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

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

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

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

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

BOARD OF DIRECTORS

Seated (Left To Right): SBR Shah (Chairman), Sarit S Raja Shah (Executive Director) and Arun S Mathur (CEO).

Standing (Left To Right): MJ Karanja, Sachit Shah, PCM Kibati, NP Kothari (Company Secretary), EM Kimani and M Soundararajan.

SENIOR MANAGEMENT TEAM

Lucy Thegeya, Head of Business Support.

Rohit Gupta, Head of Information and Communication Technology.

Joseph Njomo, Head of Operations.

Gauri Gupta, Head of Corporate and Strategic Planning.

Suprio Sen Gupta, Head of Marketing and Product Development.

A V Chavda, Senior General Manager.

SENIOR MANAGEMENT TEAM (CONTINUED)

L A Sivaramakrishnan, Head of Business Development

Srinivasan Parthasarthy, Head of Commercial Banking.

Ravi Ramamoorthy, Head of Corporate Banking.

Ruma Shah, Head of Internal Audit.

Chhanda C Mishra, Head of Projects.

Henry Kirimania,Head of Treasury.

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*
A S Mathur (Appointed 21st March 2013)
Christina Gabener** (Ceased 27th June 2013) - Alternate: E Kaleja (Ceased 27th June 2013)**
Guedi MM Ainache*** (Ceased 27th June 2013)

* Indian ** German *** French

SECRETARY

NP Kothari – FCPS (Kenya)

AUDITORS

KPMG Kenya
8th Floor, ABC Towers
Wayaki Way
P.O 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
Bank One Ltd
Bank of Tokyo Mitsubishi
Barclays Bank
BHF Bank
Citibank NA
Commerzbank AG
Commonwealth Bank Australia
Deutsche Bank AG
First Bank
HDFC Bank
I&M Bank (Rwanda) Limited
I&M Bank (T) Limited
ICICI Bank
JP Morgan Chase Bank
National Australia Bank
Mashreq Bank
Standard Bank of South Africa
Standard Chartered Bank NY
UBS AG

BRANCHES

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

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

SARIT CENTRE
Westlands
P.O Box 30238
00100 Nairobi GPO

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

CHANGAMWE ROAD
Industrial Area
P.O Box 30238
00100 Nairobi

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

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

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

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

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

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

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

GITANGA ROAD
Lavington
P.O Box 30238
00100 Nairobi GPO

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

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

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

CHANGAMWE
Refinary Road
P.O Box 863578 0100
Mombasa

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

ZION MALL
Uganda Road
P.O Box 9362
30100 Eldoret

POLO CENTRE
Kenyatta Avenue
P.O Box 18445
20100 Nakuru

ROYAL TOWER
Hospital Road
P.O Box 4474
40200 Kisii

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

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

BANK ONE LIMITED
16 Sir William Newton Street
Port Louis
Mauritius

I&M KENYA NEWS

I&M goes public

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

I&M launches Medium Term Note Program

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

I&M Bank Diaspora Banking

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

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

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

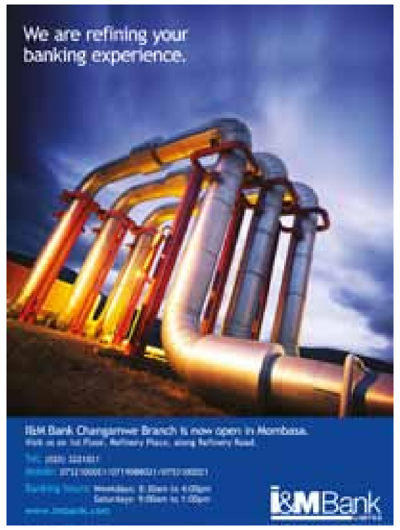
Multicurrency Prepaid Card

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

Internet Banking- Corporate

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

Branch Opening



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

Awards

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

BANK ONE MAURITIUS NEWS

Branch Opening

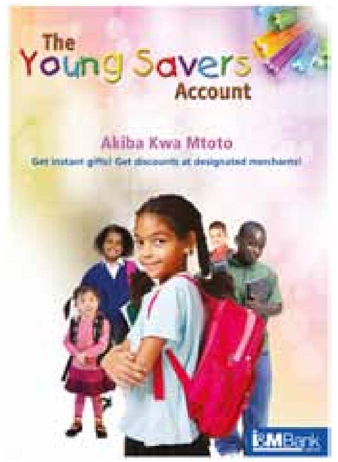
Bank One operates with sixteen branches throughout Mauritius and has a well distributed network of ATMs. Its endeavour is to bring a sharper focus to the requirements of customers and to leverage cutting-edge technology to provide the highest levels of service. In this regard Bank One in early 2013 saw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

I&M TANZANIA NEWS

I&M Bank Multicurrency Prepaid Mastercard International Travel Card

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

The Young Savers Account



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

I&M RWANDA NEWS

Rebrand to I&M Bank (Rwanda) Ltd.

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

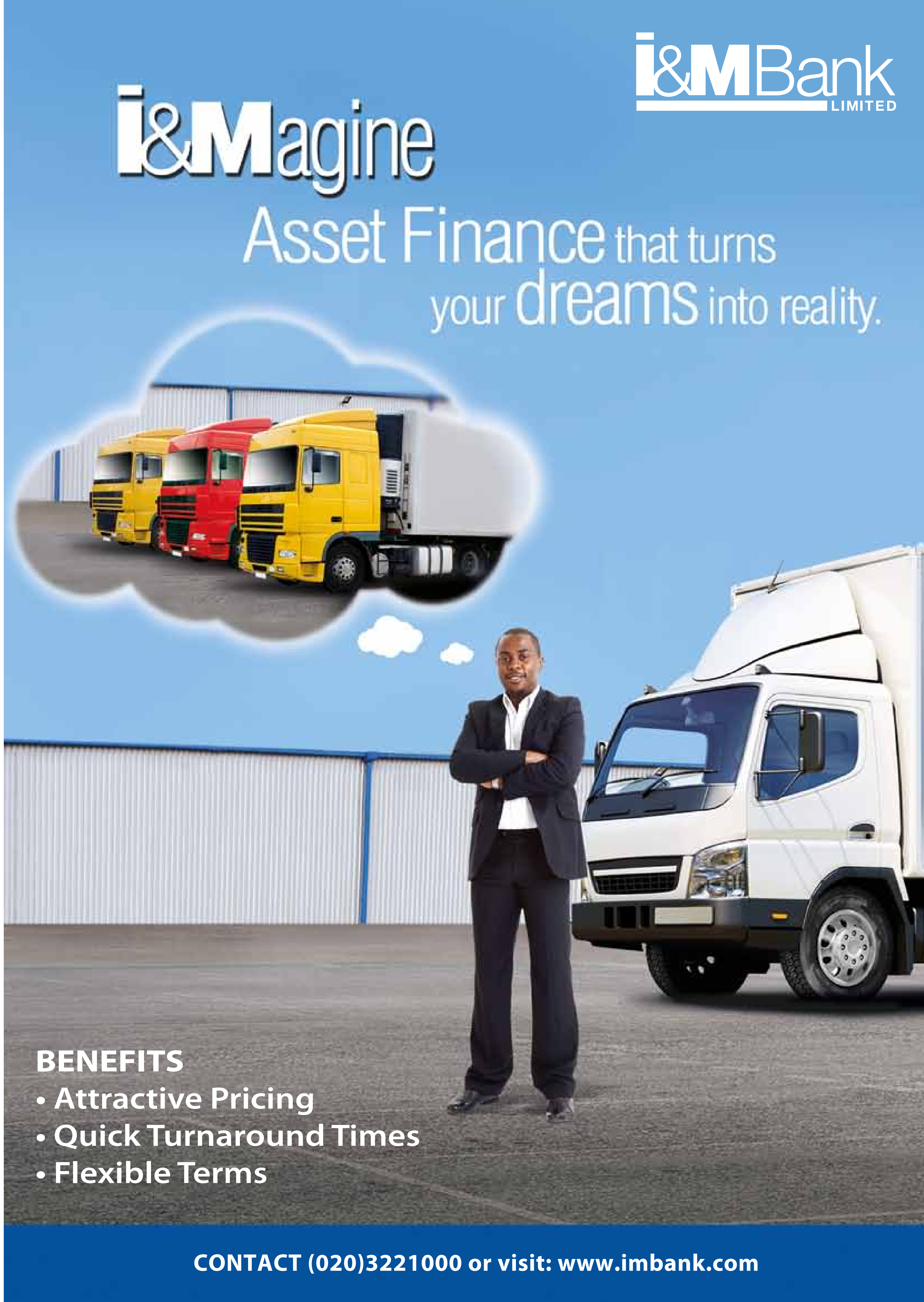
As a result of the acquisition in 2012, the effective shareholding of BCR changed with 55% being held by I&M Bank Ltd, 12.5% each by PROPARCO and DEG, two leading European Development Finance Institutions, 19.8% by the Government of Rwanda and 0.2% by private shareholders.

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

Awards and Recognition

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

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



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

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

Nurturing the soul.

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

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

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

CHAIRMAN'S STATEMENT

INNOVATION IN EXECUTION

Successful innovation is based on both an idea and execution. Innovation without a vision, without execution and without leadership is just an idea waiting to happen. At I&M Bank we take pride in having successfully executed several ideas. It takes a team working strongly together, guided by strong managers, ethics and motivation to make an idea a realized innovation. It was this philosophy that kept us inspired in 2013 as we worked steadfastly towards meeting our strategic goals and objectives.

At I&M, it is our constant endeavour to deliver new technology and services in order to continuously improve the banking experience for our customers. The use of new channels such as mobile devices, internet and social media to deliver banking services not only offers convenience to our customers with a whole new meaning but assists them to manage their money more efficiently and seamlessly as well.

