ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 2014

I&M HOLDINGS

# NURTURING RELATIONSHIPS

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



# BOARD OF DIRECTORS

SBR Shah

Daniel Ndonye (Chairman)

Michael Turner

Sarit S Raja Shah



Guédi Ainache

Virginia Ndunge (Company Secretary)

MJ Karanja

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

Daniel Ndonye ( Chairman )
SBR Shah, MBS
Sarit S Raja Shah
MJ Karanja
Guedi MM Ainache*
Michael Turner**

* French ** British

## SECRETARY

Virginia Ndunge (CPS Kenya)
Kaplan & 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 Nairobi GPO

## REGISTERED OFFICE

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

## BANKERS

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

## LEGAL ADVISORS

Kaplan &Stratton
Williamson House,
4th Ngong Avenue,
P.O. Box 50111, 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 NEWS

## I&M KENYA NEWS

### I&M BANK AWARDED AT THINK BUSINESS BANKING AWARDS 2014


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

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

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

### I&M BANK LAUNCHES BANCASSURANCE TO INCREASE ITS REVENUE STREAMS

I&M INSURANCE AGENCY LTD

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

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

### BRANCH OPENING


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

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

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

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

### USA'S GSM 102 PROGRAMME SUPPORTS I&M BANK

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

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



# I&M NEWS (Continued)

## I&M KENYA NEWS (Continued)

### I&M CASH MANAGEMENT


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

### I&M BANK LAUNCHES I&M MOBILE APP


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

### PROPARCO EXTENDS CREDIT LINE TO I&M BANK

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

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

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

## I&M NEWS (Continued)

### I&M RWANDA NEWS

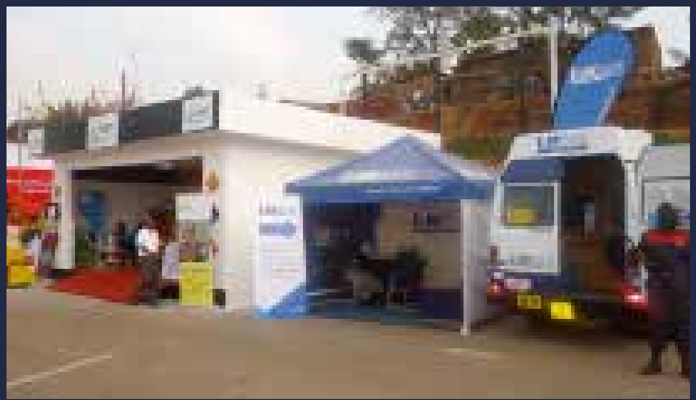
#### MOBILE MONEY INTEGRATION SERVICE UNVEILED

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

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

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

#### PARTICIPATION IN THE 2014 PSF EXPO



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

#### I&M BANK RWANDA LAUNCHES M-VISA SERVICES


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

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

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

#### I&M BANK (RWANDA) LTD UNVEILS VISA CARDS


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

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

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



## I&M NEWS (Continued)

### I&M RWANDA NEWS (Continued)

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

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

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

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

#### AWARDS AND RECOGNITION

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

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

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

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

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

*Participants at the Financial Literacy Training Workshop.*

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

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

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

#### CUSTOMER VISITS

During the year, a group of senior managers led by I&M Bank (Rwanda) Ltd's Managing Director, Sanjeev Anand made different customer visits in the 4 Rwandan provinces meeting existing and potential customers.

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

# I&M NEWS (Continued)

## I&M RWANDA NEWS (Continued)

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


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

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

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

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


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

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

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

## BANK ONE MAURITIUS NEWS

### BRANCH OPENING

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

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

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



# I&M NEWS (Continued)

## I&M TANZANIA NEWS

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

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

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

### BRANCH OPENINGS


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

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

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

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

### I&M BANK ROLLS OUT B-PESA PREPAID CARDS

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

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

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

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



# CHAIRMAN'S STATEMENT

## EXCELLENCE IN SERVICE

Service excellence has always been and will always be one of the critical competitive advantages for any business. Ingrained in our vision, in our attitude and way of working, it is this excellence in service that has been the hallmark that differentiates I&M Bank Group.

Every year, we aspire to step out and make a difference in how we do business in order to live out our corporate mission, where all our stakeholders are proud to be associated and a part of our success. 2014 was another milestone year for I&M Holdings ("IMHL") as we continued on our journey to complete our corporate restructuring that saw the listing of IMHL in 2013. Following on the successful listing, IMHL was awarded the IPO of the Year Award at the Capital Markets Awards held in November 2014. We also successfully transferred the shareholdings of I&M Bank (Rwanda) Limited in Rwanda and Bank One Limited in Mauritius from I&M Bank Kenya, to IMHL in January and August 2014 respectively.

IMHL envisions itself in becoming a one-stop-shop for financial services both in Kenya and regionally where we have a presence. In keeping with this, IMHL's dormant subsidiary company – Kenstock Limited, changed its name in July 2014 to I&M Capital Limited. It is envisioned that this company will operate as the financial services subsidiary of the Group, providing various investment and wealth management services once licensed by the Capital Markets Authority.

IMHL was the first non-operating holding company ("NOHC") to be licensed by the Central Bank of Kenya ("CBK") under the new NOHC Guidelines. In 2014, the CBK introduced the collegiate supervisory, whereby the CBK invited all the regulators who supervise licensees who operate in more than one country. This is greatly applauded as it will improve and standardize the standards of supervision across the region making it better and easier to carry on business across various regions.

## ECONOMIC & BANKING SECTOR REVIEW

In 2014, the global banking industry was confronted with huge operating pressure as a result of the weak recovery of the world economy, as operating results varied in different countries. Consequently, most banks pursued a kind of reposition to better acclimate to regulatory pressure by investing in compliance infrastructure and enhancing risk governance frameworks. As revenue growth remained modest, banks turned to focus on operational efficiency in order to drive financial performance. Banks increasingly continued investing in mobile services in order to create a fully differentiated customer experience and improve convenience as banks seek to satisfy the increasingly sophisticated demands of customers.

In East Africa, the banking sector mirrored the global performance. However, due to the lower levels of penetration of banking services in comparison to the western world, banks operating in Africa and specifically East Africa enjoyed higher growth rates. Mobile banking has been noted as a major factor to supporting this growth within the banking sector, more so in Kenya, where M-Pesa has significantly changed how businesses operate and reach out to customers.

The Kenyan Banking sector registered improved growth in assets and improved performance in earnings and capital which saw the level of non-performing loans in 2014 declining compared with 2013. Credit to the private sector from the banking sector increased by 22.2%, from KES 1,542 billion in 2013 to KES 1,885 billion in 2014. The highest allocation of credit to the private sector in 2014 was to private households at KES 320 billion, followed by trade at KES 307 billion, real estate at KES 263 billion and manufacturing at KES 237 billion. In the third quarter of 2014 the economy recorded a growth of 5.5% compared with growth of 6.2% in the third quarter of 2013. Overall 12-month inflation declined from 6.1% in November 2014 to 6.0% in December 2014, mainly reflecting reduced prices of fuel .

In July 2014, the CBK also introduced the Kenya Banks' Reference Rate or KBRR as it is more commonly known in order to promote transparency in the banking sector. The KBRR is set to allow customers to be able to see and compare the rates offered by local banks. The KBRR will be the base rate for all commercial banks. Additionally, the Kenya Bankers Association also introduced the use of the Annual Percentage Rate (APR). The APR is another tool available to customers to compare between the total cost of borrowing and interest rates.

## FINANCIAL PERFORMANCE

Our balance sheet showed an overall growth of 25% from KES 141.2 billion at the end of 2013 to KES 176.5 billion as at December 2014. Profit before tax increased by 13.4% from KES 7.26 billion in 2013 to KES 8.23 billion in 2014. Similarly, our group loan portfolio grew by 22.4% and customer deposits increased by 17.6%.

# CHAIRMAN'S STATEMENT (CONTINUED)

## GROUP PERFORMANCE

**I&M Bank Limited – Kenya**

The Bank registered a growth of 28% in the profit before tax for the year ended 31 December 2014 which increased from KES 6.1 billion for 2013 to stand at KES 7.7 billion. At the same time its loan portfolio increased by 22% from KES 73.4 billion in December 2013 to KES 89.9 billion as at December 2014. Likewise, customer deposits grew by 16% from KES 74.5 billion to reach KES 86.6 billion. Supported by the growth in Loans and Advances and Customer Deposits, Total Assets expanded by 24% during the year to close at KES 137.3 billion. Regrettably, this was accompanied by deterioration in the gross and net non-performing loan ratios from 1.14% and 0.46% in 2013 to 2.08% and 1.12% in 2014 respectively. Recovery efforts shall continue during 2015 to ensure that the NPA levels remain within manageable levels.

The Bank continues to expand its branch network across the country in a focused manner with a total of 9 branches having been opened during the year; bringing the Bank's branch network to 30 branches. The Bank's ATM network also expanded to 44 ATMS with the addition of 13 onsite & offsite ATMs.

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

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

In continuation of its strategy to diversify and offer a wider range of financial services, the Bank now offers competitive insurance products through its Bancassurance services. Customers can enjoy very competitive prices and attractive product features as the Bank has partnered with leading insurance companies in the market to sell and distribute insurance products and offer insurance advisory services.

In keeping with the CBK's introduction of the KBRR, the Bank also introduced another new innovative savings option by offering an attractive Long Term Deposit product which offers floating rates linked to the KBRR.

**Bank One Limited – Mauritius**

2014 was a sluggish year for the domestic economy with a growth rate of 3.2% recorded. Growth in bank credit was further constrained by the macro prudential norms introduced by the Bank of Mauritius early during the year. The market was also characterised by extreme excess liquidity throughout the year, low levels of investment in the domestic economy and a price war amongst banks to grow assets.

For the first three quarters of the year, the Mauritius Chamber of Commerce and Industry's confidence index declined. Despite a slightly improved business outlook in the final quarter, Bank One adopted a measured approach to growth and risk management throughout the year and implemented a series of actions to improve the rate, and reduce the volatility, of Shareholders' returns over the medium term – including that of consciously trimming the balance sheet as a short term strategy to improve on the efficiency of its balance sheet and net interest margins. As a result, Total assets grew by a marginal 2% to close at MUR 18.1bn (KES 46 billion). However, the actions taken to reshape the balance sheet have resulted in a growth in the net interest income by 16%.

Diversification in new sources of revenue also proved beneficial as the contribution of non-interest income to total operating income expanded from 9% to 22%. Overall, the net profit after tax was MUR 117m (KES 300 million) reflecting a 118% increase over the previous year.

Bank One continues to make deeper inroads in its International Banking business. Whilst East Africa has been the primary area of focus for the Bank so far, in 2014 it has been able to further penetrate this market. Further, a representative office in South Africa has been set up and the Bank is certain to benefit from business flows from this area. Further expansion has been successfully made into other geographies. The Private Banking model has also been re-defined to provide a differentiated offering in the market. This effort will gather more steam in 2015.

Bank One put in significant efforts to strengthen its risk management framework in 2014 and is poised to show better growth in



# CHAIRMAN'S STATEMENT (CONTINUED)

2015. A lot of measures have been taken to resolve some legacy issues and free up people and capital for productive purposes. Additionally, a number of strategic initiatives are under way to improve profitability, set up new business models and redefine some of the existing products and lines of businesses with the aim of achieving a strong, consistent and stable growth with well managed risk over the next few years.

**I&M Bank (T) Limited – Tanzania**

As at the end of December 2014, this bank's profits before tax, increased by 4.8% from TZS 5.99 billion (KES 315 million) to stand at TZS 6.27 Billion (KES 329 million). The Bank's loan portfolio increased by 19.9% from TZS 187 billion (KES 9.8 billion) in December 2013 to TZS 224 billion (KES 11.8 billion) as at December 2014. Customer deposits grew by 15.7% from TZS 257 billion (KES 13.5 billion) to reach TZS 297 billion (KES 15.6 Billion). This resulted in a balance sheet growth of 15.74% since December 2013, to stand at TZS 343 billion (KES 18 billion) as at December 2014.

During the year, the Bank commissioned a new head office with a new state of the art server room and more office space, increased branch network to 8 as well as was the first bank in Tanzania to introduce a high net worth 24 hour fully automated service center. The Bank also launched the B-Pesa prepaid cards, which are local shilling pre-paid cards on the local network, in order to increase and improve customer convenience. I&M (T) also introduced retail mortgages through access to long term LCY funding from Tanzania Mortgage Refinancing Company. The Bank received from DEG a Subordinated Debt of USD 10 Million for raising Tier II Capital and was granted by IFC a grant of USD 8 Million under the Global Trade Finance Programme for 2 year Letter of Credits (LCs).

**I&M Bank (Rwanda) Limited – Rwanda**

The Bank's profit before tax for 2014 declined marginally by 4% from Rwf 6.76 billion (KES 900 million) to Rwf 6.46 billion (KES 861 million). The Bank's loan portfolio grew by 26% from Rwf 65.64 billion (KES 8.75 billion) to stand at Rwf 82.75 billion (KES 11 billion). Likewise customer deposits grew to Rwf 114.5 billion (KES 15.26 billion), representing a 22% growth as compared to the previous year. The Bank continued its tradition of being a leading player in the SME sector. The Bank also signed on with the World Food Programme to assist in distribution of refugee stipend through the launch of the MVisa.

**Outlook**

Increasing financial inclusion, coupled with strong GDP growth is expected to support growth in the banking sector in the medium term. While Kenya currently dominates the banking sector in the EAC region, the strong growth being seen in the fastest growing economies in the EAC – Tanzania and Uganda, will likely compete with Kenya in terms of growth rates. It is expected that the credit bureaus will likely continue to play a major role in facilitating increased financial inclusion, as banks will be able to extend credit on a more informed basis which in turn will stimulate banking activity.

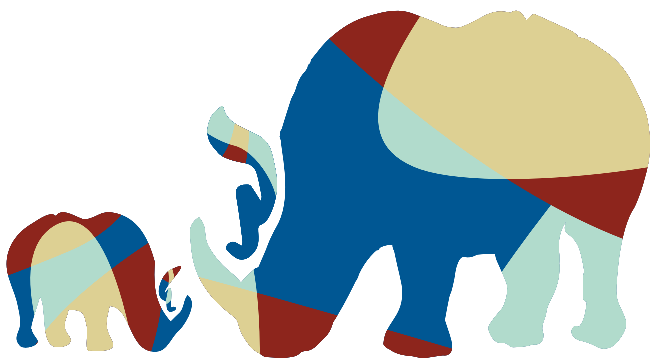
Strong growth within the region will most certainly attract the attention of more Sub Saharan Africa regional and global banks. New emerging market banking institutions, will also no doubt, seek to build a presence across EAC to service their own expanding client networks. While this is likely to increase the level of competition, we believe that by standing by our service levels, the I&M brand has built a loyal customer base which will continue to be the backbone against which our future success is built on.

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

Last but most importantly, I would like to acknowledge and express our sincere appreciation to each of the Boards, Management and staff of I&M Bank Kenya, Tanzania, Rwanda and Bank One; it is through their tireless efforts, dedication, and commitment that I&M Holdings continues to grow in a focused, and sustainable manner.
I conclude with the words of Betsy Sanders that 'Service, in short, is not what you do, but who you are. It is a way of living that you need to bring to everything you do, if you are to bring it to your customer interactions.'

