I&M Bank LIMITED

2011 | REPORT & CONSOLIDATED FINANCIAL STATEMENTS

The Art of Banking.

The Art of Banking.

At I&M, banking is more than just a service we provide…it's an art we're perfecting. This involves not only what we offer but also how we offer it. From exceptional quality to impeccable service and diverse choice, we strive to make the I&M experience unforgettable. By adding that extra touch of finesse to everything we do, we've made banking an art in a way that only I&M can.

CONTENTS **PAGE**

Board of directors

Seated Left to Right:

M Soundararajan
PCM Kibati
SBR Shah, MBS (Chairman)
Christina Gabener
NP Kothari (Secretary)

Standing Left to Right:

Arun S Mathur (CEO)
GMM Aïnachè
Sarit S Raja Shah (Executive Director)
Sachit S Raja Shah

Missing in photo:

EM Kimani MBS

MJ Karanja

Senior management

Gauri Gupta,
Head of Corporate & Strategic Planning

Henry Kirimania,
Head of Treasury

Samuel Mbori,
Head of Special Projects

Joseph Njomo,
Head of Operations

Ruma Shah,
Head of Internal Audit

Suprio Sen Gupta,
Head of Marketing & Product Development

L A Sivaramakrishnan,
Head of Business Development

Ravi Ramamoorthy,
Head of Corporate Banking

VS Sekhara Reddy,
Head of Cards and Alternate Channels

Rohit Gupta,
Head of Information & Communication Technology

Lucy Thegeya,
Head of Business Support

Srinivasan Parthasarthy,
Head of Commercial Banking

Directors, officials and administration

DIRECTORS

SBR Shah, MBS (Chairman)
Sarit S Raja Shah (Executive Director)
MJ Karanja
Sachit S Raja Shah
EM Kimani MBS
PCM Kibati
M Soundararajan*****
Christina Gabener******(Appointed 13 September 2011)
GMM Aïnachè*******(Appointed 8 December 2011)
Dr EO Kidero (Resigned 30 May 2011)
Ms C Boeing******(Ceased 1 July 2011 - Alternate: E Kaleja**)
Ghislain de Valon*******(Ceased 29 August 2011)

*** Indian ** German *** French**

SECRETARY

NP Kothari – FCPS (Kenya)

AUDITORS

KPMG Kenya
16th Floor, Lonrho House
Standard Street
PO Box 40612
00100 Nairobi GPO

REGISTERED OFFICE

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

CORRESPONDENT BANKS

ABSA Bank
Standard Chartered Bank
Barclays Bank PLC
HSBC
UBS AG
I&M Bank (T) Limited
BHF Bank

Commerzbank AG
Deutsche Bank AG
Citibank NA
ICICI Bank
Bank One, Mauritius
JP Morgan Chase
The Standard Bank of South Africa

Branches

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

Ansh Plaza
Biashara Street
PO Box 30238
00100 Nairobi GPO

Tivoli Centre
Court Road
PO Box 424
40100 Kisumu

Centre Point
Parklands Road
PO Box 30238
00100 Nairobi GPO

South C Shopping Centre
PO Box 30238
00100 Nairobi GPO

Gitanga Road
Lavington
PO Box 30238
00100 Nairobi GPO

14 Riverside Drive
Riverside Drive
PO Box 30238
00100 Nairobi GPO

I&M Bank Tower
Kenyatta Avenue
PO Box 30238
0100 Nairobi GPO

Biashara Bank Building
Nyerere Avenue
PO Box 86357
80100 Mombasa

Karen Connection
Karen Road
PO Box 30238
00100 Nairobi GPO

Ongata Rongai
Rongai Business Centre
PO Box 30238
00100 Nairobi GPO

Nyali Cinemax
PO Box 86357
80100 Mombasa

Zion Mall
Uganda Road
PO Box 9362
30100 Eldoret

Sarit Centre
Westlands
PO Box 30238
00100 Nairobi GPO

Changamwe Road
Industrial Area
PO Box 30238
0500 Nairobi

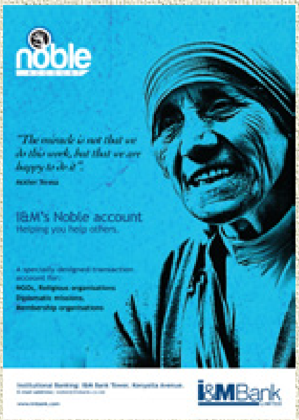
Panari Centre
Mombasa Road
PO Box 30238
00100 Nairobi GPO

Wilson Airport
Pewin House
PO Box 30238
00100 Nairobi GPO

Langata Link
PO Box 30238
00100 Nairobi GPO

Polo Centre
Kenyatta Avenue
PO Box 18445
20100 Nakuru

I&M news



I&M BANK LAUNCHES SELECT BANKING

I&M Bank has launched Select Banking to recognise its highest category of individual customers and to offer them personalised and differentiated services. Select status is offered by invitation only and accords the Select customer many recognition benefits, offers several complimentary and concessional services and makes some specialised products available to them.

Select customers have exclusive access to the new I&M Select Centre, situated at Hanover, 14 riverside, Riverside Drive, Nairobi. The I&M Select Centre is an exclusive servicing facility where customers can do their everyday banking transactions and access specialised products and services available to Select customers. The Select Centre also offers meeting room facilities, lounge facilities and business centre facilities including an internet hotzone for exclusive and complimentary use by Select customers.

MALAIKA ACCOUNT

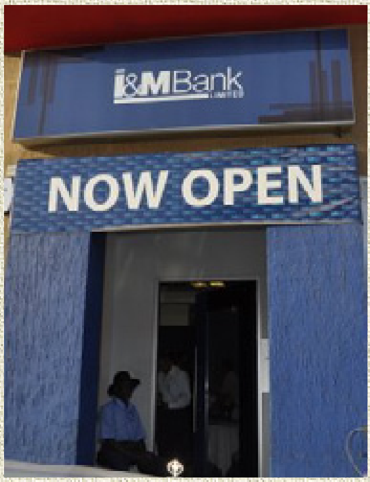
The new Malaika Account is an account designed exclusively to suit the financial requirements and lifestyle of women. It is a personal transaction account, with an optional free linked auto-facility to save monthly as a Recurring Deposit earning high interest rates.

The Malaika Account recognises the special status of women with special requirements and offers a package of features and benefits that does just that. The account also comes with a specially designed personalised membership card that entitles ladies to attractive discounts at a host of places where they would go to pamper themselves.

NOBLE ACCOUNT

I&M Bank's new Noble Account is a transaction account in Kenya Shillings or foreign currency, specifically for any organisation registered as an NGO , Charitable organisation and other such organisations. The Account comes with a variety of features including no ledger fees, set up of online payment facility to receive payment through the Bank's Webpay E-Commerce platform , interest earning balances and a dedicated relationship manager.

I&M news (continued)



M-PESA PREPAY SAFARI CARD

I&M Bank partnered with Safaricom, Kenya's largest mobile services company, to issue the first of its kind co-branded International Prepaid VISA Card called the Safaricom M-PESA Visa card. The unique feature of the Card is that it allows M-PESA (a popular mobile money transfer service) subscribers to transfer funds from M-PESA accounts through their mobile phone into the VISA Card. These cards are available at all Safaricom outlets and like all other Visa cards, they can be used to withdraw cash at all Visa ATMs in Kenya and worldwide , make purchases at Visa card accepting outlets and for online purchases. Moreover, the card account can be accessed online through www.imbank.com for transaction statements and other functions.

I&M BANK WINS THREE INDUSTRY AWARDS

I&M Bank won three prestigious industry awards at The Banking Awards 2011, including the Winners Award for the Best Bank in Product Innovation (for the M-PESA PrePay Visa Safari Card), the Runner-up Award for the Best Bank in Kenya (Tier II) and third prize for the Most Efficient Bank.

I&M BANK RECEIVES USD 15 MILLION CREDIT LINE FROM DEG

Deutsche Investitions-und Entwicklungsgesellschaft mbH (DEG) accorded I&M Bank a 5 year USD 15 Million credit line for onward lending to the Bank's customers. This additional facility supplemented I&M Bank's ability to support the growing demand for long term foreign currency lending to the expanding SME sector in Kenya. For DEG, this lending represented the deepening of the existing partnership with I&M Bank, having been a shareholder of the Bank since 2007.

I&M BANK (T) LTD EXPANDS BRANCH OPERATIONS IN TANZANIA

I&M Bank (T) Ltd had a promising 2011, with total assets growing by 44% to TzShs 200 billion and profit before tax reaching TzShs 5.3 billion. The Bank opened its new Corporate offices at Maktaba Square, signalling its strong corporate presence in Tanzania. It also doubled the branch network with two new branches in Maktaba Square and Quality Centre in Dar-es-Salaam and also one new branch in Mwanza in early 2012. With the expanded branch network, the Bank is bound to increase its customer base much faster and I&M customers in Kenya, who may be dealing with customers in these areas, can now also benefit from the wider network and make use of I&M's BRISK transfer's product in these new locations.

I&M news (continued)

BANK ONE LTD – MAURITIUS

Despite challenging economic conditions, I&M's sister bank Bank One, Mauritius posted better results in 2011, delivering post tax profits of MRs 175m in 2011 as against MRs 168m in 2010. However, excluding exceptional gains of Rs 59m in 2010 out of recovery of assets earlier written off, the profits in 2011 were 61% higher than last year's profits.

During 2011, Bank One was the first bank to launch the Prepaid Card in Mauritius. The POSH Cards allow for planned expenditure on travel, education as well as salary or other benefit payments. Neo Investments, a unique Capital guaranteed Mauritian rupee investment product, investing on the domestic stock market, was launched. The first Emma Awards were held in March 2011 to acclaim women having excelled in their specific field of endeavour.

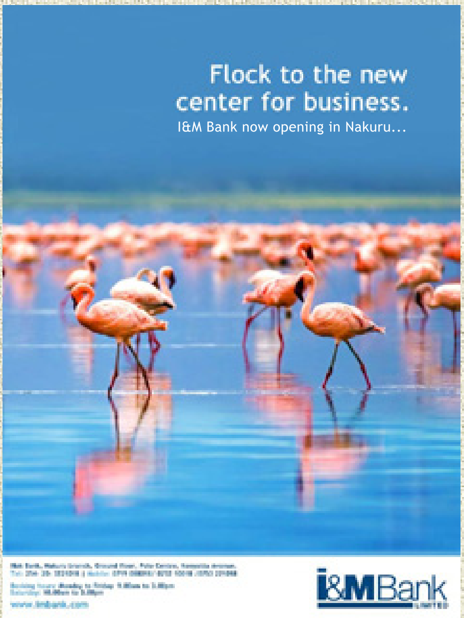
The Quatre Bornes branch was relocated, bank products upgraded, bank processes re-engineered and back office activities relocated. The branch network is expected to grow further in 2012 with 2 new branch openings in the West and in the North.

Bank One is in well advanced negotiations to acquire a significant stake in a bank regionally along with strategic partners and institutional investors. Financial closure is expected during 2012.

I&M news (continued)

I&M BANK KENYA OPENS 3 NEW BRANCHES

In line with Bank's strategic objectives regarding local expansion within Kenya, 2011 saw I&M Bank open 3 new branches in Eldoret, Nakuru and Nairobi's Riverside Drive, increasing its branch network from 16 to 19.



Nakuru Branch

Eldoret Branch

Riverside Drive Branch, Nairobi.

Chairman's statement

The little engine that could

As I reflect on the years past, I am reminded of the story of the little engine. This little engine had been built to pull a few cars at the station yard. One morning when a long train of freight cars needed to go over the hill, the little engine stepped up to the challenge, put itself in front of the great heavy train and began to bravely puff faster and faster, "I think I can, I think I can, I think I can." As it neared the top of the hill, it kept the mantra going. It reached the top and then went on the down slope in a triumph jubilation saying "I thought I could, I thought I could, I thought I could."

That story incredibly captures the spirit and history of I&M Bank. The one branch bank that stepped up to the challenges of a very competitive industry in 1996 has since grown by leaps and bounds and today boasts of a branch network of 19 in Kenya, 14 in Mauritius and 6 in Tanzania. Likewise, our total assets have grown from KShs. 4.8 billion in 1996 to KShs. 108.06 billion as at end of 2011. This incredible journey and growth could not have been possible without the Bank's loyal customers and partners who have supported it over the years. Our desire to better serve our customers is the reason that has kept the Bank focused on its core principles of offering premium banking experiences to all customers aimed at exceeding their expectations in terms of quality of service and by offering a wide choice of innovative products.

The year that was 2011

2011 was an especially tough year not only for Kenya, but also globally as a well. The financial crisis continued in the Eurozone, with more countries seeking bail outs, the rippling effects of which have in some way been felt in Africa, as funding budgets were cut and lowered demand for exports to these markets. We also saw the revolutionary protests against the financial institutions in the Americas spread to parts of Europe. Closer to home, there had been the fear that the uprising in the Middle East & North Africa would spread to the rest of Africa, but thankfully, that did not ensue.

In Kenya, the greatest challenge was the continuous rise in inflation, resulting mainly from the effects of the rising costs of oil and food. The country's inflation rate rose from 5.42 per cent in January 2011 to 18.93 per cent in December 2011. To add to our tribulations, the Kenyan Shilling was also very volatile for most part of the year, and depreciated against most currencies in 2011. As a result, in order to tame the rising cost of living, the Central Bank of Kenya increased the Central Bank Rate to 18% and introduced further monetary tightening measures to tighten liquidity in the market. Consequently, commercial banks gradually increased the lending rates reaching an average of 20.04 per cent as at December 2011.The effects of these measures have certainly been felt in all sectors of the country, and more so in real estate, which has witnessed a slowdown in the take up of new property. Undoubtedly, measures to tighten money supply are not taken positively, as costs for our borrowers goes up but, in Kenya, the measure has helped to curb speculation and hoarding of some essential commodities.

One key discussion that has generated a lot of debate is the proposed finance bill, which aims to cap the interest rates that banks levy on advances and pay to customers on deposits. However, this debate has completely drowned the voice of banks and the effects that this would have on the economy. While banks may sometimes have to vary interest rates (as we do not have a fixed rate product) , this is usually necessitated by the rise in the administrative costs of lending and deposit taking. Key among them is the indirect costs of lending and associated risks that are entirely borne by banks, and which increase significantly in an unstable economic condition. The banking industry has been highlighting issues that have resulted in increasing costs to our customers. A study conducted by independent experts, called 'the cost of collateral' has highlighted the challenges faced by the industry. These include costs arising out of (i) delays in registration of charges at the Companies and Land Registries; (ii) consents required from Land Control Board for agricultural land (iii) delays in getting council approvals and consents and (iv) absence of regulatory framework to use standardized legal documentation even for smaller advances requiring each case of security perfection to be referred to external law firms. While all these challenges continue, banks still have a fiduciary duty to shareholders to ensure that even in difficult operating environments, they provide a positive return for the investments shareholders have made. Additionally, a cap on interest rates reduces the risks that investors are willing to take, as the returns are lower. Banks, like all other businesses, need to make returns to make their services viable. A cap in the interest rates would therefore result in lower availability of funding to other sectors of the economy from banks, which would stifle the overall investment and growth of the economy. Fortunately, it is banks in third world countries which have been able to brave the economic storms and it is remarkable that in East Africa, the banking industry has shown improvement in critical ratios, thus providing some degree of stability in the financial sector.

Chairman's statement (continued)

The banking sector

Despite the volatile economic conditions, by December 2011, the total banking sector balance sheet had grown by 20.4 per cent compared to December 2010. Loans and advances to customers, which also grew by 31.5 per cent over the same period, made up 57 per cent of the total banking sector balance sheet. This growth was attributed to increased lending to trade, households and manufacturing sectors. Deposits, which are the primary source of funding for the banking sector grew by 20.3 per cent over the same period, while non-performing loans improved to a from 6.3 per cent to 4.5 per cent of gross advances. The Banking Sector also continued to expand its reach across the country with an additional 85 Bank branches excluding agency banking arrangements.

Though implemented in January 2012, one of the key achievements in the banking sector has been the introduction of the cheque truncation system (CTS), which has automated certain processes resulting in a reduction of the clearing cycle of cheques to 2 days, enabling customers to receive their money faster and makes the process more efficient for banks. We should take pride in recognising that Kenya is one of the few countries in the world to have a properly functioning cheque truncation system which requires huge capital investment and excellent project planning.

The bank

Every year, we endeavour to introduce new products and services aimed at fulfilling customer needs and enhancing the quality of their banking experience at the Bank. Keeping this in mind, we introduced four new products – (i) The Noble Account, (ii) The Step-Up Home Loan, (iii) The Malaika Account and (iv) "Select" Banking. The NOBLE Account is a modification and enhancement of our earlier BINGO account, and is a specially designed product for our Non-Governmental Organisations and Institutional clients to suit their specific needs. Likewise, our STEP -UP HOME LOAN product is a flexible variation of our existing mortgage-lending product intended for the younger homeowners. The MALAIKA account, on the other hand caters for the unique banking needs and requirements of women. We also launched the I&M SELECT services in December 2011, as our way of recognizing our high-value customers who often have different and personalised banking requirements.

2011 also saw us spread our branch network to Eldoret and Nakuru. In Nairobi we opened our 13th branch at Riverside Drive, bringing the entire I&M branch network to 19. After a year of significant efforts by our team, the Bank recently rolled out its long awaited Internet Banking platform aptly called "I - Click". This facility has several distinct features, unique in this market, and is likely to transform the way our customers transact in the future.

One of our major achievements for 2011 has been the establishment of an Employee Share Ownership Plan (ESOP). The ESOP allowed employees of the Bank to acquire shares in the Bank. This not only improves the morale of the employees, but also gives them a reason to better support the vision and objectives of the Bank. The ESOP was extremely well received by the staff with the offer having been oversubscribed by 30%, an indication of the pride and faith that the employees have in their Bank.

During the year, the Bank augmented its long-term debt capital by signing an agreement with DEG for a 5-year credit line of USD 15.00 Million to supplement I&M Bank's ability to support the growing demand for long-term foreign currency lending to the expanding SME sector in Kenya.

As a result of all these initiatives, it is with immense pride that I report to you on your Bank's commendable performance in 2011. Profits for the year aggregated KShs. 3.47 billion, an increase of 37.5% from 2010. Notwithstanding the fact that 2011 was characterized by uncertainty volatility in interest and currency rates, the Bank focused on its core activities that ensured its uninterrupted growth, thereby increasing its loans portfolio by 32% to KShs. 66.36 billion and reducing gross non-performing loans by 15%. Similarly, the customer deposits grew by 25% to reach KShs. 85.21 billion. Overall the I&M Bank Group balance sheet recorded a growth of 24% and crossed the KShs. 100 billion mark to reach KShs. 108 billion. Profit before tax increased by 40% to close at KShs. 4.95 billion for the year. I&M Bank (T) and Bank One contributed 9% and 20% respectively to the Group's total assets.