Following the peaceful political transition in 2013, the Kenyan Banking Sector recorded continued growth. The total banking sector balance sheet grew by 16% compared to December 2012. The total banking sector loans and advances to consumers grew by 17.65% and deposits grew by 12.5% over the same period. Unaudited pre-tax profits increased by 16.89% from KShs 107.68 billion as at 31st December 2012 compared to KShs 124.57 billion as at 31st December 2013. The growth in demand for credit was attributed to an increase in lending to Transport and Communication, Trade, Manufacturing and Agriculture sectors. The fairly stable macro-economic environment had a positive impact on the demand for credit.

THE BANK

Seen against what was certainly a very challenging year on account of the General Elections in the first quarter of the year and liquidity constraints, the year 2013 ended on a very positive note. Total Assets increased by 18.5%to close at KES 141.36 billion up from KES 119.28 billion as at 31st December 2012. This was largely attributed to the significant growth noted in Loans and Advances which increased to KES 91.8 billion an increase of 29.3% from KES 71 billion as at December 2012. Likewise Customer Deposits increased by 10.6% from KES 87.8 billion as at December 2012 to close at KES 97.1 billion as at 31st December 2013. With continued focus on operational efficiency, and increase in net interest income as a result of the significant growth in Loans and Advances, the Bank reported a Profit after Tax of KES 7.26 billion up from KES 5.7 billion the previous year reflecting an increase of 27.3%

It gives me great pleasure to inform you that during 2013 your Bank made significant progress in growing its various business segments and reaching out in centers across the country. We further expanded into the Coast region by opening branches in Changamwe and Malindi; and in the Central region through our newly opened branch in Nyeri. With this the Bank's branch network has increased to 23 and is expected to further improve by the end of this year as we continue to broad base our presence in Kenya. In addition to an ATM at each of these newly opened branches, we installed offsite ATMs at Gertrude's Children's Hospital in Nairobi, Thika Road Mall and in Eldoret at Sugarland Plaza. We also introduced Western Union money transfer services at several of our branches during the year.

During the year the Bank set up a separate unit for Asset Financing and which is now fully functional. Increased focus on cross border lending continues through the Offshore Banking Unit set up within the Corporate Department. Furthermore 2013 saw the Bank introduce the Diaspora Banking service through which it offers a wide range of versatile services to Kenyans who are living and working abroad. The Diaspora Mortgage facility offers attractive mortgage options and various professional services to facilitate acquiring properties in Kenya.

I am pleased to highlight that the Bank launched a new MasterCard Multicurrency Prepaid Card, an ultimate luxury available to frequent travelers. This card has a facility to hold funds in three virtual wallets in USD, EURO and GBP.

Following the introduction of Excise duty by the Kenya Revenue Authority (KRA), I&M had successfully and after significant efforts implemented the levy of Excise duty on all banking charges, fees and commissions in its Core Banking system. I am also proud to share that your Bank successfully implemented the I-Tax solution - an initiative launched by KRA to automate the tax collection system including the payment and filing of returns aimed at improving efficiency of the system and more importantly to minimize the possibilities of tax avoidance and leakage.

In pursuit of new growth opportunities and to support the expanding small and medium enterprises - SME sector in Kenya, the Bank successfully achieved a number of milestones which would aid in realization of this goal in the medium term. First, the Bank negotiated and received from International Finance Corporation (IFC) a credit line of USD 50 million (KES 4.35 billion) for onward lending to SMEs. This is expected to drive the Bank's business growth across the country and will also help the Bank better manage its foreign exchange maturity mismatches.

Second, PROPARCO approved and signed a loan agreement for an amount of approximately USD 40M long-term with a seven year maturity with I&M Bank Limited, Kenya. This long term foreign currency loan to be drawn in the 1st quarter of 2014 will allow I&M to sustain its growth plans as well as meet the growing demand for long-term foreign currency loans while benefitting the SMEs that are involved in International trade.

Third, I&M Bank launched the first tranche of its Medium-Term Note (MTN) Programme of KShs 10 billion debt facility which is expected to boost capital adequacy in line with international BASEL II requirements and CBK's revised Prudential Guidelines. Proceeds from this issue are a key source of long-term funding and provide the required support for the bank's future strategic growth and expansion while improving the maturity profile of the liability portfolio. The 1st tranche issued for an amount of KES 3 billion was oversubscribed by 21.8% and under the Green shoe Option of up to KES 1 billion the Bank accepted all the successful applications aggregating KES 3.655 billion. Notes issued under the 1st tranche were listed on the Nairobi Securities Exchange and commenced trading from the 7th January 2014.

One of the most significant achievements of 2013 was the achievement of "listing" on the Nairobi Securities Exchange ("NSE"). For a long time now, it had been the Bank's intention to have its shares listed on the NSE and after more than three years of persistent hard work and efforts, this long awaited vision was fulfilled on 25th June 2013 when I&M Bank concluded its reverse take-over of City Trust Limited ("CTL"), an entity listed on the NSE. CTL was simultaneously renamed to I&M Holdings Limited ("IMHL"). This transaction effected by way of a share swap wherein the shareholders of the Bank exchanged their shares in the Bank for shares in the listed entity – IMHL enabled the Bank's shareholders to list and freely trade in their shares on the NSE.

Simultaneously, this structure facilitated the set-up of the Bank's non-operational holding company which is in turn expected to enable I&M Bank Group to (i) further improve upon its risk management framework, and (ii) undertake other activities that would enable it to become a "one stop shop" to meets its customers' financial needs.

Subsequently in continuation of this Corporate Restructuring exercise which commenced with the listing, the Bank, following receipt of all required regulatory approvals, successfully transferred its shares held in I&M Bank (Rwanda) Limited and Bank One Limited, Mauritius to IMHL in January and March 2014 respectively.

Effective development of the Bank's human resources remains a key strategic objective for the Bank. Towards this objective and to support its growing workforce, the Bank undertook several training and development programmes primarily focused on capacity building across the business based on identified training gaps.

You will be pleased to note that your Bank is committed to improving the quality of life for all Kenyans and in this regard, the Bank has been supporting needy deserving projects, institutions and individuals around the country through its Corporate Social Responsibility programme and in turn creating long term relationships. The Bank's CSR projects encompass many diverse causes, ranging from education, health care, children welfare and environment. As part of its CSR activity in 2013, the Bank in conjunction with the Bhagwanji Raja Charitable Foundation donated KShs 50 million under its CSR initiative to Gertrude's Children's Hospital. The funds donated will go towards equipping the ultra-modern Pediatric Critical Care Unit (PCCU) and Radiology departments of the newly constructed hospital wing. This donation will enable the doctors to better respond to the needs of the young patients and give them a chance of survival. The donation is in line with the Bank's corporate philosophy to support institutions of excellence which serve our children in the region and society at large.

BANK ONE LIMITED – MAURITIUS

Bank One Limited closed 2013 with a profit after tax of USD 1.79 million which was below budget due to two exceptional charges on account of a loss in treasury operations in first quarter 2013 and a specific impairment provision made on a potential non-performing asset. This year we expect the bank to perform better with the improvement in global economic conditions.

Total deposits declined by 12%; there was a conscious move to trim down some high cost term deposits on maturity due to limited redeployment opportunities as well as to improve the cost of funds. The bank achieved net Interest Income growth of 23% and net fee and commission income grew by 11% from 2012, due to the launch of the e commerce business in late 2012. The Retail Banking business advances grew by 16% and there was an increase in the retail client base by 15% in 2013.

The shareholders strong support to the Bank continued with the infusion of Mauritian Rupees 180m (USD 6Mn) as additional capital during 2013. The capital adequacy ratio stood at 12.97%; compared to 11.18% at end of 2012, well above the statutory minimum of 10%.

I&M BANK (T) LIMITED – TANZANIA

The Bank recorded a profit before tax of TZS 5,987 million (KShs 321.55 million), representing an increase of just under 13%. The increase is attributed to increase in interest income showing a growth of 22%. Loan portfolio increased by 21.8% from the previous year. Deposits grew by 16% in the same period as a result of focused and consistent marketing efforts.

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

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

I&M Bank (T) Limited relentlessly continued its CSR activities during the year. These include donations to charitable organizations and active participation in community activities and development programmes throughout the country. Areas being given priority by the Bank are health, education and support to orphaned children, victims of natural disasters, disabled persons, security and sports.

I&M BANK (RWANDA) LTD - RWANDA

2013 was a significant year for I&M Bank (Rwanda), as it celebrated its 50th anniversary in July with a series of CSR and developmental activities such as "Adopt a School" , remodeling and development of a BCR Public Garden, donations to an orphanage village, launch of a SME capacity building program and data collection for a museum. The celebrations also included several programs and events for staff and customer appreciation and culminated with a celebration party on 23rd July with the Prime Minister of Rwanda, The Rt. Honourable Dr Pierre Damien Habumuremyi gracing the occasion as guest of honour.

In September 2013, following the receipt of regulatory approvals, the Bank rebranded from Banque Commerciale du Rwanda or BCR, as it was more commonly known, to identify with the I&M Bank brand.

This Bank reported a profit before tax of Rwf.6.76 Billion (KES 878.8 million in 2013 representing a growth of 13.5% against the 2012 profit before tax of Rwf.5.95 Billion (KES 773.5 million). Loans and Advances increased by 25% in 2013, from Rwf.52.47 Bn (KES 6.82 billion) to Rwf.65.64 Bn (KES 8.53 billion); while deposits increased by 10%, to Rwf.94.06 Bn (KES 1.22 billion) during the same period. I&M Bank (Rwanda) successfully negotiated a Euro 8 million credit facility from the European Investment Bank to support small-and-medium enterprises (SMEs) in continuation of its strategy to be a leading player in the SME market.

OUTLOOK

We have challenges in every economic climate, but I believe we have the right initiatives and strategies in place, a strong momentum and an exceptional team to make I&M Bank the first choice for its customers, where the best people want to work and where shareholders are happy with their investments. In the coming year, we continue to look back at our core values and work towards continuously improving and adapting to the interests of our customers.

