ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 2014

I&M Bank LIMITED

NURTURING RELATIONSHIPS

Relationships are all about teamwork, anticipating needs and above all, a shared trust and interdependence. Relationships are the cornerstone of our business which we cherish and nurture with pride.

TABLE OF CONTENT

BOARD OF DIRECTORS

SBR Shah (Chairman)

Sarit S Raja Shah (Executive Director)

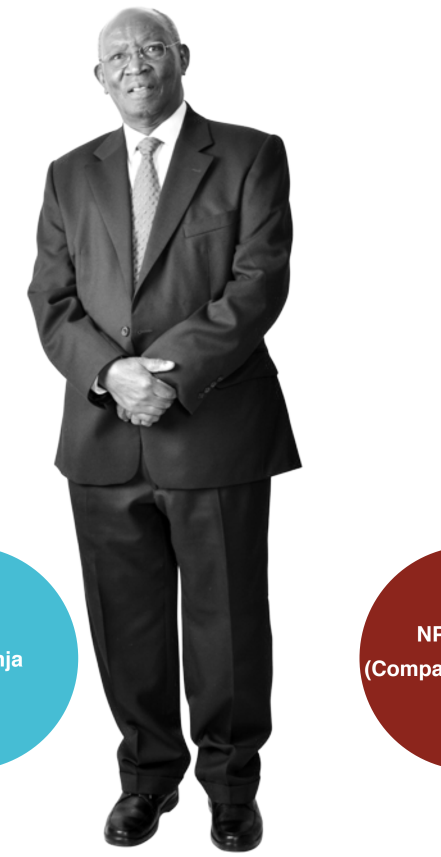
EM Kimani

PCM Kibati

Arun S Mathur (CEO)

Sachit S Raja Shah

M Soundararajan



MJ Karanja

NP Kothari (Company Secretary)

SENIOR MANAGEMENT TEAM

L A Sivaramakrishnan
Head of Business Development

Lucy Thegeya
Head of Business Support

A V Chavda
Senior General Manager

Suprio Sen Gupta
General Manager, Marketing and Product Development

Henry Kirimania
General Manager
Treasury

Joseph Njomo
General Manager
Operations

Rohit Gupta
General Manager
Information and Communications Technology (Group)

Ramanathan Venkitaraman
General Manager
Cards

Srinivasan Parthasarthy
General Manager
Commercial Banking

Chhanda C Mishra
General Manager
Projects

Ruma Shah
General Manager
Internal Audit

Ravi Ramamoorthy
General Manager
Corporate Banking

Shameer Patel
General Manager
CEO's Office

DIRECTORS, OFFICIALS AND ADMINISTRATION

DIRECTORS

SBR Shah, MBS	(Chairman)
Sarit S Raja Shah	(Executive Director)
Arun Mathur	(Chief Executive Officer)
MJ Karanja	
Sachit S Raja Shah	
EM Kimani, MBS	
PCM Kibati	
M Soundararajan*	

* Indian

SECRETARY

NP Kothari – FCPS (Kenya)

AUDITORS

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

REGISTERED OFFICE

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

CORRESPONDENT BANKS

ABSA Bank
Bank One Ltd
Bank of Tokyo Mitsubishi
Citibank NA
Commerzbank AG
Commonwealth Bank of Australia
Deutsche Bank AG
First Rand Bank
I&M Bank (Rwanda) Ltd
I&M Bank (T) Limited
ICICI Bank Limited
Mashreq Bank PLC
Natixis Bank
Standard Bank of South Africa
Standard Chartered Bank NY
UBS AG

BRANCHES

I&M BANK TOWER
Kenyatta Avenue
P.O Box 30238
0100 Nairobi GPO

I&M BANK HOUSE
2nd Ngong Avenue
P.O Box 30238
00100 Nairobi GPO

SARIT CENTRE
Westlands
P.O Box 30238
00100 Nairobi GPO

ANSH PLAZA
Biashara Street
P.O Box 30238
00100 Nairobi GPO

CHANGAMWE ROAD
Industrial Area
P.O Box 30238
00100 Nairobi GPO

KAREN OFFICE PARK
Langata Road
P.O Box 30238
00100 Nairobi GPO

PANARI SKY CENTRE
Mombasa Road
P.O Box 30238
00100 Nairobi GPO

CENTRE POINT
Parklands Road
P.O Box 30238
00100 Nairobi GPO

PEWIN HOUSE
Wilson Airport
P.O Box 30238
00100 Nairobi GPO

ONGATA RONGAI
Maasai Mall
P.O Box 30238
00100 Nairobi GPO

SOUTH C SHOPPING CENTRE
P.O Box 30238
00100 Nairobi GPO

LANGATA LINK
Langata South Road
P.O Box 30238
00100 Nairobi GPO

GITANGA ROAD
Valley Arcade
P.O Box 30238
00100 Nairobi GPO

14 RIVERSIDE DRIVE
Riverside Drive
P.O Box 30238
00100 Nairobi GPO

GIGIRI SQUARE
United Nations Avenue
P.O Box 30238
00100 Nairobi GPO

LAVINGTON MALL
James Gichuru Road
P.O Box 30238
00100 Nairobi GPO

YAYA CENTRE
Argwings Kodhek Road
P.O Box 30238
00100 Nairobi GPO

LUNGA LUNGA
Lunga Lunga Road
P.O Box 30238
00100 Nairobi GPO

THIKA
80 West Place
P.O Box 1207
01000 Thika

NYERI
Hopewell Place
P.O Box 747
301 Nyeri

POLO CENTRE
Kenyatta Avenue
P.O Box 18445
20100 Nakuru

MEGA CENTRE MALL
Kitale
P.O BOX 2278
30200 Kitale

ZION MALL
Uganda Road
P.O Box 9362
30100 Eldoret

BON ACCORD HOUSE
Odinga Oginga Road
P.O Box 424
40100 Kisumu

ROYAL TOWER
Hospital Road
P.O Box 4474
40200 Kisii

BIASHARA BANK BUILDING
Nyerere Avenue
P.O Box 86357
80100 Mombasa

NYALI CINEMAX
Main Nyali Road
P.O Box 86357
80100 Mombasa

CHANGAMWE
Refinery Road
P.O Box 863578 0100
Mombasa

MTWAPA MALL
Mombasa Malindi Road
P.O Box 86357
80100 Mombasa

MALINDI
Pine Court Building
P.O BOX 1125
80200 Malindi

REGIONAL OFFICES

I&M BANK (T) LIMITED
Maktaba Square
Maktaba Street
P.O Box 1509
Dar es salaam
Tanzania

I&M BANK (RWANDA) LIMITED
11, Boulevard de la Revolution
P.O Box 354
Kigali
Rwanda

BANK ONE LIMITED
16 Sir William Newton Street
Port Louis
Mauritius

I&M NEWS

I&M KENYA NEWS

I&M BANK AWARDED AT THINK BUSINESS BANKING AWARDS 2014

Think Business Banking Awards recognizes and rewards best practices in the banking industry based on various parameters including Customer Service, Innovation and Reach. In the 2014 regional awards, I&M Bank was voted Best Bank in Kenya 2014, 1st Runner-Up Tier 2.

The Bank also won Best Bank in the Internet Banking category. This award category focused on the best bank providing Internet Banking as an alternative channel to its customers through the website.

I&M Bank, (Rwanda) Ltd was awarded the 1st Runner-Up position in the Best Bank in the Mortgage Financing category.

I&M BANK LAUNCHES BANCASSURANCE TO INCREASE ITS REVENUE STREAMS

I&M INSURANCE AGENCY LTD

I&M Bank launched its Bancassurance products with a view to broadening the Bank's range of financial services. I&M Bancassurance is being offered by the I&M Insurance Agency Ltd, a wholly owned subsidiary of I&M Bank Ltd. Bancassurance offers provide a wide range of insurance solutions to its customers through the Bank's retail network.

Through I&M Bancassurance customers will now enjoy flexible premium payment plans, competitive premium quotations, professional advisory services on underwriting and claims processing, as well as renewals of insurance covers in advance.

BRANCH OPENING

In the year 2014, the Bank continued to expand its distribution network with a view to deliver financial solutions closer to its customers, as well as to increase its customer base.

I&M Bank opened 9 branches including: Lavington Mall, Gigiri, Lunga Lunga and Yaya all in Nairobi; while the regional branches included Mtwapa, Nyeri, Thika, Kitale and Malindi. These are full service branches with 24 hour ATMs.

I&M BANK CONTINUES TO INNOVATE BY LAUNCHING I&M SMART COLLECTIONS

I&M Bank last year achieved another milestone will the launch of I&M Smart Collections for corporate customers. The I&M Smart Collections service offers an efficient collection service to corporates whereby collection deposits are updated real-time online into their ERP system directly from the Bank's system.

USA'S GSM 102 PROGRAMME SUPPORTS I&M BANK

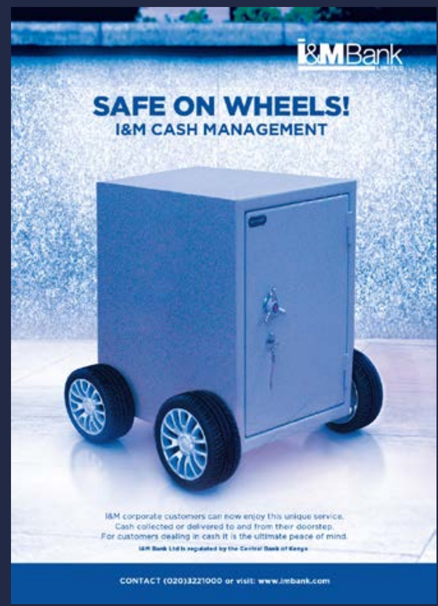
In 2014, the US Department of Agriculture extended a 15M USD trade line to I&M Bank under the GSM 102 Programme to be utilised by our customers for imports from USA into Kenya.

The U.S Department of Agriculture's (USDA) Export Credit Guarantee Programme (GSM-102) provides credit guarantees aimed at encouraging financing of commercial exports of U.S. agricultural commodities.

I&M NEWS (Continued)

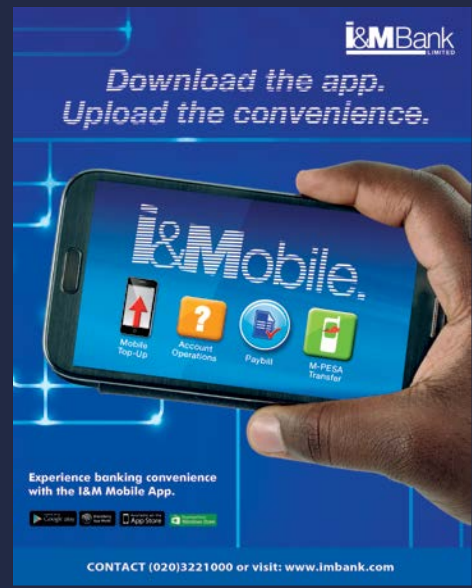
I&M KENYA NEWS (Continued)

I&M CASH MANAGEMENT



The Bank partnered with Security Group, CIT Ltd to offer I&M Cash Management. The service will enable I&M corporate customers to collect or deposit cash to the Bank or any relevant destination quickly and safely at a reasonable cost. The service offers convenience, as customers do not have to travel to the Bank to conduct their transactions; and the Cash in Transit Company delivers cash to the bank, which is then credited to the customer account immediately upon cash confirmation.

I&M BANK LAUNCHES I&M MOBILE APP



I&M Bank launched an enhanced Mobile Banking platform that incorporates mobile commerce and lifestyle features. The platform known as I&M Mobile App allows both retail and corporate customers to access their accounts and conduct various financial and non-financial transactions on a secure platform. Customers can easily conduct different bank requests, purchase airtime, conduct utility payments, transfer money from bank account to M-PESA and vice versa.

PROPARCO EXTENDS CREDIT LINE TO I&M BANK

Mr Sarit S Raja Shah, Executive Director, I&M Bank Ltd (L) receives agreement from Mr Guédi Ainache of PROPARCO (R) as Mr. Arun Mathur, Chief Executive Officer, I&M Bank, Mr. A V Chavda, Senior General Manager at I&M Bank and Shameer Patel, General Manager, CEO's Office at I&M Bank look on.

Last year, I&M Bank received an additional credit line of USD 40M with a seven year maturity from PROPARCO. The facility allows the Bank to strengthen its long-term resources and support sustainability of its organic growth in Kenya.

Additionally, it enables the Bank to respond to increasing demand for foreign denominated loans especially in Dollar and Euro currencies, and cater for the dynamic SME sector primarily involved in international trade. It was expected that this would in turn actively contribute to the economic growth of the country.

I&M NEWS (Continued)

I&M RWANDA NEWS

MOBILE MONEY INTEGRATION SERVICE UNVEILED

In July 2014, I&M Bank (Rwanda) Ltd partnered with MTN to launch a mobile banking service that gives MTN Mobile Money subscribers an opportunity to transfer money from their Mobile Money Wallet to I&M Bank account and vice versa.

We believe that by extending services to Mobile Money users, most of whom are excluded from the formal financial sector, MTN and I&M Bank will be actively closing the gap between the formally banked and under banked.

The launch of this service was in addition to the cardless facility introduced earlier to allow Mobile Money customers to withdraw money from the ATM without a debit card, regardless of whether they are I&M Bank customers or not.

PARTICIPATION IN THE 2014 PSF EXPO

The 14th Edition of the annual PSF expo brought together different private sector companies in a two-week long event. For this edition, I&M Bank provided deposit, withdrawal, transfer and VISA card services through its Mobile Branch.

I&M BANK RWANDA LAUNCHES M-VISA SERVICES

In 2014, I&M Bank (Rwanda) Ltd continued to deliver on its commitment to provide cashless solutions to our customers to help boost a cash lite economy.

In this background, I&M Bank (Rwanda) Ltd launched the M-Visa, an interoperable mobile money service which allows users to transact with their mobile phones across all networks.

This service allows person-to-person transfers, business-to-business payments, as well as business-to-individual payments. The service is a pivotal achievement in the Bank's efforts to provide financial services to the underbanked. A pilot phase has successfully been completed in partnership with the World Food Programme (WFP) and Gihembe refugee camp.

I&M BANK (RWANDA) LTD UNVEILS VISA CARDS

I&M Bank (Rwanda) Ltd introduced its highly anticipated range of VISA Cards in the third quarter of 2014. The cards range included VISA credit, debit and prepaid cards. Customers are now able to transact online, at the Point of Sale (POS) terminals and in over 200 countries worldwide where VISA is accepted.

The VISA Cards have the Europay, MasterCard and Visa (EMV) technology which authenticates card transactions and also ensures the security and global interoperability of chip-based payment cards.

The VISA Cards enables customers to pay for goods and services at different outlets such as supermarkets, fuel stations, hotels, restaurants and shops.

I&M NEWS (Continued)

I&M RWANDA NEWS (Continued)

EUROPEAN INVESTMENT BANK EXTENDS A 8 MILLION SME SUPPORT CREDIT LINE TO I&M BANK (RWANDA) LTD

I&M Bank Rwanda MD, Mr. Sanjeev Anand and Kurt Simonsen (EIB) shake hands after signing the agreement.

The European Investment Bank, Europe's long-term lending institution, approved a EUR 8 million credit line to I&M Bank, Rwanda to facilitate onward lending to Small and Medium Enterprises across Rwanda. This is the second line of credit for this sector from the European Investment Bank.

The partnership with the European Investment Bank confirms the Bank's growing reputation as a development partner of choice by global lenders seeking to facilitate economic growth in the East African region.

AWARDS AND RECOGNITION

Our efforts towards providing Innovative Financial Solutions, Compliance and efficient Customer Service were recognized not only at the industry level, but also on the national and regional level.

I&M Bank (Rwanda) Ltd was awarded the 1st Runners Up position in the 9th Edition of the Think Business Banking Awards, Best Bank in Mortgage Finance category, and was also ranked Best Bank in Rwanda by Global Finance Magazine Awards. The Bank also ranked received the Best Tax Payer award for Tax Compliance Award from the Rwanda Revenue Authority.

I&M Bank (Rwanda) Ltd was awarded the best financial institution of the year, 2014 for its support to the mining sector in Rwanda through loans and banking products tailored to meet the special needs of the industry.

Lastly, the Bank also received the Country Award during the Annual CIO 100 Awards which recognize companies that demonstrate excellence and achievement in IT on their different operations in various industries.

I&M BANK (RWANDA) LTD TRAINS HANGA UMURO BENEFICIARIES ON FINANCIAL LITERACY

Participants at the Financial Literacy Training Workshop.

I&M Bank (Rwanda) Ltd conducted a financial literacy training workshop for SMEs under the Hanga Umurimo Program (HUP) in April last year.

HUP is a government initiative that aims to sensitize the Rwanda population on how to come up with creative ideas for job creation and also empowers communities with basic business skills, by identifying and supporting individuals who have entrepreneurial aptitudes.

The Financial Literacy training aimed at equipping the participants with good Financial Management Skills, and covered different topics such as: interpretation of Financial Statements, best practices on Tax Compliance, Loan Application requirements and how to maintain a good credit standing with the Bank.

CUSTOMER VISITS

During the year, a group of senior managers led by I&M Bank (Rwanda) Ltd's Managing Director, Sanjeev Anand made different customer visits in the four Rwandan provinces meeting existing and potential customers.

These meet and greet events have become an integral part of the Bank's efforts to reward customer loyalty, as well as enhance our customer acquisition efforts. During the visits, the teams got to enlighten existing and potential customers on the Bank's new products, and also got an opportunity to engage in fruitful discussions on how the Bank can continually improve its delivery of banking solutions.

I&M NEWS (Continued)

I&M RWANDA NEWS (Continued)

I&M BANK (RWANDA) LTD REACHES OUT TO THE DIASPORA COMMUNITY

Head of Strategy, Lina Mukashyaka explains I&M Bank products to Rwanda Day attendees

At I&M Bank, we believe that the diaspora community should bank and invest back home. Last year, I&M Bank (Rwanda) Ltd participated in different international expos aimed at marketing the various diaspora banking products and services offered by the Bank.

Key to note was the 2014 Rwanda Day held in Atlanta, where the Bank was well represented by Lina Mukashyaka, I&M Bank (Rwanda) Ltd Head of Corporate Strategy, Planning and Marketing and Innocent Muhizi, the Bank's Head of IT and Transactional Banking Services. Other expos the Bank participated in included the 49th Anniversary AfDB Summit in Kigali and ITC events at the regional level.

I&M BANK (RWANDA) LTD HOSTS TOP SAVERS APPRECIATION WEEK

A customer from Musanze branch receives a Smart Saver certificate from the Branch Manager.

I&M Bank (Rwanda) Ltd conducted a week of customer appreciation events for customers who were top savers in 2014.

The appreciation events were held at every branch across the country where committed savers were rewarded and urged to spread the savings culture to others.

BANK ONE MAURITIUS NEWS

BRANCH OPENING

Mr. David Proctor, Chairman Bank One, Mauritius cuts ribbon to mark the official opening of the new Curepipe Branch as other directors, staff members and guests look on.

Mrs. Anne Marie Koo, Head of Retail at Bank One makes her speech during the opening of the new Branch.

In March 2015, Bank One, Mauritius officially launched its new Branch in the town of Curepipe with an objective of bringing banking solutions closer to its customers. The total Bank One branches in Mauritius now stand at 16.

I&M NEWS (Continued)

I&M TANZANIA NEWS

I&M BANK (T) LTD HOSTS SME CUSTOMERS FOR A WORKSHOP

In October 2014, I&M Bank (T) Ltd conducted a sensitization workshop to enlighten potential and existing customers on the Bank's SMEs credit facilities.

Various topics were covered such as: loans structures, loan repayment terms, description of business activities, strategies and business goals, borrowing requirements, borrowers' responsibilities, tips for maintaining a good credit standing with the Bank among other topics.

BRANCH OPENINGS

I&M Bank (T) Ltd continued to expand its network by opening two more branches in the country. The Bank opened its 7th Branch at OysterBay in Dar es Salaam and its 8th Branch in Moshi.

In addition to the new branches, the Bank launched a 24 hour electronic banking lounge at Viva Towers in Dar es Salaam. This unique, one-of-a-kind service in Tanzania, will provide Any Time, Any Day multiple banking services such as forex conversions, bulk cash deposit, and ATM for cash withdrawals. The service lounge located next to the 24 hour electronic banking lounge, will also offer various banking services from 8am to 8pm such as account opening, cheque book services, foreign currency prepaid cards, ATM debit card requests, and request for B-Pesa cards.

GERMAN DEVELOPMENT FINANCE INSTITUTION EXTENDS TIER II LINE TO I&M BANK (T) LTD

The German Development Finance Institution (DEG) extended a USD 10 million Tier II qualifying subordinated debt facility to I&M Bank (T) Ltd to aid in the Bank's expansion plans. The debt capital will enhance the Bank's capital base, and augment its long term resources for onward lending to export based SMEs.

I&M BANK ROLLS OUT B-PESA PREPAID CARDS

I&M Bank (T) Ltd partnered with B-Pesa to launch the B-Pesa Tanzania Shillings prepaid cards. The B-Pesa cards will enable the Bank's customers make transactions at all B-Pesa-branded merchants and ATMs.

B-Pesa allows users to manage their B-Pesa prepaid card via multiple electronic channels such as the web portal or their mobile devices.

I&M BANK (T) LTD INTRODUCES DISCOUNT VOUCHER SCHEME ON CARD USAGE

I&M Bank (T) Ltd partnered with different merchants in Tanzania to launch an initiative aimed at encouraging card usage by customers, as well as rewarding customers' loyalty for banking with the Bank. The initiative referred to as the discount voucher scheme, rewarded customers who swiped their cards more than five times per month, at Point of Sale (POS) terminals in merchant outlets or at ATMs by giving them discounts.

CHAIRMAN'S STATEMENT

Excellence in service will always remain a dynamic instrument for any business to survive and grow. At I&M Bank, we recognize that there is always room for improving on our service delivery standards. Our customers deserve outstanding services, very rightly so, and we are determined to put in place the technological platform and systems that will support the delivery of service par excellence. We deeply care about the experience our customers receive, and this is the driving force of the Bank "to be the first choice where customers want to do business". Our culture and strategy is focused on placing the customers' interest first in order to ensure that they get a better service tomorrow than they did yesterday. Even as we constantly strive to focus on offering personalized services and tailor made products for our customers, it is not easy to do so given the challenges of operating in an economy fraught with risks and frauds and where it becomes increasingly indispensible to introduce controls, systems and procedures which by their very nature are bureaucratic and against the grain of superb customer service.