The Bank continues to improve on its financial ratios. A traditional strength of I&M Bank has been its Efficiency Ratio, which remains one of the lowest in the Kenyan Banking Industry at 33.3%, while the Net NPA ratio dropped to 0.43% from 1.19% as at December 2010.

Chairman's statement (continued)

The Bank continues looking for opportunities to enhance its presence across the region and efforts are currently underway to acquire a controlling investment of a banking entity within the region.

I&M Bank (T) Limited – Tanzania

After the acquisition of the bank in early 2010, your Bank has made great strides in integrating the subsidiary and offering innovative products and services to its customers in both Kenya and Tanzania with both sets of customers being able to benefit from the efficiencies of banking with one group. Our subsidiary also doubled its branch network from 3 to 6 branches to spread its presence to the major centres in Tanzania. These initiatives have all assisted I&M Bank (T) Ltd in delivering a decent performance despite an uncertain and volatile economic environment registering a 44 per cent growth in total assets to Tzs. 199.98 billion (approx. KShs. 11.08 billion) and a 7 per cent increase in Profit Before Tax to Tzs. 5.34 billion (approx. KShs. 296 million).

The Bank also witnessed a change of leadership in early 2012, with the CEO, Mr. S Gopalan, retiring after dedicatedly serving the institution for 14 years. I would like to take this opportunity to thank Mr. S Gopalan for his service over the years and welcome the new Chief Executive Officer, Mr. Anurag Dureha, who brings with him a wealth of international experience. I am confident that under the leadership of Mr. Anurag Dureha, the team at I&M Bank (T) Ltd will continue to steer the bank to new heights. I am also appreciative of all the support received from our fellow shareholders, Proparco, The Kibo Fund LLC and Mr. Michael Shirima, guidance from the Directors of I&M Bank (T) Ltd as well as from the Bank of Tanzania.

Bank One Limited – Mauritius

Against a challenging and stressful economic situation in 2011, Bank One delivered a 61% increase in Net Profit before Exceptional Items and Tax, from MUR 109 million (approximately KShs. 301 million) in 2010 to MUR 175 million (Approximately KShs. 484 million) in 2011. I equally take this opportunity to thank the team at Bank One, under the able leadership of Mr. Raj Dussoye, the CEO, for this excellent performance. The guidance offered by Bank One's Board of Directors and the support of our Partners, CIEL Investment Limited, is deeply appreciated. As always, the constructive and innovative supervision, as well as the guidance offered by the Bank of Mauritius during 2011, has been invaluable. With the Eurozone crisis on going, the resilience of the Mauritian economy will likely be severely tested in 2012. Against this outlook, Bank One intends to place greater focus on the profitability and quality of its assets, even as it forges onward on its growth trajectory.

Outlook

As we go into 2012, our greatest concern will be the general elections in Kenya – how they are carried out and the effects that it shall have, both on our Country, and on the Bank. We join our fellow fellow citizens in seeking peace and stability for our country so that it can focus on realising its full potential. As we strive to gear ourselves for the challenging year ahead, we continue to look for opportunities to serve all our esteemed customers better, by incessantly improving our service delivery standards, as well as the bouquet of products and services to remain as the Bank of Choice.

I take this opportunity to thank the Central Bank of Kenya for its guidance and encouragement at all times, and especially during the particularly volatile market conditions experienced last year. A sincere note of appreciation goes out to the management and team at I&M Bank, under the seasoned guidance of its CEO, Mr. Arun S Mathur, for the outstanding performance of your Bank during 2011 despite the turbulent market conditions in the second half of 2011.

I thank my fellow directors for their valued contributions in various Board and Board Committee meetings, which has helped steer your Bank from strength to strength. A heartfelt Asante Sana goes out to all our customers, for the support and trust placed in the Bank. As we look forward to 2012, though cautious, we are optimistic that the year will bring the much awaited recovery and stability in the industry. Like the little engine, we persist knowing that the hard times will pass, and our perseverance will reward us in accomplishing all that what we set out to do.

Suresh Shah

S.B.R SHAH, Chairman

Report of the directors for the year ended 31 December 2011

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2011, which disclose the state of affairs of the company and the group.

1. SHARE CAPITAL

On 22 July 2011, the Bank increased its issued and paid up share capital by issuance of 100,000 ordinary shares of KShs 100 each at a premium of KShs 835 per share thus increasing the issued and paid up share capital to KShs 2,880,245,300 to a trust created for the benefit of the Bank's employees under an Employee Share Ownership Plan.

2. ACTIVITIES

The Bank provides an extensive range of banking, financial and related services permitted under the Banking Act (Cap.488).

3. RESULTS

The consolidated results for the year are as follows:

	2011 KShs
Profit before taxation	**4,953,892,690**
Taxation	**(1,481,168,719)**
Profit after taxation	**3,472,723,971**

4. DIVIDEND

The directors recommend the payment of a final dividend of KShs 747,424,874 (2010 – KShs 527,212,930).

5. DIRECTORS

The directors who served during the year and up to the date of this report are set out on page 6

6. AUDITORS

The auditors, KPMG Kenya to continue in office in accordance with Section 159(2) of the Kenyan Companies Act (Cap.486) and subject to Section 24(1) of the Banking Act (Cap.488).

7. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved at a meeting of the directors held on 22 March 2012.

BY ORDER OF THE BOARD

N P Kothari
Secretary

DATE: 22 March 2012

Statement on corporate governance

The Board of Directors and Management of I&M Bank LIMITED, (I&M), are committed to enforcing high standards of corporate governance at the Bank as well as its controlled entities (the Group). Underpinning this commitment is a Corporate Governance Framework that has been established by the Bank's Board, which includes policies and practices designed to ensure that the Board is focused on its responsibilities to its stakeholders and on creating long term shareholder value while also focussing on its wider role and responsibility to the society at large.

In its approach to Governance, the Board has attempted to embrace international best practices and principles so as to ensure optimal stewardship of the Group's assets and resources. The Bank has an established Code of Conduct and Code of Ethics that bind the Directors and Employees to ensure that the Bank's business is carried out in an ethical, fair and transparent manner. Simultaneously the Board has placed strong emphasis on ensuring local regulatory compliance within the jurisdictions in which the Group operates, as part of its internal risk management parameters.

In an increasingly uncertain financial environment, the Bank has over the last few years, put in place the following key policies and procedures to manage risk:

- Anti-Money Laundering Policies and Procedures that are rigorously adhered to.
- A Policy for Social and Environment Management, with efforts being devoted to improving its Environment and Social Risk Management Systems.
- An Enterprise Risk Management Framework.

The Bank has established a mechanism for carrying out periodic reviews of the above policies and procedures in a bid to improve and strengthen them.

Conscious of the fact that, effective corporate governance practices are essential to achieve and maintain our stakeholders' trust and confidence in the Bank, and in light of constantly evolving corporate governance environment, I&M has consistently strived to enhance and improve upon the Corporate Governance Framework within the Bank. During 2011, in a move to improve on the efficiency and efficacy of the Board, I&M set up two additional Board Committees:

- The Board Share Transfers Committee; and
- The Board Nomination and Remuneration Committee.

The roles and membership of these two new Committees are detailed under the item 'Board Committees" below.

THE BOARD OF DIRECTORS

Constitution, appointment and composition

The Bank's Board is led by the Chairman Mr. SBR Shah and consists of four independent non-executive Directors, four non-executive Directors and one Executive Director. The Directors, collectively have vast experience arising from their varied backgrounds in different disciplines, which include, inter alia Banking, General Management, Law, Accounting and Investment Analysis, apart from hands on experience in various industries. The unique collective experience of our Board members provides a superior mix of skills the Board requires in order to effectively discharge its responsibilities.

In appointment of new Directors of the Bank, consideration is given to each individual Director's personal qualities and abilities, the collective Board members' skills and aptitudes for conducting oversight of the Bank and its management, as well as discharging duties and obligations imposed by law.

At I&M, of the eight non-executive Directors, 50% are independent. The Bank recognizes and appreciates that all Directors, whether as Independent Directors, or as Directors who are deemed not independent, make valuable contributions to the Board and to the Bank by virtue of their experience and judgment.

BOARD MEETINGS

The Board meets quarterly each year for scheduled meetings and on other occasions to deal with specific matters that require attention between scheduled meetings. During the year, four scheduled Board meetings were held. Except for two of the Directors, each member attended at least 75% of the board meetings.

Statement on corporate governance (continued)

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

BOARD EVALUATION

The Board has in place, a process of an annual self-evaluation. Taking into consideration the Board's duties and responsibilities, the self-evaluation process includes matters covered not only under the Central Bank requirements but also those prescribed under global best practices as regards good governance. Further, as an improvement of the corporate governance practices in the Bank, we have established an additional process for evaluation of 'independence', which will help the Bank to assess the continued independence of directors appointed as independent Directors. For the year 2011, the peer review and self-evaluation of the Board of Directors was completed on the 22nd March 2012.

GOVERNANCE PRINCIPLES

All I&M Bank Directors and employees adhere to the principles of the Code of Conduct in all their dealings on behalf of the Bank. The Code of Conduct ensures that all actions are in the overall best interests of the Bank and reflects our commitment to maintaining highest standards of integrity, ethical behaviour and compliance with all applicable internal and external laws and regulations.

The Board ensures that Accountability is enhanced through a system of objective goal setting for all employees and periodic performance appraisals, which cuts across all levels of staff. Additionally, the Board has delegated financial and other powers with clearly defined accountabilities on each matter.

The Board also emphasizes on high levels of efficiency and effectiveness. This is made possible by ensuring that the Bank has a good pool of well-trained staff with the appropriate skills required to perform their duties. The Board has set up seven Board Committees and several top level Management Committees to assist in discharging its responsibilities. These include:

Board committees:

Board Audit Committee (BAC)
An independent non-executive Director chairs this Committee consisting of four Directors. BAC, which meets at least once every quarter, assists the Board in fulfilling its responsibilities by reviewing the financial condition of the Bank, its internal controls, performance and findings of both the Internal Audit and Compliance functions.

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

Board Credit Committee (BCC)
The BCC, which consists of five Directors is chaired by an independent non-executive Director and is responsible for the review of the Bank's overall lending policy, conducting independent loan reviews, delegation and review of lending limits, ensuring compliance with all statutory regulations and is overall responsible for the management of credit risk. The Credit Risk Management Committee (CRMC), the Credit Risk Sub-Committee, NPA Committee and the Card Centre Credit Appraisal Committees assist the BCC in its role.

Board Procurement Committee (BPC)
The Board Procurement Committee comprising five members, excluding the Secretary, is chaired by an independent non-executive Director, and meets at least half-yearly and on other occasions to deal with specific matters. The BPC is responsible for reviewing and approving significant Capital Expenditure, procurement proposals as well as proposed consultancy assignments. It also approves any unbudgeted

Statement on corporate governance (continued)

capital expenditure beyond the Delegated Authority of Executive Management in addition to review and approval of procurement of goods and services from related parties.

Board Capital Structure Strategy Committee (BCSSC)
This committee comprising six members, excluding the Secretary, is chaired by an independent non-executive Director, and meets at least once every quarter. It assists the Board in fulfilling its responsibilities by considering matters pertaining to raising of equity and debt capital of the Bank from time to time.

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

Board Nomination and Remuneration Committee (BNRC)
The Board has delegated responsibility to the BNRC to undertake structured assessment of candidates for membership of the Board and Executive Management, and establishment of an appropriate framework for remuneration of the Board and Executive Management members, in line with clearly defined remuneration principles. This Committee is also responsible for assessment of individual Board member's performance as well as overall performance/effectiveness of the Board and recommending any changes/improvements deemed necessary for consideration by the full Board.

Management committees:

Business Strategy & Coordination Committee
This Committee provides the link between the Board and the Management in terms of formulating, implementing and monitoring of the Bank's Strategic direction, intent and objectives.

Executive Committee (EXCO)
This Committee provides the link between the Board, Top Management and Unit Heads. It is responsible for reviewing and benchmarking the Bank's financial and business performance, reviewing progress of special projects, identification of risks or opportunities and overseeing successful implementation of all key performance improvement initiatives across the Bank.

Assets & Liabilities Committee (ALCO)
The Bank's Assets & Liabilities Committee is responsible for overall management of the Bank's Balance Sheet, to optimize the Bank's Returns while closely monitoring and managing these within an acceptable risk/reward matrix. ALCO closely monitors and manages the following risks; liquidity, interest rate, maturity gap, Exchange rate movements, counter party and settlements risk. It also closely reviews and evaluates the Bank's investment strategies to ensure no undue exposure to liquidity risk but taking into consideration the need to maximize the risk-adjusted returns over the long term.

Credit Risk Management Committee (CRMC)
This Committee is the link between the Board and Management in terms of establishing and implementing the credit and lending policies of the Bank. It is responsible for the sanction of credit proposals in line with the Bank's Credit Policy, effective follow-up of all Credit-related matters and review of Non-Performing Accounts.

Human Resources Committee (HRC)
HRC, in liaison with the Board Nomination and Remuneration Committee (BNRC) assists the Board in fulfilling its Human Resource Management responsibilities, with due recognition to this key resource available to the Bank. It periodically reviews existing HR policies to ensure these are well aligned to the industry, with a view of ensuring the Bank is able to attract and retain good talent to meet its overall Strategic and Corporate Objectives on a sustainable basis. It also reviews and approves, within its Delegated Authority, all other major HR Initiatives and provides necessary guidance to HR department to ensure the Bank's Human Resources remain well motivated and engaged.

Statement on corporate governance (continued)

IT Steering Committee (ITSC)

This Committee is responsible for overall IT governance in a growing IT based banking environment, with emphasis on identification, assessment and management of IT risks, ensuring optimum use of IT resources, determining prioritization of IT investments in line with the Bank's strategy, monitoring service levels and adopting best practices.

Corporate Social Responsibility (CSR)

The Bank's role in corporate social responsibility has been increasing over the years and the Bank endeavors to create a sustainable relationship with the institutions/individuals it supports. Every year, a review of the previous year's CSR activities is carried out, taking into consideration the inflation rates and additional funding required for the current year. The Bank's CSR activities are broad-based and include providing bursary support programmes, feeding programmes, HIV/AIDS Positive Living support & awareness programs and, environment care amongst others.

The Bank has a formal structure and policies for social and environmental care to ensure green consciousness among all the staff and to ensure that the Bank's activities are carried out in an eco-friendly manner.

Statement on corporate governance (continued)

Board Committees

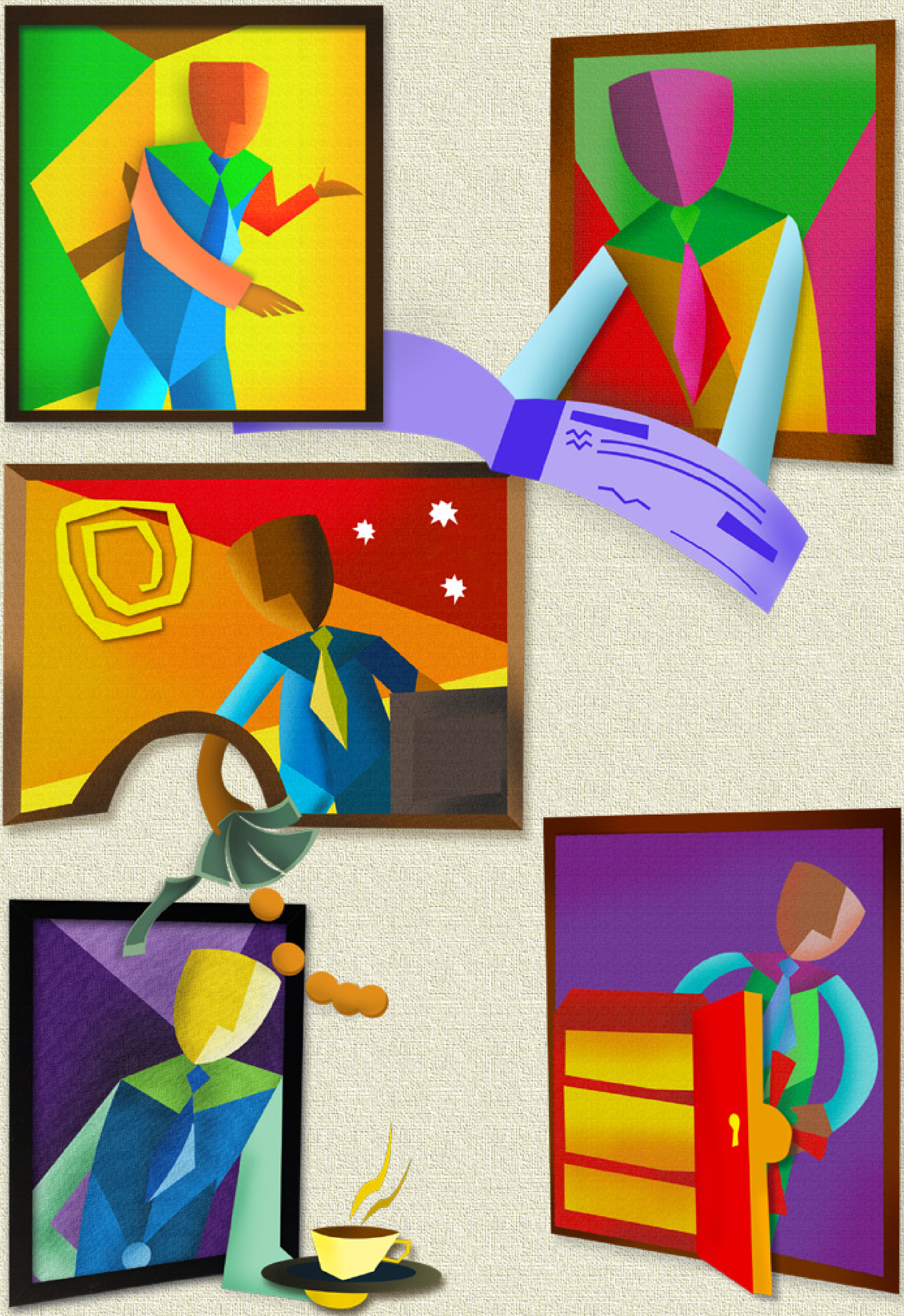
Tabulated below are Board Committees, their composition and membership, functions and the frequency of meetings:

	Board Audit Committee	Board Risk Committee	Board Credit Committee	Board Procurement Committee	Board Capital Structure Strategy Committee	Board Share Transfers Committee	Board Nomination & Remuneration Committee
Chairman	Independent Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director	Non-Executive Director	Independent Non-Executive Director
Members (including Chairman)	• 3 Non-executive Independent Directors; • 1 Non-executive Director • Head of Internal Audit (Secretary) **Invitees:** • Executive Director • CEO • Head of Business Support • Head of Business Development	• 3 Independent Non-executive Directors, • 1 Non-executive Director, • 1 Executive Director, • Head of Risk & Compliance (Secretary) **Invitees:** • CEO	• 3 Independent Non-executive Directors, • 1 Non–executive Director, • 1 Executive Director, • Chief Executive Officer (CEO) • Head of Credit (Secretary)	• 3 Independent Non-executive Directors, • 1 Executive Director, • CEO, • Head of Business Support • Head of Finance (Secretary)	• 2 Independent Non-executive Directors • 1 Executive Director • CEO • 1 External Advisor • Head – Corporate & Strategic Planning (CSP) • Chief Manager-CSP (Secretary)	• 2 Non-executive Directors • 1 Executive Director • Company Secretary (Secretary)	• 2 Independent Non-executive Directors • 1 Executive Director **Invitees:** • CEO • Head of Business Support • Head of HR (Secretary)
Frequency of meetings	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Main functions	• Review structure and adequacy of internal controls • Review activities and scope of Internal Audit & Compliance Departments and assess their effectiveness • Review & co-ordinate between External Auditors & Internal Audit Department • Review and receive CBK Inspection Report, and put in place measures to implement recommendations thereof.	• Ensure that the Risk Mgmt Framework & the processes as approved are implemented • Review , monitor & deliberate on the appropriate risk mitigation approach • Ensure BCP is formulated, tested and reviewed periodically • Review of policies, procedures and exposure limits • Review of proposed strategic initiatives • Creating awareness about Risk Management Process in the Bank.	• Review lending policy • Consider loan applications beyond discretionary limits granted to CRMC • Review lending by CRMC • Direct, monitor, review all aspects that will impact upon present and future Credit risk management at the Bank • Ensure compliance with Banking Act and Prudential Guidelines • Conduct independent loan reviews as and when appropriate.	• Review & approve the Procurement Policy • Review & consider significant procurement proposals / consultancy assignments above Management's Delegated Authority limits • Review and approve procurement of goods and services from related parties. • Review & ratify unbudgeted capital expenditure above Management's Delegated Authority limits	• Review and approve Strategy & objectives on additional capital needs. • Ensure optimal capital structure with appropriate mix of debt and equity to support Bank's Strategy • Risk assessment & approval of capital raising avenues proposed by management • Regularly review structure and terms of debt capital.	• Ensure that any new shareholders meet the Board's criteria of good standing. • Approve / reject applications for the transfer of shares and approve registration of such transfers. • Give guidance and approve any share allotment arising out of a bonus / rights issue. • Sign the Share Certificates, under Company Seal, to be issued to any shareholder.	• Assessment of Board requirements for Non-executive Directors, including requisite competencies. • Development programs to build individual skills and improve Board effectiveness. • Board and Senior Management succession planning. • Performance evaluation of the Board, Individual Directors and of the ED & CEO. • Set remuneration policies & strategic objectives of Board, ED & CEO • Set ESOP Scheme Policy and provide requisite guidance to Scheme Trustee.

