I&M HOLDINGS

REPORT AND FINANCIAL STATEMENTS 2013

The Healing Touch

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For decades, the community at large has been crying out for the Healing Touch.

The Healing Touch for the ailing...through medical care.

The Healing Touch for those in need of education... so the community can prosper as a whole.

The Healing Touch for a scarred and ravaged environment... through a green and clean movement.

We at I&M Bank strongly support The Healing Touch with our many social responsibility activities based on the three pillars of health, education and environment.

BOARD OF DIRECTORS

Seated (Left To Right): SBR Shah and Daniel Ndonye (Chairman)

Standing (Left To Right): MJ Karanja, Virginia Ndunge (Company Secretary), Guédi Aïnaché, Christina Gabener, M Soundararajan and Sarit S Raja Shah

DIRECTORS, OFFICIALS AND ADMINISTRATION

BOARD OF DIRECTORS

Daniel Ndonye (appointed Chairman with effect from 14th June 2013)
S B R Shah, MBS (appointed with effect from 14th June 2013)
Sarit S Raja Shah (appointed with effect from 14th June 2013)
M J Karanja (appointed with effect from 14th June 2013)
M Soundararajan*
Christina Gabener** (appointed with effect from 14th June 2013)
Guedi MM Ainache*** (appointed with effect from 14th June 2013)
A D Raja (Resigned on14th June 2013)
P A Raja (Resigned on 14th June 2013)

* Indian ** German *** French

COMPANY SECRETARY

Virginia Ndunge (CPS Kenya)
Kaplan and Stratton
Williamson House, 4th Ngong Avenue
P.O Box 40111, 00100 GPO
Nairobi

AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place
Waiyaki Way, Muthangari
P.O Box 40092, 00100 GPO
Nairobi

REGISTERED OFFICE

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

BANKERS

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

BANKING ENTITIES REGISTERED OFFICES

I&M BANK LIMITED

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

I&M BANK (T) LIMITED

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

I&M BANK (RWANDA) LIMITED

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

BANK ONE LIMITED

16 Sir William Newton Street
Port Louis
Mauritius

I&M KENYA NEWS

I&M goes public

I&M Holdings has officially listed its new shares at the Nairobi Securities Exchange after a successful conclusion of the merger deal between I&M Bank with investment company, City Trust through a share swap.The merger resulted in set up of a holding company, I&M Holdings Limited, in a transaction that enabled I&M Bank's shareholders to exchange their shares for those of City Trust in a reverse takeover. This transaction which has enabled the shareholders of the Bank to list on the NSE thus providing liquidity for the institutional, corporate and individual shareholders. The listing also provides the Bank with the platform to raise additional capital in the future to facilitate the achievement of the Bank's long term growth and expansion strategy and to improve on its capacities to successfully manage the growth achieved in the last few years.

I&M launches Medium Term Note Program

On 25th November 2013, I&M Bank launched the first tranche of its Medium-Term Note Programme. The Bank received the approval of the Capital Markets Authority and the Nairobi Securities Exchange for the issue of the Notes, comprising in the aggregate up to KShs 10 billion, to be issued in up to three tranches over a 3-year period to provide long term funding for I&M's future strategic growth and expansion as well as enhance to I&M's capital adequacy ratios by way of Tier 2 Capital through the Note Programme. The first tranche of Ksh 3 billion was oversubscribed and a total of Ksh 655 million was retained under the Green Shoe Option.

I&M Bank Diaspora Banking

I&M Bank connected with the Kenyan Diaspora community with the launch of Diaspora Services. The aim of the service is to propagate and expand Diaspora Business with the Bank's eyes set on increasing its presence in the Diaspora through provision of such services as Mortgages, Insurance, Fund management and Forex services. Our expansive agency network is well grounded in major cities across the world.

I&M Bank sponsors cricket team at the East Africa Premier League

The bank sponsored the I&M Nyatis cricket team at the 2013 East Africa Premier league, signalling its entry into sports sponsorship.

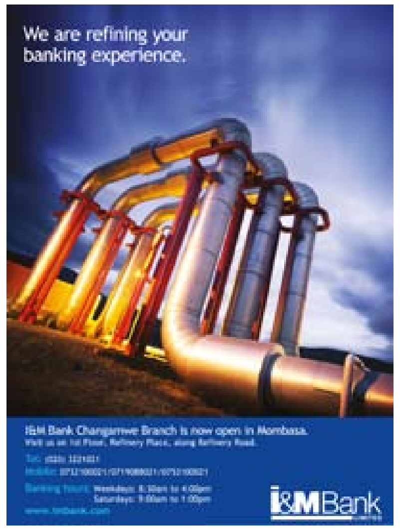
Multicurrency Prepaid Card

2013 was another year of firsts for I&M Bank, where the Bank launched the Pre-Paid Platinum Multicurrency card, the first of its kind in East Africa. For any traveller this card allows holding of funds in 3 virtual wallets in USD, EURO and GBP and spending directly from any wallet. The card can be used at any MasterCard ATM, for online transactions including shopping worldwide.

Internet Banking- Corporate

The year 2013 started on good note following the launch of Corporate I-Click, the Bank's internet banking platform for corporates. Corporate I-Click has changed the way the Banks' customers do business with us. Bank transactions and requests are now just a click away; viewing account and transaction details, local or international transfers, KRA payments, viewing cheque images, Trade services, making bank requests delivered in a secure and user friendly platform.

Branch Opening



2013 saw the Bank open its 21st branch at Changamwe in Mombasa. This new branch is located along Refinery Road right next to Kenya Oil Refinery in a complex named Refinery Place, 1st floor and is the Banks 3rd branch in Mombasa. This is a full service branch with a 24 hour ATM.

Awards

I&M Bank was ranked Third place in the Best Bank Tier 2 category at the Banking Awards 2013.

BANK ONE MAURITIUS NEWS

Branch Opening

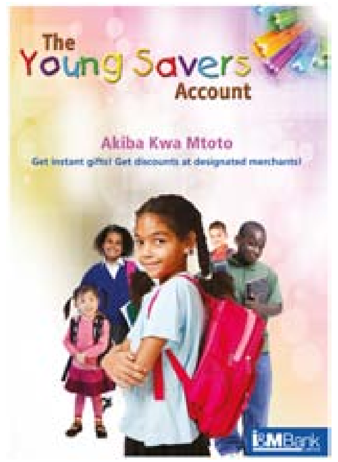
Bank One operates with sixteen branches throughout Mauritius and has a well distributed network of ATMs. Its endeavour is to bring a sharper focus to the requirements of customers and to leverage cutting-edge technology to provide the highest levels of service. In this regard Bank One in early 2013 saw the official opening of the La Croisette Branch to continuously meet customer's needs.

I&M TANZANIA NEWS

I&M Bank Multicurrency Prepaid Mastercard International Travel Card

I&M Bank Multicurrency Prepaid Master International Travel Card was launched for the Tanzanian customers. The product is available at all branches of I&M Bank (T) Limited.

The Young Savers Account



I&M Bank (T) Limited launched an exclusive product for children (Under 18 years of age). The product has attractive features for children and discounts by various merchants.

I&M RWANDA NEWS

Rebrand to I&M Bank (Rwanda) Ltd.

In July of 2012 Banque Commerciale du Rwanda Ltd (BCR) joined the I&M Bank Group, and in August 2013 following statutory approvals, had a rebrand and change of name from Banque Commerciale du Rwanda Ltd to I&M Bank (Rwanda) Ltd.

As a result of the acquisition in 2012, the effective shareholding of BCR changed with 55% being held by I&M Bank Ltd, 12.5% each by PROPARCO and DEG, two leading European Development Finance Institutions, 19.8% by the Government of Rwanda and 0.2% by private shareholders.

While maintaining the management structure and operations of the Bank, the rebrand has brought fresh vigour to the Bank's operations as a regional entity with network presence in four countries.

Awards and Recognition

2013 was a good year for I&M Rwanda for awards and recognition as they managed to scoop many industry awards including:

- "The Banker Award" for Best Bank in Rwanda in 2013, after a gap of five years.
- The "Global Finance award" for the Best Bank in Rwanda, for the fifth year running
- The Rwanda Country Award for "CIO 100" as most technologically innovative company in Rwanda.
- The Rwanda Revenue Authority award for "Exemplary Tax Compliance".

I&M Bank (Rwanda) staff participated in Umuganda (monthly community cleaning). This exercise involved creating drainage to prevent soil erosion in Jali sector in Gasabo District.

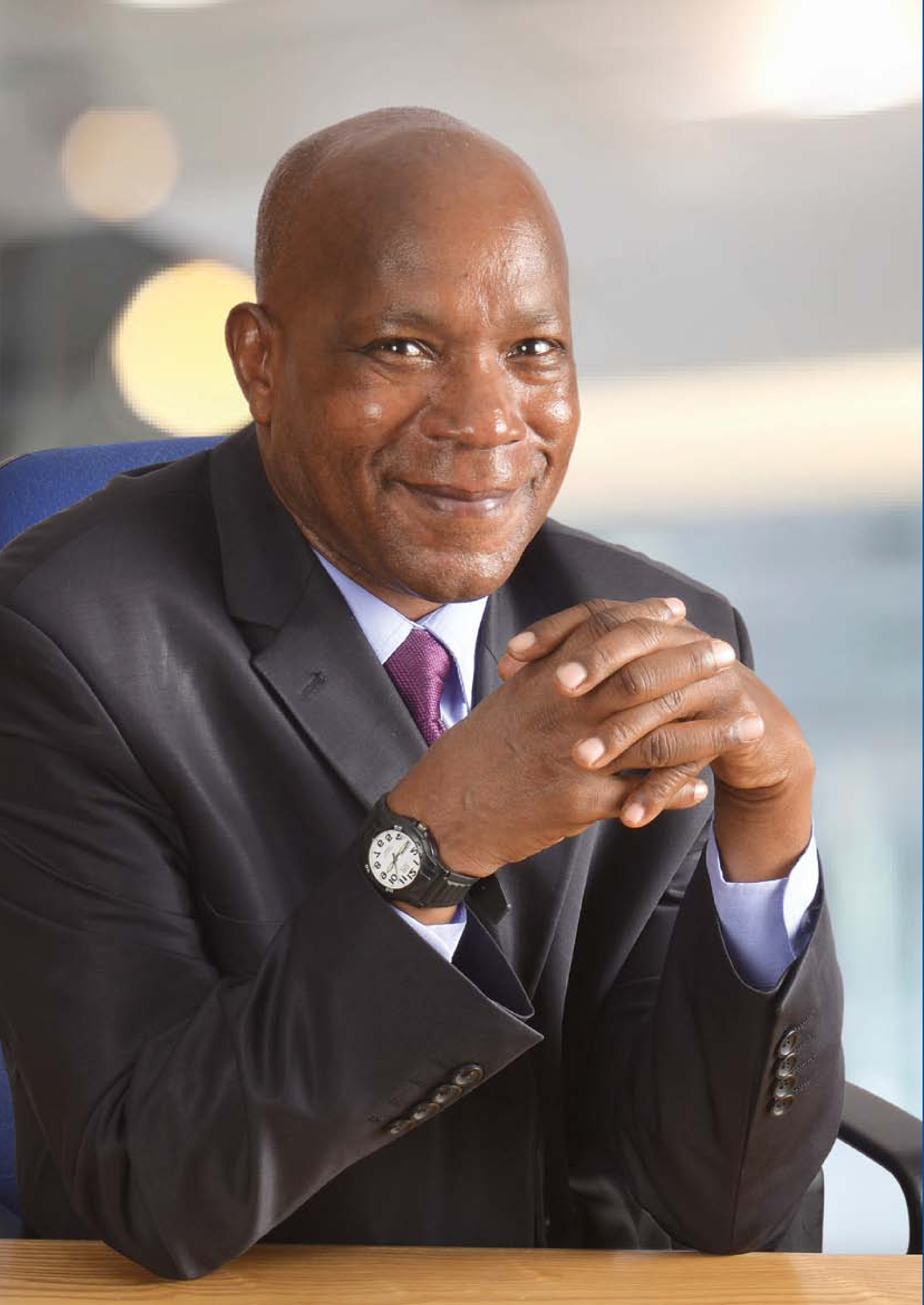
I&M Bank Kenya staff members participated in the Annual Tree Planting staff and family fun day dubbed “Let’s create millions of branches together”. This took place at the Karura Forest where the bank nurtures a 25 acre I&M Bank forest.

Nurturing the soul.

Environment, the soul of the community is of critical concern for I&M Bank. The denuded Karura Forest has a green cover once again... thanks to a 25 acres reforestation programme by I&M Bank.

Also, in what has now become an annual event, 10 acres of land are being planted with indigenous trees to replace ravages by unfortunate forest fires.

Most importantly, the awareness and initiatives by the various people who lend us a hand in this drive is creating a healthy concern that is spreading like an invisible protective membrane for our forests.



CHAIRMAN'S STATEMENT

City Trust Limited ('CTL'), incorporated in 1950, was one of the oldest companies to list on the Alternative Investment Market Segment of the Nairobi Securities Exchange ('NSE') and has been a shareholder of I&M Bank for a very long time. CTL had been the main investment vehicle through which the general public could invest in I&M Bank shares, albeit indirectly. I&M Holdings Limited ("IMHL") emerged in June 2013 on conclusion of I&M's capital restructuring process that involved the reverse acquisition of CTL and simultaneous change of name to IMHL. The success of this transaction wherein the shareholders of CTL unanimously approved and CTL received acceptance of offer from 100% of the shareholders of I&M Bank is a testimony to the fact that this was in the best interests for all stakeholders and represented a "win-win" situation for shareholders of CTL and I&M Bank alike.

IMHL, for the I&M Bank Group, is an unique opportunity for the Group to enhance its risk management framework by ring fencing each of its regional entities, thereby avoiding any downside in one from affecting any or all of the others. This new structure also provides the Group with the opportunity for a better capital structure, more avenues through which to raise additional capital to support the strategic growth of the Group, and enables the Group to engage and undertake other activities in a more efficient and effective manner.

This transaction while being a major milestone in the history of I&M Group, also affirmed I&M Group's reputation of being innovative and a trendsetter. This transaction was the first reverse takeover in the Kenyan capital market, as well as the first instance where a company was upgraded from the Alternative Investment Market Segment of the NSE to the Main Investment Market Segment. We are sincerely grateful to the Central Bank of Kenya, the Capital Markets Authority, the Competition Authority of Kenya, the NSE and each of our shareholders for supporting this vision.

ECONOMIC AND BANKING SECTOR REVIEW

The global banking sector continued to experience a strong recovery in the latter half of 2013, although it was weighed down by the ongoing Eurozone crisis and the continued concern of the sluggish growth of the United States. Emerging and developing markets continued to outpace the growth in North America and Europe, recording positive performance throughout the crisis. There was a general increase in gross incomes among these countries.

Closer home, the banking sector within the East African Community remained buoyant and resilient despite the local events that saw liquidity constraints at some points during the year. By and large, the East African Central Banks played a pivotal role in maintaining strong monetary policy stance as a result of which the Banking sector remained stable and well capitalized.

2013 was a defining year for Kenya. As the world anxiously watched, we all came out in huge numbers to take charge of our political future and voted. The whole process went smoothly and it proved, yet again, that Kenya can bounce back and maintain its place as the leading economic hub in Sub-Saharan Africa. Although the first half of 2013 turned out to be economically slow as a result of the elections and the new government being sworn in as per the new Constitution, the second half witnessed a revival in business confidence and a renewed drive among Kenyans to continue on the growth path that our Nation has experienced over the last ten years. The Banking Sector continued to grow in 2013, with a 16.17% growth in the aggregate balance sheet compared to 2012, and a 17.65% growth in the overall gross loan portfolio. Similarly, there was a 12.50% increase in customer deposits. While total income increased marginally by 1.53%, the total unaudited profits before tax increased by 16.89%. However, there was an upsurge in credit risk during the year, as gross non-performing loans increased by 30.91%. This was partly caused by the uncertainty surrounding the national financial procedures under the new devolved governing structure, which led to many government suppliers and contractors not being paid on time thereby setting off a chain reaction in many sectors of the economy almost simultaneously.

In its bid to increase the robustness of the financial sector while maintaining its stability, the Central Bank of Kenya introduced two new Prudential Guidelines that came into effect in October 2013. The first gave guidelines on the conduct of financial institutions in the provision of incidental business activities; this guideline enables licensed financial institutions to distribute certain financial services under one roof, allowing them to act as a 'one-stop shop' for other financial services. The second, which affects IMHL directly, is that of non-operating holding companies. This guideline enables companies such as IMHL to obtain control by acquiring more than 25% of a banking entity. IMHL certainly welcomes both initiatives by the Central Bank, as these guidelines offer the Company more flexibility to offer services sought by customers, while giving customers the comfort that the entity is well regulated.

FINANCIAL PERFORMANCE

Our balance sheet showed an overall growth of 18.4% from KShs 119.2 billion at the end of 2012 to KShs 141.2 billion as at December 2013. Profit before tax increased by 27.3% from KShs 5.7 billion in 2012 to KShs 7.3 billion in 2013. Similarly, our Group loan portfolio grew by 29.4% and customer deposits increased by 10.7%. Return on Shareholders' Equity stood at 30.65% in comparison to 29.44% in 2012.

Following the receipt of regulatory approvals, it is envisioned that IMHL will become the parent company for all the regional banking entities in the I&M Bank Group. Following the receipt of all required regulatory approvals, your Company directly acquired shares previously held by I&M Bank Limited in I&M Bank (Rwanda) Limited. Regulatory approvals for transfer of shares in Bank One Limited and I&M Bank (T) Limited are awaited and we anticipate to effect the transfer during the course of this year once all approvals are in place.

