346**	**26,059,244**	**2,046,898**	**28,106,142**
Profit for the year	-	-	6,717,452	-	-	-	-	-	**6,717,452**	426,959	**7,144,411**
Other comprehensive income	-	-	38,933	-	3,156	(1,982)	(159,372)	(71,448)	**(190,713)**	(82,800)	**(273,513)**
Total comprehensive income/(loss)	-	-	**6,756,385**	-	**3,156**	**(1,982)**	**(159,372)**	**(71,448)**	**6,526,739**	**344,159**	**6,870,898**
Statutory credit risk	-	-	(7,131)	7,131	-	-	-	-	-	-	-
Transactions with owners:											
Dividend paid	-		(1,137,850)	-	-	-	-	-	**(1,137,850)**	(117,891)	(1,255,741)
At 31 December 2015	**392,362**	**17,331,510**	**12,971,933**	**912,617**	**(39,725)**	**446,744**	**(502,206)**	**(65,102)**	**31,448,133**	**2,273,166**	**33,721,299**

The notes set out on page 31 to 101 form an integral part of these financial statements.

I&M HOLDINGS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital KShs '000	Share premium KShs '000	Retained Earnings KShs '000	Total KShs '000
At 1 January 2016	**392,362**	**17,331,510**	**3,667,505**	**21,391,377**
Comprehensive income for the year				
Profit for the year			1,476,507	1,476,507
Total comprehensive income for the year	-	-	**1,476,507**	**1,476,507**
Transactions with owners recorded directly in equity				
Dividends paid-2015	-	-	(1,373,269)	(1,373,269)
Total transactions with owners for the year	-	-	**(1,373,269)**	**(1,373,269)**
At 31 December 2016	**392,362**	**17,331,510**	**3,770,743**	**21,494,615**
	-	-	-	-
At 1 January 2015	**392,362**	**17,331,510**	**3,386,981**	**21,110,853**
Comprehensive income for the year				
Profit for the year	-	-	1,418,374	1,418,374
Total comprehensive income for the year	-	-	**1,418,374**	**1,418,374**
Transactions with owners recorded directly in equity				
Dividends paid	-	-	(1,137,850)	(1,137,850)
Total transactions with owners for the year	-	-	**(1,137,850)**	**(1,137,850)**
At 31 December 2015	**392,362**	**17,331,510**	**3,667,505**	**21,391,377**

The notes set out on pages 31 to 101 form an integral part of these financial statements.

I&M HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

		2016 Kshs'000	2015 Kshs'000
Net cash flows generated from operating activities	33 (a)	**10,610,555**	**10,845,303**
Cash flows from investing activities			
Purchase of property and equipment	22(a)	(851,008)	(519,985)
Purchase of intangible assets	23(b)	(87,984)	(134,538)
Purchase of property and equipment directly expensed	22(a)	(2,737)	-
Acquisition of Burbidge Capital net of cash and cash equivalent	33(c)	(54,856)	-
Additional Investment in I&M Bank (T) Limited		(819,907)	-
Proceeds from disposal of property and equipment		8,163	11,361
Additional investment in Joint venture	21(a)	-	(181,156)
Net cash used in investing activities		**(1,808,329)**	**(824,318)**
Cash flows from financing activities			
Net inflows from term subordinated debt		51,597	519,689
Dividend paid to shareholders of the company		(1,373,269)	(1,137,850)
Dividend paid to non-controlling interests		(124,537)	(117,891)
Rights issue - I&M Bank (T) Limited		132,578	-
Rights issue - I&M Burbidge Capital		2,100	-
Cancellation of shares		-	(815)
Net cash used in financing activities		**(1,311,531)**	**(736,867)**
		-	
Net increase in cash and cash equivalents	33(b)	**7,490,695**	**9,284,118**
Cash and cash equivalents at start of the year		**4,378,074**	**(4,906,044)**
Cash and cash equivalents at end of the year		**11,868,769**	**4,378,074**

The notes set out on pages 31 to 101 form an integral part of these financial statements.

1. REPORTING ENTITY

I&M Holdings Limited (the "Company"), is a non-operating holding company licensed by the Central Bank of Kenya under the Kenyan Banking Act (Chapter 488). The Company is incorporated in Kenya under the Kenyan Companies Act and comprises banking subsidiaries in Kenya, Tanzania, Rwanda and a joint venture in Mauritius. The consolidated financial statements as at and for the year ended 31 December 2016 comprise of entities in Kenya – I&M Bank Limited, I&M Capital Limited, I&M Realty Limited and I&M Insurance Agency Limited, I&M Bank (T) Limited in Tanzania, and I&M Bank (Rwanda) Limited in Rwanda ,I&M Burbidge Capital Limited and a joint venture - Bank One Limited in Mauritius (together referred to as the "Group"). The address of its registered office is as follows:

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

Through I&M Bank Limited, the Company has:

(i) 70.03% (2015 - 55.03%) shareholding in I&M Bank (T) Limited;
(ii) 100% shareholding in I&M Insurance Agency Limited (incorporated on 23 July 2014).

The Company owns the following entities directly:

(i) Bank One Limited - 50% interest in Bank One Limited, a joint venture in a bank licensed in Mauritius;
(ii) I&M Bank Limited – 100% shareholding; and
(iii) I&M Bank (Rwanda) Limited – effective interest of 54.99% in I&M Bank (Rwanda) Limited through a 68.742% holding in BCR Investment Company Limited (Mauritius) which owns 80% shareholding in I&M Bank (Rwanda) Limited.
(iv) I&M Capital Limited – 100% Shareholding
(v) I&M Realty Limited – 100% Shareholding
(vi) I&M Burbidge Capital Limited – 65% Shareholding

2. BASIS OF PREPARATION

(a) Statement of compliance

The Group's consolidated financial statements for the year 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS). Additional information required by the regulatory bodies is included where appropriate.

For the Kenyan Companies Act, 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 comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES(Continued)

(b) Basis of measurement

(i) Non-controlling interests

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

(ii) Subsidiaries

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) 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.

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

2. BASIS OF PREPARATION (Continued)

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

(i) Subsidiaries

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

(b) Foreign currencies

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign operations

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

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

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

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

(d) Income recognition

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

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

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

(i) Net interest income

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income recognition (continued)

(i) Net interest income - continued

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

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

(ii) Fee and commission income

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

(iii) Other operating income

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

(iv) Rental income – other operating income

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

(v) Dividend income

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

(e) Income tax expense

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Income tax expense (continued)

- 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

(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.

3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(f) **Financial assets and liabilities (continued)**

(iii) Identification and measurement of impairment of financial assets - continued

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and liabilities (continued)

(vi) Fair value of financial assets and financial liabilities

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

(vii) Amortized cost measurement

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

(g) Fair value measurement

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fair value measurement (continued)

(iii) Identification and measurement of impairment of financial assets - continued

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

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

(h) Cash and cash equivalents

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

(i) Property and equipment

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

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

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 of lease if shorter than 8 years	10-12½% or over the period
— 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Intangible assets

(i) Computer software

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

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

(ii) Goodwill

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

(k) Operating leases

(i) Operating leases

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

(ii) Finance lease receivables

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

(l) Impairment of non-financial assets

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

(m) Derivative financial instruments

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

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

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

(n) Employee benefits

(i) Defined contribution plan

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

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

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

(ii) Leave accrual

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

(o) Share capital and share issue costs

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Earnings per share

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

(q) Dividends

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

(r) Contingent liabilities

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

(s) Provisions

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

(t) Fiduciary activities

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

(u) Comparative information

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

(v) New standards amendments and interpretations

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

The Group has adopted the following new standards and amendments during the year ended 31 December 2016, including consequential amendments to other standards with the date of initial application by the Group being 1 January 2016. The nature and effects of the changes are explained below:

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

New standard or amendments
— Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
— Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciations and Amortisation
— Amendments to IAS 41 - Bearer Plants (Amendments to IAS 16 and IAS 41)
— Equity Method in Separate Financial Statements (Amendments to IAS 27)
— IFRS 14 Regulatory Deferral Accounts
— Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
— Disclosure Initiative (Amendments to IAS 1)
— Annual improvements cycle (2012-2014) – various standards

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

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be re-measured. The amendments apply prospectively for annual periods beginning on or after 1 January 2016.

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

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

The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture require a bearer plant (which is a living plant used solely to grow produce over several periods) to be accounted for as property, plant and equipment in accordance with IAS 16 Property, Plant and Equipment instead of IAS 41 Agriculture. The produce growing on bearer plants will remain within the scope of IAS 41.The new requirements are effective from 1 January 2016.

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

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

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

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

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) - continued

The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments apply prospectively for annual periods beginning on or after 1 January 2016.

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

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

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures but also for subsidiaries. The amendments apply retrospectively for annual periods beginning on or after 1 January 2016.

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

IFRS 14 Regulatory Deferral Accounts

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

The standard is effective for financial reporting years beginning on or after 1 January 2016. The adoption of these changes did not have a significant impact on the financial statements of the Group.

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

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

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

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

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

The amendment to IAS 28 *Investments in Associates and Joint Ventures* modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements.

The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016.

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

Disclosure Initiative (Amendments to IAS 1)

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. The amendments apply for annual periods beginning on or after 1 January 2016 and early application is permitted.

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

Annual improvements cycle (2012-2014) – various standards

Standard	Amendments
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	**Changes in methods of disposal.** Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.
IFRS 7 Financial Instruments: Disclosures (with consequential amendments to IFRS 1)	**Servicing contracts.** Adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. **Applicability of the amendments to IFRS 7 to condensed interim financial statements.** Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.

3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

Annual improvements cycle (2012-2014) – various standards - continued

IAS 19 Employee Benefits	**Discount rate: regional market issue.** Clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).
IAS 34 Interim Financial Reporting	**Disclosure of information 'elsewhere in the interim financial report'.** Clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference

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

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2016, and have not been applied in preparing these financial statements.

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

New standard or amendments	Effective for annual periods beginning on or after
— Disclosure Initiative (Amendments to IAS 7)	1 January 2017
— Recognition of Deferred Tax Assets for Unrealised losses (Amendments to IAS 12)	1 January 2017
— 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
— IFRS 16 Leases	1 January 2019
— IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
— Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (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 2016 - continued

Disclosure Initiative (Amendments to IAS 7)

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

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

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

The amendments state that one way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.
Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Since the amendments are being issued less than one year before the effective date, entities need not provide comparative information when they first apply the amendments.

The potential impact on the financial statements of the Group is being assessed.

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

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

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards and interpretations (continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016 - continued

Disclosure Initiative (Amendments to IAS 7) - continued

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

The potential impact on the financial statements of the Group is being assessed.

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

IFRS 9: Financial Instruments (2014)

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

This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

The standard is effective for annual period beginning on or after 1 January 2018 with retrospective application, early adoption permitted.

The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards and interpretations (continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016 - continued

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

The following clarifications and amendments are contained in the pronouncement:

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards and interpretations (continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016 - continued

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

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

— an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;

— an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

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

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

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

The adoption of these changes will not affect the financial statements for the group.