Statement on corporate governance (continued)

Tabulated below are Management Committees, their composition and membership, functions and the frequency of meetings:

	Business strategy committee	Executive committee	Assets & liabilities committee	Credit risk management committee	Human resources committee	IT steering committee
Chairman	Executive Director (ED)	Executive Director (ED)	Executive Director (ED)	Executive Director (ED)	Executive Director (ED)	Chief Executive Officer (CEO)
Members (Including chairman)	ED, CEO, Senior General Manager **Heads of:** • Business Development • Business Support • Corporate & Strategic Planning. (Secretary)	ED, CEO, **Heads of :** • Business Development • Business Support • Risk • Treasury • Corporate & Strategic Planning. Chief Manager – CEO's Office (Secretary) **Invitees:** • Head – Internal Audit	ED, CEO, Senior General Manager **Heads of:** • Business Development • Business Support • Risk • Treasury (Secretary) **Invitees:** • Head – Finance • Chief Manager – Corporate & Strategic Planning	ED, CEO Senior General Manager Senior Executive Manager **Heads of :** • Business Development • Risk • Credit (Secretary)	ED, CEO, Senior General Manager **Heads of:** • Business Development • Business Support • HR (Secretary)	CEO, **Heads of :** • Business Development • Business Support • Central Marketing • Chief Manager – CEO's Office • ICT (Secretary)
Frequency of meetings	Quarterly	Monthly	Monthly	Fortnightly	Monthly	Quarterly
Main functions	• Lead and direct Strategic Planning Process, including formulation, implementation and evaluation of Strategy. • Review & recommend mid-stream corrections in Strategic Direction • Ensure bank-wide strategic focus by setting medium/short term objectives. • Evaluate progress on Strategic and Corporate Objectives • Periodically evaluate performance targets.	• Review & benchmark Bank's financial & business performance • Review issues that warrant policy changes for other management committees • Review progress of special projects and implementation status of policy initiatives • Review & formulate marketing strategies. • Manage key risks and ensure Risk Management Committee has access to requisite information • Review disaster preparedness and business continuity.	• Liquidity management • Interest Rate Management • Maturity Gap Management • Determining the investment strategies of the Bank for maximization of risk adjusted returns over the long term. • Counter Party & Settlements Risk Management • Currency Risk Management	• Set Credit Policy & Credit Risk Management Policy • Sanction Credit Proposals in line with Policy and CBK Guidelines • Review NPAs • Consider & approve new asset-based products. • Control & follow-up on credit-related matters. • Regularly report to Board Credit Committee.	• Review & monitor implementation of various staff development and welfare initiatives to ensure maintenance of productive and healthy staff relations. • Review of Bank's Manpower Plan • Review and take decisions on disciplinary issues. • Review staff remuneration vis-à-vis overall Bank's performance and industry to ensure the Bank remains competitive in attracting and retaining talent. • Update Board on HR Matters.	• Draw up the Strategic ICT Plan • Guide development of the information architecture and determine the technological direction. • Define ICT processes, organisation and relationships. • Identify, assess and manage IT risks • Define and manage ICT and ICT-dependent projects. • Ensure optimum use of IT resources & manage ICT investments.



Statement of directors' responsibilities

The Directors are responsible for the preparation and fair presentation of the group and company financial statements of I&M Bank LIMITED set out on pages 26 to 92 which comprise the consolidated and company statement of financial position as at 31 December 2011, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs and the operating results of the group and the company.

The Directors' responsibilities include: determining that the basis of accounting described in Note 3 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and the company as at the end of the financial year and of the operating results of the group for that year. It also requires the Directors to ensure the group 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 group and the company's ability to continue as a going concern and have no reason to believe the group and the company 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 22 March 2012 and were signed on its behalf by:

S B R Shah
Director

Sarit S Raja Shah
Director

M Soundararajan
Director

KPMG Kenya
Certified Public Accountants
16th Floor, Lonrho House,
Standard Street P.O. Box 40612 00100 GPO
Nairobi Kenya

Telephone: +254 20 2806000
Fax: +254 20 2215695
Email: info@kpmg.co.ke
Internet:www.kpmg.co.ke

Report of the independent auditors to the members of I&M Bank Limited

We have audited the consolidated and company financial statements of I&M Bank LIMITED set out on pages 26 to 92 which comprise the consolidated and company statement of financial position as at 31 December 2011, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

As stated on page 24, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of Kenya, 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.

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the consolidated and separate financial position of I&M Bank LIMITED at 31 December 2011, and the consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

REPORT ON OTHER LEGAL REQUIREMENTS

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

- 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;
- In our opinion, proper books of account have been kept by the Bank, in so far as appears from our examination of those books; and,
- The statement of financial position and statement of comprehensive income of the Bank are in agreement with the books of account.

KPMG Kenya
DATE: 22 March 2012

Consolidated statement of comprehensive income for the year ended 31 December 2011

	Note	2011 KShs	2010 KShs
Interest income	7	9,031,130,752	6,552,914,370
Interest expense	8	(3,468,274,810)	(2,779,117,368)
Net interest income		**5,562,855,942**	**3,773,797,002**
Fee and commission income	9	1,360,600,603	997,962,488
Fee and commission expense	9	(74,560,531)	(51,440,440)
Net fee and commission income	9	**1,286,040,072**	**946,522,048**
Net trading income		**6,848,896,014**	**4,720,319,050**
Other operating income	10	1,110,553,805	1,200,097,330
OPERATING INCOME		**7,959,449,819**	**5,920,416,380**
Staff costs	11	(1,484,091,145)	(1,196,757,026)
Premises and equipment costs	11	(201,043,272)	(154,674,759)
General administrative expenses	11	(865,777,640)	(544,336,865)
Depreciation and amortisation	11	(204,692,395)	(197,852,242)
OPERATING EXPENSES		**(2,755,604,452)**	**(2,093,620,892)**
OPERATING PROFIT BEFORE IMPAIRMENT LOSSES AND TAXATION		5,203,845,367	3,826,795,488
Net impairment losses on loans and advances	18 (c)	(249,952,677)	(300,314,014)
PROFIT BEFORE INCOME TAX	12	**4,953,892,690**	**3,526,481,474**
INCOME TAX EXPENSE	13	(1,481,168,719)	(1,001,913,927)
NET PROFIT FOR THE YEAR		**3,472,723,971**	**2,524,567,547**
OTHER COMPREHENSIVE INCOME			
Net change in fair value of available for sale financial assets		(1,791,653,542)	1,478,280,843)
Foreign currency translation differences		88,686,887	7,575,251
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		**(1,702,966,655)**	**1,485,856,094**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,769,757,316**	**4,010,423,641**

Consolidated statement of comprehensive income for the year ended 31 December 2011 (continued)

	Note	2011 KShs	2010 KShs
PROFIT ATTRIBUTABLE TO:			
Equity holders of the company		3,384,037,932	2,438,680,282
Non controlling interest		88,686,039	85,887,265
		3,472,723,971	**2,524,567,547**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the company		1,690,740,504	3,940,172,040
Non controlling interest		79,016,812	70,251,601
		1,769,757,316	**4,010,423,641**
BASIC AND DILUTED EARNINGS PER SHARE - (KShs)	14	**117.72**	**92.51**
DIVIDEND PER SHARE - (KShs)			
- Final	15	**26.00**	**20.00**

The notes set out on pages 37 to 92 form an integral part of these financial statements.

Company statement of comprehensive income for the year ended 31 December 2011

	Note	2011 KShs	2010 KShs
Interest income	7	7,171,265,480	5,165,118,246
Interest expense	8	(2,515,825,273)	(2,057,499,240)
Net interest income		**4,655,440,207**	**3,107,619,006**
Fee and commission income	9	1,094,852,551	806,342,925
Fee and commission expense	9	(39,564,601)	(26,022,378)
Net fee and commission income	9	**1,055,287,950**	**780,320,547**
Net trading income		**5,710,728,157**	**3,887,939,553**
Other operating income	10	873,019,931	989,424,845
Dividend income	10	61,311,323	-
		934,331,254	989,424,845
OPERATING INCOME		**6,645,059,411**	**4,877,364,398**
Staff costs	11	(1,079,080,233)	(890,115,323)
Premises and equipment costs	11	(138,028,337)	(110,990,450)
General administrative expenses	11	(647,506,239)	(392,090,960)
Depreciation and amortisation	11	(143,231,097)	(149,402,792)
OPERATING EXPENSES		**(2,007,845,906)**	**(1,542,599,525)**
OPERATING PROFIT BEFORE IMPAIRMENT LOSSES AND TAXATION		**4,637,213,505**	**3,334,764,873**
Net impairment losses on loans and advances	18 (c)	(179,882,130)	(330,282,426)
PROFIT BEFORE INCOME TAX	12	4,457,331,375	3,004,482,447
INCOME TAX EXPENSE	13	(1,362,712,977)	(887,081,587)
NET PROFIT FOR THE YEAR		**3,094,618,398**	**2,117,400,860**
OTHER COMPREHENSIVE INCOME			
Net change in fair value of available for sale financial assets		(1,784,158,894)	1,486,279,527
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		**(1,784,158,894)**	**1,486,279,527**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,310,459,504**	**3,603,680,387**
BASIC AND DILUTED EARNINGS PER SHARE - (KShs)	14	**107.65**	**80.32**
DIVIDEND PER SHARE - (KShs)	15		
- Final		**26.00**	**20.00**

The notes set out on pages 37 to 92 form an integral part of these financial statements.

Consolidated statement of financial position at 31 December 2011

	Note		2011 KShs	2010 KShs
ASSETS				
Cash and balances with Central Banks	16		6,998,087,179	5,478,824,847
Loans and advances to banks	17		9,909,058,869	6,095,811,170
Loans and advances to customers	18	(a)	66,365,869,990	50,257,348,920
Investment securities	19		19,685,791,796	20,787,432,263
Property and equipment	21		1,915,489,873	1,734,367,046
Intangible asset - Goodwill	22	(a)	1,116,975,611	1,115,093,937
Intangible assets - software	22	(b)	108,047,505	59,174,050
Prepaid operating lease rentals	23		250,883,040	139,594,697
Deferred tax asset	24		324,148,418	299,808,134
Other assets	25		1,389,360,098	914,698,425
TOTAL ASSETS			**108,063,712,379**	**86,882,153,489**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Deposits from banks	26		2,546,060,409	1,393,755,221
Deposits from customers	27		85,212,903,828	68,208,428,320
Tax payable			326,369,628	346,275,667
Other liabilities	28		1,375,934,460	940,007,309
Long term borrowings	29		3,435,773,450	2,143,250,130
			92,897,041,775	73,031,716,647
Shareholders' equity (Page 33&34)				
Share capital	30	(a)	2,880,245,300	2,870,245,300
Share premium	30	(d)	3,773,237,119	3,690,214,995
Retained earnings			7,185,254,003	4,605,636,550
Revaluation reserve	30	(e)	142,330,963	142,330,963
Statutory loan loss reserve	30	(f)	91,470,947	34,475,342
Translation reserve	30	(g)	124,672,483	26,316,369
Available-for-sale reserve	30	(h)	(327,832,140)	1,463,821,402
Proposed dividends			747,424,874	527,212,930
			14,616,803,549	13,360,253,851
Equity attributable to owners of the company				
Non controlling interest			549,867,055	490,182,991
TOTAL SHAREHOLDERS' EQUITY			**15,166,670,604**	**13,850,436,842**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			**108,063,712,379**	**86,882,153,489**

The financial statements set out on pages 26 to 92 were approved by the Board of Directors on 22 March 2012 and were signed on its behalf by:

S B R Shah	Sarit S Raja Shah	M Soundararajan	N P Kothari
Director	*Director*	*Director*	*Secretary*

The notes set out on pages 37 to 92 form an integral part of these financial statements.

Company statement of financial position at 31 December 2011

	Note		2011 KShs	2010 KShs
ASSETS				
Cash and balances with Central Bank of Kenya	16		4,194,306,060	3,243,399,025
Loans and advances to banks	17		5,249,410,628	1,029,423,036
Loans and advances to customers	18	(a)	46,778,935,277	35,642,514,986
Investment securities	19		15,638,392,183	17,919,595,908
Investment in joint venture	20	(a)	1,245,537,610	1,245,537,610
Investment in subsidiary	20	(b)	1,122,911,360	1,122,911,360
Property and equipment	21		1,311,990,698	1,246,472,112
Intangible asset - Goodwill	22	(a)	10,746,998	10,746,998
Intangible assets - Software	22	(b)	41,766,239	16,897,583
Prepaid operating lease rentals	23		250,883,040	139,594,697
Deferred tax asset	24		261,725,834	230,713,760
Other assets	25		796,665,507	688,767,590
TOTAL ASSETS			**76,903,271,434**	**62,536,574,665**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Deposits from banks	26		1,977,206,300	932,454,803
Deposits from customers	27		56,943,705,296	45,994,961,254
Tax payable			311,262,090	339,792,151
Other liabilities	28		845,599,170	517,466,690
Long term borrowings	29		2,969,262,405	1,771,932,292
			63,047,035,261	49,556,607,190
Shareholders' equity (Page 35&36)				
Share capital	30	(a)	2,880,245,300	2,870,245,300
Share premium	30	(d)	3,773,237,119	3,690,214,995
Retained earnings			6,609,634,053	4,285,491,453
Revaluation reserve	30	(e)	138,233,119	138,233,119
Statutory loan loss reserve	30	(f)	23,050,924	-
Available-for-sale reserve	30	(h)	(315,589,216)	1,468,569,678
Proposed dividends			747,424,874	527,212,930
			13,856,236,173	12,979,967,475
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			**76,903,271,434**	**62,536,574,665**

The financial statements set out on pages 26 to 92 were approved by the Board of Directors on 22 March 2012 and were signed on its behalf by:

S B R Shah	Sarit S Raja Shah	M Soundararajan	N P Kothari
Director	***Director***	***Director***	***Secretary***

The notes set out on pages 37 to 92 form an integral part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2011

	Note	2011 KShs	2010 KShs
Net cash flows from operating activities	31 (a)	**(5,148,080,504)**	**(11,424,665,525)**
Cash flows from investing activities			
Purchase of property and equipment		(299,338,272)	(151,895,731)
Purchase of intangible assets		(93,809,317)	(19,260,151)
Purchase of prepaid operating leases		(115,837,471)	(4,110,438)
Proceeds from disposal of property and equipment		7,581,603	2,230,863
Proceeds from disposal of investment securities		7,897,115,309	9,123,313,630
Net inflow from investment in subsidiary	20 (b)	-	694,380,212
Proceeds from rights issue – non controlling interest		-	200,337,467
Net inflow from investment in joint venture	20 (a)	-	108,478,238
Net cash utilised in investing activities		**7,395,711,852**	**9,953,474,090**
Cash flows from financing activities			
Proceeds from issue of share capital			
Net of issue expenses		10,000,000	256,684,500
Share premium from issue of share capital			
Net of issue expenses		83,022,124	2,124,936,852
Receipt of long term borrowings		1,292,523,320	803,465,871
Dividend paid to shareholders of the company		(527,212,930)	(424,459,475)
Dividend paid to non controlling interests		(19,332,747)	-
Net cash generated from financing activities		**838,999,767**	**2,760,627,748**
Net increase in cash and cash equivalents	31 (b)	**3,086,631,115**	**1,289,436,313**

The notes set out on pages 37 to 92 form an integral part of these financial statements.

