I&M Bank LIMITED

REPORT & CONSOLIDATED FINANCIAL STATEMENTS 2012

STRENGTH IN REGIONAL DIVERSITY

Strength In Regional Diversity

I&M Bank is now a vibrant regional bank across four international borders.

Our operations draw strength from the resources and best practices across the region as we forge a unified growth for our customers and for us.

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Travelling is learning

African proverb

STRENGTH IN DIVERSITY

STRENGTH IN DIVERSITY

Board of directors

Standing Left to Right:

- Arun .S. Mathur (Also CEO)
- GMM Aïnachè
- M Soundararajan
- NP Kothari (Secretary)
- PCM Kibati
- Christina Gabener

Board of directors

Standing Left to Right:

SBR Shah MBS (Chairman)
MJ Karanja
Sachit S Raja Shah
Sarit S Raja Shah
(Executive Director)
EM Kimani MBS

Senior management

Lucy Thegeya
Head of Business Support

Henry Kirimania
Head of Treasury

Ravi Ramamoorthy
Head of Corporate Banking

L A Sivaramakrishnan
Head of Business Development

Suprio Sen Gupta
Head of Marketing & Product Development

Rohit Gupta
Head of Information & Communication Technology

Senior management

Ruma Shah
Head of Internal Audit

Joseph Njomo
Head of Operations

Chhanda C Mishra
Head of Projects

Srinivasan Parthasarthy
Head of Commercial Banking

Gauri Gupta
Head of Corporate & Strategic Planning

A V Chavda
Senior General Manager

STRENGTH IN DIVERSITY

Children are
the reward of life

African proverb

STRENGTH IN DIVERSITY

Directors, officials and administration

DIRECTORS

SBR Shah, MBS (Chairman)
Sarit S Raja Shah (Executive Director)
MJ Karanja
Sachit S Raja Shah
EM Kimani, MBS
PCM Kibati
M Soundararajan*
Christina Gabener** (Alternate : E Kaleja – Appointed 10 January 2012)
Guedi MM Ainache***

* Indian ** German *** French

SECRETARY

NP Kothari – FCPS (Kenya)

AUDITORS

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

REGISTERED OFFICE

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

CORRESPONDENT BANKS

ABSA Bank
BHF Bank
Bank One Ltd
Banque Commerciale Du Rwanda
Barclays Bank PLC
Citibank NA
Commerzbank AG
Deutsche Bank AG
HSBC
I&M Bank (T) Limited
ICICI Bank
JP Morgan Chase Bank
Nordea Bank
Rand Merchant Bank
Standard Bank of South Africa
Standard Chartered Bank
UBS AG

Branches

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

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

Sarit Centre
Westlands
PO Box 30238
00100 Nairobi GPO

Ansh Plaza
Biashara Street
PO Box 30238
00100 Nairobi GPO

Changamwe Road
Industrial Area
PO Box 30238
00100 Nairobi

Karen Connection
Karen Road
PO Box 30238
00100 Nairobi GPO

Panari Centre
Mombasa Road
PO Box 30238
00100 Nairobi GPO

Centre Point
Parklands Road
PO Box 30238
00100 Nairobi GPO

Wilson Airport
Pewin House
PO Box 30238
00100 Nairobi GPO

Ongata Rongai
Rongai Business Centre
PO Box 30238
00100 Nairobi GPO

South C Shopping Centre
PO Box 30238
00100 Nairobi GPO

Langata Link
PO Box 30238
00100 Nairobi GPO

Gitanga Road
Lavington
P.O. Box 30238
00100 Nairobi GPO

14 Riverside Drive
Riverside Drive
PO Box 30238
00100 Nairobi GPO

Biashara Bank Building
Nyerere Avenue
PO Box 86357
80100 Mombasa

Nyali Cinemax
PO Box 86357
80100 Mombasa

Tivoli Centre
Court Road
PO Box 424
40100 Kisumu

Zion Mall
Uganda Road
PO Box 9362
30100 Eldoret

Polo Centre
Kenyatta Avenue
PO Box 18445
20100 Nakuru

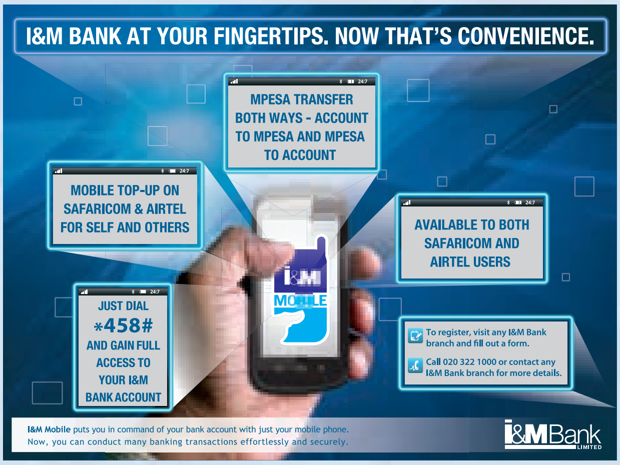
Royal Tower
Hospital Road
P.O. Box 4474
40200 Kisii

I-Click Internet Banking

As a significant investment into technology driven alternate banking channels, I&M Bank introduced I-Click for both retail and corporate customers. I-Click has received good customer response and has features and benefits that sets it apart as a truly innovative internet banking product. For the Bank, this service fills up an important slot in our endeavours to maintain product leadership in the market and also provides a platform to introduce more web based facilities and to reduce our operational costs through directing more traffic through alternate channels.

Mobile Banking

I&M Mobile is transforming the way our customers do banking. Having been launched in December 2010 and upgraded in March 2012, our mobile banking facility has delivered remarkable convenience to over 4,000 customers who are currently registered. Ranging from transactions like balance check and airtime purchase, customers now enjoy more advanced valued added features like transferring money from M-PESA Mobile Money Transfer account to their bank account, bank account-to-M-PESA transfer, bill payment and funds transfer. I&M Corporate customers can now receive payments from suppliers from their M-PESA accounts directly to their bank accounts and also do bulk payments of salaries and to suppliers via M-PESA through I&M Mobile.



BRISK Transfers

The addition of Rwanda into its network enable the Bank to expand and strengthen the BRISK regional funds transfer product by which customers of the I&M Bank Group located in Kenya, Tanzania and Rwanda can move funds between their accounts and make payments to suppliers located in any of these countries efficiently and cost-effectively.

New Branch

In line with the Banks expansion plan within Kenya, I&M Bank added on one more branch in Kisii, increasing the Bank's network from 19 to 20. This increases the Bank's presence in the Western part of Kenya to three branches.

Awards 2012

In a repeat performance of 2011, I&M once again scooped three prestigious awards at The Banking Awards 2012, which included the Best Bank in Product Innovation award for our Step-Up Home Loan Product, Runner up for Best Bank in Kenya (Tier 2) and third prize for the Most Efficient Bank.

Bank One Ltd - Mauritius

Good news continues to come from the shores of Mauritius, where, despite difficult economic conditions, our sister Bank One registered a good performance in 2012, with profit after tax of Rs 203 million, which is an improvement of 16% on the Rs 175 million realised in 2011. Total deposits grew by 22% to Rs 17.2 billion and advances grew by 30% to reach close to Rs 12 billion. Gross NPA ratio fell from 4% to 3.4%, while Net NPA ratio stood at 2%. Return on average assets was 1.17%.

During 2012, Bank One opened two new branches – Cascavelle and Grand Bay La Croisette - thereby increasing the number of branches to 16 and extending its coverage countrywide. In order to respond faster to customers' queries by phone, Bank One also implemented a contact centre at Port Louis, handling both inbound and outbound calls. Bank One is now in the process of launching Mobile Banking, starting with SMS alerts, to provide enhanced customer convenience.

BCR News

In 2012, I&M Bank Group added Banque Commerciale Du Rwanda(BCR) to its international footprints. BCR, which celebrates its golden jubilee in 2013, is a leading Bank in Rwanda with 14 branches across the country.

BCR leveraged its newly acquired regional status, that came with the introduction of new products, to earn profit before tax of Frw 5.9 billion in 2012—a 36% increase from the previous year. With the loan book growing by 40% from Frw 37.6 billion in 2011 to Frw 52.5 billion, the year saw net profit jump from Frw 2.9 billion earned in 2011 to Frw 4.2 billion.

Taking advantage of being a member of I&M Bank, BCR introduced new products such as ecommerce, an online system that enables clients to receive payment from overseas. The Bank has also introduced the BRISK transfer product—currency transfer facility within the region.

Focused on enhancing technology-based operations, BCR was the first Rwandese bank to introduce electronic tax (etax) in the country, a development that enables taxpayers pay online. Other tech-based products include eBanking that enables customers to transact online using computers or mobile phones and the eUniversity product that enables students to effect automatic payment of fees. The bank also launched VISA acquiring on all its ATM's country-wide.

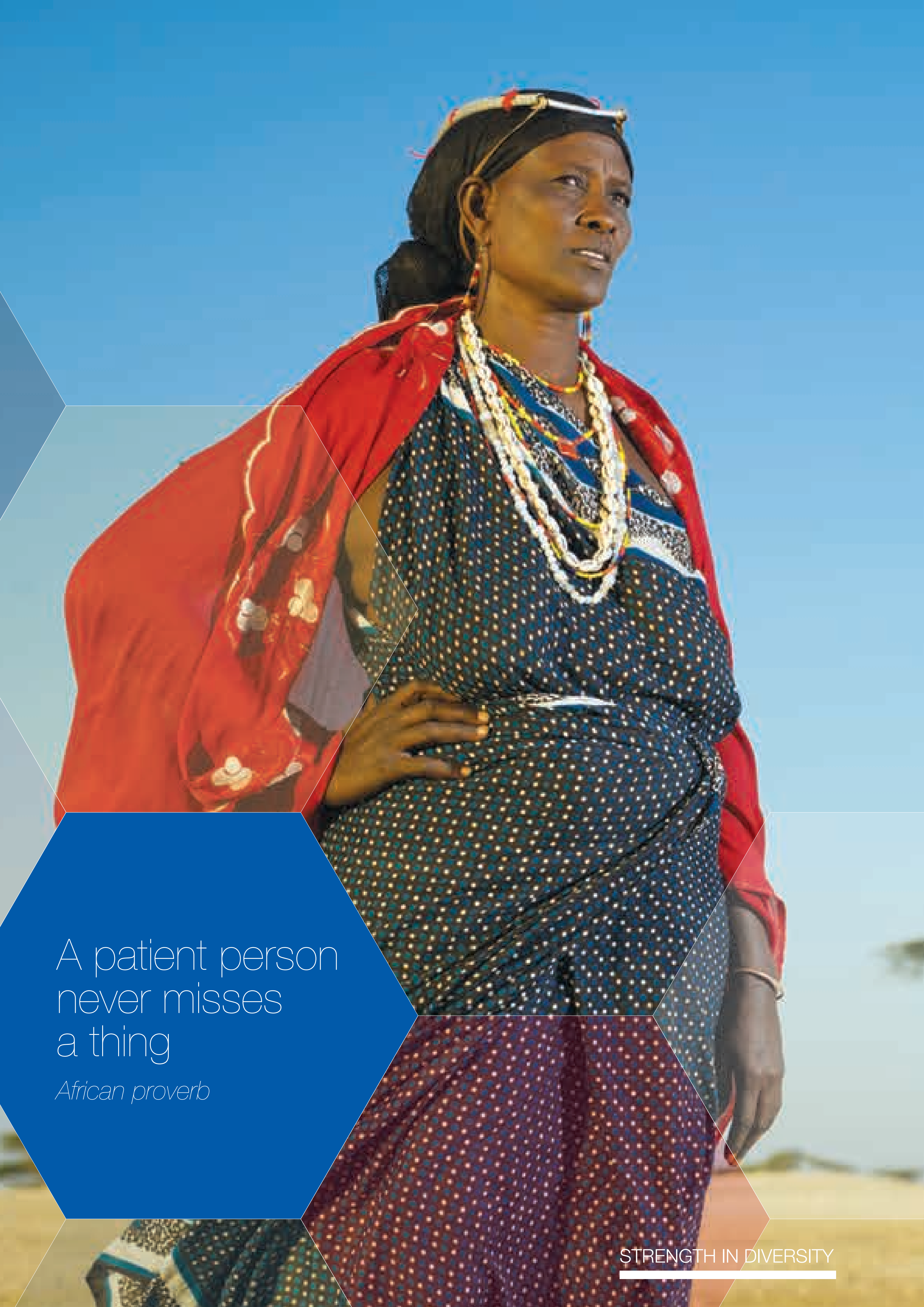
I&M Bank - Tanzania

There was a lot happening at I&M Bank (Tanzania) Limited in 2012 as its new Chief Executive Officer, Mr. Anurag Dureha took over charge in February 2012 from Mr. Subramanian Gopalan, who retired after serving the bank, formerly known as CF Union Bank Limited, for 14 years. Mr. Dureha comes with a rich international experience of 31 years in banking industry.

PROPARCO accorded I&M Bank (T) Limited a 7 year USD 5 million credit line for onward lending to the Bank's customers. This facility supplemented I&M Bank (T) Limited's ability to support the growing demand for long term foreign currency lending to the expanding SME sector in Tanzania. For PROPARCO, this lending represented the deepening of the existing partnership with I&M Bank, having been a shareholder of the Bank since acquisition of the bank in Tanzania.

In line with Bank's strategic objectives with regards to local expansion within Tanzania, the year 2012 witnessed I&M Bank (T) Limited opening a branch in Mwanza region, increasing its branch network to 6.

With the expanded branch network, the Bank is bound to increase its customer base much faster and I&M customers in Kenya and Rwanda, who may be dealing with customers in these areas, can now also benefit from the wider network and make use of I&M's BRISK transfer's product in these new locations.



A patient person never misses a thing

African proverb

STRENGTH IN DIVERSITY


STRENGTH IN DIVERSITY

The Chairman

RESILIENT GROWTH

It is indeed a pleasure to be presenting our results for 2012 in an atmosphere of optimism and hope as I applaud fellow citizens for their determination to participate peacefully in the recent historic elections, by turning out in large numbers to vote. We are all very proud to be a part of this great nation, under a new Constitution, that believes in itself and in our joint future.

A lot of things have indeed changed over the last year but what has remained steady is our determination to be better each day, and our resilience to stand for what we believe in. As a Bank, it is our wish to better the lives of those around us and that has established who we are, and what we stand for.

The past year was especially trying for the banking sector and for Kenya as a whole. It was a tough economic environment with extreme volatility in terms of interest rates and exchange rates and it is a relief that we now have stability. Volatility of the Shilling continued from 2011 when it had hit an all-time high of KShs. 107 against the dollar and there was also a similar depreciation against other major currencies. This also led bank lending rates to rise to reach a high of 24%, which has since, declined significantly as the Central Bank took concerted measures to ensure this. Some of this volatility was a result of the uncertainty regarding the much anticipated elections, the first since the promulgation of our new constitution in 2010. Despite the volatile economic conditions, by December 2012, the total banking sector balance sheet had grown by 15% compared to December 2011. Banking sector loans and advances to customers also grew by 12% over the same period and made up 56% of the total banking sector balance sheet. This growth was attributed to an increase in lending to households, trade and manufacturing sectors. Deposits, which are the primary source of funding for the banking sector, grew by 14% over the same period. This is commendable given the macro – economic environment that the banking sector was operating in. The Banking Sector also continued to expand its reach across the country by opening new branches, installing ATMs and recruiting additional staff in readiness for a new dawn after the elections.