With the ever growing need to meet customer expectations with a wider range of products and services, Banks are now concentrating their efforts on what they do best i.e. their core functions while outsourcing other non-core functions. This has led to the growth of several service providers who form part of the supply chain. While this is a very positive development for the growth of the economy, there is an urgent need for greater and more meaningful participation and accountability by these service providers/vendors. The recent trend reflected by the increasing number of cases where services have suffered because of a lack of adequate risk management systems, procedures and internal control framework at the vendors' end is rather disquieting. This said, the Central Bank of Kenya (CBK)'s efforts to curtail such incidences by requiring banks to submit the list of such vendors is, indeed, laudable and a step in the right direction.

The meteoric advancements in technology in the last couple of years have significantly improved the bouquet of products and services offered to consumers and have led to enhanced access to financial services through the creation of alternative banking channels. Mobile banking in Kenya continues to gain increased popularity due to availability of low cost mobile phones and benefit of accessibility in even the most remote areas making it cost-effective, and convenient option for money transfer services. Furthermore, this has led to enhanced efficiency in the provision of services as consumers can now easily access numerous products and even obtain small loans through the mobile money platforms. The growth in the number of mobile money transfer transactions from 643 million transactions recorded in June 2013 to 824 million transactions in June 2014 and likewise the increase in value transferred from KES 1,689 billion to KES 2,148 billion during the same period are testimony to this fact.

One of the key concerns that Banks have been faced with in the last two years and continue to do so is the challenge of rising loan defaults especially in the building and construction sectors. Consequently, these suppliers are unable to meet their operational costs and loan repayments as and when they fall due. This has adversely affected loan quality in the banking industry. There is also an increasing trend in the market to stretch payments to suppliers, which can lead to a systemic risk.

FINANCIAL SECTOR STABILITY

It is heartening to note that the Kenyan Banking sector registered an improved growth in assets, and, to a lower extent, in earnings in the year 2014 compared to the previous year. Credit to the private sector from the banking sector increased by 22.2%, from KES 1,542 billion in 2013 to KES 1,885 billion in 2014. The highest allocation of credit to the private sector in 2014 was to private households at KES 320 billion, followed by trade at KES 307 billion, real estate at KES 263 billion and manufacturing at KES 237 billion. In the third quarter of 2014 the economy recorded a growth of 5.5% compared with a growth of 6.2% in the third quarter of 2013. Overall 12-month inflation declined from 6.1% in November 2014 to 6.0% in December 2014, mainly reflecting a fall in the price of crude oil.

The Central Bank of Kenya (CBK) continues to implement appropriate measures to ensure interest rate stability, in order to improve on the supply of credit for sustainable economic growth and enhance mortgage finance in Kenya. During the year 2014, CBK announced the introduction of the Kenya Banks' Reference Rate – or KBRR as is more commonly known as to replace the Base Lending Rate. This move is intended to tackle the problem of high interest rates and promote price transparency so that consumers are able to make informed decisions. Adoption of the KBRR is aimed at reducing the inefficiencies within the banking sector as well as to assist banks to price their products suitably based on the risk. The exchange rate remains relatively stable in spite of pressure on account of the economic conditions at the Coast, the fall in prices of tea and the appreciation of the dollar.

CHAIRMAN'S STATEMENT (CONTINUED)

THE BANK

I am pleased to report that your Bank registered a growth of 28% in the profit before tax for the year ended 31st December 2014 which increased from KES 6.1 billion for 2013 to stand at KES 7.7 billion for the current year. At the end of the year your Bank's loan portfolio increased by 22% from KES 73.4 billion in December 2013 to KES 89.9 billion as at December 2014. Similarly, customer deposits grew by 16% from KES 74.5 billion to reach KES 86.6 billion. Supported by the growth in Loans and Advances and Customer Deposits, total assets expanded by 24% during the year to close at KES 137.3 billion as at December 2014. Regrettably, this was accompanied by deterioration in the gross and net non-performing loan ratios from 1.14% and 0.46% in 2013 to 2.08% and 1.12% in 2014 respectively. The Bank continues to expand its branch network across the country in a focused manner. It opened its 5th branch in the Coast region in Mtwapa and further expanded in the Western region through the newly opened branch in Kitale. A total of 9 branches were opened during the year; bringing the Bank's branch network to 30 branches. The Bank's ATM network also expanded to 44 ATMS with the addition of 13 onsite & offsite ATMs. Additionally through the Bank's tie up with Kenswitch, the Bank's customers also have access to 5,000 ATMs across the country.

I am delighted to share that in recognition of the Bank's technological innovation, it received the award for 'Best Bank in Internet Banking' at the annual Banking Awards Ceremony. The Internet Banking application known as "I-Click" is the first Internet Banking platform in Kenya that allows one to view cheque images online.

In 2014, the Bank launched its presence on three social media platforms - Facebook, Twitter and YouTube in a bid to enhance the quality of interaction with our customers. It is very encouraging to note that by December 2014, I&M Bank's Facebook site became the 5th most popular Facebook Bank site in Kenya with now over 40,000 fans. Through the use of social media the Bank has been able to promote transparency by sharing and disseminating valuable information to our customers. Moreover, the Bank has been able to deliver exceptional services by taking into account the feedback and recommendations received from our customers. The suggestions received are extremely valuable in enabling the Bank to improve on the service delivery standards as well as enhance the products and services offered.

In 2013, CBK introduced guidelines on Incidental Business Activities that enable Banks to act as a distribution channel in the provision of authorized financial services and products. Following the registration and licensing of the newly set subsidiary of the Bank 'I&M Insurance Agency Ltd' by the Insurance Regulatory Authority, I am pleased to inform you that the Bank now offers competitive insurance products through our Bancassurance services. Our customers can enjoy very competitive prices and attractive product features as we have partnered with leading insurance companies in the market to sell and distribute insurance products and offer insurance advisory services. The Bancassurance team is committed to negotiating the best rates and terms for our customers and facilitating insurance claims settlement without the client's direct involvement with the Underwriters. Bank customers using Bancassurance to arrange for their insurance requirements will also enjoy a concessional rate on Insurance Premium Financing (IPF).

As part of our plans to improve on our risk management framework through undertaking Corporate Restructuring initiatives, the Bank successfully transferred its shares held in I&M Bank (Rwanda) Limited and Bank One Limited, Mauritius to I&M Holdings Limited ('IMHL'). In continuation of its restructuring plan, the Bank set up a separate subsidiary called 'I&M Realty Limited' and transferred all of the real estate investments to this new wholly owned subsidiary.

I&M Bank is a fair employer and committed to ensuring it remains the Bank where the best people want to work. The Bank successfully completed a job evaluation exercise in order to ensure its overall HR practices and remuneration structure including non-salary benefits are aligned to the market. The job evaluation exercise is an important milestone in our people management platform and it lays a strong foundation for human resource management as the Bank continues to pursue its growth and expansion agenda. One of the key outcomes achieved was the implementation of a revised job grading and salary structure that is internally equitable and externally competitive and that aligns the compensation system to enable the Bank to attract and retain qualified, experienced and talented staff.

Every year the Bank participates in initiatives that benefit the society; our CSR programme demonstrates our commitment in making a real difference and our employees are actively

CHAIRMAN'S STATEMENT (CONTINUED)

involved. The Bank engaged in a number of activities, which included sponsoring a medical camp targeting Jua Kali artisans where a total of 2,650 patients were treated. The Bank has also undertaken to facilitate specialist treatment through further sponsorship for those individuals presented with conditions that will require surgery.

OUTLOOK

The Kenyan Banking industry is poised to embark on a collective initiative that promotes best practices in sustainable finance. Your Bank recognizes that its own business operations and the projects it finances have an impact on the environment and society. The Bank is dedicated to delivering a sustainable society in which people can prosper. Through the adoption and adherence to the principles of sustainable banking, it is expected to minimize and offset, where possible, negative impacts of projects on the environment and society.

In formulating its expansion strategy, the Bank is not only guided by the convenience of our customers but also by its responsibility and it must fulfill to ensure greater access to financial services for the unbanked population. Besides the continued growth through branches and ATMs, special attention is being given to Alternate Banking Channels such as Agency Banking through which we not only hope to develop better relationships with potential and existing customers but also provide access to the unbanked population and reach out to the remote parts of the country.

In 2015 the Bank intends to sustain its initiative to deliver innovation through launch of new products. Some of our plans include, introducing Retail Lending through unsecured personal loans structured with check off systems, a new range of payment solutions including non-card related payment solutions, better utilisation of our ATMs, offering customized corporate products, and developing a cash management product that includes cash collection services. The Bank is also looking into means of expanding the Bank's SME outreach. In addition, through the M-PESA prepaid card in place, the Bank plans to introduce other card products linked to mobile money through M-PESA. We acknowledge the need to spend more time, effort, and resources on our customers in order to enhance customer satisfaction, retain as well acquire new customers by offering attractive products and services.

Through adopting a customer-centered culture, we will continue to meet our customer demands as their priorities shift and deliver high quality service.

The Bank also appreciates the need to develop and grow its people to effectively manage its growing business initiatives and to this end, it has identified various measures to ensure adequate HR capacity in terms of skills and numbers. This includes, inter alia providing leadership development training for our employees though on-line Leadership Development Programme.

I would like to record my sincere appreciation for the committed and dedicated team at the Bank who remain committed to the Bank's Vision, Mission and Strategy. On behalf of the Board, special thanks to each member of staff who have helped shape the Bank and served the Bank's customers with the highest level of respect and effectiveness.
I would also like to acknowledge and thank my fellow Board Members for their skills and time dedicated and for bringing their passion and insight to the table.

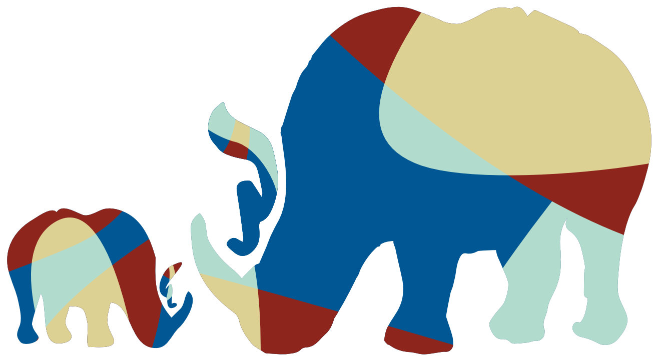
Most importantly, I would like to take this opportunity to also thank our valued customers for their continuing trust and support in us and we reaffirm our commitment towards ensuring delivery of superior services.

We remain grateful to the CBK for its guidance and prompt attention to our proposals requiring approvals. We are also thankful to our growing list of suppliers and service providers, who are critical in ensuring that our customers continue to 'Love the difference'.

With best wishes,

Suresh Shah

S. B. R. SHAH
CHAIRMAN



REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2014, which disclose the state of affairs of the company and the group. The group comprises I&M Bank Limited, I&M Bank (T) Limited, Tanzania, I&M Realty Limited and I&M Insurance Agency Limited.

1. ACTIVITIES

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

2. CORPORATE RESTRUCTURING

On 1 January 2014, the shares held by the Bank in I&M Bank (Rwanda) Ltd were acquired by I&M Holdings Limited. The Bank's investment in the joint venture, Bank One Limited Mauritius, was also acquired by I&M Holdings Ltd with effect from 22nd August 2014.

3. LOAN CAPITAL

The Bank's First Tranche of the Medium Term Note Programme was issued on 25th November 2013 for an amount of KShs 3 billion. The issue was oversubscribed by 21.8% and the Bank opted to accept all the successful applications by exercising of the green shoe option of up to KShs 1 billion. The Bank raised an aggregate amount of KShs 3.655 billion. The Notes were listed on the Nairobi Securities Exchange on 7th January 2014.

4. RESULTS

The consolidated results for the year are as follows:

	2014 KShs'000	2013 KShs'000
Profit before taxation	7,480,487	7,262,666
Taxation	(2,245,939)	(2,281,305)
Profit after taxation	**5,234,548**	**4,981,361**

5. DIVIDEND

The directors recommend the payment of a final dividend of KShs 45 per share amounting to KShs 1,296,110,385 (2013 – KShs 35 per share amounting to KShs 1,008,085,855).

6. DIRECTORS

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

7. AUDITORS

The auditors, KPMG Kenya, have expressed their willingness 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).

8. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved at a meeting of the directors held on 20 March 2015.

BY ORDER OF THE BOARD
NP Kothari, Secretary
Date: 20 March 2015

STATEMENT ON CORPORATE GOVERNANCE

The hallmark of I&M Bank Group's Corporate Governance Framework is a Group-wide commitment to ensuring that the highest standards of corporate governance are implemented and upheld in all its entities. This in turn ensures that the Group maintains and promotes high standards of integrity, transparency and accountability across all levels. The Corporate Governance Framework, established by the Board of Directors of I&M Bank Ltd. ('I&M Bank' or 'I&M' or 'the Bank'), includes a robust management structure built on a platform of stringent internal control and pre-approved policies, practice and procedures to deliver sustainable value to its shareholders, whilst also remaining focused on the Group's wider role & responsibility to society at large.

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

For the Group's operations outside Kenya in Mauritius, Tanzania and Rwanda, the Bank has ensured set up of a sound governance framework which not only meets its own high standards of corporate governance but is also in accordance with the guidelines and directives issued by their respective regulators.

The restructuring of I&M Bank Group in 2013 resulted in the creation of the Bank's holding company – I&M Holdings Limited ("IMHL"). IMHL is listed on the Nairobi Securities Exchange and regulated by Capital Markets Authority, and the Central Bank of Kenya. Set up of the holding company structure is expected to aid in enhancing the levels of accountability and governance within the Group as it continues to grow and expand in other countries within the pan-African region.

RISK MANAGEMENT FRAMEWORK

I&M Bank has over the years maintained a keen focus on risk management, both in its business processes and products, and which have supported the Bank's steady and sustainable growth.

The Risk Management Framework at the Bank ensures that risks are identified and effectively managed on an on-going basis. Given that risk taking is core to the Bank's innovation capacity and ultimately its entrepreneurial success, I&M's approach to Risk Management is characterized by a strong risk oversight at the Board level and a strong risk management culture at all levels across the Bank. This approach supports and facilitates I&M's decision making process which not only ensures that the risk reward trade-off is optimized but also that risks assumed are within the overall Risk Appetite and Risk Tolerance levels as laid down by the Board of Directors.

I&M's Risk Management Process is guided by the following principles:

- Its Risk Appetite & Risk Tolerance Levels
- An Independent Audit, Compliance & Quality Assurance Department
- Zero Tolerance for violations
- A Policy of "No Surprises"
- Protection of Reputation
- Enhanced Stakeholder Satisfaction

The Bank endeavours to be compliant with Best Practices in its Risk Management and uses the Committee of Sponsoring Organisations of the Treadway Commission "COSO" framework as a reference and adopts compatible processes and terminology.

THE BOARD OF DIRECTORS

Constitution, Appointment and Composition

The Bank's Board, led by the Chairman Mr SBR Shah, consists of four independent non-executive Directors, two non-executive Directors, one Executive Director and the Chief Executive Officer. Of the six non-executive Directors, more than 50% are independent. The Directors, collectively have vast experience stemming out of 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 as required by the Board, in not only discharging its responsibilities and providing a strategic vision and direction for the Bank, but more importantly also adds value to, and brings in the element of independent judgment and risk assessment to bear on the decision making process.

I&M Bank recognizes and appreciates that all Directors make valuable contributions to the Board and to the Bank by virtue of their experience and judgment.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Roles & Responsibilities

Entrusted with the overall responsibility of the Bank, the Board's key role is to provide effective, responsible leadership characterized by the ethical values of responsibility, accountability, fairness and transparency.

The Board ensures that appropriate steps are taken to protect and enhance the value of the assets of the Bank in the best interests of its shareholders and other stakeholders. This entails the approval and oversight of the implementation of the Bank's strategic objectives, risk strategy, corporate governance and corporate values, as well as the oversight of Senior Management. Further, the Board ensures that at the heart of the organisation, there is a culture of honesty, integrity and excellent performance.

Board Meetings

The Board meets at least quarterly each year for scheduled meetings and on other occasions when required to deal with specific matters between scheduled meetings. During the year, four scheduled Board meetings were held. All members attended at least 75% of the meetings held during the year.

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 Bank has an established and effective process of evaluating the Board's Chairman's and individual Directors performance, on an annual basis. This performance evaluation process is reviewed periodically to incorporate global best practice and any amendments issued by the Central Bank of Kenya, the Regulator, from time to time.

Governance Principles

The Board ensures that *Accountability* among staff is enhanced through a system of objective goal setting and periodic performance appraisals. Additionally, the Board has delegated financial and other powers with clearly defined accountabilities for each.

In order to ensure that high levels of efficiency and effectiveness are maintained, the Bank has a good pool of well-trained staff with the appropriate skills required to perform their duties. Further, the Bank ensures that all staff undergo regular training to improve and develop their skills.

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

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 the Internal Audit functions. Further, in compliance with the revised Prudential Guidelines issued by the Central Bank of Kenya with effect from 1st January 2013, two BAC meetings are held in each year independent of management giving the internal and external auditors an opportunity to raise matters directly with members of the BAC.

Board Risk Management Committee (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.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

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, ensure statutory compliance and be overall responsible for the overall management of credit risk. The Credit Risk Management Committee (CRMC) assists the BCC in its role.

Board Procurement Committee (BPC)

This Board 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 procurement proposals as well as proposed consultancy assignments and unbudgeted capital expenditure. In addition, the BPC also vets any agreements with and procurements 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 a year. It assists the Board in fulfilling its responsibilities by considering matters pertaining to the 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 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.

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

Assets & Liabilities Committee (ALCO)

The Bank's Assets & Liabilities Committee primary functions include measurement, management and monitoring of liquidity, interest rate, foreign exchange and equity risks of the Bank in order to protect the Bank's net worth from adverse movements of market.

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 management and follow-up of all credit-related matters and review of Non-Performing Accounts. The Non Performing Accounts Committee and the Card Centre Credit Appraisal Committee assist the CRMC in its role.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Human Resources Committee (HRC)

This committee assists the Board in fulfilling its Human Resource Management responsibilities with due recognition to this key resource. HRC oversees implementation of all major HR initiatives, rendering support and guidance as appropriate. It also facilitates periodic review of the Bank's HR policies and practices to ensure the Bank remains competitive and able to attract and retain competent Talent for its business.

IT Steering Committee (ITSC)

This committee has been set up to enhance ICT governance in a growing ICT enabled banking environment with emphasis on assessment and management of ICT risks, ensuring optimum use of ICT resources, determining prioritization of ICT investments in line with the Bank's strategy, monitoring service levels and adopting best practices.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Corporate Social Responsibility (CSR)

I&M Bank is very conscious of its responsibility towards the Community and those around it. It is in this endeavour that the Bank has put in place guidelines that support the discharge of its Corporate Social Responsibility mandate, which is well integrated within the Bank. The Bank has continued to deepen its relationship with various stakeholders while providing opportunities to its employees to participate in various CSR activities. Of note is the technical assistance the Bank received from DEG to implement its Environmental and Social Management System (ESMS) in 2013, which allows it to analyze and improve its environmental and social impact in carrying out its activities.

I&M Bank considers 'the community' as a key stakeholder in its business initiatives, and during 2014, the Bank's CSR activities were aimed at making sustainable difference under four key social pillars: Education, Health, Environment and Community Support. The Bank enhanced its resources towards supporting various projects that included:

- scholarships for bright but needy students in various educational institutions;
- environment care, with a tree planting activity carried out by staff of the Bank, in which trees were planted in 10 acres of Nairobi's Karura Forest;
- active participation in various health-care initiatives of the Bank, key amongst them being a blood donation drive in which over 321 pints were contributed to the National Blood Bank, and the construction and equipping of a new radiology and paediatric critical care department at Gertrude's Children's Hospital;
- Various community service initiatives, in which staff members are instrumental in supporting the initiatives of the Bank to enhance the lives of those around us. In 2014, staff members participated in the monthly school feeding program at Kibagare in which over 1,000 children are fed, and also dedicated a day to visit various children's homes supported by the Bank.

The Bank strongly believes in the importance of giving back to the society at large and sharing its success with the communities in which it operates. It is this underlying philosophy that guides the Bank's CSR programmes and which are designed to achieve maximum impact to enhance the lives of the communities around us, and Kenya as a whole.