Company statement of cash flows for the year ended 31 December 2011

	Note	2011 KShs	2010 KShs
Net cash flows from operating activities	31 (c)	**(4,025,280,104)**	**(11,918,197,460)**
Cash flows from investing activities			
Purchase of property and equipment		(175,287,810)	(162,474,140)
Purchase of intangible assets		(57,387,294)	(10,516,529)
Purchase of prepaid leases		(115,837,471)	(4,110,438)
Proceeds from disposal of property and equipment		7,416,999	1,502,000
Dividends received		61,311,323	-
Investment in joint venture	20 (a)	-	(323,240,000)
Investments in subsidiary	20 (b)	-	(1,122,911,360)
Proceeds on investment securities		6,833,035,347	9,110,156,708
Net cash utilised in investing activities		**6,553,251,094**	**7,488,406,241**
Cash flows from financing activities			
Proceeds from issue of share capital			
Net of issue expenses		10,000,000	256,684,500
Share premium from issue of share capital		83,022,124	2,124,936,852
Net proceeds of long term borrowings		1,197,330,113	658,017,196
Dividend paid		(527,212,930)	(424,459,475)
Net cash generated from financing activities		**763,139,307**	**2,615,179,073**
Net increase in cash and cash equivalents	31 (d)	**3,291,110,297**	**(1,814,612,146)**

The notes set out on pages 37 to 92 form an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2011

2010:	Share Capital KShs	Share premium KShs	Retained earnings KShs	Statutory reserve KShs	Revaluation reserve KShs	Available-for -sale reserve KShs	Translation reserve KShs	Proposed dividends KShs	Total KShs	Non controlling interest KShs	Total KShs
At 1 January 2010	2,613,560,800	1,565,278,143	2,728,644,540	-	142,330,963	(14,459,441)	3,105,454	424,459,475	7,462,919,934	-	7,462,919,934
Total comprehensive income for the year											
Net profit after taxation	-	-	2,438,680,282	-	-	-	-	-	2,438,680,282	85,887,265	2,524,567,547
Other comprehensive income											
Translation reserve	-	-	-	-	-	-	23,210,915	-	23,210,915	(15,635,664)	7,575,251
Available for sale reserve	-	-	-	-	-	1,478,280,843	-	-	1,478,280,843	-	1,478,280,843
Statutory loan loss reserve	-	-	(34,475,342)	(34,475,342)	-	-	-	-	-	-	-
Total other comprehensive income	**-**	**-**	**(34,475,342)**	**34,475,342**	**-**	**1,478,280,843**	**23,210,915**	**-**	**1,501,491,758**	**(15,635,664)**	**1,485,856,094**
Total comprehensive income	**-**	**-**	**2,404,204,940**	**34,475,342**	**-**	**1,478,280,843**	**23,210,915**	**-**	**3,940,172,040**	**70,251,601**	**4,010,423,641**
Transactions with owners, recorded directly in equity											
Share capital - additional shares issued	256,684,500	2,143,315,575	-	-	-	-	-	-	2,400,000,075	200,327,915	2,600,327,990
Expenses on increase of share capital	-	(18,378,723)	-	-	-	-	-	-	(18,378,723)	-	(18,378,723)
Dividend paid - 2009 final	-	-	-	-	-	-	-	(424,459,475)	(424,459,475)	-	(424,459,475)
Dividend proposed - 2010 final	-	-	(527,212,930)	-	-	-	-	527,212,930	-	-	-
Total transactions with owners for the year	**256,684,500**	**2,124,936,852**	**(527,212,930)**	**-**	**-**	**-**	**-**	**102,753,455**	**1,957,161,877**	**200,327,915**	**2,157,489,792**
Changes in ownership interests in subsidiary:											
Non controlling interest on share capital at acquisition of subsidiary	-	-	-	-	-	-	-	-	-	44,661,619	44,661,619
Retained earnings at acquisition of subsidiary	-	-	-	-	-	-	-	-	-	174,941,856	174,941,856
Total changes in ownership interests in subsidiary (note 20(b))	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**219,603,475**	**219,603,475**
Balance as at 31 December 2010	**2,870,245,300**	**3,690,214,995**	**4,605,636,550**	**34,475,342**	**142,330,963**	**1,463,821,402**	**26,316,369**	**527,212,930**	**13,360,253,851**	**490,182,991**	**13,850,436,842**

The notes set out on pages 37 to 92 form an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2011 (continued)

2011:	Share capital KShs	Share premium KShs	Retained earnings KShs	Statutory reserve KShs	Revaluation reserve KShs	Available-for -sale reserve KShs	Translation reserve KShs	Proposed dividends KShs	Total KShs	Non controlling interest KShs	Total KShs
At 1 january 2011	2,870,245,300	3,690,214,995	4,605,636,550	34,475,342	142,330,963	1,463,821,402	26,316,369	527,212,930	13,360,253,851	490,182,990	13,850,436,841
Total comprehensive income for the year											
Net profit after taxation	-	-	3,384,037,932	-	-	-	-	-	3,384,037,932	88,686,039	3,472,723,971
Other comprehensive income											
Translation reserve	-	-	-	-	-	-	98,356,114	-	98,356,114	(9,669,227)	88,686,887
Available for sale reserve	-	-	-	-	-	(1,791,653,542)	-	-	(1,791,653,542)	-	(1,791,653,542)
Statutory loan loss reserve	-	-	(56,995,605)	56,995,605	-	-	-	-	-	-	-
Total other comprehensive income	**-**	**-**	**(56,995,605)**	**56,995,605**	**-**	**(1,791,653,542)**	**98,356,114**	**-**	**(1,693,297,428)**	**(9,669,227)**	**(1,702,966,655)**
Total comprehensive income	**-**	**-**	**3,327,042,327**	**56,995,605**	**-**	**(1,791,653,542)**	**98,356,114**	**-**	**1,690,740,504**	**79,016,812**	**1,769,757,316**
Transactions with owners, recorded directly in equity											
Share capital - additional shares issued	10,000,000	83,500,000	-	-	-	-	-	-	93,500,000	-	93,500,000
Expenses on increase of share capital	-	(477,876)	-	-	-	-	-	-	(477,876)	-	(477,876)
Dividend paid - 2010 final	-	-	-	-	-	-	-	(527,212,930)	(527,212,930)	(19,332,747)	(546,545,677)
Dividend proposed - 2011 final	-	-	(747,424,874)	-	-	-	-	747,424,874	-	-	-
Total transactions with owners for the year	**10,000,000**	**83,022,124**	**(747,424,874)**	**-**	**-**	**-**	**-**	**220,211,944**	**(434,190,806)**	**(19,332,747)**	**(453,523,553)**
Balance as at 31 December 2011	**2,880,245,300**	**3,773,237,119**	**7,185,254,003**	**91,470,947**	**142,330,963**	**(327,832,140)**	**124,672,483**	**747,424,874**	**14,616,803,549**	**549,867,055**	**15,166,670,604**

The notes set out on pages 37 to 92 form an integral part of these financial statements.

Company statement of changes in equity for the year ended 31 December 2011

2010:	Share capital KShs	Share premium KShs	Retained earnings KShs	Statutory reserve KShs	Available for sale reserve KShs	Revaluation reserve KShs	Proposed dividends KShs	Total KShs
At 1 january 2010	2,613,560,800	1,565,278,143	2,695,303,523	-	(17,709,849)	138,233,119	424,459,475	7,419,125,211
Total comprehensive income for the year								
Net profit after taxation	-	-	2,117,400,860	-	-	-	-	2,117,400,860
Other comprehensive income								
Available for sale reserve	-	-	-	-	1,486,279,527	-	-	1,486,279,527
Total comprehensive income	**-**	**-**	**2,117,400,860**	**-**	**1,486,279,527**	**-**	**-**	**3,603,680,387**
Transactions with owners recorded directly in equity								
Share capital - additional shares issued	256,684,500	2,143,315,575	-	-	-	-	-	2,400,000,075
Expenses on increase of share capital	-	(18,378,723)	-	-	-	-	-	(18,378,723)
Dividend paid - 2009 final	-	-	-	-	-	-	(424,459,475)	(424,459,475)
Dividend proposed - 2010 final	-	-	(527,212,930)	-	-	-	527,212,930	-
Total transactions with owners for the year	**256,684,500**	**2,124,936,852**	**(527,212,930)**	**-**	**-**	**-**	**102,753,455**	**1,957,161,877**
Balance as at 31 December 2010	**2,870,245,300**	**3,690,214,995**	**4,285,491,453**	**-**	**1,468,569,678**	**138,233,119**	**527,212,930**	**12,979,967,475**

The notes set out on pages 37 to 92 form an integral part of these financial statements.

Company statement of changes in equity for the year ended 31 December 2011 (continued)

2011:	Share capital KShs	Share premium KShs	Retained earnings KShs	Statutory reserve KShs	Available for sale reserve KShs	Revaluation reserve KShs	Proposed dividends KShs	Total KShs
At 1 January 2011	2,870,245,300	3,690,214,995	4,285,491,453	-	1,468,569,678	138,233,119	527,212,930	12,979,967,475
Total comprehensive income for the year								
Net profit after taxation	-	-	3,094,618,398	-	-	-	-	3,094,618,398
Other comprehensive income								
Available for sale reserve	-	-	-	-	(1,784,158,894)	-	-	(1,784,158,894)
Statutory loan loss reserve	-	-	(23,050,924)	23,050,924	-	-	-	-
Total other comprehensive income	**-**	**-**	**(23,050,924)**	**23,050,924**	**(1,784,158,894)**	**-**	**-**	**(1,784,158,894)**
Total comprehensive income	**-**	**-**	**3,071,567,474**	**23,050,924**	**(1,784,158,894)**	**-**	**-**	**1,310,459,504**
Transactions with owners recorded directly in equity								
Share capital - additional shares issued	10,000,000	83,500,000	-	-	-	-	-	93,500,000
Expenses on increase of share capital	-	(477,876)	-	-	-	-	-	(477,876)
Dividend paid - 2010 final	-	-	-	-	-	-	(527,212,930	(527,212,930)
Dividend proposed - 2011 final	-	-	(747,424,874)	-	-	-	747,424,874	-
Total transactions with owners for the year	**10,000,000**	**83,022,124**	**(747,424,874)**	**-**	**-**	**-**	**220,211,944**	**(434,190,806)**
Balance as at 31 December 2011	**2,880,245,300**	**3,773,237,119**	**6,609,634,053**	**23,050,924**	**(315,589,216)**	**138,233,119**	**747,424,874**	**13,856,236,173**

The notes set out on pages 37 to 92 form an integral part of these financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2011

1. REPORTING ENTITY

I&M Bank LIMITED is a limited liability company incorporated in Kenya under the Kenyan Companies Act, and is domiciled in Kenya. The consolidated financial statements of the group as at and for the year ended 31 December 2011 comprise the company, its joint venture and a subsidiary (together referred to as the "Group"). The Bank has 50% (2010 - 50%) interest in Bank One Limited, Mauritius (formerly First City Bank Limited), the joint venture in a bank licensed in Mauritius and 55.03% shareholding in I&M Bank (T) Limited. Both Banks are licensed in the respective countries and are in the business of banking and the provision of financial services. The Bank primarily is involved in provision of an extensive range of banking, financial and related services permitted under the Kenyan Banking Act (Cap.488). The address of its registered office is as follows:

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

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

(b) Basis of measurement

The financial statements have been prepared under the historical cost basis of accounting except for the following:

- derivative financial instruments are measured at fair value
- available-for-sale financial assets are measured at fair value

(c) Functional and presentation currency

These financial statements are presented in Kenya Shillings (KShs), which is the Bank's functional currency.

Items included in the financial statements are measured using the currency of primary economic environment in which the entity operates i.e. Kenya Shillings

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and assumptions are based on the Directors' best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements is described in Note 5.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

(i) Jointly controlled entity

Jointly controlled entities are accounted for using the proportionate consolidation method. The balance sheet of the Group includes its share of the assets and liabilities and the income statement includes its share of income and the expenses of the jointly controlled entity. The Bank has 50% (2010 - 50%) control over Bank One Limited (formerly First City Bank Limited – Mauritius) with the other joint venturer, CIEL Investments Limited.

(ii) Subsidiary

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain the benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Foreign currencies

Foreign currency transactions are translated into the functional currency 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 income statement 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 fair value reserve in equity.

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

i. assets and liabilities at each reporting period are translated at the closing rate;
ii. income and expenses for each income statement 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 as a separate component of equity.

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 taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Foreign currencies (continued)

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.

(c) Income recognition

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

For available-for-sale assets and financial assets and liabilities held at amortised cost, interest income and interest expense is recognised in the income statement using the effective interest rate method.

Gains and losses arising from changes in the fair value of financial assets and liabilities at fair value through the income statement, as well as any interest receivable or payable, is included in the income statement 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 equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement.

(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 the income statement using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating interest income or interest expense over the relevant period.

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

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

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

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading 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 expense relates mainly to transaction and service fees, which are expensed as the services are received.

(iii) Net trading income

Net trading 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.

(iv) Rental income – other operating income

Rental income from I&M Tower is recognised in the income statement on a straight-line basis over the term of the lease.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Income recognition (continued)

(v) Dividends

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

(d) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable profit.

Deferred tax is calculated on the basis of the tax rates currently enacted or substantively enacted at the balance sheet 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. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(e) Financial assets and liabilities

(i) Recognition and measurement

The Group recognises assets on the date it commits to purchase the asset. From this date, any gains or losses arising from changes in fair value of the assets are recognised in the profit and loss account for financial assets at fair value through profit and loss. While gains and losses arising from changes in fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in profit and loss account.

Held to maturity instruments and loans and receivables are recognised on the day they are transferred to the Group.

(ii) Derecognition

A financial asset is derecognised when the Group loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Group commits to sell the assets. The Group uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Group.

(iii) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported on the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial assets and liabilities (continued)

(iv) Amortised cost measurement

The amortised 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 amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment

(v) Identification and measurement of impairment of financial assets

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

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the Group.

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

Impairment losses on assets carried at amortised 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 the income statement and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

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

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to the income statement. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through the income statement.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

(vi) Designation at fair value through profit or loss

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

Note 6 sets out the amount of each class of financial asset or liability that has been designated at fair value through profit or loss. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Cash and cash equivalents

For the purpose of presentation in the cash flow statement in the financial statements, the cash and cash equivalents include cash and balances with the Central Bank of Kenya which are available to finance the Bank's day to day operations, net balances from banking institutions, and treasury bills and bonds which mature within 90 days or less from the date of acquisition.

(g) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. They arise when the Bank provides money directly to a debtor with no intention of trading the receivable. Loans and receivables are initially measured at fair value plus incidental direct cost and subsequently measured at amortised cost using effective interest method. Loans and receivables comprise loans and advances and placement with other banks.

(h) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification either as held-to-maturity or available-for-sale.

(i) Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. Were the bank to sell, other than insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale. These include treasury bills and bonds and other investments.

(ii) Available-for-sale

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Bank, or held to maturity. Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial liabilities are classified either as trading financial liabilities or other financial liabilities.

Other financial liabilities include customer deposits, borrowings and deposits from banking and non-banking financial institutions.

(i) Property and equipment

Items of property and equipment are stated at historical cost or valuation less accumulated depreciation and impairment losses.

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: -

• Buildings	2%
• Leasehold improvements	10-12 1/2% or over the period of lease if shorter than 8 years
• Computer equipment and computer software	20-33 1/3%
• Furniture, fittings & fixtures	10- 12 1/2%
• Motor vehicles	20 -25%

The assets' residual values and useful lives are reviewed and adjusted as appropriate, at each balance sheet date.

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining the operating profit.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

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. 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.

(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 amortisation to 31 March 2004 and any subsequent accumulated impairment losses. Effective 1 April 2004, goodwill is no longer amortised but is tested annually 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 income statement on a straight-line basis over the period of the lease.

(ii) Financial lease receipts

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 for 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 income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

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

(m) Derivative financial instruments

The bank 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 balance sheet date.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Provisions

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

(o) Employee benefits

(i) Defined contribution plan

The majority of the Bank'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 guarantees scheme managed by an insurance company. Retirement plans are funded by contributions from the employees and the Bank. The Bank's contributions are charged to the income statement in the year to which they relate.

The Bank also recognizes as a liability the net obligation in respect of long term service benefits being the amount of future benefit that employees have earned in return for their service in the current and prior periods.

The employees of the Bank also contribute to the National Social Security Fund. Contributions are determined by local statute and the Bank's contributions are charged to the income statement in the year to which they relate.

(ii) Defined benefit plan

The joint venture, Bank One Limited – Mauritius, contributes to a defined benefit plan that provides for employees upon retirement and is wholly funded. The assets of the funded plan are held and administered independently by the Anglo Mauritius Assurance Society Limited.

(iii) Leave accrual

The monetary value of the unutilised leave by staff as at year end is carried in accruals as a payable and the movement in the year is debited/credited to the income statement.

(iv) Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are met. The Group acquired shares from the market and recognised the expense in the income statement upfront.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff expense in profit or loss.

(p) Share capital and reserves- share issue costs

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

(q) Earnings per share

Earnings per share are calculated based on the profit attributable to shareholders divided by the number of ordinary shares. Diluted earnings per share are computed using the weighted average number of equity shares and dilutive potential ordinary shares outstanding during the year. During the year there were no outstanding shares with dilutive potential.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Dividends

Dividends on ordinary shares are recognised as a liability in the period in which they are declared and proposed dividends are disclosed as a separate component of equity.

(s) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are accounted for as off balance sheet transactions and 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 the income statement.

(t) Customer loyalty programme

I&M Bank introduced a customer loyalty programme in October 2006, for its Credit card holders. The minimum redemption points is 500 which the customer can redeem at the point of renewing the card. A customer earns 1 point for every KShs 500 transaction.

(u) Related parties

In the normal course of business, the Group enters into transactions with related parties. The related party transactions are at arms length.

(v) Fiduciary activities

The Bank 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 Bank.

(w) Comparative information

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

(x) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2011, and have not been applied in preparing these consolidated financial statements as follows:

- Amendments to IAS 1'*Presentation of Items of Other Comprehensive Income*' (effective 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. It however does not change the existing option to present profit or loss and other comprehensive income in two statements but changes the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles.

- Amendments to IAS 12 '*Deferred Tax: Recovery of Underlying Assets Statements*' (effective 1 January 2012).The amendments introduce an exception to the general measurement requirements of IAS 12 'Income Taxes' in respect of investment properties measured at fair value. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) New standards and interpretations not yet adopted (continued)

- IAS 19 *'Employee Benefits'* (effective 1 January 2013).The amended IAS 19 requires that actuarial gains and losses are recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19. It also requires that expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation.

- IFRS 10 *'Consolidated Financial Statements'* (effective 1 January 2013). This standard replaces the requirements and guidance in IAS 27 relating to consolidated financial statements. The objective of this standard is to improve the usefulness of consolidated financial statements by developing a single basis for consolidation and robust guidance for applying that basis to situations where it has proved difficult to assess control in practice and divergence has evolved. The basis for consolidation is control and it is applied irrespective of the nature of the investee.

- IFRS 11 – *'Joint arrangements'* (effective 1 January 2013). IFRS 11 supersedes IAS 31 and SIC-13 relating to Jointly Controlled Entities. The objective of this IFRS is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly. It focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case). It further distinguishes joint arrangements between joint operations and joint ventures; and requires the equity method for jointly controlled entities that are now called joint ventures.

- IFRS 12 – *'Disclosure of interests in other entities'* (effective 1 January 2013). The objective of this IFRS is to require an entity to disclose information that enables users of its financial statements to evaluate: the nature of, and risks associated with, its interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows.

- IFRS 13 – *'Fair value measurement'* (effective 1 January 2013). IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

- IFRS 9 *'Financial Instruments'* (effective 1 January 2015) is a new standard on financial instruments that will eventually replace IAS 39. The published standard introduces changes to the current IAS 39 rules for classification and measurement of financial assets. Under IFRS 9 there will be two measurement bases for financial assets: amortised cost and fair value. Financial assets at fair value will be recorded at fair value through the profit and loss account with a limited opportunity to record changes in fair value of certain equity instruments through other comprehensive income. Financial liabilities are excluded from the scope of the standard.

