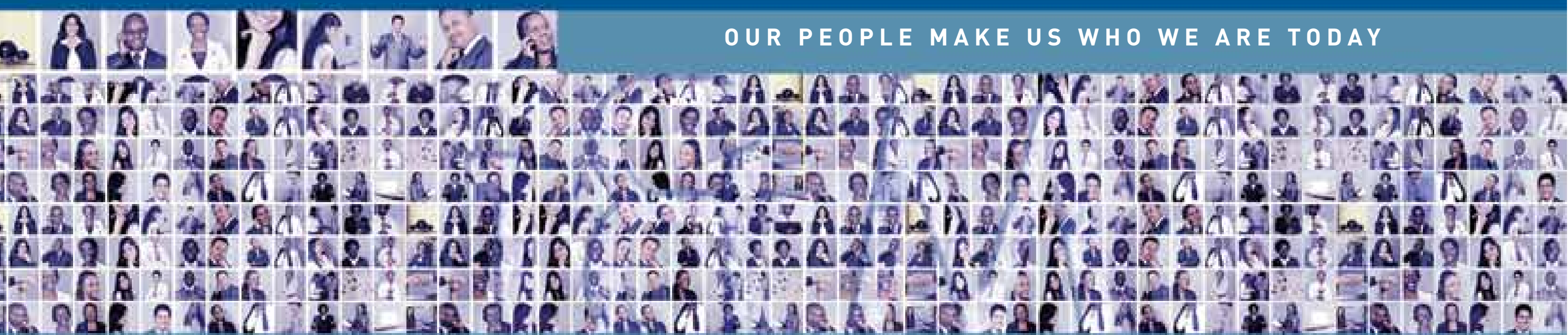
2010

REPORT & CONSOLIDATED FINANCIAL STATEMENTS



I&M Bank LIMITED

our people make us who we are today

Our strength is our people.

When we strive to make our bank the best, we have to start with our frontline, our people, because they are our ambassadors and gems of the company and make us who we are today.

We believe in providing the best to our customers and ultimately this emanates from the culture of the staff at I&M. They are full of creativity, vibrancy, energy, positivity and excellence. The core of our success also comes from acquiring the best people for every sector, who constantly strive to provide the best to our customers. This report is a testament of the effort our people put in to ensure the best results for the company and value for its shareholders.

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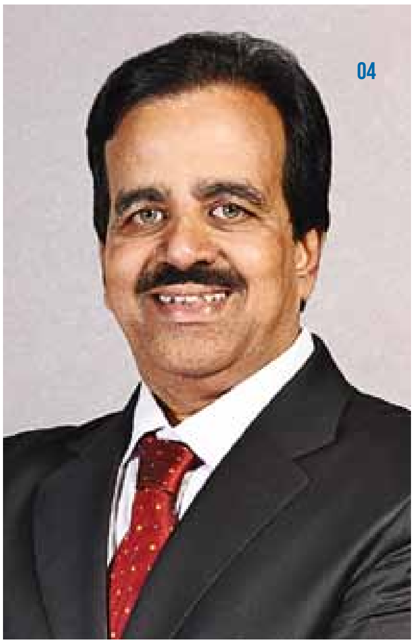
BOARD OF DIRECTORS

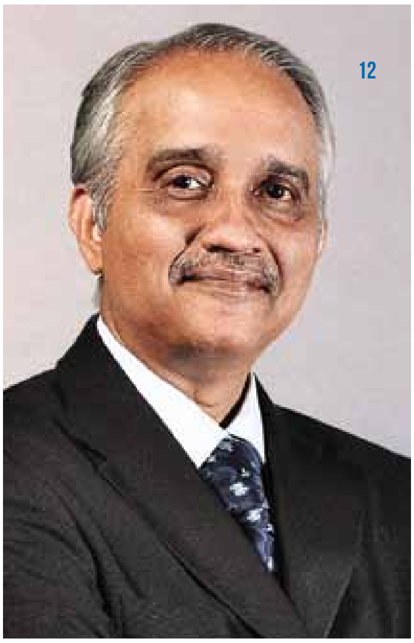
SEATED: SBR SHAH - CHAIRMAN

STANDING FROM LEFT TO RIGHT: SACHIT S RAJA SHAH, N P KOTHARI - SECRETARY, GHISLAIN DE VALON, C BOEING, PCM KIBATI, SARIT S RAJA SHAH - EXECUTIVE DIRECTOR, MJ KARANJA, M SOUNDARARAJAN, EM KIMANI. EO KIDERO (not in picture)

I&M MANAGEMENT



01. SARIT S RAJA SHAH, EXECUTIVE DIRECTOR
02. ARUN S MATHUR, CHIEF EXECUTIVE OFFICER
03. AMRITLAL V. CHAVDA, SENIOR GENERAL MANAGER
04. L A SIVARAMAKRISHNAN, HEAD OF BUSINESS DEVELOPMENT
05. LUCY THEGEYA, HEAD OF BUSINESS SUPPORT
06. MARK H DEANE, HEAD OF TREASURY



07. SAMUEL MBORI, HEAD OF SPECIAL PROJECTS
08. SUPRIO SEN GUPTA, HEAD OF MARKETING & PRODUCT DEVELOPMENT
09. JOHN WAKA, HEAD OF HUMAN RESOURCES
10. ROHIT GUPTA, HEAD OF INFORMATION & COMMUNICATION TECHNOLOGY
11. JOSEPH NJOMO, HEAD OF OPERATIONS
12. RAVI RAMAMOORTHY, HEAD OF CORPORATE BANKING
13. SRINIVASAN PARTHASARTHY, HEAD OF COMMERCIAL BANKING

DIRECTORS, OFFICIALS & ADMINISTRATION

DIRECTORS

S.B.R. Shah, MBS	(Chairman)
Sarit S. Raja Shah	(Executive Director)
M.J. Karanja	
Sachit S. Raja Shah	
E.M. Kimani	
Ghislain de Valon*	
Dr. E.O. Kidero	
P.C.M. Kibati	
M. Soundararajan**	
Ms. C. Boeing***	(Appointed 28 January 2010 - Alternate: E. Kaleja*** - Appointed 9 March 2010)

* French   ** Indian   *** German

SECRETARY

N.P. Kothari – FCPS (Kenya)

AUDITORS

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

CORRESPONDENT BANKS

ABSA Bank
Standard Chartered Bank
Barclays Bank PLC
Citibank NA
ICICI Bank
First Rand Bank
BNP Paribas Fortis
ING Bank
JP Morgan Chase
BHF Bank
Commerzbank AG
Deutsche Bank AG
HSBC
Standard Bank of South Africa
UBS AG

REGISTERED OFFICE

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

Call Centre: 254-20-3221000
Email: invest@imbank.co.ke
Website: www.imbank.com

BRANCHES

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

Ansh Plaza
Biashara Street
PO Box 30238
00100 Nairobi GPO

Tivoli Centre
Court Road
PO Box 424
40100 Kisumu

Centre Point
Parklands Road
PO Box 30238
00100 Nairobi GPO

South C Shopping Centre
PO Box 30238
00100 Nairobi GPO

Gitanga Road
Lavington
PO Box 30238
00100 Nairobi GPO

I&M Bank Tower
Kenyatta Avenue
PO Box 30238
00100 Nairobi GPO

Biashara Bank Building
Nyerere Avenue
PO Box 86357
80100 Mombasa

Karen Connection
Karen Road
PO Box 30238
00100 Nairobi GPO

Ongata Rongai
Rongai Business Centre
PO Box 30238
00100 Nairobi GPO

Nyali Cinemax
PO Box 86357
80100 Mombasa

Zion Mall
Uganda road
PO Box 9362
30100 Eldoret

Sarit Centre
Westlands
PO Box 30238
00100 Nairobi GPO

Changamwe Road
Industrial Area
PO Box 30238
00100 Nairobi

Panari Centre
Mombasa Road
PO Box 30238
00100 Nairobi GPO

Wilson Airport
Pewin House
PO Box 30238
00100 Nairobi GPO

Langata Link
PO Box 30238
00100 Nairobi GPO

I&M NEWS

CF UNION BANK IS NOW I&M BANK TANZANIA

The newly rebranded I&M Bank (T) Ltd Main Branch in Dar es Salam

I&M Bank successfully integrated CF Union's Bank's operations into the I&M Bank Group and rebranded it to I&M Bank (T) Limited. This was accompanied by introduction of some new products like e-mail banking and BRISK transfers that will enable our customers to do faster and cheaper funds remittance between Tanzania and Kenya. A rights issue was also successfully completed with approximately USD 5.5 Million being raised. I&M Bank(T) Ltd. is also in the process of constructing a new head office and branch in Dar es Salaam which will increase the total number of branches in Tanzania from 3 to 4. I&M Bank (T) Ltd profit before tax in 2010 grew from USD 2.7 million to USD 3.7million translating to a 37% growth.

A billboard advertisement communicating the transition of CF Union to I&M Bank (T) Ltd.

I&M NEWS

I&M BANK KENYA OPENS 3 NEW BRANCHES

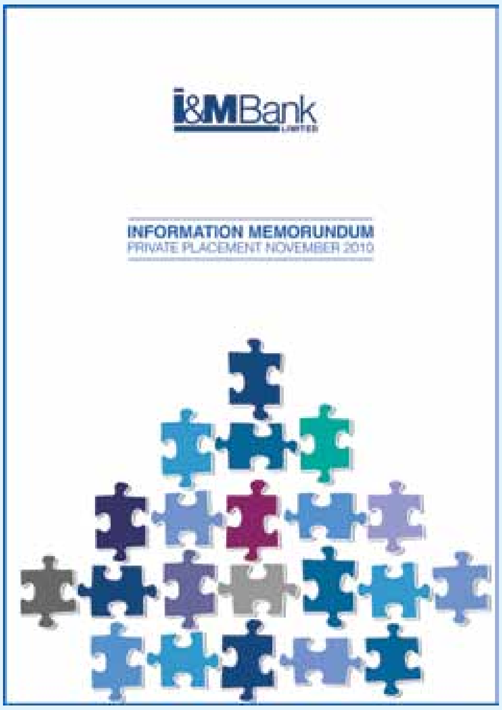
Nyali branch

In 2010 I&M Bank increased its branch network from 13 to 16 by opening 3 new branches, one in the Nyali Cineplex Mombasa, the other two in Nairobi's Lavington on Gitanga Road and Langata Link in Karen. This is in line with the Bank's local expansion strategy.

Lavington branch

I&M BANK'S PRIVATE PLACEMENT A SUCCESS

In November 2010, I&M Bank successfully completed raising of capital amounting to Kshs. 2.40 Billion through a Private Placement with an oversubscription of approximately 26%. This was the first ever private placement equity issue for the Bank and the market reception was very encouraging.



FMO APPROVES USD 25M LINE OF CREDIT TO I&M BANK LTD

FMO (the Netherlands Development Finance Company) signed an agreement to extend to I&M Bank Ltd, a 7 year credit line of USD 25 Million (approx Kshs 2.00 Billion) for onward lending to the Bank's customers. This additional facility would increase I&M Bank's ability to support long term foreign currency lending to the growing Small and Medium Enterprise (SME) sector in Kenya. The lending by FMO provides a positive signal which will help I&M Bank Ltd bridge the gap in foreign currency maturity mismatches. It will also provide a stable and longer term source of foreign currency funding to meet the growing needs of the market.

"This additional facility would increase I&M Bank's ability to support long term foreign currency lending to the growing Small and Medium Enterprise (SME) sector in Kenya."

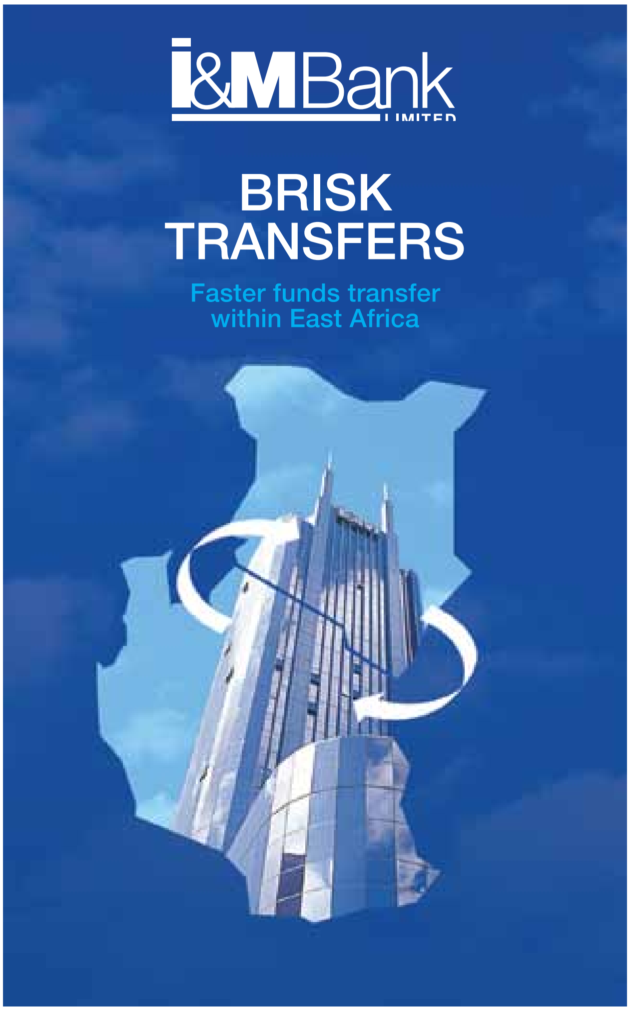
I&M NEWS

NEW PRODUCTS

NAKUMATT PREPAID TRAVEL CARD

I&M Bank partnered with Nakumatt, Kenya's largest retail chain, to launch the co-branded Nakumatt Prepaid Travel Card denominated in US Dollars. With this international Visa card, shoppers and travelers will not only enjoy added convenience but will also be able to manage their cards online in the comfort of their homes or office. The card is available off the shelf at all Nakumatt outlets.

"With this international Visa card, shoppers and travelers will not only enjoy added convenience but will also be able to manage their cards online in the comfort of their homes or office."



BRISK TRANSFERS

The I&M Bank Brisk Transfers is a product that allows customers to transfer funds within East Africa in a cost effective and efficient manner. The product is available in Kenya Shillings, Tanzania Shillings and US Dollars and guarantees next working day value for funds remitted. This product is available at I&M Bank Kenya and I&M Bank (T) Ltd.

I&M MOBILE

I&M Bank launched I&M Mobile, a mobile banking service that allows customers full access to their bank accounts through their mobile phones. With I&M Mobile, customers can transfer funds from their accounts, get their account balances and statements and even top up the mobile phones.

BANK ONE LTD – MAURITIUS

In 2010 I&M Bank's sister Bank in Mauritius successfully acquired a Foreign Investment Institution (FII) License from the Securities & Exchange Board of India. Bank One also obtained a trading license from the Global Board of Trade (GBOT) in Mauritius to facilitate trading in futures/ options and currencies. The bank further increased its branch presence from 13 to 14 branches and recorded a significant growth of 478% in profit before tax (from approximately USD 1.40 M to USD 6.70 M). Bank One also raised Tier II capital of Mur 100 million (Apprx. USD 3.33 Mn) from Anglo Mauritius Assurance Ltd.

"The bank further increased its branch presence from 13 to 14 branches and recorded a significant growth of 478% in profit before tax"

CHAIRMAN'S STATEMENT

"We re-established our position as an economic and financial power house in the region as we saw many Kenyan companies expand into the regional front, taking advantage of the bigger market in the East African Community."

KENYA – A GREAT STORY

The word "crisis" when written in Chinese is composed of two characters - one represents danger and the other represents opportunity. ~ John F. Kennedy~

Three years since the political crisis and tragic events of early 2008, Kenyans have learnt of the beauty and strength that binds us as one and we have come out from our crisis much stronger and determined to make ourselves better people in a stronger and stable country. In 2010, we celebrated that unity and took the opportunity to right the wrongs of the past by adopting a new constitution that would live on to provide us and future generations with more opportunities than the past had.

2010 was certainly an interesting and exciting year not only for I&M Bank, but for Kenya as a whole. The economy continued on its recovery path registering a growth rate of over 4% against the previous forecast of 3.5%. We re-established our position as an economic and financial power house in the region as we saw many Kenyan companies expand into the regional front, taking advantage of the bigger market in the East African Community.

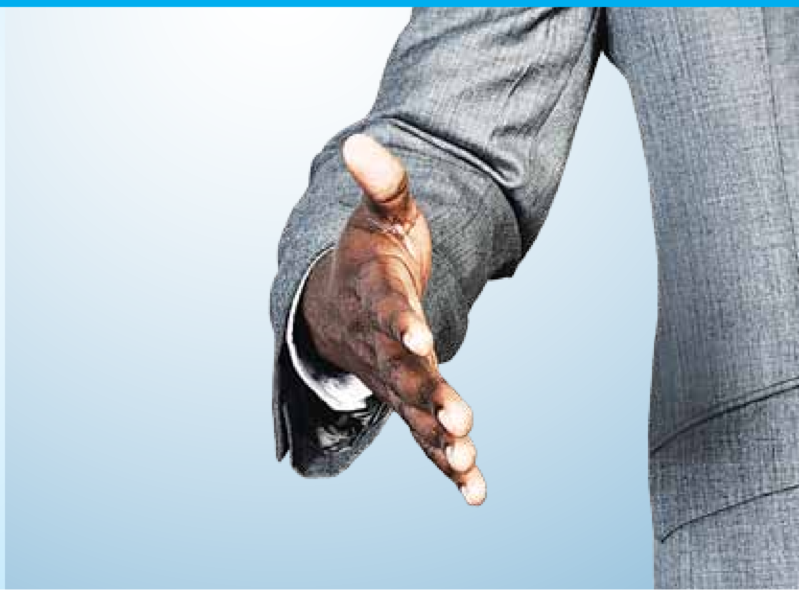
There was an upsurge in business confidence as the banking and other service industries reported sustained growth. Growth in the banking sector was fueled by a decline in the average lending rates that was matched by an increase in lending to the commercial and government sectors. Similarly, there was an increase in participation in the capital markets. With the launch of the Automated Trading System (ATS) for fixed income securities, more trading of debt securities took place. This resulted in significantly higher non-interest income for most banks in Kenya.