A strong and resilient banking system is the foundation for sustainable economic growth as banks are at the center of the credit intermediation process between borrowers and investors. Banks provide critical services to consumers, who rely on them to conduct their daily business, both at a domestic and international level. Bearing this in mind, it is imperative that the banking system is able to withstand economic shocks. The Central Bank of Kenya (CBK), in a bid to strengthen and cushion the sector, introduced new Prudential Guidelines, Risk Management Guidelines and AML regulations in January 2013. I&M is committed to ensuring that these guidelines are implemented, as they will further strengthen the Bank's framework that is already in place.

THE BANK

All the challenges notwithstanding, we still put our best foot forward. Overall, at the group level the balance sheet recorded a growth of 33.9% since December 2011 from KShs. 108 billion to reach KShs. 144.7 billion in 2012. Profit before tax increased by 15.7% from KShs. 4.95 billion as at December 2011 to stand at KShs. 5.73 billion as at December 2012. Over the same period, our group loan portfolio grew by 32.3%, and customer deposits grew by 31.1%. Return on Shareholder's Equity stood at 23%.

As at the end of December, our profits before tax in Kenya alone, increased by 6% since December 2011 from KShs. 4.4 billion to stand at KShs. 4.7 billion. The Bank focused on its core activities to ensure uninterrupted growth, and as a result, by the end of the year we were able to increase our loan portfolio by 18.4% from KShs. 46.8 billion in December 2011 to KShs. 55.4 billion as at December 2012. Similarly, customer deposits grew by 15.3% from KShs. 56.9 billion to reach KShs. 65.6 billion. Meanwhile, our balance sheet has grown by 19% since December 2011, to stand at KShs. 91.5 billion as at December 2012. Similarly, our gross and net non-performing loan ratios improved from 2.09% and 0.43% in 2011 to 1.34% and 0.26% in 2012 respectively.

Our Bank was recognized in the 2012 Banking Awards, as the Best Bank in Product Innovation for the Step-Up Home Loan, the runner up to the Best Bank in Kenya (Tier II) and the second runner up as the Most Efficient Bank in Kenya. Similarly, in the 2012 Banking Survey, our Bank was ranked overall the 4th best bank in the industry out of 43 banks.

I am also elated to note the achievements made in the last year to improve the customer experience. The Bank launched iClick, the internet banking portal that allows our customers to interact with us at their convenience. The Bank also débuted a new friendlier and 'easier-to-use' website. Going forward, this is certainly bound to be one of the most convenient ways of banking that we have availed to our customers. Further, we hope that this will be an avenue that will give us the opportunity to tap into the Diaspora space and offer them the benefits and conveniences of banking with a Bank that understands their needs and their importance to our economy.

Our Bank has also been working to implement a more robust Risk Management framework that ensures that potential risk exposure is comprehensively managed across the Group. We also successfully implemented a new modern and robust Treasury software that will improve our Treasury functions and efficiency, while giving the Bank a better control framework on monitoring our rates. Similarly, we are also proud to note that a full functioning Disaster Recovery Site has now been established. This implies that the Bank is fully prepared in case of a disaster, to ensure that we are able to continue functioning appropriately.

Of key mention, was our expansion into Rwanda, through the successful acquisition of a beneficial holding of 55% of Banque Commerciale du'Rwanda (BCR). As we continue our efforts to integrate the Group more cohesively, I believe we shall continue to reap the rewards of spreading out our wings. With this acquisition, I&M Bank Group now operates in 4 countries, with a staff force of about 1,400!

To support this growing staff force, the Bank has put in place adequate group wide staff development initiatives to ensure that all staff across the Group provide similar seamless services to our customers. Locally, we further expanded into Western Kenya by opening a branch in Kisii, bringing our branch network to twenty. Further, we installed off-site ATMs at Diamond Plaza in Parklands, Taj Mall in Embakasi and Kenolkobil, in Buruburu. Interestingly, we also have a multi-currency ATM at the Jomo Kenyatta International Airport, which allows incoming passengers to withdraw Kenya shillings and outgoing passengers to withdraw US dollars. Our ATMs were also upgraded to accept MasterCard in addition to the existing suite of cards and this benefit has been extended to the entire Kenswitch network. We are committed to continue our efforts to expand both in Kenya and regionally to fully support our customers by providing them with banking services to harness our regional synergies.

2013 brings with it a significant milestone for I&M Bank. Over the last 2 years, the Bank has been in various discussions on how to efficiently restructure the shareholding and capital structure of the Group, not only from a risk management perspective, but also one that will be sustainable as the Group continues with its regional expansion strategy. This restructuring will move all our shareholders to the holding company level, making the Bank a wholly owned subsidiary of the holding company. As discussed with you at the Extraordinary General Meeting, City Trust Limited (CTL), a listed entity that has a 7.28% shareholding in the Bank, was identified as the best vehicle to form the holding company. Each shareholder will exchange their shares in I&M Bank, for shares in CTL. On conclusion of the transaction, CTL will rebrand to I&M Holdings Limited, and will be listed on the Nairobi Securities Exchange, allowing our shareholders to trade their shares. This has been an objective of the Bank for a while now, and we look forward to the conclusion culminating in the listing of shares of I&M Holdings Limited on the Nairobi Securities Exchange.

BANK ONE LIMITED – MAURITIUS

Despite difficult economic conditions, Bank One registered a good performance in 2012, with Profits after Tax of KShs. 564 million, an improvement of 16% on the KShs. 486 million realised in 2011. Total deposits grew by 22% to reach KShs. 47.7 billion and total advances grew by 30% to approx. KShs. 33.3 billion. Gross NPA ratio fell from 4% to 3.4%, while Net NPA ratio stood at 2%. Return on average assets was 1.17%.

During 2012, Bank One opened two new branches – Cascavelle and Grand Bay La Croisette - thereby increasing the number of branches to 16 and extending its coverage countrywide. In order to respond faster to customers' queries by phone, Bank One also implemented a contact centre at Port Louis, handling both inbound and outbound calls. Bank One is now in the process of launching Mobile Banking, starting with SMS alerts, to provide enhanced customer convenience.

I&M BANK (T) LIMITED – TANZANIA

As at the end of December 2012, this bank's profits before tax, decreased marginally by 0.8% from KShs. 283 million to stand at KShs. 280.8 million. The Bank's loan portfolio increased by 26.3% from KShs. 6.4 billion in December 2011 to KShs. 8 billion as at December 2012. By the same token, customer deposits grew by 26.6% from KShs. 10.6 billion to reach KShs. 13.5 billion. This resulted in a balance sheet growth of 27.8% since December 2011, to stand at KShs. 11.7 billion as at December 2012

In January 2013, the Bank successfully introduced a new core banking software which will provide a platform that will inevitably increase efficiency and better seamless service to our customers. Along with this, I&M (T) has partnered with the Tanzania Revenue Authority to assist in tax collection services, and implemented the Asybank software that will improve our turnaround time in delivery of this service and increase convenience for our customers.

Since our take over in 2008, I&M (T) doubled its branch network from three to six, with our latest addition in Mwanza, giving us a presence in three key strategic and major towns in Tanzania.

BANQUE COMMERCIALE DU'RWANDA - RWANDA (BCR)

We welcome BCR into the I&M family following the acquisition of 80% of the bank's shareholding together with DEG and Proparco. Of this, I&M Bank holds a beneficial holding of 55%, DEG and Proparco 12.5% each while the majority of the remaining shareholding is held by the Government of Rwanda. I would like to take the opportunity to thank the Central Bank of Kenya and the National Bank of Rwanda, for their support and guidance through this significant transaction that was one more stepping stone in making the I&M Bank Group a truly regional bank. We are also indebted to Actis LLP, the outgoing shareholders, for giving us the opportunity to be part of the success story of BCR. We are immensely excited about the opportunities that this will avail us.

BCR's profit before tax for 2012 was KShs. 798 million an increase of 34% since December 2011. Similarly, profit after tax increased to KShs. 568 million compared to KShs. 392 million as at December 2011. It is pleasing to note that the quality of BCR's loan book registered further improvement in 2012 with the NPL ratio reducing to 2.7% against 5.5% in 2011, which is well below current Rwandese Central Bank expectations of 5% and as compared to the industry average ratio of 6.1%. Over the same period, BCR's loan portfolio grew from KShs. 5 billion to KShs. 7.1 billion, an increase of 40%, while deposits grew from KShs. 9.6 billion to KShs. 11.6 billion, an increase of over 21%.
BCR is a market leader in Rwanda, and has been rated

by Global Finance as the Best Bank in Rwanda for the last 5 years consecutively. Like I&M, BCR is keen on technological innovations that make banking more convenient, and has introduced a number of products that highlight this. These include the countrywide introduction of (i) eTax product that allows customers to pay their taxes, (ii) eBanking - an enhanced Internet and mobile banking facility whereby customers are able to transact remotely and (iii) an eUniversity product which enables students to effect automatic payment of their fees and other student costs.

Following the conclusion of the acquisition, BCR has also introduced Brisk, the I&M platform that allows an online, real time currency transfer facility, across the three East African States.

OUTLOOK

As we go into the second quarter of 2013, above all, we join our fellow Kenyans in praying, seeking and doing our part for the peace and prosperity of our country. Following the March elections, we look forward to a new era for us all, that will give us the opportunity to continue growing and serving both our customers and all Kenyans at large. As a Bank, we look forward to more exciting times with the introduction of our new initiatives within our card business, Treasury and especially on the ICT side. Our Bank has certainly stood through some of the toughest times that our economy has been through, mainly because we have remained firmly rooted in the principles around which the Bank was founded. The same principles of resilience and determination, can be applied in our daily lives, and should be part of our driving force.

To know what we stand for and believe in, are the qualities that will help us when the going gets tough. Resilience is what will enable us to hold on to our vision of a better future.

In conclusion, I am grateful to my fellow Directors for their continued guidance and proficient advice to the Bank. We also sincerely appreciate the various professional service providers, consultants and corporate partners who wholeheartedly continue to support the Bank in its various endeavours.

On behalf of the Board, I thank the management and staff of I&M for our relentless efforts to making the Bank a true Kenyan success story as we look forward to the year ahead. I also take the opportunity to sincerely thank our Shareholders for their faith in us, even as we complete this significant transaction. Last but not least, we the I&M Bank family, thank our customers for their constant encouragement that spurs us to serve them better.

Suresh Shah

S.B.R SHAH
CHAIRMAN

STRENGTH IN DIVERSITY

A wise person will always find a way

African proverb

Report of the directors for the year ended 31 December 2012

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2012, which disclose the state of affairs of the company and the group. The group comprises, Bank One Limited, Mauritius, I&M Bank (T) Limited, Tanzania and Banque Commerciale Du Rwanda Limited, Rwanda.

1. Activities

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

2. Results

The consolidated results for the year are as follows:

	2012 KShs
Profit before taxation	5,732,676,794
Taxation	(1,613,119,333)
Profit after taxation	**4,119,557,461**

3. Dividend

The directors recommend the payment of a final dividend of KShs 748,863,778 (2011 – KShs 747,424,874).

4. Directors

The directors who served during the year and up to the date of this report are set out on page 10.

5. Auditors

The auditors, KPMG Kenya, 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).

6. Approval of financial statements

The financial statements were approved at a meeting of the directors held on 21 March 2013.

BY ORDER OF THE BOARD

N P Kothari
Secretary

DATE: 21 March 2013

I&M Bank Group is committed to ensuring that high standards of corporate governance are maintained across all its entities. The Board of Directors of I&M Bank LIMITED ('I&M Bank' or 'I&M'), have established a Corporate Governance Framework which includes a robust management structure to ensure that the approved policies and practices within the bank deliver sustainable value to its shareholders, whilst also remaining focussed on the Group's wider role & responsibility to society at large.

Similarly, the Bank has in place a Code of Conduct and Code of Ethics that bind the Directors and Employees to ensure that the Bank's business is carried out in an ethical, fair and transparent manner, in keeping with the local regulations within the jurisdictions in which it operates.

In the past year, the Terms of Reference (TOR) for various Board and Management Committees were reviewed to ensure these Committees remain effective in the discharge of their responsibilities, in the highly dynamic environment in which the Bank operates. This is in recognition of the significant role Board and Management Committees play in reinforcing the strong foundation of I&M Bank's Corporate Governance Framework. I&M also recognizes the importance of a stable and reliable banking system and welcomes the new Prudential Guidelines recently introduced by the Central Bank of Kenya. These came into effect in January 2013 and will serve to enhance the governance and regulatory framework at the Bank and the banking industry as a whole.

Risk Management Framework

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

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

The Risk Management Framework at the Bank ensures that risks identified are adequately considered and mitigated:

- The Board of Directors at bank level assume the ultimate responsibility for the level of risks taken and are responsible to oversee the effective implementation of the risk strategies;
- The organisational risk structure and the functions, tasks and powers of the committees, employees and departments involved in the risk processes are continuously reviewed to ensure their effectiveness and the clarity of their roles and responsibilities;
- Risk issues are taken into consideration in all business decisions. Measures are in place to develop risk-based performance measures and this is being supplemented by setting risk limits at the company level;
- Risk management has been integrated into various management processes such as strategic planning, annual budgeting and performance measurement;
- Identified risks are reported in a transparent and timely manner;
- Appropriate and effective controls exist for all processes.

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

The Board of Directors

Constitution, Appointment and Composition

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

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

Roles & Responsibilities

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

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

Board Meetings

The Board meets quarterly each year for scheduled meetings and on other occasions when required to deal with specific matters between scheduled meetings. During the year, four scheduled Board meetings were held. Except for one Director, each member attended at least 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 an annual self-evaluation. Taking into consideration the Board's duties and responsibilities, the self-evaluation process includes matters covered not only under the Central Bank requirements but also those prescribed under global best practice in regards to good governance. The new prudential guidelines provide for peer review for each Directors perfomance as well as evaluation of the Chairman's perfomance by Directors.

Governance Principles

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

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

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

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

Board Committees:

Board Audit Committee (BAC)

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

Board Risk Management Committee (BRC)

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

Board Credit Committee (BCC)

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

Board Procurement Committee (BPC)

This Board Committee comprising five members, excluding the Secretary, is chaired by an independent non-executive Director, and meets at least half-yearly and on other occasions to deal with specific matters. The BPC is responsible for review and approval of 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 committee comprising six members, excluding the Secretary, is chaired by an independent non-executive director, and meets at least once every quarter. It assists the Board in fulfilling its responsibilities by considering matters pertaining to the raising of equity and debt capital of the Bank from time to time.

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

Board Nomination and Remuneration Committee (BNRC)
The Board has delegated responsibility to the BNRC to undertake structured assessment of candidates for membership of the Board and Executive Management, and establishment of an appropriate framework for remuneration of the Board and Executive Management members, in line with clearly defined remuneration principles.

Management Committees:

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

Executive Committee (EXCO)
This provides the link between the Board, Top Management and 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)
The Bank's Assets & Liabilities Committee primary functions include measurement, management and monitoring of liquidity, interest rate, foreign exchange and equity risks of the Bank in order to protect the Bank's net worth from adverse movements of market.

Credit Risk Management Committee (CRMC)
This Committee is the link between the Board and Management in terms of establishing and implementing the credit and lending policies of the Bank. It is responsible for the sanction of credit proposals in line with the Bank's Credit Policy, effective 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 to this key resource available to the Bank. The HRC also reviews the Human Resources Policy of the Bank on an ongoing basis and guides the HR Department for enabling Bank's compliance with laws, regulations and industry practices as well as staff relations and welfare activities as pertaining to Staff matters. 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)

As a global citizen, I&M Bank recognizes the responsibility it has towards the Community and those around it. It is in this endeavor that the Bank has put in place guidelines that direct it in carrying out its Corporate Social Responsibility mandate that is now well integrated within the Bank. The Bank has continued to deepen its relationship with various stakeholders while providing opportunities to our employees to participate in various CSR activities.