**DANIEL NDONYE**
**CHAIRMAN**

**26 March 2015**



# REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014

The directors have pleasure in submitting their annual report together with the audited financial statements of I&M Holdings Limited ("the Company") and its subsidiaries (together "the Group") for the year ended 31 December 2014, which shows the state of affairs of the group and of the company.

## 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, I&M Capital Limited, I&M Realty Limited and I&M Insurance Agency 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

I&M Bank (Rwanda) Limited was previously owned through I&M Bank Limited, a fully owned subsidiary of I&M Holdings Limited. With effect from 2 January 2014, I&M Bank (Rwanda) Limited is a direct subsidiary of I&M Holdings Limited.

Bank One Limited was previously a joint venture of I&M Bank Limited. With effect from 22 August 2014, the joint venture is owned directly by I&M Holdings Limited.

## 3. RESULTS

The consolidated results for the year are as follows:

| | Group 2014 KShs'000 |
|---|---|
| Profit before taxation | 8,229,894 |
| Taxation | ( 2,495,881) |
| Profit after taxation | 5,734,013 |

## 4. DIVIDEND

The dividend in respect of the financial year 2013 of KShs. 2.50 per share amounting to KShs. 980,905,098 was declared by way of an interim dividend in year 2014 and paid on 26 May, 2014 (2013 – an interim dividend of KShs 1.90 per share amounting to Sh 745,487,876 in respect of the year ended 31 December 2013 was paid on 30 July 2013). The directors recommend payment of a final dividend of Sh 2.90 per share amounting to Sh 1,137,849,913 for the year ended 31 December 2014 (2013 – KShs Nil).

## 5. DIRECTORS

The present members of the board of are shown on page 2 and 3. M. Turner was appointed a director on 1 August 2014.
M. Soundararajan and C. Gaberer ceased to be directors with effect from 17 October 2014 and 31 December 2014 respectively.

## 6. AUDITORS

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

## 7. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved at a meeting of the directors held on 26 March 2015.

**BY ORDER OF THE BOARD**
**Secretary**
**Nairobi**
**26 March 2015**



# STATEMENT ON CORPORATE GOVERNANCE

This statement outlines the key aspects of the group's corporate governance framework. The Board has consistently placed great importance on good corporate governance practices of the Company and its subsidiaries (together the 'Group') as it believes that this is vital to the Group's well-being. The group'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 31 December 2014 are given below:

| | | Shares | % |
|---|---|---|---|
| 1 | Minard Holdings Limited | 88,325,016 | 22.51% |
| 2 | Tecoma Limited | 75,774,808 | 19.31% |
| 3 | Ziyungi Limited | 73,548,000 | 18.74% |
| 4 | DEG | 24,516,000 | 6.25% |
| 5 | Proparco | 17,365,500 | 4.43% |
| 6 | Bhagwanji Raja Charitable Foundation The Registered Trustees | 9,458,830 | 2.41% |
| 7 | Investments & Mortgages Nominees Ltd (A/C 0001229) | 8,392,485 | 2.14% |
| 8 | Investments & Mortgages Nominees Ltd (A/C 0004047) | 8,371,860 | 2.13% |
| 9 | Shah Kantaben Amritlal Hirji | 2,603,322 | 0.66% |
| 10 | Shah Kantilal Hirji Shah & Vinumati Kantilal | 2,603,322 | 0.66% |

### Distribution of shareholders

The distribution of shareholders as at 31 December 2014 was as follows:

| Share Range | No. of Shareholders | Shares Held | % Shareholding |
|---|---|---|---|
| Less than 1 million shares | 2,298 | 70,882,519 | 18.07% |
| > 1 million < 2 million shares | 6 | 8,299,477 | 2.12% |
| > 2 million < 3 million shares | 3 | 7,427,544 | 1.89% |
| > 3 million shares | 8 | 305,752,499 | 77.93% |
| **Total** | **2,315** | **392,362,039** | **100.00%** |

### Shareholder Relations & Communication

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

# STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

## BOARD OF DIRECTORS

### Board Constitution and Appointment

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

| Director | Board Membership | Position/Title | Committee Membership BARMC | BNRC |
|---|---|---|---|---|
| Daniel Ndonye | Non-Executive, Independent | Chairman | √ | √ |
| Suresh Bhagwanji Raja Shah, MBS | Non-Executive | - | - | - |
| Guédi Aïnaché | Non-Executive | Proparco Representative | - | - |
| Sarit S. Raja-Shah | Non-Executive | | √ | √ |
| Michael J. Karanja | Non-Executive, Independent | | √ | √ |
| Michael Turner | 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 65, 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 71 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.

### Guédi Aïnaché - Non-Executive

Mr. Guédï Ainaché, is a French national aged 39 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 46 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.

### Michael J. Karanja, Independent Non-Executive

Mr. Michael Karanja, a Kenyan national aged 75 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.



### Michael Turner - Independent Non-Executive

Mr. Michael Turner joined the board in August 2014. He is the Managing Director of Actis (East Africa). He holds a BSc. in Civil Engineering from the University of Southampton and is a Fellow of the Institute of Chartered Accountants, England and Wales and has held senior positions in several banking institutions in East Africa.

### None of the Company's Directors held shares in the Company as at 31st December 2014

### 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. Board members receive board papers well in advance of their meetings, thereby facilitating meaningful deliberations therein.

### Board of Directors – Summary of Attendance

The following table shows the number of meetings held during the period and the attendance of the individual Director

| Directors | 16 January 2014 | 8 April  2014 | 11 July 2014 | 17 October2014 | Total Board meetings attended in 2014 |
|---|---|---|---|---|---|
| Mr Daniel Ndonye | √ | √ | √ | √ | 4 |
| Mr Suresh B R Shah | √ | √ | X | √ | 3 |
| Mr Michael Karanja | √ | √ | √ | √ | 4 |
| Mr Guedi Ainache | √ | √ | √ | √ | 4 |
| Mr M Soundararajan** | √ | √ | √ | √ | 4 |
| Ms Christina Gabener*** | √ | √ | √ | √ | 4 |
| Mr Sarit S Raja-Shah | √ | √ | √ | √ | 4 |
| Mr Michael Turner* | - | - | - | √ | 1 |

√ Attended
X  Not Attended
*   Appointed as Director with effect from 1 August 2014
**  Ceased to be a Director with effect from 22 October 2014
*** Ceased to be a Director with effect from 31 December 2014

## 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 by the Group 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.

## Delegation of Authority (Continued)

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.

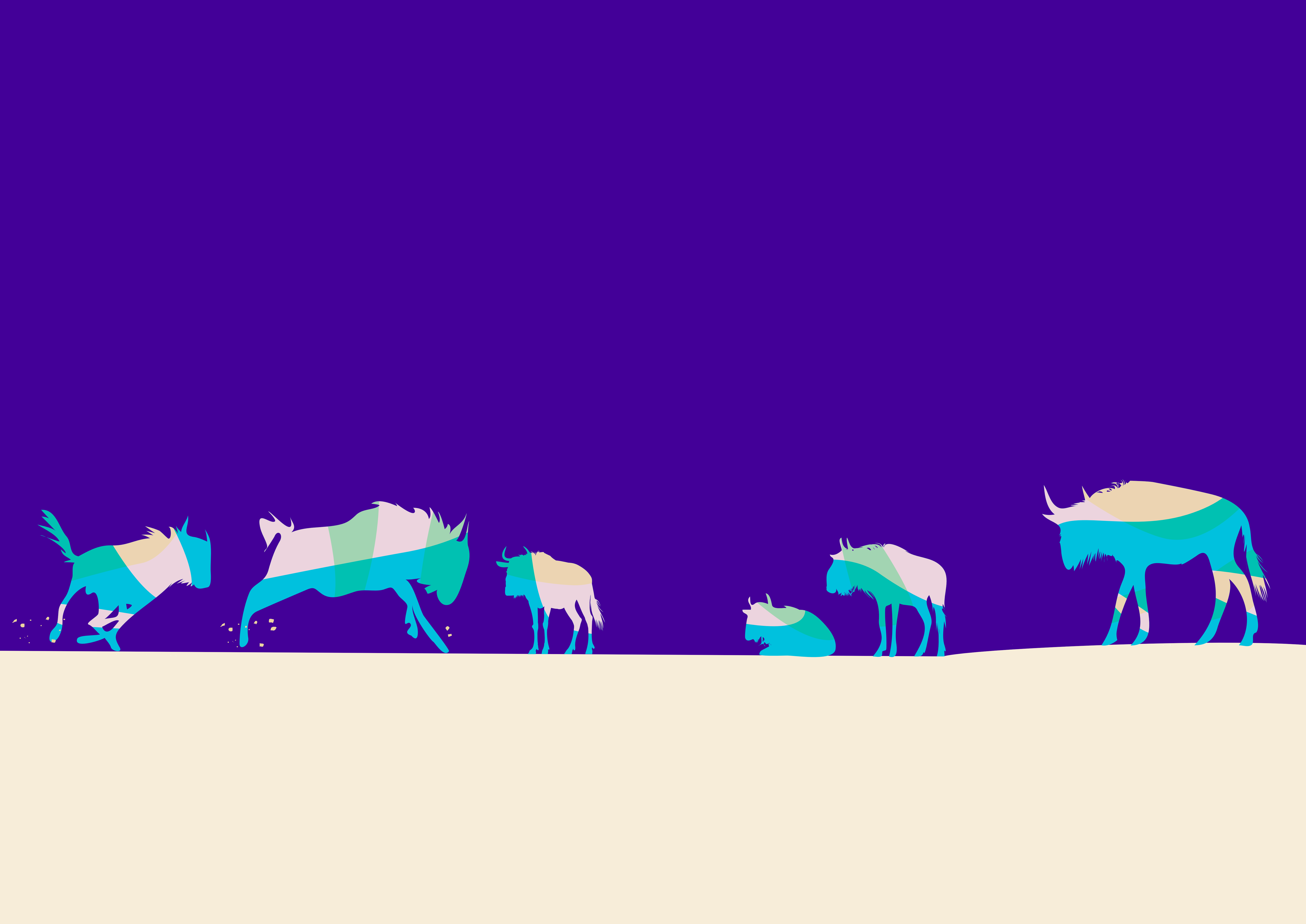


The risk management framework is set so that risks identified are adequately considered and mitigated:
- The Board of Directors at the Group and individual entity level assume the ultimate responsibility for the level of risks taken and are responsible to oversee the effective implementation of the risk 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;
- 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;
- 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 group and of the company as at the end of the financial year and of the operating results of the group for that year. It also requires the directors to ensure that the company and its subsidiaries keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and of the company. 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 the requirements of the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs and financial performance of the group and of the company. 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 26 March 2015 and were signed on its behalf by:

| | | |
|---|---|---|
| Daniel Ndonye<br>**Chairman** | Guedi MM Ainache<br>**Director** | Sarit S. Raja Shah<br>**Director** |



Deloitte.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF I&M HOLDINGS 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 30 to 89, which comprise the consolidated and company statements of financial position as at 31st December 2014, and the consolidated and company statements of profit or loss and other comprehensive income, consolidated and company statements of changes in equity and consolidated statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

***Directors' Responsibility for the Financial Statements***

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 about 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 group and of the company as at 31 December 2014 and of their profit and cash flows for the year 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 (balance sheet) and statement profit or loss and other comprehensive income (profit and loss account) are in agreement with the books of account.

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

**Deloitte & Touche**
**Certified Public Accountants (Kenya)**

**26 March 2015**

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

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2014 | 2013 | 2014 | 2013 |
| | Note | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Interest income | 7 | 17,591,479 | 14,483,258 | 9,817 | 5,109 |
| Interest expense | 8 | ( 7,187,395) | ( 5,595,544) | - | - |
| **Net interest income** | | **10,404,084** | **8,887,714** | **9,817** | **5,109** |
| Fee and commission income | 9 | 2,221,272 | 1,959,792 | - | - |
| Fee and commission expense | 9 | ( 81,816) | ( 64,038) | - | - |
| Net fee and commission income | 9 | 2,139,456 | 1,895,754 | - | - |
| **Revenue** | | **12,543,540** | **10,783,468** | **9,817** | **5,109** |
| Other operating income | 10 | 1,708,892 | 1,542,237 | 4,136,177 | 757,263 |
| **Operating income** | | **14,252,432** | **12,325,705** | **4,145,994** | **762,372** |
| Staff costs | 11 | ( 2,884,496) | ( 2,436,801) | - | - |
| Premises and equipment costs | 11 | ( 448,380) | ( 389,266) | - | - |
| General administrative expenses | 11 | ( 1,580,589) | ( 1,401,116) | ( 18,594) | ( 24,311) |
| Depreciation and amortisation | 11 | ( 418,889) | ( 444,971) | - | - |
| **Operating expenses** | | **( 5,332,354)** | **( 4,672,154)** | **( 18,594)** | **( 24,311)** |
| **Operating profit before impairment losses and taxation** | | **8,920,078** | **7,653,551** | **4,127,400** | **738,061** |
| Net impairment losses on loans and advances | 17(c) | ( 857,788) | ( 472,089) | - | - |
| | | **8,062,290** | **7,181,462** | **4,127,400** | **738,061** |
| Share of profit of Joint venture | 19(a) | 167,604 | 76,332 | - | - |
| **Profit before income tax** | 12 | 8,229,894 | 7,257,794 | 4,127,400 | 738,061 |
| Income tax expense | 13(a) | ( 2,495,881) | ( 2,282,838) | ( 2,945) | ( 1,533) |
| **Profit for the year** | | **5,734,013** | **4,974,956** | **4,124,455** | **736,528** |



# CONSOLIDATED AND COMPANY STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2014 | 2013 | 2014 | 2013 |
| | Note | KShs'000 | KShs'000 | KShs'000 | KShs'000 |
| Profit for the year | | 5,734,013 | 4,974,956 | 4,124,455 | 736,528 |
| **Other comprehensive income** | | | | | |
| ***Items that will never be reclassified to profit or loss*** | | | | | |
| Actuarial (loss)/gains on re-measurement of employees benefit scheme | | ( 6,095) | ( 22,037) | - | - |
| Revaluation surplus on property, plant and equipment | | - | 488,953 | - | - |
| ***Items that may be classified to profit or loss:*** | | | | | |
| Net change in fair value of available for sale financial assets | | ( 252,832) | ( 36,740) | - | - |
| Related tax | 23(b) | 77,367 | ( 133,298) | - | - |
| Foreign currency translation differences | | ( 41,591) | ( 182,715) | - | - |
| Related tax – prior period under provision | 23(b) | - | 58,942 | - | - |
| Revaluation surplus | | ( 4,920) | - | - | - |
| Deferred tax on revaluation surplus | | 11,492 | - | - | - |
| **Total other comprehensive (loss)/income for the year** | | **( 216,579)** | **173,105** | - | - |
| **Total comprehensive income for the year** | | **5,517,434** | **5,148,061** | **4,124,455** | **736,528** |
| Profit attributable to: | | | | | |
| Equity holders of the company | | 5,320,885 | 4,611,066 | 4,124,455 | 736,528 |
| Non controlling interest | | 413,128 | 363,890 | - | - |
| | | **5,734,013** | **4,974,956** | **4,124,455** | **736,528** |
| Total comprehensive income Attributable to: | | | | | |
| Equity holders of the company | | 5,129,991 | 4,881,541 | 4,124,455 | 736,528 |
| Non controlling interest | 30 | 387,443 | 266,520 | - | - |
| | | **5,517,434** | **5,148,061** | **4,124,455** | **736,528** |
| **Basic and diluted earnings Per share - (KShs)** | **14** | **13.56** | **11.75** | **10.51** | **1.88** |

# CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

| | Note | Group 2014 KShs'000 | Group 2013 KShs'000 | Company 2014 KShs'000 | Company 2013 KShs'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and balances with Central Banks | 15 | 11,274,508 | 8,933,955 | 61,850 | 24,731 |
| Placements with Financial Institutions | 16 | 4,937,238 | 6,050,627 | - | - |
| Loans and advances to Customers | 17(a) | 112,491,329 | 91,882,664 | - | - |
| Investment securities | 18 | 38,383,408 | 26,197,402 | - | - |
| Investment in Joint Venture | 19(a) | 2,573,560 | 2,411,973 | 1,498,815 | - |
| Investment in subsidiaries | 19(b) | - | - | 19,599,661 | 17,970,384 |
| Property and equipment | 20 | 2,763,692 | 2,608,196 | - | - |
| Intangible assets - Goodwill | 21(a) | 1,174,601 | 1,174,601 | - | - |
| Intangible assets - Software | 21(b) | 300,365 | 175,008 | - | - |
| Prepaid operating lease rentals | 22 | 290,314 | 241,325 | - | - |
| Tax recoverable | 13(b) | 24,488 | 107 | - | 107 |
| Deferred tax asset | 23(a) | 574,512 | 386,285 | - | - |
| Other assets | 24 | 1,676,436 | 1,138,402 | 2,457 | - |
| **TOTAL ASSETS** | | 176,464,451 | 141,200,545 | 21,162,783 | 17,995,222 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | |
| **Liabilities** | | | | | |
| Deposits from banks | 25 | 17,205,630 | 6,411,628 | - | - |
| Deposits from customers | 26 | 114,201,280 | 97,145,568 | - | - |
| Deferred tax liability | 23(a) | 78,821 | 26,288 | - | - |
| Tax payable | 13(b) | 24,698 | 569,712 | 51 | - |
| Other liabilities | 27 | 2,175,313 | 1,796,743 | 51,879 | 27,918 |
| Long term borrowings | 28 | 14,672,567 | 11,572,650 | - | - |
| | | 148,358,309 | 117,522,589 | 51,930 | 27,918 |
| **Shareholders' equity** | | | | | |
| Share capital | 29(a) | 392,362 | 392,362 | 392,362 | 392,362 |
| Share premium | 29(b) | 17,331,510 | 17,331,510 | 17,331,510 | 17,331,510 |
| Revaluation reserve | 29(c) | 448,726 | 442,154 | - | - |
| Available-for-sale reserve | 29(d) | ( 342,834) | ( 161,585) | - | - |
| Statutory loan loss reserve | 29(e) | 905,486 | 218,048 | - | - |
| Retained earnings | | 7,317,648 | 3,671,202 | 3,386,981 | 243,432 |
| Translation reserve | 29(f) | 6,346 | 16,468 | - | - |
| **Equity attributable to owners of the company** | | 26,059,244 | 21,910,159 | 21,110,853 | 17,967,304 |
| Non-controlling interest | 30 | 2,046,898 | 1,767,797 | - | - |
| **TOTAL SHAREHOLDERS' EQUITY** | | 28,106,142 | 23,677,956 | 21,110,853 | 17,967,304 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | 176,464,451 | 141,200,545 | 21,162,783 | 17,995,222 |

The financial statements set out on pages 30 to 89 were approved by the Board of Directors on 26 March 2015 and were signed on its behalf by:

**Director: Daniel Ndonye** **Director: Guedi MM Ainache** **Director: Sarit S. Raja Shah** **Secretary: Virginia Ndunge**



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

| **2013:** | Share capital KShs'000 | Share premium KShs'000 | Revaluation reserve KShs'000 | Available for sale Reserve KShs'000 | Statutory loan loss reserve KShs'000 | Retained earnings KShs'000 | Translation reserve KShs'000 | Total KShs'000 | Non-controlling interest KShs'000 | Total KShs'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2013 | | | | | | | | | | |
| - As previously reported | 392,362 | 17,331,510 | 141,842 | (193,552) | 141,176 | ( 79,745) | 98,934 | 17,832,527 | 1,577,863 | 19,410,390 |
| Deferred tax | - | - | ( 42,699) | - | - | - | - | ( 42,699) | - | ( 42,699) |
| At 1 January 2013 - As restated | 392,362 | 17,331,510 | 99,143 | (193,552) | 141,176 | ( 79,745) | 98,934 | 17,789,828 | 1,577,863 | 19,367,691 |
| Profit for the year | - | - | - | - | - | 4,611,066 | - | 4,611,066 | 363,890 | 4,974,956 |
| Other comprehensive income | - | - | 343,011 | 31,967 | - | ( 22,037) | (82,466) | 270,475 | ( 97,370) | 173,105 |
| Total comprehensive income/(loss) | - | - | 343,011 | 31,967 | - | 4,589,029 | (82,466) | 4,881,541 | 266,520 | 5,148,061 |
| Statutory loan loss reserve | - | - | - | - | 76,872 | ( 76,872) | - | - | - | - |
| **Transactions with owners:** | | | | | | | | | | |
| Pre acquisition reserves | - | - | - | - | - | 48,868 | - | 48,868 | - | 48,868 |
| Capital Restructuring Costs | - | - | - | - | - | ( 30,222) | - | ( 30,222) | - | ( 30,222) |
| Interim dividend paid - August 2012 | - | - | - | - | - | ( 34,368) | - | ( 34,368) | - | ( 34,368) |
| Dividend paid – Interim 2013 | - | - | - | - | - | ( 745,488) | - | ( 745,488) | ( 76,586) | ( 822,074) |
| At 31 December 2013 | 392,362 | 17,331,510 | 442,154 | (161,585) | 218,048 | 3,671,202 | 16,468 | 21,910,159 | 1,767,797 | 23,677,956 |

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

| | Share capital KShs'000 | Share premium KShs'000 | Revaluation reserve KShs'000 | Available for sale Reserve KShs'000 | Statutory loan loss reserve KShs'000 | Retained earnings KShs'000 | Translation reserve KShs'000 | Total KShs'000 | Non-controlling interest KShs'000 | Total KShs'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2014 | 392,362 | 17,331,510 | 442,154 | (161,585) | 218,048 | 3,671,202 | 16,468 | 21,910,159 | 1,767,797 | 23,677,956 |
| Profit for the year | - | - | - | - | - | 5,320,885 | - | 5,320,885 | 413,128 | 5,734,013 |
| Other comprehensive income | - | - | 6,572 | (181,249) | - | ( 6,095) | (10,122) | ( 190,894) | ( 25,685) | ( 216,579) |
| Total comprehensive income/(loss) | - | - | 6,572 | (181,249) | - | 5,314,790 | (10,122) | 5,129,991 | 387,443 | 5,517,434 |
| Statutory loan loss reserve | - | - | - | - | 687,438 | ( 687,438) | - | - | - | - |
| **Transactions with owners:** | | | | | | | | | | |
| Interim Dividends paid | - | - | - | - | - | ( 980,906) | - | ( 980,906) | ( 108,342) | ( 1,089,248) |
| At 31 December 2014 | 392,362 | 17,331,510 | 448,726 | (342,834) | 905,486 | 7,317,648 | 6,346 | 26,059,244 | 2,046,898 | 28,106,142 |



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

| | Share capital KShs'000 | Share Premium KShs'000 | Retained earnings KShs'000 | Total KShs'000 |
|---|---|---|---|---|
| At 1 August 2012 | 28,640 | 155 | 286,760 | 315,555 |
| Issue of shares | 363,722 | 17,331,355 | - | 17,695,077 |
| Total comprehensive income for the year | - | - | 736,528 | 736,528 |
| Dividends declared - August 2013 | - | - | ( 34,368) | ( 34,368) |
| Interim Dividends declared - July 2013 | - | - | ( 745,488) | ( 745,488) |
| Balance as at 31 December 2013 | 392,362 | 17,331,510 | 243,432 | 17,967,304 |
| At 1 January 2014 | 392,362 | 17,331,510 | 243,432 | 17,967,304 |
| Total comprehensive income for the year | - | - | 4,124,455 | 4,124,455 |
| Dividends paid | - | - | ( 980,906) | ( 980,906) |
| Balance as at 31 December 2014 | 392,362 | 17,331,510 | 3,386,981 | 21,110,853 |

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

| | Note | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash flows used in operations | 31(a) | ( 8,873,623) | (3,417,498) |
| Tax paid | 13(b) | ( 3,119,465) | (1,976,859) |
| Net cash used in operating activities | | ( 11,993,088) | (5,394,357) |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment | 20 | ( 599,769) | ( 331,889) |
| Purchase of intangible assets | 21(b) | ( 161,345) | ( 75,945) |
| Purchase of prepaid operating lease rentals | | ( 445) | - |
| Proceeds from disposal of property and equipment | | 12,063 | 11,785 |
| Additional investment in Joint Venture | 19(a) | - | ( 253,277) |
| Net cash used in investing activities | | ( 749,496) | ( 649,326) |
| **Cash flows from financing activities** | | | |
| Capital restructuring costs | | - | ( 30,222) |
| Net inflow from long term borrowings | | 2,755,541 | 7,133,871 |
| Dividend paid to shareholders of the company | | ( 980,906) | ( 774,306) |
| Dividend paid to non-controlling interests | | ( 108,342) | ( 76,586) |
| Net cash generated from financing activities | | 1,666,293 | 6,252,757 |
| **Net (decrease)/increase in cash and cash equivalents** | | **( 11,076,291)** | **209,074** |
| **Cash and cash equivalents at beginning of the year** | | **2,819,980** | **2,599,725** |
| **Effects of exchange rate changes on cash and cash equivalents** | | **254,203** | **11,181** |
| **Cash and cash equivalents at end of the year** | **31(b)** | **( 8,002,108)** | **2,819,980** |



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

## 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 as at and for the year ended 31 December 2014 comprise the Bank in Kenya – I&M Bank Limited (comprising of I&M Bank Limited, I&M Bank (Rwanda) Limited, I&M Capital Limited, Bank One Limited, Mauritius, I&M Realty Limited and I&M Bank (T) Limited) (together referred to as the "Group"). The address of its registered office is as follows:

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

Through I&M Bank Limited, the Company has:

(i) 55.03% (2013 - 55.03%) shareholding in I&M Bank (T) Limited;
(ii) 100% shareholding in I&M Realty Limited (incorporated on 30 October 2014); and
(iii) 100% shareholding in I&M Insurance Agency Limited (incorporated on 23 July 2014).

The Company owns the following entities directly:

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

**Statement of compliance**

The Group's consolidated financial statements for the year 2014 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 comprehensive income.

### STANDARDS AND INTERPRETATIONS AFFECTING THE REPORTED RESULT OR FINANCIAL POSITION

**Adoption of new and revised International Financial Reporting Standards (IFRS)**

*i) New standards and amendments to publish standards effective for the year ended 31 December 2014*

There were no new and revised IFRSs that were effective in the current year that had impact on the amounts reported in these financial statements.

*ii) Relevant and revised IFRSs in issue but not effective for the year ended 31 December 2014*

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2014, and have not been applied in preparing these consolidated financial statements as follows:

| *New and Amendments to the standards* | *Effective for annual periods beginning on or after* |
|---|---|
| IFRS 9 Financial Instruments (as revised in 2014) | 1 January 2018 |
| IFRS 15 Revenue from Contracts with Customers | 1 January 2017 |
| Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization | 1 January 2016 |
| Amendments to IAS 19 Defined Benefit Plans: Employee Contributions | 1 July 2014 |
| Annual Improvements to IFRSs 2010 - 2012 Cycle | 1 July 2014 |
| Annual Improvements to IFRSs 2011 - 2013 Cycle | 1 July 2014 |
| Annual Improvements to IFRSs 2012 - 2014 Cycle | 1 July 2015 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2014 and future annual periods*

*IFRS 9 Financial Instruments*

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The directors of the group anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed by the group.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The directors of the group anticipate that the application of IFRS 15 will not have a material impact on the amounts reported in the group's financial statements.

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

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**iii) Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)**

*Ammendments to IFRS 11 Accounting of Interests in Joint Operations*

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

Currently, the group uses the straight-line method for depreciation and amortisation for its property, and equipment, and intangible assets respectively. The directors of the group anticipate that the application of IAS 38 will not have a material impact on the amounts reported in the group's financial statements.

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

The amendments to IFRS 11 provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 36 Impairment of Assets regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments to IFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016.

The directors of the group do not anticipate that the application of these amendments to IFRS 11 will have a material impact on the group's financial statements.

*Amendments to IAS 19 Defined Benefit Plans: Employee Contributions*

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The application of these amendments to IAS 19 will not have a significant impact on the group's financial statements.

*Annual Improvements to IFRSs 2010-2012 Cycle*

The Annual Improvements to IFRSs 2010-2012 Cycle include a number of amendments to various IFRSs, which are summarised below:

- The amendments to IFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to IFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

- The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to IFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

- The amendments to IFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)**

*iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2014 and future annual periods (Continued)*

*Annual Improvements to IFRSs 2010-2012 Cycle (Continued)*

- The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short- term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.

- The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/ amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

- The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors do not anticipate that the application of these amendments will have a significant impact on the group's financial statements.

*Annual Improvements to IFRSs 2011-2013 Cycle*

The Annual Improvements to IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.
The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required.

Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of IAS 40; and
(b) the transaction meets the definition of a business combination under IFRS 3

The directors do not anticipate that the application of these amendments will have a significant impact on the group's financial statements.

**Basis of measurement**

These consolidated financial statements have been prepared under the historical cost basis of accounting except for the following items measured at fair value:

- Available-for-sale financial assets
- Buildings

**Functional and presentation currency**

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Use of estimates and judgements**

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 review on an on-going basis. Revisions to estimates are recognised prospectively. In particular information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 4.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the company and all its subsidiaries for the year ended 31 December, 2014. 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 the group 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 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 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Joint arrangements**

The group has assessed the nature of its joint arrangements and determined it to be a joint venture.
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 separate financial statements.

**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 year 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:

- 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.

**Income recognition**

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

***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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Income recognition (Continued)**

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

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

***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.

***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.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

*Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

*Deferred tax*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences are utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from good will or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates that have been enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

*Current and deferred tax for the year*

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Financial assets and financial liabilities**

***(i) Recognition***

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

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

***(ii) Classification***

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

- *Financial assets at fair value through profit or loss*

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

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

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

- *Loans and receivables*

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

- *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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Financial assets and financial liabilities (Continued)**

***(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.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Financial assets and financial liabilities (Continued)**

*(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.

**Fair value measurement**

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

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

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

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

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

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

The Group measure fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:
- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included in level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Fair value measurement (continued)**

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.

**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.

**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.

Professional valuations are carried out in accordance with the group's policy of revaluing buildings. The fair value is determined based on the market comparable approach that reflects recent transaction prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

Increases in the carrying amounts of property resulting from revaluation is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in carrying amount arising on the revaluation of buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. Each year the difference between depreciation based on the revalued carrying amount of an asset (the depreciation charged to profit or loss) and depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

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.