After the 2009 global financial crisis, the world economy has been improving steadily and is estimated to have grown at a rate of 4.7% in 2010. 2011 has witnessed unforeseen events such as the tragic earthquake in Japan, and unrest in North Africa, and may have an impact on our economy in terms of tourism as well as exports. The uncertainty in oil as well as commodity prices, coupled with volatility in exchange rates is a matter of concern. The Central Bank of Kenya (CBK) has proactively managed the monetary policy and we have been witness to relative calm. I am confident that CBK will continue to do its best for the good of the country.

BANKING SECTOR

2010 was a year in which the Kenyan Banking Sector's performance surpassed expectations. By the third quarter of the year, assets had grown by 25% while deposits had increased by 27% spurred by aggressive deposit mobilization. Some banks have increased their capital base to meet the capital adequacy requirements as stipulated by the CBK and grow business. A stable interest rate regime has also meant a gradual reduction in levels of non – performing loans (NPLs). The Credit Reference Bureau (CRB) will also ensure that NPLs will be kept under control.

Your Bank also successfully raised additional capital of Kshs 2.4 billion by way of a private placement in November 2010, which was oversubscribed by 26%. This increase in equity capital has not only helped to strengthen the long–term lending capabilities of the Bank but also assisted in bolstering the Bank's capital adequacy ratios in line with the International Convergence of Capital Measurement and Capital Standards laid out by the Bank for International Settlements. These standards, commonly known as the Basel II Regulations, were implemented internationally in 2006.



The banking sector plays an even more important role in the Kenyan economy as demonstrated by the increase in number of customers, both depositors and borrowers. There has been steady increase in the spread of branches, ATMs and use of cards. The quality of service and variety of products available has provided a choice the Kenyan customers have never seen before. New technology and opportunities have propelled the industry to achieve this important milestone but the time has also come to review what more we can do to ensure that our country remains the regional economic capital and that our customers continue to receive value for money. Essentially we are talking about the cost of doing business. It is taking longer and longer to complete documentation formalities and it not only increases our costs but delays investments – after all 'credit delayed is credit denied'.

THE BANK

The Bank's performance during 2010 was excellent, as we were able to surpass our targets. Our most significant achievements for the Bank in 2010 was the acquisition of CF Union Bank Limited, a commercial bank in Tanzania in January 2010 and its subsequent re-branding into I&M Bank (T) Limited in September.

The new equity of Kshs 2.4 billion coupled with the consolidation of I&M Bank (T) Limited, Tanzania and Bank One Limited, Mauritius resulted in a 79% increase in shareholder's equity from Kshs 7.46 billion in 2009 to Kshs 13.36 billion as at end of 2010.

I take this opportunity, along with the 'other existing' shareholders, to welcome our 'new' shareholders to the ever expanding I&M family. We look forward to this new partnership which will ensure that the Bank moves ahead on its journey to achieve its strategic vision of becoming a truly Kenyan bank with a strong regional presence.

It gives me immense pleasure and pride to report about the Bank's stellar performance in 2010. For the first time since its inception in 1974, the Bank's assets crossed the landmark US Dollar 1 billion mark while reporting a Group Profit before Tax of Kshs 3.52 billion. This represents a 60% growth in Total Assets and a 96% increase in Profit before Tax as compared to 2009. Through persistent monitoring, the Bank maintains one of the best efficiency ratios in the industry. In 2010, the Bank's efficiency ratio (operating expenses/total income) improved further to 33% as compared to 42% in 2009. Group Customer Deposits increased by 52% in 2010

CHAIRMAN'S STATEMENT

to reach Kshs 68.21 billion from Kshs 44.76 billion in 2009 while Group Loans and advances to customers increased by 65% from Kshs 30.48 billion to Kshs 50.26 billion.

In Kenya, in accordance with its plans to expand its physical presence, the Bank opened three new branches, located in Lavington & Langata in Nairobi, and in Nyali, Mombasa. Earlier this year in January 2011, the Bank established its presence in Eldoret. I am happy to report that all these new branches have been well received with footfalls increasing every month, and continue to demonstrate good potential to further grow our business.

2010 also saw your Bank being the first and only Bank in East and Central Africa to be awarded a licence by VISA for E-Commerce acquisition. This important step has been broadly perceived in the Kenyan market as plugging the missing link for promoting E-Commerce in the country.

In keeping with our strategy of technology driven product innovations, I&M in partnership with Safaricom introduced the Safaricom Pre-paid Card, allowing customers to use M-pesa to reload the card and facilitate withdrawals from any VISA outlets worldwide. We also introduced the Nakumatt co-branded prepaid card, which is a dollar denominated card. We are very happy with these partnerships to introduce more avenues for 'convenience banking'.

Along the same lines, the Bank introduced mobile banking, which allows customers to interact with the Bank from their mobile phones, giving them the control to check their bank balances, pay bills and transfer money at their convenience.

Late last year, the Bank signed an agreement with FMO – the Dutch Developmental Financial Institution for a 7 year Term Facility of USD 25 million for onward lending to customers who require foreign currency denominated loans. Most of these funds are aimed at the SME segment of the market, where the Bank has a strong presence. It is, indeed, I&M's privilege and honour to partner with FMO in addition to the Bank's long-standing and much valued relationships with DEG, Proparco and IFC. FMO is one of the world's largest bilateral developmental financial institutions with an investment portfolio of EUR 4.6 Billion and enjoying 'AAA' rating from Standard & Poors. Since its inception, FMO's aim has been to empower entrepreneurship in emerging economies in order to further development.

This additional facility has also helped the Bank to bridge the gap arising out of maturity and foreign currency mismatches whilst simultaneously, presenting a stable and long term source of foreign currency funding to meet the growing needs of the market.

Whilst we expand the range of products and services offered to our esteemed customers, significant efforts are ongoing to improve and strengthen your Bank's systems and processes, enabling the Bank to achieve greater efficiency in service delivery. Our operations platforms continue to be strengthened, and in particular, considerable efforts were expended in establishing a more robust Disaster Recovery and Business Continuity Platforms.

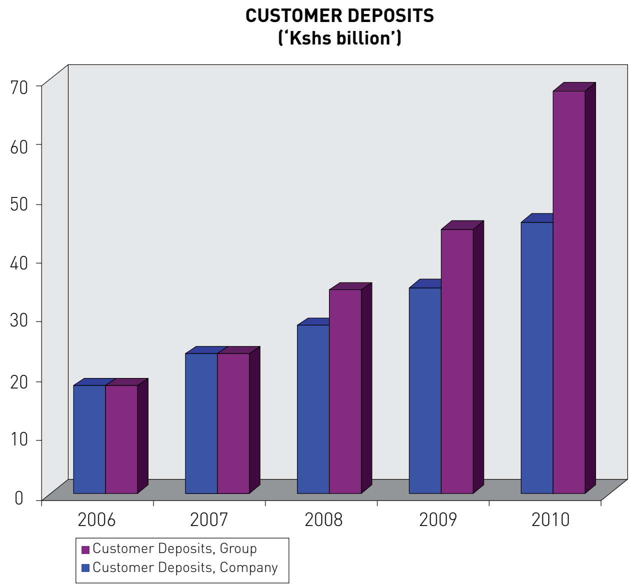
At I&M we pride ourselves in having a dedicated, skilled and knowledgeable staff, our greatest asset. The Bank nurtures talent by investing in training and development of its people, in both technical and soft skills. We also successfully implemented a revised organization structure and performance management system, which we believe will improve staff reward and recognition system.

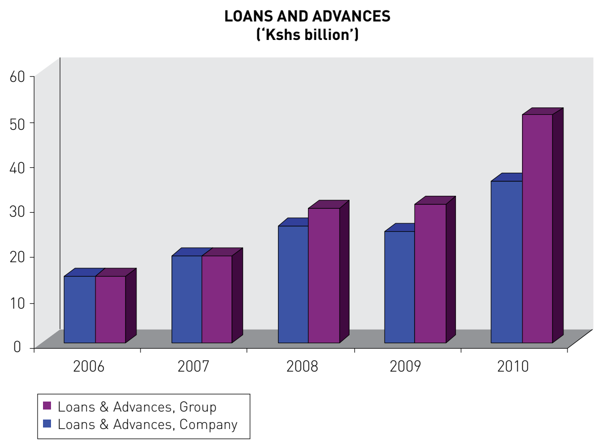
I&M BANK (T) LIMITED-TANZANIA

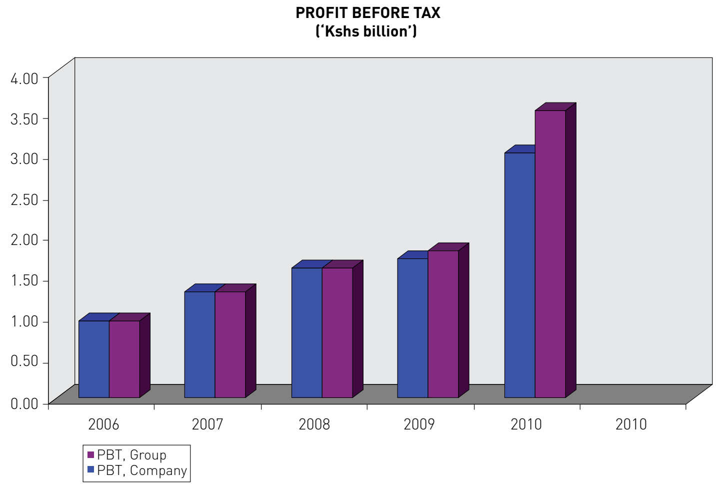
With the acquisition of a bank in Tanzania, the Bank has been able to provide additional innovative services and products to its customers in both Kenya and Tanzania and is able to support many of our customers in their regional expansion through provision of various trade & financial solutions. The enthusiasm and support of our Tanzanian customers has been extremely encouraging. I&M Bank (T) Limited delivered an improved performance and profitability in 2010 compared to previous years recording a 44% growth in Profit before Tax to Tzs 5.03 Billion *(Kshs 272 million)*. I take this opportunity to thank the I&M Bank (T) team under the leadership of its CEO, Mr. S. Gopalan, for their considerable efforts, and the Bank's Board of Directors whose guidance in steering the newly acquired bank through various challenges, has ensured I&M Bank (T) Limited grows from strength to strength. We are deeply appreciative of the support received from the Bank of Tanzania as well as from our fellow shareholders, Proparco, The Kibo Fund LLC and Mr. Michael Shirima, which has been invaluable, and look forward to better results in 2011.

BANK ONE LTD-MAURITIUS

In the face of a challenging business climate and uncertain economic conditions, Bank One delivered a profit before tax for the year 2010 of Mauritian Rupees 195.8 million (approx. Kshs 509 million) that represented a threefold increase compared to the performance for the year 2009. The efforts of the team at Bank One under the able leadership of Mr. Raj Dussoye, the CEO, in delivering such excellent results







is deeply appreciated, as is the guidance offered by Bank One's Board of Directors and the support of our partners, CIEL Investment Limited. The Bank of Mauritius support and guidance during 2010 has, as always, been invaluable. With the positive outlook for the Mauritian economy in 2011, we are confident that Bank One will deliver improved results.

FUTURE OUTLOOK

The Board and top management of I&M Bank remain highly optimistic about the future of the Bank in view of its strong positioning and growth in the domestic market, coupled with its strategy and vision to be a regional Bank with presence in all major countries in Eastern & Central Africa over the next few years.

As in the past, the Bank will capitalize on its core competencies and strengths, while exploiting opportunities arising out of: economic development in the fast growing East African region, especially - in the infrastructure, energy, financial services and agro-based sectors. The Bank's growing ability to offer an ever-increasing bouquet of products and services shall also greatly assist in ensuring this.

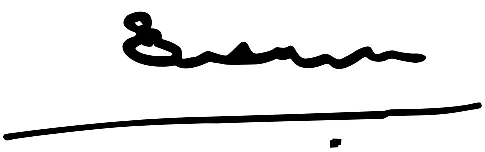
In keeping with our strategy to be one of the foremost technology savvy banks, we will continue to upgrade our systems to sustain efficiency in our work model, as well as keep introducing products that leverage on these systems.

We will expand our network in Kenya further and explore opportunities in the region to ensure that we continue to deliver seamless services to our customers.

I would like to take the opportunity to thank my fellow Board members for the constant guidance and expert advice given to the Bank. Our sincere appreciation is also extended to the various professional service providers, consultants and corporate partners who wholeheartedly support the Bank in its various endeavours.

On behalf of the Board, I would like to congratulate the management and the team of employees at I&M for their fine work during the year. Last, but certainly not the least, a heartfelt Asante Sana, to our esteemed customers for their constant support, encouragement and enthusiasm which spurs us to deliver better services and achieve greater heights.

It is with zeal and enthusiasm that we begin 2011 as we aim to continue delivering products and services par excellence to our customers, so that we always remain ''The Bank of Choice''.



S. B. R. SHAH
CHAIRMAN

REPORT & CONSOLIDATED FINANCIAL STATEMENTS 2010

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2010

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2010, which disclose the state of affairs of the company and the group.

1. SHARE CAPITAL

During the year, the Bank increased its issued and paid up share capital, by way of a private placement.

On 30 November 2010, the Bank issued 2,566,845 ordinary shares of KShs 100 at a premium of KShs 835 per share, thus increasing the issued and paid up share capital to KShs 2,870,245,300.

2. ACTIVITIES

The Bank provides an extensive range of banking, financial and related services permitted under the Banking Act (Cap.488). On 14 January 2010 the Bank acquired 55.03% shareholding of CF Union Bank Limited (CFUB) , a commercial bank registered and operating in Tanzania. CFUB was re-named I&M Bank (T) Limited in September 2010.

3. RESULTS

The consolidated results for the year are as follows:

	2010 KSHS
Profit before taxation	3,526,481,475
Taxation	1,001,913,927
PROFIT AFTER TAXATION	**2,524,567,548**

4. DIVIDEND

The directors recommend the payment of a final dividend of KShs 527,212,930 (2009 – KShs 424,459,475).

5. DIRECTORS

The directors who served during the year and up to the date of this report are set out on page 2.

6. AUDITORS

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

7. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved at a meeting of the directors held on 22 March 2011

BY ORDER OF THE BOARD

N.P. KOTHARI
SECRETARY

DATE: 22 March 2011

STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors and Management of I&M Bank LIMITED, (I&M), place the highest importance on corporate governance at the Bank as well as its controlled entities (the Group). The Group's corporate governance policies and practices are designed to ensure that it is focused on its responsibilities to its stakeholders and on creating long term shareholder value while also focusing on its wider role and responsibility to the society at large.

In its approach to Governance, the Board embraces best practice principles and practices, to ensure optimal stewardship of the Group's assets and resources, while simultaneously ensuring compliance with regulatory requirements of the jurisdictions in which the Group operates and internal risk management parameters.

Conscious of the fact that effective corporate governance practices are essential to achieve and maintain our stakeholders' trust and confidence in the Bank, I&M has consistently strived to enhance and improve upon the Corporate Governance Framework within the Bank. During 2010, in light of the rapid growth of the Bank over the last few years, a critical review of the Bank's Organisation Structure, including review of the various Board and Management Committees, was undertaken. As a result, effective 1st January 2010, a revised Organisation Structure was put in place, to ensure that the right balance would be maintained between efficiency and customer service on the one hand and risks, controls and quality on the other hand.

Further, in a move to improve on the efficiency and efficacy of the Board, an additional Board Committee, the Board Capital Structure Strategy Committee (BCSSC) was set up, whose key responsibilities include the management of an optimal capital structure of the Bank and consideration of matters pertaining to the raising of equity and debt capital in line with the Bank's Strategic objectives. As with all the other Board Committees, the BCSSC also reports regularly to the Board.

In line with the revised organisation structure of the Bank, the structure, membership and terms of reference for the various Management Committees was revised following the review undertaken in the first quarter of 2010.

For operations outside Kenya, specifically, I&M Bank (T) Limited (I&M(T)), Tanzania and Bank One Limited (Bank One) in Mauritius, the Bank has ensured the set-up of a sound corporate governance framework which meets it's own high standards of corporate governance and is in accordance with the guidelines / directives issued by the Bank of Tanzania and the Bank of Mauritius, respectively.

THE BOARD OF DIRECTORS

CONSTITUTION, APPOINTMENT AND COMPOSITION

The Bank's Board of ten directors is led by the Chairman Mr. SBR Shah and consists of five independent non-executive Directors, four non-executive Directors and one Executive Director. The Directors, collectively have vast experience stemming out of their varied backgrounds in different disciplines, which include, inter alia Banking, General Management, Law, Accounting and Investment Analysis, apart from hands on experience in various industries. The unique collective experience of our Board members provides a superior mix of skills as required by the Board, in not only discharging its responsibilities and providing a strategic vision and direction for the Bank, but more importantly also adds value to, and brings in the element of independent judgment and risk assessment to bear on the decision making process.

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

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

To further strengthen the Board, Ms. Claudia Boeing, a representative of DEG, the German Development Financial Institution and a member of KfW Bankengruppe (KfW banking group), which is one of the Bank's shareholders, was appointed to the Board as a non-executive Director in January 2010.

BOARD MEETINGS

The Board meets quarterly each year for scheduled meetings and on other occasions to deal with specific matters that require attention between scheduled meetings. During the year, four scheduled Board meetings were held. Except for one of the Directors, each member attended not less than 75% of the board meetings.

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

BOARD EVALUATION

The Board has in place, a process of annual self evaluation taking into consideration the Board's duties and responsibilities, and the self evaluation process includes matters covered not only under the Central Bank requirements but also those prescribed under global best practices as regards good governance. Further, as an improvement of the corporate governance practices in the Bank, we have commenced an additional process for evaluation of 'independence', which will help the Bank to assess the continued independence of directors appointed as independent Directors. For the year 2010, the peer review and self-evaluation of the Board of Directors was completed on 22nd March 2011.

GOVERNANCE PRINCIPLES

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

The Board ensures that Accountability is enhanced through a system of objective goal setting for all employees and periodic performance appraisals, which cuts across all levels of staff. Additionally, the Board has delegated financial and other powers with clearly defined accountabilities on each matter.
The Board also emphasizes on high levels of efficiency and effectiveness. This is made possible by ensuring that the Bank has a good pool of well-trained staff with the appropriate skills required to perform their duties.

The Bank has an established Code of Ethics, as a guide for all employees of the Bank. The Code of Ethics 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. The Code of Ethics is reviewed periodically and amendments incorporated if necessary.