In 2012, the Bank's CSR activities were aimed at making sustainable difference in education, health care, environment and general well-being especially of children. The Bank enhanced its resources towards supporting various projects that included scholarships for bright but needy students, environment care, supporting eye operations through the Lion's Eye Hospital, a monthly school-based feeding programme for slum children, provision of baby food and milk for abandoned babies. In 2012, Kenya went through a tough period of drought, which saw the set-up of the Kenyans for Kenya Campaign, which the Bank was able to support. Our staff have been instrumental in supporting the initiatives of the Bank to enhance the lives of those around us. In 2012, they participated in the monthly school feeding programme at Kibagare, a fun day organized for various activities with mentally impaired challenged children whom we support through our education program and in donating blood for supporting the Country's blood bank.

We believe in the importance of giving back, and our CSR programmes are designed to achieve maximum impact to enhance the lives of the communities around us, and Kenya as a whole.

Board Committees

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

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

Statement on corporate governance (continued)

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

	Business Strategy Committee	Executive Committee	Assets & Liabilities Committee	Credit Risk Management Committee	Human Resources Committee	IT Steering Committee
Chairman	Executive Director (ED)	Executive Director	Executive Director	Executive Director	Executive Director	Chief Executive Officer (CEO)
Members	ED, CEO, Senior General Manager Heads of: • Business Development • Business Support • Corporate & Strategic Planning. (Secretary)	ED, CEO, Senior General Manager, Heads of: • Business Development • Business Support • Risk • Treasury • Corporate & Strategic Planning. • Chief Manager – CEO's Office (Secretary) **Invitees**: • Head – Internal Audit	ED, CEO, Senior General Manager Heads of: • Business Development • Business Support • Corporate & Strategic Planning • Finance • Treasury • Risk (Secretary)	ED, CEO Senior General Manager Senior Executive Manager Heads of : • Business Development • Risk • Credit (Secretary)	ED, CEO, Senior General Manager Heads of: • Business Development • Business Support • HR (Secretary)	CEO, Heads of: • Business Development • Business Support • Central Marketing • Chief Manager – CEO's Office • ICT (Secretary)
Frequency of meetings	Quarterly	Once every 2 months	Monthly	Fortnightly	Monthly	Quarterly
Main functions	• Lead and direct Strategic Planning Process, including formulation, implementation and evaluation of Strategy • Review and recommend mid-stream corrections in Strategic Direction • Ensure bank-wide strategic focus by setting medium/ short term objectives • Evaluate progress on Strategic and Corporate Objectives • Periodically evaluate performance targets.	• Review and benchmark Bank's financial and business performance • Review issues that warrant policy changes for other management committees • Review progress of special projects and implementation status of policy initiatives • Review and formulate marketing strategies • Manage key risks and ensure Risk Management Committee has access to requisite information • Review disaster preparedness and business continuity.	• Liquidity management • Interest Rate Risk management • Maturity Gap management • Currency Risk management • Capital Risk management • Determining the investment strategies of the Bank for maximization of risk adjusted returns over the long term • Counter Party and Settlements Risk management.	• Set Credit Policy and Credit Risk Management Policy • Sanction Credit Proposals in line with Policy and CBK Guidelines • Review NPAs • Consider and approve new asset-based products • Control and follow-up on credit-related matters • Regularly report to Board Credit Committee.	• Review and monitor implementation of various staff development and welfare initiatives to ensure maintenance of productive and healthy staff relations • Review of Bank's Manpower Plan • Review and take decisions on disciplinary issues • Review staff remuneration vis-à-vis overall Bank's performance and industry to ensure the Bank remains competitive in attracting and retaining talent • Update Board on HR matters.	• Draw up the Strategic ICT Plan • Guide development of the information architecture and determine the technological direction • Define ICT processes, organisation and relationships • Identify, assess and manage IT risks • Define and manage ICT and ICT-dependent projects • Ensure optimum use of IT resources and manage ICT investments.

Statement 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 33 to 104 which comprise the consolidated and company statement of financial position as at 31 December 2012, 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 21 March 2013 and were signed on its behalf by:

S B R Shah
Director

Sarit S Raja Shah
Director

E M Kimani
Director

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

We have audited the financial statements of I&M Bank LIMITED set out on pages 33 to 104 which comprise the consolidated and company statement of financial position as at 31 December 2012, and the consolidated and company statement of comprehensive income, consolidated and company statement of changes in equity and consolidated and company statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

As stated on page 31, 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 company financial position of I&M Bank LIMITED at 31 December 2012, and the consolidated and company financial performance and consolidated and company 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 and statement of comprehensive income of the company are in agreement with the books of account.

KPMG Kenya
DATE: 21st March 2013

Consolidated statement of comprehensive income for the year ended 31 December 2012

	Note	2012 KShs	2011 KShs
Interest income	7	14,007,649,476	9,031,130,752
Interest expense	8	(7,447,050,826)	(3,468,274,810)
Net interest income		**6,560,598,650**	**5,562,855,942**
Fee and commission income	9	1,781,725,839	1,360,600,603
Fee and commission expense	9	(117,505,620)	(74,560,531)
Net fee and commission income	9	**1,664,220,219**	**1,286,040,072**
Net trading income		**8,224,818,869**	**6,848,896,014**
Other operating income	10	1,688,618,114	1,110,553,805
OPERATING INCOME		**9,913,436,983**	**7,959,449,819**
Staff costs	11	(2,147,204,517)	(1,484,091,145)
Premises and equipment costs	11	(348,771,917)	(201,043,272)
General administrative expenses	11	(1,186,290,773)	(865,777,640)
Depreciation and amortisation	11	(437,755,328)	(204,692,395)
OPERATING EXPENSES		**(4,120,022,535)**	**(2,755,604,452)**
OPERATING PROFIT BEFORE IMPAIRMENT LOSSES AND TAXATION		**5,793,414,448**	**5,203,845,367**
Net impairment losses on loans and advances	18 (c)	(60,737,654)	(249,952,677)
PROFIT BEFORE INCOME TAX	12	**5,732,676,794**	**4,953,892,690**
INCOME TAX EXPENSE	13	(1,613,119,333)	(1,481,168,719)
NET PROFIT FOR THE YEAR AFTER TAX		**4,119,557,461**	**3,472,723,971**
OTHER COMPREHENSIVE INCOME			
Net change in fair value of available for sale financial assets		134,279,931	(1,791,653,542)
Foreign currency translation differences		(16,443,384)	88,686,887
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		**117,836,547**	**(1,702,966,655)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4,237,394,008**	**1,769,757,316**

Consolidated statement of comprehensive income for the year ended 31 December 2012
(continued)

	Note	2012 KShs	2011 KShs
PROFIT ATTRIBUTABLE TO:			
Equity holders of the company		3,860,460,435	3,384,037,932
Non controlling interest		259,097,026	88,686,039
		4,119,557,461	**3,472,723,971**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the company		3,968,847,771	1,690,740,504
Non controlling interest		268,546,237	79,016,812
		4,237,394,008	**1,769,757,316**
BASIC AND DILUTED EARNINGS PER SHARE - (KShs)	14	**134.03**	**117.72**
DIVIDEND PER SHARE - (KShs)	15		
- Final		**26.00**	**26.00**

The notes set out on pages 46 to 104 form an integral part of these financial statements.

Company statement of comprehensive income for the year ended 31 December 2012

	Note	2012 KShs	2011 KShs
Interest income	7	10,966,387,228	7,171,265,480
Interest expense	8	(6,035,221,563)	(2,515,825,273)
Net interest income		**4,931,165,665**	**4,655,440,207**
Fee and commission income	9	1,266,269,206	1,094,852,551
Fee and commission expense	9	(31,199,336)	(39,564,601)
Net fee and commission income	9	**1,235,069,870**	**1,055,287,950**
Net trading income		**6,166,235,535**	**5,710,728,157**
Other operating income	10	882,696,635	873,019,931
Dividend income	10	103,578,700	61,311,323
		986,275,335	934,331,254
OPERATING INCOME		**7,152,510,870**	**6,645,059,411**
Staff costs	11	(1,209,223,691)	(1,079,080,233)
Premises and equipment costs	11	(211,832,793)	(138,028,337)
General administrative expenses	11	(706,328,291)	(647,506,239)
Depreciation and amortisation	11	(289,418,162)	(143,231,097)
OPERATING EXPENSES		**(2,416,802,937)**	**(2,007,845,906)**
OPERATING PROFIT BEFORE IMPAIRMENT LOSSES AND TAXATION		**4,735,707,933**	**4,637,213,505**
Net impairment losses on loans and advances	18 (c)	(14,167,545)	(179,882,130)
PROFIT BEFORE INCOME TAX	12	**4,721,540,388**	**4,457,331,375**
INCOME TAX EXPENSE	13	(1,358,647,847)	(1,362,712,977)
NET PROFIT FOR THE YEAR AFTER TAX		**3,362,892,541**	**3,094,618,398**
OTHER COMPREHENSIVE INCOME			
Net change in fair value of available for sale financial assets		119,115,809	(1,784,158,894)
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		**119,115,809**	**(1,784,158,894)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,482,008,350**	**1,310,459,504**
BASIC AND DILUTED EARNINGS PER SHARE - (KShs)	14	**116.76**	**107.65**
DIVIDEND PER SHARE - (KShs)	15		
- Final		**26.00**	**26.00**

The notes set out on pages 46 to 104 form an integral part of these financial statements.

Consolidated statement of financial position at 31 December 2012

	Note	2012 KShs	2011 KShs
ASSETS			
Cash and balances with Central Banks	16	8,811,606,556	6,998,087,179
Loans and advances to banks	17	11,726,347,050	9,909,058,869
Loans and advances to customers	18 (a)	87,835,117,691	66,365,869,990
Investment securities	19	29,528,700,092	19,685,791,796
Property and equipment	21	2,592,471,835	1,915,489,873
Intangible asset - Goodwill	22 (a)	1,670,138,590	1,116,975,611
Intangible assets - software	22 (b)	299,547,209	108,047,505
Prepaid operating lease rentals	23	246,104,186	250,883,040
Deferred tax asset	24	382,633,271	324,148,418
Tax recoverable		2,909,947	-
Other assets	25	1,629,495,738	1,389,360,098
TOTAL ASSETS		**144,725,072,165**	**108,063,712,379**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	26	5,834,018,074	2,546,060,409
Deposits from customers	27	111,752,478,623	85,212,903,828
Tax payable		124,113,265	326,369,628
Other liabilities	28	2,168,721,421	1,375,934,460
Long term borrowings	29	5,429,651,683	3,435,773,450
		125,308,983,066	92,897,041,775
Shareholders' equity (Pages 40 & 41)			
Share capital	30 (a)	2,880,245,300	2,880,245,300
Share premium	30 (c)	3,773,237,119	3,773,237,119
Retained earnings		10,247,634,355	7,185,254,003
Revaluation reserve	30 (d)	141,842,012	142,330,963
Statutory credit risk reserve	30 (e)	141,176,203	91,470,947
Translation reserve	30 (f)	98,779,888	124,672,483
Available-for-sale reserve	30 (g)	(193,552,209)	(327,832,140)
Proposed dividends		748,863,778	747,424,874
		17,838,226,446	14,616,803,549
Equity attributable to owners of the company			
Non controlling interest		1,577,862,653	549,867,055
TOTAL SHAREHOLDERS' EQUITY		**19,416,089,099**	**15,166,670,604**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**144,725,072,165**	**108,063,712,379**

The financial statements set out on pages 33 to 104 were approved by the Board of Directors on 21 March 2013 and were signed on its behalf by:

Director SBR Shah **Director** Sarit S Raja Shah **Director** E M Kimani **Secretary** N P Kothari

The notes set out on pages 46 to 104 form an integral part of these financial statements.

Company statement of financial position at 31 December 2012

	Note		2012 KShs	2011 KShs
ASSETS				
Cash and balances with Central Bank of Kenya	16		4,247,943,202	4,194,306,060
Loans and advances to banks	17		1,492,544,276	5,249,410,628
Loans and advances to customers	18	(a)	55,374,812,294	46,778,935,277
Investment securities	19		23,317,885,968	15,638,392,183
Investment in joint venture	20	(a)	1,245,537,610	1,245,537,610
Investment in subsidiary	20	(b)	2,752,188,620	1,122,911,360
Property and equipment	21		1,387,467,275	1,311,990,698
Intangible asset - Goodwill	22	(a)	10,746,998	10,746,998
Intangible assets - Software	22	(b)	164,620,750	41,766,239
Prepaid operating lease rentals	23		246,104,186	250,883,040
Deferred tax asset	24		328,140,174	261,725,834
Tax recoverable			2,909,947	-
Other assets	25		948,721,629	796,665,507
TOTAL ASSETS			**91,519,622,929**	**76,903,271,434**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Deposits from banks	26		4,730,413,541	1,977,206,300
Deposits from customers	27		65,640,244,868	56,943,705,296
Tax payable			-	311,262,090
Other liabilities	28		886,571,435	845,599,170
Long term borrowings	29		3,671,573,436	2,969,262,405
			74,928,803,280	63,047,035,261
Shareholders' equity (Pages 42 & 43)				
Share capital	30	(a)	2,880,245,300	2,880,245,300
Share premium	30	(c)	3,773,237,119	3,773,237,119
Retained earnings			9,217,455,769	6,609,634,053
Revaluation reserve	30	(d)	138,233,119	138,233,119
Statutory credit risk reserve	30	(e)	29,257,971	23,050,924
Available-for-sale reserve	30	(g)	(196,473,407)	(315,589,216)
Proposed dividends			748,863,778	747,424,874
			16,590,819,649	13,856,236,173
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			**91,519,622,929**	**76,903,271,434**

The financial statements set out on pages 33 to 104 were approved by the Board of Directors on 21 March 2013 and were signed on its behalf by:

Director SBR Shah **Director** Sarit S Raja Shah **Director** E M Kimani **Secretary** N P Kothari

The notes set out on pages 46 to 104 form an integral part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2012

	Note	2012 KShs	2011 KShs
Net cash flows from operating activities	31 (a)	**(9,075,364,266)**	**(5,148,080,504)**
Cash flows from investing activities			
Purchase of property and equipment		(382,004,795)	(299,338,272)
Purchase of intangible assets		(321,055,667)	(93,809,317)
Purchase of prepaid operating leases		-	(115,837,471)
Proceeds from disposal of property and equipment		51,944,003	7,581,603
Proceeds from disposal of investment securities		4,700,366,279	7,897,115,309
Net inflow from investment in subsidiary		2,267,085,797	-
Net cash utilised in investing activities		**6,316,335,617**	**7,395,711,852**
Cash flows from financing activities			
Proceeds from issue of share capital net of issue expenses		-	10,000,000
Share premium from issue of share capital net of issue expenses		-	83,022,124
Receipt of long term borrowings		1,618,052,747	1,292,523,320
Dividend paid to shareholders of the company		(747,424,874)	(527,212,930)
Dividend paid to non controlling interests		(32,973,132)	(19,332,747)
Net cash generated from financing activities		**837,654,741**	**838,999,767**
Net (decrease)/increase in cash and cash equivalents	31 (b)	**(1,921,373,908)**	**3,086,631,115**

The notes set out on pages 46 to 104 form an integral part of these financial statements.