**Investment property**

Investment property, which is property held to earn rentals, is stated at its fair value, at the reporting date as determined through its revaluation by external valuers on the basis of the highest and best use. Gains or losses arising from changes in fair value of the investment property are included in profit or loss in the period in which they arise net of deferred taxes.

**Intangible assets**

***(i) Computer software***

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Intangible assets (Continued)**

***(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.

**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.

**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.

**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.

**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.

**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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Employee benefits (Continued)**

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) 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.

**Share capital**

Ordinary shares are classified as equity.

**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.

**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.

**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.

**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.

**Segmental reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (Group management). The management then allocates resources to each operating segment of the Group and assesses their performance. The operating segments are based on the Group's management and internal reporting 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).

**Comparatives**

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

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 3. RISK MANAGEMENT (CONTINUED)

**Financial risk (Continued)**

**(a) Credit risk**

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

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

The risk that the counter-parties to trading instruments might default on their obligation is monitored on an 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**

| | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| **Loans and advances to customers** | | |
| ***Individually impaired:*** | | |
| Grade 3: Substandard | 961,432 | 635,535 |
| Grade 4: Doubtful | 673,732 | 518,380 |
| Grade 5: Loss | 897,334 | 368,739 |
| | 2,532,498 | 1,522,654 |
| Allowance for impairment | ( 1,838,783) | ( 781,437) |
| **Carrying amounts** | **693,715** | **741,217** |
| Collectively impaired: | | |
| Grade 1: Normal | 99,742,295 | 83,718,553 |
| Grade 2: Watch | 12,897,265 | 8,641,421 |
| | 112,639,560 | 92,359,974 |
| Portfolio impairment provision | ( 841,946) | ( 1,218,527) |
| **Carrying amounts** | **111,797,614** | **91,141,447** |
| **Total carrying amounts** | **112,491,329** | **91,882,664** |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 3. RISK MANAGEMENT (CONTINUED)

**(a) Credit risk (continued)**

***Impaired loans and securities***

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

***Neither past due nor impaired***

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

***Past due but not impaired loans***

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

***Loans with renegotiated terms***

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

***Allowances for impairment***

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

***Write off policy***

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 3. RISK MANAGEMENT (CONTINUED)

**(a) Credit risk (continued)**

| **Loans and advances - Group** | **Gross KShs'000** | **Net KShs'000** |
|---|---|---|
| ***Individually impaired:*** | | |
| **31 December 2014** | | |
| Grade 3: Substandard | 961,432 | 464,551 |
| Grade 4: Doubtful | 673,732 | 300,042 |
| Grade 5: Loss | 897,334 | 291,513 |
| | **2,532,498** | **1,056,106** |
| **31 December 2013** | | |
| Grade 3: Substandard | 635,535 | 260,795 |
| Grade 4: Doubtful | 518,380 | 419,920 |
| Grade 5: Loss | 368,739 | 60,502 |
| | **1,522,654** | **741,217** |

| **Loans and advances - Group** | **Gross KShs'000** | **Net KShs'000** |
|---|---|---|
| ***Collectively impaired:*** | | |
| **31 December 2014** | | |
| Grade 1: Normal | 99,742,295 | 98,641,351 |
| Grade 2: Watch | 12,897,265 | 12,793,872 |
| | **112,639,560** | **111,435,223** |
| ***31 December 2013*** | | |
| Grade 1: Normal | 83,718,553 | 82,942,218 |
| Grade 2: Watch | 8,641,421 | 8,199,229 |
| | **92,359,974** | **91,141,447** |

The Group holds collaterals against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimate of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowings activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2014 or 2013.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 3. RISK MANAGEMENT (CONTINUED)

**(a) Credit risk (continued)**

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

| **Loans and advances to Customers** | **2014 KShs'000** | **2013 KShs'000** |
|---|---|---|
| **Group** | | |
| Fair value of collateral held - Against impaired loans | 1,132,666 | 738,594 |

**(b) Liquidity risk**

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

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

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

| **Group 31 December 2014:** | **Due on demand KShs'000** | **Due within 3 months KShs'000** | **Due between 3-12 months KShs'000** | **Due between 1-5 years KShs'000** | **Due after 5 years KShs'000** | **Total KShs'000** |
|---|---|---|---|---|---|---|
| **LIABILITIES** | | | | | | |
| Deposits from banks | 5,534,263 | 9,636,922 | 1,915,514 | 118,931 | - | 17,205,630 |
| Deposits from customers | 39,634,490 | 64,917,373 | 9,535,367 | 114,050 | - | 114,201,280 |
| Other liabilities | 788,199 | 866,320 | 414,193 | 106,601 | - | 2,175,313 |
| Long-term borrowings | - | 367,204 | 2,006,251 | 7,219,449 | 5,079,663 | 14,672,567 |
| **At 31 December 2014** | 45,956,952 | 75,787,819 | 13,871,325 | 7,559,031 | 5,079,663 | 148,254,790 |
| **31 December 2013:** | | | | | | |
| **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** |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 3 RISK MANAGEMENT (CONTINUED)

**(c) Market risk**

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

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

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

***Exposure to interest rate risk***

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

| **31 December 2014:** | **Due on demand KShs'000** | **Due within 3 months KShs'000** | **Due between 3-12 months KShs'000** | **Due between 1-5 years KShs'000** | **Due after 5 years KShs'000** | **Non-interest bearing KShs'000** | **Total KShs'000** |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash and balances with Central Bank of Kenya | - | - | - | - | - | 11,274,508 | 11,274,508 |
| Placements with financial institutions | 4,464,701 | 26,947 | 262,982 | 182,608 | - | - | 4,937,238 |
| Loans and advances to customers | 112,491,329 | - | - | - | - | - | 112,491,329 |
| Investment securities | 1,250,722 | 3,898,732 | 14,539,936 | 11,293,215 | 7,400,803 | - | 38,383,408 |
| Other assets | - | - | - | - | - | 1,676,436 | 1,676,436 |
| **At 31 December 2014** | 118,206,752 | 3,925,679 | 14,802,918 | 11,475,823 | 7,400,803 | 12,950,944 | 168,762,919 |
| **LIABILITIES** | | | | | | | |
| Deposits from banks | 1,398,451 | 13,772,733 | 1,915,514 | 118,932 | - | - | 17,205,630 |
| Deposits from customers | 52,393,358 | 39,185,829 | 9,724,050 | 251,408 | - | 12,646,635 | 114,201,280 |
| Other liabilities | - | - | - | - | - | 2,175,313 | 2,175,313 |
| Long-term borrowings | - | 367,204 | 2,006,251 | 7,219,449 | 5,079,663 | - | 14,672,567 |
| **At 31 December 2014** | **53,791,809** | **53,325,766** | **13,645,815** | **7,589,789** | **5,079,663** | **14,821,948** | **148,254,790** |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 3. RISK MANAGEMENT (CONTINUED)

**(c) Market risk (continued)**
***Exposure to interest rate risk - continued***

| **31 December 2013:** | **Due on demand KShs'000** | **Due within 3 months KShs'000** | **Due between 3-12 months KShs'000** | **Due between 1-5 years KShs'000** | **Due after 5 years KShs'000** | **Non-interest bearing KShs'000** | **Total KShs'000** |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash and balances with Central Bank of Kenya | - | - | - | - | - | 8,933,955 | 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 | 6,283,623 | 54,339 | 64,506 | 9,160 | - | - | 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** | **50,963,553** | **30,441,756** | **11,702,249** | **5,995,715** | **4,908,850** | **13,510,465** | **117,522,588** |

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 3. RISK MANAGEMENT (CONTINUED)

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

***Exposure to interest rate risk - continued***

**Sensitivity Analysis**

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

| | Profit or loss Increase/decrease in basis points ('000) | Equity net of tax Increase/decrease in basis points ('000) |
|---|---|---|
| **31 December 2014: 200 basis points** | | |
| Assets | 3,088,244 | 2,161,771 |
| Liabilities | ( 2,676,396) | ( 1,873,477) |
| **Net position** | **411,848** | **288,294** |
| **31 December 2013: 200 basis points** | | |
| Assets | 2,450,215 | 1,715,150 |
| Liabilities | ( 2,086,631) | ( 1,460,642) |
| **Net position** | **363,584** | **254,508** |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 3.RISK MANAGEMENT (CONTINUED)

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

**Currency risk**

The Group is exposed to currency risk through transactions in foreign currencies. The Group's transactional exposure gives rise to foreign currency gains and losses that are recognised in the profit or loss. In respect of monetary assets and liabilities in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. The table below analyses the currencies which the Group is exposed to as at 31 December 2014 and 31 December 2013.

| **31 December 2014:** | **USD KShs'000** | **GBP KShs'000** | **Euro KShs'000** | **Other KShs'000** | **Total KShs'000** |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and balances with Central Banks | 1,741,313 | 65,667 | 174,354 | 4,694 | 1,986,028 |
| Placements with financial institutions | 2,758,254 | 83,517 | 379,257 | 71,461 | 3,292,489 |
| Loans and advances to customers | 41,635,256 | 1,351,929 | 1,330,365 | - | 44,317,550 |
| Other assets | 187,604 | 14,499 | 428 | - | 202,531 |
| **At 31 December 2014** | **46,322,427** | **1,515,612** | **1,884,404** | **76,155** | **49,798,598** |
| **LIABILITIES** | | | | | |
| Deposits from banks | 13,422,782 | 38,960 | 27,797 | 24,281 | 13,513,820 |
| Deposits from customers | 21,186,540 | 1,586,685 | 1,333,101 | 23,269 | 24,129,595 |
| Other liabilities | 104,758 | 15,443 | 28,950 | 13,963 | 163,114 |
| Long-term borrowings | 9,072,599 | - | 1,109,296 | - | 10,181,895 |
| **At 31 December 2014** | **43,786,679** | **1,641,088** | **2,499,144** | **61,513** | **47,988,424** |
| **Net on statement of financial position** | **2,535,748** | **( 125,476)** | **( 614,740)** | **14,642** | **1,810,174** |
| **Net notional off balance sheet position** | **8,110,254** | **524,324** | **1,031,199** | **178,599** | **9,844,376** |
| **Overall net position – 2014** | **10,646,002** | **398,847** | **416,459** | **193,241** | **11,654,549** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 3. RISK MANAGEMENT (CONTINUED)

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

***Currency rate risk - continued***

| | USD KShs'000 | GBP KShs'000 | Euro KShs'000 | Other KShs'000 | Total KShs'000 |
|---|---|---|---|---|---|
| **31 December 2013:** | | | | | |
| **ASSETS** | | | | | |
| Cash and balances with Central Bank of Kenya | 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 | - | 104,491 | - | 7,162,181 |
| **At 31 December 2013** | **34,144,639** | **1,609,785** | **1,333,581** | **110,927** | **37,198,932** |
| **Net on statement of financial position** | **2,184,758** | **36,327** | **996,487** | **12,402** | **3,229,974** |
| **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** | **1,363,827** | **75,132** | **6,130,807** |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 3. RISK MANAGEMENT (CONTINUED)

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

***Currency rate risk - continued***

**Sensitivity Analysis**

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

| | Profit or loss Strengthening/ weakening of currency ('000) | Equity net of tax Strengthening/ weakening of currency ('000) |
|---|---|---|
| **31 December 2014:** | | |
| USD (± 5% movement) | 523,300 | 372,610 |
| GBP (± 5% movement) | 19,942 | 13,960 |
| EUR (± 5% movement) | 20,823 | 14,576 |
| | ====== | ====== |
| **31 December 2013:** | | |
| USD (± 5% movement) | 198,341 | 131,856 |
| GBP (± 5% movement) | 36,251 | 217,538 |
| EUR (± 5% movement) | 68,169 | 182,138 |
| | ====== | ====== |

**(d) Operational risk**

The overall responsibility of managing Operational Risks - the risk arising from failed or inadequate internal processes, people, systems and external events - is vested with the Board of Directors 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 leve
- 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 3. RISK MANAGEMENT (CONTINUED)

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

**(e) Capital management**

***Regulatory capital – Kenya***

The Central Bank of Kenya sets and monitors capital requirements for all banks.
The objective of the Central Bank of Kenya is to ensure that a bank maintains a level of capital which:

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

In implementing current capital requirements, the Central Bank of Kenya requires banks to maintain a prescribed ratio of total capital to total risk-weighted assets. Effective 1 January 2014, 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:

- hold the minimum level of regulatory of Kshs 1 billion.
- Total risk weighted assets, plus risk weighted off- balance sheet assets at above the required minimum of 10.5%.
- Maintain a ratio of total regulatory capital; to
- a core capital of not less than 10.5% of its total deposit liabilities
- a total capital of not less than 14.5% of its total risk weighted assets, plus risk weighted off-balance sheet items.

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

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

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

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 3. RISK MANAGEMENT (CONTINUED)

**(a) Capital management**

***Regulatory capital – Kenya (Continued)***

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

| | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| **Core capital (Tier 1)** | | |
| Share capital | 2,880,245 | 2,880,245 |
| Share premium | 3,773,237 | 3,773,237 |
| Retained earnings | 13,602,065 | 12,308,162 |
| | 20,255,547 | 18,961,644 |
| Less: Goodwill | ( 10,747) | ( 10,747) |
| Investment in Joint venture | - | 1,498,814) |
| Investment in Subsidiary | ( 1,122,911) | ( 2,752,189) |
| Total core capital | 19,121,889 | 14,699,894 |
| **Supplementary capital (Tier 2)** | | |
| Term subordinated debt | 3,115,952 | 3,752,500 |
| Statutory loan loss reserve | 625,190 | 94,679 |
| | 3,741,142 | 3,847,179 |
| **Total capital** | **22,863,031** | **18,547,073** |
| **Risk weighted assets** | | |
| Credit risk weighted assets | 101,383,557 | 83,761,397 |
| Market risk weighted assets | 6,071,469 | 3,024,031 |
| Operational risk weighted assets | 13,804,685 | 10,789,264 |
| **Total risk weighted assets** | **121,259,711** | **97,574,692** |
| **Deposits from customers** | **87,185,430** | **74,846,992** |
| **Capital ratios** | | |
| Core capital/total deposit liabilities (CBK min 10.50%) | 21.93% | 19.64% |
| Core capital/total risk weighted assets (CBK min 10.50%) | 15.77% | 15.07% |
| Total capital/total risk weighted assets (CBK min 14.50%) | 18.85% | 19.01% |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 3. RISK MANAGEMENT (CONTINUED)

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

**(e) Capital management**

***Regulatory capital – Tanzania***

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

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for prepaid expenses, goodwill, other intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of fair value reserve relating to unrealized gains on equity instruments classified as available for sale.
  Various limits are applied to elements of the capital base such as qualifying Tier 2 Capital cannot exceed Tier 1 Capital and qualifying subordinated debt may not exceed 50 percent of Tier 1 Capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of Tier 2 Capital. Tier 1 Capital (Core capital) is also subjected to various limits such as Tier 1 Capital should not be less than 10 percent of the risk weighted assets and premises investments should not exceed 50 percent of the Core capital and movable assets should not exceed 20% of Core capital.