2014 is a year of promise as we continue to seek opportunities for expansion and most importantly the pursuit for excellence in service delivery. We shall strive harder to deliver innovative technologies and foster closer relationships with our customer. In a bid to develop cohesive relationships, and generate long-term and meaningful relationships with our customers the Bank recently launched its Social Media programme with simultaneous presence on Facebook, Twitter and YouTube. Through this programme, we hope to reach a wider audience and keep our customers informed about all our products and services offered.

I am indebted and very grateful to have the support of a highly competent Board of Directors and I thank my fellow Directors for their contribution and commitment and most importantly for ensuring that your Bank is resiliently founded. The Board composition changed in 2013 as a result of the set-up of the Bank's holding company - IMHL. PROPARCO and DEG, our valued DFI partners and key shareholders choose to be represented on the Board of IMHL and their representatives – Ms Christina Gabener of DEG and Mr Guédi Ainache of PROPARCO resigned from the Bank's Board with effect from 27th June 2013 and simultaneously joined the Board of IMHL. It also gives me a lot of pleasure to welcome our Chief Executive Officer – Mr A S Mathur who joined the Board as a Director with effect from 21st March 2013.

On behalf of the Board, I thank the management and staff for their dedication and outstanding contributions that has enabled the Bank to contribute towards Kenya's economic and financial wellbeing; thank you all for keeping the momentum going!

On behalf of the Board and management of the Bank, I would like to express our sincere gratitude to all our customers for giving us the opportunity to serve them and look forward to providing them with the best possible service. Last but definitely not the least, I would like to say "Asante Sana" to all our shareholders, partners, consultants, professional service providers without whose support the Bank could not have managed to achieve what it did.

God bless you all!

S.B.R SHAH
CHAIRMAN

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

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

Healing the body.

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

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

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

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2013

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31st December 2013, which disclose the state of affairs of the company and the group. The group comprises I&M Bank LIMITED, Kenya, Bank One Limited, Mauritius, I&M Bank (T) Limited, Tanzania and I&M Bank (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. CORPORATE RESTRUCTURING

(a) On 14th June 2013, the Bank set up a non-operational holding company – I&M Holdings Limited (IMHL), (formerly City Trust Limited (CTL)), by way of a reverse acquisition of CTL through a share swap. CTL was an existing shareholder of the Bank and was already listed on the Nairobi Securities Exchange. This transaction culminated in the shareholders of the Bank becoming shareholders of I&M Holdings Limited and in the Bank becoming a wholly owned subsidiary of IMHL.
(b) On 31st December 2013, the shareholders of Biashara Securities Limited who had submitted all the required documentation had their shares converted into shares of I&M Holdings Limited.
(c) On 1st January 2014, the shares held by the Bank in I&M Bank (Rwanda) Limited were transferred to I&M Holdings Limited.

3. DEBT CAPITAL

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

4. RESULTS

The consolidated results for the year are as follows:

	2013 KShs
Profit before taxation	7,262,666,022
Taxation	(2,281,305,100)
Profit after taxation	**4,981,360,922**

5. DIVIDEND

The directors recommend the payment of a final dividend of KShs 1,008,085,855 (2012 – KShs 748,863,778).

6. DIRECTORS

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

7. AUDITORS

The auditors of the company, 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).

8. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved at a meeting of the directors held on 21st March 2014.

BY ORDER OF THE BOARD

N.P Kothari
Secretary
Date: 21st March 2014

STATEMENT ON CORPORATE GOVERNANCE

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

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

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

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

RISK MANAGEMENT FRAMEWORK

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

The Risk Management Framework at the Bank ensures that risks are identified and effectively managed on an on-going basis.

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

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

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

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

THE BOARD OF DIRECTORS

Constitution, Appointment and Composition

The Bank's Board, led by the Chairman, Mr SBR Shah, consists of four independent non-executive Directors, two non-executive Directors, one Executive Director and the Chief Executive Officer. Of the six non-executive Directors, more than 50% are independent. The Directors, collectively have vast experience stemming out of their varied backgrounds in different disciplines, which include, inter alia Banking, General Management, Law, Accounting and Investment Analysis, apart from hands on experience in various industries. The unique collective experience of our Board members provides a superior mix of skills as required by the Board, in not only discharging its responsibilities and providing a strategic vision and direction for the Bank, but more importantly also adds value to, and brings in the element of independent judgment and risk assessment to bear on the decision making process.

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

Roles and 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 OF DIRECTORS (CONTINUED)

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

Board Meetings

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

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

Board Evaluation

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

Governance Principles

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

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

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

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

BOARD COMMITTEES

Board Audit Committee (BAC)

An independent non-executive Director chairs this Committee consisting of four Directors. BAC, which meets at least once every quarter, assists the Board in fulfilling its responsibilities by reviewing the financial condition of the Bank, its internal controls, performance and findings of the Internal Audit functions. Further, in compliance with the revised Prudential Guidelines issued by the Central Bank of Kenya with effect from 1st January 2013, two BAC meetings are held in each year independent of management giving the internal and external auditors an opportunity to raise matters directly with members of the BAC.

Board Risk Management Committee (BRC)

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

Board Credit Committee (BCC)

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

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

BOARD COMMITTEES (CONTINUED)

Board Procurement Committee (BPC)

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

Board Capital Structure Strategy Committee (BCSSC)

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

Board Share Transfers Committee (BSTC)

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

Board Nomination and Remuneration Committee (BNRC)

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

MANAGEMENT COMMITTEES

Business Strategy and Coordination Committee

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

Executive Committee (EXCO)

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

Assets and Liabilities Committee (ALCO)

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

Credit Risk Management Committee (CRMC)

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

Human Resources Committee (HRC)

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

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

MANAGEMENT COMMITTEES (CONTINUED)

IT Steering Committee (ITSC)

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

CORPORATE SOCIAL RESPONSIBILITY (CSR)

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

I&M Bank considers 'the community' as a key stakeholder in its business initiatives, and during 2013, the Bank's CSR activities were aimed at making sustainable difference under four key social pillars: Education, Health, Environment and Community Support. The Bank developed its resources towards supporting various projects that included:

- Scholarships for bright but needy students in various educational institutions;
- Environmental care, with a tree planting activity carried out by staff of the Bank, in which trees were planted in 10 acres of Nairobi's Karura Forest;
- Active participation in various health-care initiatives of the Bank, key amongst them being a blood donation drive in which over 260 pints were contributed to the National Blood Bank, and the construction and equipping of a new radiology and paediatric critical care department at Gertrude's Children's Hospital;
- Various community service initiatives, in which staff members are instrumental in supporting the initiatives of the Bank to enhance the lives of those around us. In 2013, staff members participated in the monthly school feeding programme at Kibagare in which over 1,000 children are fed, and also dedicated a day to visit various children's homes supported by the Bank.

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

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

BOARD COMMITTEES

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

	Board Audit Committee	Board Risk Committee	Board Credit Committee	Board Procurement Committee	Board Capital Structure Strategy Committee	Board Share Transfers Committee	Board Nomination and 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 and Compliance (Secretary) **Invitees:** • CEO • Group Head of Internal Audit	• 3 Independent Non-Executive Directors • 1 non–Executive Director • 1 Executive Director • Chief Executive Officer (CEO) • Head of Credit (Secretary) **Invitees:** • Head of Business Development • Head of Risk	• 2 Independent Non-Executive Directors • 1 Executive Director • CEO • Head of Business Support • Head of Finance (Secretary)	• 2 Independent Non-Executive Directors • 1 Executive Director • CEO • 1 External Advisor • Head – Corporate and 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	Annually
Main Functions	• Ensure establishment of an adequate, efficient and effective internal audit function • Review structure and adequacy of internal Controls • Review and co-ordinate between External Auditors and Internal Audit Department • Review and receive CBK Inspection Report, and ensure implementation of recommendations therein.	• Ensure that the Risk management framework and the processes as approved are implemented • Review, monitor and deliberate on the appropriate risk mitigation approach • Ensure BCP is formulated, tested and reviewed periodically • Review of policies, procedures and exposure limits • Review of proposed strategic initiatives • Creating awareness about Risk Management Process in the Bank.	• Review lending policy • Consider loan applications beyond discretionary limits granted to CRMC • Review lending by CRMC • Direct, monitor, review all aspects that will impact upon present and future Credit risk management at the Bank • Ensure compliance with Banking Act and Prudential Guidelines • Conduct independent loan reviews as and when appropriate.	• Review and approve the Procurement Policy • Review and consider significant procurement proposals / consultancy assignments above the delegated authority limit of the Executive Director's Delegated • Vet agreements/ Procurement proposals from related parties • Review and ratify unbudgeted capital expenditure above Executive Director's delegated authority limits	• Review and approve Strategy and objectives on additional capital needs • Ensure optimal capital structure with appropriate mix of debt and equity to support Bank's Strategy • Risk assessment and approval of capital raising avenues proposed by management • Regularly review structure and terms of debt capital.	• Ensure that any new shareholders meet the Board's criteria of good standing • Approve / reject applications for the transfer of shares and approve registration of such transfers • Give guidance and approve any share allotment arising out of a bonus / rights issue • Sign the Share Certificates, under Company Seal, to be issued to any shareholder.	• Assessment of Board requirements for non-executive directors • Succession planning for Board and key Management members • Induction programs for new members and development programs to build individual skills and improve Board effectiveness • Board and Senior Management succession planning • Performance evaluation of the Board of Individual Directors and of the ED and CEO • Set remuneration policies and strategic objectives of Board, ED and 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 and 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 and Strategic Planning. (Secretary)	ED, CEO, Senior General Manager, **Heads of:** • Business Development • Business Support • Risk • Treasury • Corporate and Strategic Planning. • Chief Manager – CEO's Office (Secretary) **Invitees:** • Head – Internal Audit	ED, CEO, Senior General Manager **Heads of:** • Business Development • Business Support • Corporate and Strategic Planning • Finance • Treasury • Risk (Secretary)	ED, CEO, Senior General 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) • Projects
Frequency of meetings	Quarterly	Once every 2 months	Monthly	Fortnightly	Monthly	Quarterly
Main functions	• Lead and direct Strategic Planning Process, including formulation, implementation and evaluation of Strategy • Review and recommend mid-stream corrections in Strategic Direction • Ensure bank-wide strategic focus by setting medium/ short term objectives • Evaluate progress on Strategic and Corporate Objectives • Periodically evaluate performance targets.	• Review and benchmark Bank's financial and business performance • Review issues that warrant policy changes for other management Committees • Review progress of special projects and implementation status of policy initiatives • Review and formulate marketing strategies • Platform for discussing and review of innovations to enhance efficiency and performance • Identify and manage key risks • Review disaster preparedness and business continuity.	• Liquidity management • Interest Rate Risk management • Maturity Gap management • Currency Risk management • Capital Risk management • Determining investment strategies of the Bank for maximization of risk adjusted returns over the long term • Counter Party and Settlements Risk management.	• Set Credit Policy and Credit Risk Management Policy • Sanction Credit Proposals in line with Policy and CBK Guidelines • Review NPAs • Consider and approve new asset-based products • Control and follow-up on credit-related matters • Regularly report to Board Credit Committee.	• Review and monitor implementation of various staff development and welfare initiatives to ensure maintenance of productive and healthy staff relations • Review of Bank's Manpower Plan • Review and take decisions on disciplinary issues • Review staff remuneration vis-à-vis overall Bank's performance and industry to ensure the Bank remains competitive in attracting and retaining talent • Update Board on HR matters.	• Draw up the Strategic ICT Plan • Guide development of the information architecture and determine the technological direction • Define ICT processes, organisation and relationships • Identify, assess and manage IT risks • Define and manage ICT and ICT-dependent projects • Ensure optimum use of IT resources and manage ICT investments.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and fair presentation of the consolidated and company financial statements of I&M Bank LIMITED set out on pages 29 to 102 which comprise the consolidated and company statement of financial position as at 31 December 2013, consolidated and company statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs and the operating results of the group and the company.