Company statement of cash flows for the year ended 31 December 2012

	Note	2012 KShs	2011 KShs
Net cash flows from operating activities	31 (c)	**(9,140,128,494)**	**(4,025,280,104)**
Cash flows from investing activities			
Purchase of property and equipment		(250,545,409)	(175,287,810)
Purchase of intangible assets		(233,080,858)	(57,387,294)
Purchases of prepaid leases		-	(115,837,471)
Proceeds from disposal of property and equipment		2,241,474	7,416,999
Dividends received		103,578,700	61,311,323
Investments in subsidiary		(1,629,277,260)	-
Proceeds on investment securities		4,282,214,532	6,833,035,347
Net cash utilised in investing activities		**2,275,131,179**	**6,553,251,094**
Cash flows from financing activities			
Proceeds from issue of share capital net of issue expenses		-	10,000,000
Share premium from issue of share capital		-	83,022,124
net proceeds of long term borrowings		702,311,031	1,197,330,113
Dividend paid		(747,424,874)	(527,212,930)
Net cash (utilised)/generated from financing activities		**(45,113,843)**	**763,139,307**
Net (decrease)/increase in cash and cash equivalents	31 (d)	**(6,910,111,158)**	**3,291,110,297**

The notes set out on pages 46 to 104 form an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2012

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

The notes set out on pages 46 to 104 form an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2012 (continued)

2012:	Share capital	Share premium	Retained earnings	Statutory credit risk reserve	Revaluation reserve	Available -for-sale reserve	Translation reserve	Proposed dividends	Total	Non controlling interest	Total
	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs
At 1 January 2012	2,880,245,300	3,773,237,119	7,185,254,003	91,470,947	142,330,963	(327,832,140)	124,672,483	747,424,874	14,616,803,549	549,867,055	15,166,670,604
Total comprehensive income for the year											
Net profit after taxation	-	-	3,860,460,435	-	-	-	-	-	3,860,460,435	259,097,026	4,119,557,461
Other comprehensive income											
Translation reserve	-	-	-	-	-	-	(25,892,595)	-	(25,892,595)	9,449,211	(16,443,384)
Revaluation reserve	-	-	488,951	-	(488,951)	-	-	-	-	-	-
Available for sale reserve	-	-	-	-	-	134,279,931	-	-	134,279,931	-	134,279,931
Statutory loan loss reserve	-	-	(49,705,256)	49,705,256	-	-	-	-	-	-	-
Total other comprehensive income	-	-	**(49,216,305)**	**49,705,256**	**(488,951)**	**134,279,931**	**(25,892,595)**	**-**	**108,387,336**	**9,449,211**	**117,836,547**
Total comprehensive income	-	-	**3,811,244,130**	**49,705,256**	**(488,951)**	**134,279,931**	**(25,892,595)**	**-**	**3,968,847,771**	**268,546,237**	**4,237,394,008**
Transactions with owners, recorded directly in equity											
Dividend paid - 2011 Final	-	-	-	-	-	-	-	(747,424,874)	(747,424,874)	(32,973,132)	(780,398,006)
Dividend proposed - 2012 Final	-	-	(748,863,778)	-	-	-	-	748,863,778	-	-	-
Total transactions with owners for the year	-	-	**(748,863,778)**	**-**	**-**	**-**	**-**	**1,438,904**	**(747,424,874)**	**(32,973,132)**	**(780,398,006)**
Changes in ownership interests in subsidiary:											
Non controlling interest on share capital at acquisition of subsidiary	-	-	-	-	-	-	-	-	-	792,422,493	792,422,493
Total changes in ownership interests in subsidiary	-	-	-	-	-	-	-	-	-	792,422,493	792,422,493
Balance as at 31 December 2012	**2,880,245,300**	**3,773,237,119**	**10,247,634,355**	**141,176,203**	**141,842,012**	**(193,552,209)**	**98,779,888**	**748,863,778**	**17,838,226,446**	**1,577,862,653**	**19,416,089,099**

The notes set out on pages 46 to 104 form an integral part of these financial statements.

Company statement of changes in equity for the year ended 31 December 2012

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

The notes set out on pages 46 to 104 form an integral part of these financial statements.

Company statement of changes in equity for the year ended 31 December 2012 (continued)

2012:	Share capital	Share premium	Retained earnings	Statutory credit risk reserve	Available for sale reserve	Revaluation reserve	Proposed dividends	Total
	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs
At 1 January 2012	2,880,245,300	3,773,237,119	6,609,634,053	23,050,924	(315,589,216)	138,233,119	747,424,874	13,856,236,173
Total comprehensive income for the year								
Net profit after taxation	-	-	3,362,892,541	-	-	-	-	3,362,892,541
Other comprehensive income								
Available for sale reserve	-	-	-	-	119,115,809	-	-	119,115,809
Statutory loan loss reserve	-	-	(6,207,047)	6,207,047	-	-	-	-
Total other comprehensive income		**-**	**(6,207,047)**	**6,207,047**	**119,115,809**	**-**	**-**	**119,115,809**
Total comprehensive income	**-**	**-**	**3,356,685,494**	**6,207,047**	**119,115,809**	**-**	**-**	**3,482,008,350**
Transactions with owners recorded directly in equity								
Dividend paid - 2011 final	-	-	-	-	-	-	(747,424,874)	(747,424,874)
Dividend proposed - 2012 final	-	-	(748,863,778)	-	-	-	(748,863,778)	-
Total transactions with owners for the year	**-**	**-**	**(748,863,778)**	**-**	**-**	**-**	**1,438,904**	**(747,424,874)**
Balance as at 31 December 2012	**2,880,245,300**	**3,773,237,119**	**9,217,455,769**	**29,257,971**	**(196,473,407)**	**138,233,119**	**748,863,778**	**16,590,819,649**

The notes set out on pages 46 to 104 form an integral part of these financial statements.

STRENGTH IN DIVERSITY

Speak softly and carry a big stick

African proverb

1. REPORTING ENTITY

I&M Bank LIMITED, a financial institution licensed under the Kenyan Banking Act (Chapter 488), provides corporate and retail banking services in various parts of the country. The Bank is incorporated in Kenya under the Kenyan Companies Act and has subsidiaries in Tanzania, Mauritius and Rwanda as well as a joint venture in Mauritius. The consolidated financial statements of the Bank as at and for the year ended 31 December 2012 comprise the Bank and its subsidiaries and the joint venture (together referred to as the "Group"). The address of its registered office is as follows:

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

The Bank has 50% (2011 - 50%) interest in Bank One Limited, a joint venture in a bank licensed in Mauritius, 55.03% (2011 - 55.03%) shareholding in I&M Bank (T) Limited and effective interest of 54.99% in Banque Commercial Du Rwanda Limited through a 68.742% holding in BCR Investment Company Limited (Mauritius) which owns 80% shareholding in Banque Commerciale Du Rwanda Limited.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

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

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

(c) Functional and presentation currency

These financial statements are presented in Kenya Shillings (KShs), which also 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.

(d) Use of estimates and judgments

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

The estimates and assumptions are based on the Directors' best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

(i) Jointly controlled entity

Jointly controlled entities are accounted for using the proportionate consolidation method. The balance sheet of the Group includes its share of the assets and liabilities and the income statement includes its share of income and the expenses of the jointly controlled entity. The Bank has 50% (2011 - 50%) control over Bank One Limited (formerly First City Bank Limited – Mauritius) with the other joint venturer, CIEL Investments Limited.

(ii) Subsidiary

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

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.

(b) Foreign currencies

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

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

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

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

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

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

(c) Income recognition

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Income recognition (continued)

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

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

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

(i) Net interest income

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

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

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

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

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

(ii) Fee and commission income

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

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

(iii) Net trading income

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

(iv) Rental income – other operating income

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

(v) Dividends

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Income tax expense

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

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

Deferred tax is recognized 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 in a transaction that is not a business combination and which affects neither accounting nor taxable profit.

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

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

(e) Financial assets and liabilities

(i) Recognition

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

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

(ii) Classification

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

i) Financial assets at fair value through profit or loss

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial assets and liabilities (continued)

(ii) Classification (continued)

i) Financial assets at fair value through profit or loss (continued)

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

ii) Loans and receivables

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

iii) Held to maturity

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

iv) Available for sale

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

(iii) Identification and measurement of impairment of financial assets

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

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. Significant assets found not to be specifically impaired are then collectively assessed for any impairment that may have been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortized 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 not consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

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

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial assets and liabilities (continued)

(iii) Identification and measurement of impairment of financial assets

of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognized in the income statement and reflected in an allowance account against loans

and advances. Interest on the impaired asset continues to be recognized 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.

(iv) De-recognition

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

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

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

(v) Offsetting of financial assets and financial liabilities

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

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

(vi) Fair value of financial assets and financial liabilities

Fair value of financial assets and financial liabilities is the amount for which an asset could be exchanged or liability settled between knowledgeable willing parties in an arm's length transaction on the measurement date.

(vii) Amortized cost measurement

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

(f) Cash and cash equivalents

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

(g) Property and equipment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property and equipment (continued)

• **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 and equipment are determined by reference to their carrying amount and are taken into account in determining the operating profit.

(h) Intangible assets

(i) Computer software

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

(ii) Goodwill

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

(i) 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.

(j) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) 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.

(l) 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.

(m) Employee benefits

(i) Defined contribution plan

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

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

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

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

(ii) Defined benefit plans

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.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of the defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The assumptions made in the actuarial valuation of the pension fund are listed in Note 28(a) to the financial statements.

Changes in fair value of the defined benefit plan liability are recognised as personnel expenses in the income statement.

(iii) Leave accrual

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

(iv) Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Employee benefits (continued)

(iv) Share-based payment transactions (continued)

recognised as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are met. The Group acquired shares from the market and recognised the expense in the income statement upfront.

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

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) Related parties

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

(s) 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.

(t) Comparative information

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

(u) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2012, and have not been applied in preparing these consolidated financial statements as follows:

- Amendments to IAS 1*'Presentation of Items of Other Comprehensive Income'* (effective 1 July 2012). The

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. It however does not change the existing option to present profit or loss and other comprehensive income in two statements but changes the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles.

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

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

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

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

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

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

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

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

  The Group is currently in the process of evaluating the potential effect of these standards.

4. RISK MANAGEMENT

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

4. RISK MANAGEMENT (Continued)

(a) Credit risk

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

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

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

The risk that the counter-parties to trading instruments might default on their obligation is monitored on an ongoing basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments over their remaining life.

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

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

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

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

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

4. RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Exposure to credit risk

Company:

Loans and advances to customers	2012 KShs	2011 KShs
Individually impaired:		
Grade 3: Substandard	36,780,491	4,459,551
Grade 4: Impaired – Doubtful	584,310,547	999,994,552
Grade 5: Loss	136,112,314	-
	757,203,352	1,004,454,103
Allowance for impairment	(611,766,979)	(795,650,104)
Carrying amounts	**145,436,373**	**208,803,999**
Collectively impaired:		
Grade 2: Watch	4,062,332,632	6,030,535,384
Grade 1: Normal	51,799,883,776	41,133,694,352
	55,862,216,408	47,164,229,736
Portfolio impairment provision	(632,840,487)	(594,098,458)
Carrying amounts	**55,229,375,921**	**46,570,131,278**
Total carrying amounts	**55,374,812,294**	**46,778,935,277**

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

4. RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Allowances for impairment (continued)

that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write off policy

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

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

Loans and advances	**Gross**	**Net**
	KShs	**KShs**
Company:		
31 December 2012		
Grade 3: Individually impaired	36,780,491	32,623,937
Grade 4: Individually impaired	584,310,547	112,812,436
Grade 5: Loss	136,112,314	-
	757,203,352	**145,436,373**
31 December 2011		
Grade 3: Individually impaired	4,459,551	2,824,936
Grade 4: Individually impaired	999,994,552	205,979,063
	1,004,454,103	**208,803,999**

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 2012 or 2011.

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

Loans and advances to Customers	**2012**	**2011**
	KShs	**KShs**
Company		
Fair value of collateral held:		
- Against impaired loans	**248,384,978**	**232,249,593**

(b) Liquidity risk

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

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

4. RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

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

	2012	2011
At 31 December	35.46%	38.32%
Average for the period	37.94%	37.83%
Highest for the period	43.00%	44.13%
Lowest for the period	35.31%	32.26%

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2012 to the contractual maturity date:

Company 31 December 2012:	Due on demand KShs'000	Due within 3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
LIABILITIES						
Deposits from banks	680,897	2,596,765	1,452,752	-	-	**4,730,414**
Deposits from customers	20,180,008	35,850,976	9,587,061	22,200	-	**65,640,245**
Other liabilities	421,623	464,948	-	-	-	**886,571**
Long-term borrowings	-	205,559	571,918	2,894,096	-	**3,671,573**
At 31 December 2012	**21,282,528**	**39,118,248**	**11,611,731**	**2,916,296**	**-**	**74,928,803**

Company 31 December 2011:	Due on demand KShs'000	Due within 3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
LIABILITIES						
Deposits from banks	322,662	1,484,408	170,136	-	-	**1,977,206**
Deposits from customers	18,861,530	21,552,006	16,492,255	37,914	-	**56,943,705**
Other liabilities	506,543	339,056	-	-	-	**845,599**
Long-term borrowings	-	128,895	352,528	2,133,389	354,450	**2,969,262**
At 31 December 2011	**19,690,735**	**23,504,365**	**17,014,919**	**2,171,303**	**354,450**	**62,735,772**

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

(c) Market risk

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

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

The Board of Directors has delegated responsibility for management of Market Risk to the Board Risk Committee. Exposure to market risk is formally managed within Risk Limits and Policy Guidelines issued by the Board, on recommendation of the Board Risk Committee. ALCO, a Management Committee is charged with the responsibility

4. RISK MANAGEMENT (Continued)

(c) Market risk (continued)

of ensuring implementation and monitoring of the Risk Management framework in line with Policy Guidelines. The Bank is primarily exposed to Interest Rate and Foreign Exchange Risk. The policy guidelines and procedures in place are adequate to effectively manage these risks.

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

31 December 2012:	Due on demand KShs'000	Due within 3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	4,247,943	**4,247,943**
Loans and advances to banks	544,380	948,164	-	-	-	-	**1,492,544**
Loans and advances to customers	21,055,340	3,792,080	2,590,275	15,570,644	12,366,473	-	**55,374,812**
Investment securities	-	5,754,304	4,193,267	5,080,371	8,289,944	-	**23,317,886**
Other assets	-	-	-	-	-	630,614	**630,614**
At 31 December 2012	**21,599,720**	**10,494,548**	**6,783,542**	**20,651,015**	**20,656,417**	**4,878,557**	**85,063,799**
LIABILITIES							
Deposits from banks	680,897	2,596,765	1,452,752	-	-	-	**4,730,414**
Deposits from customers	20,180,008	35,850,976	9,587,061	22,200	-	-	**65,640,245**
Other liabilities	-	-	-	-	-	886,571	**886,571**
Long-term borrowings	-	205,559	571,918	2,894,096	-	-	**3,671,573**
At 31 December 2012	**20,860,905**	**38,653,300**	**11,611,731**	**2,916,296**	**-**	**886,571**	**74,928,803**

4. RISK MANAGEMENT (continued)

(c) Market risk (continued)

31 December 2011:	Due on demand KShs'000	Due within 3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	4,194,306	**4,194,306**
Loans and advances to banks	1,812,148	2,461,623	975,640	-	-	-	**5,249,411**
Loans and advances to customers	18,548,759	1,677,564	2,270,049	14,598,898	9,683,665	-	**46,778,935**
Investment securities	677	395,665	1,982,955	5,806,800	7,452,295	-	**15,638,392**
Other assets	-	-	-	-	-	796,666	**796,666**
At 31 December 2011	**20,361,584**	**4,534,852**	**5,228,644**	**20,405,698**	**17,135,960**	**4,990,972**	**72,657,710**
LIABILITIES							
Deposits from banks	322,662	1,484,408	170,136	-	-	-	**1,977,206**
Deposits from customers	18,861,530	21,552,006	16,492,256	37,913	-	-	**56,943,705**
Other liabilities	-	-	-	-	-	845,599	**845,599**
Long-term borrowings	-	128,895	352,528	2,133,389	354,450	-	**2,969,262**
At 31 December 2011	**19,184,192**	**23,165,309**	**17,014,920**	**2,171,302**	**354,450**	**845,599**	**62,735,772**

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

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

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

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

4. RISK MANAGEMENT (continued)

(c) Market risk (continued)

Currency rate risk

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank's transactional exposure gives rise to foreign currency gains and losses that are recognised in the 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 2012 and 31 December 2011.