I am also delighted to advise you that your Company successfully complied with the conditions imposed by the Capital Markets Authority while upgrading its listing status to be on the Main Investment Market Segment of the NSE. Well before the deadline of 31st December 2013, the Company increased its number of shareholders to more than 1000. Further as part of the restructuring process, Biashara

Securities Limited ("BSL"), an existing shareholder of the Company applied and received from the High Court of Kenya, approval for a Scheme of Arrangement under which BSL would transfer all the shares it holds in the Company to its shareholders by way of a Private Transfer. The transaction was also approved by the Capital Markets Authority in October 2013. Subsequently, the shareholders of BSL (approx. 990) commenced the process of opening CDS accounts and receiving shares in the Company in exchange for their shares in BSL. I am pleased to advise you that by the date of this statement, 546 shareholders had successfully completed this process.

GROUP PERFORMANCE

I&M Bank Limited - Kenya

Total Assets increased by 20.5% to close at KShs 110.3 billion up from KShs 91.5 billion as at 31st December 2012. This was largely attributed to the significant growth noted in Loans and Advances which increased to KShs 73.4 billion an increase of 32.5% from KShs 55.4 billion as at December 2012. Likewise Customer Deposits increased by 13.5% from KShs 65.6 billion as at December 2012 to close at KShs 74.5 billion as at 31st December 2013. With continued focus on operational efficiency, and increase in net interest income as a result of the significant growth in Loans and Advances, the Bank reported a profit before tax of KShs 6.1 billion up from KShs 4.7 billion the previous year reflecting an increase of 28.3%. The Bank continued to maintain its focus on keeping non-performing loans down, and the gross and net non-performing loan ratios were 1.41% and 0.46% respectively.

In order to comply with the new Prudential Guidelines on capital adequacy ratios, and as a result of the growing loan portfolio, the Bank received approvals to issue a Medium Term Note Programme that will see it raise KShs 10 billion in 3 tranches over 3 years. The Notes will be listed and tradable on the NSE. The first tranche, issued in December 2013 raised KShs 3.655 billion, against the issue amount of KShs 3 billion reflecting an oversubscription of 21.8%. Under the Green shoe option of KShs 1 billion, the Bank accepted all the successful applications and the Notes commenced trading on the NSE from 7th January 2014.

In pursuit of new growth opportunities and to support the expanding small and medium enterprises - SME sector in Kenya, the Bank successfully achieved a number of milestones which would aid in realization of this goal in the medium term. The Bank received from International Finance Corporation (IFC) a credit line of USD 50 million (KShs 4.35 billion) for onward lending to SMEs. In the 1st quarter of 2014, I&M Bank also received from PROPARCO a 7-year term loan for approx. USD 40 million (Kshs 3.45billion). This long term foreign currency loan will allow the Bank to sustain its growth plans as well as meet the growing demand for long-term foreign currency loans while benefitting the SMEs that are involved in international trade.

I am pleased to note that the Bank made significant progress in growing its various business segments and reaching out to more centers across the country. With new branches in the Coast and Central regions in Changamwe, Malindi and Nyeri, the Bank increased its branch network to 23. Further, in addition to an ATM at each of these newly opened branches, the Bank commissioned offsite ATMs at The Gertrude's Children Hospital in Nairobi, Thika Road Mall and in Eldoret at the Sugarland Plaza. The Bank continued to move forward in its strategy to deliver new products and services in order to continuously improve the banking experience for our customers. The Bank introduced Western Union money transfer services at several of its branches during the year and launched a new MasterCard Multicurrency Prepaid Card. The multi-currency prepaid card is an ultimate luxury available to frequent travellers with a facility to hold funds in three virtual wallets in USD, Euro and GBP.

During the year the Bank set up a separate unit for Asset Financing and an Offshore Banking Unit within the Corporate Department. As part of widening its customer base and reach, the Bank introduced the Diaspora Banking service through which it offers a wide range of versatile services to Kenyans who are living and working abroad. The Diaspora Mortgage facility offers attractive mortgage options and various professional services to facilitate acquiring properties in Kenya.

Bank One Limited – Mauritius

Following the economic crisis in Europe, the Mauritian economy went through a difficult time especially because of the low tourism numbers. Although Bank One finished the year on a positive, its performance was lower than expected as a result of setbacks in treasury operations and additional provisions on account of loans and advances. The Bank reported profit before tax of approx. KShs 231 million. Given the persisting excess liquidity in the market, the Bank consciously reduced its deposit base by 10.1% from approx. KShs 48.4 billion in 2012 to approx. KShs 43.6 billion as at December 2013. Total advances declined marginally by 1.4% to approx. KShs 33.2 million.

During the year, Bank One had a change of guard, welcoming Mr. Ravneet Chowdhury as its new CEO and Mr. C.P. Balachandran as its new Deputy CEO. In order to ensure that the Bank is well capitalized, the shareholders injected additional capital of USD 6 million (approx. KShs 507 million), during the year, bringing the capital adequacy ratios well above the regulatory capital requirements prescribed by the Bank of Mauritius.

I&M Bank (T) Limited – Tanzania

For the year ended December 2013, the Bank's profits before tax increased by 11.8% to stand at approx. KShs 321.6 million. Its loan portfolio increased by 20.5% while customer deposits grew by 2.7% through consistent marketing efforts.

I&M Bank (T) Limited – Tanzania (Continued)

The Bank launched AsyBank, an electronic tax payment solution for customers and linked to the Tanzania Revenue Authority (TRA), which was well appreciated for its user friendliness.

Tanzania presents huge growth opportunities with its vast resources. The Bank is in the process of putting in place various initiatives to harness these emerging opportunities. We are already seeing the importance of the Bank in Tanzania as a platform for exploiting regional opportunities through BRISK (our regional remittance solution), expanding customer base and regional trade.

I&M Bank (Rwanda) Limited – Rwanda

I&M Bank (Rwanda) celebrated its 50th birthday in July 2013. The celebrations ran for a period of 3 months from May to July and included CSR and developmental activities, several programs and events for staff and customer appreciation and culminated with a celebration party on 23rd July 2013 with the Prime Minister of Rwanda, The Rt. Honourable Dr. Pierre Damien Habumuremyi gracing the occasion as guest of honour.

Following receipt of regulatory approvals, the Bank changed its name from Banque Commerciale du Rwanda or BCR, as it was more commonly known, to I&M Bank (Rwanda) Limited to identify with the I&M Bank brand.

The Bank's profit before tax for 2012 grew by 5.2% from approx. KShs 828.5 million to approx. KShs 871.5 million while the Bank's loan portfolio grew by 15.9% from approx. KShs 7.3 billion to stand at approx. KShs 8.5 billion. Likewise its customer deposits grew to approx. KShs 12.1 billion, representing a 1.6% growth as compared to the previous year. The Bank continued its tradition of being a leading player in the SME sector and has received approval from European Investment Bank (EIB) for a credit line of EUR 8 million (approx. KShs 952 million) which will be used for onward lending to SMEs.

OUTLOOK

With all the planned Government initiatives, we are confident that the Kenyan economy will continue growing and we shall see significant opportunities in the year ahead.

I&M Group is committed to its pursuit of searching for further opportunities in the region in fulfilment of its regional expansion strategy. I&M Group strongly believes in the collective responsibility to care for the environment and for those among whom we live. As such, we continue to support the communities in which we operate, through the various community service initiatives that each of our entities take up, with a special focus on education, health and the environment.

In conclusion, I take this opportunity to welcome the new Board of Directors of I&M Holdings Limited and to thank each one of them for taking on this task with such enthusiasm and determination as we look to take this Company to new great heights. I would also like to sincerely take the opportunity to thank each of the Boards, Management and staff of I&M Bank Kenya, Tanzania, Rwanda and Bank One, because it is through their tireless efforts that IMHL has become a great investment story.

Most of all, I am grateful to all our investors and shareholders for their continued and unwavering faith in I&M Group, as we look forward to achieving our vision and making you the proud owners of this great Company.

DANIEL NDONYE
CHAIRMAN
8th April 2014

MEAK (Medical and Education Aid to Kenya) is a group of doctors who travel around the world performing congenital paediatric heart surgery. I&M Kenya contributed towards 15 paediatric heart surgeries.

Staff member donating blood at the Annual Blood Drive held at I&M Towers.

Healing the body.

Community Health forms a healthy community body. To support this, I&M Bank has sponsored a total of KShs 32 million in health activities in 2013.

The Bank conducted a blood drive that contributed over 260 pints to the National Blood Bank.

Of the many other medical initiatives, perhaps the most significant one is a donation of KShs 25 million to the pediatric critical care unit at Gertrude's Children's Hospital.

The Directors have pleasure in submitting their annual report together with the audited financial statements of I&M Holdings Limited ("the Company") and its subsidiaries (together "the Group") for the period ended 31st December 2013, which shows the state of affairs of the Company and the Group.

1. ACTIVITIES

The Group provides an extensive range of banking, financial and related services through its banking subsidiaries in Kenya, Tanzania, Rwanda and Mauritius.

The Group comprises I&M Holdings Limited, I&M Bank Limited, Kenya, Bank One Limited, Mauritius, I&M Bank (T) Limited, Tanzania, I&M Bank (Rwanda) Limited, Rwanda and Kenstock Limited.

The Company is listed on the Nairobi Securities Exchange and is regulated by the Capital Markets Authority and the Central Bank of Kenya as a non-operational holding company.

2. CORPORATE RESTRUCTURING

On 14th June 2013, the Group carried out a corporate restructuring process by acquiring I&M Holdings Limited (formerly City Trust Limited (CTL)), by way of a reverse acquisition and a share swap. This transaction culminated in all the shareholders of I&M Bank Limited becoming shareholders of I&M Holdings Limited and I&M Bank becoming a wholly owned subsidiary of I&M Holdings Limited.

The key facets of this transaction and the resulting impact on the Company and Group financial statements are detailed below:

- City Trust Limited changed its name to I&M Holdings Limited (hereinafter also referred to as "IMHL") and all its shares were re-listed on the Main Investment Market Segment of the Nairobi Securities Exchange ("NSE") on 25th June 2013. The Company was previously listed on the Alternative Investment Market Segment of the NSE.
- Immediately prior to completion of the transaction, IMHL carried out a share split, so that each of its then existing shareholders received 5 shares for every share held, resulting in the par value per ordinary share reducing from KShs 5.00 to Ksh 1.00 per share. Simultaneously IMHL increased its authorized share capital from KShs 50 million to KShs 500 million by the creation of 450 million shares of KShs 1 which rank parri pasu with the existing shares. It then issued 363,722,034 new shares of a par value Ksh 1.00 each, to each of the other shareholders of I&M Bank Limited in consideration and exchange for all their shareholding in I&M Bank Limited.
- As a result of this transaction, I&M Bank Limited became a fully owned subsidiary of IMHL. This particular business combination has been determined as a reverse acquisition under IFRS 3, and the applicable consolidation principles and methodology have been applied when consolidating the Group results of IMHL.
- IMHL subsequently changed its reporting period end from 31st July to 31st December in line with the reporting date of I&M Bank Limited.
- The current year Company financial statements cover the period from 1st August 2012 to 31st December 2013. The consolidated financial statements are however a continuation of the financial statements of I&M Bank Limited ("the Accounting Acquirer") and are for the period from 1st January 2013 to 31st December 2013, in line with the consolidation principles applicable to business combinations determined to be reverse acquisitions.

3. RESULTS

The consolidated results for the period are as follows:

	2013 KShs
Profit before taxation	7,257,794,034
Taxation	(2,282,837,831)
Profit after taxation	**4,974,956,203**

4. DIVIDEND

An interim dividend of KShs 1.90/- per share in respect of the period ended 31st December 2013 was paid on the 30th July 2013. The Directors do not recommend payment of a final dividend for the period (2012 – KShs Nil).

5. DIRECTORS

The Directors who served during the period and up to the date of this report are set out on page 4.

6. AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance with Section 159(2) of the Kenyan Companies Act (Cap.486).

7. SECRETARY

Virginia Ndunge was appointed to the position of Company Secretary to replace Winnie Jumba who resigned during the year.

8. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved at a meeting of the Directors held on 8th April 2014.

BY ORDER OF THE BOARD

Virginia Ndunge
Secretary
Nairobi
Date: 8th April 2014

INTRODUCTION

This statement outlines the key aspects of the Company's corporate governance framework. The Board has consistently placed great importance on good corporate governance practices of the Company and its subsidiaries (together the 'Group') as it believes that this is vital to the Group's well-being. The Company's Corporate Governance framework is based on the Capital Markets Authority Guidelines and best practices and is designed to properly balance performance and conformance. This enables the Group to undertake, in an effective manner, prudent risk-taking activities which are the basis of its business. Similarly, this framework ensures that the Group maintains and promotes high standards of integrity, transparency and accountability across all levels.

SHAREHOLDERS

Significant Shareholders

The Company's top 10 shareholders as at 31st December 2013 are given below:

1. Ziyungi Limited	73,548,000	18.74%
2. Minard Holdings Limited	67,768,613	17.27%
3. Tecoma Limited	65,376,000	16.66%
4. Biashara Securities Ltd	54,599,039	13.92%
5. DEG	24,516,000	6.25%
6. Proparco	17,365,500	4.43%
7. Bhagwanji Raja Charitable Foundation The Registered Trustees	9,458,830	2.41%
8. Investments and Mortgages Nominees Ltd (A/c-0001229)	8,392,485	2.14%
9. Investments and Mortgages Nominees Ltd (A/c-0004047)	8,371,860	2.13%
10. Standard Chartered Nominees (A/c -9660B)	2,873,820	0.73%

Distribution of shareholders

The distribution of shareholders as at 31st December 2013 was as follows:

Share Range	Number Of Shareholders	Shares Held	% Shareholding
Less than 1 million shares	1,100	52,111,260	13.28%
>1 million < 2 million shares	5	5,675,732	1.45%
> 2 million < 3 million shares	2	5,178,720	1.32%
> 3 million shares	9	329,396,327	83.95%
Total	**1,116**	**392,362,039**	**100.00%**

Shareholder Relations and Communication

The Group communicates to its shareholders through its website (www.imbank.com), annual reports, annual general meetings of shareholders and public announcements published in the local dailies. The website is regularly updated with half-yearly and audited annual financial statements, as well as other news relating to the Group.

Significant shareholders are also able to follow closely the affairs of the Bank on a quarterly basis through their representatives, being present at Board and Board Committee levels.

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

BOARD OF DIRECTORS

Board Constitution and Appointment

Following the reverse acquisition of I&M Holdings Limited (formerly "City Trust Limited") by I&M Bank Limited, the constitution of the Board of Directors was changed. The Board of IMHL currently constitutes seven Directors, whose membership details are as follows:

BOARD OF DIRECTORS (CONTINUED)

Board Constitution and Appointment (continued)

Director	Board Membership	Position/Title	Committee Membership	
			BARMC	BNRC
Daniel Ndonye	Non-Executive, Independent	Chairman	√	√
Suresh Bhagwanji Raja Shah, MBS	Non-Executive	-	-	-
Christina Gabener	Non-Executive	DEG Representative	-	-
Guédi Aïnaché	Non-Executive	Proparco Representative	-	-
Sarit S. Raja-Shah	Non-Executive	-	√	√
Michael J. Karanja	Non-Executive, Independent	-	√	√
Madabhushi Soundararajan	Non-Executive, Independent	-	√	-

The Board is constituted such that at least one third of the Board constitutes independent Directors.

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

The Company's Directors, collectively bring a myriad of years of experience from expansive backgrounds including Banking, General Business Administration, Investment Analysis and Management, all which are skills relevant to the business of IMHL. The unique collective experiences of the Directors provide a superior mix of skills which the Board requires in order to effectively discharge its responsibilities.

Given below is a brief profile of each of the Directors:

Daniel Ndonye - Independent Chairman

Mr. Ndonye, a Kenyan national aged 64 years, has been a director on the Board of IMHL since October 2010. He is a Chartered Accountant by profession, having worked with Deloitte & Touche for over 30 years, 20 of which he was the Managing/Senior Partner. He holds a Bachelor of Commerce degree from the University of Nairobi. He is a fellow of the Institute of Chartered Accountants in England and Wales, the Institute of Certified Public Accountants of Kenya and the Institute of Certified Public Secretaries of Kenya. He sits on the boards of several companies, among which 4 are listed on the NSE, including IMHL.

Suresh Bhagwanji Raja Shah, MBS,- Non-Executive

Mr. SBR Shah, a Kenyan national aged 70 years, is one of the founder members of I&M Bank Limited. He has vast experience in the banking industry and in business. In December 2002, he was bestowed the honour of a Moran of the Order of the Burning Spear. He sits on the boards of several companies.

Christina Gabener - Non-Executive

Ms. Christina Gabener is a German national aged 49 years. She represents DEG on the Board. She is currently the Senior Investment Manager in DEG's Africa Department that is charged with origination of financial sector projects across Africa. She has previously worked with DEG for the last 12 years in various capacities, mainly within their Financial Institutions department.

Guédi Aïnaché - Non-Executive

Mr. Guédï Ainaché, is a French national aged 38 years. He is the Regional Representative of the French Development Financial Institution Proparco headed in Nairobi, and represents Proparco on the Board. He has previously worked with Proparco as a Senior Investment Officer within the Corporate Division, and as an Associate Director with Calyon Bank in France.