The Board has set up five Board Committees and several top level Management Committees to assist in discharging its responsibilities. These include:

BOARD AUDIT COMMITTEE (BAC)

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

BOARD RISK MANAGEMENT COMMITTEE (BRC)

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

BOARD CREDIT COMMITTEE (BCC)

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

BOARD PROCUREMENT COMMITTEE (BPC)

This Board Committee comprising five members is chaired by an independent non-executive Director, and meets at least half-yearly and on other occasions to deal with specific matters. The BPC is responsible for reviewing and approving significant procurement proposals as well as proposed consultancy assignments and unbudgeted capital expenditure. In addition, the BPC also vets any agreements with and procurement from related parties.

BOARD CAPITAL STRUCTURE STRATEGY COMMITTEE (BCSSC)

This newly constituted Committee comprising six members is chaired by an independent non-executive director, and meets at least once every quarter. It assists the Board in fulfilling its responsibilities by considering matters pertaining to the raising of equity and debt capital of the Bank from time to time.

MANAGEMENT COMMITTEES:

BUSINESS STRATEGY & COORDINATION COMMITTEE

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

STATEMENT ON CORPORATE GOVERNANCE {CONTINUED}

EXECUTIVE COMMITTEE (EXCO)

This Committee provides the link between the Board, Top Management and Unit Heads. It is responsible for reviewing and benchmarking the Bank's financial and business performance, review on progress of special projects and identification of risks or opportunities.

ASSETS & LIABILITIES COMMITTEE (ALCO)

This Committee's primary functions include management of liquidity, interest rate, maturity gap, currency risk, counter party and settlements risk, and determining the investment strategies of the Bank for maximization of risk-adjusted returns over the long term.

CREDIT RISK MANAGEMENT COMMITTEE (CRMC)

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

HUMAN RESOURCES COMMITTEE (HRC)

This Committee assists the Board in fulfilling its Human Resource Management responsibilities with due recognition of this key resource for the Bank. The HRC also reviews the Human Resource Policies of the Bank on an ongoing basis and guides the HR Department as appropriate to ensure compliance with laws and regulations as well as industry practices. It also monitors implementation of various staff welfare initiatives to ensure maintenance of healthy staff relations. This committee is assisted by a Human Resources Sub-Committee in discharging its responsibilities.

IT STEERING COMMITTEE (ITSC)

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

CORPORATE SOCIAL RESPONSIBILITY (CSR)

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

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

BOARD COMMITTEES

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

	BOARD AUDIT COMMITTEE	BOARD RISK COMMITTEE	BOARD CREDIT COMMITTEE	BOARD PROCUREMENT COMMITTEE	BOARD CAPITAL STRUCTURE STRATEGY COMMITTEE
CHAIRMAN	Independent Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director
MEMBERS (INCLUDING CHAIRMAN)	3 Non-Executive Independent Directors, 1 Non-Executive Director Head of Internal Audit (Secretary)	3 Independent Non-Executive Directors, 1 Non-Executive Director, 1 Executive Director, Head of Risk & Compliance (Secretary)	3 Independent Non-Executive Directors, 1 Non–Executive Director, 1 Executive Director, CEO Head of Credit (Secretary)	3 Independent Non-Executive Directors, 1 Executive Director, CEO, Head of Finance (Secretary)	2 Independent Non-Executive Directors, 1 Executive Director CEO 1 External Advisor Head – Corporate & Strategic Planning (CSP) Chief Manager-CSP (Secretary)
FREQUENCY OF MEETINGS	Quarterly	Quarterly	Quarterly	Half-yearly	Quarterly
MAIN FUNCTIONS	• Review structure and adequacy of internal controls • Review activities and scope of Internal Audit & Compliance Departments and assess their effectiveness • Review and coordinate between External Auditors & Internal Audit Department • Review and receive CBK Inspection Report, and put in place measures to implement recommendations therein.	• Ensure that the Risk Management Framework and the processes are reviewed, approved and implemented • Review , monitor and deliberate on the appropriate risk mitigation approach • Ensure BCP is formulated, tested and reviewed periodically • Review of policies, procedures and exposure limits • Review of proposed strategic initiatives • Enhancing overall risk awareness and control consciousness in the Bank.	• Review lending policy • Consider loan applications beyond descretionary limits granted to CRMC • Review lending by CRMC • Direct, review and monitor all aspects which will impact upon present and future Credit risk management at the Bank • Ensure compliance with Banking Act and Prudential Guidelines • Conduct independent loan reviews as and when appropriate.	• Review and approve the Procurement Policy • Review and consider significant procurement proposals / consultancy assignments above management's discretionary limits • Vet any agreements with / procurement proposals from related parties • Review and ratify unbudgeted capital expenditure above management's discretionary limits	• Review and approve Strategy & objectives on additional capital needs. • Ensure optimal capital structure with appropriate mix of debt and equity to support Bank's Strategy • Risk assessment & approval of capital raising avenues proposed by management • Regularly review structure and terms of debt capital.

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

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












STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and fair presentation of the group and company financial statements of I&M Bank LIMITED set out on pages 26 to 85 which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs and the operating results of the group and the company.

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

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

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

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

APPROVAL OF THE FINANCIAL STATEMENTS

The group and company financial statements, as indicated above, were approved by the Board of Directors on 22 March 2011 and were signed on its behalf by:

SACHIT S. RAJA SHAH
DIRECTOR

SARIT S. RAJA SHAH
DIRECTOR

M.J. KARANJA
DIRECTOR

KPMG Kenya
Certified Public Accountants
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REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF I&M Bank LIMITED

We have audited the consolidated and company financial statements of I&M Bank LIMITED set out on pages 26 to 85 which comprise the consolidated and company statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of Kenya, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the consolidated and separate financial position of I&M Bank LIMITED at 31 December 2010, and the consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

REPORT ON OTHER LEGAL REQUIREMENTS

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

- We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
- In our opinion, proper books of account have been kept by the company, in so far as appears from our examination of those books; and,
- The statement of financial position of the company is in agreement with the books of account.

KPMG Kenya

Date: 22 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTE	2010 KSHS	2009 KSHS
Interest income	7	6,611,358,551	5,081,666,848
Interest expense	8	(2,779,117,368)	(2,608,455,810)
Net interest income		**3,832,241,183**	**2,473,211,038**
Fee and commission income	9	997,962,488	673,529,018
Fee and commission expense	9	(51,440,440)	(28,723,588)
Net fee and commission income	9	**946,522,048**	**644,805,430**
Net trading income		**4,778,763,231**	**3,118,016,468**
Other operating income	10	1,200,097,330	365,263,779
OPERATING INCOME		**5,978,860,561**	**3,483,280,247**
Staff costs	11	(1,196,757,024)	(897,279,234)
Premises and equipment costs	11	(154,674,759)	(111,601,128)
General administrative expenses	11	(602,781,046)	(402,398,584)
Depreciation and amortisation	11	(197,852,242)	(170,603,261)
OPERATING EXPENSES		**(2,152,065,071)**	**(1,581,882,207)**
OPERATING PROFIT BEFORE IMPAIRMENT LOSSES AND TAXATION		3,826,795,490	1,901,398,040
Net impairment losses on loans and advances	18 (c)	(300,314,015)	(106,564,223)
PROFIT BEFORE INCOME TAX		**3,526,481,475**	**1,794,833,817**
INCOME TAX EXPENSE	13	(1,001,913,927)	(547,418,763)
NET PROFIT FOR THE YEAR		**2,524,567,548**	**1,247,415,054**
OTHER COMPREHENSIVE INCOME			
Net change in fair value of available for sale financial assets		1,478,280,843	(14,459,441)
Revaluation of property and equipment		-	142,330,963
Foreign currency translation differences		7,575,250	6,892,763
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		**1,485,856,093**	**134,764,285**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4,010,423,641**	**1,382,179,339**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010 {CONTINUED}

	NOTE	2010 KSHS	2009 KSHS
PROFIT ATTRIBUTABLE TO:			
Equity holders of the Company		2,438,680,282	1,247,415,054
Non controlling interest		85,887,266	-
		2,524,567,548	**1,247,415,054**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Company		3,940,172,040	1,382,179,339
Non controlling interest		70,251,601	-
		4,010,423,641	**1,382,179,339**
BASIC AND DILUTED EARNINGS PER SHARE - (KSHS)	14	**95.77**	**52.90**
DIVIDEND PER SHARE - (KSHS)			
- Final	15	**20.00**	**18.00**

The notes set out on pages 37 to 85 form an integral part of these financial statements.

COMPANY STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTE	2010 KSHS	2009 KSHS
Interest income	7	5,223,562,427	4,470,141,698
Interest expense	8	(2,057,499,240)	(2,130,394,884)
Net interest income		**3,166,063,187**	**2,339,746,814**
Fee and commission income	9	806,342,925	603,216,642
Fee and commission expense	9	(26,022,378)	(22,283,037)
Net fee and commission income	9	**780,320,547**	**580,933,605**
Net trading income		**3,946,383,734**	**2,920,680,419**
Other operating income	10	989,424,845	285,666,172
OPERATING INCOME		**4,935,808,579**	**3,206,346,591**
Staff costs	11	(890,115,323)	(751,625,694)
Premises and equipment costs	11	(110,990,452)	(88,380,502)
General administrative expenses	11	(450,535,141)	(356,807,211)
Depreciation and amortisation	11	(149,402,790)	(139,969,355)
OPERATING EXPENSES		**(1,601,043,706)**	**(1,336,782,762)**
OPERATING PROFIT BEFORE IMPAIRMENT LOSSES AND TAXATION		3,334,764,873	1,869,563,829
Net impairment losses on loans and advances	18(c)	(330,282,426)	(117,338,754)
PROFIT BEFORE INCOME TAX	12	3,004,482,447	1,752,225,075
INCOME TAX EXPENSE	13	(887,081,587)	(543,566,113)
NET PROFIT FOR THE YEAR		**2,117,400,860**	**1,208,658,962**
OTHER COMPREHENSIVE INCOME			
Net change in fair value of available for sale financial assets		1,486,279,527	(17,709,849)
Revaluation of property and equipment		-	138,233,119
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		**1,486,279,527**	**120,523,270**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,603,680,387**	**1,329,182,232**
BASIC AND DILUTED EARNINGS PER SHARE - (KSHS)	14	**80.32**	**51.26**
DIVIDEND PER SHARE - (KSHS)	15		
- Final		**20.00**	**18.00**

The notes set out on pages 37 to 85 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2010

	NOTE	2010 KSHS	2009 KSHS
ASSETS			
Cash and balances with Central Banks	16	5,478,824,847	3,450,364,675
Loans and advances to banks	17	6,095,811,170	4,538,194,977
Loans and advances to customers	18(a)	50,257,348,920	30,480,352,545
Investment securities	19	20,787,432,263	12,478,397,537
Intangible asset - Goodwill	22(a)	1,115,093,937	317,971,737
Property and equipment	21	1,734,367,046	1,530,412,093
Intangible assets - software	22(b)	59,174,050	86,580,850
Prepaid operating lease rentals	23	139,594,697	137,451,642
Deferred tax asset	24	299,808,134	237,110,220
Tax recoverable		-	32,807,216
Other assets	25	914,698,425	1,144,823,348
TOTAL ASSETS		**86,882,153,489**	**54,434,466,840**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	26	1,393,755,221	221,804,747
Deposits from customers	27	68,208,428,320	44,759,147,604
Tax payable		346,275,667	561,075
Other liabilities	28	940,007,309	688,486,184
Long term borrowings	29	2,143,250,130	1,301,547,296
		73,031,716,647	46,971,546,906
Shareholders' equity (Page 33 & 34)			
Share capital	30(a)	2,870,245,300	2,613,560,800
Share premium	30(d)	3,690,214,995	1,565,278,143
Retained earnings		4,605,636,550	2,728,644,540
Revaluation reserve	30(e)	142,330,963	142,330,963
Statutory loan loss reserve	30(f)	34,475,342	-
Translation reserve	30(g)	26,316,369	3,105,454
Available-for-sale reserve	30(h)	1,463,821,402	(14,459,441)
Proposed dividends		527,212,930	424,459,475
		13,360,253,851	7,462,919,934
Equity attributable to owners of the Company			
Non controlling interest		490,182,991	-
TOTAL SHAREHOLDERS' EQUITY		**13,850,436,842**	**-**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**86,882,153,489**	**54,434,466,840**

The financial statements set out on pages 26 to 85 were approved by the Board of Directors on 22nd March 2011 and were signed on its behalf by:

SACHIT S. RAJA SHAH
DIRECTOR

SARIT S. RAJA SHAH
DIRECTOR

M.J. KARANJA
DIRECTOR

N.P. KOTHARI
SECRETARY

The notes set out on pages 37 to 85 form an integral part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2010

	NOTE	2010 KSHS	2009 KSHS
ASSETS			
Cash and balances with Central Bank of Kenya	16	3,243,399,025	2,813,885,369
Loans and advances to banks	17	1,029,423,036	2,002,069,451
Loans and advances to customers	18(a)	35,642,514,986	24,591,499,866
Investment securities	19	17,919,595,908	11,339,864,957
Intangible asset - Goodwill	22(a)	10,746,998	10,746,998
Investment in joint venture	20(a)	1,245,537,610	922,297,610
Investment in subsidiary	20(b)	1,122,911,360	-
Property and equipment	21	1,246,472,112	1,185,997,192
Intangible assets - Software	22(b)	16,897,583	52,402,561
Prepaid operating lease rentals	23	139,594,697	137,451,642
Tax recoverable		-	32,807,216
Deferred tax asset	24	230,713,760	164,652,751
Other assets	25	688,767,590	755,545,567
TOTAL ASSETS		**62,536,574,665**	**44,009,221,180**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	26	932,454,803	221,804,747
Deposits from customers	27	45,994,961,254	34,799,004,763
Tax payable		339,792,151	-
Other liabilities	28	517,466,690	455,371,364
Long term borrowings	29	1,771,932,292	1,113,915,095
		49,556,607,190	36,590,095,969
Shareholders' equity (Page 35 & 36)			
Share capital	30(a)	2,870,245,300	2,613,560,800
Share premium	30(d)	3,690,214,995	1,565,278,143
Retained earnings		4,285,491,453	2,695,303,523
Revaluation reserve	30(e)	138,233,119	138,233,119
Available-for-sale reserve	30(h)	1,468,569,678	(17,709,849)
Proposed dividends		527,212,930	424,459,475
		12,979,967,475	7,419,125,211
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**62,536,574,665**	**44,009,221,180**

The financial statements set out on pages 26 to 85 were approved by the Board of Directors on 22 March 2011 and were signed on its behalf by:

SACHIT S. RAJA SHAH
DIRECTOR

SARIT S. RAJA SHAH
DIRECTOR

M.J. KARANJA
DIRECTOR

N.P. KOTHARI
SECRETARY

The notes set out on pages 37 to 85 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTE	2010 KSHS	2009 KSHS
Net cash flows from operating activities	31(a)	**(11,358,912,145)**	**3,950,422,315**
Cash flows from investing activities			
Purchase of property and equipment		(215,360,707)	(129,842,131)
Purchase of intangible assets		(7,528,514)	(59,379,241)
Purchase of prepaid operating leases		(4,110,438)	(31,000,000)
Proceeds from disposal of property and equipment		1,367,744	4,745,082
Proceeds from disposal of investment securities		9,110,156,708	-
Net inflow from investment in subsidiary	20(b)	694,380,212	-
Proceeds from rights issue – non controlling interest		200,337,467	-
Net inflow from investment in joint venture	20(a)	108,478,238	64,909,522
Net cash utilised in investing activities		**9,887,720,710**	**(150,566,768)**
Cash flows from financing activities			
Proceeds from issue of share capital		256,684,500	289,560,800
Share premium from issue of share capital		2,124,936,852	1,010,782,697
Receipt of long term borrowings		803,465,871	-
Repayment of long term borrowings		-	(21,463,653)
Dividend paid		(424,459,475)	(398,106,882)
Net cash generated from financing activities		**2,760,627,748**	**880,772,962**
Net increase in cash and cash equivalents	31(b)	**1,289,436,313**	**4,680,628,509**

The notes set out on pages 37 to 85 form an integral part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTE	2010 KSHS	2009 KSHS
Net cash flows from operating activities	31(c)	**(11,918,197,460)**	**1,874,965,925**
Cash flows from investing activities			
Purchase of property and equipment		(162,474,140)	(91,639,632)
Purchase of intangible assets		(10,516,529)	(33,039,189)
Purchases of prepaid leases		(4,110,438)	(31,000,000)
Proceeds from disposal of property and equipment		1,502,000	3,365,510
Investment in joint venture	20(a)	(323,240,000)	(76,220,250)
Investments in subsidiary	20(b)	(1,122,911,360)	-
Proceeds on investment securities		9,110,156,708	-
Proceeds on floating notes		-	77,947,399
Net cash utilised in investing activities		**7,488,406,241**	**(150,586,162)**
Cash flows from financing activities			
Proceeds from issue of share capital		256,684,500	289,560,800
Share premium from issue of share capital		2,124,936,852	1,010,782,697
Net proceeds of long term borrowings		658,017,196	(204,409,615)
Dividend paid		(424,459,475)	(398,106,822)
Net cash generated from financing activities		**2,615,179,073**	**697,827,060**
Net increase in cash and cash equivalents	31(d)	**(1,814,612,146)**	**2,422,206,823**

The notes set out on pages 37 to 85 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

2009:	SHARE CAPITAL KSHS	SHARE PREMIUM KSHS	RETAINED EARNINGS KSHS	REVALUATION RESERVE KSHS	AVAILABLE -FOR-SALE RESERVE KSHS	TRANSLATION RESERVE KSHS	PROPOSED DIVIDENDS KSHS	TOTAL KSHS
At 1 January 2009	2,324,000,000	554,495,446	1,905,688,961	-	-	(3,787,309)	398,106,882	5,178,503,980
Total comprehensive income for the year								
Net profit after taxation	-	-	1,247,415,054	-	-	-	-	1,247,415,054
Other comprehensive income								
Translation reserve	-	-	-	-	-	6,892,763	-	6,892,763
Revaluation reserve	-	-	-	142,330,963	-	-	-	142,330,963
Available-for-sale reserve	-	-	-	-	(14,459,441)	-	-	(14,459,441)
Total other comprehensive income	**-**	**-**	**-**	**142,330,963**	**(14,459,441)**	**6,892,763**	**-**	**134,764,285**
Total comprehensive income	**-**	**-**	**1,247,415,054**	**142,330,963**	**(14,459,441)**	**6,892,763**	**-**	**1,382,179,339**
Transactions with owners, recorded directly in equity								
Share capital – Additional shares issued	289,560,800	1,013,462,800	-	-	-	-	-	1,303,023,600
Expenses on increase of share capital	-	(2,680,103)	-	-	-	-	-	(2,680,103)
Dividend paid - 2009 Final	-	-	-	-	-	-	(398,106,882)	(398,106,882)
Dividend paid - 2009 Interim	-	-	-	-	-	-	-	-
Dividend proposed - 2009 Final	-	-	(424,459,475)	-	-	-	424,459,475	-
Total transactions with owners for the year	**289,560,800**	**1,010,782,697**	**(424,459,475)**	**-**	**-**	**-**	**26,352,593**	**902,236,615**
Balance as at 31 December 2009	**2,613,560,800**	**1,565,278,143**	**2,728,644,540**	**142,330,963**	**(14,459,441)**	**3,105,454**	**424,459,475**	**7,462,919,934**