IFRS 16: Leases

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards and interpretations (continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016 - continued

IFRS 16: Leases - continued

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

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

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

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

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

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

The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

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).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New standards and interpretations (continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016 - continued

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration - continued

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:

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

The amendments apply retrospectively for annual periods beginning on or after 1 January 2018, with early application permitted.
The adoption of these changes will not have an impact on the amounts and disclosures of the Company's financial statements.

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

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised. The effective date for these changes has now been postponed until the completion of a broader review.

4. RISK MANAGEMENT

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

Financial risk

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

4. RISK MANAGEMENT (Continued)

Financial risk (Continued)

(a) Credit risk

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

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

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

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

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

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

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

Exposure to credit risk

Loans and advances to customers	**2016 KShs'000**	**2015 KShs'000**
Individually impaired:		
Grade 3: Substandard	2,186,701	1,602,604
Grade 4: Doubtful	5,802,451	2,948,013
Grade 5: Loss	1,438,825	1,779,561
	9,427,977	**6,330,178**
Specific allowances for impairment	(5,536,457)	(3,158,700)
Carrying amounts	**3,891,520**	**3,171,478**
Collectively impaired:		
Grade 2: Watch	17,040,708	110,257,291
Grade 1: Normal	114,253,701	14,881,459
	131,294,409	**125,138,750**
Portfolio allowances for impairment	(510,597)	(486,450)
Carrying amounts	**130,783,812**	**124,652,300**
Total carrying amounts	**134,675,332**	**127,823,778**

4. RISK MANAGEMENT (Continued)

Financial risk (Continued)

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

Loans with renegotiated terms

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

Allowances for impairment

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

Write off policy

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

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

4. RISK MANAGEMENT (Continued)

Financial risk (Continued)

(a) Credit risk (continued)

Loans and advances - Group

Individually impaired: **31 December 2016**	**Gross KShs'000**	**Net KShs'000**
Grade 3: Substandard	2,186,701	1,480,214
Grade 4: Doubtful	5,802,451	2,278,673
Grade 5: Loss	1,438,825	132,633
	9,427,977	**3,891,520**
31 December 2015		
Grade 3: Substandard	1,602,604	1,091,456
Grade 4: Doubtful	2,948,013	1,785,096
Grade 5: Loss	1,779,561	294,926
	6,330,178	**3,171,478**

Collectively impaired: **31 December 2016**	**Gross KShs'000**	**Net KShs'000**
Grade 1: Normal	114,253,701	113,642,608
Grade 2: Watch	17,040,708	17,141,204
	131,294,409	**130,783,812**
31 December 2015		
Grade 1: Normal	110,257,292	109,825,605
Grade 2: Watch	14,881,458	14,826,695
	125,138,750	**124,652,300**

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 2016 or 2015.

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

	2016 Kshs'000	**2015 Kshs'000**
Group		
Fair value of collateral held - against impaired loans	**4,232,458**	**3,627,384**

4. RISK MANAGEMENT (Continued)

(b) Liquidity risk

Liquidity risk includes the risk of being unable to meet the Group's financial obligations as they fall due because of inability to liquidate assets at a reasonable price and in an appropriate timeframe. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy. In addition, the Group holds a portfolio of liquid assets as part of its liquidity risk management strategy.

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2016 to the contractual maturity date:

	Kenya		Tanzania		Rwanda	
	2016	2015	2016	2015	2016	2015
At 31 December	37%	34%	31%	30%	55%	52%
Average for the period	36%	32%	31%	33%	51%	52%
Highest for the period	39%	35%	34%	40%	54%	55%
Lowest for the period	32%	27%	25%	23%	49%	48%

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

4. RISK MANAGEMENT (Continued)

Financial risk (continued)

(c) Market risk (continued)

Exposure to interest rate risk - continued

31 December 2015	Within 1 month KShs'000	Due within 1-3 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	-	-	-	-	-	9,948,128	**9,948,128**
Items in the course of collection	-	-	-	-	-	527,596	**527,596**
Loans and advances to banks	1,488,837	1,138,044	426,518	-	-	1,928,378	**4,981,777**
Loans and advances to customers	112,709,381	2,815,083	2,124,765	7,533,387	2,641,162	-	**127,823,778**
Investment securities	685,625	4,642,796	15,619,390	11,352,686	6,835,310	-	**39,135,807**
Other assets	-	-	-	-	-	1,083,779	**1,083,779**
At 31 December 2015	**114,883,843**	**8,595,923**	**18,170,673**	**18,886,073**	**9,476,472**	**13,487,881**	**183,500,865**
LIABILITIES							
Deposits from banks	2,930,667	3,772,297	476,049	-	-	792,462	**7,971,475**
Deposits from customers	33,487,049	71,494,368	11,015,237	154,383	39,682	16,789,959	**132,980,678**
Other liabilities	-	-	-	-	-	2,766,373	**2,766,373**
Long term borrowings	16,896	1,215,166	7,577,529	740,277	25,587	-	**9,575,455**
Subordinated debt	-	-	3,718,686	355,422	420,976	-	**4,495,084**
At 31 December 2015	**36,434,612**	**76,481,831**	**22,787,501**	**1,250,082**	**486,245**	**20,348,794**	**157,789,065**
Interest rate gap	**78,449,231**	**(67,885,908)**	**(4,616,828)**	**17,635,991**	**8,990,227**	**(6,860,913)**	**25,711,800**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

4. RISK MANAGEMENT (Continued)

Financial risk (continued)

(c) **Market risk (continued)**

Currency rate risk – continued

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

4. 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.

31 December 2016	Profit or loss Strengthening/weakening of currency KShs'000	Equity net of tax Strengthening/weakening of currency KShs'000
USD (± 2.5% movement)	(5,453)	(3,817)
GBP (± 2.5% movement)	117	82
EUR (± 2.5% movement)	(7,270)	(5,089)

31 December 2015	Profit or loss Strengthening/weakening of currency KShs'000	Equity net of tax Strengthening/weakening of currency KShs'000
USD (± 2.5% movement)	(1,112)	(779)
GBP (± 2.5% movement)	416	291
EUR (± 2.5% movement)	(7,921)	(5,545)

(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 of the individual banking entities within the Group. These Boards, through their respective Board Risk Committees, issue policies that guide management on appropriate practices of operational risk mitigation. An independent Risk Manager at each of the individual Banking entity assures its respective Board Risk Committee of the implementation of the said policies.

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

- Documentation of procedures and controls, including regular review and updates to reflect changes in the dynamic business environment.
- Appropriate segregation of duties, including the independent authorisation of transactions
- Reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Reporting of operational losses and ensuring appropriate remedial action to avoid recurrence.

4. RISK MANAGEMENT (Continued)

Financial risk (continued)

(d) Operational risk (continued)

- Development and implementation of Business Continuity and Disaster Recovery Plans
- Training and professional development of employees to ensure they are well equipped to identify and mitigate operational risks in a timely manner.
- Establishment of ethical practices at business and individual employee's level.
- Implementation of risk mitigation parameters, including insurance where this is considered effective.

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

(b) Capital management

Regulatory capital – Kenya

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

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

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

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

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

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

The bank's regulatory capital is analysed into two tiers:

- Tier 1 capital. This includes ordinary share capital, share premium, retained earnings and after deduction of investment in subsidiaries, goodwill, other intangible assets and other regulatory adjustments relating to items that are included in equity which are treated differently for capital adequacy purposes.

4. RISK MANAGEMENT (Continued)

Financial risk (continued)

(e) Capital management (continued)

Regulatory capital – Kenya

- 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.

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

		2016 KShs'000	2015 KShs'000
Core capital (Tier 1)			
Share capital		2,880,245	2,880,245
Share premium		3,773,237	3,773,237
Retained earnings		20,366,110	19,413,194
		27,019,592	**26,066,676**
Less: Goodwill		(10,747)	(10,747)
Investment in subsidiary		(2,324,025)	(1,122,911)
Total Core capital		**24,684,820**	**24,933,018**
Supplementary capital (Tier 2)			
Term subordinated debt		1,619,048	2,359,762
Statutory loan loss reserve		630,390	625,190
		2,249,438	**2,984,952**
Total capital		**26,934,258**	**27,917,970**
Risk weighted assets			
Credit risk weighted assets		120,665,480	116,332,346
Market risk weighted assets		7,132,108	5,163,855
Operational risk weighted assets		20,585,426	20,585,426
Total risk weighted assets		**148,383,014**	**142,081,627**
Deposits from customers		**118,553,272**	**104,467,260**
Capital ratios	Minimum*		
Core capital/Total deposit liabilities	**8.0%**	**20.82%**	**23.87%**
Core capital /Total risk weighted assets	**10.5%**	**16.64%**	**17.55%**
Total capital /Total risk weighted assets	**14.5%**	**18.15%**	**19.65%**

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

4. RISK MANAGEMENT (Continued)

Financial risk (continued)

(e) Capital management (continued)

Regulatory capital – Tanzania

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

	TZS'000	TZS'000
Core capital (Tier 1)		
Share capital	2,792,000	2,395,000
Share premium	17,995,751	7,482,000
Retained earnings	29,866,396	26,755,321
	50,654,147	**36,632,321**
Less: Prepaid expenses	(1,486,052)	(1,605,975)
Deferred tax asset	(2,176,943)	(1,668,842)
Intangible assets	(933,662)	(1,170,338)
Total Core capital	**46,057,490**	**32,187,166**
Supplementary capital (Tier 2)		
Term subordinated debt	15,696,000	16,093,583
General provisions in equity	1,125,971	310,525
Other general provision	1,577,979	2,092,995
	18,399,950	**18,497,103**
Total capital	**64,457,440**	**50,684,270**

4. RISK MANAGEMENT (Continued)

Financial risk (continued)

(e) Capital management (continued)

Regulatory capital – Tanzania

		2016	2015
		TZS'000	TZS'000
Risk weighted assets			
On balance sheet		292,372,229	260,869,231
Off balance sheet		30,759,731	25,083,869
Capital charge for market risk		497,997	1,034,802
Total risk weighted assets		**323,629,957**	**286,987,902**
	Minimum*		
Capital ratios			
Core capital /Total risk weighted assets	**10.0%**	**14.23%**	**11.22%**
Total capital /Total risk weighted assets	**12.0%**	**19.92%**	**17.66%**

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

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

Regulatory capital – Rwanda

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

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

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

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

4. RISK MANAGEMENT (Continued)

Financial risk (continued)

(e) Capital management (continued)

Regulatory capital – Rwanda

		2016 RWF'000	2015 RWF'000
Core capital (Tier 1)			
Share capital		5,000,000	5,000,000
Retained earnings		20,380,455	16,992,803
		25,380,455	**21,992,803**
Less:			
Cancellation of shares		-	(6,072)
Other reserves		709,229	-
Intangible assets		(139,126)	(152,117)
Total Core capital (Tier 1 Capital)		**25,950,558**	**21,834,614**
Supplementary capital			
Revaluation reserves		535,100	-
		535,100	**-**
Total capital (Tier 2 Capital)		**26,485,658**	**21,834,614**
Total risk weighted assets		**119,300,838**	**93,427,510**
Capital ratios	Minimum*		
Core capital /Total risk weighted assets	**10.0%**	**21.75%**	**23.37%**
Total capital /Total risk weighted assets	**15.0%**	**22.20%**	**23.37%**

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

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

Regulatory Capital – Mauritius

Under the BASEL II methodology, Bank of Mauritius has issued guidelines for the measurement of Credit Risk, Market Risk and Operational Risk. The minimum required capital as set by the Bank of Mauritius, under BASEL II guidelines, is a capital to Risk Weighted Assets of 10%.
The Bank's capital management policy is to provide sufficient capital for the banking business to achieve its strategic objectives, taking into account the regulatory, economic and commercial environment in which it operates. The capital adequacy framework is supported by a Board approved Internal Capital Adequacy Assessment Process (ICAAP), which encompasses capital planning for current and future periods, taking into consideration strategic focus and business plan and assessment of all material risks under stress conditions.