Sarit S. Raja Shah -Non-Executive

Mr. Sarit S. Raja Shah, a Kenyan national aged 45 years, joined I&M Bank in 1993 as the Executive Director after completing his Master's degree from City University, London. He underwent his training at Biashara Bank of Kenya Limited. He sits on the boards of several companies.

BOARD OF DIRECTORS (CONTINUED)

Board Constitution and Appointment (continued)

Michael J. Karanja, Independent Non-Executive

Mr. Michael Karanja, a Kenyan national aged 74 years, was the Deputy Group Chairman and Managing Director of East African Breweries Ltd from 1993 to 2000. He holds a BSc. in Biochemistry from Makerere University, Kampala and a Post Graduate Diploma in Brewing from Herriot-Watt University, Edinburgh, Scotland. He is a fellow of the Institute of Brewing (U.K) and is the Chairman of Cooper Kenya Ltd. He sits on the boards of several companies.

Madabhushi Soundararajan - Independent Non-Executive

Mr. Madabhushi Soundararajan is an Indian national aged 63 years and joined the IMHL (formerly CTL) board in 2009. A veteran banker with 38 years in the banking industry, Mr. Soundararajan was previously the Managing Director of CFC Bank Limited, Kenya and has held senior positions in several banking institutions in both Kenya and India.

None of the Company's Directors held shares in the Company as at 31st December 2013.

BOARD CHARTER

The overall responsibility of the Board is to provide effective, responsible leadership characterized by the ethical values of responsibility, accountability, fairness and transparency. A new Board Charter was put in place during the year which sets out the roles and responsibilities of the Board. These include:

- Ensuring systems and processes are in place to conduct business of the Group in an ethical, responsible and safe manner;
- Overseeing the overall conduct of the business and ensure that it is being properly managed;
- Ensuring that effective audit, risk management and compliance systems are in place to protect the Company's assets;
- Being actively engaged in directing and approving the strategic planning of the Group and the implementation of the strategies;
- Analyzing and reviewing material acquisitions, divestments and capital expenditure;
- Reviewing and approving the financial and dividend policies and the operating budget and monitor financial performance and integrity of reporting;
- Ensuring an effective and timely structure of reporting to shareholders;
- Safeguarding and enhancing the image and reputation of the Company and the Group;
- Ensuring that the Company, each entity within the Group, and the Group itself, maintains adequate level of capital at all times;
- Ensuring that corporate actions are compatible with societal objectives concerning social cohesion, individual welfare and equal opportunities for all; and
- Ensuring compliance with all applicable laws, regulations and guidelines.

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. The new Board was constituted at its first meeting on 27th June 2013. Post-acquisition, the Board held two scheduled Board meetings during the year ended 31st December 2013. Board members receive board papers well in advance of their meetings, thereby facilitating meaningful deliberations therein.

Board of Directors – Summary of Attendance

Name of Director	15th Jan 2013	19th Feb 2013	27th June 2013	17th October 2013
A D Raja	√	√	**	
D M Ndonye	√	√	√	√
M Soundararajan	√	√	√	√
P Raja	√	X	**	
SBR Shah	Appointed with effect from 14th June 2013		X	√
M J Karanja			√	√
Sarit S Raja Shah			√	√
C Gabener			√	√
Guédi Aïnaché			√	√

The table above shows the number of meetings held during the period and the attendance of the individual Director.
√ Attended X Not Attended ** Ceased to be Directors with effect from 14th June 2013.

BOARD COMMITTEES

The Board has set up two Board Committees to assist in discharging its responsibilities. These include:

Board Audit and Risk Management Committee (BARMC)

The BARMC consists of three independent Directors and one non-executive Director. It is currently led by the Chairman of the Board. The key responsibilities of the BARMC are to assist the Board in fulfilling its statutory and fiduciary responsibilities, by providing an objective and independent review of the effectiveness of the external reporting of financial information and the internal control environment of the Group. The BARMC is also responsible for the oversight of the Group's risk management framework and reviewing the Group's risk appetite as assumed in the course of carrying on its business.

Board Nomination and Remuneration Committee (BNRC)

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

DELEGATION OF AUTHORITY

The Board of IMHL has delegated to the Executive Director of I&M Bank the responsibility for implementing the Board agreed strategy and for managing the day to day operations of the Company and the Group. The Executive Director of I&M Bank in turn delegates some of those powers to the CEO of I&M Bank Kenya and to other members of I&M Bank's Senior Management team. The Board is however responsible for monitoring those delegations.

Further, each entity in the Group, has its own framework that defines its delegations cover commitments concerning project investment, operational expenditure and non-financial activities and processes. These are designed to accelerate decision-making and improve both efficiency and customer service.

CODE OF ETHICS

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

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

Insider Trading

The Board has adopted an Insider Trading Policy that prohibits Directors, staff and contractors of the Group from:

- Dealing in the Company's shares except during the open period following the publication of the results of the banking entities within the trading jurisdiction. This is done to avoid trading when in possession of unpublished price-sensitive information.
- Communicating unpublished price-sensitive information to other people.

RISK MANAGEMENT FRAMEWORK

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

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

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

- The Board of Directors at the Group and individual entity level assume the ultimate responsibility for the level of risks taken and are responsible to oversee the effective implementation of the risk strategies;
- The organizational risk structure and the functions, tasks and powers of the Committees, staff and departments involved in the risk processes are continuously reviewed to ensure their effectiveness and the clarity of their roles and responsibilities;
- Risk issues are taken into consideration in all business decisions. Measures are in place to develop risk-based performance measures and this is being supplemented by setting risk limits at the Company level;

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

RISK MANAGEMENT FRAMEWORK (CONTINUED)

- Risk management has been integrated into various management processes such as strategic planning, annual budgeting and performance measurement;
- Identified risks are reported in a transparent and timely manner and in full; and
- Appropriate and effective controls exist for all processes.

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

CORPORATE SOCIAL RESPONSIBILITY (CSR)

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and its subsidiaries as at the end of the financial year and of their operating results for that year. It also requires the Directors to ensure that the Company and its subsidiaries keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and its subsidiaries. They are also responsible for safeguarding the assets of the Group.

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, 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 of the Company and its subsidiaries and of their operating results. The Directors further 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.

Nothing has come to the attention of the Directors to indicate that the Company and its subsidiaries will not remain going concerns 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 8th April 2014 and were signed on its behalf by:

Daniel Ndonye	**Michael J. Karanja**	**Sarit S Raja Shah**
Director	**Director**	**Director**

Deloitte.

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF I&M HOLDING LIMITED (Formerly City Trust Limited)

Report on the Financial Statements

We have audited the accompanying financial statements of I&M Holdings Limited and its subsidiaries, set out on pages 27 to 88, which comprise the consolidated and Company statements of financial position as at 31st December 2013, the consolidated and Company statements of profit or loss and other comprehensive income, the consolidated and Company statements of changes in equity and the consolidated statements of cash flows for the period then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as Directors determine are 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 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 considered the internal controls relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, 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 audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of financial affairs of the Company and its subsidiaries as at 31st December 2013 and of their profit and cash flows of the Company and its subsidiaries for the period then ended in accordance with International Financial Reporting Standards and the requirements of 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:

i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) In our opinion proper books of account have been kept by the Company, so far as appears from our examination of those books; and

iii) The Company's statement of financial position and statement of profit or loss and other of comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is Anne Muraya P/No - 1697.

Deloitte & Touche
Certified Public Accountants (Kenya)
Nairobi, Kenya
8th April 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 DECEMBER 2013

	Note	2013 KShs	2012 Restated KShs
Interest income	7(a)	14,483,258,190	12,718,823,448
Interest expense	8	(5,595,543,870)	(6,723,817,005)
Net interest income		**8,887,714,320**	**5,995,006,443**
Fee and commission income	9	1,959,791,919	1,578,557,044
Fee and commission expense	9	(64,037,893)	(66,993,228)
Net fee and commission income	9	**1,895,754,026**	**1,511,563,816**
Revenue		**10,783,468,346**	**7,506,570,259**
Other operating income	10(a)	1,542,236,694	1,477,392,640
Operating income		**12,325,705,040**	**8,983,962,899**
Staff costs	11(a)	(2,436,801,300)	(1,815,085,253)
Premises and equipment costs	11(a)	(389,265,969)	(303,546,907)
General administrative expenses	11(a)	(1,401,116,370)	(1,070,985,229)
Depreciation and amortisation	11(a)	(444,970,577)	(386,924,056)
Operating expenses		**(4,672,154,216)**	**(3,576,541,445)**
Operating profit before impairment Losses and taxation		**7,653,550,824**	**5,407,421,454**
Net impairment losses on loans and advances	17(c)	(472,088,972)	4,891,097
		7,181,461,852	**5,412,312,551**
Share of profit of Joint venture	19(a)	76,332,182	289,991,785
Profit before income tax	12	**7,257,794,034**	**5,702,304,336**
Income tax expense	13(a)(i)	(2,282,837,831)	(1,582,746,875)
Profit for the period		**4,974,956,203**	**4,119,557,461**

(Continued on page 28)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 DECEMBER 2013 (CONTINUED)

	Note	2013 KShs	2012 Restated KShs
Other comprehensive income			
Items that will never be reclassified to Profit or loss			
Actuarial (losses)/gains on re-measurement of employees benefit scheme		(22,036,978)	383,577
Revaluation surplus on property, plant and equipment		488,952,808	-
Items that may be classified to Profit or loss:			
Net change in fair value of available for sale financial assets		(36,739,626)	134,279,931
Foreign currency translation differences		(182,715,004)	(16,288,378)
Related tax – current period	23(b)	(133,297,779)	-
Related tax – prior period under provision	23(b)	58,942,021	-
Total other comprehensive income for the period		**173,105,442**	**118,375,130**
Total comprehensive income for the period		**5,148,061,645**	**4,237,932,591**
Profit attributable to:			
Equity holders of the company		4,611,066,096	3,860,460,435
Non controlling interest		363,890,107	259,097,026
		4,974,956,203	**4,119,557,461**
Total comprehensive income attributable to:			
Equity holders of the company		4,881,541,102	3,969,386,354
Non controlling interest		266,520,543	268,546,237
		5,148,061,645	**4,237,932,591**
Basic and diluted earnings Per share - (KShs)	14	**11.75**	**9.84**

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 DECEMBER 2013

	Note	2013 KShs	2012 KShs
Interest income	7(b)	5,109,104	2,931,884
Dividend income	10(b)	757,262,537	54,533,908
Operating income		**762,371,641**	**57,465,792**
General and administrative expenses	11(b)	(24,311,194)	(5,508,485)
Profit before income tax	12	**738,060,447**	**51,957,307**
Income tax expense	13(a)(ii)	(1,532,731)	(3,537,044)
Profit for the period		**736,527,716**	**48,420,263**
Total Comprehensive income for the period		**736,527,716**	**48,420,263**
Basic and diluted earnings Per share - (KShs)	14	**1.88**	**1.69**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Note	2013 KShs	31.12.2012 Restated KShs	01.01.2012 Restated KShs
Assets				
Cash and balances with Central Banks	15(a)	8,933,955,141	6,744,132,656	5,204,366,824
Placements with Financial Institutions	16	6,050,626,986	6,774,013,121	5,871,679,940
Loans and advances to Customers	17(a)	91,882,663,906	71,012,960,123	53,244,093,199
Investment securities	18	26,197,402,129	27,322,216,105	17,066,358,327
Investment in Joint Venture	19(a)	2,411,972,727	2,066,667,578	1,840,951,353
Property and equipment	20	2,608,195,742	2,129,369,021	1,453,280,139
Intangible assets - Goodwill	21(a)	1,174,600,850	1,173,406,016	619,699,547
Intangible assets - Software	21(b)	175,007,742	242,911,959	55,862,884
Prepaid operating lease rentals	22	241,325,331	246,104,186	250,883,040
Tax recoverable	13((b)(i))	107,280	2,909,947	-
Deferred tax asset	23(a)	386,284,819	295,056,908	228,050,206
Other assets	24	1,138,402,284	1,223,597,412	917,194,829
Total assets		**141,200,544,937**	**119,233,345,032**	**86,752,420,288**
Liabilities and shareholders' equity				
Liabilities				
Deposits from banks	25	6,411,628,429	5,877,198,410	2,546,060,409
Deposits from customers	26	97,145,568,401	87,774,148,570	64,828,118,553
Deferred tax liability	23(a)	26,288,067	17,235,682	-
Tax payable	13((b)(i))	569,712,733	110,005,188	313,210,128
Other liabilities	27	1,796,740,449	1,640,646,774	978,035,030
Long term borrowings	28	11,572,650,440	4,446,419,567	2,969,262,405
		117,522,588,519	**99,865,654,191**	**71,634,686,525**
Shareholders' equity				
Share capital	29(b)	392,362,039	392,362,039	392,362,039
Share premium	29(b)	17,331,509,920	17,331,509,920	17,331,509,920
Revaluation reserve	29(c)	442,153,804	99,142,722	99,631,673
Available-for-sale reserve	29(d)	(161,584,903)	(193,552,209)	(327,832,140)
Statutory loan loss reserve	29(e)	218,047,667	141,176,203	91,470,947
Retained earnings		3,671,202,252	(79,745,381)	(3,143,948,214)
Translation reserve	29(f)	16,468,490	98,934,894	124,672,483
Equity attributable to owners of the Company		**21,910,159,269**	**17,789,828,188**	**14,567,866,708**
Non-controlling interest		1,767,797,149	1,577,862,653	549,867,055
Total shareholders' equity		**23,677,956,418**	**19,367,690,841**	**15,117,733,763**
Total liabilities and shareholders' equity		**141,200,544,937**	**119,233,345,032**	**86,752,420,288**

The financial statements set out on pages 27 to 88 were approved by the Board of Directors on 8th April 2014 and were signed on its behalf by:

Director: Daniel Ndonye   Director: Michael J. Karanja   Director: Sarit S Raja Shah   Secretary: Virginia Ndunge

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Note	2013 KShs	2012 KShs
Assets			
Cash and Bank Balances	15(b)	24,731,140	60,943,814
Tax recoverable	13(b)(ii)	107,280	-
Investment in subsidiary	19(b)	17,970,384,024	275,307,070
Total assets		**17,995,222,444**	**336,250,884**
Liabilities and shareholders' equity			
Liabilities			
Tax payable	13(b)(ii)	-	113,263
Other liabilities	27	27,918,217	20,582,182
		27,918,217	20,695,445
Shareholders' equity			
Share capital	29(a)	392,362,039	28,640,005
Share premium	29(a)	17,331,509,920	155,000
Retained earnings		243,432,268	286,760,434
		17,967,304,227	315,555,439
Total liabilities and shareholders' equity		**17,995,222,444**	**336,250,884**

The financial statements set out on pages 27 to 88 were approved by the Board of Directors on the 8th April 2014 and were signed on its behalf by:

Director: Daniel Ndonye   Director: Michael J. Karanja   Director: Sarit S Raja Shah   Secretary: Virginia Ndunge

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2013

2013:	Share capital KShs	Share premium KShs	Revaluation reserve KShs	Available-for-sale reserve KShs	Statutory loan loss reserve KShs	Retained earnings KShs	Translation reserve KShs	Total KShs	Non-controlling interest KShs	Total KShs
At 1 January 2013										
- As previously reported	392,362,039	17,331,509,920	141,842,012	(193,552,209)	141,176,203	(79,745,381)	98,934,894	17,832,527,478	1,577,862,653	19,410,390,131
Deferred tax	-	-	(42,699,290)	-	-	-	-	(42,699,290)	-	(42,699,290)
At 1 January 2013 - As restated	392,362,039	17,331,509,920	99,142,722	(193,552,209)	141,176,203	(79,745,381)	98,934,894	17,789,828,188	1,577,862,653	19,410,390,131
Profit for the year	-	-	-	-	-	4,611,066,096	-	4,611,066,096	363,890,107	4,974,956,203
Other comprehensive income	-	-	343,011,082	31,967,306	-	(22,036,978)	(82,466,404)	270,475,006	(97,369,564)	173,105,442
Statutory loan loss reserve	-	-	-	-	76,871,464	(76,871,464)	-	-	-	-
Transactions with owners:										
Pre acquisition reserves	-	-	-	-	-	48,867,940	-	48,867,940	-	48,867,940
Capital Restructuring Costs	-	-	-	-	-	(30,222,081)	-	(30,222,081)	-	(30,222,081)
Interim dividend paid - August 2012	-	-	-	-	-	(34,368,006)	-	(34,368,006)	-	(34,368,006)
Dividend paid – Interim 2013	-	-	-	-	-	(745,487,874)	-	(745,487,874)	(76,586,047)	(822,073,921)
Balance as at 31 December 2013	**392,362,039**	**17,331,509,920**	**442,153,804**	**(161,584,903)**	**218,047,667**	**3,671,202,252**	**16,468,490**	**21,910,159,269**	**1,767,797,149**	**23,677,956,418**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2013 (CONTINUED)