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) • Group Head of Internal Audit (Alternate 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 • Group Head of Internal Audit	• 3 Independent Non-Executive Directors • 1 non–Executive Director • 1 Executive Director • Chief Executive Officer (CEO) • Head of Credit (Secretary) **Invitees:** • Head of Business Development • Head of Risk	• 2 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) • General Manager-CSP (Secretary)	• 2 Non-Executive Directors • 1 Executive Director • Company Secretary (Secretary)	• 2 Independent Non-Executive Directors • 1 Executive Director • Head of HR (Secretary) **Invitees:** • CEO • Head of Business Support
Frequency Of Meetings	Quarterly	Quarterly	Quarterly	Half-yearly	Quarterly	Quarterly	Annually
Main Functions	• Ensure establishment of an adequate, efficient and effective internal audit function • Review structure and adequacy of internal Controls • Review and co-ordinate between External Auditors and Internal Audit Department • Review and receive CBK Inspection Report, and ensure implementation of recommendations therein.	• Ensure that the Risk management framework and the processes as approved are implemented • Review, monitor and 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 and approve the Procurement Policy • Review and consider significant procurement proposals / consultancy assignments above the delegated authority limit of the Executive Director's Delegated • Vet agreements/ Procurement proposals from related parties • Review and ratify unbudgeted capital expenditure above Executive Director's delegated authority limits	• Review and approve Strategy and objectives on additional capital needs • Ensure optimal capital structure with appropriate mix of debt and equity to support Bank's Strategy • Risk assessment and 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 • Succession planning for Board and key Management members • Induction programs for new members and development programs to build individual skills and improve Board effectiveness • Board and Senior Management succession planning • Performance evaluation of the Board of Individual Directors and of the ED & CEO • Set remuneration policies & strategic objectives of Board, ED & CEO • Set policies for ESOP Scheme 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	Executive Director	Executive Director	Executive Director	Chief Executive Officer (CEO)
Members	ED, CEO, Senior General Manager • Head of Business Development • Head of Business Support • General Manager Corporate & Strategic Planning (Secretary)	ED, CEO, Senior General Manager • Head of Business Development • Head of Business Support • General Manager Risk • General Manager Treasury • General Manager Corporate & Strategic Planning • General Manager – CEO's Office (Secretary) **Invitees:** • General Manager – Internal Audit	ED, CEO, Senior General Manager • Head of Business Development • Head of Business Support • General Manager Corporate & Strategic Planning • Assistant General Manager Finance • General Manager Treasury • General Manager Risk (Secretary)	ED, CEO, Senior General Manager • Head of Business Development • General Manager Risk • General Manager Credit (Secretary)	ED, CEO, Senior General Manager • Head of Business Development • Head of Business Support • Assistant General Manager HR (Secretary)	CEO • Head of Business Development • Head of Business Support • General Manager Central Marketing • General Manager – CEO's Office • General Manager ICT (Secretary) • General Manager Projects
Frequency of meetings	Quarterly	Once every 2 months	Monthly	Fortnightly	Monthly	Quarterly
Main functions	• Lead and direct Strategic Planning Process, including formulation, implementation and evaluation of Strategy • Review and 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 and benchmark Bank's financial and business performance • Review issues that warrant policy changes for other management committees • Review progress of special projects and implementation status of policy initiatives • Review and formulate marketing strategies • Platform for discussing and review of innovations to enhance efficiency and performance • Identify and manage key risks • Review disaster preparedness and business continuity	• Liquidity management • Interest Rate Risk management • Maturity Gap management • Currency Risk management • Capital Risk management • Determining investment strategies of the Bank for maximization of risk adjusted returns over the long term • Counter Party and Settlements Risk management	• Set Credit Policy and Credit Risk Management Policy • Sanction Credit Proposals in line with Policy and CBK Guidelines • Review NPAs • Consider and approve new asset-based products • Control and follow-up on credit-related matters • Regularly report to Board Credit Committee	• Review and 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 and manage ICT investments

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

BOARD OF DIRECTORS - SUMMARY OF ATTENDANCE

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

Name of Director	March 21, 2014	June 10, 2014	September 23, 2014	December 05, 2014	% Attendance
Mr. S B R Shah (Chairman)	√	√	√	√	100%
Mr. Michael J. Karanja	√	√	X	X	50%
Mr. Eric M. Kimani	√	√	√	√	100%
Mr. Sarit S Raja Shah	√	√	√	√	100%
Mr. Sachit Shah	√	√	√	√	100%
Mr. Paul C.M. Kibati	√	√	√	√	100%
Mr. M. Soundararajan	√	√	X	√	75%
Mr Arun S Mathur	√	X	√	√	75%

√ Attended
X Not Attended

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and fair presentation of the consolidated and company financial statements of I&M Bank LIMITED set out on pages 32 to 108 which comprise the consolidated and company statement of financial position as at 31 December 2014, consolidated and company statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs and the operating results of the group and the company.

The Directors' responsibilities include: determining that the basis of accounting described in Note 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 and the company for that year. It also requires the Directors to ensure the group and the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the group and the company.

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

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

Approval of the financial statements

The group and company financial statements, as indicated above, were approved by the Board of Directors on **20 March 2015** and were signed on its behalf by:

SBR Shah **Director**	**Sarit S Raja Shah** **Director**	**EM Kimani** **Director**

KPMG

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

We have audited the financial statements of I&M Bank LIMITED set out on pages 32 to 108 which comprise the consolidated and company statement of financial position as at 31 December 2014, and the consolidated and company statement of profit or loss and other comprehensive income, consolidated and company statement of changes in equity and consolidated and company statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

As stated on page 30, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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, these financial statements give a true and fair view of the consolidated and separate financial position of I&M Bank LIMITED at 31 December 2014, 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 in a manner required by 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 company, in so far as appears from our examination of those books; and,
- The statement of financial position and statement of profit or loss and other comprehensive income of the company are in agreement with the books of account.

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

KPMG Kenya
Certified Public Accountants
PO Box 40612 – 00100
Nairobi
Date: 20 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 KShs'000	2013 KShs'000
Interest income	7	15,748,626	14,479,685
Interest expense	8	(6,653,787)	(5,595,544)
Net interest income		**9,094,839**	**8,884,141**
Fee and commission income	9 (a)	1,855,229	1,959,792
Fee and commission expense	9 (a)	(62,499)	(64,038)
Net fee and commission income	9 (a)	**1,792,730**	**1,895,754**
Revenue		**10,887,569**	**10,779,895**
Other operating income	10	1,204,207	1,542,237
Operating income		**12,091,776**	**12,322,132**
Staff costs	11	(2,071,868)	(2,436,800)
Premises and equipment costs	11	(330,772)	(389,266)
General administrative expenses	11	(1,244,826)	(1,392,671)
Depreciation and amortisation	11	(312,738)	(444,972)
Operating expenses		**(3,960,204)**	**(4,663,709)**
Operating profit before impairment losses and taxation		**8,131,572**	**7,658,423**
Net impairment charge on loans and advances	18 (c)	(787,960)	(472,089)
		7,343,612	**7,186,334**
Share of profit of equity-accounted joint venture	20 (a)	136,875	76,332
Profit before income tax	12	**7,480,487**	**7,262,666**
Income tax expense	13 (a)	(2,245,939)	(2,281,305)
Net profit for the year after tax		**5,234,548**	**4,981,361**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

	Note	2014 KShs'000	2013 KShs'000
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Actuarial (losses)/gains on re-measurement of Employees benefit scheme	37	-	(22,037)
Revaluation on property, plant and equipment		-	488,953
		-	**466,916**
Items that are or may be classified to profit or loss:			
Net change in fair value of available for sale financial assets		(276,126)	(36,740)
Foreign currency translation differences (Page 40)		(47,518)	(182,715)
Related tax – current year	24 (a)	82,836	13,707
Related tax – prior year under provision	24 (a)	-	58,942
		(240,808)	**(146,806)**
Total other comprehensive income for the year		**(240,808)**	**320,110**
Total comprehensive income for the year		**4,993,740**	**5,301,472**
Profit attributable to:			
Equity holders of the company		5,136,916	4,617,471
Non-controlling interest		97,632	363,890
		5,234,548	**4,981,361**
Total comprehensive income attributable to:			
Equity holders of the company		4,917,476	5,034,951
Non-controlling interest		76,264	266,521
		4,993,740	**5,301,472**
Basic and diluted earnings per share (KShs)	14	**178.35**	**160.32**

The notes set out on pages 43 to 108 form an integral part of these financial statements.

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 KShs'000	2013 KShs'000
Interest income	7	14,143,746	11,577,079
Interest expense	8	(5,834,666)	(4,534,935)
Net interest income		**8,309,080**	**7,042,144**
Fee and commission income	9 (b)	1,680,139	1,496,689
Fee and commission expense	9 (b)	(62,499)	(46,009)
Net fee and commission income	9 (b)	**1,617,640**	**1,450,680**
Revenue		**9,926,720**	**8,492,824**
Other operating income	10	1,737,794	749,004
Dividend income	10	132,420	97,286
		1,870,214	846,290
Operating income		**11,796,934**	**9,339,114**
Staff costs	11	(1,764,767)	(1,431,291)
Premises and equipment costs	11	(279,068)	(226,451)
General administrative expenses	11	(1,007,024)	(854,969)
Depreciation and amortisation	11	(249,565)	(298,711)
Operating expenses		**(3,300,424)**	**(2,811,422)**
Operating profit before impairment losses and taxation		**8,496,510**	**6,527,692**
Net impairment charge on loans and advances	18 (c)	(747,385)	(467,875)
Profit before income tax	12	**7,749,125**	**6,059,817**
Income tax expense	13 (a)(ii)	(2,130,248)	(1,865,382)
Net profit for the year after tax		**5,618,877**	**4,194,435**
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Revaluation of property and equipment		-	491,506
Items that are or may be reclassified to profit or loss:			
Net change in fair value of available for sale financial assets		(276,126)	(45,690)
Related tax - current year		82,836	13,707
- prior year under provisions		-	58,942
		(193,290)	26,959
Total other comprehensive income for the year		**(193,290)**	**518,465**
Total comprehensive income for the year		**5,425,587**	**4,712,900**
Basic and diluted earnings per share - (KShs)	14	**188.37**	**145.63**

The notes set out on pages 43 to 108 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2014

	Note	2014 KShs'000	2013 KShs'000
ASSETS			
Cash and balances with Central Banks	16	10,248,861	8,909,224
Loans and advances to banks	17	1,071,675	6,050,627
Loans and advances to customers	18 (a)	101,610,562	91,882,664
Investment securities	19	35,419,085	26,197,402
Investment in Joint Venture	20 (a)	-	2,411,973
Property and equipment	21	2,225,340	2,608,196
Intangible assets - Goodwill	22 (a)	619,700	1,173,406
Intangible assets - Software	22 (b)	281,818	175,008
Prepaid operating lease rentals	23	290,314	241,325
Tax recoverable	13 ((b)(ii))	24,488	-
Deferred tax asset	24 (a)	736,043	575,989
Other assets	25	1,635,601	1,138,402
TOTAL ASSETS		**154,163,487**	**141,364,216**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	26	16,694,177	6,411,628
Deposits from customers	27	99,211,681	97,145,568
Deferred tax liability	24 (b)	-	26,288
Tax payable	13 ((b)(i))	4,050	569,713
Other liabilities	28	1,500,693	1,782,180
Long term borrowings	29	14,327,908	11,572,650
		131,738,509	117,508,027
Shareholders' equity (Pages 39 & 40)			
Share capital	30 (a)	2,880,245	2,880,245
Share premium	30 (c)	3,773,237	3,773,237
Retained earnings		14,169,548	14,730,121
Revaluation reserve	30 (d)	629,739	631,858
Statutory loan loss reserve	30 (e)	625,190	218,048
Translation reserve	30 (f)	(55,505)	16,468
Available-for-sale reserve	30 (g)	(362,804)	(161,585)
		21,659,650	22,088,392
Equity attributable to owners of the company			
Non-controlling interest		765,328	1,767,797
TOTAL SHAREHOLDERS' EQUITY		**22,424,978**	**23,856,189**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**154,163,487**	**141,364,216**

The financial statements set out on pages 32 to 108 were approved by the Board of Directors on 20 March 2015 and were signed on its behalf by:

SBR Shah	**Sarit S Raja Shah**	**EM Kimani**	**NP Kothari**
Director	**Director**	**Director**	**Company Secretary**

The notes set out on pages 43 to 108 form an integral part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2014

	Note	2014 KShs'000	2013 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	16	7,600,296	6,151,961
Loans and advances to banks	17	573,125	1,695,669
Loans and advances to customers	18 (a)	89,866,260	73,369,588
Investment securities	19	32,755,347	20,975,157
Investment in joint venture	20 (a)	-	1,498,814
Investment in subsidiary	20 (b)	1,123,111	2,752,189
Property and equipment	21	620,205	1,948,404
Intangible asset - Goodwill	22 (a)	10,747	10,747
Intangible assets - Software	22 (b)	235,535	102,766
Prepaid operating lease rentals	23	-	241,325
Deferred tax asset	24 (a)	712,469	558,050
Tax recoverable	13 ((b)(ii))	24,488	-
Other assets	25	3,777,771	1,011,013
TOTAL ASSETS		**137,299,354**	**110,315,683**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	26	13,730,242	2,895,022
Deposits from customers	27	86,620,927	74,494,275
Tax payable	13 ((b)(ii))	-	412,050
Other liabilities	28	1,395,227	1,080,724
Long term borrowings	29	13,738,915	10,908,978
		115,485,311	89,791,049
Shareholders' equity (Pages 41 &42)			
Share capital	30 (a)	2,880,245	2,880,245
Share premium	30 (c)	3,773,237	3,773,237
Retained earnings		14,898,175	13,316,248
Revaluation reserve	30 (d)	-	629,739
Statutory loan loss reserve	30 (e)	625,190	94,679
Available-for-sale reserve	30 (g)	(362,804)	(169,514)
		21,814,043	20,524,634
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**137,299,354**	**110,315,683**

The financial statements set out on pages 32 to 108 were approved by the Board of Directors on 20 March 2015 and were signed on its behalf by:

SBR Shah
Director

Sarit S Raja Shah
Director

EM Kimani
Director

NP Kothari
Company Secretary

The notes set out on pages 43 to 108 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 KShs'000	2013 KShs'000
Net cash flows used in operating activities	31 (a)	**(27,322,021)**	**(25,726,065)**
Cash flows from investing activities			
Purchase of property and equipment	21 (a)	(501,938)	(331,889)
Purchase of intangible assets	22 (b)	(140,293)	(75,945)
Purchase of prepaid operating lease rentals		(445)	-
Purchase of equity shares		(26,184)	-
Proceeds from disposal of property and equipment		2,964	11,785
Proceeds from disposal of investment securities		14,313,584	20,300,355
Dividend received from I&M Bank Rwanda		107,959	-
Net inflow from investment in joint venture	20 (a)	-	(253,277)
Net cash from investing activities		**13,755,647**	**19,651,029**
Cash flows from financing activities			
Share premium from issue of share capital		-	(30,222)
Net movement in long term borrowings		3,034,554	7,126,230
Dividend paid to shareholders of the company		(1,008,086)	(748,863)
Dividend paid to non-controlling interests		(19,991)	(76,586)
Net cash from financing activities		**2,006,478**	**6,270,559**
Net (decrease)/increase in cash and cash equivalents	31 (b)	**(11,559,897)**	**195,523**

The notes set out on pages 43 to 108 form an integral part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 KShs'000	2013 KShs'000
Net cash flows used in operating activities	31 (c)	(27,020,934)	(22,849,091)
Cash flows from investing activities			
Purchase of property and equipment	21 (b)	(331,344)	(249,591)
Purchase of intangible assets	22 (b)	(136,798)	(52,460)
Proceeds from disposal of property and equipment		2,964	641
Dividends received	10 (b)	132,420	97,286
Investment in joint venture		-	(253,277)
Proceeds on investment securities		14,313,584	20,253,060
Net cash from investing activities		**13,980,826**	**19,795,659**
Cash flows from financing activities			
Reverse takeover costs		-	(30,222)
Net proceeds of long term borrowings		2,829,937	7,237,404
Dividend paid		(1,008,086)	(748,864)
Net cash from financing activities		**1,821,851**	**6,458,318**
Net (decrease)/ increase in cash and cash equivalents	31 (d)	**(11,218,257)**	**3,404,886**

The notes set out on pages 43 to 108 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

2013:	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Statutory reserve KShs'000	Revaluation reserve KShs'000	Available for sale reserve KShs'000	Translation reserve KShs'000	Total KShs'000	Non controlling interest KShs'000	Total KShs'000
At 1 January 2013										
- As previously reported	2,880,245	3,773,237	10,996,498	141,176	141,842	(193,552)	98,780	17,838,226	1,577,863	19,416,089
Actuarial (losses)/gains to employee benefits scheme	-	-	(5,854)	-	-	-	155	(5,699)	-	(5,699)
At 1 January 2013 - As restated	2,880,245	3,773,237	10,990,644	141,176	141,842	(193,552)	98,935	17,832,527	1,577,863	19,410,390
Total comprehensive income for the year										
Net Profit after taxation	-	-	4,617,471	-	-	-	-	4,617,471	363,890	4,981,361
Other comprehensive income										
Translation reserve	-	-	-	-	-	-	(82,466)	(82,466)	(100,249)	(182,715)
Revaluation reserve	-	-	-	-	490,016	-	-	490,016	(1,063)	488,953
Fair value changes on employee benefits	-	-	(22,037)	-	-	-	-	(22,037)	-	(22,037)
Available for sale reserve	-	-	-	-	-	31,967	-	31,967	3,942	35,909
Statutory loan loss reserve	-	-	(76,871)	76,871	-	-	-	-	-	-
Total other comprehensive income	-	-	**(98,908)**	**76,871**	**490,016**	**31,967**	**(82,466)**	**417,480**	**(97,370)**	**320,110**
Total comprehensive income	-	-	**4,518,563**	**76,871**	**490,016**	**31,967**	**(82,466)**	**5,034,951**	**266,520**	**5,301,471**
Transactions with owners, recorded directly in equity										
Reverse take over expenses	-	-	(30,222)	-	-	-	-	(30,222)	-	(30,222)
Dividend paid - 2012 Final	-	-	(748,864)	-	-	-	-	(748,864)	(76,586)	(825,450)
Total transactions with owners for the year	-	-	**(779,086)**	-	-	-	-	**(779,086)**	**(76,586)**	**(855,672)**
Balance as at 31 December 2013	**2,880,245**	**3,773,237**	**14,730,121**	**218,047**	**631,858**	**(161,585)**	**16,469**	**22,088,392**	**1,767,797**	**23,856,189**

The notes set out on pages 43 to 108 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

2014:	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Statutory reserve KShs'000	Revaluation reserve KShs'000	Available for sale reserve KShs'000	Translation reserve KShs'000	Total KShs'000	Non controlling interest KShs'000	Total KShs'000
At 1 January 2014	2,880,245	3,773,237	14,730,121	218,047	631,858	(161,585)	16,469	22,088,392	1,767,797	23,856,189
Total comprehensive income for the year										
Net Profit after taxation	-	-	5,136,916	-	-	-	-	5,136,916	97,632	5,234,548
Other comprehensive income										
Translation reserve	-	-	-	-	-	-	(26,150)	(26,150)	(21,368)	(47,518)
Available for sale reserve						(193,290)		(193,290)		(193,290)
Statutory loan loss reserve	-	-	(530,511)	530,511	-	-	-	-	-	-
Total other comprehensive income	**-**	**-**	**(530,511)**	**530,511**		**(193,290)**	**(26,150)**	**(219,440)**	**(21,368)**	**(240,808)**
Total comprehensive income	**-**	**-**	**4,606,405**	**530,511**		**(193,290)**	**(26,150)**	**4,917,476**	**76,264**	**4,993,740**
Transactions with owners, recorded directly in equity										
Transfer of Bank One and I&M Rwanda to parent company	-	-	(1,030,800)	(123,368)	(2,119)	(7,929)	(45,824)	(1,210,040)	(1,058,742)	(2,268,782)
Special dividend paid	-	-	(3,128,092)	-	-	-	-	(3,128,092)	-	(3,128,092)
Dividend paid - 2013 Final			(1,008,086)	-	-	-	-	(1,008,086)	(19,991)	(1,028,077)
Total transactions with owners for the year	**-**	**-**	**(5,166,978)**	**(123,368)**	**(2,119)**	**(7,929)**	**(45,824)**	**(5,346,218)**	**(1,078,733)**	**(6,424,951)**
Balance as at 31 December 2014	**2,880,245**	**3,773,237**	**14,169,548**	**625,190**	**629,739**	**(362,804)**	**(55,505)**	**21,659,650**	**765,328**	**22,424,978**

The notes set out on pages 43 to 108 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

2013:	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Statutory credit risk reserve KShs'000	Available for sale reserve KShs'000	Revaluation reserve KShs'000	Total KShs'000
At 1 January 2013	2,880,245	3,773,237	9,966,320	29,258	(196,473)	138,233	16,590,820
Total comprehensive income for the year							
Net profit after taxation	-	-	4,194,435	-	-	-	4,194,435
Other comprehensive income							
Revaluation reserve	-	-	-	-	-	491,506	491,506
Available-for-sale reserve	-	-	-	-	26,959	-	26,959
Statutory loan loss reserve	-	-	(65,421)	65,421	-	-	-
Total other comprehensive income	-	-	(65,421)	65,421	26,959	491,506	518,465
Total comprehensive income	-	-	4,129,014	65,421	26,959	491,506	4,712,900
Transactions with owners recorded directly in equity							
Dividend paid - 2012 final	-	-	(748,864)	-	-	-	(748,864)
Reverse takeover costs	-	-	(30,222)	-	-	-	(30,222)
Total transactions with owners for the year	-	-	(779,086)	-	-	-	(779,086)
Balance as at 31 December 2013	2,880,245	3,773,237	13,316,248	94,679	(169,514)	629,739	20,524,634

The notes set out on pages 43 to 108 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

2014:	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Statutory credit risk reserve KShs'000	Available for sale reserve KShs'000	Revaluation reserve KShs'000	Total KShs'000
At 1 January 2014	2,880,245	3,773,237	13,316,248	94,679	(169,514)	629,739	20,524,634
Total comprehensive income for the year							
Net profit after taxation	-	-	5,618,877	-	-	-	5,618,877
Other comprehensive income							
Revaluation reserve	-	-	629,739	-	-	(629,739)	-
Available-for-sale reserve	-	-	-	-	(193,290)	-	(193,290)
Statutory loan loss reserve	-	-	(530,511)	530,511	-	-	-
Total other comprehensive income	-	-	**99,228**	**530,511**	**(193,290)**	**(629,739)**	**(193,290)**
Total comprehensive income	-	-	**5,718,105**	**530,511**	**(193,290)**	**(629,739)**	**5,425,587**
Transactions with owners recorded directly in equity							
Special dividend	-	-	(3,128,092)	-	-	-	(3,128,092)
Dividend paid - 2013 Final	-	-	(1,008,086)	-	-	-	(1,008,086)
Total transactions with owners for the year	-	-	**(4,136,178)**	-	-	-	**(4,136,178)**
Balance as at 31 December 2014	**2,880,245**	**3,773,237**	**14,898,175**	**625,190**	**(362,804)**	-	**21,814,043**

The notes set out on pages 43 to 108 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

1. REPORTING ENTITY

I&M Bank LIMITED (the "Bank"), a financial institution licensed under the Kenyan Banking Act (Chapter 488), provides corporate and retail banking services in various parts of the country. The Bank is incorporated in Kenya under the Kenyan Companies Act and has subsidiaries in Tanzania. The consolidated financial statements of the Bank as at and for the year ended 31 December 2014 comprise the Bank and its subsidiaries (together referred to as the "Group"). The address of its registered office is as follows:

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

The Bank has 55.03% (2013 - 55.03%) shareholding in I&M Bank (T) Limited, 100% interest in I&M Realty Limited and I&M Insurance Agency Limited.