The notes set out on pages 37 to 85 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010 {CONTINUED}

2010:	SHARE CAPITAL KSHS	SHARE PREMIUM KSHS	RETAINED EARNINGS KSHS	STATUTORY RESERVE KSHS	REVALUATION RESERVE KSHS	AVAILABLE-FOR -SALE RESERVE KSHS	TRANSLATION RESERVE KSHS	PROPOSED DIVIDENDS KSHS	TOTAL KSHS	NON CONTROLLING INTEREST KSHS	TOTAL KSHS
At 1 January 2010	2,613,560,800	1,565,278,143	2,728,644,540	-	142,330,963	(14,459,441)	3,105,454	424,459,475	7,462,919,934	-	7,462,919,934
Total comprehensive income for the year											
Net profit after taxation	-	-	2,438,680,282	-	-	-	-	-	2,438,680,282	85,887,266	2,524,567,548
Other comprehensive income											
Translation reserve	-	-	-	-	-	-	23,210,915	-	23,210,915	(15,635,665)	7,575,250
Available for sale reserve	-	-	-	-	-	1,478,280,843	-	-	1,478,280,843	-	1,478,280,843
Statutory reserve	-	-	(34,475,342)	34,475,342	-	-	-	-	-	-	-
Total other comprehensive income	**-**	**-**	**(34,475,342)**	**34,475,342**	**-**	**1,478,280,843**	**23,210,915**	**-**	**1,501,491,758**	**(15,635,665)**	**1,485,856,093**
Total comprehensive income	**-**	**-**	**2,404,204,940**	**34,475,342**	**-**	**1,478,280,843**	**23,210,915**	**-**	**3,940,172,040**	**70,251,601**	**4,010,423,641**
Transactions with owners, recorded directly in equity											
Share capital - Additional shares issued	256,684,500	2,143,315,575	-	-	-	-	-	-	2,400,000,075	200,327,915	2,600,327,990
Expenses on increase of share capital	-	(18,378,723)	-	-	-	-	-	-	(18,378,723)	-	(18,378,723)
Dividend paid - 2009 Final	-	-	-	-	-	-	-	(424,459,475)	(424,459,475)	-	(424,459,475)
Dividend proposed - 2010 Final	-	-	(527,212,930)	-	-	-	-	527,212,930	-	-	-
Total transactions with owners for the year	**256,684,500**	**2,124,936,852**	**(527,212,930)**	**-**	**-**	**-**	**-**	**102,753,455**	**1,957,161,877**	**200,327,915**	**2,157,489,792**
Changes in ownership interests in subsidiary:											
Non controlling interest on share capital at acquisition of subsidiary	-	-	-	-	-	-	-	-	-	44,661,619	44,661,619
Retained earnings at acquisition of subsidiary	-	-	-	-	-	-	-	-	-	174,941,856	174,941,856
Total changes in ownership interests in subsidiary (Note 20(b))	-	-	-	-	-	-	-	-	-	219,603,475	219,603,475
Balance as at 31 December 2010	**2,870,245,300**	**3,690,214,995**	**4,605,636,550**	**34,475,342**	**142,330,963**	**1,463,821,402**	**26,316,369**	**527,212,930**	**13,360,253,851**	**490,182,991**	**13,850,436,842**

The notes set out on pages 37 to 85 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

2009:	SHARE CAPITAL KSHS	SHARE PREMIUM KSHS	RETAINED EARNINGS KSHS	STATUTORY RESERVE KSHS	AVAILABLE-FOR -SALE RESERVE KSHS	REVALUATION RESERVE KSHS	PROPOSED DIVIDENDS KSHS	TOTAL KSHS
At 1 January 2009	2,324,000,000	554,495,446	1,911,104,036	-	-	-	398,106,882	5,187,706,364
Total comprehensive income for the year								
Net profit after taxation	-	-	1,208,658,962	-	-	-	-	1,208,658,962
Other comprehensive income								
Available for sale reserve	-	-	-	-	(17,709,849)	-	-	(17,709,849)
Revaluation reserve	-	-	-	-	-	138,233,119	-	138,233,119
Total other comprehensive income	**-**	**-**	**-**	**-**	**(17,709,849)**	**138,233,119**	**-**	**120,523,270**
Total comprehensive income	**-**	**-**	**1,208,658,962**	**-**	**(17,709,849)**	**138,233,119**	**-**	**1,329,182,232**
Transactions with owners recorded directly in equity								
Share capital - additional shares issued	289,560,800	1,013,462,800	-	-	-	-	-	1,303,023,600
Expenses on increase of share capital	-	(2,680,103)	-	-	-	-	-	(2,680,103)
Dividend paid - 2008 Final	-	-	-	-	-	-	(398,106,882)	(398,106,882)
Dividend proposed - 2009 Final	-	-	(424,459,475)	-	-	-	424,459,475	-
Total transactions with owners for the year	**289,560,800**	**1,010,782,697**	**(424,459,475)**	**-**	**-**	**-**	**26,352,593**	**902,236,615**
Balance as at 31 December 2009	**2,613,560,800**	**1,565,278,143**	**2,695,303,523**	**-**	**(17,709,849)**	**138,233,119**	**424,459,475**	**7,419,125,211**

The notes set out on pages 37 to 85 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010 {CONTINUED}

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

The notes set out on pages 37 to 85 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1. REPORTING ENTITY

I&M Bank LIMITED is a limited liability company incorporated in Kenya under the Kenyan Companies Act, and is domiciled in Kenya. The consolidated financial statements of the group as at and for the year ended 31 December 2010 comprise the company, its joint venture and a subsidiary (together referred to as the "Group"). The Bank has 50% (2009 - 41.64%) interest in Bank One Limited, Mauritius (formerly First City Bank Limited), the joint venture in a bank licensed in Mauritius and 55.03% shareholding in I&M Bank (T) Limited. Both Banks are licensed in the respective countries and are in the business of banking and the provision of financial services. The Bank primarily is involved in provision of an extensive range of banking, financial and related services permitted under the Kenyan Banking Act (Cap.488). The address of its registered office is as follows:

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

2. BASIS OF PREPARATION

(i) Statement of compliance

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

(ii) Basis of measurement

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

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

(iii) Functional and presentation currency

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

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

(iv) Use of estimates and judgments

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

Jointly controlled entity

Jointly controlled entities are accounted for using the proportionate consolidation method. The balance sheet of the Group includes its share of the assets and liabilities and the income statement includes its share of income and the expenses of the jointly controlled entity. The Bank has 50% (2009 - 41.64%) control over Bank One Limited (formerly First City Bank Limited – Mauritius) with the other joint venturer, CIEL Investments Limited.

(b) Subsidiary

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Subsidiary (Continued)

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

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

(c) Foreign currencies

(i) Transactions and balances

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

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

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

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

(ii) Joint venture

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

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

(d) Income recognition

Income is derived substantially, from banking business and related activities and comprises net interest income, fee and commission income and net trading income. For available-for-sale assets and financial assets and liabilities held at amortised cost, interest income and interest expense is recognised in the income statement using the effective interest rate method.

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

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

(i) Net interest income

Interest income and expense on available-for-sale assets and financial assets or liabilities held at amortised cost is recognised in the income statement using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating interest income or interest expense over the relevant period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Income recognition (continued)

(i) Net interest income (continued)

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

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

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

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

(ii) Fee and commission income

Fee and commission income and expenses that are integral to the effective interest rate of a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

(iii) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

(iv) Rental income – other operating income

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

(e) Income tax expense

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

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

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

Deferred tax is calculated on the basis of the tax rates currently enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(f) Financial assets and liabilities

(i) Recognition and measurement

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (continued)

(ii) Derecognition

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

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

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

(iii) Offsetting of financial assets and liabilities

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

(iv) Amortised cost measurement

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

(v) Identification and measurement of impairment of financial assets

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

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

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

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

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in the income statement and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (continued)

(vi) Designation at fair value through profit or loss

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

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

(g) Cash and cash equivalents

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

(h) Loans and receivables

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

(i) Investment securities

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

(i) Held-to-maturity

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

(ii) Available-for-sale

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

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

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

(j) Property and equipment

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

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

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

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

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

(k) Intangible assets

(i) Computer software

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) 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 contingentliabilities as at the date of acquisition. Goodwill is stated at cost less accumulated amortisation to 31 March 2004 and any accumulated impairment losses. Effective 1 April 2004, goodwill is no longer amortised but is tested annually for impairment.

(l) Operating leases

(i) Operating leases

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

(ii) Financial lease receipts

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

(m) Impairment for non-financial assets

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

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(n) Derivative financial instruments

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

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

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

(o) Provisions

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

(p) Employee benefits

(i) Defined contribution plan

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

The assets of the defined contribution scheme are held in a separate trustee administered guarantees scheme managed by an insurance company. Retirement plans are funded by contributions from the employees and the Bank. The Bank's contributions are charged to the income statement in the year to which they relate.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Employee benefits (continued)

(ii) Defined benefit plan

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

(iii) Leave accrual

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

(q) Share capital and reserves- share issue costs

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

(r) Earnings per share

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

(s) 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.

(t) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are accounted for as off balance sheet transactions and disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date the financial statements are approved for issue by the directors. Any expected loss is charged to the income statement.

(u) Customer loyalty programme

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

(v) Related parties

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

(w) Fiduciary activities

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

(x) Comparative information

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

(y) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these consolidated financial statements as follows:

- IFRS 9 *Financial Instruments*, published on 12 November 2009 as part of phase 1 of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets; amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of *held-to-maturity*, *available-for-sale* and *loans and receivables*.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income.

IFRS 9 will become mandatory for the Group's 2014 financial statements and is not expected to have a significant effect on the financial statements.

- IAS 24 Related Party Disclosures amends the definition of a related party and modifies certain related party disclosure requirements for government related entities. The amendments to IAS 24 will become mandatory for the Group's 2011 financial statements and are not expected to have an impact on the presentation of related party information in the Group's financial statements.

4. FINANCIAL RISK MANAGEMENT

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

(a) Credit risk

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

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

The Bank's credit exposure at the balance sheet date from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the balance sheet.

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

In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments over their remaining life.

To manage the level of credit risk, the Bank deals with counter parties of good credit standing, enters into master netting agreements wherever possible and when appropriate, obtains collateral.

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

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

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

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Exposure to credit risk

Company:

Loans and advances to customers	**2010 KSHS**	**2009 KSHS**
Individually impaired:		
Grade 3: Substandard	143,661,900	62,670,921
Grade 4: Impaired – Doubtful	1,040,742,148	1,010,527,870
	1,184,404,048	1,073,198,791
Allowance for impairment	(746,078,522)	(476,668,096)
Carrying amounts	**438,325,526**	**596,530,695**
Collectively impaired:		
Grade 2: Watch	5,629,472,196	3,085,547,484
Grade 1: Normal	30,045,012,952	21,216,717,374
	35,674,485,148	24,302,264,858
Portfolio impairment provision	(470,295,688)	(307,295,687)
Carrying amounts	**35,204,189,460**	**23,994,969,171**
Total carrying amounts	**35,642,514,986**	**24,591,499,866**

Impaired loans and securities

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

Past due but not impaired loans

These are loans where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank.

Loans with renegotiated terms

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

Allowances for impairment

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Write off policy

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

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

Loans and advances	GROSS KSHS	NET KSHS
Company:		
31 December 2010		
Grade 3: Individually impaired	143,661,900	17,952,726
Grade 4: Individually impaired	1,040,742,148	728,125,796
	1,184,404,048	**746,078,522**
31 December 2009		
Grade 3: Individually impaired	62,670,921	59,922,757
Grade 4: Individually impaired	1,010,527,870	536,607,938
	1,073,198,791	**596,530,695**

The Bank holds collaterals against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimate of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowings activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2010 or 2009.

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

Loans and advances to Customers	2010 KSHS	2009 KSHS
Company		
Fair value of collateral held:		
- Against impaired loans	**434,562,555**	**598,171,180**

(b) Liquidity risk

Liquidity risk includes the risk of being unable to liquidate assets at a reasonable price and in an appropriate timeframe in order to meet the Banks financial obligation as they fall due.

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

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

	2010	2009
At 31 December	43.47%	43.68%
Average for the period	42.25%	38.76%
Highest for the period	44.69%	45.02%
Lowest for the period	36.43%	25.67%

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2010 to the contractual maturity date:

Company 31 DECEMBER 2010:	DUE ON DEMAND KSHS'000	DUE WITHIN 3 MONTHS KSHS'000	DUE BETWEEN 3-12 MONTHS KSHS'000	DUE BETWEEN 1-5 YEARS KSHS'000	DUE AFTER 5 YEARS KSHS'000	TOTAL KSHS'000
ASSETS						
Cash and balances with Central Bank of Kenya	3,243,399	-	-	-	-	**3,243,399**
Loans and advances to banks	498,948	303,468	200,000	27,007	-	**1,029,423**
Loans and advances to customers	15,355,326	931,958	1,541,280	12,259,009	5,554,942	**35,642,515**
Investment securities	-	124,629	1,783,858	5,221,126	10,789,983	**17,919,596**
Intangible assets – Goodwill	-	-	-	-	10,747	**10,747**
Investment in Joint venture	-	-	-	-	1,245,538	**1,245,538**
Investment in Subsidiary	-	-	-	-	1,122,911	**1,122,911**
Property and equipment	-	-	-	-	1,246,472	**1,246,472**
Intangible assets - software	-	-	-	-	16,897	**16,897**
Prepaid operating lease rentals	-	-	-	-	139,595	**139,595**
Tax recoverable	-	-	-	-	-	**-**
Deferred tax asset	-	-	-	-	230,714	**230,714**
Other assets	499,245	13,913	13,913	-	161,697	**688,768**
At 31 December 2010	**19,596,918**	**1,373,968**	**3,539,051**	**17,507,142**	**20,519,496**	**62,536,575**
EQUITY AND LIABILITIES						
Deposits from banks	245,749	686,706	-	-	-	**932,455**
Deposits from customers	15,380,086	18,095,550	12,419,026	100,299	-	**45,994,961**
Tax payable	-	-	339,792	-	-	**339,792**
Other liabilities	287,257	230,211	-	-	-	**517,468**
Long-term borrowings	-	52,489	91,219	1,359,051	269,173	**1,771,932**
Shareholders' equity	-	-	-	-	12,979,967	**12,979,967**
At 31 December 2010	**15,913,092**	**19,064,956**	**12,850,037**	**1,459,350**	**13,249,140**	**62,536,575**
Interest rate sensitivity-2010	**3,683,826**	**(17,690,988)**	**(9,310,986)**	**16,047,792**	**7,270,356**	**-**

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

Company 31 DECEMBER 2009:	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
ASSETS						
Cash and balances with Central Bank of Kenya	2,813,885	-	-	-	-	**2,813,885**
Loans and advances to banks	1,920,440	81,629	-	-	-	**2,002,069**
Loans and advances to customers	2,804,385	2,562,724	7,990,543	8,595,439	2,638,409	**24,591,500**
Investment securities	-	356,418	223,936	4,180,968	6,578,543	**11,339,865**
Property and equipment	-	-	-	-	1,185,997	**1,185,997**
Investment in Joint Venture	-	-	-	-	922,298	**922,298**
Goodwill	-	-	-	-	10,747	**10,747**
Intangible assets	-	-	-	-	52,403	**52,403**
Prepaid operating lease rentals	-	-	-	-	137,452	**137,452**
Tax recoverable	-	-	32,807	-	-	**32,807**
Deferred tax asset	-	-	-	-	164,653	**164,653**
Other assets	755,545	-	-	-	-	**755,545**
At 31 December 2009	**8,294,255**	**3,000,771**	**8,247,286**	**12,776,407**	**11,690,502**	**44,009,221**
EQUITY AND LIABILITIES						
Deposits from banks	161,645	60,160	-	-	-	**221,805**
Deposits from customers	15,161,145	6,694,641	12,522,172	129,932	291,115	**34,799,005**
Other liabilities	455,371	-	-	-	-	**455,371**
Long-term borrowings	-	1,104	123	1,112,688	-	**1,113,915**
Shareholders' equity	-	-	424,459	-	6,994,666	**7,419,125**
At 31 December 2009	**15,778,161**	**6,755,905**	**12,946,754**	**1,242,620**	**7,285,781**	**44,009,221**
Net Liquidity Gap – 2009	**(7,483,906)**	**(3,755,134)**	**(4,699,468)**	**11,533,787**	**4,404,721**	**-**

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

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk

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

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

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

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Exposure to interest rate risk

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

31 December 2010:	DUE ON DEMAND KSHS'000	DUE WITHIN 3 MONTHS KSHS'000	DUE BETWEEN 3-12 MONTHS KSHS'000	DUE BETWEEN 1-5 YEARS KSHS'000	DUE AFTER 5 YEARS KSHS'000	NON-INTEREST BEARING KSHS'000	TOTAL KSHS'000
ASSETS							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	3,243,399	**3,243,399**
Loans and advances to banks	498,948	303,468	200,000	27,007	-	-	**1,029,423**
Loans and advances to customers	15,355,326	931,958	1,541,280	12,259,009	5,554,942	-	**35,642,515**
Investment securities	-	124,629	1,783,858	5,221,126	10,789,983	-	**17,919,596**
Intangible assets – Goodwill	-	-	-	-	-	10,747	**10,747**
Investment in Joint venture	-	-	-	-	-	1,245,538	**1,245,538**
Investment in Subsidiary	-	-	-	-	-	1,122,911	**1,122,911**
Property and equipment	-	-	-	-	-	1,246,472	**1,246,472**
Intangible assets - software	-	-	-	-	-	16,897	**16,897**
Prepaid operating lease rentals	-	-	-	-	-	139,595	**139,595**
Deferred tax asset	-	-	-	-	-	230,714	**230,714**
Other assets	-	-	-	-	-	688,768	**688,768**
At 31 December 2010	**15,854,274**	**1,360,055**	**3,525,138**	**17,507,142**	**16,344,925**	**7,945,041**	**62,536,575**
EQUITY AND LIABILITIES							
Deposits from banks	245,749	686,706	-	-	-	-	**932,455**
Deposits from customers	15,380,086	18,095,550	12,419,026	100,299	-	-	**45,994,961**
Tax payable	-	-	-	-	-	339,792	**339,792**
Other liabilities	-	-	-	-	-	517,468	**517,468**
Long-term borrowings	-	52,489	91,219	1,359,051	269,173	-	**1,771,932**
Shareholders' equity	-	-	-	-	-	12,979,967	**12,979,967**
At 31 December 2010	**15,625,835**	**18,834,745**	**12,510,245**	**1,459,350**	**269,173**	**13,837,227**	**62,536,575**
Interest rate sensitivity – 2010	**228,439**	**(17,474,690)**	**(8,985,107)**	**16,047,792**	**16,075,752**	**(5,892,186)**	**-**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Exposure to interest rate risk (continued)