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

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

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

***Regulatory capital – Rwanda***

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

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

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

***Regulatory capital – Tanzania***

The Bank's Tier 1 capital expressed as a percentage of risk-weighted assets was 22.5% as at 31 December 2014 (2013 – 23.6%).

***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%.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 3. RISK MANAGEMENT (CONTINUED)

**(e) Capital management (Continued)**

***Regulatory Capital – Mauritius (Continued)***

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

The Bank's objectives when managing capital are:

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

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

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

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

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

The ratio of its capital to aggregate risk weighted assets being the Capital Adequacy Ratio as at 31 December 2014 was 12.70 % (2013 – 12.97%).

**(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 under accounting policies.

**Impairment of goodwill**

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policies. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

**Critical accounting judgements in applying the Group's accounting policies**

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

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

## 5. FAIR VALUE HEIRARCHY 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 31 December 2014 and 2013:

| Financial assets/liabilities | Fair value as at | | Fair value hierarchy | Valuation technique (s) and key inputs | Significant unobservable inputs | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|
| | 2014 Sh'000 | 2013 Sh'000 | | | | |
| Government securities | 16,693,027 | 8,964,589 | Level 1 | Quoted bid prices in an active market | N/A | N/A |
| Buildings | 1,655,923 | 1,693,594 | Level 2 | Fair value inputs other than quoted prices | N/A | N/A |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 6. OPERATING SEGMENTS

The Group operations are within four geographical segments, Kenya, Tanzania, Rwanda and Mauritius. The table below contains segmental information for the year ended 31 December 2014.

| 2014 | Kenya Kshs'000 | Tanzania Kshs'000 | Rwanda Kshs'000 | Mauritius Kshs'000 | Adjustments Kshs'000 | Total Kshs |
|---|---|---|---|---|---|---|
| Net interest income | 8,318,897 | 785,759 | 1,299,428 | - | - | 10,404,084 |
| Net fee, commission and other income | 2,638,624 | 238,436 | 971,288 | - | - | 3,848,348 |
| Share of JV profits - Mauritius | - | - | - | 167,604 | - | 167,604 |
| **Operating income** | **10,957,521** | **1,024,195** | **2,270,716** | **167,604** | **-** | **14,420,036** |
| Operating expenses | ( 3,316,420) | ( 650,825) | ( 1,365,109) | - | - | ( 5,332,354) |
| Impairment on loans and advances | ( 747,385) | ( 40,575) | ( 69,828) | - | - | ( 857,788) |
| **Profit before tax** | **6,893,716** | **332,795** | **835,779** | **167,604** | **-** | **8,229,894** |
| **Profit after tax** | **4,760,523** | **217,104** | **588,782** | **167,604** | **-** | **5,734,013** |
| **Loans and advances to customers** | **89,866,260** | **11,744,303** | **10,880,766** | **-** | **-** | **112,491,329** |
| **Customer deposits** | **86,559,077** | **12,590,754** | **15,051,449** | **-** | **-** | **114,201,280** |
| **Total Assets** | **160,841,131** | **17,980,145** | **19, 764,103** | **-** | **(22,120,928)** | **176,464,451** |
| **Total Liabilities** | **117,906,366** | **16,278,281** | **16, 921,981** | **-** | **( 2,748,318)** | **148,358,309** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 6. OPERATING SEGMENTS (CONTINUED)

| | Kenya Kshs'000 | Tanzania Kshs'000 | Rwanda Kshs'000 | Mauritius Kshs'000 | Adjustments Kshs'000 | Total Kshs |
|---|---|---|---|---|---|---|
| **2013** | | | | | | |
| Net interest income | 7,045,718 | 657,824 | 1,184,172 | - | - | 8,887,714 |
| Net fee, commission and other income | 2,097,710 | 212,519 | 1,051,430 | - | - | 3,361,659 |
| Share of JV profits – Mauritius | - | - | - | 76,332 | - | 76,332 |
| **Operating income** | **9,143,428** | **870,343** | **2,235,602** | **76,332** | **-** | **12,325,705** |
| Operating expenses | ( 2,819,870) | ( 460,760) | ( 1,391,524) | - | - | ( 4,672,154) |
| Impairment on loans and advances | ( 467,875) | ( 60,683) | 56,469 | - | - | ( 472,089) |
| **Profit before tax** | **5,855,683** | **348,900** | **900,547** | **76,332** | **-** | **7,181,462** |
| **Profit after tax** | **4,112,133** | **204,808** | **581,683** | **76,332** | **-** | **4,974,956** |
| **Loans and advances to customers** | **73,369,588** | **10,045,192** | **8,467,884** | **-** | **-** | **91,882,664** |
| **Customer deposits** | **74,494,275** | **10,516,044** | **12,135,250** | **-** | **-** | **97,145,568** |
| **Total Assets** | **128,310,904** | **15,931,996** | **15,127,016** | **-** | **(18,169,372)** | **(18,169,372)** |
| **Total Liabilities** | **89,818,966** | **14,355,267** | **13,771,387** | **-** | **( 423,032)** | **( 423,032)** |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

| | Group | | Company | |
|---|---|---|---|---|
| | **2014 KShs'000** | **2013 KShs'000** | **2014 KShs'000** | **2013 KShs'000** |

## 7. INTEREST INCOME

| | Group 2014 KShs'000 | Group 2013 KShs'000 | Company 2014 KShs'000 | Company 2013 KShs'000 |
|---|---|---|---|---|
| Loans and advances to customers | 14,412,847 | 11,698,336 | - | - |
| Placements with financial institutions | 204,114 | 177,997 | - | - |
| Investment securities: | | | | |
| - Held-to-maturity | 1,812,712 | 1,847,981 | 9,817 | 5,109 |
| - Available-for-sale | 1,161,806 | 758,944 | - | - |
| | 17,591,479 | 14,483,258 | 9,817 | 5,109 |

## 8. INTEREST EXPENSE - GROUP

| | Group 2014 KShs'000 | Group 2013 KShs'000 |
|---|---|---|
| Deposits from customers | 6,170,252 | 5,077,343 |
| Deposits from banks | 113,400 | 197,357 |
| Borrowings | 903,743 | 320,844 |
| | 7,187,395 | 5,595,544 |

## 9. NET FEE AND COMMISSION INCOME - GROUP

| | Group 2014 KShs'000 | Group 2013 KShs'000 |
|---|---|---|
| **Fee and commission income** | | |
| Commissions | 1,445,975 | 1,298,404 |
| Service fees | 775,297 | 661,388 |
| | 2,221,272 | 1,959,792 |
| **Fee and commission expense** | | |
| Inter bank transaction fees | ( 31,821) | ( 28,772) |
| Other | ( 49,995) | ( 35,266) |
| | ( 81,816) | ( 64,038) |
| Net fee and commission income | 2,139,456 | 1,895,754 |

## 10. OTHER INCOME

**(a) Other operating income**

| | Group 2014 KShs'000 | Group 2013 KShs'000 | Company 2014 KShs'000 | Company 2013 KShs'000 |
|---|---|---|---|---|
| Income from foreign exchange dealings | 1,242,300 | 1,299,550 | - | - |
| Rental income | 113,666 | 114,636 | - | - |
| Profit on sale of property and equipment | 10,710 | 9,530 | - | - |
| Profit on sale of available-for-sale investment securities | 122,540 | 102,171 | - | - |
| Other | 219,676 | 16,350 | | - |
| Dividend income | - | - | 4,136,177 | 757,263 |
| | 1,708,892 | 1,542,237 | 4,136,177 | 757,263 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 11. OPERATING EXPENSES

| | Group 2014 KShs'000 | Group 2013 KShs'000 | Company 2014 KShs'000 | Company 2013 KShs'000 |
|---|---|---|---|---|
| **Staff costs** | | | | |
| Salaries and wages | 2,328,641 | 1,962,233 | - | - |
| Contributions to defined contribution plan | 97,694 | 84,433 | - | - |
| Other staff costs | 458,161 | 390,135 | - | - |
| | 2,884,496 | 2,436,801 | | |
| **Premises and equipment costs** | | | | |
| Rental of premises | 250,759 | 203,963 | - | - |
| Electricity | 43,291 | 32,744 | - | - |
| Other premises and equipment costs | 154,330 | 152,559 | - | - |
| | 448,380 | 389,266 | - | - |
| **General administration expenses** | | | | |
| Deposit protection fund contribution | 129,715 | 112,650 | - | - |
| Loss on disposal of property and equipment | 138 | 146 | - | - |
| General administrative expenses | 1,450,736 | 1,288,320 | 18,594 | 24,311 |
| | 1,580,589 | 1,401,116 | 18,594 | 24,311 |
| **Depreciation and amortisation** | | | | |
| Leasehold improvements | 75,997 | 75,763 | - | - |
| Fixtures, fittings and equipment | 78,423 | 71,196 | - | - |
| Computers | 77,930 | 64,217 | - | - |
| Motor vehicles | 26,278 | 25,688 | - | - |
| Leasehold building | 53,879 | 61,331 | - | - |
| Depreciation on property and equipment (Note 20) | 312,507 | 298,195 | - | - |
| Amortisation of intangible assets (Note 21(b)(i)) | 100,674 | 141,997 | - | - |
| Amortisation of prepaid operating lease rentals (Note 22) | 5,708 | 4,779 | - | - |
| | 418,889 | 444,971 | - | - |



### 12. PROFIT BEFORE INCOME TAX

| | Group 2014 KShs'000 | Group 2013 KShs'000 | Company 2014 KShs'000 | Company 2013 KShs'000 |
|---|---|---|---|---|
| Profit before income tax is arrived at after charging/(crediting): | | | | |
| Depreciation | 312,513 | 298,194 | | |
| Amortisation of intangible assets | 100,674 | 141,997 | | |
| Directors' emoluments: - Fees | 32,715 | 29,955 | 3,008 | 4,625 |
| - Other emoluments | 38,676 | 23,702 | 1,875 | 479 |
| Auditors' remuneration | 18,217 | 15,778 | 1,635 | 2,061 |
| Amortisation of prepaid operating lease rentals | 5,708 | 4,779 | | |
| Net profit on sale of property and equipment | ( 697,162) | ( 9,384) | | |
| Interest income | - | | ( 9,817) | ( 5,109) |
| Dividend Income | - | - | (4,136,177) | (757,263) |

### 13. TAXATION

**(a) Income tax expense**

| | Group 2014 KShs'000 | Group 2013 KShs'000 | Company 2014 KShs'000 | Company 2013 KShs'000 |
|---|---|---|---|---|
| Current period's tax | 2,558,999 | 2,439,914 | 2,945 | 1,533 |
| Final withholding tax at 5% | | | - | - |
| Under provision in prior period - Current tax | ( 3,712) | 1,833 | | |
| | 2,555,287 | 2,441,747 | 2,945 | 1,533 |
| Deferred tax credit (Note 23) | ( 42,813) | ( 217,033) | - | - |
| Over provision in prior period - Deferred tax | ( 16,593) | 58,124 | - | - |
| Income tax expense | 2,495,881 | 2,282,838 | 2,945 | 1,533 |
| The tax on the profit differs from the theoretical amount using the basic tax rate as follows: | | | | |
| Accounting profit before taxation | 8,229,894 | 7,257,794 | 4,127,400 | 738,061 |
| Computed tax using the applicable corporation tax rate | 2,468,968 | 2,185,496 | 1,238,220 | 221,419 |
| Under provision in the prior year | ( 3,712) | 1,833 | - | - |
| Effect on non-deductible costs/income | 63,420 | 57,242 | (1,235,275) | (219,886) |
| Under provision in prior year – Deferred tax | ( 16,593) | 58,124 | - | - |
| Prior period tax recoverable | - | ( 4,522) | - | - |
| Tax discount in accordance with Rwandan tax laws | ( 16,202) | ( 15,335) | - | - |
| | 2,495,881 | 2,282,838 | 2,945 | 1,533 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 13. TAXATION (CONTINUED)

**(b) Tax payable**

| | Group 2014 KShs'000 | Group 2013 KShs'000 | Company 2014 KShs'000 | Company 2013 KShs'000 |
|---|---|---|---|---|
| At 1 January | 569,605 | 107,095 | 107 | ( 113) |
| Income tax expense (Note 13 ((a)(i)) | 2,555,287 | 2,441,747 | - | - |
| Effect of tax in foreign jurisdiction | ( 5,217) | ( 2,378) | - | - |
| Charge for the year | | | ( 2,945) | ( 1,533) |
| Tax paid | (3,119,465) | (1,976,859) | 2,787 | 1,753 |
| At 31 December | 210 | 569,605 | ( 51) | 107 |
| Recorded as follows: | | | | |
| Tax recoverable | ( 24,488) | ( 107) | - | ( 107) |
| Tax payable | 24,698 | 569,712 | 51 | - |
| Net payable | 210 | 569,605 | 51 | ( 107) |

### 14. EARNINGS PER SHARE

| | Group 2014 KShs'000 | Group 2013 KShs'000 | Company 2014 KShs'000 | Company 2013 KShs'000 |
|---|---|---|---|---|
| Profit for the year attributable to equity holders | 5,320,885 | 4,611,066 | 4,124,455 | 736,528 |
| Weighted average number of ordinary shares in issue during the year | 392,362 | 392,362 | 392,362 | 392,362 |
| Earnings per share (KShs) | 13.56 | 11.75 | 10.51 | 1.88 |

### 15. CASH AND BALANCES WITH CENTRAL BANKS

| | Group 2014 KShs'000 | Group 2013 KShs'000 | Company 2014 KShs'000 | Company 2013 KShs'000 |
|---|---|---|---|---|
| Cash on hand | 1,769,443 | 1,519,137 | 44,358 | 21,577 |
| Balances with Central Banks: | | | | |
| - Restricted balances (Cash Reserve Ratio) | 7,008,224 | 5,752,974 | - | - |
| - Unrestricted balances | 2,496,841 | 1,661,844 | - | - |
| Short term deposits | - | - | 17,492 | 3,154 |
| | 11,274,508 | 8,933,955 | 61,850 | 24,731 |



### 16. PLACEMENTS WITH FINANCIAL INSTITUTIONS - GROUP

| | Group 2014 KShs'000 | Group 2013 KShs'000 |
|---|---|---|
| Due within 90 days | 4,937,238 | 6,050,627 |
| Due after 90 days | - | - |
| | 4,937,238 | 6,050,627 |

The Group's weighted average effective interest rate on Placements with financial institutions at 31 December 2014 was 5.87% (2013 – 7.15%).