Where reference is made to "Group" in the accounting policies, it should be interpreted as referring to the Bank where the context requires, unless otherwise stated.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the Statement of Financial Position and the Profit and loss account by the Statement of Profit or loss and other comprehensive income, in these financial statements.

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the Companies Act, Kenya.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

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

(e) Changes in accounting policy

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014:

Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32 Financial Instruments: Presentation):

- These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are effective for annual periods beginning on or after 1 January 2014, with retrospective application. The clarification contained in these amendments reinforces the Group's policy and would not alter the manner in which offsetting arrangements are accounted for.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

2. BASIS OF PREPARATION (Continued)

(e) Changes in accounting policy (Continued)

Recoverable amount disclosures for Non-Financial assets (Amendments to IAS 36):

- The amendments eliminate the requirement to disclose the recoverable amount of each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. The amendments require the disclosure of the recoverable amount of an asset (including goodwill) or cash-generating unit when a material impairment loss is recognized or reversed during the period for that asset or unit. The amendments are effective for annual periods beginning on or after 1 January 2014. The amendments to IAS 36 have no significant impact on the Group's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Joint Venture

The Group had interest in a Joint Venture, Bank One Limited, until 22 August 2014 when it was transferred to the parent company. Equity method of accounting was applied up to the date of transfer in the consolidated financial statements. The joint venture was accounted for at cost in the separate financial statements until the date of transfer.

(b) Foreign currencies

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

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

(c) Foreign operations

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

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

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income recognition

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

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

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

(i) Net interest income

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

When calculating the effective interest rate, the 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 are presented in net interest income.

(ii) Fee and commission income

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

(iii) Other operating income

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

(iv) Rental income – other operating income

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

(v) Dividend income

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

(e) Income tax expense

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Income tax expense (Continued)

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

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

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

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

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

(f) Financial assets and financial liabilities

(i) Recognition

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

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

(ii) Classification

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

Financial assets at fair value through profit or loss

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

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

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

Loans and receivables

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(ii) Classification (Continued)

Held to maturity

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

Available-for-sale

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

(iii) Identification and measurement of impairment of financial assets

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

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

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

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

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

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

(iv) De-recognition

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(iv) De-recognition (Continued)

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

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

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

(v) Offsetting of financial assets and financial liabilities

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

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

(vi) Fair value of financial assets and financial liabilities

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

(vii) Amortized cost measurement

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

(g) Fair value measurement

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fair value measurement (Continued)

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

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level2: inputs other than quoted prices included in level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

(h) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows in the financial statements, the cash and cash equivalents include cash and balances with the Central Bank of Kenya which are available to finance the Bank's day to day operations and net balances from banking institutions.

(i) Property and equipment

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

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

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

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

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

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

(j) Intangible assets

(i) Computer software

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

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

(ii) Goodwill

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Operating leases

(i) Operating leases

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

(ii) Finance lease receivables

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

(l) Impairment of non-financial assets

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

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

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 reporting date.

(n) 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 guaranteed scheme managed by an insurance company. Retirement plans are funded by contributions from the employees and the Bank. The Bank's contributions are recognised in profit or loss in the year to which they relate.

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. The group also contributes to various national social security funds in the countries it operates.

(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. In line with IAS 19 (Revised), the actuarial gains and losses are fully recognised in other comprehensive income and all expenses related to defined benefits plans in employee benefit expense in profit or loss.

(iii) Leave accrual

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Share capital and share issue costs

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

(p) Earnings per share

Earnings per share are calculated based on the profit attributable to 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.

(q) 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.

(r) Contingent liabilities

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

(s) Fiduciary activities

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

(t) Comparative information

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

(u) 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 2014, and have not been applied in preparing these consolidated financial statements as follows:

New standard or amendments	Effective for annual periods beginning on or after
Amendments to IAS 19: Defined Benefits Plan	1 July 2014
IFRS 9 Financial Instruments (2010)	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2017
Amendments to IAS 16 and IAS 38	1 January 2016

(i) Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

The amendments clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service.
The amendments are effective for annual periods beginning on or after 1 July 2014, with earlier application being permitted.

The Group's defined benefits scheme does not provide for employee contributions. The adoption of these changes would not affect the amounts and disclosures of the Group's defined benefits obligations.

(ii) IFRS 9: Financial Instruments (2010)

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The new Standard is effective for annual periods beginning on or after 1 January 2018.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) New standards and interpretations not yet adopted (Continued)

(ii) IFRS 9: Financial Instruments (2010) (Continued)

Although the Group does not envisage any major impact on its financial statements on the adoption of IFRS 9 given its limited use of complex financial instruments, the Standard is still going through major changes before it finally replaces IAS 39. The full impact of these changes cannot therefore not be reliably estimated at this time.

(iii) IFRS 15: Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The new Standard is effective for annual periods beginning on or after 1 January 2017.

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

(iv) Amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortisation

The amendments to IAS 38 Intangible assets introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated' or when the intangible asset is expressed as a measure of revenue. The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The new Standard is effective for annual periods beginning on or after 1 January 2016.

The Group does not apply revenue-based methods of depreciation or amortization therefore these amendments are not expected to have an effect on the consolidated financial statements.

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 reporting date from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the statement of financial position.

The risk that the counter-parties to trading instruments might default on their obligation is monitored on an 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 wherever possible and when appropriate, obtains collateral.

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

The 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 AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

4. RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Exposure to credit risk

	2014	2013
Company:		
Loans and advances to customers	**KShs'000**	**KShs'000**
Individually impaired:		
Grade 3: Substandard	823,893	340,832
Grade 4: Doubtful	367,420	465,020
Grade 5: Loss	722,047	254,402
	1,913,360	1,060,254
Allowance for impairment	(1,602,778)	(637,073)
Carrying amounts	**310,582**	**423,181**
Collectively impaired:		
Grade 2: Watch	11,859,374	7,670,473
Grade 1: Normal	78,263,127	66,352,512
	90,122,501	74,022,985
Portfolio impairment provision	(566,823)	(1,076,578)
Carrying amounts	**89,555,678**	**72,946,407**
Total carrying amounts	**89,866,260**	**73,369,588**

Exposure to credit risk

Group:

	2014	2013
Individually impaired:		
Grade 3: Substandard	924,804	635,535
Grade 4: Doubtful	370,288	611,484
Grade 5: Loss	772,745	275,635
	2,067,837	1,522,654
Allowance for impairment	(1,665,001)	(781,437)
Carrying amounts	**402,836**	**741,217**
Collectively impaired		
Grade 2: Watch	12,232,143	8,641,421
Grade 1: Normal	89,645,453	83,718,552
	101,877,596	92,359,973
Portfolio impairment provision	(669,870)	(1,218,526)
Carrying amounts	**101,207,726**	**91,141,447**
Total carrying amounts	**101,610,562**	**91,882,663**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

4. RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

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.

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 - Company	**Gross KShs'000**	**Net KShs'000**
Individually impaired:		
31 December 2014		
Grade 3: Substandard	823,893	350,802
Grade 4: Doubtful	367,420	108,652
Grade 5: Loss	722,047	213,520
	1,913,360	**672,973**
31 December 2013		
Grade 3: Substandard	340,832	43,330
Grade 4: Doubtful	465,020	379,851
Grade 5: Loss	254,402	-
	1,060,254	**423,181**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

4. RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

	Gross KShs'000	**Net KShs'000**
Collectively impaired:		
31 December 2014		
Grade 1: Normal	78,263,127	77,408,033
Grade 2: Watch	11,859,375	11,785,254
	90,122,501	**89,193,287**
31 December 2013		
Grade 1: Normal	66,352,512	65,705,307
Grade 2: Watch	7,670,473	7,241,099
	74,022,985	**72,946,406**

Loans and advances - Group	**Gross KShs'000**	**Net KShs'000**
Individually impaired:		
31 December 2014		
Grade 3: Substandard	924,804	441,622
Grade 4: Doubtful	370,288	110,086
Grade 5: Loss	772,744	213,520
	2,067,837	**765,227**
31 December 2013		
Grade 3: Substandard	340,832	43,330
Grade 4: Doubtful	465,020	379,851
Grade 5: Loss	254,402	2,423
	1,060,254	**423,181**

	Gross KShs'000	**Net KShs'000**
Collectively impaired:		
31 December 2014		
Grade 1: Normal	89,645,453	88,705,952
Grade 2: Watch	12,232,143	12,139,383
	101,877,596	**100,845,335**
31 December 2013		
Grade 1: Normal	66,352,512	65,705,307
Grade 2: Watch	7,670,473	7,241,099
	74,022,985	**72,946,406**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

4. RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

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 2014 or 2013.

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

	2014 KShs'000	2013 KShs'000
Loans and advances to Customers		
Company		
Fair value of collateral held - Against impaired loans	395,461	344,670
Group		
Fair value of collateral held - Against impaired loans	659,715	667,449

(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.

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

Kenya:

	2014	2013
At 31 December	30.52%	34.02%
Average for the period	33.05%	30.60%
Highest for the period	37.70%	34.01%
Lowest for the period	28.67%	27.13%

Tanzania:

	2014	2013
At 31 December	32.12%	34.02%
Average for the period	33.36%	30.60%
Highest for the period	35.03%	34.01%
Lowest for the period	31.03%	27.13%

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

4. RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2014 to the contractual maturity date:

Company 31 December 2014:	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	5,047,651	8,601,846	80,745	-	-	**13,730,242**
Deposits from customers	24,540,524	58,011,784	4,041,682	26,937	-	**86,620,927**
Other liabilities	604,878	790,347	-	-	-	**1,395,225**
Long-term borrowings	-	348,089	2,047,212	6,478,979	4,864,635	**13,738,915**
At 31 December 2014	**30,193,053**	**67,752,066**	**6,169,639**	**6,505,916**	**4,864,635**	**115,485,309**

Company 31 December 2013:	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	389,632	2,503,117	2,273	-	-	**2,895,022**
Deposits from customers	24,914,845	44,953,846	4,555,512	70,072	-	**74,494,275**
Other liabilities	462,324	618,400	-	-	-	**1,080,724**
Long-term borrowings	-	341,915	642,309	5,092,804	4,831,950	**10,908,978**
At 31 December 2013	**25,766,801**	**48,417,278**	**5,200,094**	**5,162,876**	**4,831,950**	**89,378,999**

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

Group 31 December 2014:	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	5,274,264	9,467,913	1,833,069	118,931	-	**16,694,177**
Deposits from customers	28,638,661	64,447,060	6,099,023	26,937	-	**99,211,681**
Other liabilities	598,562	835,615	38,186	28,330	-	**1,500,693**
Long-term borrowings	-	348,089	2,135,605	6,979,579	4,864,635	**14,327,908**
At 31 December 2014	**34,511,487**	**75,098,677**	**10,105,883**	**7,153,777**	**4,864,635**	**131,734,459**

Group 31 December 2013:	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	593,927	5,815,428	2,273	-	-	**6,411,628**
Deposits from customers	38,519,366	49,469,354	8,871,213	285,635	-	**97,145,568**
Other liabilities	897,909	728,632	118,425	37,214	-	**1,782,180**
Long-term borrowings	57,240	375,979	724,285	5,538,722	4,876,424	**11,703,650**
At 31 December 2013	**40,068,442**	**56,389,393**	**9,716,196**	**5,861,571**	**4,876,424**	**116,912,026**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market Risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spread (not relating to changes in the obligator's/issuer's credit standing) will affect the 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.

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:

Company 31 December 2014:	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	-	-	-	-	-	7,600,296	**7,600,296**
Loans and advances to banks	546,179	26,946	-	-	-	-	**573,125**
Loans and advances to customers	86,195,191	464,326	1,106,014	2,283,955	223,289	-	**90,272,775**
Investment securities	-	2,444,062	12,680,868	10,571,417	7,059,000	-	**32,755,347**
Other assets	-	-	-	-	-	3,777,771	**3,777,771**
At 31 December 2014	**86,741,370**	**2,935,334**	**13,786,882**	**12,855,372**	**7,282,289**	**11,378,067**	**134,979,314**
LIABILITIES							
Deposits from banks	920,675	12,728,821	80,746	-	-	-	**13,730,242**
Deposits from customers	49,946,027	32,280,240	4,230,365	164,295	-	-	**86,620,927**
Other liabilities	-	-	-	-	-	1,395,277	**1,395,227**
Long-term borrowings	-	327,694	2,067,607	6,478,979	4,864,635	-	**13,738,915**
At 31 December 2014	50,866,702	45,336,755	6,378,718	6,643,274	4,864,635	1,395,227	**115,485,311**
Interest rate gap	**35,874,668**	**(42,401,421)**	**7,408,164**	**6,212,098**	**2,417,654**	**9,982,840**	**19,494,003**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market Risk (Continued)

Exposure to interest rate risk (Continued)

Company: 31 December 2013:	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	-	-	-	-	-	6,151,961	**6,151,961**
Loans and advances to banks	1,659,731	35,938	-	-	-	-	**1,695,669**
Loans and advances to customers	70,242,741	376,677	840,684	1,710,668	198,818	-	**73,369,588**
Investment securities	-	68,427	8,408,760	7,255,376	5,242,594	-	**20,975,157**
Other assets	-	-	-	-	-	1,011,012	**1,011,012**
At 31 December 2013	**71,902,472**	**481,042**	**9,249,444**	**8,966,044**	**5,441,412**	**7,162,973**	**103,203,387**
LIABILITIES							
Deposits from banks	2,895,022	-	-	-	-	-	**2,895,022**
Deposits from customers	42,058,839	27,257,110	4,984,990	193,336	-	-	**74,494,275**
Other liabilities	-	-	-	-	-	1,080,724	**1,080,724**
Long-term borrowings	-	160,621	823,603	5,092,804	4,831,950	-	**10,908,978**
At 31 December 2013	**44,953,861**	**27,417,731**	**5,808,593**	**5,286,140**	**4,831,950**	**1,080,724**	**89,378,999**
Interest rate gap	**26,948,611**	**(26,936,689)**	**3,440,851**	**3,679,904**	**609,462**	**6,082,249**	**13,824,388**

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

Group 31 December 2014:	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	-	-	-	-	-	10,248,861	**10,248,861**
Loans and advances to banks	635,416	26,947	-	-	-	409,312	**1,071,675**
Loans and advances to customers	86,615,281	2,083,692	4,194,862	7,452,059	1,264,668	-	**101,610,562**
Investment securities	344,766	2,789,745	13,743,240	11,140,530	7,471,804	-	**35,490,085**
Other assets	-	-	-	-	-	1,635,601	**1,635,601**
At 31 December 2014	**87,595,463**	**4,900,384**	**17,938,102**	**18,592,589**	**8,736,472**	**12,293,774**	**150,056,784**
LIABILITIES							
Deposits from banks	1,147,288	13,594,888	1,833,069	118,932	-	-	**16,694,177**
Deposits from customers	51,189,302	38,715,517	6,287,706	164,295	-	2,854,861	**99,211,681**
Other liabilities	-	-	-	-	-	1,500,693	**1,500,693**
Long-term borrowings	-	327,694	2,156,000	6,979,579	4,864,635	-	**14,327,908**
At 31 December 2014	**52,336,590**	**56,638,099**	**10,276,775**	**7,262,806**	**4,864,635**	**4,355,554**	**131,734,459**
Interest rate gap	**35,258,873**	**(47,737,715)**	**7,661,327**	**11,329,783**	**3,871,837**	**7,938,220**	**18,322,325**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market Risk (Continued)

Exposure to interest rate risk (Continued)

Group 31 December 2013:	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	-	-	-	-	-	8,909,224	**8,909,224**
Loans and advances to banks	3,657,758	554,626	-	-	-	1,838,243	**6,050,627**
Loans and advances to customers	73,091,667	1,123,799	5,281,423	9,758,491	2,627,284	-	**91,882,664**
Investment securities	787,410	2,020,134	9,771,798	8,103,068	5,482,135	32,857	**26,197,402**
Other assets	-	-	-	-	-	1,138,403	**1,138,403**
At 31 December 2013	**77,536,835**	**3,698,559**	**15,053,221**	**17,861,559**	**8,109,419**	**11,918,727**	**134,178,320**
LIABILITIES							
Deposits from banks	3,350,950	54,339	64,506	9,160	-	2,932,673	**6,411,628**
Deposits from customers	47,907,511	30,201,970	10,717,025	481,557	-	7,837,505	**97,145,568**
Other liabilities	-	-	-	-	-	569,713	**569,713**
Long-term borrowings	18,286	194,970	836,331	5,550,763	4,972,300	-	**11,572,650**
At 31 December 2013	**51,276,747**	**30,451,279**	**11,642,862**	**6,041,480**	**4,972,300**	**11,339,891**	**115,699,559**
Interest rate gap	**26,260,088**	**(26,752,720)**	**3,410,359**	**11,820,079**	**3,162,119**	**578,836**	**18,478,761**

Sensitivity Analysis

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

31 December 2014: 200 basis points	Profit or loss Increase/decrease in basis points ('000)	Equity net of tax Increase/decrease in basis points ('000)
Assets	2,463,895	1,730,417
Liabilities	(2,281,802)	(1,597,261)
Net position	**182,093**	**133,156**

31 December 2013: 200 basis points	Profit or loss Increase/decrease in basis points ('000)	Equity net of tax Increase/decrease in basis points ('000)
Assets	1,920,808	1,344,566
Liabilities	(1,765,965)	(1,236,176)
Net position	**154,843**	**108,390**

Group:

31 December 2014: 200 basis points	Profit or loss Increase/decrease in basis points ('000)	Equity net of tax Increase/decrease in basis points ('000)
Assets	2,753,840	1,933,379
Liabilities	(2,547,578)	(1,783,305)
Net position	**206,262**	**150,074**

31 December 2013: 200 basis points	Profit or loss Increase/decrease in basis points ('000)	Equity net of tax Increase/decrease in basis points ('000)
Assets	2,445,192	1,711,634
Liabilities	(2,087,193)	(1,461,035)
Net position	**357,999**	**250,599**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

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 profit or loss. 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 which the Bank is exposed to as at 31 December 2014 and 31 December 2013.

31 December 2014:	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with Central Bank of Kenya	201,657	40,259	53,627	203	**295,746**
Loans and advances to banks	481,490	2,172	18,651	63,970	**566,283**
Loans and advances to customers	33,167,438	1,351,921	1,330,301	-	**35,849,660**
Other assets	184,341	7,069	428	-	**191,838**
At 31 December 2014	**34,034,926**	**1,401,421**	**1,403,007**	**64,173**	**36,903,527**
LIABILITIES					
Deposits from banks	10,410,760	38,960	27,797	24,281	**10,501,798**
Deposits from customers	10,214,805	1,486,962	875,247	23,269	**12,600,283**
Other liabilities	96,012	15,443	28,950	13,963	**154,368**
Long-term borrowings	8,654,224	-	1,109,296	-	**9,763,520**
At 31 December 2014	**29,375,801**	**1,541,365**	**2,041,290**	**61,513**	**33,019,969**
Net on statement of financial position	**4,659,125**	**(139,944)**	**(638,283)**	**2,660**	**3,883,558**
Net notional off balance sheet position	**8,110,254**	**524,324**	**1,031,199**	**178,599**	**9,844,376**
Overall net position – 2014	**12,769,379**	**384,380**	**392,916**	**181,259**	**13,727,934**

31 December 2013:	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with Central Bank of Kenya	212,517	29,027	49,754	9	291,307
Loans and advances to banks	1,326,824	148,950	97,117	117,450	1,690,341
Loans and advances to customers	22,454,319	1,378,733	1,756,156	21	25,589,229
Other assets	80,315	7,223	11,009	-	98,547
At 31 December 2013	**24,073,975**	**1,563,933**	**1,914,036**	**117,480**	**27,669,424**
LIABILITIES					
Deposits from banks	900,094	13,908	29,771	8,575	952,348
Deposits from customers	14,014,559	1,491,526	780,676	89,480	16,376,241
Other liabilities	124,702	7,376	5,800	12,863	150,741
Long-term borrowings	6,634,740	-	-	-	6,634,740
At 31 December 2013	**21,674,095**	**1,512,810**	**816,247**	**110,918**	**24,114,070**
Net on statement of financial position	**2,399,880**	**51,123**	**1,097,789**	**6,562**	**3,555,354**
Net notional off balance sheet position	**1,324,855**	**653,594**	**106,705**	**59,533**	**2,144,687**
Overall net position – 2013	**3,724,735**	**704,717**	**1,204,494**	**66,095**	**5,700,041**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market Risk (Continued)

Currency rate risk (Continued)

Group:

31 December 2014:	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with Central Bank of Kenya	1,282,921	58,447	77,821	4,530	**1,423,719**
Loans and advances to banks	481,490	2,172	18,651	63,970	**566,283**
Loans and advances to customers	40,425,915	1,351,921	1,330,301	-	**43,108,137**
Other assets	187,604	7,069	428	-	**195,101**
At 31 December 2014	**42,377,930**	**1,419,609**	**1,427,201**	**68,500**	**45,293,240**
LIABILITIES					
Deposits from banks	13,363,717	38,960	27,797	24,281	**13,454,755**
Deposits from customers	17,076,497	1,503,286	880,781	23,269	**19,483,833**
Other liabilities	100,665	15,443	28,950	13,963	**159,021**
Long-term borrowings	9,072,599	-	1,109,296	-	**10,181,895**
At 31 December 2014	**39,613,478**	**1,557,689**	**2,046,824**	**61,513**	**43,279,504**
Net on statement of financial position	**2,764,452**	**(138,080)**	**(619,623)**	**6,987**	**2,013,736**
Net notional off balance sheet position	**8,110,254**	**524,324**	**1,031,199**	**178,599**	**9,844,376**
Overall net position – 2014	**10,874,706**	**386,244**	**411,576**	**185,586**	**11,858,112**

31 December 2013:	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with Central Bank of Kenya	1,579,604	86,626	90,402	894,784	**2,651,416**
Loans and advances to banks	4,071,604	484,722	139,861	761,994	**5,458,181**
Loans and advances to customers	30,584,665	1,400,174	1,756,163	7,884,792	**41,625,794**
Other assets	99,687	7,231	11,010	77,955	**195,883**
At 31 December 2013	**36,335,560**	**1,978,753**	**1,997,435**	**9,609,525**	**49,921,274**
LIABILITIES					
Deposits from banks	4,038,426	13,908	29,771	646,145	**4,728,250**
Deposits from customers	22,838,079	1,914,276	867,446	8,937,556	**34,557,357**
Other liabilities	247,584	8,342	6,460	659,498	**921,884**
Long-term borrowings	7,057,690	-	-	240,723	**7,298,413**
At 31 December 2013	**34,181,779**	**1,936,526**	**903,676**	**10,483,922**	**47,505,904**
Net on statement of financial position	**2,153,783**	**42,228**	**1,093,759**	**(874,397)**	**2,415,373**
Net notional off balance sheet position	**1,613,532**	**818,069**	**106,705**	**391,511**	**2,929,817**
Overall net position – 2013	**3,767,315**	**860,296**	**1,200,464**	**(482,885)**	**5,345,190**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

4. RISK MANAGEMENT (Continued)

(c) Market Risk (Continued)

Currency rate risk (Continued)

Sensitivity Analysis

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

31 December 2014:	Profit or loss Strengthening/weakening of currency ('000)	Equity net of tax Strengthening/weakening of currency ('000)
USD (5% movement)	638,469	446,928
GBP (5% movement)	993,296	695,307
EUR (5% movement)	776,406	543,484

31 December 2013:	Profit or loss Strengthening/weakening of currency ('000)	Equity net of tax Strengthening/weakening of currency ('000)
USD (5% movement)	186,237	130,366
GBP (5% movement)	307,256	215,079
EUR (5% movement)	257,257	180,080

Group:

31 December 2014:	Profit or loss Strengthening/weakening of currency ('000)	Equity net of tax Strengthening/weakening of currency ('000)
USD (5% movement)	543,735	380,615
GBP (5% movement)	845,914	592,140
EUR (5% movement)	661,205	462,844

31 December 2013:	Profit or loss Strengthening/weakening of currency ('000)	Equity net of tax Strengthening/weakening of currency ('000)
USD (5% movement)	188,366	131,856
GBP (5% movement)	310,769	217,538
EUR (5% movement)	260,197	182,138

(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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

4. RISK MANAGEMENT (Continued)

(d) Operational risk (Continued)

- 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 – Kenya

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

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

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

In implementing current capital requirements, the Central Bank of Kenya requires banks to maintain a prescribed ratio of total capital to total risk-weighted assets. Effective 1 January 2013, banks are expected to assess the Credit risk, Market risk and the Operational risk of the risk weighted assets to derive the ratios. The Capital adequacy and use of regulatory capital are monitored regularly by management employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Kenya for supervisory purposes.