31 December 2009:	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	-	-	-	-	-	2,813,885	**2,813,885**
Loans and advances to banks	1,920,440	81,629	-	-	-	-	**2,002,069**
Loans and advances to customers	2,804,385	2,562,724	7,990,543	8,595,439	2,638,409	-	**24,591,500**
Investment securities	-	356,418	223,936	4,180,968	6,578,543	-	**11,339,865**
Property and equipment	-	-	-	-	-	1,185,997	**1,185,997**
Investment in joint venture	-	-	-	-	-	922,298	**922,298**
Intangible assets	-	-	-	-	-	63,150	**63,150**
Prepaid operating lease rentals	-	-	-	-	-	137,452	**137,452**
Tax recoverable	-	-	-	-	-	32,807	**32,807**
Deferred tax asset	-	-	-	-	-	164,653	**164,653**
Other assets	-	-	-	-	-	755,545	**755,545**
At 31 December 2009	**4,724,825**	**3,000,771**	**8,214,479**	**12,776,407**	**9,216,952**	**6,075,787**	**44,009,221**
EQUITY AND LIABILITIES							
Deposits from banks	161,645	60,160	-	-	-	-	**221,805**
Deposits from customers	15,161,145	6,694,641	12,522,172	129,932	291,115	-	**34,799,005**
Other liabilities	-	-	-	-	-	455,371	**455,371**
Long-term borrowings	-	1,104	123	-	1,112,688	-	**1,113,915**
Shareholders' equity	-	-	424,459	-	-	6,994,666	**7,419,125**
At 31 December 2009	**15,322,790**	**6,755,905**	**12,946,754**	**129,932**	**1,403,803**	**7,450,037**	**44,009,221**
Interest rate sensitivity – 2009	**(10,597,965)**	**(3,755,134)**	**(4,732,275)**	**12,646,475**	**7,813,149**	**(1,374,250)**	**-**

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

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

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

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Currency rate risk

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank's transactional exposure gives rise to foreign currency gains and losses that are recognised in the income statement. In respect of monetary assets and liabilities in foreign currencies, the Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. The table below analyses the currencies to which the Bank is exposed to as at 31 December 2010 and 31 December 2009.

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

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Currency rate risk (continued)

31 December 2009:	USD KSHS'000	GBP KSHS'000	EURO KSHS'000	OTHER KSHS'000	TOTAL KSHS'000
ASSETS					
Loans and advances to banks	633,011	687,257	165,226	110,587	**1,596,081**
Loans and advances to customers	5,242,138	64,888	679,282	19,343	**6,005,651**
Other assets	17,601	244	2,280	1	**20,126**
At 31 December 2009	**5,892,750**	**752,389**	**846,788**	**129,931**	**7,621,858**
LIABILITIES					
Deposits from banks	43,911	-	12,280	4,318	**60,509**
Deposits from customers	3,421,140	1,259,604	387,109	73,473	**5,141,326**
Other liabilities	432,092	4,840	390	6,414	**443,736**
At 31 December 2009	**3,897,143**	**1,264,444**	**399,779**	**84,205**	**5,645,571**
Net balance sheet position	**1,995,607**	**(512,055)**	**447,009**	**45,726**	**1,976,287**
Net notional off balance sheet position	**(1,692,872)**	**453,167**	**(403,061)**	**(215,196)**	**(1,857,962)**
Overall net position – 2009	**302,735**	**(58,888)**	**43,948**	**(169,470)**	**118,325**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Operational risk

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

The following are key measures that the bank has undertaken 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 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 to ensure employees are well equipped to identify and mitigate operational risks in a timely manner;
- Establishment of ethical practices at business and individual employee's level;
- Implementation of Risk mitigation parameters, including insurance where this is effective.

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

(e) Capital management

Regulatory capital

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

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

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

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

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

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

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

In addition a bank must maintain a minimum core capital of KShs 500 million.

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

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

- Tier 2 capital, which includes 25% of revaluation reserves of property and equipment, subordinated debt not exceeding 50% of core capital, collective impairment allowances and any other approved reserves.

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Capital management (continued)

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

Company:	**2010 KSHS**	**2009 KSHS**
Core capital (Tier 1)		
Share capital	2,870,245,300	2,613,560,800
Share premium	3,690,214,995	1,565,278,143
Retained earnings	4,285,491,453	2,695,303,518
	10,845,951,748	6,874,142,461
Less: Goodwill	(10,746,998)	(10,746,998)
Investment in Joint venture	(1,245,537,610)	(922,297,610)
Investment in Subsidiary	(1,122,911,360)	-
Total core capital	8,466,755,780	5,941,097,853
Supplementary capital (Tier 2)		
Term subordinated debt	457,500,000	600,000,000
Total capital	**8,924,255,780**	**6,541,097,853**
Risk weighted assets		
On-balance sheet	35,995,735,100	26,105,961,500
Off-balance sheet	8,811,464,200	8,759,591,495
Total risk weighted assets	**44,807,199,300**	**34,865,552,995**
Deposits from customers	**46,632,072,586**	**35,017,183,000**
Capital ratios		
Core capital/total deposit liabilities (CBK min 8%)	18.16%	16.92%
Core capital /total risk weighted assets (CBK min 8%)	18.90%	16.99%
Total capital /total risk weighted assets (CBK min 12%)	19.92%	18.71%

(f) Compliance and regulatory risk

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

5. USE OF ESTIMATES AND JUDGEMENT

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

Key sources of estimation uncertainty - Allowance for credit losses

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

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

Critical accounting judgements in applying the Bank's accounting policies

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

In classifying financial assets as held to maturity, the Bank has determined that it has both positive intention and ability to hold the assets until their maturity date as required by accounting policy 3(i)(i).

6. FINANCIAL ASSETS AND LIABILITIES

Accounting classifications and fair values

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

31 December 2010:	HELD TO MATURITY KSHS'000	LOANS AND RECEIVABLES KSHS'000	AVAILABLE -FOR-SALE KSHS'000	OTHER AMORTISED COST KSHS'000	TOTAL CARRYING AMOUNT KSHS'000	FAIR VALUES KSHS'000
Financial assets						
Cash and balances with Central Bank of Kenya	-	-	-	3,243,399	3,243,399	3,243,399
Investment securities	6,906,934	-	11,012,662	-	17,919,596	17,919,596
Loans and advances to banks	-	1,029,423	-	-	1,029,423	1,029,423
Loans and advances to customers	-	35,642,515	-	-	35,642,515	35,642,515
	6,906,934	**36,671,938**	**11,012,662**	**3,243,399**	**57,834,933**	**57,834,933**
Financial liabilities						
Deposits from banks	-	-	-	932,455	932,455	932,455
Deposits from customers	-	-	-	45,994,961	45,994,961	45,994,961
Long term borrowings	-	-	-	1,771,932	1,771,932	1,771,932
	-	**-**	**-**	**48,699,348**	**48,699,348**	**48,699,348**

6. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Accounting classifications and fair values (continued)

31 December 2009:	HELD TO MATURITY KSHS'000	LOANS AND RECEIVABLES KSHS'000	AVAILABLE -FOR-SALE KSHS'000	OTHER AMORTISED COST KSHS'000	TOTAL CARRYING AMOUNT KSHS'000	FAIR VALUES KSHS'000
Financial assets						
Cash and balances with Central Bank of Kenya	-	-	-	2,813,885	2,813,885	2,813,885
Investment securities	3,913,232	-	7,426,633	-	11,339,865	11,339,865
Loans and advances to banks	-	2,002,069	-	-	2,002,069	2,002,069
Loans and advances to customers	-	24,591,500	-	-	24,591,500	24,591,500
	3,913,232	**26,593,569**	**7,426,633**	**2,813,885**	**40,747,319**	**40,747,319**
Financial liabilities						
Deposits from banks	-	-	-	221,805	221,805	221,805
Deposits from customers	-	-	-	34,799,005	34,799,005	34,799,005
Long term borrowings	-	-	-	1,113,915	1,113,915	1,113,915
	-	**-**	**-**	**36,134,725**	**36,134,725**	**36,134,725**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

7. INTEREST INCOME

(a) Group

	2010 KSHS	2009 KSHS
Loans and advances to customers	4,156,823,297	3,368,878,841
Loans and advances to bank	26,536,121	39,197,427
Investment securities:		
- Held-to-maturity	534,885,258	1,048,852,924
- Available-for-sale	961,723,162	13,212,506
Bank One Limited	931,390,713	611,525,150
	6,611,358,551	**5,081,666,848**

(b) Company

	2010 KSHS	2009 KSHS
Loans and advances to customers	3,789,441,157	3,368,878,841
Loans and advances to bank	20,302,322	39,197,427
Investment securities:		
- Held-to-maturity	452,095,786	1,048,852,924
- Available-for-sale	961,723,162	13,212,506
	5,223,562,427	**4,470,141,698**

8. INTEREST EXPENSE

(a) Group

	2010 KSHS	2009 KSHS
Deposits from customers	2,091,882,784	2,031,275,067
Deposits from banks	129,027,174	99,119,817
Bank One Limited	558,207,410	478,060,926
	2,779,117,368	**2,608,455,810**

(b) Company

	2010 KSHS	2009 KSHS
Deposits from customers	1,931,120,623	2,031,275,067
Deposits from banks	126,378,617	99,119,817
	2,057,499,240	**2,130,394,884**

9. NET FEE AND COMMISSION INCOME

(a) Group

	2010 KSHS	2009 KSHS
Fee and commission income		
Commissions	555,555,027	402,676,749
Service fees	296,444,678	200,539,893
Bank One Limited	145,962,783	70,312,376
	997,962,488	**673,529,018**
Fee and commission expense		
Inter bank transaction fees	(18,993,583)	(19,039,953)
Other	(7,028,795)	(3,243,084)
Bank One Limited	(25,418,062)	(6,440,551)
	(51,440,440)	**(28,723,588)**
Net fee and commission income:	**946,522,048**	**644,805,430**

9. NET FEE AND COMMISSION INCOME (CONTINUED)

(b) Company

	2010 KSHS	2009 KSHS
Fee and commission income		
Commissions	516,516,290	402,676,749
Service fees	289,826,635	200,539,893
	806,342,925	**603,216,642**
Fee and commission expense		
Inter bank transaction fees	(18,993,583)	(19,039,953)
Other	(7,028,795)	(3,243,084)
	(26,022,378)	**(22,283,037)**
Net fee and commission income	**780,320,547**	**580,933,605**

10. OTHER OPERATING INCOME

(a) Group

	2010 KSHS	2009 KSHS
Income from foreign exchange dealings	376,535,547	208,284,606
Rental income	65,575,986	62,867,573
Profit on sale of property and equipment	1,360,250	1,632,305
Profit on sale of available-for-sale investment securities	665,923,847	-
Other	4,046,251	12,881,688
Bank One Limited	86,655,449	79,597,607
	1,200,097,330	**365,263,779**

(b) Company

	2010 KSHS	2009 KSHS
Income from foreign exchange dealings	253,532,842	208,284,606
Rental income	65,575,986	62,867,573
Profit on sale of property and equipment	1,360,250	1,632,305
Profit on sale of Available for sale investment securities	665,923,847	-
Other	3,031,920	12,881,688
	989,424,845	**285,666,172**

11. OPERATING EXPENSES

(a) Group

	2010 KSHS	2009 KSHS
Staff costs		
Salaries and wages	755,438,721	572,695,429
Contributions to defined contribution plan	25,613,440	18,172,264
Other staff costs	195,028,876	160,758,001
Bank One Limited	220,675,987	145,653,540
	1,196,757,024	**897,279,234**
Premises and equipment costs		
Rental of premises	72,699,325	45,394,916
Electricity	8,650,038	7,010,684
Other premises and equipment costs	41,341,417	35,974,902
Bank One Limited	31,983,979	23,220,626
	154,674,759	**111,601,128**

11. OPERATING EXPENSES (CONTINUED)

(a) Group (continued)

	2010 KSHS	2009 KSHS
General administration expenses		
Deposit protection fund contribution	54,946,709	40,613,390
Loss on disposal of property and equipment	1,306,705	972,902
General administrative expenses	461,615,016	315,220,919
Bank One Limited	84,912,616	45,591,373
	602,781,046	**402,398,584**
Depreciation and amortisation		
Leasehold improvements	33,505,457	25,766,586
Fixtures, fittings and equipment	25,869,605	15,304,535
Computers	15,679,241	20,430,148
Motor vehicles	10,314,376	9,744,608
Property and equipment	19,964,974	19,238,705
Depreciation on property and equipment (Note 21)	105,333,652	90,484,581
Amortisation of intangible assets (Note 22(b))	46,494,806	47,857,555
Amortisation of prepaid operating lease rentals (Note 23)	1,967,383	1,627,217
Bank One Limited	44,056,401	30,633,906
	197,852,242	**170,603,261**

(b) Company

	2010 KSHS	2009 KSHS
Staff costs		
Salaries and wages	696,401,419	572,695,429
Contributions to defined contribution plan	21,548,143	18,172,264
Other staff costs	172,165,761	160,758,001
	890,115,323	**751,625,694**
Premises and equipment costs		
Rental of premises	61,980,319	45,394,916
Electricity	8,000,346	7,010,684
Other premises and equipment costs	41,009,787	35,974,902
	110,990,452	**88,380,502**
General administration expenses		
Deposit protection fund contribution	50,490,079	40,613,390
Loss on disposal of property and equipment	443,569	972,902
General administrative expenses	399,601,493	315,220,919
	450,535,141	**356,807,211**
Depreciation and amortisation		
Leasehold improvements	33,505,457	25,766,586
Fixtures, fittings and equipment	23,533,903	15,304,535
Computers	14,568,711	20,430,148
Motor vehicles	9,661,693	9,744,608
Property and equipment	19,964,974	19,238,705
Depreciation on property and equipment (Note 21)	101,234,738	90,484,582
Amortisation of intangible assets (Note 22(b))	46,200,669	47,857,555
Amortisation of prepaid operating lease rentals (Note 23)	1,967,383	1,627,217
	149,402,790	**139,969,354**

12. PROFIT BEFORE TAXATION

	2010 KSHS	2009 KSHS
Group		
Profit before income tax is arrived at after charging:		
Depreciation	105,333,652	90,484,582
Amortisation of intangible assets	46,494,805	47,857,555
Directors' emoluments: - Fees	7,973,030	4,370,000
- Other	13,610,400	12,720,000
Auditors' remuneration	7,716,754	3,239,056
Amortisation of prepaid operating lease rentals	1,967,383	1,627,217
Net profit on sale of property and equipment	(53,546)	(1,632,305)
Bank One Limited	48,520,347	33,709,396
Company		
Profit before income tax is arrived at after charging:		
Depreciation	101,234,738	90,484,582
Amortisation of intangible assets	46,200,669	47,857,555
Directors' emoluments: - Fees	6,730,000	4,370,000
- Other	13,610,400	12,720,000
Auditors' remuneration	5,220,000	3,239,056
Amortisation of prepaid operating lease rentals	1,967,383	1,627,217
Net profit on sale of property and equipment	(916,682)	(1,632,305)

13. INCOME TAX EXPENSE

	2010 KSHS	2009 KSHS
(a) Group		
Current year's tax	1,043,838,221	557,500,024
Under provision in prior year	3,584,497	2,698,826
	1,047,422,718	560,198,850
Deferred tax credit (Note 24)	(73,038,484)	(16,632,737)
Bank One Limited	27,529,693	3,852,650
	1,001,913,927	**547,418,763**

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

	2010 KSHS	2009 KSHS
Accounting profit before taxation	**3,526,481,475**	**1,794,833,817**
Computed tax using the applicable corporation tax rate at 30%	984,831,914	525,667,523
Under provision in the prior year	3,584,497	2,698,826
Effect on non-deductible costs	(14,032,177)	15,199,764
Bank One Limited	27,529,693	3,852,650
	1,001,913,927	**547,418,763**
(b) Company		
Current year's tax at 30%	953,094,715	557,500,024
Under provision in prior year	47,881	2,698,826
	953,142,596	560,198,850
Deferred tax credit (Note 24)	(66,061,009)	(16,632,737)
	887,081,587	**543,566,113**

13. INCOME TAX EXPENSE (CONTINUED)

(b) Company (continued)

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

	2010 KSHS	2009 KSHS
Accounting profit before taxation	3,004,482,447	1,752,225,075
Computed tax using the applicable corporation tax rate at 30%	901,344,734	525,667,523
Under provision in the prior year	47,881	2,698,826
Effect on non-deductible costs	(14,311,028)	15,199,764
	887,081,587	543,566,113

14. EARNINGS PER SHARE

	CONSOLIDATED		COMPANY	
	2010	2009	2010	2009
Net profit for the year (KShs)	2,524,567,548	1,247,415,054	2,117,400,860	1,208,658,962
Weighted average number of ordinary shares in issue during the year	26,360,646	23,581,082	26,360,646	23,581,082
Earnings per share (KShs)	95.77	52.90	80.32	51.26

There were no potentially dilutive shares outstanding at 31 December 2010 (2009 – Nil).