### 17. LOANS AND ADVANCES TO CUSTOMERS - GROUP

**(a) Classification**

| | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| Overdrafts | 36,568,985 | 32,136,434 |
| Loans | 75,697,110 | 59,589,235 |
| Bills discounted | 475,922 | 286,902 |
| Hire purchase | 2,430,043 | 1,870,056 |
| Gross loans and advances | 115,172,060 | 93,882,627 |
| Less: Impairment losses on loans and advances | ( 2,680,731) | ( 1,999,963) |
| Net loans and advances | 112,491,329 | 91,882,664 |
| Repayable on demand | 28,542,668 | 24,569,978 |
| Less than 3 months | 12,504,174 | 8,056,859 |
| 3 months to 1 year | 16,572,289 | 11,566,386 |
| 1 to 5 years | 36,657,727 | 29,829,779 |
| 5 to 10 years | 16,400,845 | 16,161,238 |
| Over 10 years | 4,494,357 | 3,698,388 |
| Gross loans and advances | 115,172,060 | 93,882,628 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 17. LOANS AND ADVANCES TO CUSTOMERS - GROUP (CONTINUED)

**(b) Impairment losses reserve**

| 31 December 2014 | Specific impairment losses KShs'000 | Portfolio impairment provision KShs'000 | Total KShs'000 |
|---|---|---|---|
| At 1 January 2014 | 782,246 | 1,217,717 | 1,999,963 |
| Impairment made in the year | 1,159,525 | ( 489,869) | 669,656 |
| Net Recoveries | ( 19,754) | - | ( 19,754) |
| Write offs | ( 28,222) | - | ( 28,222) |
| Suspended interest | 57,902 | - | 57,902 |
| Translation difference | 1,471 | ( 286) | 1,185 |
| At 31 December 2014 | 1,953,168 | 727,562 | 2,680,730 |

| 31 December 2013 | | | |
|---|---|---|---|
| At 1 January 2013 | 777,223 | 714,162 | 1,491,385 |
| Impairment made in the year | 96,252 | 509,855 | 606,107 |
| Recoveries and impairment no longer required | ( 56,968) | - | ( 56,968) |
| Net recoveries, write offs during the year | ( 4,114) | - | ( 4,114) |
| Amounts written off during the year | ( 20,875) | - | ( 20,875) |
| Translation difference | ( 9,272) | ( 6,300) | ( 15,572) |
| At 31 December 2013 | 782,246 | 1,217,717 | 1,999,963 |

**(c) Impairment losses on loans and advances**

| | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| Impairment made in the year | 669,656 | 606,107 |
| Recoveries and impairment no longer required | ( 86,160) | ( 135,118) |
| Amounts directly written off during the year | 274,292 | 1,100 |
| | 857,788 | 472,089 |

The Group's weighted average effective interest rate on loans and advances to customers at 31 December 2014 was 13.75% (2013 – 14.35%).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 17. LOANS AND ADVANCES TO CUSTOMERS - GROUP (CONTINUED)

**(d) Loans and advances concentration by sector**

| Group | 2014 KShs'000 | % | 2013 KShs'000 | % |
|---|---|---|---|---|
| Manufacturing | 24,113,502 | 20.94% | 20,832,685 | 22.19% |
| Wholesale and retail trade | 7,947,586 | 6.90% | 7,559,557 | 8.05% |
| Building and construction | 12,723,812 | 11.05% | 11,528,253 | 12.28% |
| Agriculture | 5,632,218 | 4.89% | 6,113,444 | 6.51% |
| Real estate | 19,935,729 | 17.31% | 12,857,374 | 13.70% |
| Transport and communication | 6,663,130 | 5.78% | 4,612,983 | 4.91% |
| Business services ( Trade) | 19,313,784 | 16.77% | 16,535,571 | 17.61% |
| Electricity and water | 256,716 | 0.22% | 110,846 | 0.12% |
| Finance and insurance | 1,229,848 | 1.07% | 852,966 | 0.91% |
| Mining and quarrying | 4,752,882 | 4.13% | 1,716,576 | 1.83% |
| Others | 12,602,853 | 10.94% | 11,162,373 | 11.89% |
| | **115,172,060** | **100.00%** | **93,882,628** | **100.00%** |

## 18. INVESTMENT SECURITIES - GROUP

| | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| **Available-for-sale** | | |
| Corporate bonds available-for-sale | 481,912 | 677,463 |
| Treasury bonds - available-for-sale | 9,282,103 | 7,153,678 |
| Treasury bills – available-for-sale | 6,929,012 | 1,133,447 |
| Total available-for-sale | 16,693,027 | 8,964,588 |
| **Held-to-maturity** | | |
| Treasury bonds | 12,150,594 | 10,163,170 |
| Treasury bills | 9,539,787 | 7,069,644 |
| Total held to maturity | 21,690,381 | 17,232,814 |
| **Total investment securities** | **38,383,408** | **26,197,402** |

The weighted average effective interest rate on Government securities at 31 December 2014 was 10.89% (2013 – 14.35%).

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

## 19. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES

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

**(a) Investment in joint venture**

The Company has 50% (2013 - 50%) control over Bank One Limited with the other joint venturer, CIEL Investments Limited. The joint venture was formerly owned through I&M Bank Limited until 22 August 2014 when it was transferred to I&M Holdings Limited.

| | **2014 KShs'000** | **2013 KShs'000** |
|---|---|---|
| Balance at start of the year | 2,411,973 | 2,066,668 |
| Additional investment in the year | - | 253,277 |
| Share of profit for the year | 167,604 | 76,332 |
| Restatement of opening balance on adopting IAS 19 | - | ( 22,037) |
| Movement in translation reserve | ( 6,017) | 37,733 |
| Balance at end of the year | 2,573,560 | 2,411,973 |
| | ======== | ======== |
| **Percentage ownership Interest** | **2014 50% Kshs'000** | **2013 50% Kshs'000** |
| Non-current assets | 1,043,212 | 1,071,093 |
| Current assets (including cash and cash equivalents) | 50,440,899 | 49,760,914 |
| Non-current liabilities | ( 2,279,807) | ( 2,611,215) |
| Current liabilities | (45,007,996) | (44,347,659) |
| Net assets (100%) | 4,196,308 | 3,873,133 |
| Group's share of net assets (50%) | 2,098,154 | 1,936,567 |
| Goodwill | 475,406 | 475,406 |
| **Carrying amount of interest in Joint Venture** | **2,573,560** | **2,411,973** |
| | ========= | ========= |
| Interest income | 2,618,428 | 2,764,617 |
| Interest expense | ( 1,002,082) | ( 1,382,362) |
| Other income | 448,384 | 143,787 |
| Operating expenses | ( 1,720,366) | ( 1,296,886) |
| Income tax expense | ( 9,156) | ( 76,492) |
| Profit and total comprehensive income (100%) | 335,208 | 152,664 |
| Profit and total comprehensive income (50%) | 167,604 | 76,332 |
| **Group's share of profit and total comprehensive income** | **167,604** | **76,332** |
| | ========= | ========= |
| **Dividends received by the Group** | **-** | **-** |
| | ========= | ========= |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 19. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE (CONTINUED)

**(a) Investment in joint venture (continued)**

| | **2014 KShs'000** | **2013 KShs'000** |
|---|---|---|
| Company: | | |
| Bank One Limited | **1,498,815** | - |
| | ======= | ======= |

**(b) Investment in subsidiaries**

| **Company:** | **Activity** | **Interest** | | |
|---|---|---|---|---|
| I&M Bank Limited | Commercial banking | 100% | 17,968,778 | 17,968,778 |
| I&M Capital Limited | Dormant | 100% | 1,606 | 1,606 |
| I&M Bank (Rwanda) Limited | Commercial Banking | 54.99% | 1,629,277 | - |
| | | | **19,599,661** | **17,970,384** |
| | | | ======== | ========= |

The investment by I&M Bank Limited's subsidiary, I&M Bank (Rwanda) Limited, was transferred to I&M Holdings Limited with effect from 1 January 2014.

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

| **Company** | **Activity** | **Jurisdiction** | **Shareholding** |
|---|---|---|---|
| I&M Realty Limited | Real Estate | Kenya | 100% |
| I&M Insurance Agency Limited | Insurance | Kenya | 100% |
| I&M Bank (T) Limited | Commercial Banking | Tanzania | 55.03% |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 19. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE (CONTINUED)

### (b) Investment in subsidiaries (continued)

| | I&M Bank Limited | | I&M Bank (T) Limited | | I&M Bank (Rwanda) Limited | |
|---|---|---|---|---|---|---|
| | 2014 KSh'000 | 2013 KSh'000 | 2014 KSh'000 | 2013 KSh'000 | 2014 KSh'000 | 2013 KSh'000 |
| **Summarised statement of financial position** | | | | | | |
| Total assets | 137,299 | 110,316 | 17,980 | 6,757 | 19,764 | 16,230 |
| Total liabilities | 115,485 | 89,791 | 16,278 | 5,750 | 16,921 | 13,812 |
| Net assets | 21,814 | 20,525 | 1,702 | 1,007 | 2,843 | 2,418 |
| **Summarised statement of profit and loss and other comprehensive income** | | | | | | |
| Net interest income | 8,309 | 7,042 | 785 | 654 | 1,298 | 1,167 |
| Profit before income tax | 7,749 | 6,060 | 332 | 322 | 835 | 872 |
| Taxation | ( 2,130) | ( 1,865) | ( 115) | ( 117) | ( 246) | ( 290) |
| Profit for the year | 5,619 | 4,195 | 217 | 205 | 589 | 582 |
| **Summarised statement of cash flows** | | | | | | |
| Net cash (used in)/(generated from) operating activities | ( 27,020) | ( 22,849) | 71 | (1,523) | 858 | 2,652 |
| Net cash generated from/(used in) from investing activities | 17,108 | 19,796 | ( 142) | ( 36) | ( 98) | ( 147) |
| Net cash generated from/(used in) financing activities | 1,822 | 6,458 | 54 | ( 29) | ( 162) | ( 258) |
| Net (decrease)/increase in cash and cash equivalents | ( 11,218) | 3,405 | ( 17) | (1,589) | 598 | 2,247 |
| Cash and cash equivalents at beginning of year | 1,084 | ( 2,321) | ( 745) | 844 | 5,485 | 3,238 |
| Cash and cash equivalents at end of year | 10,134 | 1,084 | ( 762) | ( 745) | 6,083 | 5,485 |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 20. PROPERTY AND EQUIPMENT- GROUP

| | Leasehold buildings KShs'000 | Leasehold improvements KShs'000 | Furniture, fittings, fixtures & office, equipment KShs'000 | Computers KShs'000 | Motor vehicles KShs'000 | Capital work in progress KShs'000 | Total KShs'000 |
|---|---|---|---|---|---|---|---|
| **Cost/valuation** | | | | | | | |
| At 1 January 2013 | 1,424,112 | 565,338 | 886,534 | 493,261 | 219,917 | 22,851 | 3,612,013 |
| Additions | 37,415 | 42,288 | 43,834 | 36,879 | 9,121 | 162,352 | 331,889 |
| Reclassifications | ( 2,362) | - | ( 183) | ( 153) | 28 | - | ( 2,670) |
| Transfers | - | 80,758 | ( 88,387) | 9,494 | - | ( 1,865) | - |
| Disposals/write off | ( 7,592) | - | ( 7,653) | ( 17,853) | ( 682) | - | ( 33,780) |
| Surplus on revaluation | 400,000 | - | - | - | - | - | 400,000 |
| Translation difference | ( 34,142) | - | ( 20,232) | ( 11,200) | ( 11,154) | ( 1,091) | ( 77,819) |
| At 31 December 2013 | 1,817,431 | 688,384 | 813,913 | 510,428 | 217,230 | 182,247 | 4,229,633 |
| At 1 January 2014 | 1,817,431 | 688,384 | 813,913 | 510,428 | 217,230 | 182,247 | 4,229,633 |
| Additions | 1,869 | 204,044 | 90,792 | 79,551 | 39,475 | 184,038 | 599,769 |
| Reclassifications | 7,832 | 1,801 | 14,149 | 19,147 | - | ( 42,929) | - |
| Transfers to intangible assets | - | - | - | - | - | ( 65,683) | ( 65,683) |
| Transfers to POLR | - | - | - | - | - | ( 54,252) | ( 54,252) |
| Disposals/write off | ( 3,426) | - | ( 624) | ( 60) | ( 24,189) | ( 15,248) | ( 43,547) |
| Translation difference | 8,892 | ( 2,885) | 3,719 | 796 | 2,530 | ( 15) | 13,037 |
| At 31 December 2014 | 1,832,598 | 891,344 | 921,949 | 609,862 | 235,046 | 188,158 | 4,678,957 |

In 2013, the leasehold building was revalued after 4 years by an independent valuer, Kiragu & Mwangi Limited. The valuation is level 2 under the Fair value hierarchy.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 20. PROPERTY AND EQUIPMENT - GROUP (CONTINUED)

| Depreciation | Leasehold buildings KShs'000 | Leasehold improvements KShs'000 | Furniture, Fittings, Fixtures & office, equipment KShs'000 | Computers KShs'000 | Motor vehicles KShs'000 | Capital work in progress KShs'000 | Total KShs'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2013 | 168,072 | 312,158 | 483,025 | 360,810 | 158,579 | - | 1,482,644 |
| Reclassifications | - | 12,434 | ( 14,636) | 1,866 | 28 | - | ( 308) |
| Charge for the year | 61,331 | 75,763 | 71,196 | 64,217 | 25,688 | - | 298,195 |
| On disposals | ( 6,307) | - | ( 6,722) | ( 17,853) | ( 497) | - | ( 31,379) |
| Reversal on revaluation | ( 91,506) | - | - | - | - | - | ( 91,506) |
| Translation difference | ( 7,752) | ( 45) | ( 10,635) | ( 9,828) | ( 7,949) | - | ( 36,209) |
| At 31 December 2013 | 123,838 | 400,310 | 522,228 | 399,212 | 175,849 | - | 1,621,437 |
| At 1 January 2014 | 123,838 | 400,310 | 522,228 | 399,212 | 175,849 | - | 1,621,437 |
| Charge for the year | 53,879 | 75,997 | 78,423 | 77,930 | 26,278 | - | 312,507 |
| On disposals | ( 3,426) | - | ( 384) | ( 60) | ( 22,710) | - | ( 26,580) |
| Translation difference | 2,385 | ( 640) | 2,546 | 1,605 | 2,005 | - | 7,901 |
| At 31 December 2014 | 176,676 | 475,667 | 602,813 | 478,687 | 181,422 | - | 1,915,265 |
| Net book value At 31 December 2014 | 1,655,922 | 415,677 | 319,136 | 131,175 | 53,624 | 188,158 | 2,763,692 |
| Net book value At 31 December 2013 | 1,693,593 | 288,074 | 291,685 | 111,216 | 41,381 | 182,247 | 2,608,196 |
| Net book value – Cost basis At 31 December 2014 | 713,672 | 212,077 | 213,260 | 33,286 | 15,103 | 188,158 | 1,375,556 |
| Net book value – Cost basis At 31 December 2013 | 730,732 | 288,074 | 291,683 | 111,216 | 41,381 | 182,248 | 1,645,334 |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 21. INTANGIBLE ASSETS

| (a) Goodwill | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| **(i) Group** | | |
| I&M Bank (K) Ltd | 1,195 | 1,195 |
| I&M Bank (T) Limited | 608,953 | 608,953 |
| Biashara Bank of Kenya Limited | 10,747 | 10,747 |
| I&M Bank (Rwanda) Limited | 553,706 | 553,706 |
| | 1,174,601 | 1,174,601 |