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

- 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 to the minimum capital adequacy ratios of 8% and 12%, institutions are required to hold a capital conservation buffer of 2.5% over and above these minimum ratios to enable the institutions withstand future periods of stress. This brings the minimum core capital to risk weighted assets and total capital to risk weighted assets requirements to 10.5% and 14.5% respectively.

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.

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

4. RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

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

Company:	2014 KShs'000	2013 KShs'000
Core capital (Tier 1)		
Share capital	2,880,245	2,880,245
Share premium	3,773,237	3,773,237
Retained earnings	13,602,065	12,308,162
	20,255,547	18,961,644
Less: Goodwill	(10,747)	(10,747)
Investment in Joint venture	-	(1,498,814)
Investment in Subsidiary	(1,122,911)	(2,752,189)
Total core capital	19,121,889	14,699,894
Supplementary capital (Tier 2)		
Term subordinated debt	3,115,952	3,752,500
Statutory loan loss reserve	625,190	94,679
	3,741,142	3,847,179
Total capital	**22,863,031**	**18,547,073**
Risk weighted assets		
Credit risk weighted assets	101,383,557	83,713,177
Market risk weighted assets	6,071,469	3,024,031
Operational risk weighted assets	13,804,685	10,789,264
Total risk weighted assets	**121,259,711**	**97,526,472**
Deposits from customers	**87,185,430**	**74,846,992**
Capital ratios		
Core capital/total deposit liabilities (CBK min 10.50%)	21.93%	19.64%
Core capital /total risk weighted assets (CBK min 10.50%)	15.77%	15.07%
Total capital /total risk weighted assets (CBK min 14.50%)	18.85%	19.02%

Regulatory capital – Tanzania

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

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

4. RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

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

The Group's Tanzanian banking subsidiary had the following capital adequacy ratios as at 31 December 2014:

Tier I (Minimum required 10%)	- 12.92% (2013: 13.59%)
Tier I + Tier II (Minimum required 12%)	- 12.92% (2013: 13.59%)

(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.

(g) Environmental and social risks

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

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

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

5. USE OF ESTIMATES AND JUDGEMENT

Key sources of estimation uncertainty - Allowance for credit losses

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

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

Income taxes

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

5. USE OF ESTIMATES AND JUDGEMENT (Continued)

Property and equipment

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

Impairment of goodwill

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

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(f)(iii).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

6. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Accounting classifications at carrying amounts and fair values

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

Group:

	Carrying amounts						Fair value			
31 December 2014	Held to maturity KShs'000	Loans and receivables KShs'000	Available -for-sale KShs'000	Other amortised cost KShs'000	Other financial liabilities KShs'000	Total KShs'000	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets										
Cash and balances with Central Bank of Kenya	-	10,248,861	-	-	-	10,248,861	16,460,653	-	-	16,460,653
Investment securities	18,958,432	-	16,460,653	-	-	35,419,085	-	-	-	-
Loans and advances to banks	-	1,071,675	-	-	-	1,071,675	-	-	-	-
Loans and advances to customers	-	101,610,562	-	-	-	101,610,562	-	-	-	-
Other assets	-	-	-	1,635,601	-	1,635,601	-	-	-	-
	18,958,432	**112,931,098**	**16,460,653**	**1,635,601**	**-**	**149,985,784**	**16,460,653**	**-**	**-**	**16,460,653**
Financial liabilities										
Deposits from banks	-	-	-	-	16,694,177	16,694,177	-	-	-	-
Deposits from customers	-	-	-	-	99,211,681	99,211,681	-	-	-	-
Long term borrowings	-	-	-	-	14,327,908	14,327,908	-	-	-	-
Other liabilities	-	-	-	-	764,448	763,454	-	-	-	-
	-	**-**	**-**	**-**	**130,998,214**	**130,998,214**	**-**	**-**	**-**	**-**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

6. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

Accounting classifications at carrying amounts and fair values (Continued)

	Carrying amounts						Fair value			
31 December 2013	Held to maturity KShs'000	Loans and receivables KShs'000	Available -for-sale KShs'000	Other amortised cost KShs'000	Other financial liabilities KShs'000	Total KShs'000	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets										
Cash and balances with Central Bank of Kenya	-	8,909,224	-	-	-	8,909,224	-	-	-	-
Investment securities	17,335,819	-	8,861,583	-	-	26,197,402	8,828,727	-	32,857	8,861,583
Loans and advances to banks	-	6,050,627	-	-	-	6,050,627	-	-	-	-
Loans and advances to customers	-	91,882,664	-	-	-	91,882,664	-	-	-	-
Other assets	-	-	-	830,534	84,127	914,661	-	-	-	-
	17,335,819	**106,842,515**	**8,861,583**	**830,534**	**84,127**	**133,954,578**	**8,828,727**	**-**	**32,857**	**8,861,583**
Financial liabilities										
Deposits from banks	-	-	-	-	6,411,628	6,411,628	-	-	-	-
Deposits from customers	-	-	-	-	97,145,568	97,145,568	-	-	-	-
Long term borrowings	-	-	-	-	11,572,651	11,572,651	-	-	-	-
Other liabilities	-	-	-	-	1,274,896	1,274,896	-	-	-	-
	-	**-**	**-**	**-**	**116,404,743**	**116,404,743**	**-**	**-**	**-**	**-**

Measurements of fair values

(i) Valuation techniques and significant unobservable inputs
Financial assets measured at fair value
31 December 2014 and 31 December 2013

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Investment securities - AFS	Prices quoted at Nairobi Securities	None	Not applicable

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

6. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

Accounting classifications at carrying amounts and fair values (Continued)

	Carrying amounts						Fair value			
31 December 2014	Held to maturity KShs'000	Loans and receivables KShs'000	Available -for-sale KShs'000	Other amortised cost KShs'000	Other financial liabilities KShs'000	Total KShs'000	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets										
Cash and balances with Central Bank of Kenya	-	7,600,296	-	-	-	7,600,296	-	-	-	-
Investment securities	16,294,694	-	16,460,653	-	-	32,755,347	16,460,653	-	-	16,460,653
Loans and advances to banks	-	573,125	-	-	-	573,125	-	-	-	-
Loans and advances to customers	-	89,866,260	-	-	-	89,866,260	-	-	-	-
Other assets	-	-	-	3,544,627	-	3,544,627	-	-	-	-
	16,294,694	**98,039,681**	**16,460,653**	**3,544,627**	**-**	**134,339,655**	**16,460,652**	**-**	**-**	**16,460,653**
Financial liabilities										
Deposits from banks	-	-	-	-	13,730,242	13,730,242	-	-	-	-
Deposits from customers	-	-	-	-	86,620,927	86,620,927	-	-	-	-
Long term borrowings	-	-	-	-	13,738,915	13,738,915	-	-	-	-
Other liabilities	-	-	-	-	750,411	749,417	-	-	-	-
	-	**-**	**-**	**-**	**114,840,495**	**114,840,495**	**-**	**-**	**-**	**-**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

6. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

Accounting classifications at carrying amounts and fair values (Continued)

	Carrying amounts						Fair value			
31 December 2013	Held to maturity KShs'000	Loans and receivables KShs'000	Available -for-sale KShs'000	Other amortised cost KShs'000	Other financial liabilities KShs'000	Total KShs'000	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets										
Cash and balances with Central Bank of Kenya	-	6,151,961	-	-	-	6,151,961	-	-	-	-
Investment securities	12,146,430	-	8,828,727	-	-	20,975,157	8,828,727	-	-	8,828,727
Loans and advances to banks	-	1,695,669	-	-	-	1,695,669	-	-	-	-
Loans and advances to customers	-	73,369,588	-	-	-	73,369,588	-	-	-	-
Other assets	-	-	-	822,845	-	822,845	-	-	-	-
	12,146,430	**81,217,218**	**8,828,727**	**822,845**	**-**	**103,015,220**	**8,828,727**	**-**	**-**	**8,828,727**
Financial liabilities										
Deposits from banks	-	-	-	-	2,895,022	2,895,022	-	-	-	-
Deposits from customers	-	-	-	-	74,494,275	74,494,275	-	-	-	-
Long term borrowings	-	-	-	-	10,908,978	10,908,978	-	-	-	-
Other liabilities	-	-	-	-	564,341	564,341	-	-	-	-
	-	**-**	**-**	**-**	**88,862,616**	**88,862,616**	**-**	**-**	**-**	**-**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

7. INTEREST INCOME

(a) Group	2014 KShs'000	2013 KShs'000
Loans and advances to customers	12,845,851	11,698,336
Loans and advances to banks	110,109	174,424
Investment securities:		
- Held-to-maturity	1,645,501	1,847,981
- Available-for-sale	1,147,165	758,944
	15,748,626	**14,479,685**

(b) Company	2014 KShs'000	2013 KShs'000
Loans and advances to customers	11,627,319	9,412,953
Loans and advances to banks	87,147	67,045
Investment securities:		
- Held-to-maturity	1,282,115	1,349,947
- Available-for-sale	1,147,165	747,134
	14,143,746	**11,577,079**

8. INTEREST EXPENSE

(a) Group	2014 KShs'000	2013 KShs'000
Deposits from customers	5,671,527	5,077,343
Deposits from banks	103,098	197,357
Borrowings	879,162	320,844
	6,653,787	**5,595,544**

(b) Company	2014 KShs'000	2013 KShs'000
Deposits from customers	4,876,525	4,086,041
Deposits from banks	103,098	172,991
Borrowings	855,043	275,903
	5,834,666	**4,534,935**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

9. NET FEE AND COMMISSION INCOME

(a) Group	2014 KShs'000	2013 KShs'000
Fee and commission income		
Commissions	1,199,839	1,298,404
Service fees	655,390	661,388
	1,855,229	**1,959,792**
Fee and commission expense		
Inter bank transaction fees	(23,662)	(28,772)
Other	(38,837)	(35,266)
	(62,499)	**(64,038)**
Net fee and commission income	**1,792,730**	**1,895,754**

(b) Company	2014 KShs'000	2013 KShs'000
Fee and commission income		
Commissions	1,024,748	947,304
Service fees	655,391	549,385
	1,680,139	**1,496,689**
Fee and commission expense		
Inter bank transaction fees	(23,662)	(19,754)
Other	(38,837)	(26,255)
	(62,499)	**(46,009)**
Net fee and commission income	**1,617,640**	**1,450,680**

10. OTHER INCOME

(a) Other operating income

(i) Group	2014 KShs'000	2013 KShs'000
Income from foreign exchange dealings	689,230	1,299,550
Rental income	82,565	114,636
Dividend income – I&M Bank (Rwanda) Ltd	107,960	-
Profit on sale of property and equipment	3,090	9,530
Profit on sale of available-for-sale investment securities	122,540	102,171
Other	198,822	16,350
	1,204,207	**1,542,237**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

10. OTHER INCOME (Continued)

(a) Other operating income (Continued)

(ii) Company	2014 KShs'000	2013 KShs'000
Income from foreign exchange dealings	629,492	535,242
Rental income	72,889	81,035
Profit on sale of property and equipment	697,300	245
Profit on sale of available-for-sale investment securities	122,540	102,171
Management fees	34,276	25,643
Other	181,297	4,668
	1,737,794	**749,004**

(b) Dividend income

(i) Company

Dividend from subsidiary	**132,420**	**97,286**

11. OPERATING EXPENSES

(a) Group	2014 KShs'000	2013 KShs'000
Staff costs		
Salaries and wages	1,594,134	1,962,232
Contributions to defined benefit and contribution plan	68,332	84,433
Other staff costs	409,402	390,135
	2,071,868	**2,436,800**
Premises and equipment costs		
Rental of premises	206,008	203,963
Electricity	27,199	32,744
Other premises and equipment costs	97,565	152,559
	330,772	**389,266**
General administration expenses		
Deposit protection fund contribution	129,714	112,650
Loss on disposal of property and equipment	138	146
General administrative expenses	1,114,974	1,279,875
	1,244,826	**1,392,671**
Depreciation and amortisation		
Leasehold improvements	75,997	75,763
Fixtures, fittings and equipment	50,389	71,196
Computers	66,010	64,217
Motor vehicles	7,708	25,689
Leasehold building	23,594	61,331
Depreciation on property and equipment (Note 21)	223,698	298,196
Amortisation of intangible assets (Note 22(b)(i))	83,332	141,997
Amortisation of prepaid operating lease rentals (Note 23)	5,708	4,779
	312,738	**444,972**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

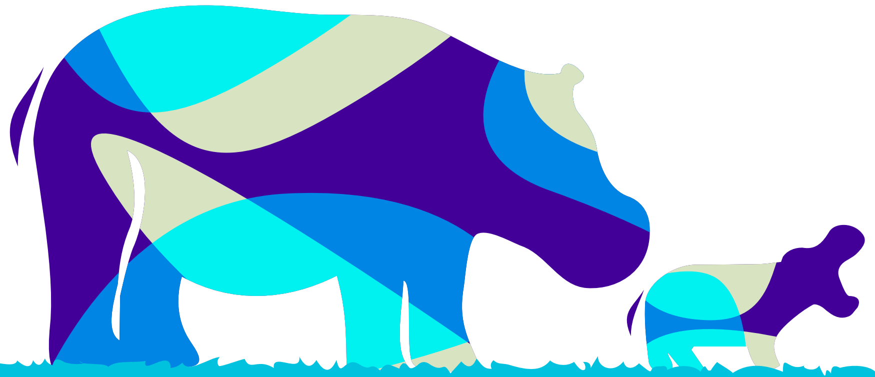
11. OPERATING EXPENSES (Continued)

(b) Company	2014 KShs'000	2013 KShs'000
Staff costs		
Salaries and wages	1,392,278	1,126,292
Contributions to defined contribution plan	48,265	41,523
Other staff costs	324,224	263,476
	1,764,767	**1,431,291**
Premises and equipment costs		
Rental of premises	159,833	116,245
Electricity	22,207	13,848
Other premises and equipment costs	97,028	96,358
	279,068	**226,451**
General administration expenses		
Deposit protection fund contribution	111,928	97,950
Loss on disposal of property and equipment	138	146
General administrative expenses	894,958	756,873
	1,007,024	**854,969**
Depreciation and amortisation		
Leasehold improvements	66,857	67,120
Fixtures, fittings and equipment	45,554	37,673
Computers	60,896	48,790
Motor vehicles	6,545	4,165
Leasehold building	-	21,870
Depreciation on property and equipment (Note 21)	179,852	179,618
Amortisation of intangible assets (Note 22(b)(ii))	69,713	114,314
Amortisation of prepaid operating lease rentals (Note 23)	-	4,779
	249,565	**298,711**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

12. PROFIT BEFORE INCOME TAX

	2014 KShs'000	2013 KShs'000
Group		
Profit before income tax is arrived at after charging/(crediting):		
Depreciation	223,698	298,194
Amortisation of intangible assets	83,332	141,997
Directors' emoluments: - Fees	13,643	27,549
- Other	37,037	23,719
Auditors' remuneration	10,795	14,649
Amortisation of prepaid operating lease rentals	5,708	4,779
Net profit on sale of property and equipment	697,300	9,384
Company		
Profit before income tax is arrived at after charging/(crediting):		
Depreciation	179,858	179,618
Amortisation of intangible assets	69,713	114,314
Directors' emoluments: - Fees	8,975	10,000
- Other	35,480	21,630
Auditors' remuneration	4,912	4,615
Amortisation of prepaid operating lease rentals	5,708	4,779
Net profit on sale of property and equipment	697,300	99



NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

13. INCOME TAX EXPENSE AND TAX PAYABLE

(a) Income tax expense

(i) Group	2014 KShs'000	2013 KShs'000
Current year's tax	2,323,506	2,438,381
Under provision in prior year - Current tax	-	1,833
Over provision in prior year - Deferred tax	(16,593)	58,124
	2,306,913	2,498,338
Deferred tax credit (Note 24)	(60,974)	(217,033)
Income tax expense	**2,245,939**	**2,281,305**

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

	2014 KShs'000	2013 KShs'000
Accounting profit before taxation	7,480,487	7,262,666
Computed tax using the applicable corporation tax rate	2,244,146	2,183,964
Under provision in the prior year	-	1,833
Effect on non-deductible costs	18,386	57,242
Under provision in prior year – Deferred tax	(16,593)	58,124
Prior period tax recoverable	-	(4,522)
Tax discount in accordance with Rwandan tax laws	-	(15,335)
	2,245,939	**2,281,306**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

13. INCOME TAX EXPENSE AND TAX PAYABLE (Continued)

(a) Income tax expense (Continued)

(ii) Company	**2014 KShs'000**	**2013 KShs'000**
Current year's tax at 30%	2,201,831	2,023,927
Under provision in prior year - Current tax	-	(1,284)
Over provision in prior year - Deferred tax	(16,593)	48,219
	2,185,238	2,070,862
Deferred tax credit (Note 24)	(54,990)	(205,479)
Income tax expense	**2,130,248**	**1,865,383**

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

	2014 KShs'000	**2013 KShs'000**
Accounting profit before taxation	7,749,125	6,059,818
Computed tax using the applicable corporation tax rate at 30%	2,324,738	1,817,945
Under provision in the prior year	-	(1,284)
Effect on non-deductible costs/income	(177,897)	502
Over provision in prior year - Deferred tax	(16,593)	48,219
	2,130,248	1,865,382

(b) Tax payable

(i) Group	**2014 KShs'000**	**2013 KShs'000**
At 1 January	569,712	107,095
Income tax expense (Note 13 ((a)(i))	2,323,506	2,440,214
Effect of tax in foreign jurisdiction	(725)	(2,378)
Transfer to parent company	(103,359)	-
Tax paid (Note 31 (a))	(2,809,572)	(1,975,219)
At 31 December	(20,438)	569,712
Tax recoverable	(24,488)	-
Tax payable	4,050	569,713
	(20,438)	569,713

(ii) Company		
At 1 January	412,051	(2,909)
Income tax expense (Note 13 ((a)(i))	2,201,831	2,022,641
Tax paid (Note 31 (c))	(2,638,370)	(1,607,682)
At 31 December	(24,488)	412,050

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

14. EARNINGS PER SHARE

	Consolidated		Company	
	2014	2013	2014	2013
Net profit after tax for the year (KShs'000)	5,234,548	4,981,361	5,618,877	4,194,435
Weighted average number of ordinary shares in issue during the year	28,802	28,802	28,802	28,802
Earnings per share (KShs'000)	178.35	160.32	188.37	145.63

There were no potentially dilutive shares outstanding at 31 December 2014 (2013 – Nil)

15. DIVIDEND PER SHARE

	2014 KShs'000	**2013 KShs'000**
The calculation of dividend per share is based on:		
Final dividend proposed during the year (KShs)	1,296,110	1,008,086
Weighted average number of ordinary shares in issue during the year (in thousands)	28,802	28,802
Final dividend per share (KShs)	45.00	35.00

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

(a) Group	**2014 KShs'000**	**2013 KShs'000**
Cash on hand	1,255,152	1,498,210
Balances with Central Banks:		
- Restricted balances (Cash Reserve Ratio)	6,198,183	5,752,974
- Unrestricted balances	2,795,526	1,658,040
	10,248,861	8,909,224
(b) Company		
Cash on hand	1,047,479	787,042
Balances with Central Bank of Kenya:		
- Restricted balances (Cash Reserve Ratio)	4,577,409	3,868,580
- Unrestricted balances	1,975,408	1,496,339
	7,600,296	6,151,961

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 2014, the Cash Reserve Ratio requirement was 5.25% of all customer deposits (2013 – 5.25%)..