15. DIVIDEND PER SHARE

	2010 KSHS	2009 KSHS
The calculation of dividend per share is based on:		
Final dividend proposed during the year (KShs)	527,212,930	424,459,475
Weighted average number of ordinary shares in issue during the year	26,360,646	23,581,082
Final dividend per share (KShs)	20.00	18.00

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

16. CASH AND BALANCES WITH CENTRAL BANKS

(a) Group

	2010 KSHS	2009 KSHS
Cash on hand	613,610,992	348,537,269
Balances with Central Bank of Kenya:		
- Restricted balances (Cash Reserve Ratio)	2,606,084,718	1,481,395,140
- Unrestricted balances	843,386,182	983,952,960
Bank One Limited	1,415,742,955	636,479,306
	5,478,824,847	3,450,364,675

16. CASH AND BALANCES WITH CENTRAL BANKS (CONTINUED)

(b) Company

	2010 KSHS	2009 KSHS
Cash on hand	483,477,600	348,537,269
Balances with Central Bank of Kenya:		
- Restricted balances (Cash Reserve Ratio)	2,042,224,470	1,481,395,140
- Unrestricted balances	717,696,955	983,952,960
	3,243,399,025	**2,813,885,369**

The Bank's Cash Reserve Ratio is non-interest earning and is based on the value of deposits as adjusted for the Central Bank of Kenya requirements. As at 31 December 2010, the Cash Reserve Ratio requirement was 4.50% of all deposits (2009 – 4.50%). These funds are not available for use by the Bank in its day to day operations.

17. LOANS AND ADVANCES TO BANKS

	2010 KSHS	2009 KSHS
(a) Group		
Due within 90 days	2,287,874,544	2,002,069,451
Due after 90 days	13,665,002	-
Bank One Limited	3,794,271,624	2,536,125,526
	6,095,811,170	**4,538,194,977**
(b) Company		
Due within 90 days	**1,029,423,036**	**2,002,069,451**

The company's weighted average effective interest rate on loans and advances to banks at 31 December 2010 was 4.20% (2009 – 2.54%).

18. LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

	2010 KSHS	2009 KSHS
Group		
Overdrafts	16,807,697,553	11,000,568,746
Loans	22,256,164,563	12,897,279,276
Bills discounted	478,958,024	268,960,710
Hire purchase	1,437,767,261	1,208,654,918
Gross loans and advances	40,980,587,401	25,375,463,650
Less: Impairment losses on loans and advances	(1,235,281,378)	(783,963,784)
Net loans and advances	**39,745,306,023**	**24,591,499,866**
Repayable on demand	16,836,246,101	3,398,604,108
Less than 3 months	995,123,700	2,562,724,092
3 months to 1 year	2,462,250,700	7,990,542,992
1 to 5 years	15,132,025,754	8,785,183,466
5 to 10 years	4,731,555,209	2,170,825,246
Over 10 years	823,385,937	467,583,746
Gross loans and advances	**40,980,587,401**	**25,375,463,650**
Company and subsidiary	39,745,306,023	24,591,499,866
Bank One Limited	10,512,042,897	5,888,852,679
Consolidated	**50,257,348,920**	**30,480,352,545**

18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(a) Classification (continued)

	2010 KSHS	2009 KSHS
Company		
Overdrafts	14,746,825,900	11,000,568,746
Loans	20,195,338,012	12,897,279,276
Bills discounted	478,958,023	268,960,710
Hire purchase	1,437,767,261	1,208,654,918
Gross loans and advances	36,858,889,196	25,375,463,650
Less: Impairment losses on loans and advances	(1,216,374,210)	(783,963,784)
Net loans and advances	**35,642,514,986**	**24,591,499,866**
Repayable on demand	16,571,700,546	3,398,604,108
Less than 3 months	931,958,054	2,562,724,092
3 months to 1 year	1,541,280,131	7,990,542,992
1 to 5 years	12,259,009,319	8,785,183,466
5 to 10 years	4,731,555,209	2,170,825,246
Over 10 years	823,385,937	467,583,746
Gross loans and advances	**36,858,889,196**	**25,375,463,650**

(b) Impairment losses reserve

Group

2010	SPECIFIC IMPAIRMENT LOSSES KSHS	PORTFOLIO IMPAIRMENT PROVISION KSHS	TOTAL KSHS
At 1 January 2010	476,668,096	307,295,688	783,963,784
On acquisition of Subsidiary	918,832	-	918,832
Impairment made in the year	403,569,794	163,000,000	566,569,794
Recoveries and impairment no longer required	(95,916,493)	-	(95,916,493)
Amounts written off during the year	(20,254,538)	-	(20,254,538)
Company and Subsidiary	764,985,691	470,295,688	1,235,281,379
Bank One Limited	305,804,862	111,347,361	417,152,223
At 31 December 2010	**1,070,790,553**	**581,643,049**	**1,652,433,602**
2009			
At 1 January 2009	365,881,908	289,038,098	654,920,006
Impairment made in the year	310,365,389	18,257,590	328,622,979
Recoveries and impairment no longer required	(174,591,217)	-	(174,591,217)
Amounts written off during the year	(24,987,984)	-	(24,987,984)
Company	476,668,096	307,295,688	783,963,784
Bank One Limited	348,395,795	72,534,626	420,930,421
At 31 December 2009	**825,063,891**	**379,830,314**	**1,204,894,205**

18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Impairment losses reserve (continued)

Company 2010	SPECIFIC IMPAIRMENT LOSSES KSHS	PORTFOLIO IMPAIRMENT PROVISION KSHS	TOTAL KSHS
At 1 January 2010	476,668,096	307,295,688	783,963,784
Impairment made in the year	385,282,868	163,000,000	548,282,868
Recoveries and impairment no longer required	(95,617,904)	-	(95,617,904)
Amounts written off during the year	(20,254,538)	-	(20,254,538)
At 31 December 2010	**746,078,522**	**470,295,688**	**1,216,374,210**
2009			
At 1 January 2009	365,881,908	289,038,098	654,920,006
Impairment made in the year	310,365,389	18,257,590	328,622,979
Recoveries and impairment no longer required	(174,591,217)	-	(174,591,217)
Amounts written off during the year	(24,987,984)	-	(24,987,984)
At 31 December 2009	**476,668,096**	**307,295,688**	**783,963,784**

(c) Impairment losses on loans and advances

Group	2010 KSHS	2009 KSHS
Impairment made in the year	566,569,794	328,622,978
Recoveries and impairment no longer required	(95,916,493)	(174,591,217)
Recoveries of loans and advances written off in prior years	(105,133,575)	(47,687,681)
Amounts (written off) / written back during the year	(22,756,891)	10,994,674
Company and Subsidiary	342,762,835	117,338,754
Bank One Limited	(42,448,820)	(10,774,531)
Consolidated	**300,314,015**	**106,564,223**
Company		
Impairment made in the year	548,282,868	328,622,978
Recoveries and impairment no longer required	(95,617,904)	(174,591,217)
Recoveries of loans and advances written off in prior years	(99,625,647)	(47,687,681)
Amounts (written off) / written back during the year	(22,756,891)	10,994,674
	330,282,426	**117,338,754**

18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) Non-performing loans and advances - Company

The company's loans and advances include an amount of KShs 438,325,372 (2009 – KShs 596,531,264) net of impairment losses which are non-performing. The estimated realisable value of securities held against this balance is KShs 434,562,555 (2009 – KShs 767,345,681).

	2010 KSHS	2009 KSHS
Interest on impaired loans and advances which has not yet been received in cash	**253,736,413**	**222,931,682**

The company's weighted average effective interest rate on loans and advances to customers at 31 December 2010 was 11.59% (2009 – 12.45%).

(e) Loans and advances concentration by sector - Company

	2010 KSHS	%	2009 KSHS	%
Manufacturing	8,607,054,615	23.35	5,667,487,757	22.33
Wholesale and retail trade	2,962,950,692	8.04	2,547,804,800	10.04
Building and construction	3,227,567,553	8.76	3,363,103,996	13.25
Agriculture	1,936,231,309	5.25	1,858,788,837	7.33
Real estate	8,164,463,688	22.15	4,161,623,358	16.40
Transport and communication	2,171,247,726	5.89	2,177,639,793	8.58
Business services	8,320,727,356	22.57	4,654,791,085	18.34
Electricity and water	125,559,137	0.34	125,818,215	0.50
Finance and insurance	30,637,921	0.08	435,746,300	1.72
Mining and quarrying	124,137,576	0.34	19,337,575	0.08
Others	1,188,311,623	3.22	363,321,934	1.43
	36,858,889,196	**100.00**	**25,375,463,650**	**100.00**

(f) Finance leases - Company

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

	2010 KSHS	2009 KSHS
Receivable no later than 1 year	185,251,326	186,856,515
Receivable later than 1 year and no later than 5 years	1,252,515,935	1,020,258,210
	1,437,767,261	**1,207,114,725**

19. INVESTMENT SECURITIES

(a) Group

	2010 KSHS	2009 KSHS
Available-for-sale		
Medium term notes	136,353,699	137,033,707
Corporate bonds available-for-sale	1,006,625,080	905,452,830
Treasury bonds - available-for-sale	9,869,683,566	6,521,180,450
Total available-for-sale	11,012,662,345	7,563,666,987
Held-to-maturity		
Treasury bonds	7,781,499,894	3,776,197,970
Other investment securities	125,746,212	-
Total held to maturity	7,907,246,106	3,776,197,970
Total investment securities, Company and subsidiary	**18,919,908,451**	**11,339,864,957**
Bank One Limited	1,867,523,812	1,138,532,580
Consolidated	**20,787,432,263**	**12,478,397,537**

19. INVESTMENT SECURITIES (CONTINUED)

	2010 KSHS	2009 KSHS
(b) Company		
Available-for-sale		
Medium term notes	136,353,699	137,033,707
Corporate bonds available-for-sale	1,006,625,080	905,452,830
Treasury bonds - available-for-sale	9,869,683,566	6,521,180,450
Total available-for-sale	11,012,662,345	7,563,666,987
Held-to-maturity		
Treasury bonds	6,750,069,013	3,776,197,970
Treasury bills	156,864,550	-
Total held to maturity	6,906,933,563	3,776,197,970
Total investment securities	**17,919,595,908**	**11,339,864,957**

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

	TREASURY BONDS AND BILLS KSHS	CORPORATE BOND KSHS	COMMERCIAL PAPER KSHS	SHORT TERM FLOATING NOTES KSHS	MEDIUM TERM FLOATING NOTES KSHS	TOTAL KSHS
31 December 2010:						
At 1 January	10,297,378,422	905,452,830	-	-	137,033,705	11,339,864,957
Additions	12,178,250,000	200,000,000	-	-	-	12,378,250,000
Disposals and maturities	(7,594,591,344)	(148,581,354)	-	-	(2,033,705)	(7,745,206,403)
Changes in fair value	1,455,038,287	31,241,240	-	-	-	1,486,279,527
Amortisation of discounts and premiums	(92,975,496)	(274,315)	-	-	-	(93,249,811)
Unearned interest	476,131,561	-	-	-	-	476,131,561
Interest receivable	57,385,700	18,786,678	-	-	1,353,699	77,526,077
At 31 December	**16,776,617,130**	**1,006,625,080**	**-**	**-**	**136,353,699**	**17,919,595,908**
31 December 2009:						
At 1 January	4,779,494,037	-	-	77,947,405	137,190,329	4,994,631,771
Additions	6,561,441,210	917,100,000	-	-	-	7,478,541,210
Disposals and maturities	(1,000,750,000)	-	-	(77,947,405)	(2,190,329)	(1,080,887,734)
Changes in fair value	12,518,674	(30,228,523)	-	-	-	(17,709,849)
Amortisation of discounts and premiums	38,537,880	(263,168)	-	-	-	38,274,712
Unearned interest	(191,720,228)	-	-	-	-	(191,720,228)
Interest receivable	97,856,849	18,844,521	-	-	2,033,705	118,735,075
At 31 December	**10,297,378,422**	**905,452,830**	**-**	**-**	**137,033,705**	**11,339,864,957**

The weighted average effective interest rate on Government securities at 31 December 2010 was 9.71% (2009 – 11.38%).

The weighted average effective interest rate on corporate bonds at 31 December 2010 was 12.02% (2009 – 12.50%).

The weighted average effective interest rate on medium floating term notes at 31 December 2010 was 6.90% (2009 – 8.55%).

At 31 December 2010, unamortized premiums on investment securities amounted to KShs 703,037,305 (2009 – KShs 55,754,263) and unamortized discounts amounted to KShs 287,375,209 (2009 – KShs 241,893,107).

20. INVESTMENT IN SUBSIDIARY AND JOINT VENTURES

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

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

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

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

	2010 KSHS	2009 KSHS	2008 KSHS	TOTAL KSHS
Cash and balances with Central Bank	121,066,263	15,896,697	632,423,713	769,386,673
Loans and advances to banks	310,651,975	63,342,232	169,608,787	543,602,994
Loans and advances to customers	1,427,230,443	147,079,894	1,363,865,911	2,938,176,248
Investments securities	240,417,032	28,435,972	1,962,872,632	2,231,725,636
Intangible asset	10,084,305	1,251,129	705,021	12,040,455
Property and equipment	69,896,589	8,584,609	324,972,522	403,453,720
Deferred tax asset	14,745,261	1,809,697	80,182,527	96,737,485
Other assets	30,783,669	9,722,596	339,991,533	380,497,798
Deposits	(1,996,275,968)	(248,764,375)	(4,184,132,766)	(6,429,173,109)
Other liabilities	(51,218,504)	(5,822,272)	(122,906,165)	(179,946,941)
Borrowings	(38,236,963)	(4,686,299)	(15,322,569)	(58,245,831)
Tax payable	-	(14,013)	-	(14,013)
Net identifiable assets and liabilities	**139,144,103**	**16,835,867**	**552,261,146**	**708,241,119**
Goodwill on acquisition [Note 22(a)]	184,095,897	(2,506,460)	293,816,214	475,405,651
Total consideration	**323,240,000**	**14,329,407**	**846,077,360**	**1,183,646,767**
Rights issue*	-	61,890,843	-	61,890,843
	323,240,000	**76,220,250**	**846,077,360**	**1,245,537,610**
Consideration paid in cash (Company cash flow*)	(323,240,000)	(76,220,250)	(437,647,960)	(837,108,210)
Balance payable included under other liabilities	**-**	**-**	**408,429,400**	**408,429,400**
Cash acquired	431,718,238	79,238,929	554,228,806	1,065,185,973
Consideration paid in cash (excluding rights issue)	(323,240,000)	(14,329,407)	(437,647,960)	(775,217,367)
Net cash inflow (consolidated cash flow)	**108,478,238**	**64,909,522**	**116,580,846**	**289,968,606**

20. INVESTMENT IN SUBSIDIARY AND JOINT VENTURES (CONTINUED)

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

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

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

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

	2010 KSHS
Cash and balances with Central Bank	805,766,361
Loans and advances to banks	766,296,211
Loans and advances to customers	2,449,576,215
Investments securities	475,853,900
Intangible asset	1,288,758
Property and equipment	25,524,670
Deferred tax asset	(3,132,995)
Other assets	16,297,016
Deposits	(3,910,384,240)
Other liabilities	(136,111,021)
Borrowings	-
Tax payable	(2,641,588)
Net identifiable assets and liabilities	**488,333,286**
Non controlling interest	(219,603,475)
Attributable to company	268,729,811
Goodwill on acquisition (Note 22(a))	608,952,549
Total consideration	**877,682,360**
Consideration paid in cash	(877,682,360)
Balance payable included under other liabilities	-
Cash acquired	1,572,062,572
Consideration paid in cash	(877,682,360)
Net cash inflow (consolidated cash flow)	**694,380,212**
Investment in subsidiary at cost	
Consideration paid on acqusition	877,682,360
Cash paid on rights issue	245,229,000
Total cash paid (Company cash flow)	**1,122,911,360**

21. PROPERTY AND EQUIPMENT- GROUP AND COMPANY

(a) Group

2010:	LEASEHOLD BUILDINGS KSHS	LEASEHOLD IMPROVEMENTS KSHS	FURNITURE, FITTINGS, FIXTURES & OFFICE, EQUIPMENT KSHS	COMPUTERS KSHS	MOTOR VEHICLES KSHS	CAPITAL WORK IN PROGRESS KSHS	TOTAL KSHS
Cost/valuation							
At 1 January 2010	950,000,000	282,396,430	217,239,579	174,432,507	44,878,033	28,374,650	1,697,321,199
Acquisition of Subsidiary	-	-	15,505,142	22,482,748	3,677,245	-	41,665,135
Additions	-	25,897,010	43,839,603	13,319,502	3,114,945	119,550,466	205,721,526
Reclassification	-	(2,414,811)	36,820,412	(41,767,051)	-	-	(7,361,450)
Transfers	-	67,638,231	28,862,652	845,120	-	(97,346,003)	-
Disposals/write off	-	-	(2,099,372)	(1,424,943)	(1,429,324)	-	(4,953,639)
Translation difference	-	-	(747,815)	(1,084,345)	(177,354)	-	(2,009,514)
At 31 December 2010	950,000,000	373,516,860	339,420,201	166,803,538	50,063,545	50,579,113	1,930,383,257
Depreciation							
At 1 January 2010	14,973,730	167,806,790	147,264,100	155,659,213	25,620,174	-	511,324,007
Acquisition of Subsidiary	-	-	5,882,650	8,945,791	1,311,972	-	16,140,413
Reclassification	-	7,858,235	25,331,572	(40,372,094)	-	-	(7,182,287)
Charge for the year	19,964,974	33,453,456	24,746,556	16,854,297	10,314,376	-	105,333,659
On disposals	-	-	(1,465,177)	(805,165)	(1,369,099)	-	(3,639,441)
Translation difference	-	-	(312,420)	(487,937)	(79,404)	-	(879,761)
At 31 December 2010	34,938,704	209,118,481	201,447,281	139,794,105	35,798,019	-	621,096,590
Net book value							
- Company	915,061,296	164,398,379	137,972,920	27,009,433	14,265,526	50,579,113	1,309,286,667
- Bank One Limited	331,449,892	-	56,865,038	36,765,449	-	-	425,080,379
At 31 December 2010 Consolidated	**1,246,511,188**	**164,398,379**	**194,837,958**	**63,774,882**	**14,265,526**	**50,579,113**	**1,734,367,046**

21. PROPERTY AND EQUIPMENT (CONTINUED)

(a) Group (continued)