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

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

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

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

APPROVAL OF THE FINANCIAL STATEMENTS

The group and company financial statements, as indicated above, were approved by the Board of Directors on 21st March 2014 and were signed on its behalf by:

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

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

We have audited the financial statements of I&M Bank LIMITED set out on pages 29 to 102 which comprise the consolidated and company statement of financial position as at 31st December 2013, and the consolidated and company statement of Profit or loss and other comprehensive income, consolidated and company statement of changes in equity and consolidated and company statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

As stated on page 27, 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, these financial statements give a true and fair view of the consolidated and separate financial position of I&M Bank LIMITED at 31st December 2013, and the consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in a manner required by the Kenyan Companies Act.

Report on other legal requirements

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

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

The Engagement Partner responsible for the audit resulting in this independent auditors' report is CPA Eric Etale Aholi – P/1471.

KPMG Kenya
Certified Public Accountants (Kenya)
Nairobi, Kenya
21st March 2014

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

	Note	2013 KShs	2012 Restated KShs
Interest income	7	14,479,684,766	12,718,823,448
Interest expense	8	(5,595,543,870)	(6,723,817,005)
Net interest income		**8,884,140,896**	**5,995,006,443**
Fee and commission income	9 (a)	1,959,791,919	1,578,557,044
Fee and commission expense	9 (a)	(64,037,893)	(66,993,228)
Net fee and commission income	9 (a)	**1,895,754,026**	**1,511,563,816**
Revenue		**10,779,894,922**	**7,506,570,259**
Other operating income	10	1,542,236,694	1,477,392,640
Operating income		**12,322,131,616**	**8,983,962,899**
Staff costs	11	(2,436,801,300)	(1,815,085,253)
Premises and equipment costs	11	(389,265,969)	(303,546,907)
General administrative expenses	11	(1,392,670,958)	(1,070,985,229)
Depreciation and amortisation	11	(444,970,577)	(386,924,056)
Operating expenses		**(4,663,708,804)**	**(3,576,541,445)**
Operating profit before impairment losses and taxation		**7,658,422,812**	**5,407,421,454**
Net impairment (loss)/recovery on loans and advances	18 (c)	(472,088,972)	4,891,097
		7,186,333,840	**5,412,312,551**
Share of profit of equity-accounted Joint Venture	20 (a)	76,332,182	289,991,785
Profit before income tax	12	**7,262,666,022**	**5,702,304,336**
Income tax expense	13 (a)	(2,281,305,100)	(1,582,746,875)
Net profit for the year after tax		**4,981,360,922**	**4,119,557,461**

The notes set out on pages 40 to 102 form an integral part of these financial statements.

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

	Note	2013 KShs	2012 Restated KShs
Other comprehensive income			
Items that will never be reclassified to Profit or loss			
Actuarial (losses)/gains on re-measurement of employees benefit scheme	37	(22,036,978)	383,577
Revaluation on Property and equipment		488,952,808	-
		466,915,830	**383,577**
Items that are or may be classified to Profit or loss			
Net change in fair value of available for sale financial assets		(36,739,626)	134,279,931
Foreign currency translation differences (pg 24)		(182,715,004)	(16,288,378)
Related tax – current year	24 (a)	13,706,971	-
Related tax – prior year under provision	24 (a)	58,942,021	-
		(146,805,638)	**117,991,553**
Total other comprehensive income for the year		**320,110,192**	**118,375,130**
Total comprehensive income for the year		**5,301,471,114**	**4,237,932,591**
Profit attributable to:			
Equity holders of the company		4,617,470,815	3,860,460,435
Non controlling interest		363,890,107	259,097,026
		4,981,360,922	**4,119,557,461**
Total comprehensive income attributable to:			
Equity holders of the company		5,034,950,571	3,969,386,354
Non controlling interest		266,520,543	268,546,237
		5,301,471,114	**4,237,932,591**
Basic and diluted earnings per share - (KShs)	14	**160.32**	**134.03**
Dividend per share - (KShs)			
- Final	15	**35.00**	**26.00**

The notes set out on pages 40 to 102 form an integral part of these financial statements.

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

	Note	2013 KShs	2012 KShs
Interest income	7	11,577,079,411	10,966,387,228
Interest expense	8	(4,534,934,544)	(6,035,221,563)
Net interest income		**7,042,144,867**	**4,931,165,665**
Fee and commission income	9 (b)	1,496,689,082	1,266,269,206
Fee and commission expense	9 (b)	(46,008,926)	(31,199,336)
Net fee and commission income	9 (b)	**1,450,680,156**	**1,235,069,870**
Revenue		**8,492,825,023**	**6,166,235,535**
Other operating income	10	749,003,909	882,696,635
Dividend income	10	97,285,812	103,578,700
		846,289,721	986,275,335
Operating income		**9,339,114,744**	**7,152,510,870**
Staff costs	11	(1,431,291,396)	(1,209,223,691)
Premises and equipment costs	11	(226,451,177)	(211,832,793)
General administrative expenses	11	(854,968,607)	(706,328,291)
Depreciation and amortisation	11	(298,711,308)	(289,418,162)
Operating expenses		**(2,811,422,488)**	**(2,416,802,937)**
Operating profit before impairment losses and taxation		**6,527,692,256**	**4,735,707,933**
Net impairment (loss)/ recovery on loans and advances	18 (c)	(467,874,581)	(14,167,545)
Profit before income tax	12	**6,059,817,675**	**4,721,540,388**
Income tax expense	13 (b)	(1,865,382,349)	(1,358,647,847)
Net profit for the year after tax		**4,194,435,326**	**3,362,892,541**
Other comprehensive income			
Items that will never be reclassified to Profit or loss			
Revaluation of property and equipment		491,506,129	-
Items that are or may be reclassified to Profit or loss			
Net change in fair value of available for sale financial assets		(45,689,903)	119,115,809
Related tax - current year		13,706,971	
Related tax - prior years under provisions		58,942,021	-
		26,959,089	119,115,809
Total other comprehensive income for the year		**518,465,218**	**119,115,809**
Total comprehensive income for the year		**4,712,900,544**	**3,482,008,350**
Basic and diluted earnings per share - (Kshs)	14	**145.63**	**116.76**
Dividend per share - (KShs)	15		
- Final		**35.00**	**26.00**

The notes set out on pages 40 to 102 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Note	31.12.2013 KShs	31.12.2012 Restated KShs	01.01.2012 Restated KShs
Assets				
Cash and balances with Central Banks	16	8,909,224,001	6,744,132,656	5,204,366,824
Loans and advances to banks	17	6,050,626,986	6,774,013,121	5,871,679,940
Loans and advances to customers	18 (a)	91,882,663,906	71,012,960,123	53,244,093,199
Investment securities	19	26,197,402,129	27,322,216,105	17,066,358,327
Investment in Joint Venture	20 (a)	2,411,972,727	2,066,667,578	1,840,951,353
Property and equipment	21	2,608,195,742	2,129,369,021	1,453,280,139
Intangible assets - Goodwill	22 (a)	1,173,406,016	1,173,406,016	619,699,547
Intangible assets - Software	22 (b)	175,007,742	242,911,959	55,862,884
Prepaid operating lease rentals	23	241,325,331	246,104,186	250,883,040
Tax recoverable	13 (b)(i)	-	2,909,947	-
Deferred tax asset	24 (a)	575,988,859	337,756,198	270,749,496
Other assets	25	1,138,402,284	1,223,597,412	917,194,829
Total assets		**141,364,215,723**	**119,276,044,322**	**86,795,119,578**
Liabilities and shareholders' equity				
Liabilities				
Deposits from banks	26	6,411,628,429	5,877,198,410	2,546,060,409
Deposits from customers	27	97,145,568,401	87,774,148,570	64,828,118,553
Deferred tax liability	24 (b)	26,288,067	17,235,682	-
Tax payable	13 (b)(i)	569,712,733	110,005,188	313,210,128
Other liabilities	28	1,782,178,314	1,640,646,774	978,035,030
Long term borrowings	29	11,572,650,440	4,446,419,567	2,969,262,405
		117,508,026,384	99,865,654,191	71,634,686,525
Shareholders' equity (Pages 36 and 37)				
Share capital	30 (a)	2,880,245,300	2,880,245,300	2,880,245,300
Share premium	30 (c)	3,773,237,119	3,773,237,119	3,773,237,119
Retained earnings		13,722,034,818	10,241,780,381	7,179,016,452
Revaluation reserve	30 (d)	631,857,844	141,842,012	142,330,963
Statutory loan loss reserve	30 (e)	218,047,667	141,176,203	91,470,947
Translation reserve	30 (f)	16,468,490	98,934,894	124,672,483
Available-for-sale reserve	30 (g)	(161,584,903)	(193,552,209)	(327,832,140)
Proposed dividends		1,008,085,855	748,863,778	747,424,874
		22,088,392,190	17,832,527,478	14,610,565,998
Equity attributable to owners of the company				
Non controlling interest		1,767,797,149	1,577,862,653	549,867,055
Total shareholders' equity		**23,856,189,339**	**19,410,390,131**	**15,160,433,053**
Total liabilities and shareholders' equity		**141,364,215,723**	**119,276,044,322**	**86,795,119,578**