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

17. LOANS AND ADVANCES TO BANKS

(a) Group	**2014 KShs'000**	**2013 KShs'000**
Due within 90 days	1,071,675	6,050,627
Due after 90 days	-	-
	1,071,675	**6,050,627**

(b) Company		
Due within 90 days	573,125	1,695,669
Due after 90 days	-	-
	573,125	**1,695,669**

The company's weighted average effective interest rate on loans and advances to banks at 31 December 2014 was 8.09% (2013 – 7.70%).

18. LOANS AND ADVANCES TO CUSTOMERS

(a) Classification	**2014 KShs'000**	**2013 KShs'000**
(i) Group		
Overdrafts	34,534,551	32,136,434
Loans	66,504,918	59,589,235
Bills discounted	475,922	286,902
Hire purchase	2,430,043	1,870,057
Gross loans and advances	**103,945,434**	**93,882,628**
Less: Impairment losses on loans and advances	(2,334,872)	(1,999,964)
Net loans and advances	**101,610,562**	**91,882,664**
Repayable on demand	24,807,432	24,569,978
Less than 3 months	12,028,173	8,056,859
3 months to 1 year	15,236,040	11,566,386
1 to 5 years	32,790,265	29,829,779
5 to 10 years	15,583,686	16,161,238
Over 10 years	3,499,838	3,698,388
Gross loans and advances	**103,945,434**	**93,882,628**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

18. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(a) Classification (Continued)

(ii) Company	**2014 KShs'000**	**2013 KShs'000**
Overdrafts	29,386,673	25,785,434
Loans	59,743,224	47,177,381
Bills discounted	475,922	250,368
Hire purchase	2,430,043	1,870,056
Gross loans and advances	**92,035,862**	**75,083,239**
Less: Impairment losses on loans and advances	(2,169,602)	(1,713,651)
Net loans and advances	**89,866,260**	**73,369,588**
Repayable on demand	23,980,818	22,066,532
Less than 3 months	10,408,808	6,677,945
3 months to 1 year	12,073,188	7,125,647
1 to 5 years	26,489,524	20,571,463
5 to 10 years	15,583,687	15,684,376
Over 10 years	3,499,837	2,957,276
Gross loans and advances	**92,035,862**	**75,083,239**

(b) Impairment losses reserve

(i) Group

2014:	**Specific impairment losses KShs'000**	**Portfolio impairment provision KShs'000**	**Total KShs'000**
At 1 January 2014	782,247	1,217,717	1,999,964
Transfer to parent company	(77,116)	(80,857)	(157,973)
Net impairment made in the year	1,018,008	(489,869)	528,139
Net recoveries	(10,974)	-	(10,974)
Write offs	(20,639)	-	(20,639)
Translation difference	(1,910)	(1,735)	(3,645)
At 31 December 2014	**1,689,616**	**645,246**	**2,334,872**
2013:			
At 1 January 2013	777,224	714,162	1,491,386
Net impairment made in the year	96,252	509,855	606,107
Recoveries and impairment no longer required	(56,968)	-	(56,968)
Net recoveries, write offs during the year	(4,114)	-	(4,114)
Amounts written off during the year	(20,875)	-	(20,875)
Translation difference	(9,272)	(6,300)	(15,572)
At 31 December 2013	**782,247**	**1,217,717**	**1,999,964**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

18. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(b) Impairment losses reserve (Continued)

(ii) Company

2014:	**Specific impairment losses KShs'000**	**Portfolio impairment provision KShs'000**	**Total KShs'000**
At 1 January 2014	637,073	1,076,578	1,713,651
Net impairment made in the year	997,319	(509,755)	487,564
Net recoveries	(10,974)	-	(10,974)
Write offs	(20,640)	-	(20,640)
At 31 December 2014	**1,602,778**	**566,823**	**2,169,601**
2013:			
At 1 January 2013	611,767	632,841	1,244,608
Impairment made in the year	62,531	443,737	506,268
Recoveries and impairment no longer required	(37,225)	-	(37,225)
At 31 December 2013	**637,073**	**1,076,578**	**1,713,651**

(c) Impairment loss on loans and advances

(i)Group	**2014 KShs'000**	**2013 KShs'000**
Impairment made in the year	528,139	606,107
Recoveries of loans and advances previously written off	(10,974)	(135,118)
Amounts directly written off during the year	270,795	1,100
	787,960	**472,089**
(ii) Company		
Impairment made in the year	487,564	506,269
Recoveries and impairment no longer required	-	(37,225)
Recoveries of loans and advances written off in prior years	(10,974)	(1,303)
Amounts directly written off during the year	270,795	134
Company	**747,385**	**467,875**

(d) Non-performing loans and advances - Company

The company's loans and advances include an amount of KShs 616,198,301 (2013 – KShs 344,822,309) net of impairment losses which are non-performing. The estimated realisable value of securities held against this balance is KShs 616,198,301 (2013 – KShs 344,669,867).

	2014 KShs'000	**2013 KShs'000**
Interest on impaired loans and advances Which has not yet been received in cash	**505,476**	**355,354**

The company's weighted average effective interest rate on loans and advances to customers at 31 December 2014 was 13.37% (2013 – 13.93%).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

18. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(e) Loans and advances concentration by sector - Group

	2014 KShs'000	**%**	**2013 KShs'000**	**%**
Manufacturing	22,986,001	22.11	18,260,894	24.32
Wholesale and retail trade	5,341,706	5.14	2,614,292	3.48
Building and construction	10,019,562	9.64	6,681,419	8.90
Agriculture	3,611,185	3.47	4,050,741	5.39
Real estate	19,935,729	19.18	12,857,374	17.12
Transport and communication	6,331,787	6.09	3,671,664	4.89
Business services	19,259,057	18.53	16,259,205	21.65
Electricity and water	256,716	0.25	110,846	0.15
Finance and insurance	1,229,848	1.18	852,966	1.15
Mining and quarrying	4,662,890	4.49	1,397,792	1.86
Others	10,310,953	9.92	8,326,046	11.09
	103,945,434	**100.00**	**75,083,239**	**100.00**

(f) Loans and advances concentration by sector – Company

	2014 KShs'000	**%**	**2013 KShs'000**	**%**
Manufacturing	20,829,301	22.63	18,260,894	24.32
Wholesale and retail trade	2,825,115	3.07	2,614,292	3.48
Building and construction	9,119,499	9.91	6,681,419	8.90
Agriculture	3,288,833	3.57	4,050,741	5.39
Real estate	17,033,051	18.51	12,857,374	17.12
Transport and communication	5,302,217	5.76	3,671,664	4.89
Business services	19,259,057	20.93	16,259,205	21.65
Electricity and water	256,716	0.28	110,846	0.15
Finance and insurance	1,229,848	1.34	852,966	1.15
Mining and quarrying	4,167,421	4.53	1,397,792	1.86
Others	8,724,804	9.48	8,326,046	11.09
	92,035,862	**100.00**	**75,083,239**	**100.00**

(g) Finance leases - Group

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

	2014 KShs'000	**2013 KShs'000**
Receivable no later than 1 year	238,373	197,567
Receivable later than 1 year and no later than 5 years	2,175,413	1,672,489
	2,413,786	**1,870,056**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

18. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(h) Finance leases - Company

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

	2014 KShs'000	2013 KShs'000
Receivable no later than 1 year	238,373	197,567
Receivable later than 1 year and no later than 5 years	2,175,413	1,672,489
	2,413,786	**1,870,056**

(h) Finance leases - Company

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

	2014 KShs'000	2013 KShs'000
Receivable no later than 1 year	238,373	197,567
Receivable later than 1 year and no later than 5 years	2,175,413	1,672,489
	2,413,786	**1,870,056**

19. INVESTMENT SECURITIES

(a) Group	2014 KShs'000	2013 KShs'000
Available-for-sale		
Corporate bonds - available-for-sale	481,912	677,463
Treasury bonds - available-for-sale	9,049,728	7,153,679
Treasury bills - available-for-sale	6,929,012	1,133,447
Total available-for-sale	16,460,652	8,964,589
Held-to-maturity		
Treasury bonds	11,944,884	10,163,170
Treasury bills	7,013,549	7,069,643
Total held to maturity	18,958,433	17,232,813
Total investment securities	**35,419,085**	**26,197,402**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

19. INVESTMENT SECURITIES (Continued)

(b) Company	2014 KShs'000	2013 KShs'000
Available-for-sale		
Corporate bonds - available-for-sale	481,912	677,463
Treasury bonds - available-for-sale	9,049,728	7,017,816
Treasury bills - available-for-sale	6,929,012	1,133,447
Total available-for-sale	16,460,652	8,828,726
Held-to-maturity		
Treasury bonds	11,033,967	8,917,421
Treasury bills	5,260,728	3,229,010
Total held to maturity	16,294,695	12,146,431
Total investment securities	**32,755,347**	**20,975,157**

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

Group:

	Treasury bonds and bills KShs'000	Corporate bond KShs'000	Total KShs'000
31 December 2014:			
At 1 January 2014	25,515,235	682,167	26,197,402
Additions	35,567,086	313,100	35,880,186
Disposals and maturities	(25,475,000)	(517,645)	(25,992,645)
Changes in fair value	33,331	2,573	35,904
Amortisation of discounts and premiums	10,736	-	10,736
Unearned interest	(735,805)	-	(735,805)
Interest receivable	(9,224)	6,422	(2,802)
Translation difference	26,109	-	26,109
At 31 December 2014	**34,932,468**	**486,617**	**35,419,085**
31 December 2013:	26,335,174	987,042	27,322,216
At 1 January 2013	32,698,937	-	32,698,937
Additions	(33,474,580)	(326,805)	(33,801,385)
Disposals and maturities	(72,979)	27,289	(45,690)
Changes in fair value	30,273	-	30,273
Amortisation of discounts and premiums	(93,748)	-	(93,748)
Interest receivable	132,303	(4,098)	128,205
Translation difference	(40,145)	(1,261)	(41,406)
At 31 December 2013	**25,515,235**	**682,167**	**26,197,402**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

19. INVESTMENT SECURITIES (Continued)

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

Company:

	Treasury bonds and bills KShs'000	Corporate bond KShs'000	Total KShs'000
31 December 2014:			
At 1 January 2014	20,297,694	677,463	20,975,157
Additions	38,211,900	313,100	38,525,000
Disposals and maturities	(25,475,000)	(517,645)	(25,992,645)
Changes in fair value	33,330	2,573	35,903
Amortisation of discounts and premiums	10,736	-	10,736
Unearned interest	(877,422)	-	(877,422)
Interest receivable	72,196	6,422	78,618
At 31 December 2014	**32,273,434**	**481,913**	**32,755,347**
31 December 2013:			
At 1 January 2013	22,453,272	864,614	23,317,886
Additions	20,841,000	-	20,841,000
Disposals and maturities	(22,873,850)	(210,341)	(23,084,191)
Changes in fair value	(72,978)	27,289	(45,689)
Amortisation of discounts and premiums	29,633	-	29,633
Unearned interest	(93,748)	-	(93,748)
Interest receivable	14,365	(4,098)	10,267
At 31 December 2013	**20,297,694**	**677,464**	**20,975,158**

The weighted average effective interest rate on Government securities at 31 December 2014 was 9.97% (2013 – 9.90%).

The weighted average effective interest rate on corporate bonds at 31 December 2014 was 11.93% (2013 – 12.20%).

At 31 December 2014, unamortized premiums on investment securities amounted to KShs 259,980,185 (2013 – KShs 255,114,032) and unamortized discounts amounted to KShs 231,810,411 (2013 – KShs 245,568,274).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

20. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES

(a) Investment in joint venture

The Bank had 50% control over Bank One Limited (formerly First City Bank Limited – Mauritius) with the other joint venturer, CIEL Investments Limited. This investment was acquired by the parent company with effect from 22 August 2014.

Group	Activity	Beneficial ownership %	2014 KShs'000	2013 KShs'000
Bank One Limited	Commercial Banking	50	-	2,411,973
Percentage ownership Interest				**50%**
Non-current assets			-	1,071,093
Current assets (including cash and cash equivalents)			-	49,760,914
Non-current liabilities			-	(2,611,215)
Current liabilities			-	(44,347,659)
Net assets (100%)			-	3,873,133
Group's share of net assets (50%)			-	1,936,567
Goodwill			-	475,406
Carrying amount of interest in Joint Venture			**-**	**2,411,973**
Interest income			1,741,295	2,764,617
Interest expense			(695,445)	(1,382,362)
Other income			268,445	143,788
Operating expenses			(976,239)	(1,296,886)
Income tax expense			(64,717)	(76,492)
Profit and total comprehensive income (100%)			273,339	152,664
Profit and total comprehensive income (50%)			136,875	76,332
Group's share of profit and total comprehensive income			**136,875**	**76,332**
Dividends received by the Group			**-**	**-**

Company	Activity	%	2014 KShs'000	2013 KShs'000
Bank One Limited	Commercial Banking	50	-	1,245,538
Additional Investment through rights issue			-	253,276
			-	**1,498,814**

The Bank transferred its interest in the joint venture (KShs 1,498,814,480) to its parent company, I&M Holdings Limited, on 22 August 2014. The share of profit up to 22 August 2014 has been recognised as a receivable from Bank One Limited.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

20. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES (Continued)

(b) Investment in subsidiaries

			2014 KShs'000	2013 KShs'000
I&M Bank (T) Limited	Commercial banking	55.03%	1,122,911	1,122,911
I&M Realty Ltd	Real Estate	100%	100	-
I&M Insurance Agency	Insurance	100%	100	-
I&M Bank (Rwanda) Limited	Commercial Banking	54.99%	-	1,629,278
			1,123,111	**2,752,189**

The Bank transferred its interests in I&M Bank (Rwanda) Limited to the parent company, I&M Holdings Limited, with effect from 1 January 2014.

(c) Investment in subsidiaries

During the year, I&M Bank (T) Limited invested TZS 500 million (Kshs 26 million) as equity and obtained long term borrowing of TZS 3,250 million with interest rate of 11.50% p.a. from Tanzania Mortgage Refinancing Company (TMRC).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

21. PROPERTY AND EQUIPMENT - GROUP AND COMPANY

Group:

2014:	Leasehold buildings KShs'000	Leasehold improvements KShs'000	Furniture, fittings, fixtures & office, equipment KShs'000	Computers KShs'000	Motor vehicles KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost/valuation							
At 1 January 2014	1,817,431	688,384	813,912	510,428	217,230	182,247	4,229,632
Disposal of Subsidiary	(467,431)	-	(322,698)	(166,608)	(166,380)	(20,913)	(1,144,030)
Additions	-	204,044	86,153	72,645	14,106	124,990	501,938
Reclassifications	-	1,800	-	19,057	-	(20,857)	-
Transfers to Intangible Assets	-	-	-	-	-	(65,683)	(65,683)
Transfers to Prepaid Operating Lease Rentals	-	-	-	-	-	(54,252)	(54,252)
Disposals/write off	-	-	(342)	(60)	(6,295)	(14,748)	(21,445)
Translation difference	-	(2,885)	(1,174)	(1,696)	(234)	(764)	(6,753)
At 31 December 2014	1,350,000	891,343	575,851	433,766	58,427	130,020	3,439,407
Depreciation							
At 1 January 2014	123,837	400,309	522,229	399,212	175,849	-	1,621,436
Disposal of Subsidiary	(118,604)	-	(218,146)	(150,007)	(136,047)	-	(622,804)
Charge for the year	23,593	75,997	49,464	66,932	7,712	-	223,698
On disposals	-	-	(102)	(60)	(6,295)	-	(6,457)
Translation difference	-	(640)	(436)	(606)	(124)	-	(1,806)
At 31 December 2014	28,826	475,666	353,009	315,471	41,095	-	1,214,067
Net book value							
At 31 December 2014	**1,321,174**	**415,677**	**222,842**	**118,295**	**17,332**	**130,020**	**2,225,340**
Net book value – cost basis							
At 31 December 2014	**716,117**	**415,677**	**222,843**	**118,295**	**17,331**	**130,020**	**1,620,283**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

21. PROPERTY AND EQUIPMENT (Continued)

Group (Continued):

2013:	Leasehold buildings KShs'000	Leasehold improvements KShs'000	Furniture, fittings, fixtures & office, equipment KShs'000	Computers KShs'000	Motor vehicles KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost/valuation							
At 1 January 2013	1,424,112	565,338	886,534	493,261	219,917	22,851	3,612,013
Additions	37,415	42,288	43,834	36,879	9,121	162,354	331,891
Reclassifications	(2,362)	-	(183)	(153)	28	-	(2,670)
Transfers	-	80,758	(88,387)	9,494	-	(1,864)	-
Disposals/write off	(7,592)	-	(7,653)	(17,853)	(682)	-	(33,780)
Surplus on revaluation	400,000	-	-	-	-	-	400,000
Translation difference	(34,142)	-	(20,232)	(11,200)	(11,154)	(1,093)	(77,821)
At 31 December 2013	1,817,431	688,384	813,913	510,428	217,230	182,248	4,229,634
Depreciation							
At 1 January 2013	168,072	312,158	483,025	360,810	158,579	-	1,482,644
Reclassifications	-	12,434	(14,636)	1,866	29	-	(307)
Charge for the year	61,331	75,763	71,196	64,217	25,687	-	298,194
On disposals	(6,307)	-	(6,722)	(17,853)	(497)	-	(31,379)
Reversal on revaluation	(91,506)	-	-	-	-	-	(91,506)
Translation difference	(7,752)	(45)	(10,635)	(9,828)	(7,949)	-	(36,208)
At 31 December 2013	123,838	400,310	522,228	399,212	175,850	-	1,621,438
Net book value							
At 31 December 2013	**1,693,593**	**288,074**	**291,685**	**111,216**	**41,380**	**182,248**	**2,608,196**

In 2013, the leasehold building was revalued after 4 years by an independent valuer, Kiragu & Mwangi Limited. The valuation is level 3 under the Fair value hierarchy.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

21. PROPERTY AND EQUIPMENT (Continued)

Company:

2014:	Leasehold buildings KShs'000	Leasehold improvements KShs'000	Furniture, fittings, fixtures & office, equipment KShs'000	Computers KShs'000	Motor vehicles KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost/valuation							
At 1 January 2014	1,350,000	604,575	447,711	295,298	42,044	145,218	2,884,846
Additions	-	142,799	79,054	53,188	12,980	43,323	331,344
Transfers to Intangible Assets	-	-	-	-	-	(65,683)	(65,683)
Transfers to Prepaid Operating Lease Rentals	-	-	-	-	-	(54,252)	(54,252)
Disposals/Write Off							
Surplus on revaluation	(1,350,000)	-	(342)	(59)	(6,294)	(14,749)	(1,371,444)
At 31 December 2014	**-**	**747,374**	**526,423**	**348,427**	**48,730**	**58,857**	**1,724,811**
Depreciation							
At 1 January 2014	5,233	379,278	288,592	227,971	35,369	-	936,443
Charge for the year	-	66,857	45,554	60,896	6,545	-	179,852
On disposals	(5,233)	-	(102)	(60)	(6,294)	-	(11,689)
At 31 December 2014	**-**	**446,135**	**334,044**	**288,807**	**35,620**	**-**	**1,104,606**
Net book value							
At 31 December 2014	**-**	**301,239**	**192,379**	**59,620**	**13,110**	**53,857**	**620,205**

If depreciation had been charged during the year on the cost of these assets at a nominal rate, it would have amounted to KShs 128,229,228 (2013 – KShs 102,462,277).
The above net book value is same as net book value on cost basis.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

21. PROPERTY AND EQUIPMENT (Continued)

Company (continued):

2013:	Leasehold buildings KShs'000	Leasehold improvements KShs'000	Furniture, fittings, fixtures & office, equipment KShs'000	Computers KShs'000	Motor vehicles KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost/valuation							
At 1 January 2013	950,000	565,338	418,076	270,286	34,454	-	2,238,154
Additions	-	39,237	32,534	25,012	7,590	145,218	249,591
Disposals	-	-	(2,899)	-	-	-	(2,899)
Surplus on revaluation	400,000	-	-	-	-	-	400,000
At 31 December 2013	1,350,000	604,575	447,711	295,298	42,044	145,218	2,884,846
Depreciation							
At 1 January 2013	74,869	312,158	253,275	179,181	31,204	-	850,687
Charge for the year	21,870	67,120	37,673	48,790	4,165	-	179,618
On disposals	-	-	(2,357)	-	-	-	(2,357)
Reversal on revaluation	(91,506)	-	-	-	-	-	(91,506)
At 31 December 2013	5,233	379,278	288,591	227,971	35,369	-	936,442
Net book value							
At 31 December 2013	**1,344,767**	**225,297**	**159,120**	**67,327**	**6,675**	**145,218**	**1,948,404**

In 2013, the leasehold building was revalued after 4 years by an independent valuer, Kiragu & Mwangi Limited. The valuation is level 3 under the Fair value hierarchy.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

21. PROPERTY AND EQUIPMENT (Continued)

Measurement of fair values

(i) Valuation techniques and significant unobservable inputs

Financial assets measured at fair value

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Property and equipment	Cash-flow discounting	The building is located in one of the busiest business locations in the city, with a design and construction that is in line with market trends. The building will be fully let with potential growth in rental and capital values	Based on the past trend, the building will be fully let with potential growth in rental and capital values, hence a higher fair value

Level 3 fair values

Reconciliation of level 3 fair values

The following table shows reconciliation from the opening balances to the closing balances for level 3 fair values.