2009:	LEASEHOLD BUILDINGS KSHS	LEASEHOLD IMPROVEMENTS KSHS	FURNITURE, FITTINGS, FIXTURES & OFFICE, EQUIPMENT KSHS	COMPUTERS KSHS	MOTOR VEHICLES KSHS	CAPITAL WORK IN PROGRESS KSHS	TOTAL KSHS
Cost/valuation							
At 1 January 2009	852,994,966	266,328,439	197,697,067	169,752,765	34,661,533	1,405,843	1,522,840,613
Additions	-	5,239,592	19,256,070	9,115,219	17,024,000	41,004,771	91,639,652
Reclassification	-	(165,425)	109,272	56,153	-	-	-
Transfers	-	10,993,824	2,630,570	411,570	-	(14,035,964)	-
Disposals	-	-	(2,453,400)	(4,903,200)	(6,807,500)	-	(14,164,100)
Surplus on revaluation	97,005,034	-	-	-	-	-	97,005,034
At 31 December 2009	950,000,000	282,396,430	217,239,579	174,432,507	44,878,033	28,374,650	1,697,321,199
Depreciation							
At 1 January 2009	36,963,115	142,040,204	132,809,741	140,002,286	22,683,066	-	474,498,412
Charge for the year	19,238,705	25,766,586	15,304,534	20,430,148	9,744,608	-	90,484,581
On disposals	-	-	(850,175)	(4,773,221)	(6,807,500)	-	(12,430,896)
Reversal on revaluation	(41,228,090)	-	-	-	-	-	(41,228,090)
At 31 December 2009	14,973,730	167,806,790	147,264,100	155,659,213	25,620,174	-	511,324,007
Net book value							
At 31 December 2009							
- Company	935,026,270	114,589,640	69,975,479	18,773,294	19,257,859	28,374,650	1,185,997,192
- Bank One Limited	268,879,925	-	38,394,757	37,140,219	-	-	344,414,901
Consolidated	**1,203,906,195**	**114,589,640**	**108,370,236**	**55,913,513**	**19,257,859**	**28,374,650**	**1,530,412,093**

21. PROPERTY AND EQUIPMENT (CONTINUED)

(b) Company

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

21. PROPERTY AND EQUIPMENT (CONTINUED)

(b) Company (continued)

2009:	LEASEHOLD BUILDINGS KSHS	LEASEHOLD IMPROVEMENTS KSHS	FURNITURE, FITTINGS, FIXTURES & OFFICE EQUIPMENT KSHS	COMPUTERS KSHS	MOTOR VEHICLES KSHS	CAPITAL WORK IN PROGRESS KSHS	TOTAL KSHS
Cost/valuation							
Cost/valuation							
At 1 January 2009	852,994,966	266,328,439	197,697,067	169,752,765	34,661,533	1,405,843	1,522,840,613
Additions	-	5,239,592	19,256,070	9,115,219	17,024,000	41,004,771	91,639,652
Reclassification	-	(165,425)	109,272	56,153	-	-	-
Transfers	-	10,993,824	2,630,570	411,570	-	(14,035,964)	-
Disposals	-	-	(2,453,400)	(4,903,200)	(6,807,500)	-	(14,164,100)
Surplus on revaluation	97,005,034	-	-	-	-	-	97,005,034
At 31 December 2009	950,000,000	282,396,430	217,239,579	174,432,507	44,878,033	28,374,650	1,697,321,199
Depreciation							
At 1 January 2009	36,963,115	142,040,204	132,809,741	140,002,286	22,683,066	-	474,498,412
Charge for the year	19,238,705	25,766,586	15,304,534	20,430,148	9,744,608	-	90,484,581
On disposals	-	-	(850,175)	(4,773,221)	(6,807,500)	-	(12,430,896)
Reversal on revaluation	(41,228,090)	-	-	-	-	-	(41,228,090)
At 31 December 2009	14,973,730	167,806,790	147,264,100	155,659,213	25,620,174	-	511,324,007
Net book value							
At 31 December 2009	**935,026,270**	**114,589,640**	**69,975,479**	**18,773,294**	**19,257,859**	**28,374,650**	**1,185,997,192**

In the opinion of the directors, there is no impairment of property and equipment. Included in the property and equipment are assets with a gross value of KShs 574,079,754 (2009 – KShs 352,915,104) which are fully depreciated but still in use. If depreciation had been charged during the year on the cost of these assets at a nominal rate, it would have amounted to KShs 73,705,981 (2009 – KShs 56,128,872).

22. INTANGIBLE ASSETS

(a) Goodwill	2010 KSHS	2009 KSHS
Group		
At 1 January	302,056,752	304,563,212
On acquisition during the year:		
- Bank One Limited (Note 20(a))	184,095,897	(2,506,460)
- I&M Bank (T) Limited (Note 20(b))	608,952,549	-
- Total, Company and subsidiary	1,095,105,198	302,056,752
- Bank One Limited	19,988,739	15,914,985
Carrying amount at 31 December	**1,115,093,937**	**317,971,737**
Company		
Goodwill on assets purchased from Biashara Bank of Kenya Limited	15,632,000	15,632,000
Amortisation		
At 1 January and 31 December	(4,885,002)	(4,885,002)
Carrying amount at 31 December	**10,746,998**	**10,746,998**

(b) Computer software	2010 KSHS	2009 KSHS
Group		
Cost		
At 1 January of previously stated	218,491,207	185,452,018
Acquisition of subsidiary	5,539,817	-
Reclassified from property and equipment	7,361,451	-
Additions	11,142,980	33,039,189
Disposals	(205,469)	-
Exchange differences	(267,186)	-
At 31 December	242,062,800	218,491,207
Amortisation		
At 1 January of previously stated	166,088,646	118,231,091
Acquisition of subsidiary	4,251,056	-
Reclassified from property and equipment	7,182,287	-
Amortisation for the year	46,494,805	47,857,555
Exchange differences	(212,297)	-
	223,804,497	166,088,646
At 31 December –Company and subsidiary	18,258,303	52,402,561
Bank One Limited	40,915,747	34,178,289
Net carrying amount at 31 December	**59,174,050**	**86,580,850**

22. INTANGIBLE ASSETS (CONTINUED)

(b) Computer software - continued

Company	2010 KSHS	2009 KSHS
	Cost	
At 1 January of previously stated	218,491,207	185,452,018
Reclassified from property and equipment	7,361,451	-
Additions	10,516,529	33,039,189
At 31 December	236,369,187	218,491,207
Amortisation		
At 1 January of previously stated	166,088,646	118,231,091
Transfer from property and equipment	7,182,287	-
Amortisation for the year	46,200,671	47,857,555
At 31 December	219,471,604	166,088,646
Net carrying amount at 31 December	**16,897,583**	**52,402,561**

The company's assets with a gross value of KShs 196,192,974 (2009 – KShs 77,733,847) are fully amortised but still in use. In the opinion of the directors, there was no impairment of goodwill during the year.

23. PREPAID OPERATING LEASE RENTALS

	2010 KSHS	2009 KSHS
Group and Company		
Cost		
At 1 January and 31 December	143,005,034	112,005,034
Additions	4,110,438	31,000,000
At 31 December	147,115,472	143,005,034
Amortisation		
At 1 January	5,553,392	3,926,175
Charge for the year	1,967,383	1,627,217
At 31 December	7,520,775	5,553,392
Net carrying amount at 31 December	**139,594,697**	**137,451,642**

24. DEFERRED TAX ASSET

Deferred tax assets at 31 December 2010 and 31 December 2009 are attributable to the following:

(a) Group **2010:**	BALANCE AT 1 JANUARY KSHS	ACQUISITION OF SUSBSIDIARY KSH	RECOGNISED IN INCOME STATEMENT KSHS	BALANCE AT 31 DECEMBER KSHS
Company	164,652,751	-	66,061,009	230,713,760
Subsidiary	-	(3,154,310)	6,977,475	3,823,165
Bank One Limited	72,457,469	-	(7,186,260)	65,271,209
	237,110,220	**(3,154,310)**	**65,852,224**	**299,808,134**

24. DEFERRED TAX ASSET (CONTINUED)

(a) Group - continued

2009:	BALANCE AT 1 JANUARY KSHS	RECOGNISED IN INCOME STATEMENT KSHS	BALANCE AT 31 DECEMBER KSHS
Company	148,020,014	16,632,737	164,652,751
Bank One Limited	71,713,572	743,897	72,457,469
	219,733,586	**17,376,634**	**237,110,220**

(b) Company

2010:	BALANCE AT 1 JANUARY KSHS	RECOGNISED IN INCOME STATEMENT KSHS	BALANCE AT 31 DECEMBER KSHS
Plant and equipment	22,950,851	9,187,054	32,137,905
General provisions	111,589,763	48,900,000	160,489,763
Other provisions	30,112,137	7,973,955	38,086,092
	164,652,751	**66,061,009**	**230,713,760**

2009:	BALANCE AT 1 JANUARY KSHS	RECOGNISED IN INCOME STATEMENT KSHS	BALANCE AT 31 DECEMBER KSHS
Plant and equipment	19,402,997	3,547,854	22,950,851
General provisions	106,112,487	5,477,276	111,589,763
Other provisions	22,504,530	7,607,607	30,112,137
	148,020,014	**16,632,737**	**164,652,751**

25. OTHER ASSETS

	2010 KSHS	2009 KSHS
(a) Group		
Items in transit	313,363,995	285,526,355
Rent receivable	4,095,497	3,639,715
Prepayments	227,181,829	294,671,304
Other receivables	172,043,621	171,708,193
Bank One Limited	198,013,483	389,277,781
	914,698,425	**1,144,823,348**
(b) Company		
Items in transit	304,839,884	285,526,355
Rent receivable	4,095,497	3,639,715
Prepayments	213,321,837	294,671,304
Other receivables	166,510,372	171,708,193
	688,767,590	**755,545,567**

26. DEPOSITS FROM BANKS

	2010 KSHS	2009 KSHS
(a) Group		
Payable within one year		
Company and subsidiary	1,393,755,221	221,804,747
Bank One Limited	-	-
	1,393,755,221	**221,804,747**
(b) Company		
Payable within one year	**932,454,803**	**221,804,747**

The company's weighted average effective interest rate on deposits from other banks and banking institutions at 31 December 2010 was 3.32% (2009 – 5.03%).

27. DEPOSITS FROM CUSTOMERS

	2010 KSHS	2009 KSHS
(a) Group		
Government and Parastatals	95,604,219	89,876,928
Private sector and individuals	51,487,102,598	34,709,127,835
Company and Subsidiary	51,582,706,817	34,799,004,763
Bank One Limited	16,625,721,503	9,960,142,841
	68,208,428,320	**44,759,147,604**
(b) Company		
Government and Parastatals	95,604,219	89,876,928
Private sector and individuals	45,899,357,035	34,709,127,835
	45,994,961,254	**34,799,004,763**

The company's weighted average effective interest rate on interest bearing deposits from customers at 31 December 2010 was 5.28% (2009 – 7.78%).

28. OTHER LIABILITIES

	2010 KSHS	2009 KSHS
(a) Group		
Bankers cheques payable	160,261,178	177,461,482
Accruals	223,012,152	146,861,427
Other accounts payables	211,186,267	131,048,455
Bank One Limited	345,547,712	233,114,820
	940,007,309	**688,486,184**
(b) Company		
Bankers cheques payable	117,433,531	177,461,482
Accruals	193,653,599	146,861,427
Other accounts payables	206,379,560	131,048,455
	517,466,690	**455,371,364**

Included in other liabilities is an amount relating to customer loyalty programme amounting to KShs 1,947,179 (2009 – KShs 995,118). The policy is to redeem the customer points at the point of annual renewal of the credit card. The minimum redemption points are 200. A customer earns 1 point for every KShs. 500 transaction.

29. LONG TERM BORROWINGS

	2010 KSHS	2009 KSHS
(a) Group		
Less than one year	143,707,873	167,704,016
One to five years	1,628,224,420	946,211,079
Bank One Limited	371,317,837	187,632,201
	2,143,250,130	1,301,547,296
(b) Company		
Less than one year	143,707,872	167,704,016
One to five years	1,628,224,420	946,211,079
	1,771,932,292	**1,113,915,095**

During the year, an additional long term borrowing agreement in the amount of USD 25mn was entered into with FMO (Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.). As at the year end, the Bank had drawn down an amount of USD 10mn with the balance of USD 15mn projected to be drawn down in early 2011.

The Company's long term borrowings constituted the following;

i USD 3,000,000 facility granted on 17th June, 2005 by the International Finance Corporation repayable semi annually over six years.
ii USD 1,250,000 facility granted on 5th August 2004 by PROPARCO repayable semi annually over six years .
iii USD 5,500,000 facility granted on 12th November 2008 by PROPARCO repayable quarterly over five years .
iv EUR 1,000,000 facility granted on 12th November 2008 by PROPARCO repayable quarterly over five years .
v USD 25,000,000 facility granted on 24th November 2010 by FMO repayable over seven years after an initial one year two months grace period.
vi KSHS 600,000,000 subordinated unsecured Floating Rate Notes issued on 12th June 2008 with a tenor of 7 years from the issue date. Each note shall be redeemed in four equal instalments on 2nd January 2014, 2nd July 2014, 2nd January 2015 and 11th June 2015.

The company's average effective interest rate on foreign currency long term borrowings was 3.15% (2009-3.75%)

The company's average effective interest rate on the unsecured Floating Rate Notes was 7.85% (2009-10.08%)

30. SHARE CAPITAL AND RESERVES

(a) Share capital

	2010 KSHS	2009 KSHS
Authorised		
30,000,000 Ordinary shares of KShs 100 each	**3,000,000,000**	**3,000,000,000**
Issued and fully paid		
At 1 January 26,135,608 (2009-23,240,000) Ordinary shares of KShs 100 each	2,613,560,800	2,324,000,000
2,566,845 (2009 – 2,895,608) new shares of KShs 100 each issued at a premium of KShs 835 each (2009 – KShs 350)	256,684,500	289,560,800
At 31 December 28,702,453 (2009 - 26,135,608) ordinary shares of KShs 100 each	**2,870,245,300**	**2,613,560,800**

(b) Additional capital injection

On 30 November 2010, I&M issued 2,566,845 ordinary shares of KShs 100 at a premium of KShs 835 per share, thus increasing the issued and paid up share capital to KShs 2,870,245,300.

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

(c) Major Shareholders

The major shareholders at 31 December 2010 and 2009 were as follows:

2010:	NUMBER OF SHARES	%
1. Biashara Securities Ltd	4,008,740	13.97%
2. Ziyungi Limited	4,000,000	13.94%
3. Tecoma Limited	4,000,000	13.94%
4. Minard Holdings Limited	4,484,259	15.62%
5. City Trust Limited	2,097,458	7.31%
6. Proparco	2,575,000	8.97%
7. DEG	3,100,000	10.80%
8. Others	4,436,996	15.46%
	28,702,453	**100.00%**

30. SHARE CAPITAL AND RESERVES (CONTINUED)

(c) Major Shareholders (continued)

2009:

		NUMBER OF SHARES	%
1.	Biashara Securities Ltd	4,008,740	15.34%
2.	Ziyungi Limited	2,993,192	11.45%
3.	Tecoma Limited	2,993,192	11.45%
4.	Minard Holdings Limited	3,472,638	13.29%
5.	Mnana Limited	2,993,192	11.45%
6.	City Trust Limited	2,075,458	7.94%
7.	Proparco	2,575,000	9.85%
8.	DEG	3,100,000	11.86%
9.	Others	1,924,196	7.36%
		26,135,608	**100.00%**

The distribution of shareholders as at 31 December 2010 and 2009 was as follows:

	2010			2009		
SHARE RANGE	NUMBER OF SHAREHOLDERS	SHARES HELD	%	NUMBER OF SHAREHOLDERS	SHARES HELD	%
Less than 1m shares	85	4,436,996	15.46	3	1,924,196	7.36
>1m -2m	-	-	-	-	-	-
>2m -3m	2	4,672,458	16.28	5	13,630,034	52.15
>3m	5	19,592,999	68.26	3	10,581,378	40.49
TOTAL	**92**	**28,702,453**	**100**	**11**	**26,135,608**	**100**

(d) Share premium

	2010 KSHS	2009 KSHS
At 1 January	1,565,278,143	554,495,446
Share premium arising from issue of shares at a premium	2,143,315,575	1,013,462,800
Expenses incurred in issuance of share capital	(18,378,723)	(2,680,103)
At 31 December	**3,690,214,995**	**1,565,278,143**

The share premium arose from issuance of 2,566,845 ordinary shares of par value KShs 100 at a premium of KShs 835 per share.