The recoverable amounts for I&M Bank (T) Limited and I&M Bank (Rwanda) Limited have been calculated based on their value in use, determined by discounting the future cash flows expected to be generated from the continuing use of the Cash Generating Unit (CGU). The present value of the recoverable amounts on I&M Kenya's share were Kshs 2.38 billion (2013; KShs 3.46 billion) and Kshs 2.2 billion (2013; KShs 2.35 billion) for I&M Bank (T) Limited and I&M Bank (Rwanda) Ltd respectively. No impairment losses were recognised during 2014, 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:

| 2014 | I&M (T) Ltd | I&M Rwanda Ltd |
|---|---|---|
| 5 year risk free rate | 9.18% | 11.875% |
| Risk premium | 12.5% | 14.00% |
| Terminal growth rate | 3.00% | 2.50% |
| Exchange rate | KShs 1 = Tzs 19.09 | KShs 1 = Rwf 7.61 |

| 2013 | 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 year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 21. INTANGIBLE ASSETS (CONTINUED)

**(b) Computer software**

*(i) Group*

| | Software KShs'000 | Work in progress KShs'000 | Total KShs'000 |
|---|---|---|---|
| **Cost** | | | |
| 31st December 2013 | | | |
| At 1st January as previously stated | 689,705 | 78,965 | 768,670 |
| Transfers | 78,965 | ( 78,965) | - |
| Additions | 75,945 | - | 75,945 |
| Exchange differences | ( 13,848) | - | ( 13,848) |
| At 31st December 2013 | 830,767 | - | 830,767 |
| **31st December 2014** | | | |
| At 1 January as previously stated | 830,767 | - | 830,767 |
| Transfers | - | 65,683 | 65,683 |
| Additions | 24,547 | 136,798 | 161,345 |
| Exchange differences | 1,467 | - | 1,467 |
| At 31 December 2014 | 856,781 | 202,481 | 1,059,262 |
| **Amortisation** | | | |
| **31st December 2013** | | | |
| At 1st January as previously stated | 525,758 | - | 525,758 |
| Acquisition of subsidiary | - | - | - |
| Amortisation for the period | 141,997 | - | 141,997 |
| Exchange differences | ( 11,996) | - | ( 11,996) |
| 31st December | 655,759 | - | 655,759 |
| **31st December 2014** | | | |
| At 1st January as previously stated | 655,759 | - | 655,759 |
| Acquisition of subsidiary | - | - | - |
| Amortisation for the period | 100,674 | - | 100,674 |
| Exchange differences | 2,464 | - | 2,464 |
| 31st December | 758,897 | - | 758,897 |
| Net carrying amount | | | |
| 31 December 2014 | 97,884 | 202,481 | 300,365 |
| 31st December 2013 | 175,008 | - | 175,008 |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 22. PREPAID OPERATING LEASE RENTALS - GROUP

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

## 23. DEFERRED TAX (ASSETS) / LIABILITIES

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

| | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| **Deferred tax asset** | | |
| Plant and equipment | 5,359 | ( 4,415) |
| General provisions | (323,037) | (341,301) |
| Other provisions | (225,375) | (131,336) |
| Fair value gains on available for sale equity investment | (142,342) | ( 72,649) |
| Total | (685,395) | (549,701) |
| **Deferred tax liabilities** | | |
| On revaluation of property and equipment | 189,704 | 189,704 |
| **Net deferred tax assets** | **(495,691)** | **(359,997)** |
| **Disclosed in the statement of financial position as follows:** | | |
| Deferred tax assets | (574,512) | (386,285) |
| Deferred tax liabilities | 78,821 | 26,288 |
| | (495,691) | (359,997) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

| | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| **(b) Movement in deferred tax asset is as follows:** | | |
| As previously reported | (359,997) | (320,520) |
| - prior year over provision | - | 42,699 |
| - as restated | (359,997) | (277,821) |
| Exchange differences | 1,079 | 2,377 |
| Charge to profit or loss account – current year (note 13a) | ( 42,813) | (217,033) |
| Prior year overprovision (note 13a) | ( 16,593) | 58,124 |
| Recognised in other comprehensive income – current year | ( 77,367) | 133,298 |
| - prior year | - | ( 58,942) |
| | (495,691) | (359,997) |

## 24. OTHER ASSETS

**Group**

| | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| Items in transit | 567,941 | 491,743 |
| Rent receivable | 14,254 | 30,794 |
| Prepayments | 330,465 | 252,633 |
| Card business prepayments | 251,260 | 121,926 |
| Fair value of foreign exchange contracts | 260,724 | 129,741 |
| Other receivables | 251,792 | 111,565 |
| | 1,676,436 | 1,138,402 |

## 25. DEPOSITS FROM BANKS

**Group**

| | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| Payable within one year | 17,205,630 | 6,411,628 |

The Group's weighted average effective interest rate on deposits from other banks and banking institutions at 31 December 2014 was 2.91 % (2013 – 4.55%).

## 26. DEPOSITS FROM CUSTOMERS

**Group**

| | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| Government and Parastatals | 714,852 | 3,466,277 |
| Private sector and individuals | 113,486,428 | 93,679,291 |
| | 114,201,280 | 97,145,568 |

The Group's weighted average effective interest rate on interest bearing deposits from customers at 31 December 2014 was 5.84% (2013 – 5.12%).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 27. OTHER LIABILITIES

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 KShs'000 | 2013 KShs'000 | 2014 KShs'000 | 2013 KShs'000 |
| Bankers cheques payable | 353,634 | 361,362 | - | - |
| Accruals | 1,020,033 | 810,072 | - | - |
| Other accounts payables | 801,646 | 625,309 | 51,879 | 27,918 |
| | 2,175,313 | 1,796,743 | 51,879 | 27,918 |

## 28. LONG TERM BORROWINGS

| | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| Less than one year | 2,544,668 | 1,055,235 |
| One to five years | 10,894,843 | 5,685,465 |
| Over five years | 1,233,056 | 4,831,950 |
| | 14,672,567 | 11,572,650 |

Long term borrowings constituted the following:

(i) USD 25,000,000 facility granted on 24 November 2010 by FMO repayable over seven years after an initial one year two months grace period.
(ii) KShs 600,000,000 subordinated unsecured floating rate notes issued on 12 June 2008. The tenor is 7 years from the issue date and each note shall be redeemed in four equal instalments on 2 January 2014, 2 July 2014, 2 January 2015 and 11 June 2015.
(iii) USD 15,000,000 facility granted on 5 January 2012 by DEG repayable quarterly over five (5) years after an initial six months grace period.
(iv) USD 50,000,000 facility granted on 16 July 2013 by IFC repayable semi-annually over 7 years after an initial two years grace period.
(v) Kshs 3,655,000,000 medium term unsecured subordinated fixed and floating rate notes issued on 16 December 2013 for a tenor of 5 years with redemption on the maturity date.
(vi) USD 26,000,000 facility granted on 21 March 2014 by PROPARCO repayable semi-annually over seven years four months after an initial one year grace period.
(vii) EUR 10,000,000 facility granted on 21 March 2014 by PROPARCO repayable semi-annually over seven years four months after an initial one year grace period.
(viii) USD 5,000,000 facility granted in 3 July 2012 by PROPARCO repayable semi-annually over seven years four months.
(ix) Rwf 1,000,000,000 corporate bond issue on 25 January 2008 repayable semi-annually over 10 years;
(x) A corporate bond at a nominal value of Rwanda Francs 1 billion through the Rwanda over the counter market in January 2008. The bond has a maturity period of 10 Years and is unsecured.
(xi) A loan of Rwf 1,382,764,094 from the National Bank of Rwanda as a result of a swap transaction. The loan accrues interests at the fixed rate of 8% and will mature on 27 November 2017.
(xii) EUR 3,000,000 facility granted on 21 December 2006 by European Investment Bank repayable Semi-annually over nine years.
(xiii) EUR 1,573,000 granted in October 2014 by European Investment Bank repayable over seven years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 28. LONG TERM BORROWINGS (CONTINUED)

The Group's average effective interest rate on foreign currency long term borrowings was 3.64% (2013 –4.61%).

The Group's average effective interest rate on the unsecured Floating Rate Note was 11.71% (2013 – 12.87%).

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

**Loan movement schedule**

| **Group** | **2014 KShs'000** | **2013 KShs'000** |
|---|---|---|
| At 1 January | 11,572,651 | 4,446,420 |
| Funds received | 3,803,295 | 8,022,500 |
| Payments on principal and interest | ( 1,086,741) | ( 888,629) |
| Interest payable | 38,995 | 21,981 |
| Translation differences | 344,376 | ( 29,622) |
| At 31 December | 14,672,576 | 11,572,650 |

## 29. SHARE CAPITAL AND RESERVES

**(a) Share capital and share premium - company**

| | 2014 | 2013 |
|---|---|---|
| Authorised: | | |
| 500,000,000 ordinary shares of KShs 1 each | 500,000 | 500,000 |
| Issued and fully paid: | | |
| 392,362,039 ordinary shares of KShs 1 | 392,362 | 392,362 |

Movement of share capital and premium

| | **Number of shares '000** | **Share capital KShs '000** | **Share premium KShs '000** | **Total KShs '000** |
|---|---|---|---|---|
| 1 January & 31 December 2014 | 392,362 | 392,362 | 17,331,510 | 17,723,872 |

**2013:**

| | **Number of shares '000** | **Share capital KShs '000** | **Share premium KShs '000** | **Total KShs '000** |
|---|---|---|---|---|
| At 30 June 2013 - pre-merger | 28,640 | 28,640 | 155 | 28,795 |
| New shares issued | 363,722 | 363,722 | 17,331,355 | 17,695,077 |
| At 30 June 2013 – post-merger | 392,362 | 392,362 | 17,331,510 | 17,723,872 |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 29. SHARE CAPITAL AND RESERVES (CONTINUED)

In year 2013, 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 premium**

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

**(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 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.

**(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, (ii) I&M Bank (T) Limited, Tanzania and (iii) I&M Bank (Rwanda) Limited, Rwanda into the functional currency of the Parent company.

## 30. NON-CONTROLLING INTEREST (NCI)

The movement in non-controlling interest during the year was as follows:

| | **2014 KShs'000** | **2013 KShs'000** |
|---|---|---|
| At start of year | 1,767,797 | 1,577,863 |
| Profit for the year | 413,128 | 363,890 |
| Translation differences | ( 31,469) | ( 100,249) |
| Other comprehensive income | 5,784 | 2,879 |
| Dividends paid | ( 108,342) | ( 76,586) |
| **At end of year** | **2,046,898** | **1,767,797** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 31. NOTES TO THE STATEMENT OF CASH FLOWS - GROUP

| **(a) Reconciliation of profit before taxation to cash flows generated from/(used in) operating activities** | **2014 KShs'000** | **2013 KShs'000** |
|---|---|---|
| Profit before income tax | 8,229,894 | 7,257,794 |
| Adjustments for: | | |
| Depreciation | 312,507 | 298,194 |
| Amortisation of intangible asset | 100,674 | 141,997 |
| Amortisation of prepaid operating lease rentals | 5,708 | 4,779 |
| Profit on sale of property and equipment | ( 10,584) | ( 9,384) |
| Property and equipment items expensed | 14,988 | - |
| Profit on sale of available for sale securities | ( 122,540) | ( 102,171) |
| Profit from Joint Venture | ( 167,604) | ( 76,332) |
| Unrealised exchange on borrowings | 47,298 | ( 88,442) |
| **Working capital changes;** | | |
| Movement in loans and advances to customers | (20,608,665) | (20,869,704) |
| Cash and balances with Central Banks: | | |
| – Cash Reserve Ratio | ( 1,255,250) | ( 711,752) |
| Investment securities | (12,316,298) | 1,124,814 |
| Other assets | ( 538,034) | 85,195 |
| Customer deposits | 17,055,712 | 9,371,420 |
| Other liabilities | 378,571 | 156,094 |
| **Cash flows used in operating activities** | **(8,873,623)** | **( 3,417,498)** |

**(b) Analyses of cash and cash equivalents**

| | **2014 KShs'000** | **2013 KShs'000** |
|---|---|---|
| Cash and balances with Central Banks – excluding Cash Reserve ratio (Note 16) | 4,266,284 | 3,180,981 |
| Deposits and balances due from banking institutions | 4,937,238 | 6,050,627 |
| Deposits and balances due to banking institutions | (17,205,630) | ( 6,411,628) |
| | **( 8,002,108)** | **2,819,980** |

## 32. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS

**(a) Group - Legal proceedings**

There were a number of legal proceedings outstanding against the Group as at 31 December 2014. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

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

In the ordinary course of business, 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:



## 32. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

| | **2014 KShs'000** | **2013 KShs'000** |
|---|---|---|
| Contingencies related to: | | |
| Acceptances and letters of credit | 12,083,881 | 15,067,383 |
| Guarantees - Advances | 10,558,794 | 12,795,582 |
| | 22,642,675 | 27,862,965 |
| Commitments related to: | | |
| Outstanding spot/forward contracts | 21,285,664 | 7,906,233 |
| | 43,928,339 | 35,769,198 |

**(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.

## 33. ASSETS PLEDGED AS SECURITY - GROUP

As at 31 December 2014, Treasury Bonds with a face value of KShs 1,595,000,000 (2013 – KShs 2,265,000,000) were held under lien in favour of the Central Bank of Kenya.

## 34. 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.

| | **2014 KShs'000** | **2013 KShs'000** |
|---|---|---|
| **(a)Transactions with directors/shareholders** | | |
| (i) Loans to directors/shareholders | 129,866 | 13,161 |

The related interest income for loans above was KShs 3,034,533 (2013 – KShs 5,896,318).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 34. RELATED PARTY TRANSACTIONS (CONTINUED)

**(a) Transactions with directors/shareholders (Continued)**

| | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| (ii) Deposits from directors/shareholders | 2,378,850 | 140,259 |
| | ======== | ======= |

Interest expense on deposits from directors and shareholders was KShs 169,134,000 (2013 – KShs 51,994,243).

| | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| (iii) Loans from shareholders | - | - |
| | ======== | ======= |

Interest expense on loans from shareholders was KShs nil (2013 – KShs 19,083,468).

| | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| **(b) Transactions with related companies** | | |
| (i) Loans to related companies | 18,581 | 16,565 |
| | ====== | ===== |

Interest income on loans to related companies was KShs 2,787,145 (2013 –Kshs 3,244,849).

| | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| (ii) Loans from related companies | 4,064,831 | 866,692 |
| | ======= | ====== |

Interest expense on loans from related companies was KShs 106,234,002 (2013 –Kshs 17,378,544).

| | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| (iii) Deposits from related companies | 609,577 | 1,151,853 |
| | ======= | ======= |

Interest expense on deposits from related companies was KShs 22,064,717 (2013 – KShs 56,661,967).

| | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| (iv) Loans and advances due from subsidiaries and joint venture | - | 75,941 |
| | ======= | ======= |

Interest income on loans and advances due from subsidiary and joint venture was KShs nil (2013 – KShs 1,428,786).

| | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| (v) Deposits from subsidiaries and joint venture | 330,910 | 374,624 |
| | ======= | ======= |

Interest expense on deposits from subsidiary and joint venture was KShs 1,536,098 (2013 – KShs 1,718,379).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 34. RELATED PARTY TRANSACTIONS (CONTINUED)

**(c) Transactions with employees**

| | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| Staff loans | 441,545 | 630,364 |
| | ======= | ======= |

Interest earned on these loans was KShs 21,107,786 (2013 – KShs 44,714,820).

## 35. CAPITAL COMMITMENTS

| | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| Consolidated | 1,150,000 | 777,816 |
| | ======= | ======= |

Capital commitments relate to planned new branches and a new head office building.