Group:

	KShs'000
Balances at 1 January 2013	875,131
Change in fair value	491,506
Total gains or losses in profit or loss in OCI	(21,870)
Balances at 31 December 2013	**1,344,767**
Total gains or losses in profit or loss in OCI	(23,593)
Balances at 31 December 2014	**1,321,174**

Company:

	KShs'000
Balances at 1 January 2013	875,131
Change in fair value	491,506
Total gains or losses in profit or loss in OCI	(21,870)
Balances at 31 December 2013	**1,344,767**
Disposal	(1,344,767)
Balances at 31 December 2014	**-**

The building was sold to I&M Realty Limited with effect from 14 November 2014

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

22. INTANGIBLE ASSETS

(a) Goodwill

(i) Group	2014 KShs'000	2013 KShs'000
I&M Bank (T) Limited	608,953	608,953
Biashara Bank of Kenya Limited	10,747	10,747
I&M Bank (Rwanda) Limited	-	553,706
	619,700	1,173,406

The recoverable amounts for I&M Bank (T) Limited has been calculated based on their value in use, determined by discounting the future cash flows expected to be generated from the continuing use of the Cash Generating Unit (CGU). The present value of the recoverable amounts on I&M Kenya's share were Kshs 2.38 billion (2013: Kshs 3.46 billion) for I&M Bank (T) Limited. No impairment losses were recognised during 2014 (2013: Nil), because the recoverable amounts of these CGUs were determined to be higher than their carrying amounts. The key assumptions used in the calculation of value in use were as follows:

	I&M (T) Ltd 2014
5 year risk free rate	9.18%
Risk premium	12.50%
Terminal growth rate	3.00%
Exchange rate	Kshs 1 = Tzs 19.09

	2013
5 year risk free rate	9.18%
Risk premium	13.00%
Terminal growth rate	3.00%
Exchange rate	Kshs 1 = Tzs 18.52

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

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

The goodwill relating to I&M Bank (Rwanda) Limited as at 31 December 2013 was transferred to the parent company on transfer of the subsidiary to I&M Holdings Limited effective 1 January 2014.

(ii) Company	2014 KShs'000	2013 KShs'000
Goodwill on assets purchased from Biashara Bank of Kenya Limited	10,747	10,747

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

22. INTANGIBLE ASSETS (Continued)

(b) Computer software

Group:

2014:	Software KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost			
At 1 January as previously stated	830,767	-	830,767
Disposal of subsidiary to parent	(171,704)	-	(171,704)
Additions	3,495	136,798	140,293
Transfer from property and equip.	-	65,683	65,683
Exchange differences	(2,033)	-	(2,033)
At 31 December	660,525	202,481	863,006
Amortisation			
At 1 January as previously stated	655,759	-	655,759
Disposal of subsidiary to parent	(157,181)	-	(157,181)
Amortisation for the year	83,332		83,332
Exchange differences	(722)	-	(722)
At 31 December	581,188	-	581,188
Net carrying amount At 31 December	**79,337**	**202,481**	**281,818**

2013:	Software KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost			
At 1 January as previously stated	689,705	78,965	768,670
Transfers	78,965	(78,965)	-
Additions	75,945	-	75,945
Exchange differences	(13,848)	-	(13,848)
At 31 December	830,767	-	830,767
Amortisation			
At 1 January as previously stated	525,758	-	525,758
Amortisation for the year	141,997	-	141,997
Exchange differences	(11,996)	-	(11,996)
At 31 December	655,759	-	655,759
Net carrying amount at 31 December 2013	**175,008**	**-**	**175,008**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

22. INTANGIBLE ASSETS (Continued)

(b) Computer software (Continued)

Company:

2014:	**Software Cost KShs'000**	**Capital work in progress KShs'000**	**Total KShs'000**
Cost			
At 1 January as previously stated	579,297	-	579,297
Additions	-	136,798	136,798
Transfer from property and equip.	-	65,683	65,683
At 31 December	579,297	202,481	781,778
Amortisation			
At 1 January as previously stated	476,530	-	476,530
Amortisation for the year	69,713	-	69,713
	546,243	-	546,243
Net carrying amount at 31 December 2014	**33,054**	**202,481**	**235,535**
2013:			
Cost			
At 1 January as previously stated	447,872	78,965	526,837
Additions	52,460	-	52,460
Transfers	78,965	(78,965)	-
At 31 December	579,297	-	579,297
Amortisation			
At 1 January as previously stated	362,217	-	362,217
Amortisation for the year	114,314	-	114,314
At 31 December	476,531	-	476,531
Net carrying amount at 31 December 2013	**102,766**	**-**	**102,766**

The company's computer software with a gross value of KShs 282,314,364 (2013 – KShs 210,191,737) are fully amortised but still in use.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

23. PREPAID OPERATING LEASE RENTALS

Group:

	2014 KShs'000	**2013 KShs'000**
Cost		
At 1 January and 31 December	262,953	262,953
Transfer from property and equipment	54,252	-
Additions	445	-
At 31 December	317,650	262,953
Amortisation		
At 1 January	21,628	16,849
Charge for the year	5,708	4,779
At 31 December	27,336	21,628
Net carrying amount at 31 December	**290,314**	**241,325**

Company:

	2014 KShs'000	**2013 KShs'000**
Cost		
At 1 January and 31 December	262,953	262,953
Transfer from property and equipment	54,252	-
Disposal	(317,205)	-
At 31 December	-	262,953
Amortisation		
At 1 January	21,628	16,849
Disposal	(21,628)	4,779
At 31 December	-	21,628
Net carrying amount at 31 December	**-**	**241,325**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

24. DEFERRED TAX (ASSET/LIABILITIES)

Deferred tax assets at 31 December 2014 and 31 December 2013 are attributable to the following:

(a) Deferred tax asset

	Balance at 1 Jan KShs'000	Prior year under/(over) provision KShs'000	Recognised in equity KShs'000	Exchange differences KShs'000	Recognised in profit or loss KShs'000	Balance at 31 December KShs'000
2014:						
Deferred tax asset						
Plant and equipment	63,653	-	-	570	(4,275)	59,948
General provisions	341,301	-	-	(919)	(17,345)	323,037
Other provisions	98,386	16,593	-	-	82,594	197,573
Available-for-sale reserves	72,649	-	82,836	-	-	155,485
	575,989	**16,593**	**82,836**	**(349)**	**60,974**	**736,043**
2013:						
Deferred tax asset						
Plant and equipment	55,667	(13,054)	-	142	20,898	63,653
General provisions	206,838	-	-	(186)	134,649	341,301
Other provisions	75,251	(45,069)	-	(102)	68,306	98,386
Available-for-sale reserves	-	-	72,649	-	-	72,649
	337,756	**(58,123)**	**72,649**	**(146)**	**223,853**	**575,989**

Company:

	Balance at 1 jan KShs'000	Prior year under/(over) provision KShs'000	Recognised in equity KShs'000	Exchange differences KShs'000	Recognised in profit or loss KShs'000	Balance at 31 December KShs'000
2014:						
Deferred tax asset						
Plant and equipment	82,588	-	-	-	3,369	85,956
General provisions	322,973	-	-	-	(30,972)	292,001
Other provisions	79,840	16,593	-	-	82,594	179,027
Available-for-sale reserves	72,649	-	82,836	-	-	155,485
	558,050	**16,593**	**82,836**	**-**	**54,990**	**712,469**
2013:						
Deferred tax asset						
Plant and equipment	63,732	(13,054)	-	-	31,910	82,588
General provisions	189,852	-	-	-	133,121	322,973
Other provisions	74,556	(35,164)	-	-	40,448	79,840
Available-for-sale reserves	-	-	72,649	-	-	72,649
	328,140	**(48,218)**	**72,649**	**-**	**205,479**	**558,050**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

24. DEFERRED TAX (ASSET/LIABILITIES) (Continued)

(b) Deferred tax liability

Group:

	Balance at 1 January KShs'000	Disposal of Subsidiary Company KShs'000	Recognised in equity KShs'000	Recognised Exchange differences KShs'000	Recognised in Profit or loss KShs'000	Balance at 31 Dec KShs'000
2014:						
Deferred tax liabilities						
Plant and equipment	59,238	(59,238)	-	-	-	-
General provisions	-	-	-	-	-	-
Other provisions	(40,428)	40,428	-	-	-	-
Other provisions	7,478	(7,478)	-	-	-	-
	26,288	**(26,288)**	**-**	**-**	**-**	**-**
2013:						
Deferred tax liabilities						
Deferred tax liabilities						
Plant and equipment	70,770	-	-	(4,301)	(7,231)	59,238
General provisions	(3,899)	-	-	143	3,756	-
Other provisions	(53,653)	-	-	3,560	9,664	(40,429)
Other provisions	4,019	-	-	3,460	-	7,479
	17,237	**-**	**-**	**2,862**	**6,189**	**26,288**

25. OTHER ASSETS

(a) Group	**2014 KShs'000**	**2013 KShs'000**
Items in transit	530,786	491,743
Rent receivable	14,254	30,794
Prepayments	284,022	252,633
Due from Bank One Ltd	136,875	-
Investment in shares /equities	26,185	-
Other receivables	643,479	363,232
	1,635,601	**1,138,402**
(b) Company		
Items in transit	526,123	486,678
Rent receivable	14,255	9,864
Prepayments	233,143	188,167
Due from I&M Realty Limited	2,367,116	-
Other receivables	637,134	326,302
	3,777,771	**1,011,011**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

26. DEPOSITS FROM BANKS

(a) Group	2014 KShs'000	2013 KShs'000
Payable within one year	16,694,177	6,411,628
(b) Company		
Payable within one year	13,730,242	2,895,022

The company's weighted average effective interest rate on deposits from other banks and banking institutions at 31 December 2014 was 3.17% (2013 – 4.55%).

27. DEPOSITS FROM CUSTOMERS

(a) Group	2014 KShs'000	2013 KShs'000
Government and Parastatals	3,540,000	3,466,277
Private sector and individuals	95,671,681	93,679,291
	99,211,681	97,145,568
(b) Company		
Government and Parastatals	714,852	614,741
Private sector and individuals	85,906,075	73,879,534
	86,620,927	74,494,275

The company's weighted average effective interest rate on interest bearing deposits from customers at 31 December 2014 was 6.05% (2013 – 5.76%).

28. OTHER LIABILITIES

(a) Group	2014 KShs'000	2013 KShs'000
Bankers cheques payable	168,134	361,362
Accruals	746,121	806,895
Other accounts payables	586,438	613,921
	1,500,693	1,782,178
(b) Company		
Bankers cheques payable	157,655	175,008
Accruals	644,815	516,383
Other accounts payables	592,757	389,333
	1,395,227	1,080,724

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

29. LONG TERM BORROWINGS

(a) Group	2014 KShs'000	2013 KShs'000
Less than one year	2,463,299	1,055,235
One to five years	10,654,974	5,685,465
Over five years	1,209,635	4,831,950
	14,327,908	11,572,650
(b) Company		
Less than one year	2,374,906	984,224
One to five years	10,154,374	5,092,804
Over five years	1,209,635	4,831,950
	13,738,915	10,908,978

The Company's long term borrowings constituted the following:

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

(ii) 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 June 2015.

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

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

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

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

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

The Company's average effective interest rate on foreign currency long term borrowings was 3.45% (2013 – 3.79%).

The Company's average effective interest rate on the unsecured Floating Rate Note was 11.71% (2013 – 10.64%).

The Company's average effective interest rate on the medium term unsecured fixed and floating rate note was 12.49% (2013 – 12.58%).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

29. LONG TERM BORROWINGS (Continued)

Loan movement schedule

Group	2014 KShs'000	2013 KShs'000
At 1 January	11,572,651	4,446,420
Transfer of subsidiary to parent company	(240,723)	-
Funds received	3,617,873	8,022,500
Payments on principal and interest	(990,853)	(888,629)
Interest payable	29,209	21,981
Translation differences	339,751	(29,622)
At 31 December	**14,327,908**	**11,572,650**
Company		
At 1 January	10,908,978	3,671,573
Funds received	3,447,764	8,022,500
Payments on principal and interest	(947,323)	(860,116)
Interest payable	23,325	21,931
Exchange difference	306,171	53,090
At 31 December	**13,738,915**	**10,908,978**

30. SHARE CAPITAL AND RESERVES

(a) Share capital	2014 KShs'000	2013 KShs'000
Authorised		
30,000,000 Ordinary shares of KShs 100 each	3,000,000	3,000,000
Issued and fully paid		
28,802,453 Ordinary shares of KShs 100 each	2,880,245	2,880,245

(b) Major shareholders

The major shareholders at 31 December 2014 and 2013 were as follows:

	Number of shares	%
I&M Holdings Limited (2014 & 2013)	28,802,453	100%

(c) Share premium

	2014 KShs'000	2013 KShs'000
At 1 January and 31 December	3,773,237	3,773,237

(d) Revaluation reserve

The revaluation reserve relates to the revaluation of Leasehold buildings.

(e) 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

30. SHARE CAPITAL AND RESERVES (Continued)

(f) Translation reserve

The translation reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations (namely I&M Bank (T) Limited - Tanzania) into the functional currency of the Parent company.

(g) 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.

31. NOTES TO THE STATEMENT OF CASH FLOWS

	Consolidated	
(a) Reconciliation of profit before taxation to net cash flow from operating activities	**2014 KShs'000**	**2013 KShs'000**
Profit before income tax	7,480,487	7,262,666
Adjustments for:		
Depreciation	223,698	298,194
Amortisation of intangible asset	83,332	141,997
Amortisation of prepaid operating lease rentals	5,708	4,779
Profit on sale of property and equipment	12,024	(9,384)
Profit on sale of available for sale securities	(122,540)	(102,171)
Dividend income from I&M Bank Rwanda	(107,959)	
Profit from Joint Venture	(136,875)	(76,332)
Exchange reserves	(80,207)	(75,864)
	7,357,668	7,443,885
Increase in operating assets		
Movement in loans and advances to customers	(18,195,782)	(20,869,704)
Investment in securities	(26,695,592)	(19,110,110)
Cash and balances with Central Banks:		
– Cash Reserve Ratio	(1,099,835)	(711,752)
Other assets	(418,484)	85,195
	(46,409,693)	(40,606,371)
Increase in operating liabilities		
Customer deposits	14,201,362	9,371,420
Other liabilities	338,214	40,219
	14,539,576	9,411,639
Cash flows used in operating activities	**(24,512,449)**	**(23,750,846)**
Tax paid	(2,809,572)	(1,975,219)
Net cash flows used in operating activities	**(27,322,021)**	**(25,726,065)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

31. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

(b) Analyses of cash and cash equivalents - Consolidated

	2014 KShs'000 a	Disposal of I&M Bank Rwanda KShs'000 b	2013 KShs'000 c	Change KShs'000 a – (c – b)
Cash and balances with Central Bank of Kenya – excluding CRR	4,050,678	(540,982)	3,156,250	1,435,410
Deposits and balances due from banking institutions	1,071,675	2,912,262	6,050,627	(2,066,690)
Deposits and balances due to banking institutions	(16,694,177)	(646,068)	(6,411,628)	(10,928,617)
	(11,571,824)	**1,725,212**	**2,795,249**	**(11,559,897)**

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

	Company 2014 KShs'000	2013 KShs'000
Profit before income tax	7,749,125	6,059,818
Adjustments for:		
Depreciation	179,852	179,618
Amortisation of intangible asset	69,713	114,314
Amortisation of prepaid operating lease rentals		4,779
Profit on sale of property and equipment	(697,300)	(99)
Property and equip items expensed	14,669	-
Profit on sale of available-for-sale securities	(122,540)	(102,171)
Dividend income	(132,420)	(97,286)
	7,061,099	6,158,973
Increase in operating assets		
Movement in loans and advances to customers	(16,496,672)	(17,994,775)
Investment in securities	(26,247,359)	(17,853,850)
Cash and balances with Central Bank of Kenya:		
– Cash Reserve Ratio	(708,829)	(537,649)
Other assets	(431,958)	(62,290)
	(43,884,818)	(36,448,564)
Increase in operating liabilities		
Customer deposits	12,126,652	8,854,030
Other liabilities	314,503	194,152
	12,441,155	9,048,182
Cash flows used in operating activities	**(24,382,564)**	**(21,241,409)**
Tax paid	(2,638,370)	(1,607,682)
Net cash flows used in operating activities	**27,020,934**	**(22,849,091)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

31. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

d) Analyses of cash and cash equivalents – Company

	2014 KShs'000	2013 KShs'000	Change during the year KShs'000
Cash and balances with Central Bank of Kenya – excluding Cash Reserve Ratio (Note 16)	3,022,887	2,283,380	739,507
Deposits and balances due from banking institutions	573,125	1,695,669	(1,122,544)
Deposits and balances due to banking institutions	(13,730,242)	(2,895,022)	(10,835,220)
	(10,134,230)	**(1,084,027)**	**(11,218,257)**

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 2014. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

(b) Contractual off-balance sheet financial liabilities

In the ordinary course of business, 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:

Group	2014 KShs'000	2013 KShs'000
Contingencies related to:		
Letters of credit	6,171,463	7,343,074
Guarantees - Advances	10,078,364	11,831,033
- Central Bank	-	-
Acceptances	5,063,573	6,817,240
	21,313,400	**25,991,347**
Commitments related to:		
Outstanding spot/forward contracts	21,285,664	7,906,233
	42,599,064	**33,897,580**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

32. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS (Continued)

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

Company	**2014 KShs'000**	**2013 KShs'000**
Contingencies related to:		
Letters of credit	5,870,662	5,737,740
Guarantees - Advances	9,939,782	9,772,721
- Central Bank of Kenya	-	-
Acceptances	5,063,573	6,672,197
	20,874,017	**22,182,658**
Commitments related to:		
Outstanding spot/forward contracts	21,285,664	6,130,646
	42,159,681	**28,313,304**

(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.

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 2014, Treasury Bonds with a face value of KShs 1,595,000,000 (2013 – KShs 2,265,000,000) were held under lien in favour of the Central Bank of Kenya.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

34. RELATED PARTY TRANSACTIONS

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

I&M Bank Limited - Kenya	**2014 KShs'000**	**2013 KShs'000**
(a) Transactions with directors/shareholders		
(i) Loans to directors/shareholders	129,866	13,161
The related interest income for loans above was KShs 3,034,533 (2013 – KShs 5,896,318).		
(ii) Deposits from directors/shareholders	2,378,850	140,259
Interest expense on deposits from directors and shareholders was KShs 169,134 (2013 – KShs 51,994,243).		
(iii) Loans from shareholders	-	-
There was no interest expense on loans from shareholders (2013 – KShs 19,083,468).		
(b) Transactions with related companies		
(i) Loans to related companies	18,581	16,565
Interest income on loans to related companies was Kshs 2,787,145 (2013 –3,244,849).		
(ii) Loans from related companies	4,064,831	866,692
Interest expense on loans from related companies was Kshs 106,234,002 (2013 – 17,378,544).		
(iii) Deposits from related companies	609,577	1,151,853
Interest expense on deposits from related companies was KShs 22,064,717 (2013 – KShs 56,661,967).		
(iv) Loans and advances due from subsidiaries and joint venture	-	75,941
There was no interest income on loans and advances due from subsidiary and joint venture (2013 – KShs 1,428,786).		
(v) Deposits from subsidiaries and joint venture	330,910	374,624
Interest expense on deposits from subsidiary and joint venture was KShs 1,536,098 (2013 – KShs 1,718,379).		
(c) Transactions with employees		
Staff loans	398,870	393,869

Interest earned on these loans was KShs 21,107,786 (2013 – KShs 18,794,741).

I&M Bank (T) Limited – Tanzania

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

35. CAPITAL COMMITMENTS

	2014 KShs'000	2013 KShs'000
Group	1,150,000	777,816
Company	150,000	777,816

36. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES – Company

(a) Lessee

The Bank leases twenty-nine bank premises under operating leases (including head office). 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 159,833,119 (2013 – KShs 116,245,255) was charged to the Profit or loss statement in respect of operating leases. Future minimum lease payments under these operating leases are as follows:

	2014 KShs'000	2013 KShs'000
Less than one year	162,801	131,674
One to five years	571,050	467,207
Over five years	8,820	133,802
	742,671	732,683

(b) Lessor

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

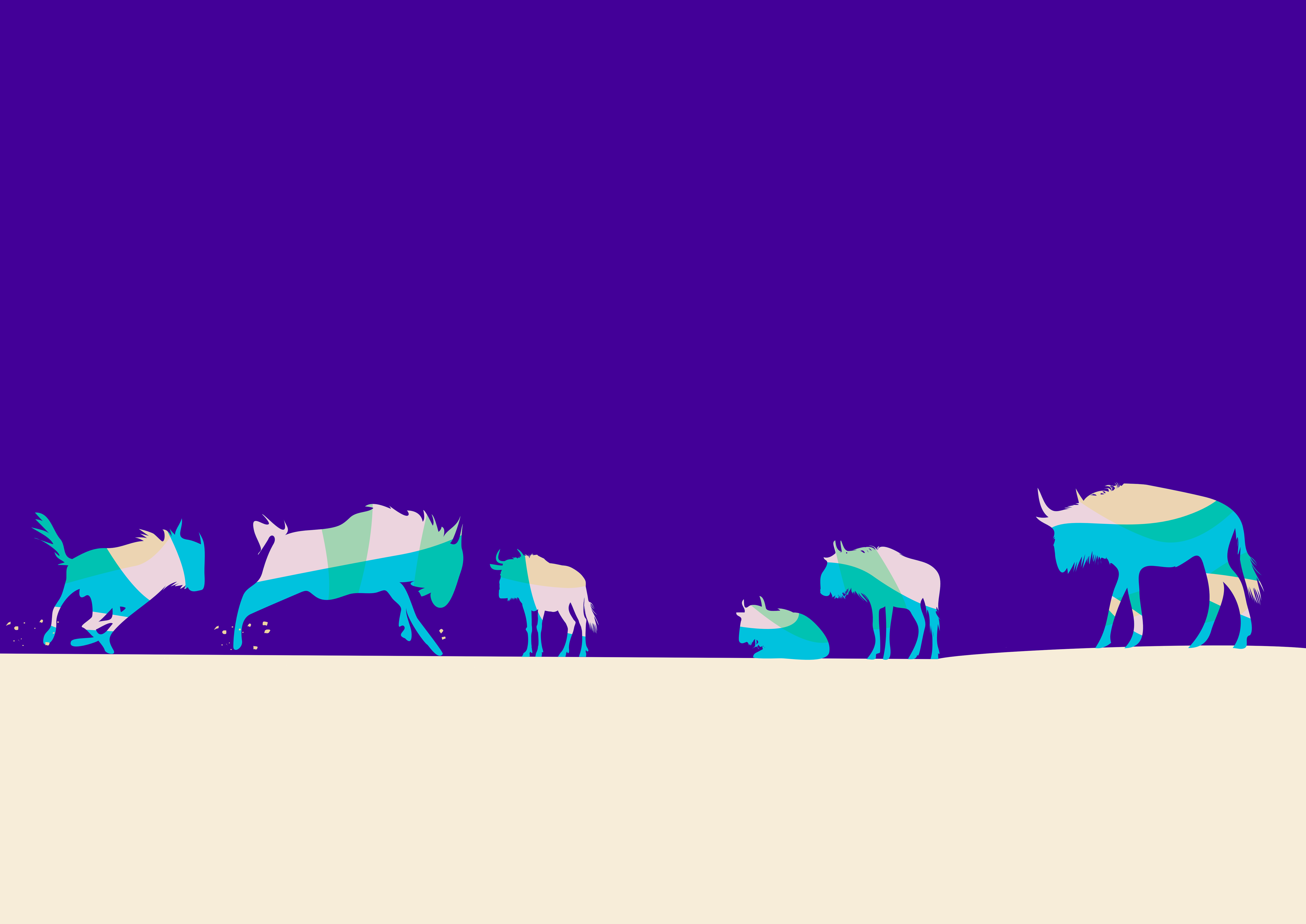
	2014 KShs'000	2013 KShs'000
Less than one year	-	84,484
One to five years	-	379,182
Over five years	-	-
	-	463,666

During the year, KShs 72,889,200 (2013 – KShs 81,034,541) was recognized as rental income in the income statement in respect of operating leases. In addition, KShs 25,660,093 (2013 – KShs 40,069,169) in respect of management expenses was recognized as an expense in the income statement in respect of the building.