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.

4. RISK MANAGEMENT (Continued)

Financial risk (continued)

(e) Capital management (continued)

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 2016 was 12.93% (2015– 12.92%).

(c) 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.

(d) Environmental and social risks

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

The Group is aware that it has a responsibility to ensure that its internal practice and its lending activities do not have negative environmental and social impacts and is thus committed to ensure that such risks are sufficiently managed through its Environmental and Social Management policy and by adopting the country's labour and environmental laws. The Group also adheres to international best practice (IFC performance standards and ILO standards as ratified by the Government of Kenya). An Environmental and Social Management system is being put in place to ensure due diligence and monitoring of the Environmental and Social risk is done efficiently. Compliance to these laws is monitored by the compliance function.

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

5. USE OF ESTIMATES AND JUDGEMENT

Key sources of estimation uncertainty

(a) Allowance for credit losses

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

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

(b) Income taxes

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

(c) Property and equipment

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

(d) Impairment of goodwill

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

5. USE OF ESTIMATES AND JUDGEMENT (Continued)

Critical accounting judgements in applying the Group's accounting policies

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

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

6. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE

Accounting classifications and fair values

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

Accounting classifications at carrying amounts and fair values

Group	**Carrying amounts**						**Fair value**	
31 December 2016	**Held to maturity KShs'000**	**Loans and receivables KShs'000**	**Available -for-sale KShs'000**	**Other amortized cost KShs'000**	**Other financial liabilities KShs'000**	**Total KShs'000**	**Level 1 KShs'000**	**Level 3 KShs'000**
Financial assets								
Cash and balances with central banks	-	11,083,876	-	-	-	**11,083,876**	-	-
Items in the course of collection	-	-	-	487,791	-	**487,791**	-	-
Investment securities	23,775,542	-	22,058,918	-	-	**45,834,460**	22,035,266	23,652
Loans and advances to banks	-	6,948,707	-	-	-	**6,948,707**	-	-
Loans and advances to customers	-	134,675,332	-	-	-	**134,675,332**	-	-
Other assets	-	-	-	525,764	-	**525,764**	-	-
	23,775,542	**152,707,915**	**22,058,918**	**1,013,555**	**-**	**199,555,930**	**22,035,266**	**23,652**
Financial liabilities								
Deposits from banks	-	-	-	-	7,795,856	**7,795,856**	-	-
Items in the course of collection	-	-	-	-	7,517	**7,517**	-	-
Deposits from customers	-	-	-	-	146,514,406	**146,514,406**	-	-
Long term borrowings	-	-	-	-	8,759,516	**8,759,516**	-	-
Subordinated debt	-	-	-	-	4,546,681	**4,546,681**	-	-
	-	-	-	-	167,623,976	167,623,976	-	-

6. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting classifications at carrying amounts and fair values – continued

Group	Carrying amounts						Fair value	
31 December 2015	**Held to maturity KShs'000**	**Loans and receivables KShs'000**	**Available -for-sale KShs'000**	**Other amortized cost KShs'000**	**Other financial liabilities KShs'000**	**Total KShs'000**	**Level 1 KShs'000**	**Level 3 KShs'000**
Financial assets								
Cash and balances with central banks	-	9,948,128	-	-	-	**9,948,128**	-	-
Items in the course of collection	-	-	-	527,596	-	**527,596**	-	-
Investment securities	22,066,667	-	17,069,140	-	-	**39,135,807**	17,045,430	23,710
Loans and advances to banks	-	4,981,777	-	-	-	**4,981,777**	-	-
Loans and advances to customers	-	127,823,778	-	-	-	**127,823,778**	-	-
	22,066,667	**142,753,683**	**17,069,140**	**527,596**	**-**	**182,417,086**	**17,045,430**	**23,710**
Financial liabilities								
Deposits from banks	-	-	-	-	7,971,475	**7,971,475**	-	-
Deposits from customers	-	-	-	-	132,980,678	**132,980,678**	-	-
Long term borrowings	-	-	-	-	9,575,455	**9,575,455**	-	-
Subordinated debt	-	-	-	-	4,495,084	**4,495,084**	-	-
Other liabilities	-	-	-	-	133,241	**133,241**	-	-
	-	**-**	**-**	**-**	**155,155,933**	**155,155,933**	**-**	**-**

Measurement of fair values

(i) Valuation techniques and significant unobservable inputs

Financial assets measured at fair value - At 31 December 2016 and 31 December 2015

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

7. OPERATING SEGMENTS

The Group operations are within five geographical segments, Kenya, Tanzania, Rwanda, Uganda and Mauritius. The table below contains segmental information for the year ended 31 December 2016.

	KENYA Kshs'000	TANZANIA Kshs'000	RWANDA Kshs'000	MAURITIUS Kshs'000	UGANDA Kshs'000	ELIMINATION Kshs'000	TOTAL Kshs'000
2016							
Net interest income	12,562,051	1,019,508	1,907,368	-	-	32,749	15,521,676
Net fee commission and other income	3,858,109	310,276	906,180	-	2,873	(287,119)	4,790,319
Results from joint venture	-	-	-	443,968	-	-	443,968
Operating income	**16,420,160**	**1,329,784**	**2,813,548**	**443,968**	**2,873**	**(254,370)**	**20,755,963**
Operating expenses	(4,529,631)	(778,178)	(1,537,307)	-	(6,885)	145,180	(6,706,821)
Depreciation and amortisation	(329,498)	(62,687)	(96,772)	-	(18)	-	(488,975)
Net impairment losses on loans and advances	(2,778,703)	(105,378)	(72,898)	-	-	-	(2,956,979)
Profit before taxes	**8,877,328**	**383,541**	**1,106,570**	**437,675**	**(4,030)**	**(197,496)**	**10,603,188**
Profit after tax	**6,501,825**	**258,172**	**763,094**	**437,675**	**(3,126)**	**(197,478)**	**7,760,162**
Loans and advances to customers	**106,585,738**	**14,111,125**	**13,978,469**	**-**	**-**	**-**	**134,675,332**
Deposits from customers	**116,169,431**	**13,466,636**	**16,881,465**	**-**	**-**	**(3,126)**	**146,514,406**
Total assets	**188,723,305**	**19,911,983**	**25,979,415**	**3,022,287**	**5,808**	**(26,534,902)**	**210,542,393**
Total liabilities	**132,119,752**	**17,439,313**	**22,151,030**	**7,430**	**1,524**	**(683,073)**	**171,035,976**
Capital expenditure	**700,933**	**22,205**	**215,954**	**-**	**-**	**-**	**938,992**

I&M HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

7. OPERATING SEGMENTS (Continued)

2015	Kenya Kshs'000	Tanzania Kshs'000	Rwanda Kshs'000	Mauritius Kshs'000	Adjustments Kshs'000	Total Kshs'000
Net interest income	10,087,879	956,245	1,603,041	-	-	**12,647,165**
Net fee, commission and other income	3,067,110	368,552	1,156,114	-	-	**4,591,776**
Share of Joint Venture profits	-	-	-	323,463	-	**323,463**
Operating income	**13,154,989**	**1,324,797**	**2,759,155**	**323,463**	-	**17,562,404**
Operating expenses	(3,813,469)	(697,960)	(1,399,800)	-	-	**(5,911,229)**
Depreciation and amortisation	(336,559)	(58,472)	(105,988)	-	-	**(501,019)**
Impairment on loans and advances	(553,130)	(141,959)	(287,406)	-	-	**(982,495)**
Profit before tax	**8,451,831**	**426,406**	**965,961**	**323,463**		**10,167,661**
Profit after tax	**5,835,459**	**320,201**	**665,288**	**323,463**	-	**7,144,411**
Loans and advances to customers	**102,188,164**	**12,739,084**	**12,896,530**	-	-	**127,823,778**
Deposits from customers	**103,487,284**	**13,050,691**	**16,442,703**	-	-	**132,980,678**
Total assets	**171,911,378**	**17,759,011**	**22,497,187**	-	**(20,510,739)**	**191,656,837**
Total liabilities	**124,195,960**	**16,499,996**	**20,219,248**	-	**(2,979,666)**	**157,935,538**
Capital expenditure	**443,950**	**118,079**	**92,494**	-	-	**654,523**

8. INTEREST INCOME

	Group		Company	
	2016 Kshs '000	2015 Kshs'000	2016 Kshs'000	2015 Kshs'000
Loans and advances to customers	19,217,129	17,742,321	-	-
Placements with financial Institutions	138,060	229,791	15,711	26,280
Investment securities:-				
- Held-to-maturity	2,533,513	2,052,611	-	-
- Available-for-sale	2,562,696	1,844,614	1,229	-
	24,451,398	**21,869,337**	**16,940**	**26,280**

9. INTEREST EXPENSE

	Group 2016 Kshs '000	Group 2015 Kshs'000	Company 2016 Kshs'000	Company 2015 Kshs'000
Deposits from customers	7,712,342	8,017,621	-	-
Deposits from banks	279,934	274,829	-	-
Long term borrowings	412,297	412,581	-	-
Subordinated debt	525,149	517,141	-	-
	8,929,722	**9,222,172**	-	-

10. NET FEE AND COMMISSION INCOME

	Group 2016 Kshs '000	Group 2015 Kshs'000	Company 2016 Kshs'000	Company 2015 Kshs'000
Fee and commission income				
Commissions	1,852,600	1,780,987	-	-
Service fees	882,367	718,473	-	-
	2,734,967	**2,499,460**	-	-
Fee and commission expense				
Interbank transaction fees	(66,247)	(59,688)	-	-
Other	(116,570)	(74,841)	-	-
	(182,817)	**(134,529)**	-	-
Net fee and commission income	**2,552,150**	**2,364,931**	-	-

11. OTHER INCOME

Other operating income

	Group 2016 Kshs '000	Group 2015 Kshs'000	Company 2016 Kshs'000	Company 2015 Kshs'000
Income from foreign exchange dealings	1,797,461	1,852,429	-	-
Rental income	73,312	127,859	-	-
Profit on sale of property and equipment	-	9,171	-	-
Profit on sale of available-for-sale investment securities	277,583	39,135	105	-
Other income	89,813	198,251	60	-
Dividend income	-	-	1,495,739	1,418,358
	2,238,169	**2,226,845**	**1,495,904**	**1,418,358**