The financial statements set out on pages 29 to 102 were approved by the Board of Directors on 21st March 2014 and were signed on its behalf by:

Director: SBR Shah Director: Sarit S Raja Shah Director: EM Kimani Secretary: NP Kothari

The notes set out on pages 40 to 102 form an integral part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Note	2013 KShs	2012 KShs
Assets			
Cash and balances with Central Bank of Kenya	16	6,151,961,252	4,247,943,202
Loans and advances to banks	17	1,695,669,062	1,492,544,276
Loans and advances to customers	18 (a)	73,369,587,567	55,374,812,294
Investment securities	19	20,975,157,099	23,317,885,968
Investment in Joint Venture	20 (a)	1,498,814,479	1,245,537,610
Investment in subsidiary	20 (b)	2,752,188,620	2,752,188,620
Property and equipment	21	1,948,404,145	1,387,467,275
Intangible asset - Goodwill	22 (a)	10,746,998	10,746,998
Intangible assets - Software	22 (b)	102,766,346	164,620,750
Prepaid operating lease rentals	23	241,325,331	246,104,186
Deferred tax asset	24 (a)	558,049,635	328,140,174
Tax recoverable	13 (b)(ii)	-	2,909,947
Other assets	25	1,011,011,959	948,721,629
Total assets		**110,315,682,493**	**91,519,622,929**
Liabilities and shareholders' equity			
Liabilities			
Deposits from banks	26	2,895,022,029	4,730,413,541
Deposits from customers	27	74,494,274,534	65,640,244,868
Tax payable	13 (b)(ii)	412,050,416	-
Other liabilities	28	1,080,723,572	886,571,435
Long term borrowings	29	10,908,977,608	3,671,573,436
		89,791,048,159	74,928,803,280
Shareholders' equity (Page 38 and 39)			
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		12,308,162,034	9,217,455,769
Revaluation reserve	30 (d)	629,739,248	138,233,119
Statutory loan loss reserve	30 (e)	94,679,096	29,257,971
Available-for-sale reserve	30 (g)	(169,514,318)	(196,473,407)
Proposed dividends		1,008,085,855	748,863,778
		20,524,634,334	**16,590,819,649**
Total liabilities and shareholders' equity		**110,315,682,493**	**91,519,622,929**

The financial statements set out on pages 29 to 102 were approved by the Board of Directors on 21st March 2014 and were signed on its behalf by:

Director: SBR Shah Director: Sarit S Raja Shah Director: EM Kimani Secretary: NP Kothari

The notes set out on pages 40 to 102 form an integral part of these financial statements.

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

	Note	2013 KShs	2012 Restated KShs
Net cash flows used in operating activities	31 (a)	**(25,726,064,512)**	**(9,297,899,485)**
Cash flows from investing activities			
Purchase of property and equipment	21 (a)	(331,889,383)	(336,025,894)
Purchase of intangible assets	22 (b)	(75,945,492)	(298,289,771)
Proceeds from disposal of property and equipment		11,784,902	29,373,312
Proceeds from disposal of investment securities		20,300,355,483	4,282,214,532
Dividend from Joint Venture		-	42,300,000
Investment in subsidiary			2,267,085,797
Additional investment in Joint Venture	20 (a)	(253,276,869)	-
Net cash from investing activities		**19,651,028,641**	**5,986,657,976**
Cash flows from financing activities			
Reverse takeover costs		(30,222,081)	-
Receipt of long term borrowings		7,126,230,873	1,101,331,676
Dividend paid to shareholders of the company		(748,863,778)	(747,424,874)
Dividend paid to non controlling interests		(76,586,047)	(32,973,132)
Net cash from financing activities		**6,270,558,967**	**320,933,670**
Net increase/(decrease) in cash and cash equivalents	31 (b)	**195,523,096**	**(2,990,307,839)**

The notes set out on pages 40 to 102 form an integral part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 KShs	2012 Restated KShs
Net cash flows used in operating activities	31 (c)	**(22,849,091,687)**	**(9,140,128,494)**
Cash flows from investing activities			
Purchase of property and equipment	21 (b)	(249,591,174)	(250,545,409)
Purchase of intangible assets	22 (b)	(52,459,550)	(233,080,859)
Proceeds from disposal of property and equipment		641,000	2,241,475
Dividends received	10 (b)	97,285,812	103,578,700
Investments in Joint Venture		(253,276,869)	-
Investments in subsidiary		-	(1,629,277,260)
Proceeds on investment securities		20,253,059,678	4,282,214,532
Net cash from investing activities		**19,795,658,897**	**2,275,131,179**
Cash flows from financing activities			
Reverse takeover costs		(30,222,081)	-
Net proceeds of long term borrowings		7,237,404,172	702,311,031
Dividend paid		(748,863,778)	(747,424,874)
Net cash from/(used in) financing activities		**6,458,318,313**	**(45,113,843)**
Net increase/(decrease) in cash and cash equivalents	31 (d)	**3,404,885,523**	**(6,910,111,158)**

The notes set out on pages 40 to 102 form an integral part of these financial statements.

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

2012:	Share capital KShs	Share premium KShs	Retained earnings KShs	Statutory credit risk reserve KShs	Revaluation reserve KShs	Available-for sale-reserve KShs	Translation reserve KShs	Proposed dividends KShs	Total KShs	Non controlling interest KShs	Total KShs
At 1 January 2012:											
- As previously reported	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
Actuarial (losses)/gains to employee benefits scheme	-	-	(6,237,551)	-	-	-	-	-	(6,237,551)	-	(6,237,551)
At 1 January 2012 – As restated	**2,880,245,300**	**3,773,237,119**	**7,179,016,452**	**91,470,947**	**142,330,963**	**(327,832,140)**	**124,672,483**	**747,424,874**	**14,610,565,998**	**549,867,055**	**15,160,433,053**
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	-	-	-	-	-	-	(25,737,589)	-	(25,737,589)	9,449,211	(16,288,378)
Revaluation reserve	-	-	488,951	-	(488,951)	-	-	-	-		-
Actuarial (losses)/gains to employee benefits scheme	-	-	383,577	-	-	-	-	-	383,577	-	383,577
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	**-**	**-**	**(48,832,728)**	**49,705,256**	**(488,951)**	**134,279,931**	**(25,737,589)**	**-**	**108,925,919**	**9,449,211**	**118,375,130**
Total comprehensive income	**-**	**-**	**3,811,627,707**	**49,705,256**	**(488,951)**	**134,279,931**	**(25,737,589)**	**-**	**3,969,386,354**	**268,546,237**	**4,237,932,591**
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**	**10,241,780,381**	**141,176,203**	**141,842,012**	**(193,552,209)**	**98,934,894**	**748,863,778**	**17,832,527,478**	**1,577,862,653**	**19,410,390,131**

The notes set out on pages 40 to 102 form an integral part of these financial statements.

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

2013:	Share capital KShs	Share premium KShs	Retained earnings KShs	Statutory credit risk reserve KShs	Revaluation reserve KShs	Available-for sale-reserve KShs	Translation reserve KShs	Proposed dividends KShs	Total KShs	Non controlling interest KShs	Total KShs
At 1 January 2013											
- As previously reported	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
Actuarial (losses)/gains to employee benefits scheme	-	-	(5,853,974)	-	-	-	155,006	-	(5,698,968)	-	(5,698,968)
At 1 January 2013 - As restated	**2,880,245,300**	**3,773,237,119**	**10,241,780,381**	**141,176,203**	**141,842,012**	**(193,552,209)**	**98,934,894**	**748,863,778**	**17,832,527,478**	**1,577,862,653**	**19,410,390,131**
Total comprehensive income for the year											
Net Profit after taxation	-	-	4,617,470,815	-	-	-	-	-	4,617,470,815	363,890,107	4,981,360,922
Other comprehensive income											
Translation reserve	-	-	-	-	-	-	(82,466,404)	-	(82,466,404)	(100,248,600)	(182,715,004)
Revaluation reserve	-	-	-	-	490,015,832	-	-	-	490,015,832	(1,063,024)	488,952,808
Fair value changes on employee benefits	-	-	(22,036,978)	-	-	-	-	-	(22,036,978)	-	(22,036,978)
Available for sale reserve	-	-	-	-	-	31,967,306	-	-	31,967,306	3,942,060	35,909,366
Statutory loan loss reserve	-	-	(76,871,464)	76,871,464	-	-	-	-	-	-	-
Total other comprehensive income	**-**	**-**	**(98,908,442)**	**76,871,464**	**490,015,832**	**31,967,306**	**(82,466,404)**	**-**	**417,479,756**	**(97,369,564)**	**320,110,192**
Total comprehensive income	**-**	**-**	**4,518,562,373**	**76,871,464**	**490,015,832**	**31,967,306**	**(82,466,404)**	**-**	**5,034,950,571**	**266,520,543**	**5,301,471,114**
Transactions with owners, recorded directly in equity											
Reverse take over expenses	-	-	(30,222,081)	-	-	-	-	-	(30,222,081)	-	(30,222,081)
Dividend paid - 2012 Final	-	-	-	-	-	-	-	(748,863,778)	(748,863,778)	(76,586,047)	(825,449,825)
Dividend proposed - 2013 Final	-	-	(1,008,085,855)	-	-	-	-	1,008,085,855	-	-	-
Total transactions with owners for the year	**-**	**-**	**(1,038,307,936)**	**-**	**-**	**-**	**-**	**259,222,077**	**(779,085,859)**	**(76,586,047)**	**(855,671,906)**
Balance as at 31 December 2013	**2,880,245,300**	**3,773,237,119**	**13,722,034,818**	**218,047,667**	**631,857,844**	**(161,584,903)**	**16,468,490**	**1,008,085,855**	**22,088,392,190**	**1,767,797,149**	**23,856,189,339**

The notes set out on pages 40 to 102 form an integral part of these financial statements.