The standard also differs from existing requirements for accounting for financial assets in various other areas, such as embedded derivatives and the recognition of fair value adjustments in other comprehensive income.

The standard will be applied retrospectively (subject to the standard's transitional provisions).

The Group is currently in the process of evaluating the potential effect of this standard. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

4. RISK MANAGEMENT

This section provides details of the Bank's exposure to risk and describes the methods used by management to control risk. The most important types of risk to which the Bank is exposed are liquidity risk, credit risk, market risk and operational risk. Market risk includes currency risk and interest rate risk.

(a) Credit risk

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

The Board of Directors has delegated responsibility of the management of credit risk to its Board Credit Committee. A separate Bank Credit Risk Management Committee reporting to the Board Credit Committee is responsible for oversight of the Bank credit risk.

The Bank's credit exposure at the balance sheet 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 balance sheet.

The risk that the counter-parties to trading instruments might default on their obligation is monitored on an ongoing 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 Bank deals with counter parties of good credit standing, enters into master netting agreements wherever possible and when appropriate, obtains collateral.

Master netting agreements provide for the net settlement of contracts with the same counter-party in the event of default

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

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

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

4. RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Exposure to credit risk

Company:

Loans and advances to customers	**2011**	**2010**
	KShs	**KShs**
Individually impaired		
Grade 3: Substandard	4,459,551	143,661,900
Grade 4: Impaired – Doubtful	999,994,552	1,040,742,148
	1,004,454,103	1,184,404,048
Allowance for impairment	(795,650,104)	(746,078,522)
Carrying amounts	**208,803,999**	**438,325,526**
Collectively impaired		
Grade 2: Watch	6,030,535,384	5,629,472,196
Grade 1: Normal	41,133,694,352	30,045,012,952
	47,164,229,736	35,674,485,148
Portfolio impairment provision	(594,098,458)	(470,295,688)
Carrying amounts	**46,570,131,278**	**35,204,189,460**
Total carrying amounts	**46,778,935,277**	**35,642,514,986**

Impaired loans and securities

Impaired loans and securities are loans for which the Bank 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 Bank's internal credit risk and grading system.

Past due but not impaired loans

These are loans where contractual interest or principal payments are past due but the Bank 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 Bank.

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 Bank 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 Bank 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.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

4. RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Write off policy

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

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

Loans and advances	Gross	Net
	KShs	KShs
Company:		
31 December 2011		
Grade 3: individually impaired	4,459,551	2,824,936
Grade 4: individually impaired	999,994,552	205,979,063
	1,004,454,103	**208,803,999**
31 December 2010		
Grade 3: individually impaired	143,661,900	125,709,174
Grade 4: individually impaired	1,040,742,148	312,616,352
	1,184,404,048	**438,325,526**

The Bank 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 2011 or 2010.

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

Loans and advances to customers	2011	2010
	KShs	KShs
Company		
Fair value of collateral held:		
- Against impaired loans	**232,249,593**	**434,562,555**

(b) Liquidity risk

Liquidity risk includes the risk of being unable to meet the Bank's financial obligations as they fall due because of inability to liquidate assets at a reasonable price and in an appropriate timeframe.

The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

4. RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

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

	2011	2010
At 31 December	38.32%	43.47%
Average for the period	37.83%	42.25%
Highest for the period	44.13%	44.69%
Lowest for the period	32.26%	36.43%

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2011 to the contractual maturity date:

Company 31 December 2011:	Due on demand KShs'000	Due within 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	322,662	1,484,408	170,136	-	-	1,977,206
Deposits from customers	18,861,530	21,552,006	16,492,255	37,914	-	56,943,705
Other liabilities	506,543	339,056	-	-	-	845,599
Long-term borrowings	-	128,895	352,528	2,133,389	354,450	2,969,262
At 31 December 2011	**19,690,735**	**23,504,365**	**17,014,919**	**2,171,303**	**354,450**	**62,735,772**

Company 31 December 2010:	Due on demand KShs'000	Due within 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	245,749	686,706	-	-	-	932,455
Deposits from customers	15,380,086	18,095,550	12,419,026	100,299	-	45,994,961
Other liabilities	287,257	230,210	-	-	-	517,467
Long-term borrowings	-	52,489	91,219	1,359,051	269,173	1,771,932
At 31 December 2010	**15,913,092**	**19,064,955**	**12,510,245**	**1,459,350**	**269,173**	**49,216,815**

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

(c) Market risk

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

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

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

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

4. RISK MANAGEMENT (continued)
(c) Market risk (continued)

Exposure to Interest Rate Risk

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

31 December 2011:	Due on demand KShs'000	Due within 3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
Assets							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	4,194,306	**4,194,306**
Loans and advances to banks	1,812,148	2,461,623	975,640	-	-	-	**5,249,411**
Loans and advances to customers	18,514,859	1,677,564	2,270,049	14,598,898	9,683,665	-	**46,778,935**
Investment securities	677	395,665	1,982,955	5,806,800	7,452,295	-	**15,638,392**
Other assets	-	-	-	-	-	796,666	**796,666**
At 31 December 2011	**20,407,684**	**4,534,852**	**5,228,644**	**20,405,698**	**17,135,960**	**4,990,972**	**72,703,810**
Liabilities							
Deposits from banks	322,662	1,484,408	170,136	-	-	-	**1,977,206**
Deposits from customers	18,861,530	21,552,006	16,492,256	37,913	-	-	**56,943,705**
Other liabilities	-	-	-	-	-	845,599	**845,599**
Long-term borrowings	-	128,895	352,528	2,133,389	354,450	-	**2,969,262**
At 31 December 2011	**19,184,192**	**23,165,309**	**17,014,920**	**2,171,302**	**354,450**	**845,599**	**62,735,772**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

4. RISK MANAGEMENT (continued)
(c) Market risk (continued)

Exposure to Interest Rate Risk (continued)

31 December 2010	Due on demand KShs'000	Due within 3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
Assets							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	3,243,399	**3,243,399**
Loans and advances to banks	498,948	303,468	200,000	27,007	-	-	**1,029,423**
Loans and advances to customers	15,355,326	931,958	1,541,280	12,259,009	5,554,942	-	**35,642,515**
Investment securities	-	124,629	1,783,858	5,221,126	10,789,983	-	**17,919,596**
Other assets	-	-	-	-	-	688,768	**688,768**
At 31 December 2010	**15,854,274**	**1,360,055**	**3,525,138**	**17,507,142**	**16,344,925**	**3,932,167**	**58,523,701**
Liabilities							
Deposits from banks	245,749	686,706	-	-	-	-	**932,455**
Deposits from customers	15,380,086	18,095,550	12,419,026	100,299	-	-	**45,994,961**
Other liabilities	-	-	-	-	-	517,468	**517,468**
Long-term borrowings	-	52,489	91,219	1,359,051	269,173	-	**1,771,932**
At 31 December 2010	**15,625,835**	**18,834,745**	**12,510,245**	**1,459,350**	**269,173**	**517,468**	**49,216,816**

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 Bank's operations are subject to the risks 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 Bank's business strategies.

The Bank does not have any significant interest rate risk exposures.

4. RISK MANAGEMENT (continued)
(c) Market risk (continued)

Currency Rate Risk

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank's transactional exposure gives rise to foreign currency gains and losses that are recognised in the income statement. In respect of monetary assets and liabilities in foreign currencies, the Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. The table below analyses the currencies to which the Bank is exposed to as at 31 December 2011 and 31 December 2010

31 December 2011:	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
Assets					
Cash and balances with central bank of kenya	185,947	27,541	63,455	392	**277,335**
Loans and advances to banks	2,692,224	1,258,686	1,211,654	67,820	**5,230,384**
Loans and advances to customers	13,563,249	191,497	2,046,558	-	**15,801,304**
Other assets	39,372	-	633	-	**40,005**
At 31 December 2011	**16,480,792**	**1,477,724**	**3,322,300**	**68,212**	**21,349,028**
Liabilities					
Deposits from banks	454,716	29,162	-	1,016	**484,894**
Deposits from customers	10,833,425	1,507,803	3,289,423	49,157	**15,679,808**
Other liabilities	222,376	6,615	66,031	11,373	**306,395**
Long-term borrowings	2,325,004	-	44,029	-	**2,369,033**
At 31 December 2011	**13,835,521**	**1,543,580**	**3,399,483**	**61,546**	**18,840,129**
Net balance sheet position	**2,645,271**	**(65,856)**	**(77,183)**	**6,666**	**2,508,898**
Net notional off balance sheet position	**(2,513,801)**	**62,281**	**87,498**	**(13,060)**	**(2,377,083)**
Overall net position 2011	**131,470**	**(3,575)**	**10,315**	**(6,394)**	**131,816**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

4. RISK MANAGEMENT (continued)
(c) Market risk (continued)

Currency Rate Risk (continued)

31 December 2010:	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
Assets					
Cash and balances with central bank of kenya	97,477	26,050	19,652	1,909	**145,088**
Loans and advances to banks	275,475	27,839	95,294	113,131	**511,739**
Loans and advances to customers	10,688,844	261,349	865,005	14,987	**11,830,185**
Other assets	27,812	-	552	-	**28,364**
At 31 December 2010	**11,089,608**	**315,238**	**980,503**	**130,027**	**12,515,376**
Liabilities					
Deposits from banks	841,832	68,447	-	7,887	**918,166**
Deposits from customers	6,385,731	1,111,530	562,672	43,183	**8,103,116**
Other liabilities	162,275	10,582	664	33,541	**207,062**
Long-term borrowings	1,107,235	-	64,583	-	**1,171,818**
At 31 December 2010	**8,497,073**	**1,190,559**	**627,919**	**84,611**	**10,400,162**
Net balance sheet position	**2,592,535**	**(875,321)**	**352,584**	**45,416**	**2,115,214**
Net notional off balance sheet position	**(2,377,019)**	**777,472**	**(447,733)**	**(381,784)**	**(2,429,064)**
Overall net position 2010	**215,516**	**(97,849)**	**(95,149)**	**(336,368)**	**(313,850)**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

4. RISK MANAGEMENT (continued)
(d) Operational risk

The overall responsibility of managing Operational Risks - the risk arising from failed or inadequate internal processes, people, systems and external events - is vested with the Board of Directors. The Board through the Board Risk Committee, issues policies that guide management on appropriate practices of operational risk mitigation. An independent Risk Manager assures the Board Risk Committee of the implementation of the said policies.

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

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

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

(e) Capital management

Regulatory capital
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. Capital adequacy and use of regulatory capital are monitored regularly by management employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Kenya for supervisory purposes.

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

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

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

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

Risk weighted assets are arrived at using a framework of four weights applied to both on-balance sheet and off-balance sheet items to reflect the relative risk of each asset and counterparty.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

4. RISK MANAGEMENT (continued)

(e) Capital management (continued)

Regulatory capital (continued)

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

Company:	**2011**	**2010**
	KShs	**KShs**
Core capital (Tier 1)		
Share capital	2,880,245,300	2,870,245,300
Share premium	3,773,237,119	3,690,214,995
Retained earnings	6,609,634,053	4,285,491,453
	13,263,116,472	10,845,951,748
Less: Goodwill	(10,746,998)	(10,746,998)
Investment in joint venture	(1,245,537,610)	(1,245,537,610)
Investment in subsidiary	(1,122,911,360)	(1,122,911,360)
Total core capital	10,883,920,504	8,466,755,780
Supplementary capital (Tier 2)		
Term subordinated debt	337,500,000	457,500,000
Statutory loan loss reserve	23,050,924	-
	360,550,924	457,500,000
Total capital	**11,244,471,428**	**8,924,255,780**
Risk weighted assets		
On-balance sheet	48,032,609,200	35,995,735,100
Off-balance sheet	12,046,222,600	8,811,464,200
Total risk weighted assets	**60,078,831,800**	**44,807,199,300**
Deposits from customers	**57,250,845,000**	**46,632,072,586**
Capital ratios		
Core capital/total deposit liabilities (CBK min 8%)	19.01%	18.16%
Core capital /total risk weighted assets (CBK min 8%)	18.12%	18.90%
Total capital /total risk weighted assets (CBK min 12%)	18.72%	19.92%

(f) Compliance and regulatory risk

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

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

5. USE OF ESTIMATES AND JUDGEMENT

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

Key sources of estimation uncertainty - Allowance for credit losses

Assets accounted for at amortised costs are evaluated for impairment on a basis described in accounting policy 3(f)(iv). 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

Critical accounting judgements in applying the bank's accounting policies

Critical accounting judgements made in applying the bank's accounting policies include financial asset and liability classification. The bank'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 Bank has determined that it has both positive intention and ability to hold the assets until their maturity date as required by accounting policy 3(i)*(i)*.

6. FINANCIAL ASSETS AND LIABILITIES

Accounting classifications and fair values

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values:

31 December 2011	Held to maturity KShs'000	Loans and receivables KShs'000	Available -for-sale KShs'000	Other amortised cost KShs'000	Total carrying amount KShs'000	Fair values KShs'000
Financial assets						
Cash and balances with Central Bank of Kenya	-	-	-	4,194,306	4,194,306	4,194,306
Investment securities	9,147,812	-	6,490,580	-	15,638,392	15,638,392
Loans and advances to banks	-	5,249,411	-	-	5,249,411	5,249,411
Loans and advances to customers	-	46,778,935	-	-	46,778,935	46,778,935
Other assets	-	-	-	796,666	796,666	796,666
	9,147,812	**52,028,346**	**6,490,580**	**4,990,972**	**72,657,710**	**72,657,710**
Financial liabilities						
Deposits from banks	-	-	-	1,977,206	1,977,206	1,977,206
Deposits from customers	-	-	-	56,943,705	56,943,705	56,943,705
Long term borrowings	-	-	-	2,969,262	2,969,262	2,969,262
Other liabilities	-	-	-	845,599	845,599	845,599
	-	**-**	**-**	**62,735,772**	**62,735,772**	**62,735,772**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

6. FINANCIAL ASSETS AND LIABILITIES (continued)

Accounting classifications and fair values (continued)

31 December 2010:	Held to maturity KShs'000	Loans and receivables KShs'000	Available -for-sale KShs'000	Other amortised cost KShs'000	Total carrying amount KShs'000	Fair values KShs'000
Financial assets						
Cash and balances with Central Bank of Kenya	-	-	-	3,243,399	3,243,399	3,243,399
Investment securities	6,906,934	-	11,012,662	-	17,919,596	17,919,596
Loans and advances to banks	-	1,029,423	-	-	1,029,423	1,029,423
Loans and advances to customers	-	35,642,515	-	-	35,642,515	35,642,515
Other assets	-	-	-	688,768	688,768	688,768
	6,906,934	**36,671,938**	**11,012,662**	**3,932,167**	**58,523,701**	**58,523,701**
Financial liabilities						
Deposits from banks	-	-	-	932,455	932,455	932,455
Deposits from customers	-	-	-	45,994,961	45,994,961	45,994,961
Long term borrowings	-	-	-	1,771,932	1,771,932	1,771,932
Other liabilities	-	-	-	517,467	517,467	517,467
	-	**-**	**-**	**49,216,815**	**49,216,815**	**49,216,815**

The Bank's financial assets and liabilities have been disclosed at either original cost or amortised cost. The market has not developed a standard yield curve that can be used to fair value securities held to maturity (HTM), that are not actively traded in the market, the total HTM portfolio is therefore reflected at amortised cost. Loans and advances are not actively traded in the market, rendering fair valuation impractical. Consequently, this has been disclosed at amortised cost. Available for sale instruments are disclosed at fair values.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

7. INTEREST INCOME

	2011 KShs	2010 KShs
(a) Group		
Loans and advances to customers	7,125,260,716	4,926,830,959
Loans and advances to bank	72,860,113	33,157,744
Investment securities:		
- Held-to-maturity	1,049,150,301	614,969,912
- Available-for-sale	783,859,622	977,955,755
	9,031,130,752	**6,552,914,370**
(b) Company		
Loans and advances to customers	5,608,041,124	3,789,441,157
Loans and advances to bank	32,131,164	20,302,321
Investment securities:		
- Held-to-maturity	780,220,311	407,257,709
- Available-for-sale	750,872,881	948,117,059
	7,171,265,480	**5,165,118,246**

8. INTEREST EXPENSE

	2011 KShs	2010 KShs
(a) Group		
Deposits from customers	3,001,337,288	2,628,335,151
Deposits from banks	466,937,522	150,782,217
	3,468,274,810	**2,779,117,368**
(b) Company		
Deposits from customers	2,120,839,632	1,931,120,623
Deposits from banks	394,985,641	126,378,617
	2,515,825,273	**2,057,499,240**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

9. NET FEE AND COMMISSION INCOME

	2011 KShs	2010 KShs
(a) Group		
Fee and commission income		
Commissions	963,139,043	700,755,081
Service fees	397,461,560	297,207,407
	1,360,600,603	**997,962,488**
Fee and commission expense		
Inter bank transaction fees	(33,589,998)	(22,193,105)
Other	(40,970,533)	(29,247,335)
	(74,560,531)	**(51,440,440)**
Net fee and commission income:	**1,286,040,072**	**946,522,048**
(b) Company		
Fee and commission income		
Commissions	706,526,490	516,516,290
Service fees	388,326,061	289,826,635
	1,094,852,551	**806,342,925**
Fee and commission expense		
Inter bank transaction fees	(30,359,435)	(18,993,583)
Other	(9,205,166)	(7,028,795)
	(39,564,601)	**(26,022,378)**
Net fee and commission income	**1,055,287,950**	**780,320,547**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

10. OTHER INCOME

	2011 KShs	2010 KShs
(a) Other operating income		
(i) Group		
Income from foreign exchange dealings	722,675,599	450,034,075
Rental income	70,616,073	65,575,986
Profit on sale of property and equipment	4,680,060	1,360,250
Profit on sale of available-for-sale investment securities	301,658,206	679,080,769
Other	10,923,867	4,046,250
	1,110,553,805	**1,200,097,330**
(ii) Company		
Income from foreign exchange dealings	476,155,467	253,532,842
Rental income	70,616,073	65,575,986
Profit on sale of property and equipment	4,680,060	1,360,250
Profit on sale of available-for-sale investment securities	301,245,059	665,923,847
Management fees	17,695,000	-
Other	2,628,272	3,031,920
	873,019,931	**989,424,845**
(b) Dividend income		
(i) Company		
Dividend from subsidiary	23,657,573	-
Dividend from joint venture	37,653,750	-
	61,311,323	**-**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