I&M HOLDINGS LIMITED

12. OPERATING EXPENSES

	Group		Company	
	2016	2015	2016	2015
	Kshs '000	Kshs'000	Kshs'000	Kshs'000
Staff Costs				
Salaries and wages	2,988,131	2,592,880	-	-
Contribution to defined contribution plan	93,790	68,811	-	-
Statutory contribution	49,659	55,477	-	-
Other staff costs	463,795	549,642	-	-
	3,595,375	**3,266,810**	**-**	**-**
Premises and equipment's costs				
Rental of premises	379,412	340,856	-	-
Electricity	77,819	71,594	-	-
Other premises and equipment costs	114,150	110,140	-	-
	571,381	**522,590**	**-**	**-**
General administration expenses				
Deposit protection insurance contribution	168,965	145,625	-	-
Loss on disposal of property and equipment	1,027	3,108	-	-
Other general administrative expenses	2,370,073	1,973,096	32,790	18,347
	2,540,065	**2,121,829**	**32,790**	**18,347**
Depreciation and amortisation				
Depreciation on property and equipment (Note 22)	373,489	344,320	94	86
Amortisation of intangible assets(Note 23)	109,778	150,991	-	-
Amortisation of prepaid operating lease rentals (Note 24)	5,708	5,708	-	-
	488,975	**501,019**	**94**	**86**

13. PROFIT BEFORE INCOME TAX

	Group		Company	
	2016	2015	2016	2015
	Kshs '000	Kshs'000	Kshs'000	Kshs'000
Profit before income tax is arrived at after charging/(crediting):				
Depreciation	373,489	334,320	-	86
Amortisation of intangible assets	109,778	150,991	-	-
Directors' emoluments:		-		-
Fees	7,148	5,679	6,750	5,281
Other	39,689	37,462	-	-
Auditors' remuneration	20,337	19,446	1,696	1,621
Amortisation of prepaid operating lease rentals	5,708	5,708	-	-
Net profit/(loss) on disposal of property and equipment	2,675	(9,292)	-	-
Dividend income	-	-	1,495,739	1,418,358

14. TAXATION

	Group 2016 Kshs '000	Group 2015 Kshs'000	Company 2016 Kshs'000	Company 2015 Kshs'000
(a) Income tax expense				
Current year tax charge	3,098,082	2,918,714	5,047	7,831
Over provision in prior year - Current tax	(87,348)	(9,592)	(1,594)	-
	3,010,734	**2,909,122**	**3,453**	**7,831**
Deferred tax (credit) / charge (Note 25)	(103,121)	189,424	-	-
Over provision in prior year - Deferred tax	(64,587)	(75,296)	-	
Income tax expense	**2,843,026**	**3,023,250**	**3,453**	**7,831**

The tax on the accounting profit differs from the theoretical amount using the basic tax rate as follows:

	Group 2016	Group 2015	Company 2016	Company 2015
Accounting profit before income tax	**10,603,188**	**10,167,661**	**1,479,960**	**1,426,205**
Computed tax using the applicable corporation tax rate (30%)	3,180,956	3,050,298	443,988	427,861
Over provision in the prior year	(87,348)	(9,592)	-	-
Effect on non-deductible costs / income	(185,995)	73,059	(438,941)	(420,030)
Tax discount in accordance with Rwanda tax laws	-	(15,219)	-	-
Over provision in prior year - Deferred tax	(64,587)	(75,296)	(1,594)	-
	2,843,026	**3,023,250**	**3,453**	**7,831**

14. TAXATION (Continued)

	Group		Company	
	2016	2015	2016	2015
(b) Tax payable/ (recoverable)	**Kshs'000**	**Kshs'000**	**Kshs'000**	**Kshs'000**
At 1 January	140,978	210	772	51
Income tax expense (Note 14 (a) (i))	3,010,734	2,909,122	3,453	7,831
Effect of tax in foreign jurisdiction	(8,589)	1,491	-	-
Acqusition of I&M Burbidge Capital Limited	(572)	-	-	-
Tax paid	(3,015,279)	(2,769,845)	(8,179)	(7,110)
At 31 December	**127,272**	**140,978**	**3,954**	**772**
Tax recoverable	(12,541)	(4,456)	(3,954)	-
Tax payable	139,813	145,434	-	772
Net payable	**127,272**	**140,978**	**(3,954)**	**772**

15. EARNINGS PER SHARE

Profit for the year attributable to equity holders (KShs '000')	7,283,625	6,717,452	1,476,506	1,418,374
Weighted average number of ordinary shares in issue during the year	392,362	392,362	392,362	392,362
Earnings per share (KShs)	**18.56**	**17.12**	**3.76**	**3.61**

16. CASH AND BALANCES WITH CENTRAL BANKS

Cash on hand	2,089,675	1,913,814	-	-
Balances with central banks				
- Restricted balances (Cash reserve ratio)	6,508,025	6,944,737	-	
- Unrestricted balances	2,486,176	1,089,577	-	-
	11,083,876	**9,948,128**	**-**	**-**

17. ITEMS IN THE COURSE OF COLLECTION

Assets	487,791	527,596	-	-
Liabilities	7,517	-	-	-

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

18. LOANS AND ADVANCES TO BANKS

	Group		Company	
	2016	2015	2016	2015
	Kshs '000	Kshs'000	Kshs'000	Kshs'000
Due within 90 Days	6,832,215	4,631,109	-	-
Due after 90 days	116,492	350,668	-	-
	6,948,707	4,981,777	-	-

19. LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

	2016	2015
	Kshs'000	Kshs'000
Overdrafts	46,490,096	41,237,807
Loans	90,893,764	85,165,124
Bills discounted	861,323	3,153,132
Hire purchase- finance leases	2,477,203	1,912,865
Gross loans and advances	**140,722,386**	**131,468,928**
Less: Impairment losses on loans and advances	(6,047,054)	(3,645,150)
Net loans and advances	**134,675,332**	**127,823,778**
Repayable on demand	27,266,289	42,053,954
Less than 3 months	12,596,026	7,775,407
3 months to 1 year	29,157,710	10,176,377
1 to 5 years	37,770,257	45,098,302
5 to 10 years	27,000,351	21,393,007
Over 10 years	6,931,753	4,971,881
Gross loans and advances	**140,722,386**	**131,468,928**

(b)

Impairment losses reserve	Specific Impairment allowance Kshs'000	Portfolio Impairment Provision Kshs'000	Total Kshs'000
At 1 January 2016	3,158,700	486,450	3,645,150
Impairment made in the year	3,018,001	38,440	3,056,441
Net recoveries	(246,464)	(10,038)	(256,502)
write offs	(359,991)	-	(359,991)
Translation differences	(33,788)	(4,256)	(38,044)
At 31 December 2016	**5,536,458**	**510,596**	**6,047,054**
At 1 January 2015	1,777,148	903,583	2,680,731
Impairment made in the year	1,604,420	(412,128)	1,192,292
net recoveries	(185,185)	-	(185,185)
write offs	(40,681)	-	(40,681)
Translation differences	2,998	(5,005)	(2,007)
At 31 December 2015	**3,158,700**	**486,450**	**3,645,150**

19. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Impairment losses on loans and advances

	2016 Kshs'000	2015 Kshs'000
Impairment made in the year	3,056,441	1,192,292
Impairment allowance no longer required	(256,502)	(185,185)
Recoveries of loans and advances written -off in prior years	1,487	(30,331)
Amounts written off during the year	155,553	5,719
	2,956,979	**982,495**

(d) Loans and advances concentration by sector

	2016 Kshs '000	(%)	2015 Kshs '000	(%)
Manufacturing	30,714,879	22%	29,933,743	23%
Wholesale and retail trade	28,615,284	20%	25,971,255	20%
Building and construction	17,254,948	12%	15,106,186	11%
Agriculture	8,281,806	6%	7,332,001	6%
Real estate	23,716,621	17%	21,014,905	16%
Transport and communication	8,149,642	6%	7,599,678	6%
Business services	11,967,545	9%	12,921,449	10%
Electricity and water	80,338	0%	125,134	0%
Finance and insurance	2,219,247	2%	1,012,062	1%
Mining and quarrying	2,256,458	2%	3,012,415	2%
Others	7,465,618	4%	7,440,100	5%
	140,722,386	**100%**	**131,468,928**	**100%**

20. INVESTMENT IN SECURITIES

	Group		Company	
	2016 Kshs'000	2015 Kshs'000	2016 Kshs'000	2015 Kshs'000
Available-for-sale				
Equity investment in TMRC	23,755	25,999	-	-
Corporate bonds (Non Liquid)	330,992	330,769	-	-
Treasury bonds (Non Liquid)	15,612,575	11,249,347	-	-
Treasury bills (Non Liquid)	6,091,596	5,463,025	111,896	-
	22,058,918	**17,069,140**	**111,896**	**-**
Held-to-maturity				
Treasury bonds (Liquid)	2,092,900	615,354	-	-
Treasury bonds (Non Liquid)	8,753,999	9,509,604	-	-
Treasury bills (non -Liquid)	12,053,722	10,784,387	-	-
Treasury bills (Liquid)	874,921	1,157,322	-	-
	23,775,542	**22,066,667**	**-**	**-**
Total investment securities	**45,834,460**	**39,135,807**	**111,896**	**-**

*TMRC-Refers to Tanzania Mortgage Refinancing Company

21. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE

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

(a) Investment in joint venture

The Company has 50% (2015 -50%) control over Bank One Limited with the other joint venture, CIEL Investments Limited. The joint venture was formerly owned through I&M Bank Limited until 22 August 2014 when it was transferred to I&M Holdings Limited.