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

2012:	Statutory Share capital KShs	Share premium KShs	Retained earnings KShs	credit risk reserve KShs	Available-for-sale reserve KShs	Revaluation reserve KShs	Proposed dividends KShs	Total 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 40 to 102 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

2013:	Statutory Share capital KShs	Share premium KShs	Retained earnings KShs	credit risk reserve KShs	Available-for-sale reserve KShs	Revaluation reserve KShs	Proposed dividends KShs	Total KShs
At 1 January 2013	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
Total comprehensive income for the year								
Net profit after taxation	-	-	4,194,435,326	-	-	-	-	4,194,435,326
Other comprehensive income								
Revaluation reserve	-	-	-	-	-	491,506,129	-	491,506,129
Available-for-sale reserve	-	-	-	-	26,959,089	-	-	26,959,089
Statutory loan loss reserve	-	-	(65,421,125)	65,421,125	-	-	-	-
Total other comprehensive income	**-**	**-**	**(65,421,125)**	**65,421,125**	**26,959,089**	**491,506,129**	**-**	**518,465,218**
Total comprehensive income	**-**	**-**	**4,129,014,201**	**65,421,125**	**26,959,089**	**491,506,129**	**-**	**4,712,900,544**
Transactions with owners recorded directly in equity								
Dividend paid - 2012 final	-	-	-	-	-	-	(748,863,778)	(748,863,778)
Dividend proposed - 2013 final	-	-	(1,008,085,855)	-	-	-	1,008,085,855	-
Reverse takeover costs	-	-	(30,222,081)	-	-	-	-	(30,222,081)
Total transactions with owners for the year	**-**	**-**	**(1,038,307,936)**	**-**	**-**	**-**	**259,222,077**	**(779,085,859)**
Balance as at 31 December 2013	**2,880,245,300**	**12,308,162,034**	**94,679,096**	**(169,514,318)**	**629,739,248**	**1,008,085,855**	**20,524,634,334**	**3,773,237,119**

The notes set out on pages 40 to 102 form an integral part of these financial statements.

1. REPORTING ENTITY

I&M Bank LIMITED (the "Bank"), a financial institution licensed under the Kenyan Banking Act (Chapter 488), provides corporate and retail banking services in various parts of the country. The Bank is incorporated in Kenya under the Kenyan Companies Act and has subsidiaries in Tanzania and Rwanda as well as a Joint Venture in Mauritius. The consolidated financial statements of the Bank as at and for the year ended 31st December 2013 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
P.O Box 30238
00100 Nairobi GPO

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

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

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

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

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

- Available-for-sale financial assets are measured at fair value
- Buildings are measured at fair value

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

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

(e) Changes in accounting policy

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1st January 2013.

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

2. BASIS OF PREPARATION (CONTINUED)

(e) Changes in accounting policy (continued)

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

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

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

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

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

2. BASIS OF PREPARATION (CONTINUED)

(e) Changes in accounting policy (continued)

• Summary of quantitative impacts:

Consolidated statement of financial position

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

2. BASIS OF PREPARATION (CONTINUED)

(e) Changes in accounting policy (continued)

Consolidated statement of financial position

	Impact of changes in accounting policies			
1 January 2012	**As previously reported KShs**	**Joint Venture hive-off KShs**	**Net asset share KShs**	**As restated KShs**
Assets				
Cash and cash equivalents	16,907,146,048	5,831,099,284	-	11,076,046,764
Loans and advances to customers	66,365,869,990	13,121,776,791	-	53,244,093,199
Investment securities	19,685,791,796	2,619,433,469	-	17,066,358,327
Intangible assets - Goodwill	1,116,975,611	497,276,064	-	619,699,547
Investment in Joint Venture	-	(1,245,537,610)	595,413,743	1,840,951,353
Property and equipment	1,915,489,873	462,209,734	-	1,453,280,139
Intangible assets - Software	108,047,505	52,184,621	-	55,862,884
Other assets	1,964,391,556	525,564,191	-	1,438,827,365
Total assets	**108,063,712,379**	**21,864,006,544**	**595,413,743**	**86,795,119,578**
Equity and liabilities				
Total deposits	87,758,964,237	20,384,785,275	-	67,374,178,962
Long term borrowings	3,435,773,450	466,511,045	-	2,969,262,405
Other liabilities	1,702,304,088	411,058,930	-	1,291,245,158
Total Liabilities	**92,897,041,775**	**21,262,355,250**	**-**	**71,634,686,525**
Equity				
Equity attributable to owners of the Company	14,616,803,549	601,651,294	595,413,743	14,610,565,998
Non controlling interest	549,867,055	-	-	549,867,055
Total equity and liabilities	**108,063,712,379**	**21,864,006,544**	**595,413,743**	**86,795,119,578**

2. BASIS OF PREPARATION (CONTINUED)

(e) Changes in accounting policy (continued)

Consolidated statement of profit or loss and SOCI

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Joint Venture

As a result of IFRS 11, the Group has changed its accounting policy for interest in joint arrangements. The investment continues to be recognised as a Joint Venture, by applying the equity method of accounting in consolidated financial statements. The consolidated statement of financial position includes the initial recognition of the investment in the Joint Venture at cost, and the carrying amount is increased or decreased to recognise the investor's share of the Profit or loss of the Joint Venture after the date of the acquisition. The Joint Venture is accounted for at cost in the separate financial statements.

(b) Foreign currencies

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

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

(c) Foreign operations

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

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

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

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

(d) Income recognition

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Income recognition (continued)

(i) Net interest income

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

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

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

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

(ii) Fee and commission income

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

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

(iii) Other operating income

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

(iv) Rental income – other operating income

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

(v) Dividend income

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

(e) Income tax expense

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Income tax expense (continued)

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

(f) Financial assets and financial liabilities

(i) Recognition

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

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

(ii) Classification

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

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.

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 amortized cost using the effective interest method. Loans and receivables compose of loans and advances and cash and cash equivalents.

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 and would prevent the Group from classifying investment securities as held to maturity for the current and the following two financial years. Held to maturity investments includes treasury bills and bonds. They are subsequently measured at amortized cost using the effective interest rate method.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (continued)

(iii) Identification and measurement of impairment of financial assets

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

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

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

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

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

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

(iv) De-recognition

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

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

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

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

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (continued)

(vi) Fair value of financial assets and financial liabilities

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

(vii) Amortized cost measurement

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

(g) Fair value measurement

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

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

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

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

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

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

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

- *Level 1:* inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- *Level 2:* inputs other than quoted prices included in level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- *Level 3:* inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

(h) Cash and cash equivalents

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Property and equipment

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

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

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

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

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

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

(j) Intangible assets

(i) Computer software

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

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

(ii) Goodwill

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

(k) Operating leases

(i) Operating leases

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

(ii) Finance lease receivables

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

(l) Impairment of non-financial assets

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Impairment of non-financial assets (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(m) Derivative financial instruments

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

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

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

(n) Employee benefits

(i) Defined contribution plan

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

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

The employees of the Bank also contribute to the National Social Security Fund. Contributions are determined by local statute and the Bank's contributions are charged to the income statement in the year to which they relate. The group also contributes to various national social security funds in the countries it operates.

(ii) Defined benefit plan

The Joint Venture, Bank One Limited, Mauritius, contributes to a defined benefit plan that provides for employees upon retirement and is wholly funded. In line with IAS 19 (Revised), the actuarial gains and losses are fully recognised in other comprehensive income and all expenses related to defined benefits plans in employee benefit expense in profit or loss.

(iii) Leave accrual

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

(o) Share capital and share issue costs

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

(p) Earnings per share

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

(q) Dividends

Dividends on ordinary shares are recognised as a liability in the period in which they are declared and proposed dividends are disclosed as a separate component of equity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Contingent liabilities

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

(s) Fiduciary activities

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

(t) Comparative information

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

(u) New standards and interpretations not yet adopted

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

New standard or amendments	Effective for annual periods beginning on or after
• IFRS 9 Financial Instruments (2010)	1st January 2018
• Amendments to IAS 32-Offsetting Financial Assets and Financial Liabilities (2011)	1st January 2014
• Amendments to IFRS 10, IFRS 12, and IAS 27 (2012)	1st January 2014
• Amendments to IAS 36-Recoverable Amount	1st January 2014
• Disclosures for Non-Financial Assets (2013)	
• IFRIC 21 Levies (2013)	

(i) IFRS 9: Financial Instruments (2010)

It replaces parts of IAS 39 - Financial Instruments, Recognition and Measurement that relates classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified, at initial recognition as either measured at fair value or at amortised cost. The classification depends on the entity's business model for managing its financial instruments and the characteristics of the contractual cash flows of the instrument. For financial liabilities, the standard retains most of the requirements of IAS 39. The main change is that, in cases where the fair value option is applied for financial liabilities, the part of a fair value change arising from a change in an entity's own credit risk is recorded in other comprehensive income rather than the profit or loss, unless this creates an accounting mismatch.