11. OPERATING EXPENSES

	2011 KShs	2010 KShs
(a) Group		
Staff costs		
Salaries and wages	1,064,662,835	875,220,852
Contributions to defined contribution plan	38,636,644	30,431,154
Other staff costs	380,791,666	291,105,020
	1,484,091,145	**1,196,757,026**
Premises and equipment costs		
Rental of premises	116,887,380	85,889,953
Electricity	21,885,267	16,189,266
Other premises and equipment costs	62,270,625	52,595,540
	201,043,272	**154,674,759**
General administration expenses		
Deposit protection fund contribution	70,533,160	54,946,709
Loss on disposal of property and equipment	868,954	443,569
General administrative expenses	794,375,526	488,946,587
	865,777,640	**544,336,865**
Depreciation and amortisation		
Leasehold improvements	43,526,153	33,453,456
Fixtures, fittings and equipment	54,368,655	45,490,416
Computers	14,707,726	19,576,997
Motor vehicles	12,838,938	14,887,991
Leasehold building	26,514,534	26,220,116
Depreciation on property and Equipment (Note 21)	151,956,006	139,628,976
Amortisation of intangible assets (Note 22(b))	48,187,261	56,255,883
Amortisation of prepaid operating Lease rentals (Note 23)	4,549,128	1,967,383
	204,692,395	**197,852,242**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

11. OPERATING EXPENSES (continued)

	2011 KShs	2010 KShs
(b) Company		
Staff costs		
Salaries and wages	830,601,912	696,401,419
Contributions to defined contribution plan	27,298,445	21,548,143
Other staff costs	221,179,876	172,165,761
	1,079,080,233	**890,115,323**
Premises and equipment costs		
Rental of premises	78,910,412	61,980,319
Electricity	11,202,053	8,000,346
Other premises and equipment costs	47,915,872	41,009,785
	138,028,337	**110,990,450**
General administration expenses		
Deposit protection fund contribution	63,520,361	50,490,079
Loss on disposal of property and equipment	868,954	443,569
General administrative expenses	583,116,924	341,157,312
	647,506,239	**392,090,960**
Depreciation and amortisation		
Leasehold improvements	38,723,640	33,505,457
Fixtures, fittings and equipment	30,931,968	23,533,903
Computers	10,206,834	14,568,711
Motor vehicles	6,335,915	9,661,693
Leasehold building	19,964,974	19,964,974
Depreciation on property and Equipment (Note 21)	106,163,331	101,234,738
Amortisation of intangible assets (Note 22(b))	32,518,638	46,200,671
Amortisation of prepaid operating Lease rentals (Note 23)	4,549,128	1,967,383
	143,231,097	**149,402,792**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

12. PROFIT BEFORE INCOME TAX

	2011 KShs	2010 KShs
(a) Group		
Profit before income tax is arrived at after charging:		
Depreciation	151,956,006	139,628,976
Amortisation of intangible assets	48,187,261	56,255,883
Directors' emoluments: - Fees	17,938,706	7,973,030
- Other	15,172,127	13,610,400
Auditors' remuneration	9,956,194	7,716,754
Amortisation of prepaid operating lease rentals	4,549,128	1,967,383
Net Profit On Sale of Property and Equipment	(3,811,106)	(916,682)
(b) Company		
Profit before income tax is arrived at after charging:		
Depreciation	106,163,331	101,234,738
Amortisation of intangible assets	32,518,638	46,200,671
Directors' emoluments: - Fees	9,690,000	6,730,000
- Other	14,427,024	13,610,400
Auditors' remuneration	6,080,000	5,220,000
Amortisation of prepaid operating lease rentals	4,549,128	1,967,383
Net profit on sale of property and equipment	(3,811,106)	(916,682)

13. INCOME TAX EXPENSE

	2011 KShs	2010 KShs
(a) Group		
Current year's tax	1,484,023,032	1,046,531,738
Under provision in prior year - Current tax	16,218,464	3,584,497
Over provision in prior year - Deferred tax	4,159,822	-
	1,504,401,318	1,050,116,235
Deferred tax credit (Note 24)	(23,232,599)	(48,202,308)
Income tax expense	**1,481,168,719**	**1,001,913,927**

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

	2011 KShs	2010 KShs
Accounting profit before taxation	**4,953,892,690**	**3,526,481,474**
Computed tax using the applicable corporation tax rate	1,425,360,544	984,831,914
Under provision in the prior year	16,218,464	3,584,497
Effect on non-deductible costs	39,589,711	13,497,516
	1,481,168,719	**1,001,913,927**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

13. INCOME TAX EXPENSE (continued)

	2011 KShs	2010 KShs
(b) Company		
Current year's tax at 30%	1,377,506,587	953,094,715
Under provision in prior year - Current tax	16,218,464	47,881
Over provision in prior year - Deferred tax	4,159,822	-
	1,397,884,873	953,142,596
Deferred tax credit (Note 24)	(35,171,896)	(66,061,009)
Income tax expense	**1,362,712,977**	**887,081,587**

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

	2011	2010
Accounting profit before taxation	4,457,331,375	3,004,482,447
Computed tax using the applicable corporation tax rate at 30%	1,337,199,413	901,344,734
Under provision in the prior year	16,218,464	47,881
Effect on non-deductible costs	9,295,100	(14,311,038)
	1,362,712,977	**887,081,577**

14. EARNINGS PER SHARE

	Consolidated		Company	
	2011	2010	2011	2010
Net profit for the year (KShs)	**3,384,037,932**	**2,438,680,282**	**3,094,618,398**	**2,117,400,860**
Weighted average number of ordinary shares in issue during the year	**28,747,111**	**26,360,646**	**28,747,111**	**26,360,646**
Earnings per share (Kshs)	**117.72**	**92.51**	**107.65**	**80.32**

There were no potentially dilutive shares outstanding at 31 December 2011 (2010 – Nil).

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

15. DIVIDEND PER SHARE

	2011 KShs	2010 KShs
The calculation of dividend per share is based on:		
Final dividend proposed during the year (KShs)	**747,424,874**	**527,212,930**
Weighted average number of ordinary shares in issue during the year	**28,747,111**	**26,360,646**
Final dividend per share (KShs)	**26.00**	**20.00**

The payment of dividends is subject to withholding tax at the rate of 10% for all non-residents, 5% for Kenyan residents and nil for resident Kenyan companies with shareholding of 12.5% or more.

16. CASH AND BALANCES WITH CENTRAL BANKS

	2011 KShs	2010 KShs
(a) Group		
Cash on hand	762,300,573	773,189,668
Balances with Central Bank of Kenya:		
- Restricted balances (Cash Reserve Ratio)	4,000,077,056	2,906,503,328
- Unrestricted balances	2,235,709,550	1,799,131,851
	6,998,087,179	**5,478,824,847**
(b) Company		
Cash on hand	519,827,690	483,477,600
Balances with Central Bank of Kenya:		
- Restricted balances (Cash Reserve Ratio)	2,877,257,303	2,042,224,470
- Unrestricted balances	797,221,067	717,696,955
	4,194,306,060	**3,243,399,025**

The Bank's Cash Reserve Ratio is non-interest earning and is based on the value of deposits as adjusted for the Central Bank of Kenya requirements. As at 31 December 2011, the Cash Reserve Ratio requirement was 5.25% of all deposits (2010 – 4.50%). Effective 29 August 2011 banks are required to maintain their CRR based on monthly average basis, free to deviate from the 5.25% on any given day but not to fall below 3%, provided that the overall average for the month will be at least 4.75%. These funds are not available for use by the Bank in its day to day operations.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

17. LOANS AND ADVANCES TO BANKS

	2011 KShs	2010 KShs
(a) Group		
Due within 90 days	8,905,790,257	6,082,146,169
Due after 90 days	1,003,268,612	13,665,001
	9,909,058,869	**6,095,811,170**
(b) Company		
Due within 90 days	4,246,142,016	1,015,758,034
Due after 90 days	1,003,268,612	13,665,002
	5,249,410,628	**1,029,423,036**

The company's weighted average effective interest rate on loans and advances to banks at 31 December 2011 was 2.73% (2010 – 4.20%).

18. LOANS AND ADVANCES TO CUSTOMERS

	2011 KShs	2010 KShs
(a) Classification		
(i) Group		
Overdrafts	24,270,748,047	19,426,323,863
Loans	42,134,382,102	30,275,383,386
Bills discounted	234,174,535	478,958,024
Hire purchase	1,666,024,340	1,729,116,948
Gross loans and advances	68,305,329,024	51,909,782,220
Less: Impairment losses on loans and advances	(1,939,459,034)	(1,652,433,300)
Net loans and advances	**66,365,869,990**	**50,257,348,920**
Repayable on demand	22,287,397,498	19,169,284,369
Less than 3 months	3,030,274,023	1,957,710,721
3 months to 1 year	6,729,571,251	3,598,445,596
1 to 5 years	21,981,967,417	17,665,285,278
5 to 10 years	12,095,191,924	7,979,599,197
Over 10 years	2,180,926,911	1,539,457,059
Gross loans and advances	**68,305,329,024**	**51,909,782,220**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

18. LOANS AND ADVANCES TO CUSTOMERS (continued)

	2011 KShs	2010 KShs
(ii) Company		
Overdrafts	18,720,925,713	14,746,825,900
Loans	27,872,505,327	20,195,338,012
Bills discounted	1,341,078,265	478,958,023
Hire purchase	234,174,535	1,437,767,261
Gross loans and advances	48,168,683,840	36,858,889,196
Less: Impairment losses on loans and advances	(1,389,748,563)	(1,216,374,210)
Net Loans and Advances	**46,778,935,277**	**35,642,514,986**
Repayable on demand	19,938,506,040	16,571,700,546
Less than 3 months	1,677,564,373	931,958,054
3 months to 1 year	2,270,049,384	1,541,280,131
1 to 5 years	14,598,898,295	12,259,009,319
5 to 10 years	8,793,152,373	4,731,555,209
Over 10 years	890,513,375	823,385,937
Gross loans and advances	**48,168,683,840**	**36,858,889,196**

(b) Impairment losses reserve

(i) Group	Specific impairment losses KShs	Portfolio impairment provision KShs	Total KShs
2011:			
At 1 January 2011	1,070,790,553	581,643,049	1,652,433,602
Impairment made in the year	376,066,529	135,653,744	511,720,273
Recoveries and impairment no longer required	(237,679,559)	-	(237,679,559)
Amounts written off during the year	(25,987,787)	-	(25,987,787)
Translation difference	28,505,758	10,466,747	38,972,505
At 31 December 2011	**1,211,695,494**	**727,763,540**	**1,939,459,034**
2010:			
At 1 January 2010	914,242,921	398,396,406	1,312,639,327
Acquisition of Subsidiary	918,832	-	918,832
Impairment made in the year	444,470,754	183,246,644	627,717,398
Recoveries and impairment no longer required	(106,928,973)	-	(106,928,973)
Amounts written off during the year	(181,913,284)	-	(181,913,284)
At 31 December 2010	**1,070,790,250**	**581,643,050**	**1,652,433,300**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

18. LOANS AND ADVANCES TO CUSTOMERS (continued)

(b) Impairment losses reserve (continued)

(ii) Company	Specific impairment losses KShs	Portfolio impairment provision KShs	Total KShs
2011:			
At 1 January 2011	746,078,522	470,295,688	1,216,374,210
Impairment made in the year	265,413,909	123,802,770	389,216,679
Recoveries and impairment no longer required	(199,795,635)	-	(199,795,635)
Amounts written off during the year	(16,046,691)	-	(16,046,691)
At 31 December 2011	**795,650,105**	**594,098,458**	**1,389,748,563**
2010:			
At 1 January 2010	476,668,096	307,295,688	783,963,784
Impairment made in the year	385,282,868	163,000,000	548,282,868
Recoveries and impairment no longer required	(95,617,904)	-	(95,617,904)
Amounts written off during the year	(20,254,538)	-	(20,254,538)
At 31 December 2010	**746,078,522**	**470,295,688**	**1,216,374,210**

(c) Impairment losses on loans and advances

	2011 KShs	2010 KShs
(i) Group		
Impairment made in the year	511,720,273	627,717,398
Recoveries and impairment no longer required	(96,976,798)	(106,928,973)
Recoveries of loans and advances written off in prior years	(138,803,011)	(38,561,126)
Amount written off during the year	(25,987,787)	(181,913,285)
	249,952,677	**300,314,014**
(ii) Company		
Impairment made in the year	389,216,679	548,282,868
Recoveries and impairment no longer required	(59,092,874)	(95,617,904)
Recoveries of loans and advances written off in prior years	(134,194,984)	(102,128,000)
Amount written off during the year	(16,046,691)	(20,254,538)
	179,882,130	**330,282,426**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

18. LOANS AND ADVANCES TO CUSTOMERS (continued)

(d) Non-performing loans and advances - Company

The company's loans and advances include an amount of KShs 410,356,104 (2010 – KShs 438,325,372) net of impairment losses which are non-performing. The estimated realisable value of securities held against this balance is KShs 232,249,593 (2010 – KShs 434,562,555).

	2011 KShs	2010 KShs
Interest on impaired loans and advances which has not yet been received in cash	**320,439,342**	**253,736,413**

The company's weighted average effective interest rate on loans and advances to customers at 31 December 2011 was 12.36% (2010 – 11.59%).

(e) Loans and advances concentration by sector - Company

	2011 KShs	%	2010 KShs	%
Manufacturing	11,824,818,120	24.55	8,607,054,615	23.35
Wholesale and retail trade	4,736,004,137	9.83	2,962,950,692	8.04
Building and construction	4,308,816,570	8.94	3,227,567,553	8.76
Agriculture	3,325,263,809	6.90	1,936,231,309	5.25
Real estate	8,467,872,872	17.58	8,164,463,688	22.15
Transport and communication	2,287,773,038	4.75	2,171,247,726	5.89
Business services	11,506,925,919	23.89	8,320,727,356	22.57
Electricity and water	102,628,526	0.21	125,559,137	0.34
Finance and insurance	65,873,845	0.41	30,637,921	0.08
Mining and quarrying	130,623,373	0.27	124,137,576	0.34
Others	1,412,083,631	2.94	1,188,311,623	3.22
	48,168,683,840	**100.00**	**36,858,889,196**	**100.00**

(f) Finance leases - Company

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

	2011 KShs	2010 KShs
Receivable no later than 1 year	182,600,033	185,251,326
Receivable later than 1 year and no later than 5 years	1,158,478,232	1,252,515,935
	1,341,078,265	**1,437,767,261**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

19. INVESTMENT SECURITIES

	2011 KShs	2010 KShs
(a) Group		
Available-for-sale		
Medium term notes	68,176,680	136,353,699
Corporate bonds available-for-sale	1,072,597,058	1,514,762,911
Treasury bonds available-for-sale	5,113,296,781	9,869,683,565
Total available-for-sale	6,254,070,519	11,520,800,175
Held-to-maturity		
Treasury bonds	11,517,911,630	8,397,575,437
Treasury bills	1,254,947,902	770,627,067
Other investment securities	658,861,745	98,429,584
Total held to maturity	13,431,721,277	9,266,632,088
Total investment securities	**19,685,791,796**	**20,787,432,263**
(b) Company		
Available-for-sale		
Medium term notes	68,176,680	136,353,699
Corporate bonds available-for-sale	993,517,331	1,006,625,080
Treasury bonds available-for-sale	5,113,296,781	9,869,683,566
Total available-for-sale	6,174,990,792	11,012,662,345
Held-to-maturity		
Treasury bonds	9,415,490,391	6,750,069,013
Treasury bills	47,911,000	156,864,550
Total held to maturity	9,463,401,391	6,906,933,563
Total investment securities	**15,638,392,183**	**17,919,595,908**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

19. INVESTMENT SECURITIES (continued)

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

	Treasury bonds and bills Kshs	Corporate bond Kshs	Medium term floating notes Kshs	Total Kshs
31 December 2011:				
At 1 january	16,776,617,130	1,006,625,080	136,353,699	17,919,595,909
Additions	7,803,750,000	-	-	7,803,750,000
Disposals and maturities	(7,851,700,000)	-	(67,500,000)	(7,919,200,000)
Changes in fair value	(1,769,681,949)	(14,476,946)	-	(1,784,158,895
Amortisation of discounts and premiums	22,211,531	328,785	-	22,540,316
Unearned interest	(415,549,752)	-	-	(415,549,752)
Interest receivable	11,051,213	1,040,411	(677,019)	11,414,605
At 31 December	**14,576,698,173**	**993,517,330**	**68,176,680**	**15,638,392,183**
31 December 2010:				
At 1 January	10,297,378,422	905,452,830	137,033,705	11,339,864,957
Additions	12,178,250,000	200,000,000	-	12,378,250,000
Disposals and maturities	(7,594,591,344)	(148,581,354)	(2,033,705)	(7,745,206,403)
Changes in fair value	1,455,038,287	31,241,240	-	1,486,279,527
Amortisation of discounts and premiums	(92,975,496)	(274,315)	-	(93,249,811)
Unearned interest	476,131,561	-	-	476,131,561
Interest receivable	57,385,700	18,786,678	1,353,699	77,526,076
At 31 December	**16,776,617,130**	**1,006,625,079**	**136,353,699**	**17,919,595,908**

The weighted average effective interest rate on Government securities at 31 December 2011 was 10.56% (2010 – 9.71%).

The weighted average effective interest rate on corporate bonds at 31 December 2011 was 12.05% (2010 – 12.02%).

The weighted average effective interest rate on medium floating term notes at 31 December 2011 was 5.99% (2010 – 6.90%).

At 31 December 2011, unamortized premiums on investment securities amounted to KShs 348,354,376 (2010 – KShs 703,037,305) and unamortized discounts amounted to KShs 311,411,970 (2010 – KShs 287,375,209).

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

20. INVESTMENT IN SUBSIDIARY AND JOINT VENTURES

(a) Investment in joint venture – Bank One Limited, Mauritius

During the year ended 31 December 2008, the Bank entered into a joint venture with CIEL Investments (Mauritius) to acquire Bank One Limited (formerly First City Bank Limited), Mauritius and the Bank effectively held 40.6% interest in Bank One Limited.

As at 31 December 2009, I&M Bank effectively held 41.64% interest in Bank One Limited, 50% interest being held by CIEL Investments Limited (Mauritius) and the remaining 8.36% being held by Minard Holdings Limited (Kenya). Procedures were initiated in November 2009, for the transfer by Minard Holdings Limited of all its shareholding in Bank One Limited to I&M Bank. Required authorisations were obtained and the share transfer was registered on 14 February 2010 after which the Bank effectively holds 50% interest in Bank One Limited.