## 36. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES - COMPANY

**(a) Lessee**

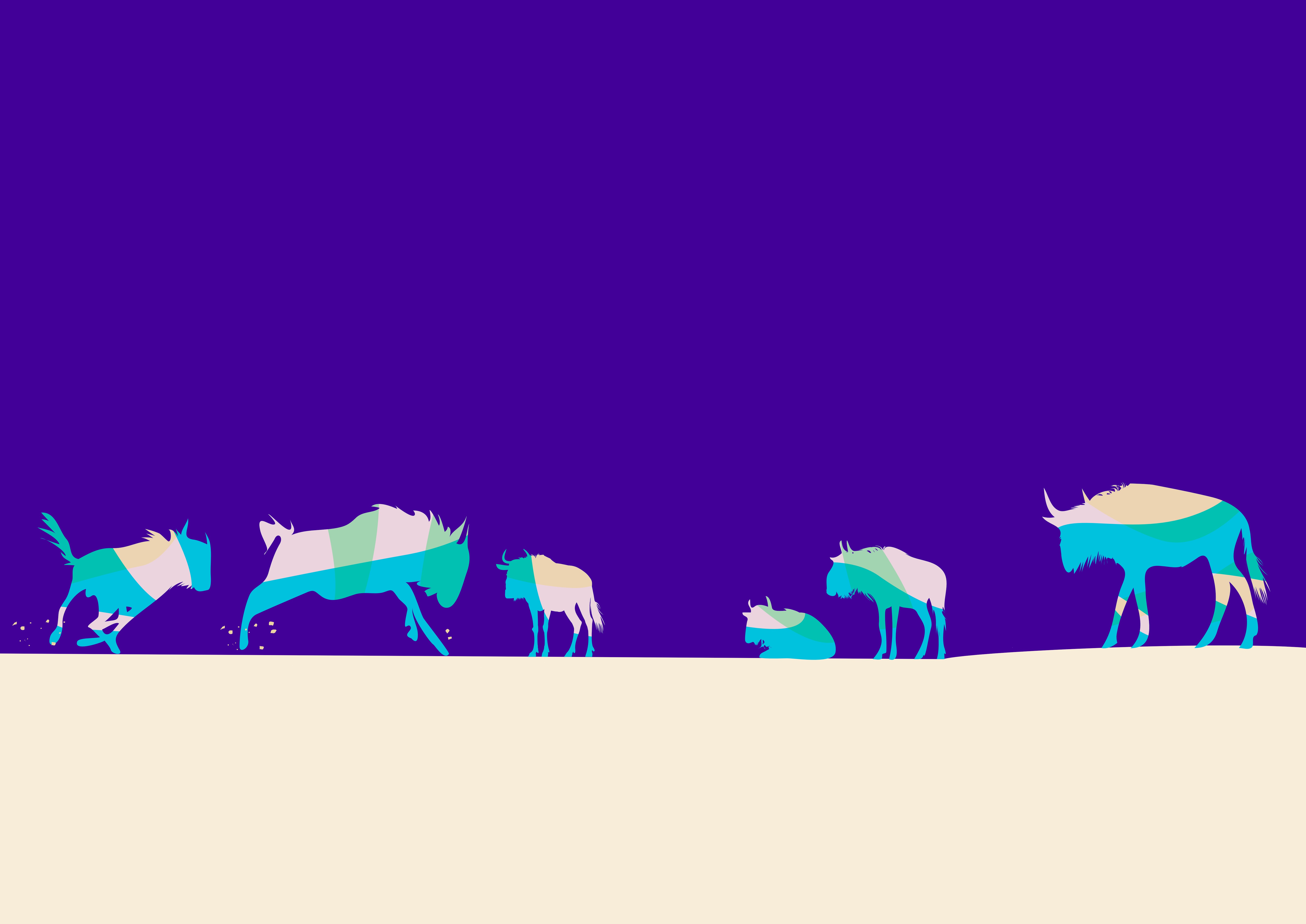
The Group leases bank premises under operating leases. The leases typically run for an initial period of six years with an option to renew the lease after that date. None of the leases include contingent rentals. Future minimum lease payments under these operating leases are as follows:

| | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| Less than one year | 162,801 | 163,731 |
| One to five years | 614,266 | 529,390 |
| Over five years | 8,820 | 185,796 |
| | 785,887 | 878,917 |
| | ====== | ======= |

**(b) Lessor**

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

| | 2014 KShs'000 | 2013 KShs'000 |
|---|---|---|
| Less than one year | 83,213 | 94,789 |
| One to five years | 519,581 | 451,233 |
| Over five years | - | - |
| | 602,794 | 546,022 |
| | ======= | ======= |



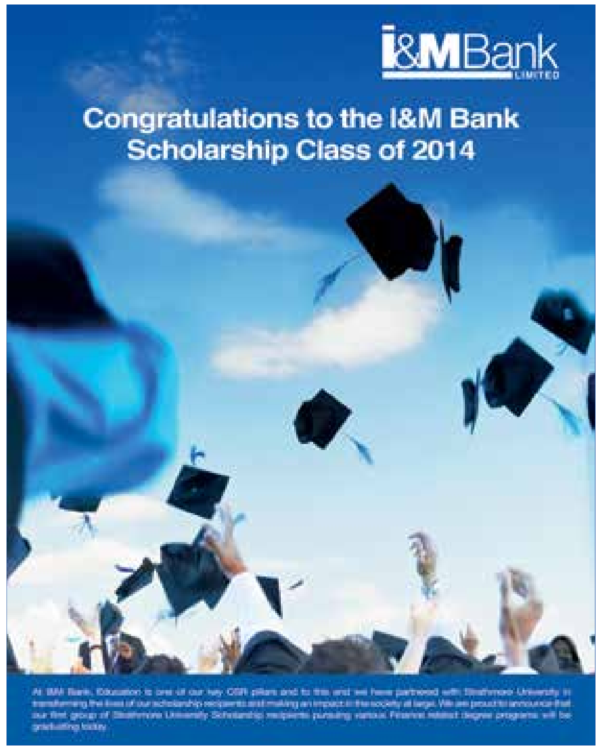
## I&M CSR NEWS

### I&M KENYA CSR

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

## EDUCATION

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




### Strathmore University

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

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

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

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

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

### Palmhouse Foundation

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

### Oshwal College

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

### Teule Kenya

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

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

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



## I&M CSR NEWS (Continued)

### I&M KENYA CSR (Continued)

### Gianchere Friends School

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

## HEALTH

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

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

Some of the health initiatives conducted include:

### I&M Bank Medical Camp


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


*Jua Kali Artisans register for attendance at the medical camp.*

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

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

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

### Blood Donation Drive 2014

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


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

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

## I&M CSR NEWS (Continued)

### I&M KENYA CSR (Continued)

### Health Resource Education Africa Resource Team

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

### ENVIRONMENT

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

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

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

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

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



## I&M CSR NEWS (Continued)

### I&M KENYA CSR (Continued)

### COMMUNITY SERVICE

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

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

### Nest Children's Home

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

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

### St. Martins Kibagare

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

### Inuka Kenya Trust

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

### Amara Charitable Trust

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

### Roho Kwa Roho Foundation

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

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

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

## I&M CSR NEWS (Continued)

### I&M RWANDA CSR

### EDUCATION

#### Provision of Classroom Desks for Peach and Hope Center

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

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

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

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

### HEALTH

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

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

### COMMUNITY SERVICE

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

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

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


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



## I&M CSR NEWS (Continued)

### BANK ONE CSR

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

### WOMEN EMPOWERMENT

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

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

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

*A section of participants during the training conducted by Bank One*

### WILDLIFE PRESERVATION

#### Bank One conducts 2014 Wildlife Preservation Initiative

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

*Bank One staff members during the Wildlife Preservation*

### POVERTY ALLEVIATION

#### Bank One participates in the Poverty Alleviation Programme

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

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


*A child receives her gift from Santa during the Christmas party*

## I&M CSR NEWS (Continued)

### BANK ONE CSR (Continued)

### Bank One Donates to Foundation Nouveau Regard (FNR)

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

### Bank One Supports the Social Housing Project in Mauritius

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

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



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YOUR REFERENCE: OUR REFERENCE: KNK/VNM/HO/139/1 DATE: 15 April 2015

**I&M Holdings Limited**

**Notice of the Annual General Meeting**

Notice is hereby given that the Sixty Third Annual General Meeting of the shareholders of I& M Holdings Limited will be held at The Serena Hotel, Nairobi, on Tuesday 12th May, 2015 at 10.00a.m for the following purposes.

**ORDINARY BUSINESS**

1. To receive the Group's audited financial statements for the period ended 31st December, 2014 together with the Chairman's, Directors' and Auditors' reports thereon.

2. To approve the Directors' remuneration as provided in the accounts for the period ended 31st December, 2014.

3. To approve payment of a final dividend of Kshs 2.90/- per ordinary share for the period ended 31st December 2014. The final dividend will be paid to the shareholders in the Company's Register of Members at the close of business on 30th April, 2015 and will be paid on or around 14th May, 2015.

4. To re-elect Directors:

(i) In accordance with Article No. 112 of the Company's Articles of Association, Mr. Suresh B R Shah, retires by rotation and being eligible offers himself for re-election.

(ii) Mr. Michael Turner who was appointed as a director of the Company with effect from 1st August 2014, retires in accordance with the Company's Articles of Association and being eligible, offers himself for re-election.

(iii) Mr. Michael Karanja, who is over the age of 70 years, retires as a director of the Company in line with Section 186 of the Companies Act (Cap 486). Special Notice has been received in accordance with Section 142 and 186(5) of the Companies Act that it is intended to pass the following resolution as an ordinary resolution.

"That Mr. Michael Karanja, who has attained the age 70 years be and is hereby re-elected a director of the Company".

5. To note the resignation of Mr. Madabhushi Soundararajan and Ms. Christina Gabener as directors of the Company with effect from 17th October 2014 and 31st December 2014 respectively.

6. To note that the auditors Messrs. Deloitte & Touche Certified Public Accountants (K) having expressed their willingness, continue in office in accordance with section 159 (2) of the Companies Act Cap. 486 and to authorize the Directors to fix their remuneration for the ensuing financial year.

7. To transact any other business which may be properly transacted at an Annual General Meeting

**BY ORDER OF THE BOARD**

**Virginia Ndunge**
**Company Secretary**
**P.O Box 40111 -00100 GPO**
Nairobi

15th April, 2015

**Note:**
A member entitled to attend and vote is entitled to appoint a proxy to attend and vote on his/her behalf and such a proxy need not be a member of the Company. To be valid, proxy forms must be deposited at the Registered Office of the Company not less than 48 hours before the appointed time of the meeting.

**I&M HOLDINGS IMITED**

**TO: The Company Secretary,**
**P.O. Box 40111-00100 GPO**

**NAIROBI**

## PROXY FORM

I/We …………………………………………………………………………………………

of ……………………………………………………………………………………………….

being a member/members of the above Company,…………………………………….

hereby appoint ……………………………………………………………………………

of ………………………………………………………………………………………………..

or failing him ……………………………………………………………………………..

of ………………………………………………………………………………………………..

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on **12th May, 2015** and at any adjournment thereof.

Signed/Sealed this …………. Day of ……………………………..……………..., 2015

……………………………………

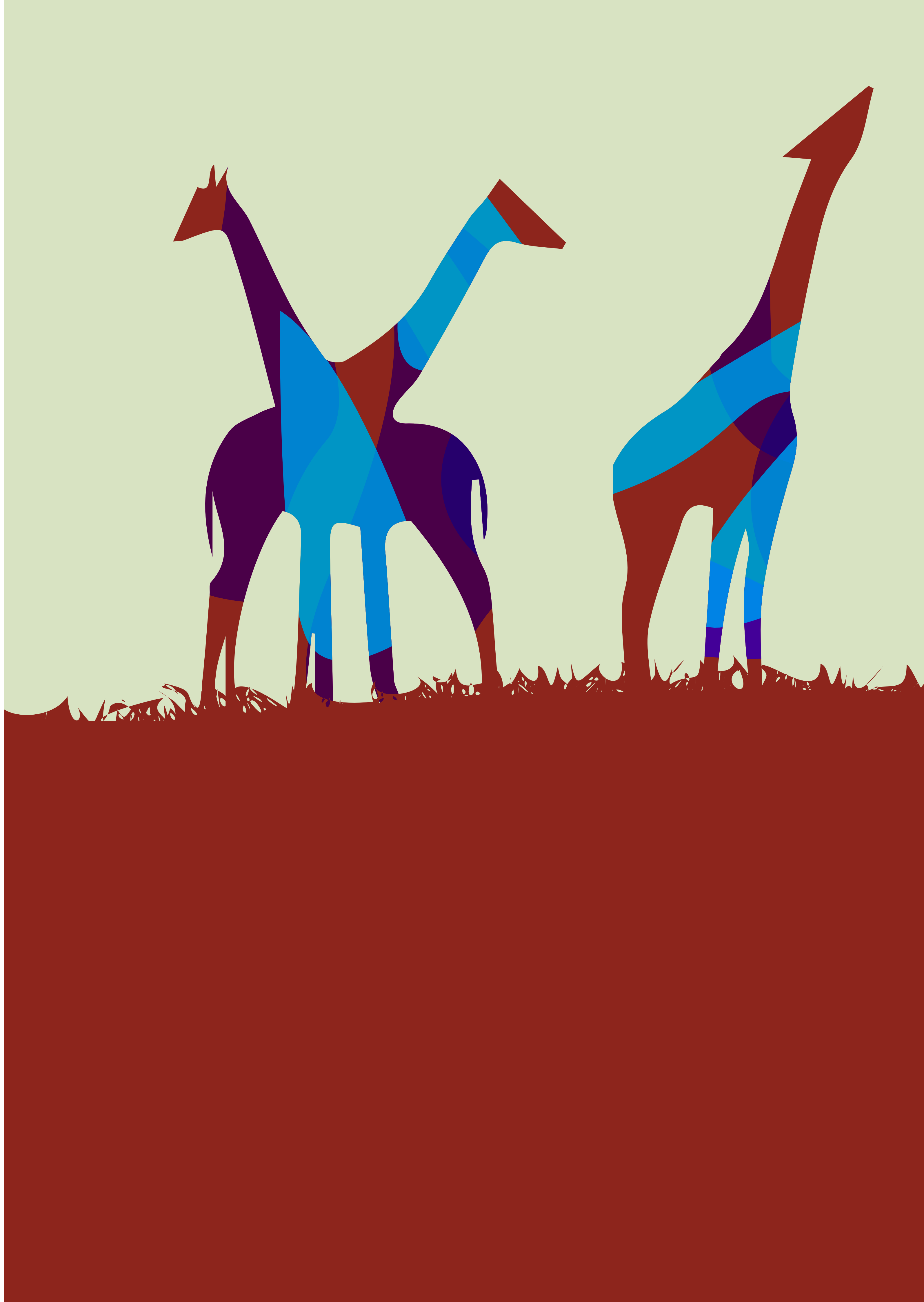
……………………………………..

NOTE:

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote in his stead and a proxy need not be a member of the Company.

2. In case of a member being a limited Company this proxy form should be completed under its common seal or under the hand of an officer or attorney duly authorised in writing.

3. Proxies must be in the hands of the Secretary not later than 48 hours before the meeting.



ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 2014

I&M HOLDINGS