(ii) Amendments to IAS 32: Offsetting Financial Assets and Financial Liabilities

The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32, mainly by clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. These amendments are effective for annual periods beginning on or after 1st January 2014, with retrospective application.

(iii) Amendments to IFRS 10, IFRS 12 and IAS 27: Investment Entities (2012)

The amendments define "investment entities" and provide them an exemption from the consolidation of subsidiaries; instead, an investment entity is required to measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 / IAS 39 (the exception does not apply to subsidiaries that provide services relating to the investment entity's investment activities). An investment entity is required to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements, and additional disclosures are introduced. The amendments are effective for annual periods beginning on or after 1st January 2014.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(iv) Amendments to IAS 36L: Recoverable Amount Disclosures for Non-Financial Assets (2013)

The amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. They are effective for annual periods beginning on or after 1st January 2014. Amendments to IAS 39 titled Novation of Derivatives and Continuation of Hedge Accounting (issued in June 2013) – The amendments permit the continuation of hedge accounting in a situation where the counterparty to a derivative designated as a hedging instrument is replaced by a new central counterparty (known as 'novation of derivatives'), as a consequence of laws or regulations, if specific conditions are met.

(v) Amendments to IAS 39 titled Novation of Derivatives and Continuation of Hedge Accounting (June 2013)

The amendments permit the continuation of hedge accounting in a situation where a counterparty to a derivative designated as a hedging instrument is replaced by a new central counterparty (known as 'novation of derivatives'), as a consequence of laws or regulations, if specific conditions are met.

(vi) IFRIC 21: Levies (2013)

The interpretation provides guidance on when to recognise a liability for a levy imposed by a government. The obligating event for the recognition of a liability is the activity that triggers the payment of the levy in accordance with the relevant legislation. It also provides guidance on recognition of a liability to pay levies: the liability is recognised either progressively if the obligating event occurs over a period of time, or when the minimum threshold is reached if an obligation is triggered on reaching that minimum threshold. The interpretation is effective for annual periods beginning on or after 1st January 2014.

The Group did not early adopt new or amended Standards in 2013 and is in the process of assessing their impact.

4. RISK MANAGEMENT

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

(a) Credit risk

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

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

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

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

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

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

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

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

4. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Exposure to credit risk

Company:

Loans and advances to customers	**2013 KShs**	**2012 KShs**
Individually impaired:		
Grade 3: Substandard	340,831,882	36,780,491
Grade 4: Doubtful	465,020,204	584,310,547
Grade 5: Loss	254,401,985	136,112,314
	1,060,254,071	757,203,352
Allowance for impairment	(637,073,149)	(611,766,979)
Carrying amounts	**423,180,922**	**145,436,373**
Collectively impaired:		
Grade 1: Normal	66,352,511,940	51,799,883,776
Grade 2: Watch	7,670,472,681	4,062,332,632
	74,022,984,621	55,862,216,408
Portfolio impairment provision	(1,076,577,976)	(632,840,487)
Carrying amounts	**72,946,406,645**	**55,229,375,921**
Total carrying amounts	**73,369,587,567**	**55,374,812,294**

Impaired loans and securities

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

Past due but not impaired loans

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

Loans with renegotiated terms

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

Allowances for impairment

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

4. RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Write off policy

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

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

Loans and advances - Company	**Gross KShs**	**Net KShs**
Individually impaired:		
31 December 2013		
Grade 3: Substandard	340,831,882	43,329,782
Grade 4: Doubtful	465,020,204	379,851,140
Grade 5: Loss	254,401,985	-
	1,060,254,071	**423,180,922**
31 December 2012		
Grade 3: Substandard	36,780,491	32,623,937
Grade 4: Doubtful	584,310,547	112,812,436
Grade 5: Loss	136,112,314	-
	757,203,352	**145,436,373**
Collectively impaired:		
31 December 2013		
Grade 1: Normal	66,352,511,940	65,705,307,303
Grade 2: Watch	7,670,472,681	7,241,099,342
	74,022,984,621	**72,946,406,645**
31 December 2012		
Grade 1: Normal	51,799,883,776	51,322,012,683
Grade 2: Watch	4,062,332,632	3,907,363,238
	55,862,216,408	**55,229,375,921**

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 2013 or 2012.

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

Loans and advances to Customers	**2013 KShs**	**2012 KShs**
Company		
Fair value of collateral held - Against impaired loans	**344,669,867**	**248,384,978**

4. RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk

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

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

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

	2013	2012
At 31 December	34.02%	35.46%
Average for the period	30.60%	37.94%
Highest for the period	34.02%	43.00%
Lowest for the period	27.13%	35.31%

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

Company 31 December 2013:	Due on demand KShs'000	Due within 3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
Liabilities						
Deposits from banks	389,632	2,503,117	2,273	-	-	**2,895,022**
Deposits from customers	24,914,845	44,953,846	4,555,512	70,072	-	**74,494,275**
Other liabilities	462,324	618,400	-	-	-	**1,080,724**
Long-term borrowings	-	341,915	642,309	5,092,804	4,831,950	**10,908,978**
At 31 December 2013	**25,766,801**	**48,417,278**	**5,200,094**	**5,162,876**	**4,831,950**	**89,378,999**

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**

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.

4. RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

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

Exposure to interest rate risk

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

31 December 2013:	Due on demand KShs'000	Due within 3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Due after 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
Assets							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	6,151,961	**6,151,961**
Loans and advances to banks	1,659,731	35,938	-	-	-	-	**1,695,669**
Loans and advances to customers	70,242,741	376,677	840,684	1,710,668	198,817	-	**73,369,587**
Investment securities	-	68,427	8,408,760	7,255,376	5,242,594	-	**20,975,157**
Other assets	-	-	-	-	-	1,011,012	**1,011,012**
At 31 December 2013	**71,902,472**	**481,042**	**9,249,444**	**8,966,044**	**5,441,411**	**7,162,973**	**103,203,386**
Liabilities							
Deposits from banks	2,895,022	-	-	-	-	-	**2,895,022**
Deposits from customers	42,058,839	27,257,110	4,984,990	193,336	-	-	**74,494,275**
Other liabilities	-	-	-	-	-	1,080,724	**1,080,724**
Long-term borrowings	-	160,621	823,603	5,092,804	4,831,950	-	**10,908,978**
At 31 December 2013	**44,953,861**	**27,417,731**	**5,808,593**	**5,286,140**	**4,831,950**	**1,080,724**	**89,378,999**

4. RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Exposure to interest rate risk (continued)

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	52,787,054	303,006	750,707	1,400,306	133,739	-	**55,374,812**
Investment securities	-	5,754,304	4,193,267	5,080,371	8,289,944	-	**23,317,886**
Other assets	-	-	-	-	-	948,722	**948,722**
At 31 December 2012	**53,331,434**	**7,005,474**	**4,943,974**	**6,480,677**	**8,423,683**	**5,196,665**	**85,381,907**
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**

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.

Sensitivity Analysis

A change of 100 basis points in interest rates at the reporting date would have increased/decreased equity and profit or loss by the amounts shown below. The analysis assumes that all other variables in particular foreign currency exchange rates remain constant.

31 December 2013: 100 basis points	Profit or loss Increase/decrease in basis points ('000)	Equity net of tax Increase/decrease in basis points ('000)
Assets	955,588	668,912
Liabilities	(876,187)	(613,331)
Net position	**79,401**	**55,581**

31 December 2012: 100 basis points	Profit or loss Increase/decrease in basis points ('000)	Equity net of tax Increase/decrease in basis points ('000)
Assets	797,347	558,143
Liabilities	(727,896)	(509,527)
Net position	**69,451**	**48,616**

4. RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Currency rate risk

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

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

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 on statement of financial 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)

Sensitivity Analysis

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

31 December 2013:	Profit or loss Strengthening/weakening of currency ('000)	Equity net of tax Strengthening/weakening of currency ('000)
USD (±2.5% movement)	93,118	65,183
GBP (±2.5% movement)	153,628	107,540
EUR (±2.5% movement)	128,628	90,040

31 December 2012:	Profit or loss Strengthening/weakening of currency ('000)	Equity net of tax Strengthening/weakening of currency ('000)
USD (±2.5% movement)	(8,683)	(6,078)
GBP (±2.5% movement)	186	130
EUR (±2.5% movement)	329	230

(d) Operational risk

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

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

- Documentation of procedures and controls, including regular review and updates to reflect changes in the dynamic business environment.
- Appropriate segregation of duties, including the independent authorisation of transactions
- Reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Reporting of operational losses and ensuring appropriate remedial action to avoid recurrence.
- Development and implementation of Business Continuity and Disaster Recovery Plans
- 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.

4. RISK MANAGEMENT (CONTINUED)

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

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

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

In addition to the minimum capital adequacy ratios of 8% and 12%, institutions are required to hold a capital conservation buffer of 2.5% over and above these minimum ratios to enable the institutions withstand future periods of stress. This brings the minimum core capital to risk weighted assets and total capital to risk weighted assets requirements to 10.5% and 14.5% respectively. These ratios are to be met within 24 months from 1st January 2013.

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

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

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

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

4. RISK MANAGEMENT (CONTINUED)

(e) Capital management

Regulatory capital (continued)

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

Company:	2013 KShs	2012 KShs
Core capital (Tier 1)		
Share capital	2,880,245,300	2,880,245,300
Share premium	3,773,237,119	3,773,237,119
Retained earnings	12,308,162,034	9,217,455,769
	18,961,644,453	15,870,938,188
Less: Goodwill	(10,746,998)	(10,746,998)
Investment in Joint Venture	(1,498,814,479)	(1,245,537,610)
Investment in Subsidiary	(2,752,188,620)	(2,752,188,620)
Total core capital	14,699,894,356	11,862,464,960
Supplementary capital (Tier 2)		
Term subordinated debt	3,752,500,000	217,500,000
Statutory loan loss reserve	94,679,096	29,257,971
	3,847,179,096	246,757,971
Total capital	**18,547,073,452**	**12,109,222,931**
Risk weighted assets		
Credit risk weighted assets	83,713,177,534	64,556,075,800
Market risk weighted assets	3,024,031,486	2,025,180,576
Operational risk weighted assets	10,789,263,750	8,541,089,375
Total risk weighted assets	**97,526,472,770**	**75,122,345,751**
Deposits from customers	**74,846,991,847**	**69,778,981,922**
Capital ratios		
Core capital/total deposit liabilities (CBK min 8%)	19.64%	17.00%
Core capital /total risk weighted assets (CBK min 8%)	15.07%	15.79%
Total capital /total risk weighted assets (CBK min 12%)	19.02%	16.12%

(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.