31 December 2012:	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with Central Bank of Kenya	192,223	28,651	59,401	-	280,275
Loans and advances to banks	916,603	85,512	160,383	66,717	1,229,215
Loans and advances to customers	19,439,311	627,460	2,148,355	-	22,215,126
Other assets	69,314	1,917	8,221	-	79,452
At 31 December 2012	**20,617,451**	**743,540**	**2,376,360**	**66,717**	**23,804,068**
LIABILITIES					
Deposits from banks	4,192,955	27,028	13,418	1,609	4,235,010
Deposits from customers	9,189,111	1,439,466	2,168,478	29,111	12,826,166
Other liabilities	153,832	7,109	7,556	4,927	173,424
Long-term borrowings	3,048,509	-	22,715	-	3,071,224
At 31 December 2012	**16,584,407**	**1,473,603**	**2,212,167**	**35,647**	**20,305,824**
Net balance sheet position	**4,033,044**	**(730,063)**	**164,193**	**31,070**	**3,498,244**
Net notional off balance sheet position	**(4,380,347)**	**737,495**	**(151,032)**	**(27,031)**	**(3,820,915)**
Overall net position – 2012	**(347,303)**	**7,432**	**13,161**	**4,039**	**(322,671)**

4. RISK MANAGEMENT (continued)

(c) Market risk (continued)

Currency rate risk (continued)

31 December 2011	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
ASSETS					
Cash and balances with Central Bank of Kenya	185,947	27,541	63,455	392	277,335
Loans and advances to banks	2,692,224	1,258,686	1,211,654	67,820	5,230,384
Loans and advances to customers	13,563,249	191,497	2,046,558	-	15,801,304
Other assets	39,372	-	633	-	40,005
At 31 December 2011	**16,480,792**	**1,477,724**	**3,322,300**	**68,212**	**21,349,028**
LIABILITIES					
Deposits from banks	454,716	29,162	-	1,016	484,894
Deposits from customers	10,833,425	1,507,803	3,289,423	49,157	15,679,808
Other liabilities	222,376	6,615	66,031	11,373	306,395
Long-term borrowings	2,325,004	-	44,029	-	2,369,033
At 31 December 2011	**13,835,521**	**1,543,580**	**3,399,483**	**61,546**	**18,840,130**
Net balance sheet position	**2,645,271**	**(65,856)**	**(77,183)**	**6,666**	**2,508,898**
Net notional off balance sheet position	**(2,513,801)**	**62,281**	**87,498**	**(13,060)**	**(2,377,082)**
Overall net position – 2011	**131,470**	**(3,575)**	**10,315**	**(6,394)**	**131,816**

4. RISK MANAGEMENT (continued)

(d) Operational risk

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

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

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

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

(e) Capital management

Regulatory capital

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

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

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

In implementing current capital requirements, the Central Bank of Kenya requires banks to maintain a prescribed ratio of total capital to total risk-weighted assets. Capital adequacy and use of regulatory capital are monitored regularly by management employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Kenya for supervisory purposes.

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

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

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

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

4. RISK MANAGEMENT (continued)

(e) Capital management (continued)

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.

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

Company:	**2012**	**2011**
	KShs	**KShs**
Core capital (Tier 1)		
Share capital	2,880,245,300	2,880,245,300
Share premium	3,773,237,119	3,773,237,119
Retained earnings	9,217,455,769	6,609,634,053
	15,870,938,188	13,263,116,472
Less: Goodwill	(10,746,998)	(10,746,998)
Investment in Joint venture	(1,245,537,610)	(1,245,537,610)
Investment in Subsidiary	(2,752,188,620)	(1,122,911,360)
Total core capital	11,862,464,960	10,883,920,504
Supplementary capital (Tier 2)		
Term subordinated debt	217,500,000	337,500,000
Statutory loan loss reserve	29,257,971	23,050,924
	246,757,971	360,550,924
Total capital	**12,109,222,931**	**11,244,471,428**
Risk weighted assets		
On-balance sheet	55,147,611,000	48,032,609,200
Off-balance sheet	14,700,040,275	12,046,222,600
Total risk weighted assets	**69,847,651,275**	**60,078,831,800**
Deposits from customers	**69,778,981,922**	**57,250,845,000**
Capital ratios		
Core capital/total deposit liabilities (CBK min 8%)	17.00%	19.01%
Core capital /total risk weighted assets (CBK min 8%)	16.98%	18.12%
Total capital /total risk weighted assets (CBK min 12%)	17.34%	18.72%

(f) Compliance and regulatory risk

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

4. RISK MANAGEMENT (continued)

(g) Environmental and social risks

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

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

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(i)(vii). The specific component of total allowances for impairment applies to loans and advances evaluated individually for impairment and is based upon management's best estimate of the present value of cash flows that are expected to be received. In estimating these cash flows, management maKShs. judgements about a debtor's financial situation and the net realizable value of any underlying collateral. Estimate of cash flows considered recoverable are independently approved by the Credit Risk committee.

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

Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. All financial instruments are initially recognized at fair value, which is normally the transaction price. Subsequent to initial recognition, some of the Group's financial instruments are carried at fair value. The fair values of quoted financial instruments in active markets are based on current prices with no subjective judgments. If the market for a financial instrument does not exist or is not active including for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data. The fair value for the majority of the Group's financial instruments is based on observable market prices or derived from observable market parameters.

Income taxes

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

5. USE OF ESTIMATES AND JUDGEMENT (continued)

Property and equipment

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

Impairment of goodwill

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

Critical accounting judgements in applying the Bank's accounting policies

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

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

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 2012:	Held to maturity KShs'000	Loans and receivables KShs'000	Available -for-sale KShs'000	Other amortised cost KShs'000	Total carrying amount KShs'000	Fair values KShs'000
Financial assets						
Cash and balances with Central Bank of Kenya	-	-	-	4,247,943	4,247,943	4,247,943
Investment securities	17,066,427	-	6,251,459	-	23,317,886	23,317,886
Loans and advances to banks	-	1,492,544	-	-	1,492,544	1,492,544
Loans and advances to customers	-	55,374,812	-	-	55,374,812	55,374,812
Other assets	-	-	-	630,614	630,614	630,614
	17,066,427	**56,867,356**	**6,251,459**	**4,878,557**	**85,063,799**	**85,063,799**
Financial liabilities						
Deposits from banks	-	-	-	4,730,414	4,730,414	4,730,414
Deposits from customers	-	-	-	65,640,245	65,640,245	65,640,245
Long term borrowings	-	-	-	3,671,573	3,671,573	3,671,573
Other liabilities	-	-	-	886,571	886,571	886,571
	-	**-**	**-**	**74,928,803**	**74,928,803**	**74,928,803**

6. FINANCIAL ASSETS AND LIABILITIES (continued)

Accounting classifications and fair values (continued)

31 December 2011:	Held to maturity KShs'000	Loans and receivables KShs'000	Available -for-sale KShs'000	Other amortised cost KShs'000	Total carrying amount KShs'000	Fair values KShs'000
Financial assets						
Cash and balances with Central Bank of Kenya	-	-	-	4,194,306	4,194,306	4,194,306
Investment securities	9,147,812	-	6,490,580	-	15,638,392	15,638,392
Loans and advances to banks	-	5,249,411	-	-	5,249,411	5,249,411
Loans and advances to customers	-	46,778,935	-	-	46,778,935	46,778,935
Other assets	-	-	-	354,041	354,041	354,041
	9,147,812	**52,028,346**	**6,490,580**	**4,548,347**	**72,215,085**	**72,215,085**
Financial liabilities						
Deposits from banks	-	-	-	1,977,206	1,977,206	1,977,206
Deposits from customers	-	-	-	56,943,705	56,943,705	56,943,705
Long term borrowings	-	-	-	2,969,262	2,969,262	2,969,262
Other liabilities	-	-	-	845,599	845,599	845,599
	-	**-**	**-**	**62,735,772**	**62,735,772**	**62,735,772**

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 determine the fair value of 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.

7. INTEREST INCOME

	2012 KShs	2011 KShs
(a) Group		
Loans and advances to customers	11,221,178,536	7,125,260,716
Loans and advances to banks	569,112,539	72,860,113
Investment securities:		
- Held-to-maturity	1,560,223,316	1,049,150,301
- Available-for-sale	657,135,085	783,859,622
	14,007,649,476	**9,031,130,752**
(b) Company		
Loans and advances to customers	8,756,660,611	5,608,041,124
Loans and advances to banks	456,726,623	32,131,164
Investment securities:		
- Held-to-maturity	1,098,271,613	780,220,311
- Available-for-sale	654,728,381	750,872,881
	10,966,387,228	**7,171,265,480**

8. INTEREST EXPENSE

	2012 KShs	2011 KShs
(a) Group		
Deposits from customers	7,021,530,255	3,001,337,288
Deposits from banks	425,520,571	466,937,522
	7,447,050,826	**3,468,274,810**
(b) Company		
Deposits from customers	5,706,987,639	2,120,839,632
Deposits from banks	328,233,924	394,985,641
	6,035,221,563	**2,515,825,273**

9. NET FEE AND COMMISSION INCOME

	2012 KShs	2011 KShs
(a) Group		
Fee and commission income		
Commissions	1,236,164,814	963,139,043
Service fees	545,561,025	397,461,560
	1,781,725,839	**1,360,600,603**
Fee and commission expense		
Inter bank transaction fees	(30,893,934)	(33,589,998)
Other	(86,611,686)	(40,970,533)
	(117,505,620)	**(74,560,531)**
Net fee and commission income	**1,664,220,219**	**1,286,040,072**
(b) Company		
Fee and commission income		
Commissions	826,364,910	706,526,490
Service fees	439,904,296	388,326,061
	1,266,269,206	**1,094,852,551**
Fee and commission expense		
Inter bank transaction fees	(26,776,416)	(30,359,435)
Other	(4,422,920)	(9,205,166)
	(31,199,336)	**(39,564,601)**
Net fee and commission income	**1,235,069,870**	**1,055,287,950**

10. OTHER INCOME

	2012 KShs	2011 KShs
(a) Other operating income		
(i) Group		
Income from foreign exchange dealings	1,284,965,207	722,675,599
Rental income	79,343,178	70,616,073
Profit on sale of property and equipment	28,823,619	4,680,060
Profit on sale of available-for-sale investment securities	206,499,347	301,658,206
Other	88,986,763	10,923,867
	1,688,618,114	**1,110,553,805**
(ii) Company		
Income from foreign exchange dealings	549,024,052	476,155,467
Rental income	77,575,884	70,616,073
Profit on sale of property and equipment	1,716,657	4,680,060
Profit on sale of available-for-sale investment securities	210,335,118	301,245,059
Management fees	20,796,942	17,695,000
Other	23,247,982	2,628,272
	882,696,635	**873,019,931**
(b) Dividend income		
(i) Company		
Dividend from subsidiary	61,278,700	23,657,573
Dividend from joint venture	42,300,000	37,653,750
	103,578,700	**61,311,323**

11. OPERATING EXPENSES

	2012 KShs	2011 KShs
(a) Group		
Staff costs		
Salaries and wages	1,640,053,293	1,064,662,835
Contributions to defined benefit and contribution plan	67,480,214	38,636,644
Other staff costs	439,671,010	380,791,666
	2,147,204,517	**1,484,091,145**
Premises and equipment costs		
Rental of premises	165,416,617	116,887,380
Electricity	35,444,179	21,885,267
Other premises and equipment costs	147,911,121	62,270,625
	348,771,917	**201,043,272**
General administration expenses		
Deposit protection fund contribution	96,221,362	70,533,160
Loss on disposal of property and equipment	131,054	868,954
General administrative expenses	1,089,938,357	794,375,526
	1,186,290,773	**865,777,640**
Depreciation and amortisation		
Leasehold improvements	64,316,079	43,526,153
Fixtures, fittings and equipment	85,967,711	54,368,655
Computers	62,535,134	14,707,726
Motor vehicles	25,025,100	12,838,938
Leasehold building	52,084,575	26,514,534
Depreciation on property and equipment (Note 21)	289,928,599	151,956,006
Amortisation of intangible assets (Note 22(b))	143,047,875	48,187,261
Amortisation of prepaid operating lease rentals (Note 23)	4,778,854	4,549,128
	437,755,328	**204,692,395**
(b) Company		
Staff costs		
Salaries and wages	953,616,965	830,601,912
Contributions to defined contribution plan	36,296,563	27,298,445
Other staff costs	219,310,163	221,179,876
	1,209,223,691	**1,079,080,233**

11. OPERATING EXPENSES (continued)

	2012 KShs	2011 KShs
Premises and equipment costs		
Rental of premises	93,697,778	78,910,412
Electricity	13,311,866	11,202,053
Other premises and equipment costs	104,823,149	47,915,872
	211,832,793	**138,028,337**
General administration expenses		
Deposit protection fund contribution	79,455,956	63,520,361
Loss on disposal of property and equipment	131,054	868,954
General administrative expenses	626,741,281	583,116,924
	706,328,291	**647,506,239**
Depreciation and amortisation		
Leasehold improvements	64,316,079	38,723,640
Fixtures, fittings and equipment	36,104,654	30,931,968
Computers	49,400,503	10,206,834
Motor vehicles	4,626,750	6,335,915
Leasehold building	19,964,974	19,964,974
Depreciation on property and equipment (Note 21)	174,412,960	106,163,331
Amortisation of intangible assets (Note 22(b))	110,226,348	32,518,638
Amortisation of prepaid operating lease rentals (Note 23)	4,778,854	4,549,128
	289,418,162	**143,231,097**

12. PROFIT BEFORE INCOME TAX

	2012	2011
	KShs	KShs
Group		
Profit before income tax is arrived at after charging/(crediting):		
Staff costs (note 11(a))	2,147,204,517	1,484,091,145
Depreciation	289,928,599	151,956,006
Amortisation of intangible assets	143,047,875	48,187,261
Directors' emoluments: - Fees	52,640,759	17,938,706
- Other	20,683,289	15,172,127
Auditors' remuneration	11,414,892	9,956,194
Amortisation of prepaid operating lease rentals	4,778,854	4,549,128
Net profit on sale of property and equipment	(1,626,755)	(3,811,106)
Company		
Profit before income tax is arrived at after charging/(crediting):		
Staff costs (Note 11(b))	1,209,223,691	1,079,080,233
Depreciation	174,412,961	106,163,331
Amortisation of intangible assets	110,226,347	32,518,638
Directors' emoluments: - Fees	8,410,000	9,690,000
- Other	18,000,000	14,427,024
Auditors' remuneration	3,700,000	3,480,000
Amortisation of prepaid operating lease rentals	4,778,854	4,549,128
Net profit on sale of property and equipment	(1,585,603)	(3,811,106)