(e) Revaluation reserve

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

(f) Statutory reserve

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

(g) Translation reserve

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

(h) Available-for-sale reserve

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

31. NOTES TO THE CASH FLOW STATEMENT

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

	CONSOLIDATED 2010 KSHS	CONSOLIDATED 2009 KSHS
Profit before income tax	3,526,481,475	1,794,833,817
Adjustments for:		
Depreciation	105,333,652	118,852,488
Amortisation of intangible asset	46,487,539	51,455,159
Amortisation of prepaid operating lease rentals	1,967,383	1,627,217
Profit on sale of property and equipment	(53,546)	(2,508,591)
Profit on sale of available for sale securities	(665,923,847)	-
Exchange reserves	3,491,947	9,500,053
	3,017,784,603	1,973,760,143
Increase in operating assets		
Movement in loans and advances to customers	(15,900,189,716)	(557,906,290)
Investment in securities	(14,558,715,812)	(6,523,541,528)
Cash and balances with Central Banks:		
– Cash Reserve Ratio (CRR)	(1,124,689,578)	136,522,037
Other assets	277,205,607	(261,982,432)
	(31,306,389,499)	(7,206,908,213)
Increase in operating liabilities		
Customer deposits	17,542,620,507	10,089,636,287
Other liabilities	64,191,600	(273,548,406)
	17,606,812,107	9,816,087,881
Cash flows from operating activities	**(10,681,792,789)**	**4,582,939,811**
Tax paid	(677,119,356)	(632,517,496)
Net cash flows from operating activities	**(11,358,912,145)**	**3,950,422,315**

(b) Analyses of cash and cash equivalents – Consolidated

	2010 KSHS	2009 KSHS	CHANGE IN THE YEAR KSHS
Cash and balances with Central Banks – excluding CRR	2,872,740,129	1,968,969,535	903,770,594
Deposits and balances due from banking institutions	6,095,811,170	4,538,194,977	1,557,616,193
Deposits and balances due to banking institutions	(1,393,755,221)	(221,804,747)	(1,171,950,474)
	7,574,796,078	**6,285,359,765**	**1,289,436,313**

31. NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

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

	COMPANY 2010 KSHS	COMPANY 2009 KSHS
Profit before income tax	3,004,482,447	1,752,225,075
Adjustments for:		
Depreciation	101,234,738	90,484,581
Amortisation of intangible asset	46,200,671	47,857,555
Amortisation of prepaid operating lease rentals	1,967,383	1,627,217
Profit on sale of property and equipment	(916,682)	(1,632,305)
Profit on sale of Available for sale securities	(665,923,847)	-
	2,487,044,710	1,890,562,123
Increase in operating assets		
Movement in loans and advances to customers	(11,051,015,120)	1,295,393,237
Investment in securities	(13,537,684,285)	(6,440,890,439)
Cash and balances with Central Bank of Kenya:		
– Cash Reserve Ratio (CRR)	(560,829,330)	(89,104,790)
Other assets	66,777,976	(235,849,492)
	(25,082,750,759)	(5,470,451,484)
Increase in operating liabilities		
Customer deposits	11,195,956,491	6,444,348,099
Other liabilities	62,095,327	(360,980,052)
	11,258,051,818	6,083,368,047
Cash flows from operating activities	**(11,337,654,231)**	**2,503,478,686**
Tax paid	(580,543,229)	(628,512,761)
Net cash flows from operating activities	**(11,918,197,460)**	**1,874,965,925**

(d) Analyses of cash and cash equivalents – Company

	2010 KSHS	2009 KSHS	CHANGE DURING THE YEAR KSHS
Cash and balances with Central Bank of Kenya – excluding CRR (Note 16)	1,201,174,555	1,332,490,229	(131,315,674)
Deposits and balances due from banking institutions	1,029,423,035	2,002,069,451	(972,646,416)
Deposits and balances due to banking institutions	(932,454,803)	(221,804,747)	(710,650,056)
	1,298,142,787	**3,112,754,933**	**1,814,612,146**

32. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS

(a) Legal proceedings - Company

There were a number of legal proceedings outstanding against the Bank at 31 December 2010. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

(b) Contractual off-balance sheet financial investments

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

	2010 KSHS	2009 KSHS
Contingencies related to:		
Letters of credit	4,962,763,832	3,198,260,244
Guarantees - Advances	5,559,155,238	6,057,088,324
- Central Bank of Kenya	56,150,026	90,984,000
Acceptances	3,703,356,912	3,344,940,177
Bills for collection	1,436,275,957	1,105,544,630
Company and Subsidiary	15,717,701,965	13,796,817,375
Bank One Limited	1,786,643,782	755,425,512
Consolidated	**17,504,345,747**	**14,552,242,887**
Commitments related to:		
Outstanding spot/forward contracts		
Company and Subsidiary	6,049,800,897	4,619,162,910
Bank One Limited	1,225,198,691	948,231,345
Consolidated	**7,274,999,588**	**5,567,394,255**

(c) Nature of contingent liabilities

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

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

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

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

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

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

33. ASSETS PLEDGED AS SECURITY - COMPANY

As at 31 December 2010, Treasury Bonds with a face value of KShs 1,255,000,000 (2009 – KShs 1,084,000,000) were held under lien in favour of the Central Bank of Kenya.

34. RELATED PARTY TRANSACTIONS - COMPANY

(a) Transactions with directors/shareholders

	2010 KSHS	2009 KSHS
Loans to related parties	364,660,603	80,036,913

The related interest income for loans was KShs 41,002,895 (2009 – KShs 17,324,905).

(b) Transactions with related companies

	2010 KSHS	2009 KSHS
Guarantees to associate companies	79,430,900	14,549,800

The fee income earned was KShs 1,202,054 (2009 – KShs 123,796).

Deposits from related companies	171,640,733	534,407,555

Interest expense on deposits from related companies was KShs 1,928,338 (2009 – KShs 8,572,223).

(c) Transactions with employees

	2010 KSHS	2009 KSHS
Staff loans	154,122,865	144,994,154

Interest earned on these loans was KShs 9,385,891 (2009 – KShs 8,636,474).

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

35. CAPITAL COMMITMENTS

	2010 KSHS	2009 KSHS
Company and subsidiary	68,839,732	108,725,114
Bank One Limited	-	-
Consolidated	68,839,732	108,725,114

36. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES - COMPANY

(a) Lessee

The Bank leases fifteen bank premises under operating leases. The leases typically run for an initial period of six years with an option to renew the lease after that date. None of the leases include contingent rentals. During the year KShs 61,980,319. (2009 – KShs 45,394,916) was charged to the income statement in respect of operating leases.

Future minimum lease payments under these operating leases are as follows:

	2010 KSHS	2009 KSHS
Less than one year	60,589,070	41,028,308
One to five years	210,810,238	133,473,165
Over five years	61,671,417	25,368,155
	333,070,725	**199,869,628**

(b) Lessor

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

	2010 KSHS	2009 KSHS
Less than one year	61,347,708	72,150,879
One to five years	239,261,291	332,004,235
Over five year	41,363,080	-
	341,972,079	**404,155,114**

During the year, KShs 65,575,986 (2009 – KShs 63,403,787) was recognized as rental income in the income statement in respect of operating leases. In addition, KShs 7,800,000 (2009 – KShs 7,800,000) in respect of management expenses was recognized as an expense in the income statement in respect of the building.

CSR NEWS

STRATHMORE UNIVERSITY SCHOLARHIP PROGRAM

I&M Bank made a donation of KShs. 14 million over 3 years to Strathmore for 10 scholarships for the pioneer students in the University's new degrees in Actuarial Science, Finance, and Financial Economics. The funds will ensure bright but needy students can further their education at Strathmore.

I&M Bank made a donation of KShs. 1 million to the Health Education Africa Resource Team (HEART), a registered TRUST in Kenya. HEART's mission is to empower current and future generations of Kenyan people through disease prevention education and economical development.

AMERICAN WOMEN ASSOCIATION ' SHARE THE SPIRIT' PROJECT

I&M Bank made a donation to the American Women's Association of Kenya's (AWA) members who have been quietly serving the Kenyan community since 1958 . With the goal of encouraging the spirit of volunteerism amongst the Kenyan community, side by side with members of the expatriate community, the **"Share the Spirit"** Volunteer Project planned for the planting of 1000 tree seedlings along the Ngong River, a tributary of the Nairobi River in Kayole, which is also a part of the Nairobi River Cleanup.

AMARA TRUST

Amara Charitable trust, formed in 2007, aims at helping people specifically women and children in semi arid areas. The bank donated funds to go towards the upgrade of Kwa Kalusya Primary School in Lukenya.

CSR NEWS

ST ANN GICHOCHO GIRLS SECONDARY SCHOOL

In 2010 the bank made a donation of KShs.10 million to assist the school in building a new dormitory for the girls. The school is located in Kiambu district.

NAIROBI GREEN LINE INITIATIVE

I&M Bank donated cash and 50 members of staff participated in the Nairobi Greenline Initiative in June 2010 to grow a 250,000 fence line of trees, 30 m by 50m wide, in the Nairobi National Park. The fence line from Carnivore to Cheetah Gate in Athi River is aimed at protecting the park from pollution, land grabbers, encroachment and an subsequently reducing our carbon footprint.

KIBAGARE GOOD NEWS CENTRE – FEEDING PROGRAMME

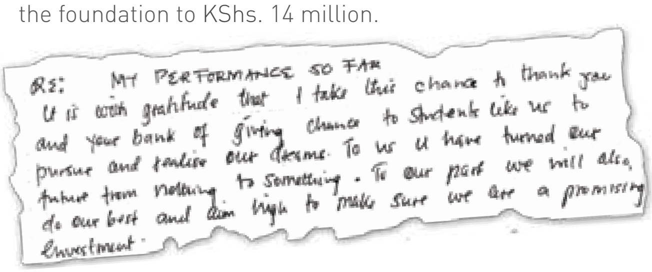
I&M Bank continued to support Kibagare News Centre, a centre for poor orphaned children, by serving a monthly lunch to the children from the surrounding slums. Kibagare Centre is run by the Assumption Sisters of Nairobi who initially ran it as a settlement for the hungry children.

THE NEST CHILDREN HOME

I&M Bank committed to purchase baby formula worth KShs. 500,000 for children at the Nest Childrens Home for the year 2010. The home was officially opened in 1997 and was set up to rescue affected children and improve their living conditions during the imprisonment of their mothers. The home rehabilitates and later reintegrates them and their released mothers with their extended families and society at large.

PALMHOUSE FOUNDATION

I&M Bank donated KShs. 3.5 million to the Palmhouse Foundation whose mission is to enable deserving students to realize their dreams, transform their lives, their families and society. The bank has been making donations to the foundation since 2007, bringing the total amount donated to the foundation to KShs. 14 million.



RE: MY PERFORMANCE SO FAR
it is with gratitude that I take this chance to thank you
and your bank of giving chance to students like us to
pursue and realise our dreams. To us u have turned our
future from nothing to something. To our part we will also
do our best and aim high to make sure we are a promising
investment.

(extract letter from one of the students supported by the bank)

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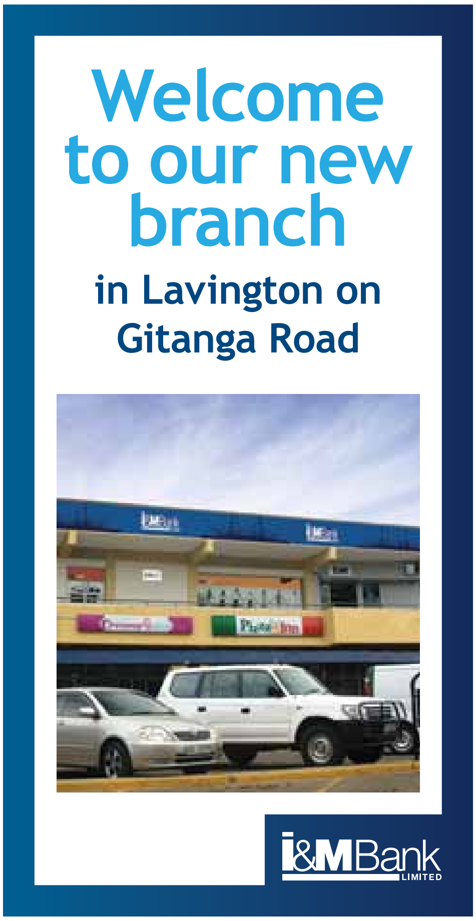

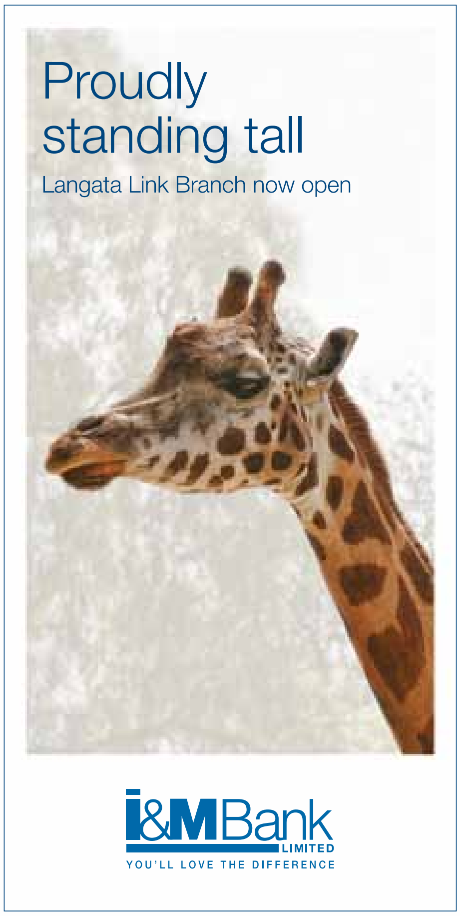

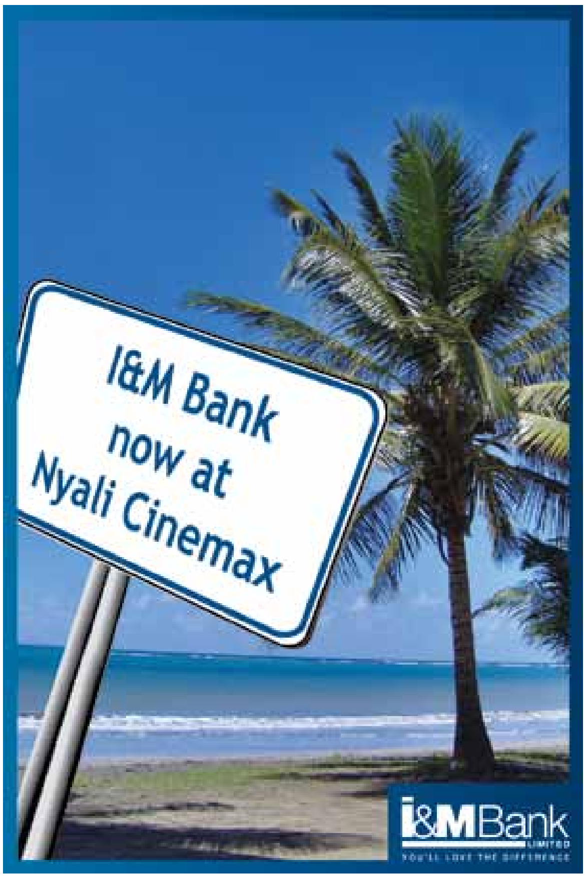

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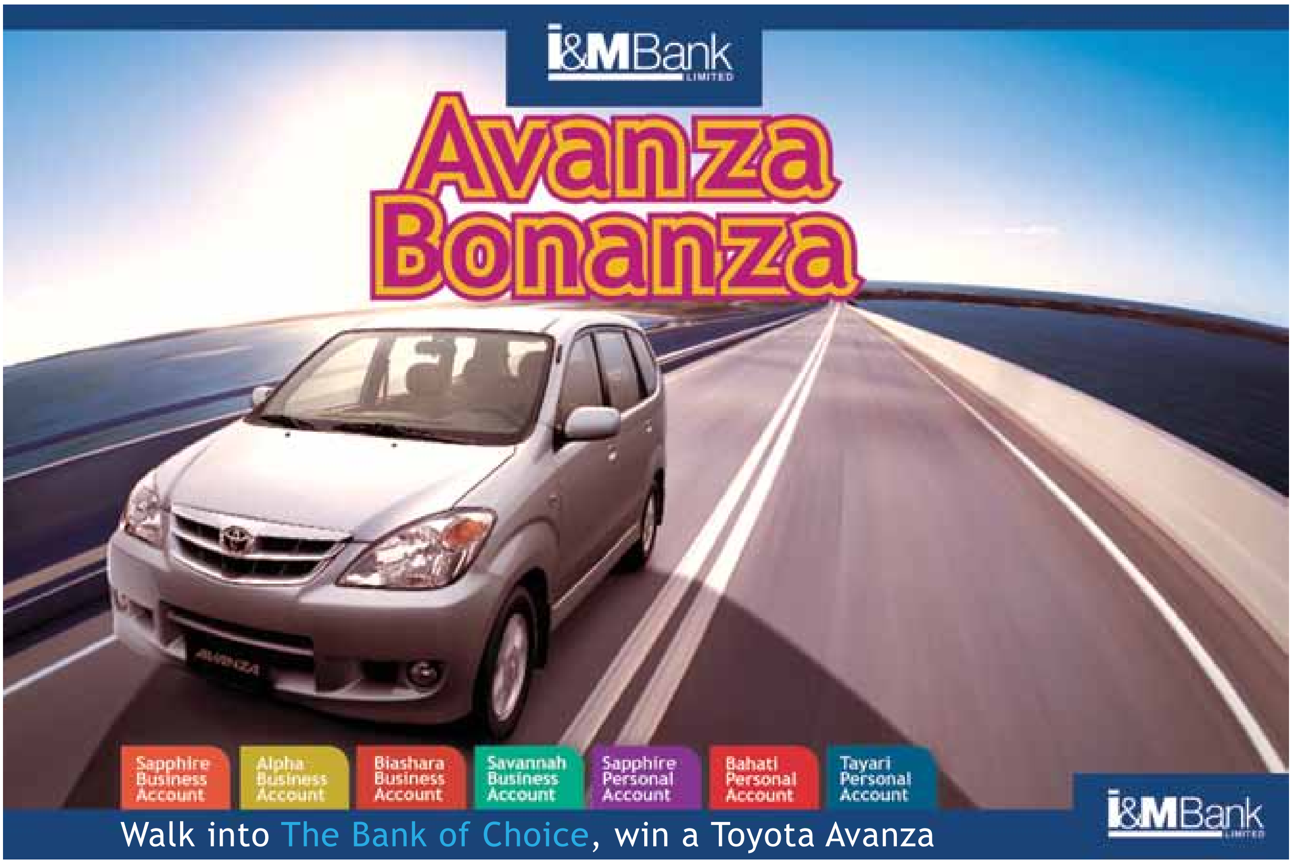

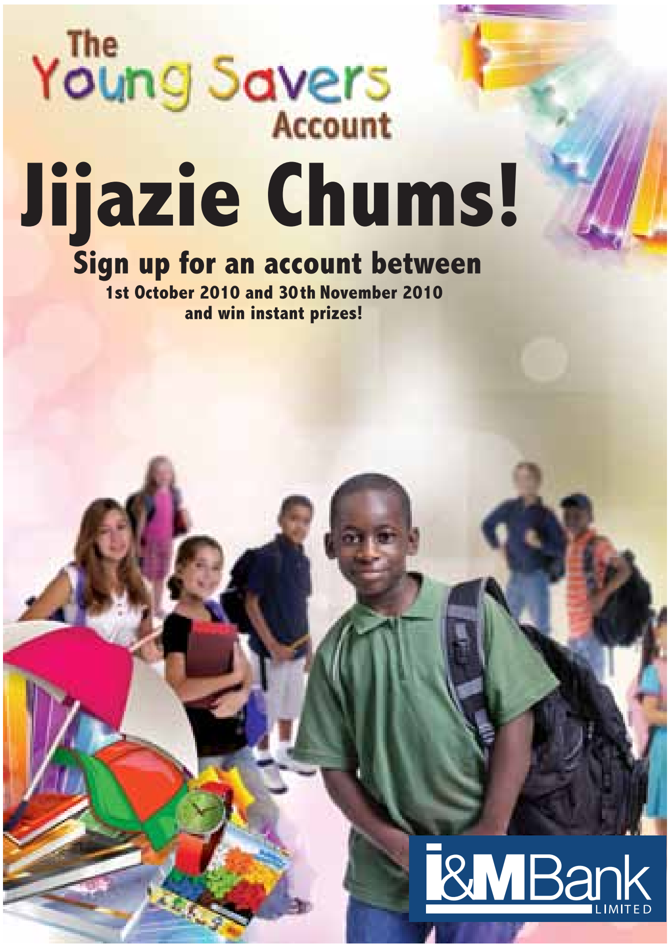

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