Group	**2016 Kshs'000**	**2015 Kshs'000**
Balance at start of the year	3,062,350	2,573,560
Additional investment in the year	-	181,156
Share of:	-	-
Profit from continuing operations	443,968	323,463
Other comprehensive income	1,864	(15,829)
Balance at end of the year	**3,508,182**	**3,062,350**
Percentage ownership	50.00%	50.00%
Total assets (including cash and cash equivalents)	72,065,826	57,837,006
Total liabilities (including cash and cash equivalents)	(66,000,273)	(52,663,118)
Net assets (100%)	**6,065,553**	**5,173,888**
Group's share of net assets (50%)	3,032,776	2,586,944
Goodwill	475,406	475,406
Carrying amount of interest in joint venture	**3,508,182**	**3,062,350**
Interest income	2,914,874	2,573,563
Interest expense	(922,001)	(839,451)
Other income	844,207	708,993
Operating expenses	(1,843,007)	(1,841,193)
Income tax expense	(106,137)	45,014
Profit and total comprehensive income (100%)	**887,936**	**646,926**
Profit and loss (50%)	**443,968**	**323,463**
Groups share of profit and total comprehensive income	445,832	307,634
Dividends received by the Group	-	-
Company:		
Bank one limited	**1,679,971**	**1,679,971**

21. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE (Continued)

(b) Investment in subsidiaries

Company	Activity	Shareholding	2016 Kshs'000	2015 Kshs'000
I&M Bank LIMITED	Banking	100.00%	17,968,778	17,968,778
I&M Capital Limited	Dormant	100.00%	6,611	6,611
I&M Bank (Rwanda) Limited	Banking	54.99%	1,629,277	1,629,277
I&M Realty Limited	Real estate	100.00%	5,169	-
I&M Burbidge Capital Limited	Investment	65.00%	66,037	-
			19,675,872	19,604,666

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

	Activity	Jurisdiction	Shareholding
I&M Insurance Agency Limited	Banc assurance	Kenya	100%
I&M Bank (T) Limited	Banking	Tanzania	77.03%

(c) Movement in investment in subsidiaries

	2016 Kshs'000	2015 Kshs'000
At 1 January	**19,604,666**	**19,599,661**
Rights issue I&M Capital Limited	-	5,005
Acquisition of Burbidge Capital Limited	66,037	-
Acquisition of I&M Realty Limited from I&M Bank group	5,169	-
At December	**19,675,872**	**19,604,666**

21. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE (Continued)

	I&M Bank LIMITED		I&M Bank (T) Limited		I&M Bank (Rwanda) Limited	
	2016	2015	2016	2015	2016	2015
	KSh'M	KSh'M	KSh'M	KSh'M	KSh'M	KSh'M
Summarized statement of financial position						
Total assets	164,116	147,846	19,912	18,273	25,979	23,567
Total liabilities	132,811	121,660	17,439	16,500	22,151	20,212
Net assets	**31,305**	**26,186**	**2,473**	**1,773**	**3,828**	**3,355**
Summarized statement of profit and loss and other comprehensive income						
Net interest income	**12,545**	**10,061**	**1,020**	**956**	**1,825**	**1,603**
Profit before income tax	8,651	8,367	384	401	1,107	957
Income tax expense	(2,308)	(2,556)	(125)	(106)	(343)	(295)
Profit for the year	**6,343**	**5,811**	**259**	**295**	**764**	**662**
Summarised statement of cash flows						
Net cash generated from operating activities	3,472	14,298	(186)	565	3,942	(2,550)
Net cash used in investing activities	(1,286)	(313)	(22)	(112)	(363)	(49)
Net cash (used in)/generated from financing activities	(1,374)	(1,596)	446	546	108	(215)
Net increase/(decrease) in cash and cash equivalents	**812**	**12,389**	**238**	**999**	**3,687**	**(2,814)**
Cash and cash equivalents at beginning of year	**2,829**	**(9,560)**	**237**	**(762)**	**3,269**	**6,083**
Cash and cash equivalents at end of year	**3,641**	**2,829**	**475**	**237**	**6,956**	**3,269**

22. PROPERTY AND EQUIPMENT

	Buildings Kshs'000	Leasehold improvements Kshs'000	Furniture ,fittings ,fixtures and office equipment Kshs'000	Computers Kshs'000	Motor Vehicles Kshs'000	Capital work in progress Kshs'000	Total Kshs'000
Cost/valuation							
At 1 January 2016	1,845,250	957,095	1,007,828	693,356	210,591	240,446	4,954,566
Acquisition of Burbidge Capital;	-	-	4,970	2,129	-	-	7,099
Additions	16,317	63,163	96,514	11,554	10,217	655,978	853,743
Write-offs	(136,173)	-	(72,651)	(27,546)	(28,853)	-	(265,223)
Items expensed	-	-	-	-	-	(2,737)	(2,737)
Reclassification/internal transfers	-	-	17,664	-	-	(17,664)	-
Revaluation reserve	484,777	-	-	-	-	-	484,777
Transfer to intangible assets	-	-	-	-	-	(5,655)	(5,655)
Transfers from intangible assets	99,613	5,525	18,193	(439)	1,282	(130,066)	(5,892)
Translation difference	(39,993)	(339)	(24,100)	(13,163)	(9,376)	(9,056)	(96,027)
At 31 December 2016	**2,269,791**	**1,025,444**	**1,048,418**	**665,891**	**183,861**	**731,246**	**5,924,651**
At 1 January 2016	227,278	553,467	595,529	496,128	146,931	-	2,019,333
Acquisition of I&M Burbidge Capital	-	-	2,146	1,510	-	-	3,656
Charge for the year	51,984	99,297	100,529	92,571	29,108	-	373,489
Write-offs	(130,814)	-	(71,426)	(27,462)	(28,067)	-	(257,769)
Reversal on revaluation	(76,012)	-	-	-	-	-	(76,012)
Translation differences	(10,017)	(116)	(15,915)	(11,196)	(7,701)	-	(44,945)
At 31 December 2016	62,419	652,648	610,863	551,551	140,271	-	2,017,752
Net book value at 31 December 2016	**2,207,372**	**372,796**	**437,555**	**114,340**	**43,590**	**731,246**	**3,906,899**

In 2016, the building on LR No: 209/7265 was revalued after 4 years by an independent valuer, Kiragu & Mwangi Limited. The valuation is level 3 under the Fair value hierarchy.

22. PROPERTY AND EQUIPMENT (Continued)

	Buildings Kshs'000	Leasehold improvements Kshs'000	Furniture ,fittings ,fixtures and office equipment Kshs'000	Computers Kshs'000	Motor Vehicles Kshs'000	Capital work in progress Kshs'000	Total Kshs'000
At 1 January 2015	1,832,598	891,344	921,949	609,862	235,046	188,158	4,678,957
Additions	-	64,620	109,778	83,401	15,273	246,913	519,985
Disposals	-	(12,440)	(52,900)	(5,399)	(42,668)		(113,407)
Reclassification/internal transfers	(7,800)	(2)	(7,874)	(109,709)	(26,253)	(32,116)	(183,754)
Reclassification from capital work in progress	-	22,795	29,201	78,771	24,686	(155,453)	-
Transfers from Intangible assets	-	2,181	8,801	33,362	-	(55)	44,289
Write offs	-	2,536	792	(676)	-	(6,594)	(3,942)
Translation difference	20,452	(13,939)	(1,919)	3,744	4,507	(407)	12,438
At 31 December 2015	**1,845,250**	**957,095**	**1,007,828**	**693,356**	**210,591**	**240,446**	**4,954,566**
Depreciation							
At 1 January 2015	176,676	475,667	602,813	478,687	181,422	-	1,915,265
Reclassification	(7,802)	(1)	(60,992)	(56,588)	(26,254)	-	(151637)
Charge for the year	51,777	92,678	97,216	71,816	30,833	-	344,320
Write-offs	-	823	998	3,164	(888)	-	4,097
On disposals	-	(12,208)	(48,421)	(5,286)	(42,194)	-	(108,109)
Translation differences	6,627	(3,492)	3,915	4,335	4,012	-	15,397
At 31 December 2015	**227,278**	**553,467**	**595,529**	**496,128**	**146,931**	**-**	**2,019,333**
Net book value at 31 December 2015	**1,617,972**	**403,628**	**412,299**	**197,228**	**63,660**	**240,446**	**2,935,233**

23. INTANGIBLE ASSETS

	2016 Kshs'000	2015 Kshs'000
(a) Goodwill		
I&M Bank LIMITED	1,195	1,195
I&M Bank (T) Limited	608,953	608,953
Biashara Bank of Kenya Limited	10,747	10,747
I&M Bank(Rwanda) Limited	553,706	553,706
I&M Burbidge Limited	32,447	-
	1,207,048	**1,174,601**

The recoverable amounts for I&M Bank (T) Limited and I&M Bank (Rwanda) Limited have been calculated based on their value in use, determined by discounting the future cash flows expected to be generated from the continuing use of the Cash Generating Unit (CGU). The present value of the recoverable amounts on I&M Bank LIMITED's share were Kshs 2.07 billion (2015; KShs 2.78 billion) and Kshs 3.03 billion (2015; KShs 3.09 billion) for I&M Bank (T) Limited and I&M Bank (Rwanda) Ltd respectively. No impairment losses were recognised during 2016, because the recoverable amounts of these CGUs were determined to be higher than their carrying amounts. The key assumptions used in the calculation of value in use were as follows:

2016	**I&M (T) Ltd**	**I&M Rwanda Ltd**
5 year risk free rate	17.96%	12.25%
Risk premium	12.50%	14.00%
Terminal growth rate	3.00%	2.50%
Exchange rate	KShs 1 = Tzs 17.15	KShs 1 = Rwf 6.07
2015	**I&M (T) Ltd**	**I&M Rwanda Ltd**
5 year risk free rate	9.18%	11.95%
Risk premium	12.50%	14.00%
Terminal growth rate	3.00%	2.50%
Exchange rate	KShs 1 = Tzs 21.11	KShs 1 = Rwf 7.31

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

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

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

23. INTANGIBLE ASSETS (Continued)

(b) Software

Cost	Software KShs'000	Capital work in progress KShs'000	Total KShs'000
2016			
At 1 January	1,089,608	42,335	1,131,943
Transfers to intangible assets	-	5,892	5,892
Transfers from intangible assets	5,655	-	5,655
Additions	48,795	39,189	87,984
Reclassification	48,217	(48,217)	-
Write offs	-	(12)	(12)
Translation differences	(18,886)	-	(18,886)
At 31 December 2016	**1,173,389**	**39,187**	**1,212,576**
Amortisation			
2016			
At 1 January	886,509	-	886,509
Armortization for the year	109,778	-	109,778
Translation differences	(17,116)	-	(17,116)
At 31 December 2016	**979,171**	**-**	**979,171**
Carrying amount 31 December 2016	**194,218**	**39,187**	**233,405**
Cost			
2015			
At 1 January	856,781	202,481	1,059,262
Reclassification from capital work in progress	53,333	(53,333)	-
Transfer to property and equipment	-	(65,683)	(65,683)
Transfers to intangible assets	53,505	-	53,505
Transfers from intangible assets	-	(32,112)	(32,112)
Additions	127,528	7,010	134,538
Reclassification	13,835	(16,028)	(2,193)
Write offs	(14,532)	-	(14,532)
Disposals	(10)	-	(10)
Translation differences	(832)	-	(832)
At 31 December 2015	**1,089,608**	**42,335**	**1,131,943**
Amortisation			
2015			
At 1 January	758,897	-	758,897
Amortisation for the year	150,991	-	150,991
Write offs	(26,789)	-	(26,789)
On disposals	(10)	-	(10)
Translational differences	3,420	-	3,420
At 31 December 2015	**886,509**	**-**	**886,509**
Carrying amount At 31 December 2015	**203,099**	**42,335**	**245,434**

24. PREPAID OPERATING LEASE RENTALS

	2016 Kshs'000	2015 Kshs'000
Cost		
At 1 January	317,650	317,650
Disposal	(35,391)	-
At 31 December	**282,259**	**317,650**
Amortisation		
At 1 January	33,044	27,336
Charge for the year	5,708	5,708
Disposal	(10,357)	-
At 31 December	**28,395**	**33,044**
As at 31 December	**253,864**	**284,606**