2012:	Share capital KShs	Share premium KShs	Consolidation reserve KShs	Revaluation reserve KShs	Available-for-sale reserve KShs	Statutory loan loss reserve KShs	Retained earnings KShs	Translation reserve KShs	Total KShs	Non-controlling interest KShs	Total KShs
At 1 January 2012:											
- As previously reported	2,880,245,300	3,773,237,119	-	142,330,963	(327,832,140)	91,470,947	7,932,678,877	124,672,483	14,616,803,549	549,867,055	14,419,245,730
Actuarial losses to employee benefits	-	-	-	-	-	-	(6,237,551)	-	(6,237,551)	-	(6,237,551)
Consolidation adjustment*	(2,487,883,261)	13,558,272,801	(11,070,389,540)	-	-	-	-	-	-	-	-
Transfer to retained earnings*	-	-	11,070,389,540	-	-	-	(11,070,389,540)	-	-	-	-
Deferred tax	-	-	-	(42,699,290)	-	-	-	-	(42,699,290)	-	(42,699,290)
At 1 January 2012 – As restated	**392,362,039**	**17,331,509,920**	**-**	**99,631,673**	**(327,832,140)**	**91,470,947**	**(3,143,948,214)**	**124,672,483**	**14,567,866,708**	**549,867,055**	**15,117,733,763**
Profit for the year	-	-	-	-	-	-	3,860,460,435	-	3,860,460,435	259,097,026	4,119,557,461
Other comprehensive income	-	-	-	-	134,279,931	-	383,577	(25,737,589)	108,925,919	9,449,211	118,375,130
Revaluation reserve	-	-	-	(488,951)	-	-	488,951	-	-	-	-
Statutory loan loss reserve	-	-	-	-	-	49,705,256	(49,705,256)	-	-	-	-
Transactions with owners:											
Dividend paid - 2011 Final	-	-	-	-	-	-	(747,424,874)	-	(747,424,874)	(32,973,132)	(780,398,006)
Non controlling interest on share capital at acquisition of subsidiary	-	-	-	-	-	-	-	-	-	792,422,493	792,422,493
As at 31 December 2012	**392,362,039**	**17,331,509,920**	**-**	**141,842,012**	**(193,552,209)**	**141,176,203**	**(79,745,381)**	**98,934,894**	**17,789,828,188**	**1,577,862,653**	**19,367,690,841**

Consolidation adjustment* - On reverse acquisition, the share capital and reserves of I&M Bank Limited has been adjusted to show the share capital of I&M Holdings Limited

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2013

	Share capital KShs	Share Premium KShs	Retained earnings KShs	Total KShs
At 1 August 2012	28,640,005	155,000	286,760,434	315,555,439
Issue of shares	363,722,034	17,331,354,920	-	17,695,076,954
Total comprehensive income for the period	-	-	736,527,716	736,527,716
Dividends declared - August 2012	-	-	(34,368,006)	(34,368,006)
Interim Dividends declared - July 2013	-	-	(745,487,876)	(745,487,876)
Balance as at 31 December 2013	**392,362,039**	**17,331,509,920**	**243,432,268**	**17,967,304,227**
At 1 August 2011	28,640,005	155,000	261,252,175	290,047,180
Total comprehensive income for the period	-	-	48,420,263	48,420,263
Dividends declared – 2011	-	-	(22,912,004)	(22,912,004)
Balance as at 31 July 2012	**28,640,005**	**155,000**	**286,760,434**	**315,555,439**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2013

	Note	2013 KShs	2012 Restated KShs
Cash flows from operating activities			
Cash flows used in operations	30(a)	(3,406,316,732)	(1,222,556,144)
Tax Paid	13(b)(i)	(1,976,858,902)	(1,914,340,166)
Net cash used in operating activities		**(5,383,175,634)**	**(3,136,896,310)**
Cash flows from investing activities			
Purchase of property and equipment	20(a)	(331,889,383)	(336,025,894)
Purchase of intangible assets	21(b)	(75,945,492)	(298,289,771)
Proceeds from disposal of property and equipment		11,784,902	29,373,312
Dividend from Joint Venture		-	42,300,000
Investment in subsidiary	30(c)	-	2,267,085,797
Additional investment in Joint Venture	19(a)	(253,276,870)	-
Net cash (used in)/ generated from investing activities		**(649,326,843)**	**1,704,443,444**
Cash flows from financing activities			
Capital restructuring costs		(30,222,081)	-
Net inflow from long term borrowings		7,133,870,699	1,097,797,884
Dividend paid to shareholders of the company		(774,305,858)	(747,424,874)
Dividend paid to non-controlling interests		(76,586,047)	(32,973,132)
Net cash generated from financing activities		**6,252,756,713**	**317,399,878**
Net increase/(decrease) in cash and cash equivalents		220,254,236	(1,115,052,988)
Cash and cash equivalents at beginning of period		**2,599,725,198**	**3,714,778,186**
Cash and cash equivalents at end of period	30(b)	**2,819,979,434**	**2,599,725,198**

1. REPORTING ENTITY

I&M Holdings Limited (the "Company"), is a non-operating holding company licensed by the Central Bank of Kenya under the Kenyan Banking Act (Chapter 488). The Company is incorporated in Kenya under the Kenyan Companies Act and comprises banking entities in Kenya, Tanzania, Rwanda and Mauritius. The consolidated financial statements of the Company as at and for the period ended 31st December 2013 comprise the Bank in Kenya – I&M Bank Limited and the Bank's subsidiaries and the Joint Venture (together referred to as the "Group"). The address of its registered office is as follows:

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

Through I&M Bank Limited, the Company has:

(i) 50% (2012 - 50%) interest in Bank One Limited, a Joint Venture in a bank licensed in Mauritius,
(ii) 55.03% (2012 - 55.03%) shareholding in I&M Bank (T) Limited and
(iii) Effective interest of 54.99% (2012 – 54.99%) in I&M Bank (Rwanda) Limited through a 68.742% holding in BCR Investment Company Limited (Mauritius) which owns 80% shareholding in I&M Bank (Rwanda) Limited.

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Statement of compliance

The Group's consolidated financial statements for the period 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS). Additional information required by the regulatory bodies is included where appropriate.

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

(b) Changes in accounting policies

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 1st January 2013.

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

- *IAS 19 'Employee Benefits'* (effective 1st January 2013). The amended IAS 19 requires that actuarial gains and losses are recognised immediately in other comprehensive income. This change removed the corridor method and eliminated the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which was previously allowed under IAS 19. It also requires that expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The Group has adopted this standard through the Joint Venture that has an employee benefit scheme.

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

- *IFRS 11 'Joint arrangements'* (effective 1st January 2013). IFRS 11 supersedes IAS 31 and SIC-13 relating to Jointly Controlled Entities. The objective of this IFRS is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly. It focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case). It further distinguishes joint arrangements between joint operations and Joint Ventures; and requires the equity method for jointly controlled entities that are now called Joint Ventures. As a result, the Joint Venture has been accounted for using equity method. Previously this was accounted for using proportionate consolidation method. The opening statement of financial position of the earliest comparative period presented (1st January 2012) has been restated to reflect the change in accounting for the Group's investment in the Joint Venture. The quantitative impact of the change is as follows:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policies(continued)

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

- *IFRS 13 'Fair value measurement'* (effective 1st January 2013). IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The Group has applied the new fair value measurement guidance. The change had no significant impact on the measurements of the Group's assets and liabilities.

Summary of quantitative impacts:

Consolidated statement of financial position

	Impact of changes in accounting polices			
31 December 2012	**As previously reported KShs**	**Joint venture hive-off KShs**	**Net asset share KShs**	**As restated KShs**
Assets				
Cash and cash equivalents	20,537,953,606	7,019,807,829	-	13,518,145,777
Loans and advances to customers	87,835,117,691	16,822,157,568	-	71,012,960,123
Investment securities	29,528,700,092	2,206,483,987	-	27,322,216,105
Intangible assets - Goodwill	1,670,138,590	496,732,574	-	1,173,406,016
Investment in Joint Venture	-	(1,245,537,610)	821,129,968	2,066,667,578
Investment in subsidiary	-	-	-	-
Property and equipment	2,592,471,835	463,102,814	-	2,129,369,021
Intangible assets - Software	299,547,209	56,635,250	-	242,911,959
Other assets	2,261,143,142	450,775,399	-	1,810,367,743
Total assets	**144,725,072,165**	**26,270,157,811**	**821,129,968**	**119,276,044,322**
Equity and liabilities				
Total deposits	117,586,496,697	23,935,149,717	-	93,651,346,980
Long term borrowings	5,429,651,683	983,232,116	-	4,446,419,567
Other liabilities	2,292,834,686	524,947,042	-	1,767,887,644
Total Liabilities	**125,308,983,066**	**25,443,328,875**	**-**	**99,865,654,191**
Equity				
Equity attributable to owners of the Company	17,838,226,446	826,828,936	821,129,968	17,832,527,478
Non-controlling interest	1,577,862,653	-	-	1,577,862,653
Total equity and liabilities	**144,725,072,165**	**26,270,157,811**	**821,129,968**	**119,276,044,322**

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policies(continued)

Consolidated statement of financial position (continued)

	Impact of changes in accounting polices			
1 January 2012	As previously reported KShs	Joint venture hive-off KShs	Net asset share KShs	As restated KShs
Assets				
Cash and cash equivalents	16,907,146,048	5,831,099,284	-	11,076,046,764
Loans and advances to customers	66,365,869,989	13,121,776,791	-	53,244,093,198
Investment securities	19,685,791,796	2,619,433,469	-	17,066,358,327
Intangible assets - Goodwill	1,116,975,611	497,276,064	-	619,699,547
Investment in Joint Venture	-	(1,245,537,610)	595,413,744	1,840,951,354
Investment in subsidiary	-	-	-	-
Property and equipment	1,915,489,872	462,209,734	-	1,453,280,138
Intangible assets - Software	108,047,505	52,184,621	-	55,862,884
Other assets	1,964,391,558	525,564,190	-	1,438,827,368
Total assets	**108,063,712,379**	**21,864,006,543**	**595,413,744**	**86,795,119,580**
Equity and liabilities				
Total deposits	87,758,964,237	20,384,785,275	-	67,374,178,962
Long term borrowings	3,435,773,448	466,511,045	-	2,969,262,403
Other liabilities	1,702,304,088	411,058,930	-	1,291,245,158
Total Liabilities	**92,897,041,773**	**21,262,355,250**	**-**	**71,634,686,523**
Equity				
Equity attributable to owners of the Company	14,616,803,551	601,651,293	595,413,744	14,610,566,002
Non-controlling interest	549,867,055	-	-	549,867,055
Total equity and liabilities	**108,063,712,379**	**21,864,006,543**	**595,413,744**	**86,795,119,580**

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policies(continued)

Consolidated statement of profit or loss and SOCI

	Impact of changes in accounting polices			
For the period ended 31 December 2012	As previously reported KShs	Joint venture hive-off KShs	Share of Joint Venture profit KShs	As restated KShs
Net Interest income	6,560,598,650	565,592,207	-	5,995,006,443
Net Fees and commission income	1,664,220,219	152,656,403	-	1,511,563,816
Net trading income	**8,224,818,869**	**718,248,610**	**-**	**7,506,570,259**
Other operating income	1,688,618,114	211,225,474	-	1,477,392,640
Total operating income	**9,913,436,983**	**929,474,084**	**-**	**8,983,962,899**
Staff costs	(2,147,204,517)	(332,119,264)	-	(1,815,085,253)
Premises and equipment costs	(348,771,917)	(45,225,010)	-	(303,546,907)
General administrative expenses	(1,186,290,773)	(115,305,544)	-	(1,070,985,229)
Depreciation and amortisation	(437,755,328)	(50,831,272)	-	(386,924,056)
Operating expenses	**(4,120,022,535)**	**(543,481,090)**	**-**	**(3,576,541,445)**
Operating profit before impairment Losses and taxation	**5,793,414,448**	**385,992,994**	**-**	**5,407,421,454**
Net impairment losses on loans and advances	(60,737,654)	(65,628,751)	-	4,891,097
Profit before share of jv profit and income tax	**5,732,676,794**	**320,364,243**	**-**	**5,412,312,551**
Share of Joint Venture profit	-	-	289,991,785	289,991,785
Profit before income tax	**5,732,676,794**	**320,364,243**	**289,991,785**	**5,702,304,336**
Income tax expense	(1,613,119,333)	(30,372,458)	-	(1,582,746,875)
Net profit for the period	**4,119,557,461**	**289,991,785**	**289,991,785**	**4,119,557,461**
Other comprehensive income	117,836,547	(22,514,153)	(21,975,570)	118,375,130
Total comprehensive income for the period	**4,237,394,008**	**267,477,632**	**268,016,215**	**4,237,932,591**

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policy (continued)

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the period ended 31st December 2013, and have not been applied in preparing these consolidated financial statements as follows:

- Investment entities (Amendments to IFRS 10, IFRS 12 and IAS 27). This will become effective for years ending 31st December 2014.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32). This will become effective for years ending 31st December 2014.
- Recoverable amount disclosures for Non-Financial Assets (Amendments to IAS 36). This will become effective for years ending 31st December 2014.
- Novation of Derivatives and continuation of Hedge Accounting (Amendments to IAS 39). This will become effective for years ending 31st December 2014.
- IFRIC 21 Levies. This will become effective for years ending 31st December 2014.
- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19). This will become effective for years ending 30th June 2015.
- IFRS 9 Financial Instruments. The effective date is for period beginning on or after 1st January 2018.

(c) Basis of measurement

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

- Available-for-sale financial assets are measured at fair value
- Leasehold buildings are measured at fair value

(d) Functional and presentation currency

These consolidated financial statements are presented in Kenya Shillings (KShs), which is also the Company's functional currency. All financial information presented in KShs has been rounded to the nearest Shilling.

(e) Use of estimates and judgments

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

In preparing these consolidated financial statements, management has made judgements, estimated 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 4.

(f) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries for the period ended 31st December 2013. A list of the Company's subsidiaries is set out in note 19(b).

Subsidiaries are those entities in which the Group has power to exercise control over their operations. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are included in the consolidated financial statements from the date the Group gains effective control. Entities controlled by the Group are consolidated until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Intra-group balances and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

The acquisition method of accounting is used when subsidiaries are acquired by the Group. The cost of an acquisition in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the consideration transferred

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2013 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Basis of consolidation (continued)

by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the acquired identifiable assets and the liabilities assumed are generally measured and recognized at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

In the event that the amounts of net assets acquired is in excess of the aggregate of the consideration transferred, the amount of non-controlling interest and the fair value of Group's previously held equity interest, the difference is recognised immediately in the profit or loss as a bargain purchase.

In a business combination achieved in stages, the previously held equity interest is re-measured at the acquisition-date fair value with the resulting gain or loss recognised in the profit or loss. Changes in the group's ownership interest in a subsidiary that do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

(g) Joint Arrangements

The Group has assessed the nature of its joint arrangements and determined it to be a Joint Venture. As a result of IFRS 11, the Group has changed its accounting policy for interest in joint arrangements.

The Group applies the equity method of accounting in the consolidated financial statements. The consolidated statement of financial position includes the initial recognition of the investment in the Joint Venture at cost, and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss of the Joint Venture after the date of the acquisition. The Joint Venture is accounted for at cost in the Company financial statements.

(h) Foreign currencies

i) Functional and presentation currency

The financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kenya Shillings, which is the Company's functional and presentational currency.

ii) Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the respective functional currencies of the operations using the exchange rates prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised through profit or loss.

iii) Foreign operations

The results and financial position of Group entities that have a functional currency different from the presentation currency are retranslated into the presentation currency as follows:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Foreign currencies (continued)

iii) Foreign operations (continued)

- For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Kenyan shillings using exchange rates prevailing at the reporting date. Income and expense items of foreign operations are retranslated at average exchange rates for the period.

- Foreign currency exchange differences are reported as 'exchange differences on translations of foreign operations' and are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity.

(i) Income recognition

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

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

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

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

(ii) Fee and commission income

Fee and commission income and expenses that are integral to the effective interest rate of a financial asset or liability are included in the measurement of the effective interest rate. Other fee and commission 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 and dividend income and gain on disposal of property and equipment.

- Rental income is recognised in the profit or loss on a straight-line basis over the term of the lease.
- Dividend income is recognised when the right to receive income is established. Dividends are reflected as a component of operating income.

(j) Income tax expense

Income tax expense comprises current tax and 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 period using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

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;

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Income tax expense (continued)

- 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.

(k) 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 comprise of loans and advances and cash and cash equivalents.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) 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 periods. 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 the income statement.

(iv) De-recognition

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2013 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Financial assets and financial liabilities (continued)

(iv) De-recognition (continued)

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 on 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 IFRS, 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.

(l) 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 measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Fair value measurement (continued)

- *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.

(m) 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 Banks which are available to finance the individual bank entities' day to day operations and net balances from banking institutions.

(n) Property and equipment

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

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

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

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

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

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

(o) Intangible assets

(i) Computer software

The costs incurred to acquire and bring to use specific computer software licences are capitalised. Software is measured 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 periods. 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 FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2013 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) 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.

(q) 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.

(r) Derivative financial instruments

Banking entities in the Group use financial instruments to hedge their exposures 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.

(s) Provisions

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

(t) Employee benefits

(i) Defined contribution plan

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

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

The employees of each of the Banking entities within the Group also contribute to their respective Social Security Funds. Contributions are determined by local statute and the entities' contributions are charged to the income statement in the period to which they relate.

(ii) Defined benefit plan

The Joint Venture, Bank One Limited, Mauritius, contributes to a defined benefit plan that provides for employees upon retirement and is wholly funded. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Employee benefits (continued)

(iii) Leave accrual

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

(u) 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.

(v) 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 period. During the period there were no outstanding shares with dilutive potential.

(w) 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.

(x) 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.

(y) Fiduciary activities

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

(z) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors and are based on the Group's management structure. In accordance with IFRS 8, Operating Segments, the Group only has the geographical segments for its operations in the various countries it operates in (see note 6).

(aa) Comparative information

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

3. RISK MANAGEMENT

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

Financial risk

The most important types of risk to which the Group is exposed are liquidity risk, credit risk, market risk and operational risk. Market risk includes currency risk and interest rate risk.