The acquisition and rights issue had the following effect on the consolidated assets and liabilities on the respective acquisition date:

	2010	2009	2008	Total
At 31 December 2011 and 2010	**KShs**	**KShs**	**KShs**	**KShs**
Cash and balances with Central Bank	121,066,263	15,896,697	632,423,713	769,386,673
Loans and advances to banks	310,651,975	63,342,232	169,608,787	543,602,994
Loans and advances to customers	1,427,230,443	147,079,894	1,363,865,911	2,938,176,248
Investments securities	240,417,032	28,435,972	1,962,872,632	2,231,725,636
Intangible asset	10,084,305	1,251,129	705,021	12,040,455
Property and equipment	69,896,589	8,584,609	324,972,522	403,453,720
Deferred tax asset	14,745,262	1,809,697	80,182,527	96,737,486
Other assets	30,783,669	9,722,596	339,991,533	380,497,798
Deposits	(1,996,275,968)	(248,764,375)	(4,184,132,766)	(6,429,173,109)
Other liabilities	(51,218,504)	(5,822,272)	(122,906,165)	(179,946,941)
Borrowings	(38,236,963)	(4,686,299)	(15,322,569)	(58,245,831)
Tax payable	-	(14,013)	-	(14,013)
Net identifiable assets and liabilities	**139,144,103**	**16,835,867**	**552,261,146**	**708,241,116**
Goodwill on acquisition [note 22(a)]	184,095,897	(2,506,460)	293,816,214	475,405,651
Total consideration	**323,240,000**	**14,329,407**	**846,077,360**	**1,183,646,767**
Rights issue	-	61,890,843	-	61,890,843
	323,240,000	76,220,250	846,077,360	1,245,537,610
Consideration paid in cash (company cash flow – 2010)	(323,240,000)	(76,220,250)	(437,647,960)	(837,108,210)
Balance payable included under other liabilities	**-**	**-**	**408,429,400**	**408,429,400**
Cash acquired	431,718,238	79,238,929	554,228,806	1,065,185,973
Consideration paid in cash 2010 (excluding rights issue)	(323,240,000)	(14,329,407)	(437,647,960)	(775,217,367)
Net cash inflow (consolidated cash flow – 2010)	**108,478,238**	**64,909,522**	**116,580,846**	**289,968,606**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

20. INVESTMENT IN SUBSIDIARY AND JOINT VENTURES (continued)

(b) Investment in subsidiary - I&M Bank (T) Limited

On 14 January 2010 I&M Bank LIMITED acquired 55.03% shareholding of CF Union Bank Limited (CFUB), a commercial bank registered and operating in Tanzania. CFUB was re-named I&M Bank (T) Limited in September 2010.

On 30 July 2010, CFUB, raised additional share capital through a rights issue of 645 shares. The Bank took up its full rights of 355 shares at a cost of Kshs 245,229,000 of which the share premium on the rights issue was Kshs 225,766,381.

The acquisition of I&M Bank (T) Limited had the following effect on the consolidated assets and liabilities on the acquisition date:

At 31 December 2011 and 2010	KShs
Cash and balances with central bank	805,766,361
Loans and advances to banks	766,296,211
Loans and advances to customers	2,449,576,215
Investments securities	475,853,900
Intangible asset	1,288,757
Property and equipment	25,524,670
Deferred tax asset	(3,132,995)
Other assets	16,297,016
Deposits	(3,910,384,240)
Other liabilities	(136,111,021)
Borrowings	-
Tax payable	(2,641,588)
Net identifiable assets and liabilities	**488,333,286**
Non controlling interest	(219,603,475)
Attributable to company	268,729,811
Goodwill on acquisition (note 22(a))	608,952,549
Total consideration	**877,682,360**
Consideration paid in cash	(877,682,360)
Balance payable included under other liabilities	**-**
Cash acquired	1,572,062,572
Consideration paid in cash	(877,682,360)
Net cash inflow (consolidated cash flow – 2010)	**694,380,212**
Investment in subsidiary at cost	
Consideration paid on acquisition	877,682,360
Cash paid on rights issue	245,229,000
Total cash paid (company cash flow – 2010)	**1,122,911,360**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

21. PROPERTY AND EQUIPMENT- GROUP AND COMPANY

(a) Group

	Leasehold buildings KShs	Leasehold improvements KShs	Furniture, fittings, fixtures & office, equipment KShs	Computers KShs	Motor vehicles KShs	Capital work in progress KShs	Total KShs
2011:							
Cost / Valuation							
At 1 January 2011	1,319,502,000	373,516,860	628,884,140	184,942,171	77,219,310	50,579,113	2,634,643,594
Additions	-	88,110,042	99,291,146	21,021,412	6,783,590	84,132,082	299,338,272
Transfers	-	72,455,174	11,039,103	-	-	(83,494,277	-
Disposals/write off	-	-	(9,184,692)	-	(12,883,773)	-	(22,068,465)
Translation difference	34,783,700	-	27,010,313	1,345,615	2,479,067	(581,411)	65,037,284
At 31 December 2011	1,354,285,700	534,082,076	757,040,010	207,309,198	73,598,194	50,635,507	2,976,950,685
Depreciation							
At 1 January 2011	72,990,813	209,118,481	423,850,621	147,483,699	46,832,934	-	900,276,548
Charge for the year	26,514,534	43,526,153	54,368,655	14,707,726	12,838,938	-	151,956,006
On disposals	-	-	(7,722,696)	-	(10,575,272)	-	(18,297,968)
Translation difference	3,876,519	(37,952)	21,715,740	716,579	1,255,340	-	27,526,226
At 31 December 2011	103,381,866	252,606,682	492,212,320	162,908,004	50,351,940	-	1,061,460,812
Net book value							
At 31 December 2011	**1,250,903,834**	**281,475,394**	**264,827,690**	**44,401,194**	**23,246,254**	**50,635,507**	**1,915,489,873**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

21. PROPERTY AND EQUIPMENT- GROUP AND COMPANY (continued)

(a) Group (continued)

	Leasehold buildings KShs	Leasehold improvements KShs	Furniture, fittings, fixtures & office, equipment KShs	Computers KShs	Motor vehicles KShs	Capital work in progress KShs	Total KShs
2010:							
Cost / Valuation							
At 1 January 2010	1,244,196,594	282,396,430	433,351,144	186,661,629	62,584,465	28,374,649	2,237,564,911
Acquisition of JV/subsidiary	60,027,475	-	59,600,253	24,977,962	7,290,041	-	151,895,731
Additions	-	25,897,010	63,367,784	16,098,684	8,896,331	119,550,467	233,810,275
Reclassification	-	(2,414,811)	36,820,412	(41,767,051)	-	-	(7,361,449)
Transfers	-	67,638,231	28,862,652	845,120	-	(97,346,003)	-
Disposals/write off	-	-	(3,593,216)	(1,424,943)	(2,293,695)	-	(7,311,854)
Translation difference	15,277,931	-	10,475,111	(449,230)	742,168	-	26,045,979
At 31 December 2010	1,319,502,000	373,516,860	628,884,140	184,942,171	77,219,310	50,579,113	2,634,643,594
Depreciation							
At 1 January 2010	40,290,397	167,806,790	308,046,741	159,568,876	31,440,013	-	707,152,817
Acquisition of JV/subsidiary	5,165,579	-	38,688,523	9,743,513	2,499,443	-	56,097,058
Reclassification	-	7,858,235	25,331,572	(40,372,094)	-	-	(7,182,287)
Charge for the year	26,220,116	33,453,456	45,490,416	19,576,997	14,887,991	-	139,628,976
On disposals	-	-	(2,959,017)	(805,187)	(2,233,469)	-	(5,997,673)
Translation difference	1,314,721	-	9,252,386	(228,406)	238,956	-	10,577,657
At 31 December 2010	72,990,813	209,118,481	423,850,621	147,483,699	46,832,934	-	900,276,548
Net book value							
At 31 December 2010	**1,246,511,187**	**164,398,379**	**205,033,519**	**37,458,472**	**30,386,376**	**50,579,113**	**1,734,367,046**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

21. PROPERTY AND EQUIPMENT- GROUP AND COMPANY (continued)

(b) Company

2011:	Leasehold buildings KShs	Leasehold improvements KShs	Furniture, fittings, fixtures & office, equipment KShs	Computers KShs	Motor vehicles KShs	Capital work in progress KShs	Total KShs
Cost / Valuation							
At 1 January 2011	950,000,000	373,516,860	324,019,514	143,725,353	45,134,983	13,501,959	1,849,898,669
Additions	-	35,105,733	46,422,917	17,966,842	5,800,000	69,992,318	175,287,810
Reclassification	-	-	-	-	-	-	-
Transfers	-	72,455,174	11,039,103	-	-	(83,494,277)	-
Disposals	-	-	(4,066,146)	-	(12,883,773)	-	(16,949,919)
Surplus on revaluation	-	-	-	-	-	-	-
At 31 December 2011	950,000,000	481,077,767	377,415,388	161,692,195	38,051,210	-	2,008,236,560
Depreciation							
At 1 January 2011	34,938,703	209,118,481	195,374,726	129,855,830	34,138,817	-	603,426,557
Reclassification	-	-	-	-	-	-	-
Charge for the year	19,964,974	38,723,640	30,931,968	10,206,834	6,335,915	-	106,163,331
On disposals	-	-	(2,768,754)	-	(10,575,272)	-	(13,344,026)
Reversal on revaluation	-	-	-	-	-	-	-
At 31 December 2011	54,903,677	247,842,121	223,537,940	140,062,664	29,899,460	-	696,245,862
Net book value at 31 December 2011	**895,096,323**	**233,235,646**	**153,877,448**	**21,629,531**	**8,151,750**	**-**	**1,311,990,698**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

21. PROPERTY AND EQUIPMENT- GROUP AND COMPANY (continued)

(b) Company (continued)

	Leasehold buildings KShs	Leasehold improvements KShs	Furniture, fittings, fixtures & office, equipment KShs	Computers KShs	Motor vehicles KShs	Capital work in progress KShs	Total KShs
2010:							
Cost / Valuation							
At 1 January 2010	950,000,000	282,396,430	217,239,579	174,432,507	44,878,033	28,374,650	1,697,321,199
Additions	-	25,897,010	42,489,037	10,214,777	1,400,000	82,473,312	162,474,136
Reclassification	-	(2,414,811)	36,820,412	(41,767,051)	-	-	(7,361,450)
Transfers	-	67,638,231	28,862,652	845,120	-	(97,346,003)	-
Disposals	-	-	(1,392,166)	-	(1,143,050)	-	(2,535,216)
Surplus on revaluation	-	-	-	-	-	-	-
At 31 December 2010	950,000,000	373,516,860	324,019,514	143,725,353	45,134,983.	13,501,959	1,849,898,669
Depreciation							
At 1 January 2010	14,973,730	167,806,790	147,264,100	155,659,213	25,620,174	-	511,324,007
Reclassification	-	7,858,235	25,331,572	(40,372,094)	-	-	(7,182,287)
Charge for the year	19,964,973	33,453,456	23,585,905	14,568,711	9,661,693	-	101,234,738
On disposals	-	-	(806,851)	-	(1,143,050)	-	(1,949,901)
Reversal on revaluation	-	-	-	-	-	-	-
At 31 December 2010	34,938,703	209,118,481	195,374,726	129,855,830	34,138,817	-	603,426,557
Net book value at 31 December 2010	**915,061,297**	**164,398,379**	**128,644,788**	**13,869,523**	**10,996,166**	**13,501,959**	**1,246,472,112**

In the opinion of the directors, there is no impairment of property and equipment. Included in the property and equipment are assets with a gross value of KShs 391,435,175 (2010 – KShs 377,886,780) which are fully depreciated but still in use. If depreciation had been charged during the year on the cost of these assets at a nominal rate, it would have amounted to KShs 81,458,365 (2010 – KShs 73,705,981).

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

22. INTANGIBLE ASSETS

	2011 KShs	2010 KShs
(a) Goodwill		
(i) Group		
At 1 January	1,095,105,198	302,056,752
On acquisition during the year:		
- Bank One Limited (Note 20(a))	-	184,095,897
- I&M Bank (T) Limited Note 20(b))	-	608,952,549
- Total, Company and Subsidiary	1,095,105,198	1,095,105,198
- Bank One Limited	21,870,413	19,988,739
Carrying amount at 31 December	**1,116,975,611**	**1,115,093,937**
(ii) Company		
Goodwill on assets purchased from Biashara Bank of Kenya Limited	15,632,000	15,632,000
Amortisation		
At 1 January and 31 December	(4,885,002)	(4,885,002)
Carrying amount at 31 December	**10,746,998**	**10,746,998**
(b) Computer software		
(i) Group		
Cost		
At 1 January of previously stated	346,276,883	295,003,335
Acquisition of JV/subsidiary	-	21,151,248
Reclassified from property and equipment	-	7,361,451
Additions	93,809,317	19,260,151
Disposals	-	(205,469)
Exchange differences	9,721,088	3,706,167
At 31 December	449,807,288	346,276,883
Amortisation		
At 1 January of previously stated	287,102,831	208,422,485
Acquisition of subsidiary	-	12,888,795
Reclassified from property and equipment as restated	-	7,182,287
Amortisation for the year	48,187,261	56,255,883
Exchange differences	6,469,691	2,353,383
	341,759,783	287,102,833
Net carrying amount at 31 December	**108,047,505**	**59,174,050**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

22. INTANGIBLE ASSETS (continued)

(b) Computer software (continued)

	2011 KShs	2010 KShs
(ii) Company		
Cost		
At 1 January of previously stated	236,369,187	218,491,207
Reclassified from property and equipment	-	7,361,451
Additions	57,387,294	10,516,529
At 31 December	293,756,481	236,369,187
Amortisation		
At 1 January of previously stated	219,471,604	166,088,646
Transfer from property and equipment	-	7,182,287
Amortisation for the year	32,518,638	46,200,671
At 31 December	251,990,242	219,471,604
Net carrying amount at 31 December	**41,766,239**	**16,897,583**

The company's assets with a gross value of KShs 183,463,137 (2010 – KShs 196,192,974) are fully amortised but still in use. In the opinion of the directors, there was no impairment of goodwill during the year.

23. PREPAID OPERATING LEASE RENTALS

	2011 KShs	2010 KShs
Group and Company		
Cost		
At 1 January and 31 December	147,115,472	143,005,034
Additions	115,837,471	4,110,438
At 31 December	262,952,943	147,115,472
Amortisation		
At 1 January	7,520,775	5,553,392
Charge for the year	4,549,128	1,967,383
At 31 December	12,069,903	7,520,775
Net carrying amount at 31 December	**250,883,040**	**139,594,697**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

24. DEFERRED TAX ASSET

Deferred tax assets at 31 December 2011 and 31 December 2010 are attributable to the following:

	Balance at 1 January KShs	Prior year under/ (over) provision KShs	Exchange difference KShs	Recognised in income statement KShs	Balance at 31 December KShs
(a) Group					
2011:					
Property and equipment	5,296,396	(4,159,822)	(2,198,485)	2,638,871	1,576,960
General provisions	226,496,280	-	5,811,173	30,370,236	262,677,689
Other provisions	45,824,224	-	610,314	13,459,231	59,893,769
Tax losses	22,191,234	-	1,044,505	(23,235,739)	-
	299,808,134	**(4,159,822)**	**5,267,507**	**23,232,599**	**324,148,418**
2010:					
Property and equipment	(4,094,203)	-	(900,694)	10,291,293	5,296,396
General provisions	187,718,986	-	2,683,504	36,093,790	226,496,280
Other provisions	35,805,963	-	248,365	9,769,896	45,824,224
Tax losses	29,093,649	-	1,050,256	(7,952,671)	22,191,234
	248,524,395	**-**	**3,081,431**	**48,202,308**	**299,808,134**

	Balance at 1 January KShs	Prior year under/ (over) provision KShs	Recognised in income statement KShs	Balance at 31 December KShs
(b) Company				
2011:				
Property and equipment	32,137,905	(4,159,822)	5,514,567	33,492,650
General provisions	160,489,763	-	17,739,774	178,229,537
Other provisions	38,086,092	-	11,917,555	50,003,647
	230,713,760	**(4,159,822)**	**35,171,896**	**261,725,834**
2010:				
Property and equipment	22,950,851	-	9,187,054	32,137,905
General provisions	111,589,763	-	48,900,000	160,489,763
Other provisions	30,112,137	-	7,973,955	38,086,092
	164,652,751	**-**	**66,061,009**	**230,713,760**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

25. OTHER ASSETS

	2011 KShs	2010 KShs
(a) Group		
Items in transit	429,977,305	313,363,995
Rent receivable	8,940,969	4,095,497
Prepayments	189,523,816	246,695,276
Other receivables	760,918,008	350,543,657
	1,389,360,098	**914,698,425**
(b) Company		
Items in transit	345,100,177	304,839,884
Rent receivable	8,940,969	4,095,497
Prepayments	150,051,863	213,321,837
Other receivables	292,572,498	166,510,372
	796,665,507	**688,767,590**

26. DEPOSITS FROM BANKS

	2011 KShs	2010 KShs
(a) Group		
Payable within one year - Company and subsidiary	**2,546,060,409**	**1,393,755,221**
(b) Company		
Payable within one year - Company	**1,977,206,300**	**932,454,803**

The company's weighted average effective interest rate on deposits from other banks and banking institutions at 31 December 2011 was 20.49% (2010 – 3.32%).

27. DEPOSITS FROM CUSTOMERS

	2011 KShs	2010 KShs
(a) Group		
Government and Parastatals	2,017,119,682	593,242,075
Private sector and individuals	83,195,784,146	67,615,186,245
	85,212,903,828	**68,208,428,320**
(b) Company		
Government and Parastatals	1,328,272,092	95,604,219
Private sector and individuals	55,615,433,204	45,899,357,035
	56,943,705,296	**45,994,961,254**

The company's weighted average effective interest rate on interest bearing deposits from customers at 31 December 2011 was 4.08% (2010 – 5.28%).

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

28. OTHER LIABILITIES

	2011 KShs	2010 KShs
(a) Group		
Bankers cheques payable	259,127,196	179,111,058
Accruals	491,993,124	394,284,247
Other accounts payables	624,814,140	366,612,004
	1,375,934,460	**940,007,309**
(b) Company		
Bankers cheques payable	130,093,745	117,433,531
Accruals	262,097,635	193,653,599
Other accounts payables	453,407,790	206,379,560
	845,599,170	**517,466,690**

Included in other liabilities is an amount relating to customer loyalty programme amounting to KShs 2,295,167 (2010 – KShs 1,947,179). The policy is to redeem the customer points at the point of annual renewal of the credit card. The minimum redemption points are 500. A customer earns 1 point for every KShs 500 transaction.

29. LONG TERM BORROWINGS

	2011 KShs	2010 KShs
(a) Group		
Less than one year	738,791,709	209,331,427
One to five years	2,342,531,325	1,933,918,703
Over five years	354,450,416	-
	3,435,773,450	**2,143,250,130**
(b) Company		
Less than one year	481,423,432	143,707,872
One to five years	2,133,388,557	1,628,224,420
Over five years	354,450,416	-
	2,969,262,405	**1,771,932,292**

During 2010, an additional long term borrowing agreement in the amount of USD 25mn was entered into with FMO (Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.). An amount of USD 10mn had been drawn down towards the end of 2010 and the balance of USD 15mn was drawn down in February 2011.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

29. LONG TERM BORROWINGS (continued)

The Company's long term borrowings constituted the following:

(i) USD 3,000,000 facility granted on 17 June, 2005 by the International Finance Corporation repayable semi annually over six years. This facility was fully repaid by March 2011.

(ii) USD 1,250,000 facility granted on 5 August 2004 by PROPARCO repayable semi annually over six years. This facility was fully repaid by April 2011.