25. DEFERRED TAX ASSET/ LIABILITY

(a) Deferred tax asset

2016:	Balance at 1 January Kshs '000	Acquisition of subsidiary Kshs '000	Prior year under/over provision Kshs '000	Recognised in equity Kshs '000	Translation differences Kshs '000	Recognised in profit or loss Kshs '000	Balance at '31 December Kshs '000
Property and Equipment	(227,690)	(37)	45,279	(168,236)	6,197	(21,032)	(365,519)
General provisions	300,518	-	-	-	(3,261)	(36,222)	261,035
Other provisions	159,958	34,463	19,308	-	(588)	160,004	373,145
Available-for-sale reserves	216,506	-	-	(64,046)	-	-	152,460
	449,292	**34,426**	**64,587**	**(232,282)**	**2,348**	**102,750**	**421,121**
2015							
Plant and Equipment	(189,070)	-	41,553	-	(6,927)	(73,246)	(227,690)
General provisions	323,037	-	33,743	-	(5,872)	(50,390)	300,518
Other provisions	225,746	-	-	-	-	(65,788)	159,958
Available-for-sale reserves	155,485	-	-	61,021	-	-	216,506
	515,198	**-**	**75,296**	**61,021**	**(12,799)**	**(189,424)**	**449,292**

(b) Deferred tax liability

2016:							
Other provisions	13,159	-	-	-	(12,788)	(371)	-
Available-for-sale reserves	(12,120)	-	-	(599)	12,719	-	-
	1,039	**-**	**-**	**(599)**	**(69)**	**(371)**	**-**
2015:							
Other provisions	13,143	-	-	-	16	-	13,159
Available-for-sale reserves	371	-	-	(13,057)	566	-	(12,120)
	13,514	**-**	**-**	**(13,057)**	**582**	**-**	**1,039**

26. OTHER ASSETS

	Group		Company	
	2016 Kshs'000	2015 Kshs'000	2016 Kshs'000	2015 Kshs'000
Rent receivable	54,229	41,243	-	-
Prepayments	303,418	391,225	23,825	-
Other receivables	1,085,756	651,311	5,631	23,825
Derivative asset(Note 34(b))	525,764	-	-	-
	1,969,167	**1,083,779**	**29,456**	**23,825**

27. DEPOSITS FROM BANKS

Due within 90 Days	2,987,392	5,556,698	-	-
Due after 90 days	4,808,464	2,414,777	-	-
	7,795,856	**7,971,475**	-	-

28. DEPOSITS FROM CUSTOMERS

Government and Parastatals	1,319,806	3,585,538	-	-
Private sector and individuals	145,194,600	129,395,140	-	-
	146,514,406	**132,980,678**	-	-

29. OTHER LIABILITIES

Bankers cheques payable	408,209	482,499	-	-
Accruals	1,568,075	1,340,428	4,750	-
Other accounts payables	1,295,903	810,205	61,927	47,457
Derivative liabilities (Note 34(b))	-	133,241	-	-
	3,272,187	**2,766,373**	**66,677**	**47,457**

30. LONG TERM BORROWINGS-GROUP

Less than one year	1,971,820	2,516,139	-	-
One to five years	6,653,810	6,453,240	-	-
Over five years	133,886	606,076	-	-
	8,759,516	**9,575,455**	-	-
Group				
At 1 January	9,575,455	10,697,172	-	-
Funds received	1,550,505	154,242	-	-
Payments on principal and interest	(2,689,158)	(2,704,690)	-	-
Exchange differences	322,714	1,428,731	-	-
At 31 December	**8,759,516**	**9,575,455**	-	-

30. LONG TERM BORROWINGS-GROUP (Continued)

Long term borrowings constituted the following:

(i) USD 25,000,000 facility granted on 24 November 2010 by FMO repayable over seven years after an initial one year two months grace period. The maturity is scheduled for November 2017.

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

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

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

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

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

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

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

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

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

31. SUBORDINATED DEBT

	Group	
	2016	**2015**
	Kshs'000	**Kshs'000**
Group		
Less than one year	3,679,380	63,685
One to five years	827,799	4,010,422
Over five years	39,502	420,977
	4,546,681	**4,495,084**

31. SUBORDINATED DEBT (Continued)

Subordinated debt comprises:

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

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

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

32. SHARE CAPITAL AND RESERVES

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

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

Movement of share capital and premium

2016	Number of shares	Share Capital Kshs'000	Share premium Kshs'000	Total Kshs'000
31 December 2016	**392,362,000**	**392,362**	**17,331,510**	**17,723,872**
2015				
31 December 2015	**392,362,000**	**392,362**	**17,331,510**	**17,723,872**

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

(b) Share premium

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

32. SHARE CAPITAL AND RESERVES (Continued)

(c) Revaluation reserve

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

(d) Available-for-sale reserve

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

(e) Translation reserve

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

(f) Statutory credit risk statutory reserve

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

(g) Defined benefit reserve

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

33. NOTES TO THE STATEMENT OF CASH FLOWS - GROUP

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

	Note	2016 KShs'000	2015 KShs'000
Profit before income tax		10,603,188	10,167,661
Adjustments for:			
Depreciation	22	373,489	344,320
Amortisation of intangible asset	23	109,778	150,991
Amortisation of prepaid lease rentals	24	5,708	5,708
Loss on sale of property and equipment	22	(2,675)	(6,063)
Property and equipment of items expensed	22	2,737	-
Profit on sale of available for sale securities	11	(277,583)	-
Write off to profit or loss - intangible assets	23	12	(10,064)
Write off to profit or loss - property and equipment		-	8,039
Profit from Joint Venture	21	(443,968)	(323,463)
Exchange reserves	10	20,554	(21,137)
		10,391,240	**10,315,992**
Increase/(decrease) in operating assets			
Movement in loans and advances to customers		(6,851,554)	(15,332,449)
Investment in securities		(5,013,867)	(1,608,245)
Loans and advances to banks		234,176	(350,668)
Cash and balances with Central Banks – Cash Reserve Ratio	16	436,712	63,487
Other assets		(858,883)	(53,362)
		(12,053,416)	**(17,281,237)**
Increase/(decrease) in operating liabilities			
Customer deposits		13,533,728	18,779,398
Deposits from banks		2,393,687	2,334,032
Long-term borrowings		(1,138,653)	(1,121,717)
Other liabilities		499,248	588,680
		15,288,010	**20,580,393**
Cash flows generated from operating activities		**13,625,834**	**13,615,148**
Tax paid	14 (b)	(3,015,279)	(2,769,845)
Net cash flows generated from operating activities		**10,610,555**	**10,845,303**

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

(b) Analysis of cash and cash equivalents – Group

		2016 KShs'000 a	2015 KShs'000 b	Change KShs'000 c =(a – b)
Cash and balances with Central Banks – excluding CRR*	16	4,575,851	3,003,391	1,572,460
Items in the process of collection	17	480,274	527,596	(47,322)
Loans and advances to banks	18(b)	6,832,215	4,631,109	2,201,106
Investment securities	20(b)	2,967,821	1,772,676	1,195,145
Deposits from banks	27(b)	(2,987,392)	(5,556,698)	2,569,306
		11,868,769	**4,378,074**	**7,490,695**

*Cash Reserve Ratio

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

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

34. OFF BALANCE SHEET CONTINGENT LIABILITIES AND COMMITMENTS - GROUP

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Group as at 31 December 2016. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

(b) Contractual off-balance sheet financial liabilities

In the ordinary course of business, 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	2016 KShs'000	2015 KShs'000
Contingencies related to:		
Letters of credit	6,869,306	7,160,794
Guarantees	13,961,574	15,492,062
Acceptances	9,281,795	10,552,923
Commitments related to:		
Outstanding spot/forward contracts	16,588,064	19,246,757
	46,700,739	**52,452,536**

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

(b) Contractual off-balance sheet financial liabilities (continued)

Nature of contingent liabilities

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

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

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

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

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

(c) Other contingent liabilities

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

35. ASSETS PLEDGED AS SECURITY - GROUP

As at 31 December 2016, Treasury Bonds with a face value of KShs 1,276,000,000 (2015 – KShs 1,276,000,000) were held under lien in favour of the Central Bank of Kenya.

36. RELATED PARTY TRANSACTIONS

In the normal course of business, the Group enters into transactions with related parties. The related party transactions are at arm's length. All the loans and advances and deposits are issued or received from the related parties are at market interest rates. There were no provisions held towards impairment of any of the advances to related parties.

36. RELATED PARTY TRANSACTIONS (Continued)

		2016 KShs'000	2015 KShs'000
(a)	**Transactions with directors/shareholders (Group)**		
(i)	Loans to Directors/Shareholders	**46,665**	**137,997**
	Interest Income from Loans to directors/shareholders	7,970	9,812
(ii)	Deposits from Directors/Shareholders	**2,495,276**	**3,024,670**
	Interest expense on Deposits from directors/shareholders	197,407	244,479
(b)	**Transactions with related companies (Group)**		
(i)	Loans to Related companies	**412,555**	**14,695**
	Interest Income from Loans to Related companies	50,059	1,280
(ii)	Loans from Related Companies	**-**	**3,192,693**
	Interest expense on Loans from Related Companies	-	54,435
(iii)	Deposits from Related companies	**975,598**	**617,870**
	Interest expense on Deposits from Related companies	48,361	21,088
(c)	**Transactions with related companies (Company)**		
(i)	Due from group companies	**71,375**	**142,660**
(ii)	Due to group companies	**11,337**	**11,715**
(d)	**Transactions with employees (Group)**		
	Staff loans	**1,107,356**	**1,182,651**
	Interest earned on these loans was KShs	78,279	46,394
(e)	**Management fees received from subsidiaries**	**58,168**	**38,463**

37. CAPITAL COMMITMENTS

	2016 KShs'000	2015 KShs'000
Group	**3,800,742**	**909,768**

38. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

(a) Lessee

The Group leases bank premises under operating leases. The leases typically run for an initial period of six years with an option to renew the lease after that date. None of the leases include contingent rentals. Future minimum lease payments under these operating leases are as follows:

38. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES (Continued)

(a) Lessee (continued)

Group

	2016 KShs'000	2015 KShs'000
Less than one year	313,630	328,424
One to five years	1,658,337	1,223,689
Over five years	165,686	408,122
	2,137,653	**1,960,235**

(b) Lessor

	2016 KShs'000	2015 KShs'000
Less than one year	175,122	83,824
One to five years	455,814	408,558
	630,936	**492,382**

39. EVENTS AFTER THE REPORTING DATE

On 13 February 2017, I&M Holdings Limited completed the acquisition of all the issued share capital of Giro Commercial Bank Limited [GCBL] having met all conditions precedent to completion of the transaction. As a result and in settlement of part of the purchase consideration, 21,043,330 (twenty one million forty three thousand three hundred and thirty) new ordinary shares of Kshs 1.00 each in the capital of the Company were issued. Subsequently, the whole of the banking business of GCBL and all associated assets and the liabilities of GCBL was transferred into that of I&M Bank LIMITED. The results of Giro Commercial Bank have not been consolidated in these financial statements.

I&M HOLDINGS LIMITED

CORPORATE SOCIAL RESPONSIBILTY (C.S.R) NEWS

I&M BANK KENYA CSR NEWS

EDUCATION

Education is a key driver of socio-economic development. The bank continues to appreciate the power of transformation through education, and is committed to supporting education for bright but needy students to obtain secondary and university education.