(a) Credit risk

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

The Board of Directors of the individual Group entities have delegated responsibility of the management of credit risk to their respective Board Credit Committees. Further, each entity has its own and separate Management Credit Risk Management Committee that reports

3. RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

to its Board Credit Committee. The Group's credit exposure at the reporting date from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the statement of financial position.

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

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

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

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

Exposure to credit risk

Group:

Loans and advances to customers	2013 KShs	2012 KShs
Individually impaired:		
Grade 3: Substandard	635,535,243	216,267,181
Grade 4: Doubtful	518,380,292	662,484,721
Grade 5: Loss	368,738,200	265,351,236
	1,522,653,735	1,144,103,138
Allowance for impairment	(781,437,195)	(745,661,817)
Carrying amounts	**741,216,540**	**398,441,321**
Collectively impaired:		
Grade 1: Normal	83,718,552,584	66,520,643,255
Grade 2: Watch	8,641,420,973	4,839,599,769
	92,359,973,557	71,360,243,024
Portfolio impairment provision	(1,218,526,191)	(745,724,222)
Carrying amounts	**91,141,447,366**	**70,614,518,802**
Total carrying amounts	**91,882,663,906**	**71,012,960,123**

3. RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

Exposure to credit risk (continued)

Impaired loans and securities

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

Past due but not impaired loans

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

Loans with renegotiated terms

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

Allowances for impairment

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

Write off policy

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2013 (CONTINUED)

3. RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

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

Group:

Loans and advances	**Gross KShs**	**Net KShs**
Individually impaired:		
31 December 2013		
Grade 3: Substandard	635,535,243	260,795,430
Grade 4: Doubtful	518,380,292	419,919,592
Grade 5: Loss	368,738,200	60,501,518
	1,522,653,735	**741,216,540**
31 December 2012		
Grade 3: Substandard	216,267,181	159,330,825
Grade 4: Doubtful	662,484,721	174,213,025
Grade 5: Loss	265,351,236	64,897,471
	1,144,103,138	**398,441,321**
Collectively impaired:		
31 December 2013		
Grade 1: Normal	83,718,552,584	82,942,218,119
Grade 2: Watch	8,641,420,973	8,199,229,247
	92,359,973,557	**91,141,447,366**
31 December 2012		
Grade 1: Normal	66,520,643,256	65,950,529,668
Grade 2: Watch	4,839,599,768	4,663,989,134
	71,360,243,024	**70,614,518,802**

The Group holds collaterals against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimate of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowings activity. Collateral usually is not held against investment securities, and no such collateral was held at 31st December 2013 or 2012.

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

Group:

Loans and advances to customers	**2013 KShs**	**2012 KShs**
Fair value of collateral held - Against impaired loans	**738,593,700**	**5,711,957,732**

3. RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(b) Liquidity risk

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

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

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31st December 2013 to the contractual maturity date:

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	6,735,926	45,670	64,506	9,160	-	**6,855,262**
Deposits from customers	46,897,692	25,432,902	24,640,252	1,077,302	-	**98,048,148**
Other liabilities	1,118,452	635,046	6,029	37,213	-	**1,796,740**
Long-term borrowings	168,286	238,702	1,451,208	8,047,188	5,083,191	**14,988,575**
At 31 December 2013	**54,920,356**	**26,352,320**	**26,161,995**	**9,170,863**	**5,083,191**	**121,688,725**

31 December 2012:	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	3,756,684	1,567,819	1,287,901	-	-	**6,612,404**
Deposits from customers	42,636,917	20,635,283	26,264,031	984,919	-	**90,521,150**
Other liabilities	1,150,383	471,296	10,577	8,391	-	**1,640,647**
Long-term borrowings	6,455	274,418	750,641	3,583,770	320,445	**4,935,729**
At 31 December 2012	**47,550,439**	**22,948,816**	**28,313,150**	**4,577,080**	**320,445**	**103,709,930**

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

(c) Market risk

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

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

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

3. RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(c) Market risk (continued)

Exposure to interest rate risk

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

31 December 2013:	Due on demand KShs'000	Due within 3 months KShs'000	Due between 3-12 monthsl 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	-	-	-	-	-	8,933,955	**8,933,955**
Placements with financial institutions	3,248,080	554,626	-	-	-	2,247,921	**6,050,627**
Loans and advances to customers	73,091,667	1,123,798	5,281,423	9,758,492	2,627,284	-	**91,882,664**
Investment securities	820,268	2,020,133	9,771,798	8,103,068	5,482,135	-	**26,197,402**
Other assets	-	-	-	-	-	8,135,897	**8,135,897**
At 31 December 2013	**77,160,015**	**3,698,557**	**15,053,221**	**17,861,560**	**8,109,419**	**19,317,773**	**141,200,545**
Liabilities							
Deposits from banks	6,221,488	54,339	64,506	9,160	-	62,135	**6,411,628**
Deposits from customers	44,627,294	30,201,970	10,717,025	481,556	-	11,117,723	**97,145,568**
Other liabilities	-	-	-	-	-	2,392,742	**2,392,742**
Long-term borrowings	52,636	185,447	920,718	5,504,999	4,908,850	-	**11,572,650**
At 31 December 2013	**50,901,418**	**30,441,756**	**11,702,249**	**5,995,715**	**4,908,850**	**13,572,600**	**117,522,588**

31 December 2012:	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	-	-	-	-	-	6,744,133	**6,744,133**
Placements with financial institutions	3,587,902	941,994	74,632	-	-	2,169,485	**6,774,013**
Loans and advances to customers	55,362,868	1,011,337	5,254,775	6,228,990	3,154,990	-	**71,012,960**
Investment securities	1,090,749	5,801,854	5,692,327	6,029,138	8,708,148	-	**27,322,216**
Other assets	-	-	-	-	-	7,380,024	**7,380,024**
At 31 December 2012	**60,041,519**	**7,755,185**	**11,021,734**	**12,258,128**	**11,863,138**	**16,293,642**	**119,233,346**
Liabilities							
Deposits from banks	2,426,456	1,921,128	1,452,752	-	-	76,862	**5,877,198**
Deposits from customers	23,074,906	38,573,769	14,309,008	251,836	-	11,564,630	**87,774,149**
Other liabilities	-	-	-	-	-	1,767,887	**1,767,887**
Long-term borrowings	6,455	242,315	603,351	3,278,215	316,084	-	**4,446,420**
At 31 December 2012	**25,507,817**	**40,737,212**	**16,365,111**	**3,530,051**	**316,084**	**13,409,379**	**99,865,654**

3. RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(c) Market risk (continued)

Exposure to interest rate risk - continued

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

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

Sensitivity Analysis

A change of 100 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 2013: 100 basis points	Profit or loss Increase/decrease in basis points ('000)	Equity net of tax Increase/decrease in basis points ('000)
Assets	1,218,828	853,179
Liabilities	(1,039,500)	(727,650)
Net position	**179,328**	**125,529**

31 December 2012: 100 basis points	Profit or loss Increase/decrease in basis points ('000)	Equity net of tax Increase/decrease in basis points ('000)
Assets	1,029,397	720,578
Liabilities	(864,563)	(605,194)
Net position	**164,834**	**115,384**

3. RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(c) Market risk (continued)

Currency rate risk

The Group is exposed to currency risk through transactions in foreign currencies. The Group's transactional exposure gives rise to foreign currency gains and losses that are recognised in the profit or loss. In respect of monetary assets and liabilities in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. The table below analyses the currencies which the Group is exposed to as at 31st December 2013 and 31st December 2012.

31 December 2013:	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
Assets					
Cash and balances with Central Banks	1,579,604	68,455	108,573	3,240	**1,759,872**
Placements with financial institutions	4,071,604	191,694	432,889	120,068	**4,816,255**
Loans and advances to customers	30,584,665	1,378,740	1,777,597	21	**33,741,023**
Other assets	93,524	7,223	11,009	-	**111,756**
At 31 December 2013	**36,329,397**	**1,646,112**	**2,330,068**	**123,329**	**40,428,906**
Liabilities					
Deposits from banks	908,592	13,908	29,771	8,575	**960,846**
Deposits from customers	25,959,414	1,588,202	1,193,519	89,489	**28,830,624**
Other liabilities	218,943	7,675	5,800	12,863	**245,281**
Long-term borrowings	7,057,690	-	104,941	-	**7,162,631**
At 31 December 2013	**34,144,639**	**1,609,785**	**1,334,031**	**110,927**	**37,199,382**
Net on statement of financial position	**2,184,758**	**36,327**	**996,037**	**12,402**	**3,229,524**
Net notional off balance sheet position	**1,782,066**	**688,697**	**367,340**	**62,730**	**2,900,833**
Overall net position – 2013	**3,966,824**	**725,024**	**1,363,377**	**75,132**	**6,130,357**

3. RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(c) Market risk (continued)

Currency rate risk (continued)

31 December 2012:	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
Assets					
Cash and balances with Central Banks	1,691,972	66,175	127,295	(80)	**1,885,362**
Placements with financial institutions	4,155,896	105,283	507,725	76,575	**4,845,479**
Loans and advances to customers	26,092,092	627,579	2,193,341	-	**28,913,012**
Other assets	73,222	1,917	8,221	-	**83,360**
At 31 December 2012	**32,013,182**	**800,954**	**2,836,582**	**76,495**	**35,727,213**
Liabilities					
Deposits from banks	4,198,905	27,028	13,418	1,609	**4,240,960**
Deposits from customers	20,099,607	1,494,957	2,593,203	29,121	**24,216,888**
Other liabilities	219,289	7,435	7,556	4,927	**239,207**
Long-term borrowings	3,480,546	-	199,892	-	**3,680,438**
At 31 December 2012	**27,998,347**	**1,529,420**	**2,814,069**	**35,657**	**32,377,493**
Net on statement of financial position	**4,014,835**	**(728,466)**	**22,513**	**40,838**	**3,349,720**
Net notional off balance sheet position	**(3,438,295)**	**746,469**	**74,713**	**(27,031)**	**(2,644,143)**
Overall net position – 2012	**576,540**	**18,003**	**97,226**	**13,807**	**705,577**

Sensitivity Analysis

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

	Profit or loss Strengthening/ weakening of currency ('000)	Equity net of tax Strengthening/ weakening of currency ('000)
31 December 2013:		
USD (±2.5% movement)	99,171	69,419
GBP (±2.5% movement)	18,126	12,688
EUR (±2.5% movement)	34,084	23,859

	Profit or lossStrengthening/ weakening of currency ('000)	Equity net of taxStrengthening/ weakening of currency ('000)
31 December 2012:		
USD (±2.5% movement)	14,414	10,089
GBP (±2.5% movement)	450	315
EUR (±2.5% movement)	2,431	1,701

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2013 (CONTINUED)

3. RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(d) Operational risk

The overall responsibility of managing Operational Risks - the risk arising from failed or inadequate internal processes, people, systems and external events - is vested with the Board of Directors of the individual banking entities within the Group. These Boards, through their respective Board Risk Committees, issue policies that guide management on appropriate practices of operational risk mitigation. An independent Risk Manager at each of the individual Banking entity assures its respective Board Risk Committee of the implementation of the said policies.

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

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

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

(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 1st 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. These ratios are to be met within 24 months from 1st January 2013. 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.

3. RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(e) Capital management (continued)

Regulatory capital – Kenya (continued)

- *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.

The regulatory capital position for I&M Bank Limited being the Kenyan banking subsidiary had the following position as at 31st December was as follows:

	2013 KShs	2012 KShs
Core capital (Tier 1)		
Share capital	2,880,245,300	2,880,245,300
Share premium	3,773,237,119	3,773,237,119
Retained earnings	12,308,162,034	9,217,455,769
	18,961,644,453	15,870,938,188
Less: Goodwill	(10,746,998)	(10,746,998)
Investment in Joint venture	(1,498,814,479)	(1,245,537,610)
Investment in Subsidiary	(2,752,188,620)	(2,752,188,620)
Total core capital	14,699,894,356	11,862,464,960
Supplementary capital (Tier 2)		
Term subordinated debt	3,752,500,000	217,500,000
Statutory loan loss reserve	94,679,096	29,257,971
Total supplementary capital	3,847,179,096	246,757,971
Total capital	**18,547,073,452**	**12,109,222,931**

3. RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(e) Capital management (continued)

Regulatory capital – Kenya (continued)

Risk weighted assets	2013 KShs	2012 KShs
Credit risk weighted assets	83,761,396,700	64,556,075,800
Market risk weighted assets	3,024,031,486	2,025,180,576
Operational risk weighted assets	10,789,263,750	8,541,089,375
Total risk weighted assets	**97,574,691,936**	**75,122,345,751**
Deposits from customers	**74,846,991,847**	**69,778,981,922**
Capital ratios		
Core capital/total deposit liabilities (CBK min 8%)	19.64%	17.00%
Core capital /total risk weighted assets (CBK min 8%)	15.07%	15.79%
Total capital /total risk weighted assets (CBK min 12%)	19.01%	16.12%

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 capital is analyzed in two tiers:

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

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

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

The Group's Tanzanian banking subsidiary had the following capital adequacy ratios as at 31st December 2013:

Tier I (Minimum required 10%)	- 13.59%	(2012: 14.99%)
Tier I + Tier II (Minimum required 12%)	- 13.59%	(2012: 14.99%)

Regulatory capital – Rwanda

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

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

3. RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(e) Capital management (continued)

Regulatory capital – Rwanda (continued)

The National Bank of Rwanda (BNR) sets and monitors capital requirements for the Bank as a whole.

In implementing its current capital requirements, BNR, requires Banks in Rwanda to maintain a prescribed ratio of total capital to total risk-weighted assets.

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

The Bank's Tier 1 capital expressed as a percentage of risk-weighted assets was 23.6% as at 31st December 2013 (2012 – 22.4%).

Regulatory Capital – Mauritius

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

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

The Bank's objectives when managing capital are:

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

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

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

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

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

For the Group's Mauritian banking entity, total capital base stood at Rs 1.67 billion (KShs 4.81 billion) as at 31st December 2013, representing an increase of approx. Rs 273m (KShs 783.8 million) over last year. Tier 1 capital expanded by Rs 213m (KShs 612.3 million) contributed to a large extent by the injection of additional share capital of Rs180m (KShs 517 million). Tier 2 capital increased to Rs 505m (KShs 1.45 billion) as at 31st December 2013 with additional subordinated debts of Rs100m (KShs 287.2 million) raised moderated by the amortization of existing long term debts.

The ratio of its capital to aggregate risk weighted assets being the Capital Adequacy Ratio as at 31st December 2013 was 12.97% (2012 – 11.18%)

3. RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(f) Compliance and regulatory risk

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

(g) Environmental and social risks

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

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

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

4. 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 under Notes to the Consolidated Financial Statements – Significant Accounting Policies – Note 2(k)(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.

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 2(n).

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(o)(ii). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

4. USE OF ESTIMATES AND JUDGEMENT (CONTINUED)

Critical accounting judgements in applying the Group's accounting policies

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

In classifying financial assets as held to maturity, the Group has determined that it has both positive intention and ability to hold the assets until their maturity date as required by accounting policy 2(k)(ii).

5. FAIR VALUE HIERARCHY FOR ASSETS CARRIED AT FAIR VALUE

The tables below shows an analysis of the fair value hierarchy of the Group's assets held at fair value as at 31st December 2013 and 2012:

	Level 1 KShs	Level 2 KShs	Level 3 KShs	Total KShs
31 December 2013				
Assets				
Investment securities at fair value	8,828,727,000	103,005,632	32,856,776	8,964,589,408
Property and equipment	-	-	2,608,195,742	2,608,195,742
Total	**8,828,727,000**	**103,005,632**	**2,641,052,518**	**11,572,785,150**
31 December 2012				
Investment securities at fair value	6,251,459,000	166,450,817	21,951,218	6,439,861,035
Property and equipment	-	-	2,129,369,021	2,129,369,021
Total	**6,251,459,000**	**166,450,817**	**2,151,320,239**	**8,569,230,056**

6. OPERATING SEGMENTS

The Group operations are within three geographical segments, Kenya, Tanzania and Rwanda. The table below contains segmental information for the period ended 31 December 2013.