The building was transferred to I&M Realty Limited with effect from 14 November 2014 hence no lease rental income going forward.

37. EMPLOYEE BENEFITS SCHEME IN THE JOINT VENTURE

The Bank had an interest in a joint venture, Bank One Limited, until 22 August 2014. The joint venture had an employee benefit scheme. No actuarial gains/losses were recognised in other comprehensive income in the year ended 31 December 2014 (2013 - KShs 22,036,978).



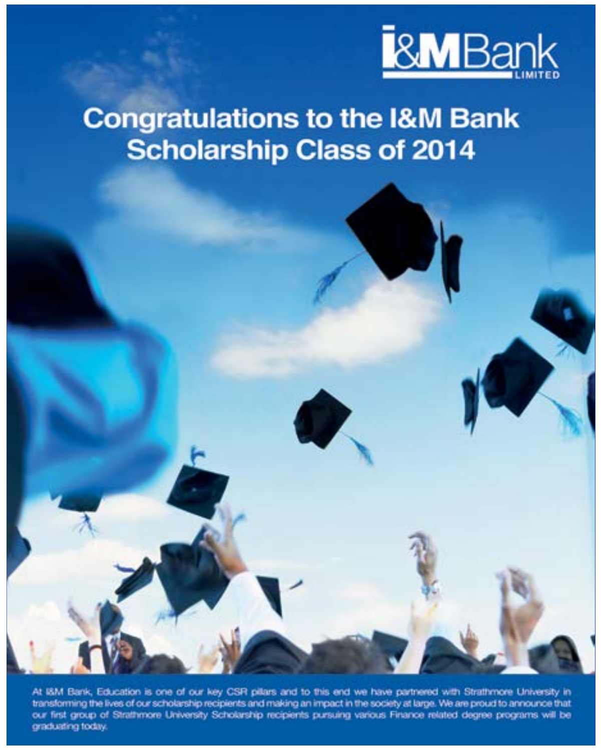
I&M CSR NEWS

I&M KENYA CSR

I&M Bank appreciates the need to give back to the community through our different social impact investments ran by the Corporate Social Responsibility (CSR) arm.
The Bank which has over the years continued to have a positive growth trajectory, has continued to share its business success with the different groups in the community. Through its 4 key CSR pillars namely: Education, Environment, Health and Community Support, I&M Bank conducted different initiatives aimed transforming our people's livelihoods.

EDUCATION

Education is a key driver of socio-economic development. The Bank continues to appreciate the power of transformation through education and is committed to support bright but needy students to obtain secondary and university education. In 2014, the Bank donated approximately Kshs.14 million towards different education projects as follows:



Strathmore University

Every year, I&M Bank provides scholarships to 10 needy students pursuing various Finance related degree programmes. I&M Bank donated Kshs.4.2 million to Strathmore University.

We are proud to announce that our first Strathmore University scholars class of 2014 graduated with honors. Our next class of 10 students has also been selected for 4 years' undergraduate courses at the University.

Tabitha Olang, a beneficiary of the I&M Bank scholarship at Strathmore is scheduled to join the Graduates Program in Sustainability Science, courtesy of a Japanese Government Scholarship at the University of Tokyo.

This life-changing opportunity is as a result of her research proposal titled Sustainable Renewable Energy Financing in Emerging Economies, under the supervision of Professor Miguel Esteban from University of Tokyo.

Commenting on her journey, Tabitha said, "I am grateful to I&M Bank for awarding me the full-four year scholarship at Strathmore. I feel very privileged and humbled as the scholarship has opened up more opportunities for me. I am optimistic that I will have a fantastic experience as I increase my knowledge at University of Tokyo."

Palmhouse Foundation

The Palmhouse Foundation endeavours to enable bright but financially constrained students realize their dreams through financing their secondary education and mentorship. The foundation targets to realize their dream of having an endowment of Kshs. 100 million by the year 2018. I&M Bank has been supporting this foundation since 2007 and made a donation of Kshs. 4 million in 2014 to support 16 needy students.

Oshwal College

The Bank continued to support talented students at Oshwal College. The Bank sponsored Kshs. 1 million for Renu Sasodia.

Teule Kenya

Teule Kenya a non-profit, non-governmental organisation works with orphaned street children by building relationships that give them hope for the future in a nurturing environment that supports excellence in education, career development, personal and spiritual growth.

The Bank donated over Kshs. 692,500 towards payment of tuition fees to selected students in various secondary schools.

Commenting on the donation, Pierina G. Guantai, Executive Director at Teule Kenya said, "I&M Bank is very objective in its support for children at Teule Kenya, and looks at supporting the children inclusively by taking into consideration their unique needs in different vulnerability situations. We are therefore grateful for the support they have given us over the years."

I&M CSR NEWS (Continued)

I&M KENYA CSR (Continued)

Gianchere Friends School

Gianchere Friends High School for the Blind, a Christian school located in the Nyaribari Chache received a donation of Kshs. 600,000 from I&M Bank, towards completion of the school's computer lab.

HEALTH

The Bank's health initiatives championed by our CSR arm play a key role in enhancing an efficient and high quality health care system through partnerships with the various health organisations in the country.

I&M Bank sponsored approximately Kshs. 7.8 million in different health related initiatives.

Some of the health initiatives conducted include:

I&M Bank Medical Camp

I&M Bank staff and medic conduct a medical examination for one of the Jua Kali artisans at the event.

Jua Kali Artisans register for attendance at the medical camp.

On October 24th and 25th 2014, the Bank held its inaugural 2 day medical camp at Muthurwa Primary School, Kamukunji. The medical camp themed *Afya Njema Maisha Mema* attracted participation from Jua Kali small scale artisans in the area and 700 pupils from the neighbouring school. A total of 2646 patients were attended to during the event.

Commenting during the camp, The Chairman, Jua Kali Association, Bob Akumu noted that the Jua Kali Sector had grown tremendously to over 5000 artisans and was glad to see that I&M Bank wanted to support them through provision of health check-ups in partnership with the medical fraternity.

I&M Bank CEO, Arun Mathur said, "We are happy to conduct our first ever medical camp and to support the fast-growing Jua Kali sector in line with our Corporate Social Investment. We believe that Jua Kali artisans are our customers of the future, as their success will enable them join the SME sector. The medical camp was very successful and we will do it again for subsequent years," he concluded.

Blood Donation Drive 2014

I&M Bank, Kisii Branch staff during the blood donation drive event.

I&M Bank staff member donates blood during the blood donation drive.

We are proud to announce that in 2014, I&M staff participated in a successful blood drive that contributed 321 pints to the National Blood Bank.

I&M CSR NEWS (Continued)

I&M KENYA CSR (Continued)

Health Resource Education Africa Resource Team

Last year, we supported the Health Resource Education Africa Resource Team (Heart) by donating Kshs. 1 million towards the organisation's health initiatives. Heart is a Christian humanitarian organization dedicated to empowering the people of Africa to survive the HIV/AIDS pandemic by providing medical care, education and income generating activities to create a healthy sustainable disease-free life.

ENVIRONMENT

I&M Bank CEO, Mr. Arun Mathur at the tree planting event.

I&M Bank staff and family members during the 2014 tree planting exercise.

At I&M Bank, we believe that through building sustainable environments, we are able to improve livelihoods of our people, hence mitigate poverty levels in Kenya and Africa as a continent. I&M Bank has developed and maintains the 25 acres of the I&M Bank Forest of indigenous trees inside Karura Forest.

In March 2014, the Bank's staff members, their families and friends embarked on a tree planting exercise, as a continued commitment to I&M Bank's goal of planting one million tree branches at Karura Forest. Over 3000 trees were planted during the event and over 10 acres have now been restored at the I&M Bank Forest.

Jubilant I&M Bank staff after a successful tree planting exercise in Karura Forest

I&M CSR NEWS (Continued)

I&M KENYA CSR (Continued)

COMMUNITY SERVICE

We sponsored over Kshs 6 million towards different community service initiatives.

The Bank dedicated one day for staff to visit various children's homes that we support. Some of the homes visited include:

Nest Children's Home

I&M Bank staff pose with Children at The Nest Home after presenting donations to the home.

I&M Bank donated approximately Kshs. 350,000 to Nest Home children's home towards purchasing of baby formula milk and food for malnourished children. The Nest children's home is charitable trust that rescues street children of imprisoned mothers who have no relatives to take care of them. The home rehabilitates them and later reintegrates them and their released mothers.

St. Martins Kibagare

We continued to support the Assumption Sisters ran St. Martin's Kibarage centre last year. The Bank donated Kshs. 4.2 million towards the centre's feeding programme. Staff members at I&M Bank visited the centre on a monthly basis and got to feed the children.

Inuka Kenya Trust

I&M Bank donated Kshs.1 million to Inuka Kenya Trust, a social movement dedicated to inspiring Kenyan youth at grassroots level by encouraging them to take charge of improving their own lives. The trust gives these youth access to resourceful information affecting them, and also provides them with a platform to air their views on societal issues affecting them through radio, television and live performances.

Amara Charitable Trust

The Amara Trust is an organization committed to helping needy communities through sustainable programmes that alleviate poverty. The Trust's objective is to transform the lives of their beneficiary communities through four key drivers namely: enable, enhance, empower and educate. I&M Bank donated Kshs. 1.5 million towards installation of a new borehole for the organization.

Roho Kwa Roho Foundation

I&M Bank under the Roho Kwa Roho Foundation, a charitable arm of Peak Performance International sponsored Kshs. 540,000 for children attending Ongata Rongai Special Home Care and Training Centre School. The school is ran by the Foundation and provides therapy feeding program, vocational training, life skills training, nutrition and special care.

The Roho Kwa Roho Foundation seeks to highlight the plight of vulnerable children in the society in two categories; HIV orphaned children living in slums and mentally impaired children from poor backgrounds. Henry Konga of the Ongata Rongai Special Home noted that since I&M Bank started supporting the school, a majority of the children had shown remarkable improvement in developmental skills attributed to the increased number of therapy sessions. "We thank I&M Bank for supporting the home and for giving more hope to these children," he added

In line with I&M Bank Group's Corporate Social Investments initiatives and commitment to give back to the society, I&M Bank (Rwanda) Ltd conducted different initiatives to support two of the group's CSR pillars namely health and education. The activities include:

I&M CSR NEWS (Continued)

I&M RWANDA CSR

EDUCATION

Provision of Classroom Desks for Peach and Hope Center

In 2014, I&M Bank (Rwanda) Ltd donated classroom desks to Peace and Hope in Rwanda as part of their new classroom project. With the construction of new classrooms, the Peace and Hope Center is now in a position to offer basic education to more than 30 children.

Top Scholars at University of Rwanda Join I&M Bank Internship Programme

I&M Bank (Rwanda) Ltd continued to support top performing students at the University of Rwanda by offering them internship opportunities at the Bank.

By admitting these students to our internship programme, we hope they get hands on experience where we not only train them on the job, but also mentor them with an objective of creating a community of talented leaders capable of solving the world's most pressing challenges. We believe that they hold the promise of being agents of change in the socio-economic status of Africa.

HEALTH

Sponsorship of the 3rd Rotary Mission from India to Rwanda for Orthopedic, Maxillofacial and Plastic Surgery

I&M Bank (Rwanda) Ltd made a significant contribution towards the 3rd Rotary Mission in Rwanda for Orthopedic, Maxillofacial and Plastic Surgery. A team of 17 high level expert surgeons and doctors from India came to work in Kigali to carry out ophthalmology, orthopaedic corrective, plastic, dental and maxillofacial, ENT, gynecology, urology and general surgeries for 9 days in August 2014.

COMMUNITY SERVICE

I&M Bank (Rwanda) Ltd Staff Participate In 'KWIBUKA 20' Walk To Remember

On the 11th April last year, about 200 I&M Bank (Rwanda) Ltd staff from across the country led by the MD Sanjeev Anand came together to take part in the *Walk to Remember* for the 20th year commemoration of the 1994 Genocide against the Tutsi (Kwibuka 20).

The walk began at I&M Bank (Rwanda) Ltd headquarters and ended at the Kigali Genocide Memorial in Gisozi. An array of events took place to honor the memory of those killed in the genocide including 22 members of staff of I&M Bank (Rwanda) Ltd then called BCR.

I&M Bank Rwanda staff during the Kwibuka 20 walk.

I&M CSR NEWS (Continued)

BANK ONE CSR

CARE, an acronym for Community Action for Relief and Empowerment, is an initiative of Bank One's Corporate Social Responsibility, which aims at alleviating poverty through provision of educational support to children who come from financially constrained backgrounds. The initiative also conducts socio-economic empowerment programmes for communities with an objective of encouraging them to gradually aspire to lead an autonomous and improved life.
Through this initiative, Bank One partnered with different NGOs where staff members participated in three key pillars namely: Women Empowerment, Poverty alleviation and Wildlife preservation.

WOMEN EMPOWERMENT

Bank One and Caritas carry out Life Skills Management Programme Training for Women

Bank One and Caritas, an NGO which aims to end poverty, promote justice and restore dignity through its various initiatives, conducted the Life Skills Management Training Programme for women in Mauritius.

The Life Skills Management Programme aims at training participants on skills, knowledge and attitudes needed for the work place. The Bank's staff members were actively involved in the training where they ran forums on various topics such as: preparing & managing a household budget, running SMEs, and developing craft items from recycled materials.

A section of participants during the training conducted by Bank One

WILDLIFE PRESERVATION

Bank One conducts 2014 Wildlife Preservation Initiative

Last year, 60 Bank One staff members participated in the Participative Support Programme for the Mauritian Wildlife Foundation at L'Île aux Aigrettes. Staff members weeded and potted plants during the exercise. An awareness programme on protection of endemic species was also conducted.

Bank One staff members during the Wildlife Preservation

POVERTY ALLEVIATION

Bank One participates in the Poverty Alleviation Programme

Bank One sponsored Rs 500,000 towards the Poverty Alleviation Programme ran by the Junior Chamber International (JCI) of Port Louis. The NGO carries out various initiatives to promote both academic and non-academic activities for children aged between 3 to 17 years from Terre Rouge. 120 children from Terre Rouge, a low-cost informal settlement area, benefitted from this programme.

Under this programme, Bank One staff members conducted weekly skills and knowledge courses for the children, creativity workshops to train the children on arts, carried out team building exercises with the children, did motivational talks with the parents as well as conducted clean up exercises at Terre Rouge. To culminate these activities Bank One organized a Christmas Party for the children.

A child receives her gift from Santa during the Christmas party

I&M CSR NEWS (Continued)

BANK ONE CSR (Continued)

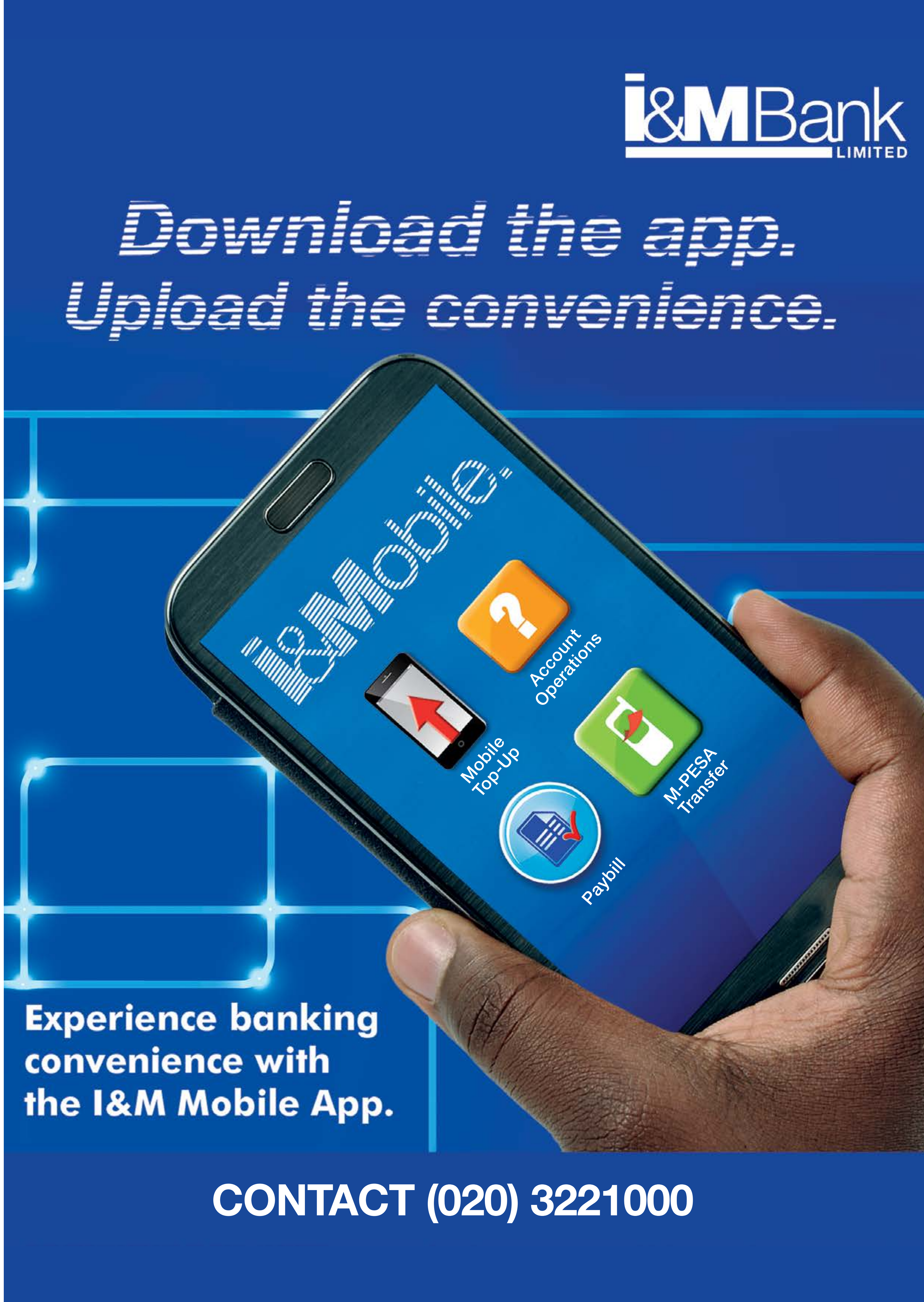
Bank One Donates to Foundation Nouveau Regard (FNR)

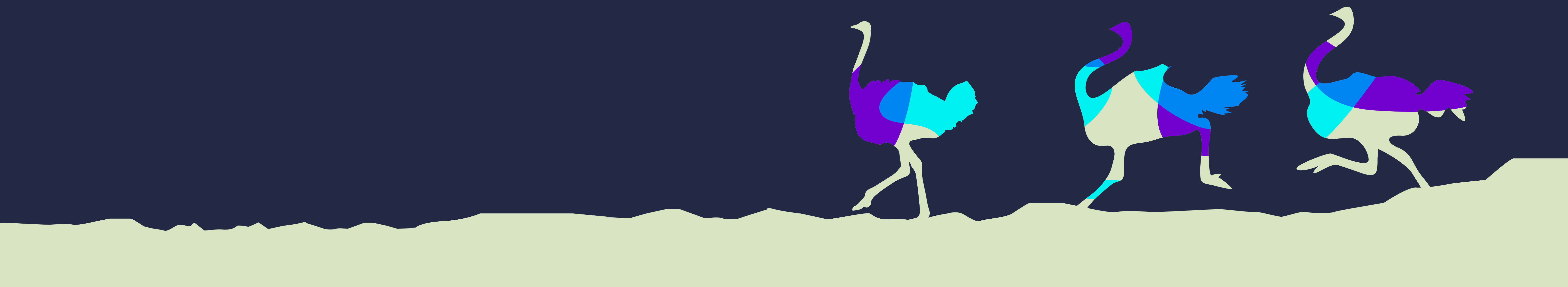
Bank One donated Rs 526,900 to Foundation Nouveau Regard (FNR), which is aims at fighting poverty and economic exclusion, improving education levels and promoting equal opportunities for the disabled. A total of 3800 Mauritians have benefitted from this initiative.

Bank One Supports the Social Housing Project in Mauritius

Bank One donated Rs 88,300 towards the Social Housing Project sponsored by The Rotary Club of Port Louis (RCPL) in partnership with the National Empowerment Foundation. Bank One aims at completing one unit of the housing project.

The Social Housing Project is ran by the Housing and Community Development Programme of the National Empowerment Foundation (NEF), in the Ministry of Social Integration and Economic Empowerment, whose objective is to broaden the circle of job opportunities to each Mauritians while reducing unemployment and fighting poverty.





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