Over and above provision of education scholarships, the bank has supported forums where staff members through mentorship opportunities impart knowledge, wisdom and guidance through for the scholarship beneficiaries.

Below are key initiatives that the bank championed under the education pillar:

Palmhouse Foundation Mentorship Programme

I&M Bank Kenya continued to sponsor secondary school education for 64 bright but financially constrained students at the Palmhouse Foundation.

In 2016, the bank donated slightly over Kshs. 6 million towards this initiative which includes: mentorship sessions facilitated by partners of the Palmhouse Foundation and I&M Bank staff members and management trainees.

Last year, I&M Bank staff members also organized a successful full day mentorship session for the beneficiaries encouraging them to work hard and be impactful members of society.

I&M Bank Kenya provides Strathmore University Scholarships

I&M Bank Kenya continued to provide scholarships for needy students pursuing various degree programmes at Strathmore University. The bank donated over Kshs. 6 million towards this scholarship programme. Various students benefitting from this programme have also continued to work at I&M Bank on internship and Management Trainee programmes. The bank's staff members have also been conducting mentorship sessions for the beneficiaries on an annual basis.

I&M Bank Finances Greenhouse Project at Kanaani Primary School

I&M Bank yet again partnered with the Amara Charitable Trust to support Kanaani Primary School in Machakos County. The bank contributed in the construction of a greenhouse project, drip lines and a kitchen for the school, a sustainable project part of the school's feeding programme. This project is so far benefiting approximately 750 children in the school. The Amara Charitable Trust has made further steps to organize and finance training programmes for the school's teachers, gardeners and children on different agricultural practices.

The organization has made an impact in the Kenyan education sector, which is their key focus for their charitable organizations. Earlier in the 2016, I&M Bank also partnered with the organization to finance construction of 7 classrooms at the Ngalalya primary school in Machakos County.

I&M Bank Funds Construction on St. Ann's Kairi Suresh Raja Shah Girls Secondary School

In 2016, I&M Bank conducted a ground breaking ceremony to mark the beginning of the construction of St. Ann's Kairi Suresh Raja Shah Girls secondary school. The construction costing over Kshs. 40 million, will take two years and once completed, I&M Bank will further engage with the students through continued staff engagement on mentorship and advisory support.

I&M BANK KENYA CSR NEWS (continued)

I&M Bank Supports Students at Tangaza College

In 2016, I&M Bank sponsored a 2nd tranche of 10 needy but academically gifted students in an early childhood development education programme, under the Kibera slums Teacher Upgrading Programme undertaken by Project Busara in Christ the Teacher Institute for Education (CTIE) at Tangaza College for approximately 4 million.

Kibera slums have many schools with untrained teachers who are looking to upgrade their education and impact their students and society. Project Busara seeks scholarship support for students living and teaching in Kibera to join the Early Childhood Development Education.

I&M Bank Donates Towards Afya Elimu Health Fund

Last year, I&M Bank participated in the launch of the Afya Elimu health fund which is a public private partnership led by USAID, the Ministry of Health, and the Kenya Healthcare Federation to support the training fees for needy students in medical training colleges in Kenya.

The bank has been one of the main sponsors of the Afya Elimu Fund since 2014 and, has committed to supporting this project through 2019. The fund has benefitted a total of 9,278 students with 1,219 having graduated and 144 having joined the health workforce, therefore contributing to health service delivery.

ENVIRONMENT

I&M Bank Funds Kibagare River Rehabilitation

In 2016, the Bank embarked on an initiative aimed at building sustainable environments that we believe will play a significant role in improving livelihoods of society.

I&M Bank, Kenya through I&M Realty funded a strategy forum aimed at restoring and rehabilitating the Kibagare River and City Park in Nairobi. The research was conducted by Revive Consulting Solutions and was championed by Friends of City Park under the Nature Kenya initiative. Data results from the forum will inform a conceptual design for the most natural and financially sustainable solutions to restore the river.

HEALTH

Through the health pillar, the Bank has been working with various health-related institutions to support quality healthcare systems. This aligns to UN's Sustainable Development Goal Number 3 of good health and well-being. In 2016, the bank supported different health initiatives at a cost of over Kshs. 12 million.

Below are some of these initiatives:

I&M Bank donates towards Beyond Zero Campaign

In 2016, I&M Bank donated a fully kitted mobile clinic for the Beyond Zero campaign to Her Excellency the First Lady of Kenya, Mrs. Margaret Kenyatta for the Trans-Nzoia County.
The Beyond Zero campaign has significantly contributed towards HIV control and promotion and child of maternal healthcare in Kenya since its inception.

I&M BANK KENYA CSR NEWS (continued)

The mobile clinic handover is reflective of I&M Bank's commitment to deliver quality financial solutions that empower Kenyans to better improve their livelihoods, therefore enabling them to afford high quality health care, and in turn mitigating mortality rates.

I&M Bank offer two-day free medical services to the residents of Kibagare slums

Over 8,000 Kibagare slum residents benefitted from a two day medical camp organized by the Bank's CSR team. The event that cost approximately Kshs. 2.4 million recorded the highest attendance of beneficiaries since the inaugural medical camp held in 2014. A team of 35 doctors were able to attend to various medical needs of the residents such as screening for ailments such as Hypertension, Diabetes, Ulcers, and Cancer among other conditions.

The bank, through the CSR health pillar has identified various social determinants of health that widen the gap between ill health and socio-economic growth; and has come up with activities aimed at mitigating these determinants; among them the annual medical camp. The bank has also been supporting needy children from the Kibagare slums and the neighbouring areas through a monthly feeding programme that supports over 2,000 children.

I&M Bank Conducts Annual Blood Drive

The I&M Bank annual blood drive happened in June last year in various part of the country. The event coincided with the World Health Organization (WHO) World Blood Donation Day, which serves to raise awareness of the need for safe blood and blood products, and to thank blood donors for their voluntary, life-saving gifts of blood. The event themed on "***Blood Connects us all*** was significantly successful with over 500 pints collected.

COMMUNITY SERVICE

I&M Bank, Kenya staff members continued to donate their time towards supporting various Community Service initiatives that I&M Bank focus on.

New Life Home Trust

The bank in 2016 continued to support the New Life Home Trust organization through a donation of approximately Kshs. 400,000, to support the home in providing a safety net for abandoned or orphaned from HIV/AIDS.

St. Martin's Kibagare School Feeding Programme

I&M Bank in 2016 continued to support the St. Martin's Center in Kibagare by funding the monthly feeding programme that benefits over 1500 children from the nearby slum. The bank spent over Kshs. 700,000 towards this initiative. The home is run by the Assumption Sisters of Nairobi.

I&M Bank T-Shirt Donation Drive

I&M Bank staff members supported the Operation Karibu campaign run by the Micro Clinic Initiative, a non-profit organization, whose mission is to make pregnancy and childbirth safe for every mother. Through research, the organization discovered that one of the reasons many women in rural Kenya were not delivering their babies in local clinics, was that they did not have clothes to dress their newborns after birth. Through the Operation Karibu campaign, the Micro Clinic Initiative organization offers baby clothes, safe delivery, emergency transportation, and birth preparation and care training to thousands of mothers in rural Kenya. I&M Bank staff members therefore donated t-shirts to support these needs.

I&M HOLDINGS LIMITED

CORPORATE SOCIAL RESPONSIBILTY (C.S.R) NEWS

I&M TANZANIA CSR NEWS

HEALTH

Donation to Jakaya Kikwete Cardiac Institute

The bank contributed TZS 33,000,000 towards surgeries for children suffering from heart ailments in coordination with BAPS Charities. It was identified that about 500 children suffering from heart conditions are in dire need of surgery at different levels and are unable to afford such expensive treatments. The Bank managed to treat 15 children and inevitably change their lives.

COMMUNITY SERVICE

Donation to Kagera Earthquake Victims

The bank contributed 390 blankets to victims of the Kagera earthquake that took place on 10th September 2016. Our Moshi Branch handed over the blankets to the Regional Commissioner Office, Kilimanjaro Region who then distributed the blankets to the Kagera victims.

I&M RWANDA CSR

COMMUNITY SERVICE

Kwibuka 22

I&M Bank Rwanda Staff painting Viriginie's house

I&M Bank Rwanda on 15th April joined Rwandans at home and around the globe in commemorating the 1994 genocide against the Tutsi.

The day's events started with a trip to Musamira in Kamonyi, Muhanga province where a team of 40 members of staff led by the Managing Director Mr. Robin Bairstow participated in the final stages of the renovation of Virginie Mukarubega's home. Madam Mukarubega is an 80yr old widow and a survivor of the genocide.

The renovation work, which had begun earlier that week. Since 2014, I&M Bank Rwanda through its partnership with Aegis Trust Rwanda continues to fulfill its commitment to honour the memory of the victims of the 1994 Genocide against the Tutsi, help survivors rebuild their lives as well as contribute to the prevention of future conflict through education and confronting the prejudices and beliefs that lead to genocide. The 22nd commemoration was also a time for the bank to pay tribute to its former staff members that were among the more than one million victims of the genocide.

HEALTH

I&M Bank Rwanda covered the medical insurance of 300 vulnerable individuals in Musanze Districts and participated in the Ulinzi Breast Cancer Awareness Walk and attended Umuganda with Rwanda Children's Cancer relief to advocate for cancer awareness.

Staff at Umuganda with the Rwanda Children's Cancer Relief team
The bank also contributed to the Gira Inka government Initiative, which helps some of the poorest families in Rwanda attain financial stability and reclaim their dignity

I&M HOLDINGS LIMITED

CORPORATE SOCIAL RESPONSIBILTY (C.S.R) NEWS

BANK ONE MAURITIUS CSR NEWS

The Bank continues to adhere to its commitment towards contributing to economic development, while improving the quality of life of the local community and the society at large through its CARE programme. During this year, we have reinforced our CSR engagements towards the Vacoas community and have now embarked on a cruising speed to make a difference to the families under our responsibility in partnership with Caritas of the Vacoas Region. Through continual on-going efforts, the bank not only complies with the legal framework, but it also aims at making an economic, social and ecological contribution to building a sustainable society.

COMMUNITY SERVICE

Poverty Alleviation

In line with the principal objective of the Bank which remains poverty alleviation, we have set the threshold of Rs6, 000 as monthly average income for a family to be eligible to benefit from the Bank One CARE programme. With the support of Caritas, we have identified the families meeting the eligibility criteria within the Vacoas region.

We have adopted a two-pronged approach:

(i) Funding a number of projects by providing relief in view of lifting their quality of life.
(ii) Schedule regular bonding activities with the children from the families identified, with the involvement of the Bank staff, and make them feel valued, engaged and inspired.

School Feeding Project

The feeding project was initiated after Caritas identified increasing level of absenteeism due to lack of a nutritious meal scheme for the children in school. In 2015, the bank ran a pilot phase of this project and it was a huge success, with 48 children participating in the programme. In 2016 we had 100 children participate and since the number of children doubled, two additional service locations were set up at Granum and Henrietta respectively to provide breakfast and after-school snacks to the children.50 children were identified for after school coaching, and a snack provided prior to tuition. They also received school uniform and materials at the start of the year.