2013	Kenya KShs	Tanzania KShs	Rwanda KShs	Total KShs
Net interest income	7,045,718,291	657,824,126	1,184,171,903	8,887,714,320
Net fee, commission and other income	2,174,041,565	212,518,937	1,051,430,218	3,437,990,720
Operating income	**9,219,759,856**	**870,343,063**	**2,235,602,121**	**12,325,705,040**
Operating expenses	(2,819,869,625)	(460,760,078)	(1,391,524,512)	(4,672,154,215)
Impairment on loans and advances	(467,874,581)	(60,683,283)	56,468,892	(472,088,972)
Profit before tax	**5,932,015,650**	**348,899,702**	**900,546,501**	**7,181,461,853**
Profit after tax	**4,188,465,850**	**204,807,617**	**581,682,736**	**4,974,956,203**
Loans and advances to customers	**73,369,587,567**	**10,045,192,103**	**8,467,884,236**	**91,882,663,906**
Customer deposits	**74,494,274,534**	**10,516,044,070**	**12,135,249,797**	**97,145,568,401**

6. OPERATING SEGMENTS (CONTINUED)

2012	Kenya KShs	Tanzania KShs	Rwanda KShs	Total KShs
Net interest income	4,931,165,665	486,379,204	577,461,574	5,995,006,443
Net fee, commission and other income	2,096,969,562	190,952,220	701,034,674	2,988,956,456
Operating income	**7,028,135,227**	**677,331,424**	**1,278,496,248**	**8,983,962,899**
Operating expenses	(2,416,802,934)	(361,777,041)	(797,961,470)	(3,576,541,445)
Impairment on loans and advances	**(14,167,545)**	**(9,947,072)**	**29,005,714**	**4,891,097**
Profit before tax	**4,597,164,748**	**305,607,311**	**509,540,492**	**5,412,312,551**
Profit after tax	**3,331,799,647**	**197,719,109**	**590,038,705**	**4,119,557,461**
Loans and advances to customers	**55,374,812,294**	**8,333,881,258**	**7,304,266,571**	**71,012,960,123**
Customer deposits	**65,640,244,868**	**10,238,347,228**	**11,895,556,474**	**87,774,148,570**

7. INTEREST INCOME

	2013 KShs	2012 KShs
(a) Group		
Loans and advances to customers	11,698,335,975	10,127,213,929
Placements with Financial Institutions	174,423,300	539,270,529
Interest received from balances with bank	3,573,424	-
Investment securities:		
- Held-to-maturity	1,847,981,307	1,395,203,905
- Available-for-sale	758,944,184	657,135,085
	14,483,258,190	**12,718,823,448**
(b) Company		
Interest received from balances with bank	**5,109,104**	**2,931,884**

8. INTEREST EXPENSE

	2013 KShs	2012 KShs
Group		
Deposits from customers	5,077,342,507	6,341,372,565
Deposits from banks	197,357,001	162,922,963
Borrowings	320,844,362	219,521,477
	5,595,543,870	**6,723,817,005**

9. NET FEE AND COMMISSION INCOME

	2013 KShs	2012 KShs
Group		
Fee and commission income		
Commissions	1,298,403,639	1,043,061,574
Service fees	661,388,280	535,495,470
	1,959,791,919	**1,578,557,044**
Fee and commission expense		
Inter bank transaction fees	(28,771,660)	(29,844,444)
Other	(35,266,233)	(37,148,784)
	(64,037,893)	**(66,993,228)**
Net fee and commission income	**1,895,754,026**	**1,511,563,816**

10. OTHER INCOME

(a) Other operating income

	2013 KShs	2012 KShs
Group		
Income from foreign exchange dealings	1,299,550,190	1,092,048,764
Rental income	114,635,865	79,343,178
Profit on sale of property and equipment	9,529,619	6,678,817
Profit on sale of available-for-sale		
Investment securities	102,171,205	210,335,118
Other	16,349,815	88,986,763
	1,542,236,694	**1,477,392,640**

(b) Dividend income

	2013 KShs	2012 KShs
Company		
Dividend from I&M Bank Limited	**757,262,537**	**54,533,908**

11. OPERATING EXPENSES

	2013 KShs	2012 KShs
(a) Group		
Staff costs		
Salaries and wages	1,962,233,378	1,452,103,389
Contributions to defined contribution plan	84,433,056	61,752,225
Other staff costs	390,134,866	301,229,639
	2,436,801,300	**1,815,085,253**
Premises and equipment costs		
Rental of premises	203,963,185	146,083,763
Electricity	32,743,714	24,796,708
Other premises and equipment costs	152,559,070	132,666,436
	389,265,969	**303,546,907**
General administration expenses		
Deposit protection fund contribution	112,650,263	96,221,362
Loss on disposal of property and equipment	145,935	131,054
General administrative expenses	1,288,320,172	974,632,813
	1,401,116,370	**1,070,985,229**
Depreciation and amortisation		
Leasehold improvements	75,762,619	64,316,079
Fixtures, fittings and equipment	71,195,877	68,373,076
Computers	64,216,636	58,740,758
Motor vehicles	25,688,262	19,771,895
Leasehold building	61,331,014	45,130,280
Depreciation on property and equipment (Note 20)	298,194,408	256,332,088
Amortisation of intangible assets (Note 21(b))	141,997,314	125,813,114
Amortisation of prepaid operating lease rentals (Note 22)	4,778,855	4,778,854
	444,970,577	**386,924,056**

11. OPERATING EXPENSES (CONTINUED)

	2013 KShs	2012 KShs
(b) Company		
General administration expenses		
Directors' fees	5,104,029	925,000
Audit fees	2,060,900	522,000
Secretarial fees	2,953,560	1,593,789
Professional fees	1,274,632	734,678
Regulatory fees, levies and charges	1,180,751	847,132
Capital restructuring costs	8,398,759	-
Printing and stationery	287,838	-
Advertising costs	2,139,755	-
Insurance	270,889	-
Other operating expenses	640,080	885,886
	24,311,194	**5,508,485**

12. PROFIT BEFORE INCOME TAX

	2013 KShs	2012 KShs
Group		
Profit before income tax is arrived at after charging/(crediting):		
Depreciation	298,194,408	256,332,088
Amortisation of intangible assets	141,997,314	125,813,114
Directors' emoluments: - Fees	29,955,267	17,297,194
- Other emoluments	23,701,696	19,544,493
Auditors' remuneration	15,777,812	8,635,659
Amortisation of prepaid operating lease rentals	4,778,855	4,778,854
Net profit on sale of property and equipment	9,383,684	(6,547,763)
Company		
Profit before income tax is arrived at after charging/(crediting):		
Directors' emoluments: - Fees	4,625,000	575,000
- Other emoluments	479,029	-
Auditors' remuneration	2,060,900	522,000
Interest income	5,109,104	2,931,884
Dividend Income	757,262,537	54,533,908

13. TAXATION

(a) Income tax expense

	2013 KShs	2012 KShs
(i) Group		
Current period's tax	2,439,914,201	1,698,186,437
Under provision in prior period - Current tax	1,832,759	(41,564,338)
Over provision in prior period - Deferred tax	58,123,892	-
	2,499,870,852	1,656,622,099
Deferred tax credit (Note 23)	(217,033,021)	(73,875,224)
Income tax expense	**2,282,837,831**	**1,582,746,875**
The tax on the Group's profit differs from the theoretical amount using the basic tax rate as follows:		
Accounting profit before taxation	**7,257,794,034**	**5,702,304,336**
Computed tax using the applicable corporation tax rate	2,185,496,569	1,662,162,838
Under provision in the prior year	1,832,759	(40,120,734)
Effect on non-deductible costs	57,242,090	(14,025,431)
Under provision in prior year – Deferred tax	58,123,892	(25,269,798)
Prior period tax recoverable	(4,522,390)	-
Tax discount in accordance with Rwandan tax laws	(15,335,089)	-
	2,282,837,831	**1,582,746,875**
(ii) Company		
Current period's tax at 30%	1,532,731	810,349
Final withholding tax at 5%	-	2,726,695
Income tax expense	**1,532,731**	**3,537,044**
The tax on the Company's profit differs from the theoretical amount using the basic tax rate as follows:		
Accounting profit before taxation	**738,060,447**	**51,957,307**
Computed tax using the applicable corporation tax rate	221,418,134	15,587,192
Effect of income taxed at lower rate (5%)	-	(13,633,477)
Effect of income not taxable	(227,178,761)	-
Effect on non-deductible costs	7,293,358	1,583,329
	1,532,731	**3,537,044**

13. TAXATION (CONTINUED)

(b) Tax payable

	2013 KShs	2012 KShs
(i) Group		
At 1 January	107,095,241	313,210,128
Income tax expense (Note 13 ((a)(i))	2,441,746,959	1,656,622,099
Effect of tax in foreign jurisdiction	(2,377,845)	51,603,180
Tax paid	(1,976,858,902)	(1,914,340,166)
At 31 December	**569,605,453**	**107,095,241**
Recorded as follows:		
Tax recoverable	(107,280)	(2,909,947)
Tax payable	569,712,733	110,005,188
Net payable	**569,605,453**	**107,095,241**
(ii) Company		
At 1 August	(113,263)	127,735
Charge for the period	(1,532,731)	(3,537,044)
Tax paid	1,753,274	3,296,046
At 31 December	**107,280**	**(113,263)**

14. EARNINGS PER SHARE

	Group		Company	
	2013	2012	2013	2012
Net profit after tax for the period (KShs)	**4,611,066,096**	**3,860,460,435**	**736,527,716**	**48,420,263**
Weighted average number of ordinary shares in issue during the period	**392,362,039**	**392,362,039**	**392,362,039**	**28,640,005**
Earnings per share (KShs)	**11.75**	**9.84**	**1.88**	**1.69**

15. CASH AND BALANCES WITH CENTRAL BANKS

	2013 KShs	2012 KShs
(a) Group		
Cash on hand	1,519,136,896	1,272,793,707
Balances with Central Banks:		
- Restricted balances (Cash Reserve Ratio)	5,752,974,264	5,041,222,170
- Unrestricted balances	1,661,843,981	430,116,779
	8,933,955,141	**6,744,132,656**
(b) Company		
Bank balance	21,577,370	3,175,670
Short term deposits	3,153,770	57,768,144
	24,731,140	**60,943,814**

16. PLACEMENTS WITH FINANCIAL INSTITUTIONS

	2013 KShs	2012 KShs
Group		
Due within 90 days	6,050,626,986	6,774,013,121
Due after 90 days	-	-
	6,050,626,986	**6,774,013,121**

The Group's weighted average effective interest rate on placements with financial institutions at 31st December 2013 was 7.15% (2012 – 6.69 %).

17. LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

	2013 KShs	2012 KShs
Group		
Overdrafts	32,136,433,855	26,478,682,882
Loans	59,589,235,288	43,925,723,218
Bills discounted	286,902,412	662,384,822
Hire purchase	1,870,055,737	1,437,555,240
Gross loans and advances	**93,882,627,292**	**72,504,346,162**
Less: Impairment losses on loans and advances	(1,999,963,386)	(1,491,386,039)
Net loans and advances	**91,882,663,906**	**71,012,960,123**
Repayable on demand	24,569,977,509	23,987,583,948
Less than 3 months	8,056,859,134	5,074,611,406
3 months to 1 year	11,566,385,550	7,521,553,556
1 to 5 years	29,829,778,985	22,413,048,135
5 to 10 years	16,161,237,804	12,083,802,915
Over 10 years	3,698,388,310	1,423,746,202
Gross loans and advances	**93,882,627,292**	**72,504,346,162**

(b) Impairment losses reserve

Group

	Specific impairment losses KShs	Portfolio impairment provision KShs	Total KShs
2013:			
At 1 January 2013	777,224,163	714,161,876	1,491,386,039
Impairment made in the period	96,251,622	509,855,408	606,107,030
Recoveries and impairment no longer required	(56,968,395)	-	(56,968,395)
Net recoveries, write offs during the period	(4,113,792)	-	(4,113,792)
Amounts written off during the period	(20,875,432)	-	(20,875,432)
Translation difference	(9,272,026)	(6,300,038)	(15,572,064)
At 31 December 2013	**782,246,140**	**1,217,717,246**	**1,999,963,386**

17. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Impairment losses reserve (continued)

Group (continued)

	Specific impairment losses KShs	Portfolio impairment provision KShs	Total KShs
2012:			
At 1 January 2012	834,273,135	595,817,682	1,430,090,817
Acquisition of subsidiary	140,919,837	57,416,864	198,336,701
Impairment made in the period	102,206,416	60,939,911	163,146,327
Recoveries and impairment no longer required	(125,450,427)	-	(125,450,427)
Net recoveries, write offs during the period	(51,283,930)	-	(51,283,930)
Amounts written off during the period	(124,138,171)	-	(124,138,171)
Translation difference	697,303	(12,581)	684,722
At 31 December 2012	**777,224,163**	**714,161,876**	**1,491,386,039**

(c) Impairment losses on loans and advances

	2013 KShs	2012 KShs
Group		
Impairment made in the period	606,107,030	163,146,327
Recoveries and impairment no longer required	(56,968,395)	(125,450,427)
Recoveries of loans and advances written off	(78,149,752)	(46,565,797)
Amounts directly written off during the period	1,100,089	3,978,800
	472,088,972	**(4,891,097)**

The Group's weighted average effective interest rate on loans and advances to customers at 31st December 2013 was 14.35% (2012 – 16.49%).

18. INVESTMENT SECURITIES

	2013 KShs	2012 KShs
Group		
Available-for-sale		
Corporate bonds	677,463,026	864,613,516
Treasury bonds	7,153,679,008	5,575,247,268
Treasury bills	1,133,447,000	-
Total available-for-sale	8,964,589,034	6,439,860,784
Held-to-maturity		
Treasury bonds	10,163,169,598	10,457,572,701
Treasury bills	7,069,643,497	10,302,353,990
Other investment securities	-	122,428,630
Total held-to-maturity	17,232,813,095	20,882,355,321
Total investment securities	**26,197,402,129**	**27,322,216,105**

The weighted average effective interest rate on Government securities at 31st December 2013 was 10.21% (2012 – 9.70%).
The weighted average effective interest rate on Corporate bonds at 31st December 2013 was 12.20% (2012 – 11.67%).

19. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES

The Company holds investments in subsidiaries in Tanzania and Rwanda and a joint venture in Mauritius through I&M Bank Limited ("Bank"). All the three entities have been consolidated with the results of I&M Bank Limited.

(a) Investment in joint venture

The Bank has 50% (2012 - 50%) control over Bank One Limited (formerly First City Bank Limited – Mauritius) with the other joint venturer, CIEL Investments Limited.

	2013 KShs	2012 KShs
Balance at start of the year	2,066,667,578	1,840,951,353
Additional investment in the year	253,276,870	-
Share of profit for the year	76,332,182	289,991,785
Restatement of opening balance on adopting IAS 19	(22,036,978)	383,577
Dividends received	-	(42,300,000)
Share of Fair value reserve	-	15,164,204
Movement in Translation Reserve	37,733,075	(37,523,341)
Balance at end of the year	**2,411,972,727**	**2,066,667,578**

19. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES (CONTINUED)

(a) Investment in joint venture (continued)

Percentage ownership Interest	2013 50%	2012 50%
Non-current assets	1,071,093,326	1,082,129,972
Current assets (including cash and cash equivalents)	49,760,914,103	53,558,220,077
Non-current liabilities	(2,611,214,530)	(1,966,464,232)
Current liabilities	(44,347,658,748)	(49,491,361,963)
Net assets (100%)	3,873,134,151	3,182,523,854
Group's share of net assets (50%)	1,936,567,076	1,591,261,927
Goodwill	475,405,651	475,405,651
Carrying amount of interest in Joint Venture	**2,411,972,727**	**2,066,667,578**
Interest income	2,764,616,837	2,577,652,056
Interest expense	(1,382,362,457)	(1,446,467,641)
Other income	143,787,935	715,281,101
Operating expenses	(1,296,885,935)	(1,205,737,029)
Income tax expense	(76,492,016)	(60,744,916)
Profit and total comprehensive income (100%)	152,664,364	579,983,571
Profit and total comprehensive income (50%)	76,332,182	289,991,785
Group's share of profit and total comprehensive income	**76,332,182**	**289,991,785**
Dividends received by the Group	**-**	**42,300,000**

(b) Investment in subsidiaries

Company:	Activity	Interest	2013 KShs	2012 KShs
I&M Bank Limited	Commercial banking	100.00	17,968,778,424	273,701,470
Kenstock Limited	Dormant	100.00	1 ,605,600	1,605,600
			17,970,384,024	**275,307,070**

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

Company	Activity	Jurisdiction	Shareholding
I&M Bank (T) Limited	Commercial Banking	Tanzania	55.03%
I&M Bank (Rwanda) Limited	Commercial Banking	Rwanda	54.99%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2013 (CONTINUED)

19. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES (CONTINUED)

b) Investment in subsidiaries (continued)

	I&M Bank Limited		I&M Bank (T) Limited		I&M Bank (Rwanda) Limited	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 Sh'000
Summarised statement of financial position						
Total assets	10,315,682	91,519,623	6,756,669	5,940,001	16,230,197	15,395,694
Total liabilities	89,791,048	74,928,803	5,749,824	5,109,680	13,811,653	13,243,611
Net assets	**20,524,634**	**16,590,820**	**1,006,846**	**830,322**	**2,418,544**	**2,152,083**
Summarised statement of profit or loss and other comprehensive income						
Net interest income	7,042,145	4,931,166	654,364	486,257	1,166,581	1,082,366
Profit before income tax	6,059,817	4,721,540	321,557	284,739	871,537	828,535
Taxation	(1,865,382)	(1,358,647)	(116,749)	(89,089)	(289,854)	(238,496)
Profit for the year	**4,194,435**	**3,362,893**	**204,808**	**195,650**	**581,683**	**590,039**
Summarised statement of cash flows						
Net cash generated from/(used in) operating activities	(22,849,091)	(9,140,128)	(1,523,307)	216,831	(463,721)	2,652,301
Net cash used in from investing activities	19,795,659	2,275,131	(36,400)	(53,236)	(58,509)	(146,840)
Net cash generated from financing activities	6,458,318	(45,114)	(29,328)	395,230	(268,443)	(258,203)
Net decrease in cash and cash equivalents	3,404,886	(6,910,111)	(1,589,036)	558,825	(790,673)	2,247,257
Cash and cash equivalents at beginning of year	(2,320,858)	4,589,253	844,094	285,269	5,083,502	3,237,843
Cash and cash equivalents at end of year	**1,084,028**	**(2,320,858)**	**(744,942)**	**844,094**	**4,292,829**	**5,485,101**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2013 (CONTINUED)

20. PROPERTY AND EQUIPMENT- GROUP

2013:	Leasehold buildings KShs	Leasehold improvements KShs	Furniture, fittings, fixtures & office, equipment KShs	Computers KShs	Motor vehicles KShs	Capital work in progress KShs	Total KShs
Cost/valuation							
At 1 January 2013	1,424,112,060	565,338,128	886,533,681	493,261,133	219,916,990	22,850,977	3,612,012,969
Additions	37,414,770	42,287,953	43,833,527	36,878,868	9,120,678	162,353,587	331,889,383
Reclassifications	(2,361,944)	-	(183,144)	(152,692)	27,821	-	(2,669,959)
Transfers	-	80,757,712	(88,387,381)	9,493,694	-	(1,864,025)	-
Disposals/write off	(7,592,079)	-	(7,652,942)	(17,852,756)	(682,027)	-	(33,779,804)
Surplus on revaluation	400,000,000	-	-	-	-	-	400,000,000
Translation difference	(34,141,604)	-	(20,232,204)	(11,200,323)	(11,153,674)	(1,092,987)	(77,820,792)
At 31 December 2013	1,817,431,203	688,383,793	813,911,537	510,427,924	217,229,788	182,247,552	4,229,631,797
Depreciation							
At 1 January 2013	168,071,946	312,158,200	483,025,183	360,809,673	158,578,946	-	1,482,643,948
Acquisition of Subsidiary	-	-	-	-	-	-	-
Reclassifications	-	12,434,046	(14,635,699)	1,865,816	27,821	-	(308,016)
Charge for the period	61,331,014	75,762,619	71,195,877	64,216,636	25,688,262	-	298,194,408
On disposals	(6,307,085)	-	(6,721,607)	(17,852,756)	(497,138)	-	(31,378,586)
Reversal on revaluation	(91,506,129)	-	-	-	-	-	(91,506,129)
Translation difference	(7,752,365)	(45,458)	(10,634,816)	(9,827,723)	(7,949,208)	-	(36,209,570)
At 31 December 2013	123,837,381	400,309,407	522,228,938	399,211,646	175,848,683	-	1,621,436,055
Net book value							
At 31 December 2013	**1,693,593,822**	**288,074,386**	**291,682,599**	**111,216,278**	**41,381,105**	**182,247,552**	**2,608,195,742**
Net book value - Cost basis							
At 31 December 2013	**730,732,356**	**288,074,386**	**291,682,599**	**111,216,278**	**41,381,105**	**182,247,552**	**1,645,334,276**

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.