13. INCOME TAX EXPENSE

	2012	2011
	KShs	KShs
(a) Group		
Current year's tax	1,714,211,483	1,484,023,032
Under provision in prior year - Current tax	(41,564,338)	16,218,464
Over provision in prior year - Deferred tax	-	4,159,822
	1,672,647,145	1,504,401,318
Deferred tax credit (Note 24)	(59,527,812)	(23,232,599)
Income tax expense	**1,613,119,333**	**1,481,168,719**

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

	2012	2011
	KShs	KShs
Accounting profit before taxation	5,732,676,794	4,953,892,690

13. INCOME TAX EXPENSE (continued)

	2012 KShs	2011 KShs
Computed tax using the applicable corporation tax rate	1,681,911,196	1,425,360,544
Under provision in the prior year	(41,564,338)	16,218,464
Effect on non-deductible costs	(27,227,525)	39,589,711
	1,613,119,333	**1,481,168,719**

(b) Company

	2012 KShs	2011 KShs
Current year's tax at 30%	1,466,626,525	1,377,506,587
Under provision in prior year - Current tax	(41,564,338)	16,218,464
Over provision in prior year - Deferred tax	-	4,159,822
	1,425,062,187	1,397,884,873
Deferred tax credit (Note 24)	(66,414,340)	(35,171,896)
Income tax expense	**1,358,647,847**	**1,362,712,977**

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

	2012 KShs	2011 KShs
Accounting profit before taxation	**4,721,540,388**	**4,457,331,375**
Computed tax using the applicable corporation tax rate at 30%	1,416,462,116	1,337,199,413
Under provision in the prior year	(41,564,338)	16,218,464
Effect on non-deductible costs	(16,249,931)	9,295,100
	1,358,647,847	**1,362,712,977**

14. EARNINGS PER SHARE

	Consolidated		Company	
	2012	2011	2012	2011
Net profit after tax for the year (KShs)	**3,860,460,435**	**3,384,037,932**	**3,362,892,541**	**3,094,618,398**
Weighted average number of ordinary shares in issue during the year	**28,802,453**	**28,747,111**	**28,802,453**	**28,747,111**
Earnings per share (KShs)	**134.03**	**117.72**	**116.76**	**107.65**

There were no potentially dilutive shares outstanding at 31 December 2012 (2011 – Nil).

15. DIVIDEND PER SHARE

	2012 KShs	2011 KShs
The calculation of dividend per share is based on:		
Final dividend proposed during the year (KShs)	**748,863,778**	**747,424,874**
Weighted average number of ordinary shares in issue during the year	**28,802,453**	**28,747,111**
Final dividend per share (KShs)	**26.00**	**26.00**

16. CASH AND BALANCES WITH CENTRAL BANKS

	2012 KShs	2011 KShs
(a) Group		
Cash on hand	1,640,168,154	762,300,573
Balances with Central Bank of Kenya:		
- Restricted balances (Cash Reserve Ratio)	6,264,300,857	4,000,077,056
- Unrestricted balances	907,137,545	2,235,709,550
	8,811,606,556	**6,998,087,179**
(b) Company		
Cash on hand	584,557,853	519,827,690
Balances with Central Bank of Kenya:		
- Restricted balances (Cash Reserve Ratio)	3,330,932,010	2,877,257,303
- Unrestricted balances	332,453,339	797,221,067
	4,247,943,202	**4,194,306,060**

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 2012, the Cash Reserve Ratio requirement was 5.25% of all deposits (2011 – 5.25%).

17. LOANS AND ADVANCES TO BANKS

	2012 KShs	2011 KShs
(a) Group		
Due within 90 days	11,726,347,050	8,905,790,257
Due after 90 days	-	1,003,268,612
	11,726,347,050	**9,909,058,869**
(b) Company		
Due within 90 days	1,492,544,276	4,246,142,016
Due after 90 days	-	1,003,268,612
	1,492,544,276	**5,249,410,628**

The company's weighted average effective interest rate on loans and advances to banks at 31 December 2012 was 4.30% (2011 – 2.73%).

18. LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

	2012 KShs	2011 KShs
(i) Group		
Overdrafts	29,321,635,911	24,270,748,047
Loans	57,527,353,843	42,134,382,102
Bills discounted	662,384,822	234,174,535
Hire purchase	2,238,412,326	1,666,024,340
Gross loans and advances	89,749,786,902	68,305,329,024
Less: Impairment losses on loans and advances	(1,914,669,211)	(1,939,459,034)
Net loans and advances	**87,835,117,691**	**66,365,869,990**
Repayable on demand	26,568,019,531	22,287,397,498
Less than 3 months	6,861,743,348	3,030,274,023
3 months to 1 year	9,030,228,846	6,729,571,251
1 to 5 years	27,880,943,407	21,981,967,417
5 to 10 years	15,671,235,810	12,095,191,924
Over 10 years	3,737,615,960	2,180,926,911
Gross loans and advances	**89,749,786,902**	**68,305,329,024**

18. LOANS AND ADVANCES TO CUSTOMERS (continued)

(a) Classification (continued)

	2012 KShs	2011 KShs
(ii) Company		
Overdrafts	20,794,791,885	18,720,925,713
Loans	33,724,687,813	27,872,505,327
Bills discounted	662,384,822	234,174,535
Hire purchase	1,437,555,240	1,341,078,265
Gross loans and advances	56,619,419,760	48,168,683,840
Less: Impairment losses on loans and advances	(1,244,607,466)	(1,389,748,563)
Net loans and advances	**55,374,812,294**	**46,778,935,277**
Repayable on demand	22,299,948,866	19,938,506,040
Less than 3 months	3,792,079,885	1,677,564,373
3 months to 1 year	2,590,274,895	2,270,049,384
1 to 5 years	15,570,643,952	14,598,898,295
5 to 10 years	10,942,725,959	8,793,152,373
Over 10 years	1,423,746,203	890,513,375
Gross loans and advances	**56,619,419,760**	**48,168,683,840**

(b) Impairment losses reserve

(i) Group

2012:	Specific impairment losses KShs	Portfolio impairment provision KShs	Total KShs
At 1 January 2012	1,211,695,494	727,763,540	1,939,459,034
Acquisition of subsidiary	140,919,837	57,416,864	198,336,701
Impairment made in the year	151,603,725	117,205,960	268,809,685
Recoveries and impairment no longer required	(163,217,794)	-	- (163,217,794)
Net recoveries, write offs and interest suspended during the year	(33,882,501)	-	(33,882,501)
Amounts written off during the year	(282,008,370)	-	(282,008,370)
Translation difference	(8,828,135)	(3,999,409)	(12,827,544)
At 31 December 2012	**1,016,282,256**	**898,386,955**	**1,914,669,211**

18. LOANS AND ADVANCES TO CUSTOMERS (continued)

(b) Impairment losses reserve (continued)

2011:	Specific impairment losses KShs	Portfolio impairment provision KShs	Total KShs
At 1 January 2011	1,070,790,553	581,643,049	1,652,433,602
Acquisition of subsidiary	-	-	-
Impairment made in the year	224,629,445	135,232,322	359,861,767
Recoveries and impairment no longer required	(108,911,404)	-	(108,911,404)
Net recoveries, write offs and interest suspended during the year	8,843,241	-	8,843,241
Amounts written off during the year	(13,832,811)	-	(13,832,811)
Translation difference	30,176,470	10,888,169	41,064,639
At 31 December 2011	**1,211,695,494**	**727,763,540**	**1,939,459,034**

(ii) Company

2012	Specific impairment losses KShs	Portfolio impairment provision KShs	Total KShs
At 1 January 2012	795,650,105	594,098,458	1,389,748,563
Impairment made in the year	76,143,955	38,742,029	114,885,984
Recoveries and impairment no longer required	(100,754,240)	-	(100,754,240)
Net recoveries, write offs and interest suspended during the year	(53,996,373)	-	(53,996,373)
Amounts written off during the year	(105,276,468)	-	(105,276,468)
At 31 December 2012	**611,766,979**	**632,840,487**	**1,244,607,466**
2011:			
At 1 January 2011	746,078,522	470,295,687	1,216,374,209
Impairment made in the year	152,141,742	123,802,771	275,944,513
Recoveries and impairment no longer required	(96,062,383)	-	(96,062,383)
Net recoveries,write offs and interest suspended during the year	(2,616,061)	-	(2,616,061)
Amounts written off during the year	(3,891,715)	-	(3,891,715)
At 31 December 2011	**795,650,105**	**594,098,458**	**1,389,748,563**

18. LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) Impairment losses on loans and advances

	2012 KShs	2011 KShs
(i) Group		
Impairment made in the year	268,809,685	359,861,767
Recoveries and impairment no longer required	(163,217,794)	(108,911,404)
Recoveries of loans and advances written off	(46,565,797)	(997,686)
Amounts directly written off during the year	1,711,560	-
	60,737,654	**249,952,677**
(ii) Company		
Impairment made in the year	114,885,984	275,944,513
Recoveries and impairment no longer required	(100,754,240)	(96,062,383)
Amounts directly written off during the year	35,801	-
	14,167,545	**179,882,130**

(d) Non-performing loans and advances - Company

The company's loans and advances include an amount of KShs 145,436,378 (2011 – KShs 410,356,104) net of impairment losses which are non-performing. The estimated realisable value of securities held against this balance is KShs 248,384,978 (2011 – KShs 232,249,593).

	2012 KShs	2011 KShs
Interest on impaired loans and advances which has not yet been received in cash	**266,442,983**	**320,439,342**

The company's weighted average effective interest rate on loans and advances to customers at 31 December 2012 was 16.63% (2011 – 12.36%).

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

(e) Loans and advances concentration by sector - Company

	2012 KShs	%	2011 KShs	%
Manufacturing	14,809,540,634	26.16	11,824,818,120	24.55
Wholesale and retail trade	5,810,773,015	10.26	4,736,004,137	9.83
Building and construction	5,266,524,225	9.30	4,308,816,570	8.95
Agriculture	3,060,657,990	5.41	3,325,263,809	6.90
Real estate	10,325,352,350	18.24	8,467,872,872	17.58
Transport and communication	3,143,923,638	5.55	2,287,773,038	4.75
Business services	11,297,283,397	19.95	11,506,925,919	23.89
Electricity and water	97,358,068	0.17	102,628,526	0.21
Finance and insurance	119,024,995	0.21	65,873,845	0.14
Mining and quarrying	230,556,868	0.41	130,623,373	0.27
Others	2,458,424,580	4.34	1,412,083,631	2.94
	56,619,419,760	**100.00**	**48,168,683,840**	**100.00**

(f) Finance leases - Company

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

	2012 KShs	2011 KShs
Receivable no later than 1 year	208,276,529	182,600,033
Receivable later than 1 year and no later than 5 years	1,229,278,712	1,158,478,232
	1,437,555,241	**1,341,078,265**

19. INVESTMENT SECURITIES

(a) Group

	2012 KShs	2011 KShs
Available-for-sale		
Medium term notes	-	68,176,680
Corporate bonds available-for-sale	897,936,569	1,072,597,058
Treasury bonds - available-for-sale	5,408,796,453	5,113,296,781
Total available-for-sale	6,306,733,022	6,254,070,519
Held-to-maturity		
Treasury bonds	11,495,807,078	11,517,911,630
Treasury bills	11,113,447,270	1,254,947,902
Other investment securities	612,712,722	658,861,745
Total held to maturity	23,221,967,070	13,431,721,277
Total investment securities	**29,528,700,092**	**19,685,791,796**

19. INVESTMENT SECURITIES (Continued)

	2012 KShs	2011 KShs
(b) Company		
Available-for-sale		
Medium term notes	-	68,176,680
Corporate bonds available-for-sale	864,613,516	993,517,331
Treasury bonds - available-for-sale	5,386,845,201	5,113,296,781
Total available-for-sale	6,251,458,717	6,174,990,792
Held-to-maturity		
Treasury bonds	8,949,705,918	9,415,490,391
Treasury bills	8,116,721,333	47,911,000
Total held to maturity	17,066,427,251	9,463,401,391
Total investment securities	**23,317,885,968**	**15,638,392,183**

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

	Treasury bonds and bills KShs	Corporate bond KShs	Medium term floating notes KShs	Total KShs
31 December 2012:				
At 1 January	14,576,698,173	993,517,330	68,176,680	15,638,392,183
Additions	11,750,000,000	-	-	11,750,000,000
Disposals and maturities	(3,899,000,000)	(110,887,500)	(67,500,000)	(4,077,387,500)
Changes in fair value	134,564,618	(15,448,809)	-	119,115,809
Amortisation of discounts and premiums	(8,948,151)	(293,486)	-	(9,241,637)
Unearned interest	(145,598,273)		-	(145,598,273)
Interest receivable	45,556,085	(2,274,019)	(676,680)	42,605,386)
At 31 December	**22,453,272,452**	**864,613,516**	**-**	**23,317,885,968**
31 December 2011:				
At 1 January	16,776,617,130	1,006,625,080	136,353,699	17,919,595,909
Additions	7,803,750,000	-	-	7,803,750,000
Disposals and maturities	(7,851,700,000)	-	(67,500,000)	(7,919,200,000)
Changes in fair value	(1,769,681,949)	(14,476,946)	-	(1,784,158,895)
Amortisation of discounts and premiums	22,211,531	328,785	-	22,540,316
Unearned interest	(415,549,752)	-	-	(415,549,752)
Interest receivable	11,051,213	1,040,411	(677,019)	11,414,605
At 31 December	**14,576,698,173**	**993,517,330**	**68,176,680**	**15,638,392,183**

19. INVESTMENT SECURITIES (Continued)

The weighted average effective interest rate on Government securities at 31 December 2012 was 9.40% (2011 – 10.56%).

The weighted average effective interest rate on corporate bonds at 31 December 2012 was 11.67% (2011 – 12.05%).

The weighted average effective interest rate on medium floating term notes at 31 December 2012 was 6.97% (2011 – 5.99%).

At 31 December 2012, unamortized premiums on investment securities amounted to KShs 329,138,430 (2011 – KShs 348,354,376) and unamortized discounts amounted to KShs 439,883,297 (2011 – KShs 313,500,970).

20. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES

(a) Investment in joint venture

Company	Activity	Beneficial ownership %	2012 KShs	2011 KShs
Bank One Limited	Commercial banking	50	**1, 245,537,610**	**1, 245,537,610**

(b) Investment in subsidiaries

Company	Activity	Beneficial ownership %	2012 KShs	2011 KShs
I&M Bank (T) Limited	Commercial banking	55.03	1,122,911,360	1,122,911,360
Banque Commerciale Du Rwanda	Commercial banking	54.99	1,629,277,260	-
			2,752,188,620	**1,122,911,360**

(c) Acquisition during the year

Acquisition of BCR investment Company Limited (BCRICL) and Banque Commerciale Du Rwanda had the following effect:

Investment in BCR and BCRICL

The acquisition of BCR and BCRICL had the following effect on the consolidated assets and liabilities on the acquisition date

	BCR	BCRICL	Total
	KShs	KShs	KShs
Cash and balances with Central Bank	1,025,455,610	388,905	1,025,844,515
Loans and advances to banks	3,021,485,973	-	3,021,485,973
Loans and advances to customers	6,791,697,267	-	6,791,697,267
Investment Securities	2,918,283,278	-	2,918,283,278
Property and equipment	617,271,240	-	617,271,240
Intangible assets – Software	14,323,675	-	14,323,675
Other assets	466,458,412	-	466,458,412
Deposits from banks	(150,967,431)	-	(150,967,431)
Deposits from customers	(11,472,117,880)	-	(11,472,117,880)
Tax payable	(58,664,054)	-	(58,664,054)
Other liabilities	(875,946,746)	(2,190,065)	(878,136,811)
Long term borrowings	(375,825,486)	-	(375,825,486)
Divindend payable	(159,514,476)	107,855,040	(51,659,436)
Net identifiable assets	**1,761,939,382**	**106,053,880**	**1,867,993,262**
Non controlling interest			(792,422,470)
Attributable to company			1,075,570,792
Goodwill on acquisition (Note 22)			553,706,468
Investment in subsidiaries and consideration paid in cash			**1,629,277,260**
Cash acquired			3,896,363,057
Net cash inflow (Consolidated cash flow - 2012)			**2,267,085,797**

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

21. PROPERTY AND EQUIPMENT- GROUP AND COMPANY

(a) Group

2012:	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 2012	1,354,285,700	534,082,076	757,040,010	207,309,198	73,598,194	50,635,507	2,976,950,685
Acquisition of Subsidiary	459,640,679	-	312,314,929	174,279,591	156,058,557	37,050,345	1,139,344,101
Additions	19,786,210	83,609,601	86,799,602	139,603,895	25,039,526	27,165,961	382,004,795
Reclassifications	-	(53,459,155)	88,171,349	2,544,806	-	(37,257,000)	-
Transfers	36,160,328	-	19,588,120	-	-	(55,748,448)	-
Disposals/write off	(22,129,981)	-	(14,863,596)	(10,459,351)	(7,952,556)	-	(55,405,484)
Translation difference	(10,686,622)	1,105,606	(8,200,065)	(312,060)	(833,926)	1,004,612	(17,922,455)
At 31 December 2012	1,837,056,314	565,338,128	1,240,850,349	512,966,079	245,909,795	22,850,977	4,424,971,642
Depreciation							
At 1 January 2012	103,381,866	252,606,682	492,212,320	162,908,004	50,351,940	-	1,061,460,812
Acquisition of Subsidiary	68,150,401	-	184,142,690	160,018,201	109,761,570	-	522,072,862
Reclassifications	-	(4,863,944)	6,214,293	(1,351,899)	1,550	-	-
Charge for the year	52,084,575	64,316,079	85,967,711	62,535,134	25,025,100	-	289,928,599
On disposals	-	-	(14,440,357)	(10,445,838)	(7,267,851)	-	(32,154,046)
Translation difference	(1,404,614)	99,383	(6,575,872)	(318,117)	(609,200)	-	(8,808,420)
At 31 December 2012	222,212,228	312,158,200	747,520,785	373,345,485	177,263,109	-	1,832,499,807
Net book value At 31 December 2012	**1,614,844,086**	**253,179,928**	**493,329,564**	**139,620,594**	**68,646,686**	**22,850,977**	**2,592,471,835**

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

(a) Group (continued)

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

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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

(b) Company

2012:	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 2012	950,000,000	481,077,767	377,415,388	161,692,195	38,051,210	-	2,008,236,560
Additions	-	83,609,601	49,192,115	117,743,693	-	-	250,545,409
Reclassification	-	650,760	(1,960,349)	1,309,589	-	-	-
Transfers	-	-	-	-	-	-	-
Disposals	-	-	(6,570,906)	(10,459,351)	(3,597,500)	-	(20,627,757)
At 31 December 2012	950,000,000	565,338,128	418,076,248	270,286,126	34,453,710	-	2,238,154,212
Depreciation							
At 1 January 2012	54,903,677	247,842,121	223,537,940	140,062,664	29,899,460	-	696,245,862
Reclassification	-	-	(163,699)	163,699	-	-	-
Charge for the year	19,964,974	64,316,079	36,104,654	49,400,503	4,626,750	-	174,412,960
On disposals	-	-	(6,203,548)	(10,445,837)	(3,322,500)	-	(19,971,885)
At 31 December 2012	74,868,651	312,158,200	253,275,347	179,181,029	31,203,710	-	850,686,937
Net book value At 31 December 2012	**875,131,349**	**253,179,928**	**164,800,901**	**91,105,097**	**3,250,000**	**-**	**1,387,467,275**

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

(b) Company (continued)

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

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 423,653,667 (2011 – KShs 391,435,175) 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 86,583,778 (2011 – KShs 81,458,365).

22. INTANGIBLE ASSETS

(a) Goodwill

	2012 KShs	2011 KShs
(i) Group:		
Bank One Limited	475,405,651	475,405,651
I&M Bank (T) Limited	608,952,549	608,952,549
Biashara Bank of Kenya Limited	10,746,998	10,746,998
Banque Commerciale Du Rwanda (Note 20(c))	553,706,468	-
	1,648,811,666	1,095,105,198
In Bank One - At 1 January	21,870,413	19,988,739
Translation difference	(543,489)	1,881,674
In Bank One - At 31 December	21,326,924	21,870,413
Carrying amount at 31 December	**1,670,138,590**	**1,116,975,611**
(ii) Company		
Goodwill on assets purchased from Biashara Bank of Kenya Limited	**10,746,998**	**10,746,998**

(b) Computer software

(i) Group

2012:	Software KShs	Capital work in progress KShs	Total KShs
Cost			
At 1 January as previously stated	449,807,288	-	449,807,288
Acquisition of subsidiary	155,686,058	-	155,686,058
Additions	242,090,600	78,965,067	321,055,667
Exchange differences	(3,147,503)	-	(3,147,503)
At 31 December	844,436,443	78,965,067	923,401,510
Amortisation			
At 1 January as previously stated	341,759,783	-	341,759,783
Acquisition of subsidiary	141,362,384	-	141,362,384
Amortisation for the year	143,047,875	-	143,047,875
Exchange differences	(2,315,741)	-	(2,315,741)
	623,854,301	-	623,854,301
Net carrying amount at 31 December 2012	**220,582,142**	**78,965,067**	**299,547,209**

22. INTANGIBLE ASSETS (continued)

(b) Computer software (continued)

(i) Group (continued)

2011:	**Software KShs**	**Capital work in progress KShs**	**Total KShs**
Cost			
At 1 January as previously stated	346,276,883	-	346,276,883
Acquisition of JV/subsidiary	-	-	-
Additions	93,809,317	-	93,809,317
Exchange differences	9,721,088	-	9,721,088
At 31 December	449,807,288	-	449,807,288
Amortisation			
At 1 January as previously stated	287,102,831	-	287,102,831
Acquisition of subsidiary	-	-	-
Amortisation for the year	48,187,261	-	48,187,261
Exchange differences	6,469,691	-	6,469,691
	341,759,783	-	341,759,783
Net carrying amount at 31 December 2011	**108,047,505**	**-**	**108,047,505**

(ii) Company

2012:	**Software KShs**	**Capital work in progress KShs**	**Total KShs**
Cost			
At 1 January as previously stated	293,756,481	-	293,756,481
Additions	154,115,792	78,965,067	233,080,859
At 31 December	447,872,273	78,965,067	526,837,340
Amortisation			
At 1 January as previously stated	251,990,242	-	251,990,242
Amortisation for the year	110,226,348	-	110,226,348
	362,216,590	-	362,216,590
Net carrying amount at 31 December 2012	**85,655,683**	**78,965,067**	**164,620,750**

22. INTANGIBLE ASSETS (continued)

(b) Computer software (continued)

(ii) Company (continued)

2011:	Software KShs	Capital work in progress KShs	Total KShs
Cost			
At 1 January as previously stated	236,369,187	-	236,369,187
Additions	57,387,294	-	57,387,294
At 31 December	293,756,481	-	293,756,481
Amortisation			
At 1 January as previously stated	219,471,604	-	219,471,604
Amortisation for the year	32,518,638	-	32,518,638
	251,990,242	-	251,990,242
Net carrying amount at 31 December 2011	**41,766,239**	**-**	**41,766,239**

The company's assets with a gross value of KShs 199,675,209 (2011 – KShs 183,463,137) 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

	2012 KShs	2011 KShs
Group and Company		
Cost		
At 1 January and 31 December	262,952,943	147,115,472
Additions	-	115,837,471
At 31 December	262,952,943	262,952,943
Amortisation		
At 1 January	12,069,903	7,520,775
Charge for the year	4,778,854	4,549,128
At 31 December	16,848,757	12,069,903
Net carrying amount at 31 December	**246,104,186**	**250,883,040**

24. DEFERRED TAX ASSET

Deferred tax assets at 31 December 2012 and 31 December 2011 are attributable to the following:

(a) Group

2012:	Balance at 1 January	Prior year under/(over) provision	Exchange difference	Recognised in income statement	Balance at 31 December
	KShs	KShs	KShs	KShs	KShs
Property and equipment	1,576,960	-	10,297	32,645,107	34,232,364
General provisions	262,677,689	-	(1,326,801)	2,594,025	263,944,913
Other provisions	59,893,769	-	273,545	24,288,680	84,455,994
	324,148,418	**-**	**(1,042,959)**	**59,527,812**	**382,633,271**

2011:	Balance at 1 January	Prior year under/(over) provision	Exchange difference	Recognised in income statement	Balance at 31 December
Property and equipment	5,296,396	(4,159,822)	(2,198,485)	2,638,871	1,576,960
General provisions	226,496,280	-	5,811,173	30,370,236	262,677,689
Other provisions	45,824,224	-	610,314	13,459,231	59,893,769
Tax losses	22,191,234	-	1,044,505	(23,235,739)	-
	299,808,134	**(4,159,822)**	**5,267,507**	**23,232,599**	**324,148,418**

(b) Company

2012:	Balance at 1 January	Prior year under/(over) provision	Recognised in income statement	Balance at 31 December
	KShs	KShs	KShs	KShs
Property and equipment	33,492,650	-	30,239,140	63,731,790
General provisions	178,229,537	-	11,622,609	189,852,146
Other provisions	50,003,647	-	24,552,591	74,556,238
	261,725,834	**-**	**66,414,340**	**328,140,174**

2011:	Balance at 1 January	Prior year under/(over) provision	Recognised in income statement	Balance at 31 December
Property and equipment	32,137,905	(4,159,822)	5,514,567	33,492,650
General provisions	160,489,763	-	17,739,774	178,229,537
Other provisions	38,086,092	-	11,917,555	50,003,647
	230,713,760	**(4,159,822)**	**35,171,896**	**261,725,834**

25. OTHER ASSETS

	2012 KShs	2011 KShs
(a) Group		
Items in transit	792,434,973	429,977,305
Rent receivable	1,284,685	8,940,969
Prepayments	255,350,932	189,523,816
Other receivables	580,425,148	760,918,008
	1,629,495,738	**1,389,360,098**
(b) Company		
Items in transit	629,329,566	345,100,177
Rent receivable	1,284,685	8,940,969
Prepayments	138,947,321	150,051,863
Other receivables	179,160,057	292,572,498
	948,721,629	**796,665,507**

26. DEPOSITS FROM BANKS

	2012	2011
(a) Group		
Payable within one year	**5,834,018,074**	**2,546,060,409**
(b) Company		
Payable within one year	**4,730,413,541**	**1,977,206,300**

The company's weighted average effective interest rate on deposits from other banks and banking institutions at 31 December 2012 was 3.65% (2011 – 20.49%).

27. DEPOSITS FROM CUSTOMERS

	2012 KShs	2011 KShs
(a) Group		
Government and Parastatals	3,161,569,108	2,017,119,682
Private sector and individuals	108,590,909,515	83,195,784,146
	111,752,478,623	**85,212,903,828**
(b) Company		
Government and Parastatals	381,992,409	1,328,272,092
Private sector and individuals	65,258,252,459	55,615,433,204
	65,640,244,868	**56,943,705,296**

The company's weighted average effective interest rate on interest bearing deposits from customers at 31 December 2012 was 9.30% (2011 – 4.08%).

28. OTHER LIABILITIES

	2012 KShs	2011 KShs
(a) Group		
Bankers cheques payable	479,194,594	259,127,196
Accruals	799,705,712	491,993,124
Other accounts payables	889,821,115	624,814,140
	2,168,721,421	**1,375,934,460**

Included in Other accounts payable is a liability for defined pension plan under Bank One Limited of KShs 55,634,167 (2011- KShs 51,493,003).

The Group's net obligation in respect of defined benefit scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The calculation is performed annually by a qualified actuary using the projected unit credit method.

The amount included in the statement of financial position arising from the Group's obligation in respect of the defined benefit scheme is as follows:

The information below summarizes the scheme assets and liabilities:

	2012 KShs	2011 KShs
Present value of fund obligations	112,194,794	103,329,650
Fair value of plan assets	(50,856,833)	(45,599,096)
Unrecognized actuarial loss	(5,703,794)	(6,237,551)
Liability in statement of financial position	**55,634,167**	**51,493,003**
Movement in plan assets		
At 1 January	45,599,096	36,096,387
Expected return on plan assets	3,127,080	3,255,436
Employer contributions	5,655,922	5,234,056
Actuarial losses	(1,531,901)	(1,468,424)
Benefits paid	(820,862)	(1,062,694)
Translation difference	(1,172,502)	3,544,335
At 31 December	**50,856,833**	**45,599,096**

28. OTHER LIABILITIES (continued)

(a) Group (continued)

	2012 KShs	2011 KShs
Movement in present value of the retirement benefit obligations		
At 1 January	103,329,652	81,307,596
Current service cost	4,513,091	3,915,919
Interest cost	9,831,836	8,366,580
Actuarial (losses)/gains	(1,910,652)	2,596,092
Benefits paid	(820,862)	(1,062,694)
Translation difference	(2,748,271)	8,206,159
At 31 December	**112,194,794**	**103,329,652**

Amounts recognised in the income statement under staff costs are as follows:

	2012 KShs	2011 KShs
Expected return on plan assets	(3,127,080)	(3,255,436)
Current service cost	4,513,091	3,915,919
Interest cost	9,831,836	8,366,580
	11,217,847	**9,027,063**

Historical information

	2012 KShs	2011 KShs	2010 KShs	2009 KShs	2008 KShs
Present value of fund obligations	112,194,794	103,329,650	81,307,596	70,962,766	60,180,120
Fair value of plan assets	(50,856,833)	(45,599,096)	(36,096,387)	(31,979,043)	(29,621,340)
Fund deficit	**61,337,961**	**57,730,554**	**45,211,209**	**38,983,723**	**30,558,780**

28. OTHER LIABILITIES (continued)

(a) Group (continued)

The principal actuarial assumptions used are as follows:

Description	2012	2011	2010	2009	2008
	%	%	%	%	%
Discount rate	8.5	9.25	9.5	10	10
Expected return on plan assets	8.5	9.25	10	11	11
Future salary increase	5	7.75	8	8	8
Future guaranteed pension increase	-	-	-	-	-

The assets of the plan are invested in Anglo Mauritius' Deposit administration fund. The latter is expected to produce a smooth progression of return from one year to the next. As the fund is expected to produce a smooth return, a fairly reasonable indication of future return can be obtained by looking at historical trends. Therefore, the expected return on plan assets assumption has been based on historical performance of the fund.