In addition to this we also included case management for hardship cases identified where social workers were required to provide support and counselling sessions to the families and the children. The literacy programme was introduced by Caritas to help those children who required additional support as they faced difficulties in fully adapting to the classroom learning process. Lastly a Life skills management programme started in 2015 and continued in 2016 and provided necessary support and training to encourage the families to build their confidence and face the challenges of finding a job and becoming self-reliant in the future. 37 people followed the training in 2016 as compared to 20 in 2015.

I&M HOLDINGS LIMITED

I&M NEWS

I&M Kenya News

I&M Bank Introduces iMara strategy

2016 demonstrated the continued ability of I&M Bank to deliver consistent profitable growth in its endeavor to be partners of growth for all stakeholders namely: shareholders, customers and employees.

I&M Bank Introduces iMara strategy (Continued)

The I&M Group embarked on a strategy review process having completed the previous five year strategy cycle. The new strategy dubbed iMara strategy aims at reorganizing the Bank to accelerate its growth trajectory by focusing on 3 key strategic themes. The themes include: Growing our corporate banking offering through transaction banking, better Relationship Management sales effectiveness and a new coverage model; Delivering a distinctive value proposition to Affluent, Personal (middle income & Young Professionals) and Business Banking clients to set ourselves apart; Digitizing the business through automation process which will cover reengineering supported by automation, improved use of online and mobile channels to drive sales, using data and analytics to make better informed decisions, as well as fostering an innovation culture amongst staff members.

We envision that the iMara strategy will help build a stronger brand presence in the region within the Bank's target segments.

Burbidge Capital Acquisition by I&M Holdings

In 2016, I&M Holdings completed the acquisition of 65% of shareholding in Burbidge Capital Limited (BCL). Following the completion, I&M Capital, a subsidiary of I&M Holdings, rebranded to I&M Burbidge Capital to help the firm leverage on both I&M Bank's and Burbidge Capital's brand and track record; in its bid to offer advisory and capital raising services to mid and large sized companies across Eastern Africa.

The successful acquisition has enabled the I&M Group boost its market delivery capacity by expanding its service offering through provision of advisory services consequently positioning the firm as a one-stop-shop for all customers' financial needs.

CDC acquisition

DEG & Proparco on one hand and CDC on the other successfully entered into a Sale and Purchase Agreement where CDC acquired their combined shareholding of approximately 10.68% in I&M Holdings Limited (IMHL).

Proparco and DEG had, since 2007 held a significant minority in IMHL. CDC's investment in IMHL is important because it allows us to continue to draw upon the Development Finance Institution (DFI)'s support previously provided by DEG and Proparco for strategic, financial and governance matters.

Further, CDC's commitment to building long-term partnerships and its expertise in financial services will help the I&M Group in continuing its regional growth and consolidation strategy so as to expand its banking services across East Africa and beyond. The transaction was approved by relevant regulatory approvals East Africa in late 2016.

I&M HOLDINGS LIMITED

I&M NEWS

I&M Holdings Limited Completes Acquisition of Giro Commercial Bank Limited

I&M Holdings Ltd (IMHL) successfully completed its merger of Giro Commercial Bank Limited (GCBL) into I&M Bank Limited, which is IMHL's banking flagship subsidiary. The merger came to fruition after receiving necessary regulatory approvals from the Capital Markets Authority (CMA), Central Bank of Kenya, the Competition Authority of Kenya as well as IMHL shareholders.
IMHL and GCBL entered into this agreement in September 2015 for I&M Bank Limited to acquire 100% of the issued share capital in GCBL, and for the merger of GCBL's banking assets and liabilities with that of I&M Bank Limited.

I&M Holdings Limited Completes Acquisition of Giro Commercial Bank Limited (Continued)

The move underscored the I&M Group's expansion strategy, which seeks for opportunities to expand both locally and regionally by way of acquisitions. For GCBL customers, this acquisition provides additional advantage of accessing their bank accounts from 36 new I&M Bank branches located countrywide, in addition to Alternate Channels like all Visa, Kenswitch and I&M Bank ATMs, Mobile Banking, Internet Banking and PesaLink.

It will also enable them to enjoy the range of I&M Bank's credit, debit and pre-paid Visa and MasterCard payment cards. Corporate customers of GCBL are also now able to enjoy I&M Cash Management Services, Trade Services as well as the corporate internet banking suite.

I&M Bank now in Nanyuki, Meru and Downtown Nairobi, as customer delivery drive gets into high gear

As part of its strategic effort to enhance its customer delivery capacity and experience, I&M Bank Kenya opened two branches at CrossRoad Nairobi and in Nanyuki town in 2016, and one branch in Meru town earlier this year.

The move aimed tapping into the fast growing agricultural towns of Nanyuki and Meru, as well as targeting the SME entrepreneurs operating in downtown Nairobi including River Road, Kirinyaga Road and its environs. The Bank now has a branch network of 42 branches including 6 other additional Giro Bank branches.

I&M Bank Feted at Banker Africa Awards

Last year, I&M Bank was awarded the Corporate Governance award at the 3rd Banker Africa East African Banking Awards. The Bank, which has been undertaking a strategic corporate transformation programme, was named the best East African bank in the Corporate Governance category for its role in maintaining sound practices.

The annual Banker Africa Awards are continent-wide programmes open to all banks and financial institutions in Africa. The aim of the Banker Africa Awards, broken down by four individual regions, is to recognize outstanding performance and excellence in the financial services industry.
I&M Bank's Corporate Governance framework mirrors its Group Holding Company policy on corporate governance. The Group's corporate governance framework, takes into consideration the Capital Markets Authority (CMA) Guidelines on Corporate Governance, as well as global best practices.

Meanwhile, the Bank was also awarded the 1st Runner Up in the Best Bank in Kenya Tier II category for the Think Business Banking Awards 2016. The Awards recognize different banks for their exemplary performance and their objective is to encourage prudence and stability in the banking sector.

I&M NEWS

I&M Bank Unveils I&M Karibu Account

Last year, the Bank launched the I&M Karibu Account, a technology driven product, that enables real-time account opening through self-registration on the I&M App, and at approved at I&M Karibu Agents.

The move is reflective of I&M Bank's commitment to provide innovative banking solutions for the market to enhance its customers' banking experience, in line with the Bank's pillar on innovation.
For one to open the I&M Karibu account through the phone, they are required to dial *458# or download the I&M App from their respective Play Stores for smart phone users; after which they will have to input their national ID and full names to open the account. On the other hand, one can visit an I&M Karibu Agent to open the account in real-time.

The I&M Karibu account has enabled customers to transact in a convenient and exciting way without having to visit the branch; where they will be in a position to withdraw and deposit cash through I&M Karibu agents or different mobile network operators; transfer funds to the different mobile network operators; and to I&M Bank accounts in addition to topping up airtime.

I&M Bank partners with Post Bank for Agency Banking

Last year, I&M Bank got into a strategic partnership with Postbank Kenya to enhance its Agency Banking network across the country. The roll out has enabled I&M Bank to tap into Postbank's expansive network, with an objective of increasing convenience for its customers to easily access I&M Bank services.

Through the partnership, I&M Bank customers are now able to withdraw and deposit cash, check account balances and request for account statements at 104 Post Bank branches countrywide. The development has allowed the two institutions to benefit from each other's strengths to grow their banking business.

I&M Bank Rolls Out PesaLink

The Kenyan banking industry through Kenya Bankers Association (KBA) in 2016 introduced the banks interoperability project, PesaLink. The platform is set to play a key role of enhancing interoperability within the industry, and will provide a platform that will encourage collaboration and innovation within the Banking and Payments industry. I&M Bank among other banks have received approval from the Central Bank of Kenya to roll out.

The service will enable any customer to directly pay another bank's customer in Kenya in real time, affordably and conveniently, through the branches and alternate delivery channels. For I&M Bank case in particular I&M Bank branches, I-Click internet banking, I&M Karibu Agent, ATMs, and I&M Mobile. I&M Bank customers can initiate PesaLink transactions through I&M Mobile App or Short code *458# or by giving instructions through a Transfer Form at any I&M Bank branch.

I&M Bank Revamps Investment Management and Custodial Services

In 2016, the Bank revamped its array of Investment Management and Custodial Services which now allows customers to channel all your investment needs through one point of contact. I&M Bank is now licensed by the Capital Markets Authority (CMA) as a Central Depository Agent (CDA) and the Retirement Benefits Authority (RBA) as a custodian. Customers can now easily monitor their accounts and easily access financial markets information and research from the Bank's panel of brokers.

I&M NEWS

The Investment facilitation service now enables customers enjoy the following services: CDS account opening, trading of securities, transfers, government securities, corporate advisory, custodial services, public offers among others.

I&M Malaikas Hosted at Contemporary Art Event

Last year, the Bank hosted a cocktail event in appreciation of art for the Malaika Account holders at the Circle Art Gallery in Lavington. The exclusive event featured contemporary artwork from 10 Kampala artists, showcasing their vibrant and honest reflection of their city.

The Malaikas also got to enjoy an artistic presentation of the Malaika account benefits through an act by a Kenyan poet and playwright – Sitawa Namwalie. I&M Bank in partnership with Circle Art has previously sponsored art exhibitions at the gallery.

The Malaika Account is a high end personal account exclusively designed to cater for the financial and lifestyle requirements of ladies. Through this account, Malaikas get to enjoy discounts at selected stores/outlets from merchants whom I&M Bank has partnered with, for eyewear, footwear, beauty and wellness centers, retail stores, fine dining among others.

I&M Bank Customers Hosted for Annual Golf Day

I&M Bank held its second annual golf day for its customers at the Muthaiga golf club in November 2016. The event was very successful with close to 200 customers in attendance. The golfers got the opportunity to experience the Trackman swing analysis, offered to players to help them learn how to improve their golf swing. Going forward, the Bank will host regional golf tournaments for its customers at major towns in the country.

Business in the Digital World Seminar

In 2016, the Bank held a conference in partnership with Deloitte Digital Africa, for Corporate and Select customers themed - *Your Business in the Digital World*, at the Safari Park hotel. The event aimed at enlightening customers on the importance of adopting digital strategies for their businesses to ensure sustained growth.

Moderated by Valter Adao, the head of Deloitte Digital Africa, customers got the opportunity to learn from different eye-opening digital innovations being undertaken by businesses across the globe, and also learnt how to adopt digital strategies for their businesses for enhanced business growth.

I&M Bank hosts Young Savers for Jungle Book Musical

Last year, I&M Bank hosted the Young Savers Account holders to a Jungle Book musical where they got to enjoy a theatric performance depicting the highly acclaimed Jungle Book movie. Over 200 Young Savers accompanied by their parents were in attendance.

The Bank believes in the enormous potential of the Arts industry since the industry is critical national development. Among other initiatives spearhead by the Bank for the Arts industry, the Bank endeavors to nurture creative talent amongst the Young Savers by giving them opportunities to display their talent through creative art. The Jungle Book musical held last year was aimed at inculcating a creative culture amongst the Young Savers.