(iii) USD 5,500,000 facility granted on 12 November 2008 by PROPARCO repayable quarterly over five years.

(iv) EUR 1,000,000 facility granted on 12 November 2008 by PROPARCO repayable quarterly over five years.

(v) 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.

(vi) KShs 600,000,000 subordinated unsecured floating rate notes issued on 12 June 2008. The tenor is 7 years from the issue date and each note shall be redeemed in four equal instalments on 2 January 2014, 2 July 2014, 2 January 2015 and 11 July 2015.

The Company's average effective interest rate on foreign currency long term borrowings was 4.31% (2010 – 3.15%).

The Company's average effective interest rate on the unsecured Floating Rate Note was 9.92.% (2010 – 7.85%).

30. SHARE CAPITAL AND RESERVES

	2011 KShs	2010 KShs
(a) Share capital		
Authorised		
30,000,000 Ordinary shares of KShs 100 each	3,000,000,000	3,000,000,000
Issued and fully paid		
At 1 January		
28,702,453 (2010 –26,135,608)		
Ordinary shares of KShs 100 each	2,870,245,300	2,613,560,800
100,000 (2010 – 2,566,845) new shares of KShs 100		
each issued at a premium of KShs 835 each		
(2010 – KShs 835)	10,000,000	256,684,500
At 31 December		
28,802,453 (2010 – 28,702,453)		
Ordinary shares of kshs 100 each	**2,880,245,300**	**2,870,245,300**

(b) Additional capital injection

During the year, I&M Bank LIMITED issued 100,000 ordinary shares of KShs 100 at a premium of KShs 835 per share, thus increasing the issued and paid up share capital to KShs 2,880,245,300.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and other general meetings of the Bank.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

30. SHARE CAPITAL AND RESERVES (continued)

(c) Major Shareholders

The major shareholders at 31 December 2011 and 2010 were as follows:

2011:	Number of shares	%
1. Minard Holdings Limited	4,475,759	15.61%
2. Biashara Securities Ltd	4,008,740	13.97%
3. Ziyungi Limited	4,000,000	13.94%
4. Tecoma Limited	4,000,000	13.94%
5. DEG	3,100,000	10.80%
6. Proparco	2,575,000	8.97%
7. City Trust Limited	2,097,458	7.31%
8. Others	4,545,496	15.46%
	28,802,453	**100.00%**

2010:	Number of shares	%
1. Minard Holdings Limited	4,484,259	15.61%
2. Biashara Securities Ltd	4,008,740	13.97%
3. Ziyungi Limited	4,000,000	13.94%
4. Tecoma Limited	4,000,000	13.94%
5. DEG	3,100,000	10.80%
6. Proparco	2,575,000	8.97%
7. City Trust Limited	2,097,458	7.31%
8. Others	4,436,996	15.46%
	28,702,453	**100.00%**

The distribution of shareholders as at 31 December 2011 and 2010 was as follows:

	2011			2010		
Share range	Number of shareholders	Shares held	%	Number of shareholders	Shares held	%
Less than 1m shares	105	4,545,496	15.78	85	4,436,996	15.46
>1m <2m	-	-	-	-	-	-
>2m <3m	2	4,672,458	16.22	2	4,672,458	16.28
>3m	5	19,584,499	68.00	5	19,592,999	68.26
Total	**112**	**28,802,453**	**100.00**	**92**	**28,702,453**	**100.00**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

30. SHARE CAPITAL AND RESERVES (continued)

(d) Share Premium

	2011 KShs	2010 KShs
At 1 January	3,690,214,995	1,565,278,143
Share premium arising from issue of shares at a premium	83,500,000	2,143,315,575
Expenses incurred in issuance of share capital	(477,876)	(18,378,723)
At 31 December	**3,773,237,119**	**3,690,214,995**

The share premium arose from issuance of 100,000 ordinary shares of par value KShs 100 issued at a premium of KShs 835 per share.

(e) Revaluation Reserve

The revaluation reserve relates to the revaluation of property, plant and equipment.

(f) Statutory loan loss 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) Translation reserve

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

(h) Available-for-sale reserve

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

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

31. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash flow from operating activities

	Consolidated	
	2011	**2010**
	KShs	**KShs**
Profit before income tax	4,953,892,690	3,526,481,475
Adjustments for:		
Depreciation	151,956,006	139,628,976
Amortisation of intangible asset	48,187,261	56,255,883
Amortisation of prepaid operating lease rentals	4,549,128	1,967,383
Profit on sale of property and equipment	(3,811,106)	(916,682)
Profit on sale of available for sale securities	(301,658,206)	(679,080,679)
Exchange reserves	40,775,248)	(92,305,043)
	4,893,891,021	2,952,031,223
Increase in operating assets		
Movement in loans and advances to customers	(16,108,521,070)	(15,900,189,716)
Investment in securities	(8,285,470,178)	(14,558,715,812)
Cash and balances with central banks:		
– Cash reserve ratio (crr)	(1,093,573,728)	(1,124,689,578)
Other assets	(474,661,673)	277,205,607)
	(25,962,226,649)	(31,306,389,499)
Increase in operating liabilities		
Customer deposits	17,004,475,508	17,542,620,507
Other liabilities	435,927,151	64,191,600
	17,440,402,659	17,606,812,107
Cash flows from operating activities	**(3,627,932,969)**	**(10,747,546,169)**
Tax paid	(1,520,147,535)	(677,119,356)
Net cash flows from operating activities	**(5,148,080,504)**	**(11,424,665,525)**

(b) Analyses of cash and cash equivalents – Consolidated

	2011	**2010**	**Change in the year**
	KShs	**KShs**	**KShs**
Cash and balances with Central Banks – excluding CRR	2,998,010,123	2,572,321,519	425,688,604
Deposits and balances due from banking institutions	9,909,058,869	6,095,811,170	3,813,247,699
Deposits and balances due to banking institutions	(2,546,060,409)	(1,393,755,221)	(1,152,305,188)
	10,361,008,583	**7,274,377,468**	**3,086,631,115**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

31. NOTES TO THE CASH FLOW STATEMENT (continued)

	Company	
	2011	2010
	KShs	KShs
(c) Reconciliation of profit before taxation to net cash flow from operating activities		
Profit before income tax	4,457,331,375	3,004,482,447
Adjustments for:		
Depreciation	106,163,331	101,234,738
Amortisation of intangible asset	32,518,638	46,200,671
Amortisation of prepaid operating lease rentals	4,549,128	1,967,383
Profit on sale of property and equipment	(3,811,106)	(916,682)
Profit on sale of Available for sale securities	(301,245,059)	(665,923,847)
Dividend income	(61,311,323)	-
	4,234,194,984	2,487,044,710
Increase in operating assets		
Movement in loans and advances to customers	(11,136,420,291)	(11,051,015,120)
Investment in securities	(6,034,745,457)	(13,537,684,285)
Cash and balances with Central Bank of Kenya:		
Cash Reserve Ratio (CRR)	(835,032,833)	(560,829,330)
Other assets	(107,897,917)	66,777,976)
	(18,114,096,498	(25,082,750,759
Increase in operating liabilities		
Customer deposits	10,948,744,042	11,195,956,491
Other liabilities	328,132,480	62,095,327
	11,276,876,522	11,258,051,818
Cash flows from operating activities	**(2,603,024,992)**	**(11,337,654,231)**
Tax paid	(1,422,255,112)	(580,543,229)
Net cash flows from operating activities	**(4,025,280,104)**	**(11,918,197,460)**

(d) Analyses of cash and cash equivalents – Company

	2011	2010	Change during the year
	KShs	KShs	KShs
Cash and balances with Central Bank of Kenya – excluding CRR (Note 16)	1,317,048,757	1,201,174,555	115,874,202
Deposits and balances due from banking institutions	5,249,410,628	1,029,423,036	4,219,987,592
Deposits and balances due to banking institutions	(1,977,206,300)	(932,454,803)	(1,044,751,497)
	4,589,253,085	**1,298,142,788**	**3,291,110,297**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

32. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS

(a) Legal proceedings - company

There were a number of legal proceedings outstanding against the Bank at 31 December 2011. 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 investments

In the ordinary course of business, the Bank conducts business involving guarantees, acceptances, letters of credit and bills for collection. These facilities are offset by corresponding obligations of third parties. At the year end, the contingencies were as follows:

	2011 KShs	2010 KShs
Contingencies related to:		
Letters of credit	7,056,848,537	5,505,654,646
Guarantees - Advances	8,579,627,894	6,618,343,278
- Central Bank of Kenya	62,179,677	56,150,026
Acceptances	5,394,258,550	3,756,955,817
Bills for collection	2,196,433,201	1,567,241,982
	23,289,347,859	**17,504,345,749**
Commitments related to:		
Outstanding spot/forward contracts	9,680,515,042	7,274,999,587
	32,969,862,901	**24,779,345,336**

(c) Nature of contingent liabilities

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

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

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

Bills for collection are undertakings by the Bank to collect money from their customers for payment to a third party. They do not bestow any obligations to the Bank.

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.

33. ASSETS PLEDGED AS SECURITY - COMPANY

As at 31 December 2011, Treasury Bonds with a face value of KShs 2,225,000,000 (2010 – KShs 1,255,000,000) were held under lien in favour of the Central Bank of Kenya.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

34. RELATED PARTY TRANSACTIONS - COMPANY

	2011 KShs	2010 KShs
(a) Transactions with directors/shareholders		
Loans to related parties	1,418,979	1,217,868

The related interest income for loans was KShs 67,445 (2010 – KShs 64,304).

	2011 KShs	2010 KShs
(b) Transactions with related companies		
Deposits from related companies	33,700,828	-

Interest expense on deposits from related companies was KShs 1,771,572 (2010 – KShs 1,928,338).

	2011 KShs	2010 KShs
(c) Transactions with employees		
Staff loans	221,080,086	154,122,865

Interest earned on these loans was KShs 11,213,230 (2010 – KShs 9,385,891).

In the normal course of business, transactions have been entered with certain related parties. These transactions are at arm's length.

35. CAPITAL COMMITMENTS

	2011 KShs	2010 KShs
Consolidated	161,517,845	68,839,732

36. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES - COMPANY

(a) Lessee

The Bank leases nineteen 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. During the year, KShs 78,910,412 (2010 – KShs 61,980,319) was charged to the income statement in respect of operating leases. Future minimum lease payments under these operating leases are as follows:

	2011 KShs	2010 KShs
Less than one year	89,218,736	60,589,070
One to five years	237,914,865	210,810,238
Over five years	29,791,066	61,671,417
	356,924,667	333,070,725

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

36. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES - COMPANY (continued)

(b) Lessor

The company leases out its building under operating leases (Note 19). Non-cancellable operating lease rentals are receivable as follows:

	2011 KShs	2010 KShs
Less than one year	68,293,507	61,347,708
One to five years	152,263,052	239,261,291
Over five years	-	41,363,080
	220,556,559	**341,972,079**

During the year, KShs 70,616,073 (2010 – KShs 65,575,986) was recognized as rental income in the income statement in respect of operating leases. In addition, KShs 7,800,000 (2010 – KShs 7,800,000) in respect of management expenses was recognized as an expense in the income statement in respect of the building.

CSR news

I&M Bank is committed to improving the quality of life of the society in which it operates. In this regard, the Bank has been supporting needy deserving projects, institutions and individuals around the country through its Corporate Social Responsibility programme and creating long term relationships with them. Some of these projects are highlighted hereunder:

BLOOD DONATION

I&M Bank staff responded in large numbers to an appeal for blood donation for the victims of what became known as the Sinai Fire tragedy in September 2011. The fire started by a petrol leak from a fuel pipeline and saw nearly 100 people dead and over 100 people admitted at the Kenyatta National Hospital with serious burns. Sinai is a densely populated slum in Nairobi's Industrial area.

DIGNITAS PROJECT

Part of I&M Bank's CSR Policy is to try and improve the quality of life of the local communities it operates in. It is with this in mind that the bank partnered with Dignitas project by way of a donation worth KShs.2 million to assist in enabling the organisation to empower children and families in poor communities specifically in Nairobi's Mathare valley through education and opportunity. With this donation and others from various sponsors Dignitas was able to induct 85 teachers, principals and school committee members into a 1 year leadership program that provides on-site support, professional development, technical assistance and coaching.

KIBAGARE GOOD NEWS CENTRE – ANNUAL FEEDING PROGRAMME

I&M Bank continued to support Kibagare Good News Centre through a monthly feeding programme that sees over 1500 children from the nearby slums enjoy a hearty meal served by bank staff. Kibagare center is run by the Assumption Sisters of Nairobi who initially run it as a settlement for the hungry children.

KENYA ORCHID SOCIETY

Kenya Orchid Society is a non-profit organisation that was formed in 1952 with its principal objective being to create and increase interest in orchids, their cultivation and conservation throghout Kenya and other East African Countries. The bank sponsored the Society's Annual Orchid show which assisted the organisers to attract 1,000 vistors to unique orchid displays and access to information on various types of of orchids.

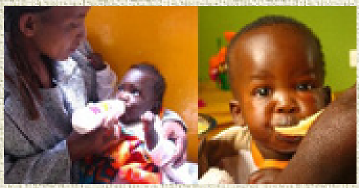
KENYA RED CROSS- KENYANS FOR KENYA

I&M Bank joined Kenyans in the 'Kenyans for Kenya' initiative to assist those hit by one of the worst droughts the country had experienced in recent times. The bank staff pooled together and contributed cash while the bank also contributed through its CSR kitty a total of KShs1 million. The Bank also committed to funding the cost of putting up 4 greenhouses at an estimated cost of KShs. 1.16 million in some of the worst hit areas to try and ensure that they can sustain themselves in the future.

CSR news (Continued)

LIONS CLUB GREATER NAIROBI

I&M Bank sponsored 50 wheelchairs and 10 corneal transplants through Lions Club Greater Nairobi. The wheelchairs benefited disabled persons while the corneal transplants ensured that 10 needy patients have their sight transformed. Lions Club Nairobi is part of the larger international service organization that endeavors to assist the less fortunate.



NEST CHILDRENS HOME

I&M Bank committed to continue purchasing baby formula for children at the Nest Children's home for the year 2011. In 2010 the bank started a relationship with the Nest to purchase formula for the infants rescued by the home after the imprisonment of their mothers.

PORT RIETZ APDK CLINIC IN MOMBASA

I&M Bank together with Sarova Whitesands Beach Resort and Spa each contributed an amount of KShs 500,000 to Port Rietz APDK Clinic towards the facilitation of corrective surgeries for handicapped children in Mombasa.

Numerous lives of young children have been changed through operations carried out by APDK, a project of the Association for the Physically Disabled of Kenya Coast Branch which depends solely on donor funding.

CORNEL NGALEKU CHILDRENS CENTRE (CNCC), TANZANIA

Cornel Ngaleku Children Centre is one of the orphanages in Tanzania, located in a drought stricken remote village in the Rombo District along the lower eastern slopes of Mt. Kilimanjaro. The donation of KShs. 2 million from I&M Bank (T) Ltd went to the upkeep of the children who were either orphaned due to loss of parents through HIV AIDS, or abandoned and left in the care of relatives who are unable to provide quality care due to poverty, old age or mental illness.

PALMHOUSE FOUNDATION

I&M Bank donated KShs. 1.6 million to the Palmhouse Foundation and Education Trust which enables needy and deserving students realise their dreams through the pursuit of secondary education. The bank has been making donations to the foundation since 2007 and has enabled bright and deserving students to attend some of Kenya's leading schools in pursuit of good education.

CSR news (Continued)

DONATION TO EAST POKOT IN CONJUNCTION WITH VISA OSHWAL COMMUNITY, NAKURU

In December 2011, as the festive season approached, Visa Oshwal Community, Nakuru together with I&M Bank embarked on a donation activity in the dry and remote villages – Loruk and Koomolion in East Pokot. 300 families benefited, receiving a food pack consisting of beans, rice, sugar, salt, uji mix, cooking fat and bar soap, juice packs, pens and diaries.

ROHO KWA ROHO FOUNDATION

Roho Kwa Roho Foundation is the charitable arm of Peak Performance International that seeks to highlight the plight of vulnerable children in the society. It specifically supports two categories of children:

a. HIV orphans living in the slums. Most of the children are located in the vast slum of Kawangware.
b. Mentally impaired children from poor families drawn from Kibera, Githurai and Mukuru Kwa Njenga slums as well as from rural areas of Kirinyaga

KARURA FOREST

In 2005, I&M Bank in conjunction with Kenya Forest Service decided to help champion the cause against destruction of the country's forests by undertaking to replant with indigenous trees and develop and maintain 10 hectares of the forest. Unfortunately, part of the Karura including the I&M Forest was destroyed by fire in 2009 and there was need to replant again. I&M Bank then replanted the forest in 2011 with indigenous Kenyan trees and has taken all steps to ensure that the growth of the trees are well managed to ensure that they thrive as they should.

AMARA CHARITABLE TRUST

Enable,enhance,educate and empower are some of the driving principals behind Amara Trust that have seen the organisation provide clean drinking water plus transform the lives of communities in some Kenya's arid areas. I&M Bank has in the past happily contributed to Amara to assist them in ensuring that they are able to attain their goals. In 2011 the bank contributed KShs. 600,000 towards the ongoing upgrade of the Kwa Kalusya school through the development of new classrooms for the needy students.

CSR news (Continued)

ST.ANNE GICHOCHO OFFICIAL OPENING OF SPONSORED DORMITORY

Members of I&M Bank's Board of Directors, senior management and staff joined St.Anne's students and their teachers in the official opening of the new dormitory funded by I&M Bank. The Bank's Chairman and Executive Director spoke at the function and expressed their gratitude to the School's principal and Board for allowing the Bank to be part of a venture that would help the girls concentrate on their education without worrying about how and where they would sleep. The dormitory was constructed at a total cost KShs. 15 million.

RHINO CHARGE

I&M Bank donated funds in support of 2 teams who took part in the annual Rhino Charge event. In fact, one of the two teams the bank sponsored – Car 15, turned out to be one of the top 5 fund raisers at the event, raising over Kshs 2.3 million. The Rhino Charge is an annual off-road motorsport competition event organized by Rhino Ark Charitable Trust to help raise funds for the conservation of Kenya's Aberdare Eco System.

LOCAL AID CENTRE

I&M Bank supported Local Aid, a not-for-profit organisation registered in 2009 and formed to empower marginalized communities and vulnerable children in Kenya.

NAIROBI HOSPICE

I&M Bank espouses the Nairobi Hospice which cares for and supports patients and families facing life limiting illnesses especially cancer, HIV&AIDS. Services are provided at the Hospice on out-patient basis, in hospitals and at the patients' homes within a 20km radius.

FARAJA - CANCER SUPPORT

Faraja Cancer Support Trust is a charitable trust established in 2010 with the aim of providing emotional, practical and healing support to anyone affected by cancer. Faraja has given hope to many cancer survivors and I&M Bank was happy to assist in their noble work

I&M Bank LIMITED

www.imbank.com