20. PROPERTY AND EQUIPMENT- GROUP (CONTINUED)

2012:	Leasehold buildings KShs	Leasehold improvements KShs	Furniture, fittings, fixtures and office, equipment KShs	Computers KShs	Motor vehicles KShs	Capital work in progress KShs	Total KShs
Cost/valuation							
At 1 January 2012	950,000,000	534,082,076	413,921,292	184,973,857	43,886,083	50,635,507	2,177,498,815
Acquisition of Subsidiary	459,640,679	-	312,314,929	174,279,591	156,058,557	37,050,345	1,139,344,101
Additions	1,080,976	83,609,601	61,747,131	138,714,424	23,706,541	27,165,961	336,024,634
Reclassifications	-	(53,459,155)	85,206,526	5,509,629	-	(37,257,000)	-
Transfers	36,160,328	-	19,588,120	-	-	(55,748,448)	-
Disposals/write off	(22,129,981)	-	(6,570,906)	(10,459,351)	(3,638,624)	-	(42,798,862)
Translation difference	(639,942)	1,105,606	326,589	242,983	(95,567)	1,004,612	1,944,281
At 31 December 2012	1,424,112,060	565,338,128	886,533,681	493,261,133	219,916,990	22,850,977	3,612,012,969
Depreciation							
At 1 January 2012	54,903,679	252,606,682	233,387,171	150,854,515	32,466,629	-	724,218,676
Acquisition of Subsidiary	68,150,401	-	184,139,890	160,018,191	109,761,570	-	522,070,052
Reclassifications	-	(4,863,944)	3,251,054	1,612,890	-	-	-
Charge for the period	45,130,280	64,316,079	68,373,076	58,740,758	19,771,895	-	256,332,088
On disposals	-	-	(6,203,425)	(10,445,838)	(3,322,500)	-	(19,971,763)
Translation difference	(112,414)	99,383	77,417	29,157	(98,648)	-	(5,105)
At 31 December 2012	168,071,946	312,158,200	483,025,183	360,809,673	158,578,946	-	1,482,643,948
Net book value							
At 31 December 2012	**1,256,040,114**	**253,179,928**	**403,508,498**	**132,451,460**	**61,338,044**	**22,850,977**	**2,129,369,021**
Net book value – Cost							
At 31 December 2012	**747,792,255**	**253,179,928**	**403,508,498**	**132,451,460**	**61,338,044**	**22,850,977**	**1,621,121,162**

21. INTANGIBLE ASSETS

(a) Goodwill

	2013 KShs	2012 KShs
Group		
I&M Bank Limited, Kenya	1,194,834	-
I&M Bank (T) Limited	608,952,550	608,952,550
Biashara Bank of Kenya Limited	10,746,998	10,746,998
I&M Bank (Rwanda) Limited	553,706,468	553,706,468
	1,174,600,850	**1,173,406,016**

The recoverable amounts for I&M Bank (T) Limited and I&M Bank (Rwanda) Limited have been calculated based on their value in use, determined by discounting the future cash flows expected to be generated from the continuing use of the Cash Generating Unit (CGU). The present value of the recoverable amounts on I&M Kenya's share were KShs 3.46 billion and KShs 2.35 billion for I&M Bank (T) Limited and I&M Bank (Rwanda) Ltd respectively. No impairment losses were recognised during 2013, 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	I&M (Rwanda) Ltd
5 year risk free rate	9.18%	11.25%
Risk premium	13.00%	14.00%
Terminal growth rate	3.00%	2.50%
Exchange rate	KShs 1 = Tzs 18.52	KShs 1 = Rwf 7.80

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

In the opinion of the Directors, there was no impairment of goodwill during the period.

(b) Computer software

Group

2013:	Software KShs	Capital work in progress KShs	Total KShs
Cost			
At 1 January as previously stated	689,704,668	78,965,067	768,669,735
Transfers	78,965,067	(78,965,067)	-
Additions	75,945,492	-	75,945,492
Exchange differences	(13,848,252)	-	(13,848,252)
At 31 December	830,766,975	-	830,766,975

21. INTANGIBLE ASSETS (CONTINUED)

(b) Computer software (continued)

Group (continued)

2013:	Software KShs	Capital work in progress KShs	Total KShs
Amortisation			
At 1 January as previously stated	525,757,776	-	525,757,776
Acquisition of subsidiary	-	-	-
Amortisation for the period	141,997,314	-	141,997,314
Exchange differences	(11,995,857)	-	(11,995,857)
At 31 December	655,759,233	-	655,759,233
Net carrying amount at 31 December 2013	**175,007,742**	**-**	**175,007,742**

2012:	Software KShs	Capital work in progress KShs	Total KShs
Cost			
At 1 January as previously stated	314,478,426	-	314,478,426
Acquisition of subsidiary	155,686,058	-	155,686,058
Additions	219,324,704	78,965,067	298,289,771
Exchange differences	215,480	-	215,480
At 31 December	689,704,668	78,965,067	768,669,735
Amortisation			
At 1 January as previously stated	258,615,541	-	258,615,541
Acquisition of subsidiary	141,362,384	-	141,362,384
Amortisation for the period	125,813,114	-	125,813,114
Exchange differences	(33,263)	-	(33,263)
At 31 December	525,757,776	-	525,757,776
Net carrying amount at 31 December 2012	**163,946,892**	**78,965,067**	**242,911,959**

22. PREPAID OPERATING LEASE RENTALS

	2013 KShs	2012 KShs
Group		
Cost		
At 1 January	262,952,943	262,952,943
Additions	-	-
At 31 December	262,952,943	262,952,943
Amortisation		
At 1 January	16,848,757	12,069,903
Charge for the period	4,778,855	4,778,854
At 31 December	21,627,612	16,848,757
Net carrying amount at 31 December	**241,325,331**	**246,104,186**

23. DEFERRED TAX (ASSET/LIABILITIES)

(a) The deferred tax asset and liabilities computed at the enacted rate of 30% is attributed to the following items:

	2013 KShs	2012 KShs
Deferred tax asset		
Plant and equipment	(4,415,439)	23,139,920
General provisions	(341,300,824)	(210,737,224)
Other provisions	(131,335,536)	(128,904,532)
Fair value gains on available for sale equity investment	(72,648,993)	(4,018,680)
Total	(549,700,792)	(320,520,516)
Deferred tax liabilities		
On revaluation of property and equipment	189,704,040	42,699,290
Net deferred tax assets	**(359,996,752)**	**(277,821,226)**
Disclosed in the statement of financial position as follows:		
Deferred tax assets	(386,284,819)	(295,056,908)
Deferred tax liabilities	26,288,067	17,235,682

23. DEFERRED TAX (ASSET/LIABILITIES) (CONTINUED)

(b) Movement in deferred tax asset is as follows:

	2013 KShs	2012 KShs
As previously reported	(354,991,880)	(270,749,496)
- prior year adjustment	42,699,290	42,699,290
- as restated	(277,821,226)	(228,050,206)
Exchange differences	2,377,845	24,104,204
Charge to profit or loss account – current year	(217,033,021)	(73,875,224)
- prior year overprovision	58,123,892	-
Recognised in other comprehensive income – current year	133,297,779	-
- prior year	(58,942,021)	-
	(359,996,752)	**(277,821,226)**

24. OTHER ASSETS

	2013 KShs	2012 KShs
Group		
Items in transit	491,742,685	792,434,973
Rent receivable	30,793,678	1,284,685
Prepayments	252,633,043	218,464,978
Other receivables	363,232,878	211,412,776
	1,138,402,284	**1,223,597,412**

25. DEPOSITS FROM BANKS

	2013 KShs	2012 KShs
Group		
Payable within one year	**6,411,628,429**	**5,877,198,410**

The Group's weighted average effective interest rate on deposits from other banks and banking institutions at 31st December 2013 was 9.11% (2012 – 6.29%).

26. DEPOSITS FROM CUSTOMERS

	2013 KShs	2012 KShs
Group		
Government and Parastatals	3,466,277,240	2,818,503,722
Private sector and individuals	93,679,291,161	84,955,644,848
	97,145,568,401	**87,774,148,570**

The Group's weighted average effective interest rate on interest bearing deposits from customers at 31st December 2013 was 5.12% (2012 – 7.71%).

27. OTHER LIABILITIES

	2013 KShs	2012 KShs
Group		
Bankers cheques payable	361,362,041	416,779,842
Accruals	810,069,297	628,115,994
Other accounts payables	625,309,111	595,750,938
	1,796,740,449	**1,640,646,774**
Company		
Audit fees	1,840,200	522,000
Taxation fees	373,560	515,917
Secretarial fees	186,055	89,487
Accountancy fees	87,000	90,000
Directors' fees	687,500	-
Dividends payable	11,387,821	5,837,797
Due to subsidiary company (Kenstock Limited)	13,356,081	13,527,081
	27,918,217	**20,582,182**

28. LONG TERM BORROWINGS

	2013 KShs	2012 KShs
Group		
Less than one year	1,055,235,292	852,120,740
One to five years	5,685,464,695	3,435,122,280
Over five years	4,831,950,453	159,176,547
	11,572,650,440	**4,446,419,567**

28. LONG TERM BORROWINGS (CONTINUED)

Long term borrowings constituted the following:

(i) USD 5,500,000 facility granted on 12th November 2008 by PROPARCO repayable quarterly over five years. This facility was fully repaid by December 2013.

(ii) EUR 1,000,000 facility granted on 12th November 2008 by PROPARCO repayable quarterly over five years. This facility was fully repaid by December 2013.

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

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

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

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

(vii) KShs 10,000,000,000 medium term unsecured subordinated fixed and floating rate notes. The notes are issuable in 3 tranches and the first KShs 3,655,000,000 was issued on 16th December 2013 for a tenor of 5 years with redemption on the maturity date. The second and third tranches will be issued in 2014 and 2015 respectively.

(viii) USD 5,000,000 facility was granted on 3rd July 2012 by PROPARCO repayable semi-annually for seven years and four months.

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

(x) EUR 3,000,000 facility granted on 20th June 2007 by European Investment Bank repayable semi-annually over eight years after an initial two years grace period.

(xi) Rwf 902,394,000 development funds availed from the Government of Rwanda through the National Bank of Rwanda for growth in agriculture and housing sectors of the economy. Repayments were based on individual customer loan agreements.

The Group's average effective interest rate on foreign currency long term borrowings was 3.98% (2012 –4.61%).

The Group's average effective interest rate on the unsecured Floating Rate Note was 10.64% (2012 – 12.87%).

The Group's average effective interest rate on the medium term unsecured fixed and floating rate note was 12.58% (2012 – Nil).

Loan movement schedule

	2013 KShs	2012 KShs
Group		
At 1 January	4,446,419,567	2,969,262,404
Funds received	8,022,500,000	1,689,036,526
Payments on principal and interest	(888,629,301)	(591,238,642)
Interest payable	21,980,695	3,533,793
Acquisition of subsidiary	-	375,825,486
Translation differences	(29,620,521)	-
At 31 December	**11,572,650,440**	**4,446,419,567**

29. SHARE CAPITAL AND RESERVES

(a) Share capital and share premium - Company

Authorised:		
500,000,000 ordinary shares of KShs 1 each (2012: 10,000,000 ordinary shares of KShs 5 each)	500,000,000	50,000,000
Issued and fully paid:		
392,362,039 ordinary shares of KShs 1 (2012: 5,728,001 ordinary shares of KShs 5 each)	392,362,039	28,640,005

Movement of share capital and premium

	Number of shares	Share capital KShs	Share premium KShs	Total KShs
At 30 June 2013 - pre-merger	28,640,005	28,640,005	155,000	28,795,005
New shares issued	363,722,034	363,722,034	17,331,354,920	17,695,076,954
At 30 June 2013 – post-merger	392,362,039	392,362,039	17,331,509,920	17,723,871,959

The Company carried out a share split, so that each of its shareholders received 5 shares for every share it held, resulting in the par value per ordinary share reducing from Ksh 5.00 to KShs 1.00 per share. The Company then increased its share capital from KShs 50 million to KShs 500 million by the creation of 450 million shares of KShs 1 each to rank parri passu in all respects with the existing shares.

It then issued 363,722,034 shares of par value Ksh 1.00 each to all the other shareholders of I&M Bank in the ratio of 13.62 shares in the Company for each shares in I&M Bank Limited. The shares were issued at a premium of KShs 47.65 based on the swap value of KShs 48.65 per share.

(b) Share capital and share premium – Group

The amount recognised as issued equity interests in the consolidated financial statements has been determined by adding the issued equity interest of I&M Bank Limited (the "legal subsidiary" and "accounting acquirer") outstanding immediately before the business combination to the fair value of I&M Holdings Limited ("the legal parent and accounting acquiree").

However, the equity structure (i.e. the number and type of equity interests issued) reflects the equity structure of I&M Holdings Limited ("the legal parent accounting acquiree"), including the equity interests the legal parent issued to effect the combination. Accordingly, the equity structure of the I&M Bank Limited has been restated using the exchange ratio established in the acquisition agreement to reflect the number of shares of I&M Holdings issued in the reverse acquisition.

(c) Revaluation reserve

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

(d) Available-for-sale reserve

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

(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.

29. 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 the joint venture in Bank One Limited, Mauritius, I&M Bank (T) Limited, Tanzania and I&M Bank (Rwanda) Limited, Rwanda into the functional currency of the Parent company.

30. NOTES TO THE CASH FLOW STATEMENT - GROUP

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

	2013 KShs	2012 KShs
Profit before income tax	7,257,794,034	5,702,304,336
Adjustments for:		
Depreciation	298,194,408	256,332,088
Amortisation of intangible asset	141,997,314	125,813,114
Amortisation of prepaid operating lease rentals	4,778,855	4,778,854
Profit on sale of property and equipment	(9,383,684)	(6,547,763)
Profit on sale of available for sale securities	(102,171,206)	(210,335,118)
Profit from Joint Venture	(76,332,182)	(289,991,785)
Exchange reserves	(77,261,003)	18,844,505
	7,437,616,536	5,601,198,231
Changes in operating assets		
Movement in loans and advances to customers	(20,869,703,783)	(17,768,866,924)
Cash and balances with Central Banks:		
– Cash Reserve Ratio	(711,752,095)	(2,101,268,851)
Investment securities	1,124,813,976	(10,255,857,778)
Other assets	85,195,128	(306,402,583)
	(20,371,446,774)	(30,432,396,136)
Changes in operating liabilities		
Customer deposits	9,371,419,831	22,946,030,017
Other liabilities	156,093,675	662,611,744
	9,527,513,506	23,608,641,761
Cash flows used in operating activities	**(3,406,316,732)**	**(1,222,556,144)**

30. NOTES TO THE CASH FLOW STATEMENT - GROUP (CONTINUED)

(b) Analyses of cash and cash equivalents

	2013 KShs	2012 KShs
Cash and balances with Central Banks		
– excluding Cash Reserve ratio (Note 16)	3,156,249,737	1,702,910,486
Deposits and balances due from banking institutions	6,075,358,126	6,774,013,121
Deposits and balances due tobanking institutions	(6,411,628,429)	(5,877,198,410)
	2,819,979,434	**2,599,725,197**

(c) Acquisition of subsidiary, net of cash used

	2013 KShs	2012 KShs
Purchase consideration settled in cash	-	(1,629,277,260)
Cash and cash equivalents in acquired subsidiary	-	3,896,363,057
Cash inflow on acquisition	**-**	**2,267,085,797**

31. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS

(a) Group - Legal proceedings

There were a number of legal proceedings outstanding against the Group as at 31st December 2013. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

(b) Contractual off-balance sheet financial liabilities

In the ordinary course of business, banking entities in the Group conduct business involving guarantees, acceptances, letters of credit and bills for collection. These facilities are offset by corresponding obligations of third parties. At the period end, the contingencies were as follows:

	2013 KShs	2012 KShs
Contingencies related to:		
Acceptances and letters of credit	15,067,382,982	16,852,957,382
Guarantees - Advances	12,795,582,441	9,782,368,322
- Central Bank of Kenya	-	79,123,945
	27,862,965,423	**26,714,449,649**
Commitments related to:		
Outstanding spot/forward contracts	7,906,232,902	7,629,404,965
	35,769,198,325	**34,343,854,614**

31. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS (CONTINUED)

(c) Nature of contingent liabilities

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

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

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

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

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

32. ASSETS PLEDGED AS SECURITY - GROUP

As at 31st December 2013, Treasury Bonds with a face value of KShs 2,265,000,000 (2012 – KShs 1,965,000,000) were held under lien in favour of the Central Bank of Kenya.