(b) Company

	2012 KShs	2011 KShs
Bankers cheques payable	150,762,890	130,093,745
Accruals	368,839,952	262,097,635
Other accounts payables	366,968,592	453,407,790
	886,571,434	**845,599,170**

29. LONG TERM BORROWINGS

(a) Group

	2012 KShs	2011 KShs
Less than one year	1,132,421,867	738,791,709
One to five years	3,929,697,947	2,342,531,325
Over five years	367,531,869	354,450,416
	5,429,651,683	**3,435,773,450**

(b) Company

	2012 KShs	2011 KShs
Less than one year	777,477,440	481,423,432
One to five years	2,894,095,996	2,133,388,557
Over five years	-	354,450,416
	3,671,573,436	**2,969,262,405**

29. LONG TERM BORROWINGS (continued)

The Company's long term borrowings constituted the following:

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

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

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

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

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

The Company's average effective interest rate on foreign currency long term borrowings was 4.24% (2011 – 4.31%).

The Company's average effective interest rate on the unsecured Floating Rate Note was 12.87% (2011 – 9.92%).

30. SHARE CAPITAL AND RESERVES

	2012	2011
(a) Share capital	**KShs**	**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		
28,802,453 (2011 – 28,702,453)		
Ordinary shares of KShs 100 each	2,880,245,300	2,870,245,300
Nil (2011 - 100,000) new shares of KShs 100		
each issued at a premium of KShs 835 each	-	10,000,000
At 31 December		
28,802,453 Ordinary shares of KShs 100 each	**2,880,245,300**	**2,880,245,300**

30. SHARE CAPITAL AND RESERVES (continued)

(b) Major shareholders

The major shareholders at 31 December 2012 and 2011 were as follows:

	Number of shares	%
1. Minard Holdings Limited	4,475,759	15.54%
2. Biashara Securities Ltd	4,008,740	13.92%
3. Ziyungi Limited	4,000,000	13.89%
4. Tecoma Limited	4,000,000	13.89%
5. DEG	3,100,000	10.76%
6. Proparco	2,575,000	8.94%
7. City Trust Limited	2,097,458	7.28%
8. Others	4,545,496	15.78%
	28,802,453	**100.00%**

The distribution of shareholders as at 31 December 2012 and 2011 was as follows:

Share range	Number of shareholders	Shares held	%
Less than 1m shares	105	4,545,496	15.78
>1m <2m			
>2m <3m	2	4,672,458	16.22
>3m	5	19,584,499	68.00
Total	**112**	**28,802,453**	**100.00**

(c) Share premium

	2012 KShs	2011 KShs
At 1 January	3,773,237,119	3,690,214,995
Share premium arising from issue of shares at a premium	-	83,500,000
Expenses incurred in issuance of share capital	-	(477,876)
At 31 December	**3,773,237,119**	**3,773,237,119**

(d) Revaluation reserve

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

(e) Statutory loan loss reserve

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

30. SHARE CAPITAL AND RESERVES (continued)

(f) Translation reserve

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

(g) Available-for-sale reserve

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

31. NOTES TO THE CASH FLOW STATEMENT

	Consolidated	
	2012	2011
(a) Reconciliation of profit before taxation to net cash flow from operating activities	KShs	KShs
Profit before income tax	5,732,676,794	4,953,892,690
Adjustments for:		
Depreciation	289,928,599	151,956,006
Amortisation of intangible asset	143,047,875	48,187,261
Amortisation of prepaid operating lease rentals	4,778,854	4,549,128
Profit on sale of property and equipment	(28,692,565)	(3,811,106)
Profit on sale of available for sale securities	(206,499,347)	(301,658,206)
Exchange reserves	(2,249,601)	40,775,248
	5,932,990,609	4,893,891,021
Increase in operating assets		
Movement in loans and advances to customers	(14,677,550,434)	(16,108,521,070)
Investment in securities	(11,284,212,019)	(8,285,470,178)
Cash and balances with Central Banks:		
– Cash Reserve Ratio (CRR)	(2,264,223,801)	(1,093,573,728)
Other assets	226,322,797	(474,661,673
	(27,999,663,457)	(25,962,226,649)
Increase in operating liabilities		
Customer deposits	15,067,456,915	17,004,475,508
Other liabilities	(137,009,286)	435,927,151
	14,930,447,629	17,440,402,659
Cash flows from operating activities	**(7,136,225,219)**	**(3,627,932,969)**
Tax paid	(1,939,139,047)	(1,520,147,535)
Net cash flows from operating activities	**(9,075,364,266)**	**(5,148,080,504)**

31. NOTES TO THE CASH FLOW STATEMENT (continued)

(b) Analyses of cash and cash equivalents – Consolidated

	2012 KShs	2011 KShs	Change in the year KShs
Cash and balances with Central Banks – excluding CRR	2,547,305,699	2,998,010,123	(450,704,424)
Deposits and balances due from banking institutions	11,726,347,050	9,909,058,869	1,817,288,181
Deposits and balances due to banking institutions	(5,834,018,074)	(2,546,060,409)	(3,287,957,665)
	8,439,634,675	**10,361,008,583**	**(1,921,373,908)**

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

	Company 2012 KShs	2011 KShs
Profit before income tax	4,721,540,388	4,457,331,375
Adjustments for:		
Depreciation	174,412,961	106,163,331
Amortisation of intangible asset	110,226,347	32,518,638
Amortisation of prepaid operating lease rentals	4,778,854	4,549,128
Profit on sale of property and equipment	(1,585,603)	(3,811,106)
Profit on sale of available-for-sale securities	(210,335,118)	(301,245,059)
Dividend income	(103,578,700)	(61,311,323)
	4,695,459,129	4,234,194,984
Increase in operating assets		
Movement in loans and advances to customers	(8,595,877,017)	(11,136,420,291)
Investment in securities	(11,632,257,390)	(6,034,745,457)
Cash and balances with Central Bank of Kenya:		
– Cash Reserve Ratio (CRR)	(453,674,707)	(835,032,833)
Other assets	(152,056,122)	(107,897,917)
	(20,833,865,236)	(18,114,096,498)
Increase in operating liabilities		
Customer deposits	8,696,539,572	10,948,744,042
Other liabilities	40,972,265	328,132,480
	8,737,511,837	11,276,876,522
Cash flows from operating activities	**(7,400,894,270)**	**(2,603,024,992)**
Tax paid	(1,739,234,224)	(1,422,255,112)
Net cash flows from operating activities	**(9,140,128,494)**	**(4,025,280,104)**

31. NOTES TO THE CASH FLOW STATEMENT (continued)

(d) Analyses of cash and cash equivalents – Company

	2012 KShs	2011 KShs	Change during the year KShs
Cash and balances with Central Bank of Kenya – excluding CRR (Note 16)	917,011,192	1,317,048,757	(400,037,565)
Deposits and balances due from banking institutions	1,492,544,276	5,249,410,628	(3,756,866,352)
Deposits and balances due to banking institutions	(4,730,413,541)	(1,977,206,300)	(2,753,207,241)
	(2,320,858,073)	**4,589,253,085**	**(6,910,111,158)**

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 2012. 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:

	2012 KShs	2011 KShs
Contingencies related to:		
Letters of credit	8,372,703,777	7,056,848,537
Guarantees - Advances	9,512,830,363	8,579,627,894
- Central Bank of Kenya	79,123,945	62,179,677
Acceptances	7,581,824,082	5,394,258,550
Bills for collection	2,837,021,530	2,196,433,201
	28,383,503,697	**23,289,347,859**
Commitments related to:		
Outstanding spot/forward contracts	7,629,404,965	9,680,515,042
	36,012,908,662	**32,969,862,901**

(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 2012, Treasury Bonds with a face value of KShs 1,965,000,000 (2011 – KShs 2,225,000,000) were held under lien in favour of the Central Bank of Kenya.

34. RELATED PARTY TRANSACTIONS - Company

	2012 KShs	2011 KShs
(a) Transactions with directors/shareholders		
(i) Loans to directors/shareholders	110,792,065	139,526,719
The related interest income for loans above was KShs 8,002,801 (2011 – KShs 4,618,842).		
(ii) Deposits from directors/shareholders	1,238,076,322	1,075,184,718
Interest expense on deposits from directors and shareholders was KShs 109,295,847(2011 – KShs 47,105,685).		
(iii) Loans from shareholders	1,269,950,668	231,354,763
Interest expense on loans from shareholders was KShs 122,439,958 (2011 – KShs 89,724,199).		
(b) Transactions with related companies		
(i) Deposits from related companies:		
GA Insurance Limited shareholders' deposits	331,339,659	333,839,427
Interest expense on deposits from related companies was KShs 49,165,230 (2011 – KShs 9,034,584).		
(ii) Loans and advances due from subsidiaries and joint venture	470,085,187	697,887,085
Interest income on loans and advances due from subsidiary and joint venture was KShs 9,200,700 (2011 – KShs 2,439,928).		
(iii) Deposits from subsidiaries and joint venture	756,851,177	124,198,794
Interest expense on deposits from subsidiary and joint venture was KShs 22,327,521 (2011 – KShs 4,148,736).		
(c) Transactions with employees		
Staff loans	273,624,964	221,080,086

Interest earned on these loans was KShs 13,270,556 (2011 – KShs 11,213,230).

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

35. CAPITAL COMMITMENTS

	2012 KShs	2011 KShs
Consolidated	**36,687,344**	**161,517,845**

36. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES - Company

(a) Lessee

The Bank leases twenty 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 93,697,778 (2011 – KShs 78,910,412) was charged to the income statement in respect of operating leases. Future minimum lease payments under these operating leases are as follows:

	2012 KShs	2011 KShs
Less than one year	84,735,638	89,218,736
One to five years	246,730,016	237,914,865
Over five years	52,198,722	29,791,066
	383,664,376	**356,924,667**

(b) Lessor

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

	2012 KShs	2011 KShs
Less than one year	73,944,110	68,293,507
One to five years	304,861,372	152,263,052
Over five years	-	-
	378,805,482	**220,556,559**

During the year, KShs 77,575,884 (2011 – KShs 70,616,073) was recognized as rental income in the income statement in respect of operating leases. In addition, KShs 18,665,444 (2011 – KShs 7,800,000) in respect of management expenses was recognized as an expense in the income statement in respect of the building.

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CSR News

I&M Bank stands committed to improving the quality of life in our society. In this regard, the Bank has been supporting needy deserving individuals, projects and institutions around the country through its Corporate Social Responsibility programme and in turn creating long term relationships. Highlighted below are some of these projects:

ROHO KWA ROHO FOUNDATION

I&M Bank sponsors school fees for 10 children under Roho Kwa Roho Foundation who attend Ongata Rongai Special Home Care & Training Centre School. The Bank contributed KShs. 600,000 for the student's school fees in 2012.

ST ANNE'S GICHOCHO

St. Anne's Gichocho Girls Secondary School is a catholic girl's secondary school located in Gichocho approximately 4km from Ndumberi in Kiambu. I&M Bank made a yearly contribution of KShs. 350,000 for tuition for 5 students.

ST MARTIN'S KIBAGARE – ANNUAL FEEDING PROGRAMME

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

A counseling session held for the Strathmore University students, by the University and CSR Committee members at the university.

STRATHMORE UNIVERSITY SCHOLARSHIP PROGRAMME

I&M Bank provides scholarships for 10 needy students pursuing various Finance related degree programmes – total contribution per year is KShs. 3.5 million per year.

A KRCS Food Security and Livelihood Program In Partnership with I&M Bank

KENYA RED CROSS SOCIETY – GREEN HOUSE CONSTRUCTION

The Kenya Red Cross Society (KRCS) greenhouse program established during the 2009 drought appeal seeks to enhance food security and improve livelihoods by strengthening community resilience to drought. Subsequently following the 2011 drought that was classified the worst in the horn of Africa in 60 years that led to severe deterioration of grazing resources, water sources leading to exceptionally long migrations, livestock deaths, alarming school dropout rates, increased malnutrition rates, particularly for lactating mothers, children under five years of age and the elderly, and the resurgence of debilitating conflict as communities competed for resources, KRCS renewed her appeal and several partners including I&M Bank came on board. The bank made a contribution of KShs.957,000 towards purchase of four greenhouses to be set up in needy and drought stricken areas. In partnership with I&M Bank, KRCS identified four schools in Baringo, Marigat, Malindi and Kwale who benefited with one greenhouse each. These include Kiserian Sec. School (Baringo), Labos Primary School (Marigat), Kakoneni Girls Sec. School (Malindi) and Kombani Girls Sec. School (Kwale).

LIONS SIGHTFIRST EYE HOSPITAL

The Lions Sight First Eye Hospital reaches out to the poor and the needy to provide much needed eye-care services free of charge. Patients found requiring cataract operations are brought to their hospital from the rural areas and implanted with an intra-ocular lens and discharged after three days. I&M Bank made a donation of KShs 450,000 for operations carried out between the 6th and 10th of November, 2012.

Nest Children's Home

The NEST Children's Home is a rescue centre for children whose parents are in conflict with the law. It reaches out to rescue and improve the general living conditions of the affected children while their mothers are in prison. The home also caters for abandoned infants many of who are severely malnourished. The bank pays the home an annual amount of KShs 750,000 towards providing children aged 0 – 7 months with baby formula milk and baby food given to severely malnourished babies or those having a problem adjusting to regular food.

PALMHOUSE FOUNDATION

The Palmhouse Foundation provides scholarships for secondary education to bright and talented children from financially challenged families. I&M Bank has been supporting this foundation since 2007 and, made a donation of 1.6 million in 2012 for the education and mentoring of eight deserving students.

AMARA CHARITABLE TRUST

The Amara Trust is an organisation committed to helping needy communities through sustainable programmes that alleviate poverty. The Trust's overriding objective is to transform the lives of their beneficiary communities through four key drivers namely: enable, enhance, empower and educate. I&M Bank contributed KShs. 500,000 for a fund raising golf tournament held at the Muthaiga Golf Club in 2012.

CORNEL GALEKU CHILDREN CENTRE

The Cornel Galeku Children Centre is one of the orphanages in Tanzania that is located in a drought stricken remote village in the Rombo District along the lower eastern slopes of Mt. Kilimanjaro. At an event hosted by our Mwanza Branch, I&M Bank donated USD 20,000 for the upkeep of the orphaned children to enable them to receive quality care.

FRANCISCAN SISTERS OF ST ANNA

Franciscan Sisters of St Anna is a catholic organisation under Archdiocese of Kisumu. It takes care of orphans and vulnerable children through provision of housing and education. Students are placed in different schools and universities in the country. They also offer different courses for single mothers within the locality to empower and make them self-reliant. I&M Bank made a donation to the organisation of KShs. 50,000 towards their construction of a school for the blind.

HINDU RELIGION & SERVICE CENTRE

I&M made a donation of KShs. 100,000 to the Hindu Religion & Service Centre for a tree-planting exercise held at Machakos in April, 2012.

KAMILI ORGANISATION

The Kamili organisation provides equal access to services and affordable care to those with mental illnesses. Mental health is essential to the well-being of individuals and economies. In 2012, I&M Bank made a contribution of KShs 75,000 to aid the care of mentally handicapped people.

KENYA ORCHID SOCIETY

The Kenya Orchid is a non-profit organisation formed in 1952. Its principal objective is to create awareness and interest in the cultivation and conservation of orchids in East Africa.

I&M in its bid to support this organisation sponsors the society's Annual Orchid Show which attracts over 1000 visitors.

TEULE KENYA

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

Mr John Waka, I&M Bank Group HR Manager imparting words of wisdom to students under Teule program during a visit to the bank.

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