33. RELATED PARTY TRANSACTIONS

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

(a) Transactions with Directors/Shareholders

	2013 KShs	2012 KShs
(i) Loans to Directors/Shareholders	13,160,550	2,621,508
The related interest income for loans above was KShs 5,896,318 (2012 – KShs 8,002,801).		
(ii) Deposits from Directors/Shareholders	140,258,599	311,532,237
Interest expense on deposits from Directors and Shareholders was KShs 51,994,243 (2012 – KShs 109,295,847).		
(iii) Loans from Shareholders	-	1,269,950,668
Interest expense on loans from Shareholders was KShs 19,083,468 (2012 – KShs 122,439,958).		

33. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with related companies

	2013 KShs	2012 KShs
(i) Loans to related companies	16,565,434	-
Interest income on loans to related companies was KShs 3,244,849 (2012 –Nil).		
(ii) Loans from related companies	866,692,232	-
Interest expense on loans from related companies was KShs 17,378,544 (2012 –Nil).		
(iii) Deposits from related companies	1,151,853,322	60,000,000
Interest expense on deposits from related companies was KShs 56,661,967 (2012 – KShs 49,165,230).		
(iv) Loans and advances due from subsidiaries and Joint Venture	75,941,316	470,085,187
Interest income on loans and advances due from subsidiary and Joint Venture was KShs 1,428,786 (2012 – KShs 9,200,700).		
(v) Deposits from subsidiaries and Joint Venture	374,624,376	756,851,177
Interest expense on deposits from subsidiary and Joint Venture was KShs 1,718,379 (2012 – KShs 22,327,521).		

(c) Transactions with employees

	2013 KShs	2012 KShs
Staff loans	630,364,294	648,275,904
Interest earned on these loans was KShs 44,714,820 (2012 – KShs 35,011,732).		

34. CAPITAL COMMITMENTS

	2013 KShs	2012 KShs
Consolidated	777,816,460	36,687,344

35. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES – GROUP

(a) Lessee

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

	2013 KShs	2012 KShs
Less than one year	163,730,803	107,998,223
One to five years	529,389,766	298,937,178
Over five years	185,795,722	122,928,220
	878,916,291	**529,863,621**

(b) Lessor

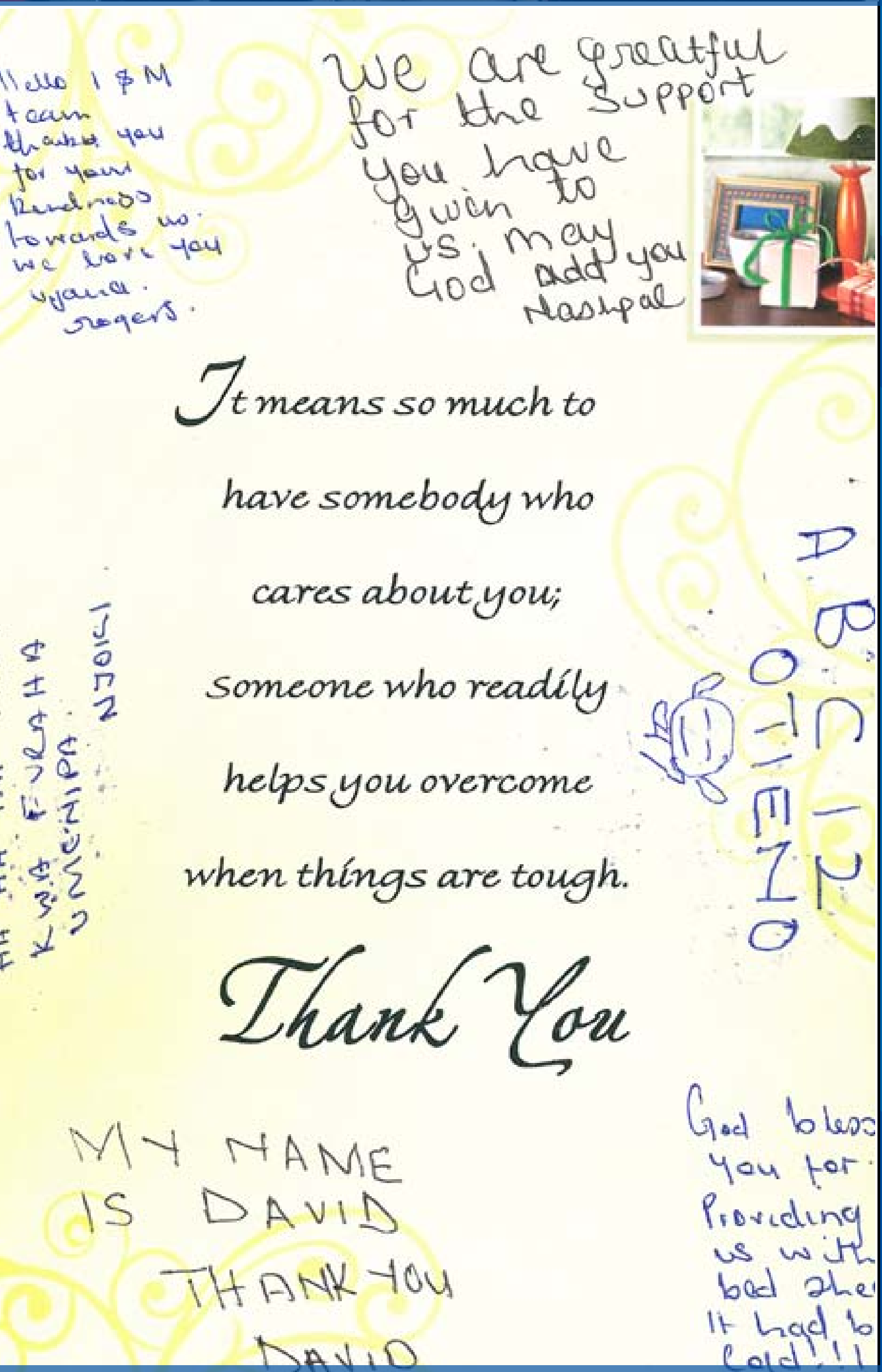
The Group leases out its buildings under operating leases. Non-cancellable operating lease rentals are receivable as follows:

	2013 KShs	2012 KShs
Less than one year	94,788,869	94,215,136
One to five years	451,233,358	446,731,68
Over five years	-	-
	546,022,227	**540,946,821**

36. EVENTS AFTER THE REPORTING DATE

The shares held by I&M Bank Limited in I&M Bank (Rwanda) Limited were transferred to I&M Holdings Limited with an effective date of 2nd January 2014. There is no other known event that has an impact on the statement of affairs of the Group after the reporting date which needs further disclosure in the financial statements.

Members of the I&M Bank (Kenya) CSR Team hold a mentoring session with the I&M Bank scholarship recipients at the Strathmore University



Teule students send I&M Bank (Kenya) a thank you card showing their appreciation for support in tuition and mentoring of students.

Nourishing the mind.

Education is one of the main aspects of community development that we at I&M Bank have been reaching out to since 2007. Our monetary contributions towards this cause have been in excess of KShs 9million and have so far extended to needy or impaired students in 4 institutions.

Next year, we are preparing to employ some of our sponsored graduating students...which for us is cause for huge pride. Minds that we have helped enrich will in turn enrich us!

As a final word, Mr Henry Konga, Project Coordinator of the Ongata Rongai Training Center said, 'It is small things done with compassion and love by people like you that change the world and make a difference...at our center.'

KENYA

As a responsible corporate citizen I&M Bank have a social responsibility to share its success with the communities where it operates. The bank has continued to deepen its relationship with various stakeholders while providing opportunities to our employees to participate in various CSR activities. I&M Bank perceives the 'community' as a key stakeholder in its business initiatives and various activities were undertaken under 4 key social pillars; Education, Health, Environment and Community Support.

EDUCATION

I&M Bank (K) Ltd contributed approximately KShs 9 million in scholarship programs for the following:

Palmhouse Foundation

The Palmhouse Foundation provides scholarships for secondary education to bright and talented children from financially challenged families. Palmhouse Foundation also mentors these children through life to help them transform their own lives and in turn that of their families. I&M Bank has been supporting this foundation since 2007 and, made a donation of KShs 4 million in 2013 for the education and mentoring of forty deserving students.

Strathmore University Scholarship Programme

Every year I&M Bank provides scholarships to 10 needy students pursuing various Finance related degree programmes for a total contribution per year of KShs 1.75 million per year. This year we are proud to announce that our first group of students will be graduating in May. We will also be preparing for intake of the 2nd set of students.

Tabitha Olang' one of the graduating students had this to say *"I joined the I&M Bank family in 2010 when they granted me a full scholarship to study BBS Actuarial Science in Strathmore University. I am grateful that they gave me a chance to pursue my love for mathematics albeit my poor background. I say I&M Bank family because, even after giving us scholarships, they also took care of us, keeping constant communication, advising us, mentoring us, priding in our achievements and also encouraging us in our failures, they even gave four of us internship opportunities in I&M Bank during our industrial attachment at the end of our third year. This was more than a scholarship, they embraced and took us in as their own children. Their support and belief in us has been my motivation to do my best in my studies and not let them down and to achieve the very best as they expected of me. Thank you I&M Bank, you were an answer to my prayers. I will forever be grateful to you."*

St Anne's Gichocho

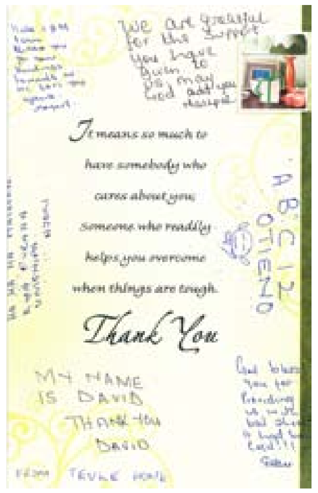
St. Anne's Gichocho Girls Secondary School is a Catholic girl's secondary school located in Gichocho approximately 4km from Ndumberi in Kiambu. I&M Bank make an annual contribution of KShs 375,000 for tuition for 5 students.

Oshwal Academy

I&M Bank sponsors talented students at Oshwal Academy for a contribution of approximately KShs 1.3 million.

Tuele Kenya

Teule Kenya is a non-governmental organization, registered in March 1996 under the NGO Act located in Oloitoktok. Teule works with children from the streets who are orphaned, abandoned and vulnerable with the aim of educating and rehabilitating them. They also provide basic needs for the children like food, shelter, clothing and education. The bank paid KShs 700,000 towards payment of tuition fees to selected students in various secondary schools.



Roho Kwa Roho Foundation

I&M Bank sponsors school fees for 10 children under Roho Kwa Roho Foundation who attend Ongata Rongai Special Home Care and Training Centre School. The Bank contributed KShs 540,000 for the student's school fees in 2013.

Henry Konga, Project Coordinator of the Ongata Rongai Special Home Care and Training Centre said *"It is the small things done with compassion and love by people like you, that change the world and make a difference for mentally impaired children at our centre".*

HEALTH

I&M Bank sponsored a total of approximately KShs 32 million in health activities.

We conducted a successful blood drive that contributed over 260 pints to the National Blood Bank. Other initiatives supported included:

Mamujee Brothers Foundation

The Mamujee Brothers Foundation in conjunction with MEAK runs this programme. MEAK (Medical and Education Aid to Kenya) is a group of mobile doctors who travel around the world performing congenital paedriatic heart surgery. I&M donated KShs 1.8 million which was used for 15 paedriatic heart surgeries.

Shree Jalaram Lab and Diagnostics Centre

I&M Bank made a donation of KShs 3.2 million for a GE Ultra Sound machine for Shree Jalaram Lab and Diagnostics Centre.

Mathare Hospital

The Bank also donated through Phillips Healthcare Services Ltd a total of KShs 2 million for drug delivery to Mathare Hospital.

Gertrude's Children's Hospital

I&M Bank donated KShs 25 million to Getrude's Children's Hospital for the construction of the new ultra-modern Radiology and Paedriatic critical care departments of the newly constructed hospital wing.

ENVIRONMENT

I&M Bank have undertaken to develop 25 acres at the Karura Forest as a commitment to preserving the environment. Last year, we developed and planted different species of indigenous trees on 10 acres of the land to restore areas that had burnt down in an unfortunate forest fire.

COMMUNITY SERVICE

We sponsored a total of approx. KShs 16 million towards various initiatives.

The bank dedicated one day for staff to visit various children's homes that we support. The event which saw about 250 staff members visiting 4 homes was very successful. Among the community projects that we have supported are:

Nest Children's Home

This is a rescue centre that caters for abandoned babies and those whose mothers have been imprisoned and have no relatives to care for them. The bank made an annual donation of KShs 1 million towards purchasing baby formula milk and food for the severely malnourished babies aged 0 – 7years.

Asirit

One of the main reasons for road accidents is lack of proper road safety measures. Kasarani Primary School has suffered a great blow from ongoing traffic from the main road at the school entrance. I&M Bank Ltd made a donation of KShs 200,000 towards the purchase of reflective road safety sashes for pupils of Kasarani Primary School.

St Martin's Kibagare – Annual Feeding Program

The Assumption Sisters of Nairobi run Kibagare Centre as a settlement for the hungry children. I&M Bank through their commitment to helping the poor orphaned children of Kibagare participate in a monthly feeding programme that sees over 1500 children from nearby slums enjoy a hearty meal served by the Bank's staff.

New Life Home Trust

New Life Home Trust was founded by Clive and Mary Beckenham in response to the high numbers of abandoned and orphaned babies particularly those with HIV and Aids. I&M Bank donated KShs 3.7 million for a double twin cab Isuzu pickup for use as a rescue vehicle in Central province and the surrounding areas under their Nyeri Home. Abandoned children rescued from this region are driven to nearby hospitals and the Nairobi centre for special medical care.

George Kibuku, the County Director of Children's Services at the Ministry of Labour, Social Security and Services said *"Your generous, worthy and rare gift shall be remembered in the Children's Sector for a very long time to come".*

Africa Heart Association

I&M Bank through the Africa Health Education Africa Resource Team participated in the Freedom for Girls girl child campaign which supplied sanitary towels for school girls in Kisii worth KShs 1 million.

TANZANIA

HEALTH

Malaria Day for Disabled Children

I&M Bank (T) Limited supported the campaign to combat Malaria for children with disabilities on World Malaria day held at Karimjee Hall on 21st April 2013. I&M Bank (T) Limited donated TZS 5,000,000 for this noble cause.

Cancer Ward for Children At Muhimbili Hospital

Touched by the emotions of the children suffering from cancer, the CEO of I&M Bank (T) Limited, Mr. Anurag Dureha donated items in kind amounting to TZS 5,000,000 at Muhimbili National Hospital.

Cornel Ngaleku Children Centre

I&M Bank (T) Limited continued their support to Cornel Ngaleku Children Centre. Cornel Ngaleku Children Centre is one of the orphanages in Tanzania, located in a drought stricken remote village in the Rombo District along the lower eastern slopes of Mt. Kilimanjaro.

COMMUNITY SERVICE

Provides "Shade" to Street Vendors

In our bid to provide a conducive work environment to street vendors, I&M Bank (T) limited provided parasols to the road side street vendors. The I&M parasols were distributed to approximately 100 street vendors appreciated the I&M umbrellas distributed in the Arusha region.

RWANDA

ENVIRONMENT

I&M Bank (Rwanda) Staff participated in Umuganda (monthly community cleaning). Up to 30 members of staff took part in the exercise that involved creating drainage to prevent soil erosion in Jali Sector (Cellule Nyaburiba) in Gasabo District.

COMMUNITY SERVICE

Food Fair

I&M Bank (Rwanda) Limited sponsored and participated in the Annual Food Fair organised by International Women of Rwanda. Proceeds from the food fair go to selected charities.

Agaciro Development Fund

I&M Bank (Rwanda) contributes FRW 30,000,000 to the Agaciro Development Fund (a solidarity fund financed by Rwandans and aimed at improving the financial autonomy of Rwanda).

The Cheque was received by the then Minister of Finance and Planning, Mr. Rwangombwa John.

19th Commemoration of the Genocide against the Tutsi.

An I&M Bank member of staff walks past preserved remains and articles of clothing of victims of the 1994 Rwanda genocide against the Tutsi to lay a wreath on a mass grave

This was during a commemoration event at Ntarama memorial site in Nyamata district, where I&M Bank (BCR) paid their respects to the victims and contributed frw 1,000,000 to the rehabilitation of the memorial site.