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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.

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

5. USE OF ESTIMATES AND JUDGEMENT

Key sources of estimation uncertainty - Allowance for credit losses

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

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

Income taxes

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

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(i).

Impairment of goodwill

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

Critical accounting judgements in applying the Bank's accounting policies

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

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

6. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Accounting classifications at carrying amounts and fair values

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

	Carrying Amounts						Fair Value			
31 December 2013	Held to maturity KShs'000	Loans and receivables KShs'000	Available -for-sale KShs'000	Other amortised cost KShs'000	Other financial liabilities KShs'000	Total KShs'000	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets										
Cash and balances with Central Bank of Kenya	-	-	-	6,151,961	-	6,151,961	-	-	-	-
Investment securities	12,146,431	-	8,828,727	-	-	20,975,158	8,828,727	-	-	**8,828,727**
Loans and advances to banks	-	1,695,669	-	-	-	1,695,669	-	-	-	-
Loans and advances to customers	-	73,369,588	-	-	-	73,369,588	-	-	-	-
Other assets	-	-	-	822,845	-	822,845	-	-	-	-
	12,146,431	**75,065,257**	**8,828,727**	**6,974,806**	**-**	**103,015,221**	**8,828,727**	**-**	**-**	**8,828,727**
Financial liabilities										
Deposits from banks	-	-	-	-	2,895,022	2,895,022	-	-	-	-
Deposits from customers	-	-	-	-	74,494,275	74,494,275	-	-	-	-
Long term borrowings	-	-	-	-	10,908,978	10,908,978	-	-	-	-
Other liabilities	-	-	-	-	564,341	564,341	-	-	-	-
	-	**-**	**-**	**-**	**88,862,616**	**88,862,616**	**-**	**-**	**-**	**-**

6. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

Accounting classifications at carrying amounts and fair values (continued)

	Carrying Amounts						Fair Value			
31 December 2012	Held to maturity KShs'000	Loans and receivables KShs'000	Available -for-sale KShs'000	Other amortised cost KShs'000	Other financial liabilities KShs'000	Total KShs'000	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets										
Cash and balances with Central Bank of Kenya	-	-	-	4,247,943	-	4,247,943	-	-	-	-
Investment securities	17,066,427	-	6,251,459	-	-	23,317,886	6,251,459	-	-	6,251,459
Loans and advances to banks	-	1,492,544	-	-	-	1,492,544	-	-	-	-
Loans and advances to customers	-	55,374,812	-	-	-	55,374,812	-	-	-	-
Other assets	-	-	-	809,774	-	809,774	-	-	-	-
	17,066,427	**56,867,356**	**6,251,459**	**5,057,717**	**-**	**85,242,959**	**6,251,459**	**-**	**-**	**6,251,459**
Financial liabilities										
Deposits from banks	-	-	-	-	4,730,414	4,730,414	-	-	-	-
Deposits from customers	-	-	-	-	65,640,245	65,640,245	-	-	-	-
Long term borrowings	-	-	-	-	3,671,573	3,671,573	-	-	-	-
Other liabilities	-	-	-	-	517,731	517,731	-	-	-	-
	-	**-**	**-**	**-**	**74,559,963**	**74,559,963**	**-**	**-**	**-**	**-**

Measurement of fair values

(i) Valuation techniques and significant unobservable inputs

Financial assets measured at fair value 31st December 2013 and 31st December 2012.

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

7. INTEREST INCOME

	2013 KShs	2012 KShs
(a) Group		
Loans and advances to customers	11,698,335,975	10,127,213,929
Loans and advances to banks	174,423,300	539,270,529
Investment securities:		
- Held-to-maturity	1,847,981,307	1,395,203,905
- Available-for-sale	758,944,184	657,135,085
	14,479,684,766	**12,718,823,448**
(b) Company		
Loans and advances to customers	9,412,952,981	8,756,660,611
Loans and advances to banks	67,044,986	456,726,623
Investment securities:		
- Held-to-maturity	1,349,947,091	1,098,271,613
- Available-for-sale	747,134,353	654,728,381
	11,577,079,411	**10,966,387,228**

8. INTEREST EXPENSE

	2013 KShs	2012 KShs
(a) Group		
Deposits from customers	5,077,342,507	6,341,372,565
Deposits from banks	197,357,001	162,922,963
Borrowings	320,844,362	219,521,477
	5,595,543,870	**6,723,817,005**
(b) Company		
Deposits from customers	4,086,041,161	5,706,987,639
Deposits from banks	172,990,890	114,054,763
Borrowings	275,902,493	214,179,161
	4,534,934,544	**6,035,221,563**

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9. NET FEE AND COMMISSION INCOME

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

	2013 KShs	2012 KShs
(b) Company		
Fee and commission income		
Commissions	947,304,347	826,364,910
Service fees	549,384,735	439,904,296
	1,496,689,082	**1,266,269,206**
Fee and commission expense		
Inter bank transaction fees	(19,753,557)	(26,776,416)
Other	(26,255,369)	(4,422,920)
	(46,008,926)	**(31,199,336)**
Net fee and commission income	**1,450,680,156**	**1,235,069,870**

10. OTHER INCOME

	2013 KShs	2012 KShs
(a) Other operating income		
(i) Group		
Income from foreign exchange dealings	1,299,550,190	1,092,048,764
Rental income	114,635,865	79,343,178
Profit on sale of property and equipment	9,529,619	6,678,817
Profit on sale of available-for-sale investment securities	102,171,205	210,335,118
Other	16,349,815	88,986,763
	1,542,236,694	**1,477,392,640**
(ii) Company		
Income from foreign exchange dealings	535,242,141	549,024,052
Rental income	81,034,541	77,575,884
Profit on sale of property and equipment	245,000	1,716,657
Profit on sale of available-for-sale investment securities	102,171,205	210,335,118
Management fees	25,642,500	20,796,942
Other	4,668,522	23,247,982
	749,003,909	**882,696,635**
(b) Dividend income		
(i) Company		
Dividend from subsidiaries	97,285,812	61,278,700
Dividend from Joint Venture	-	42,300,000
	97,285,812	**103,578,700**

11. OPERATING EXPENSES

	2013 KShs	2012 KShs
(a) Group		
Staff costs		
Salaries and wages	1,962,233,378	1,452,103,389
Contributions to defined benefit and contribution plan	84,433,056	61,752,225
Other staff costs	390,134,866	301,229,639
	2,436,801,300	**1,815,085,253**
Premises and equipment costs		
Rental of premises	203,963,185	146,083,763
Electricity	32,743,714	24,796,708
Other premises and equipment costs	152,559,070	132,666,436
	389,265,969	**303,546,907**
General administration expenses		
Deposit protection fund contribution	112,650,263	96,221,362
Loss on disposal of property and equipment	145,935	131,054
General administrative expenses	1,279,874,760	974,632,813
	1,392,670,958	**1,070,985,229**
Depreciation and amortisation		
Leasehold improvements	75,762,619	64,316,079
Fixtures, fittings and equipment	71,195,877	68,373,076
Computers	64,216,636	58,740,758
Motor vehicles	25,688,262	19,771,895
Leasehold building	61,331,014	45,130,280
Depreciation on property and equipment (Note 21)	**298,194,408**	**256,332,088**
Amortisation of intangible assets (Note 22(b)(i))	141,997,314	125,813,114
Amortisation of prepaid operating lease rentals (Note 23)	4,778,855	4,778,854
	444,970,577	**386,924,056**

11. OPERATING EXPENSES (CONTINUED)

	2013 KShs	2012 KShs
(b) Company		
Staff costs		
Salaries and wages	1,126,292,381	953,616,965
Contributions to defined contribution plan	41,522,908	36,296,563
Other staff costs	263,476,107	219,310,163
	1,431,291,396	**1,209,223,691**
Premises and equipment costs		
Rental of premises	116,245,255	93,697,778
Electricity	13,847,713	13,311,866
Other premises and equipment costs	96,358,209	104,823,149
	226,451,177	**211,832,793**
General administration expenses		
Deposit protection fund contribution	97,950,000	79,455,956
Loss on disposal of property and equipment	145,935	131,054
General administrative expenses	756,872,672	626,741,281
	854,968,607	**706,328,291**
Depreciation and amortisation		
Leasehold improvements	67,120,444	64,316,079
Fixtures, fittings and equipment	37,673,426	36,104,654
Computers	48,789,589	49,400,503
Motor vehicles	4,165,004	4,626,750
Leasehold building	21,870,036	19,964,974
Depreciation on property and equipment (Note 21)	**179,618,499**	**174,412,960**
Amortisation of intangible assets (Note 22(b)(ii))	114,313,954	110,226,348
Amortisation of prepaid operating lease rentals (Note 23)	4,778,855	4,778,854
	298,711,308	**289,418,162**

12. PROFIT BEFORE INCOME TAX

	2013 KShs	2012 KShs
Group		
Profit before income tax is arrived at after charging/(crediting):		
Depreciation	298,194,408	256,332,088
Amortisation of intangible assets	141,997,314	125,813,114
Directors' emoluments: - Fees	27,980,267	17,297,194
- Other	23,222,667	19,544,493
Auditors' remuneration	13,844,512	8,635,659
Amortisation of prepaid operating lease rentals	4,778,855	4,778,854
Net profit on sale of property and equipment	9,383,684	(6,547,763)
Company		
Profit before income tax is arrived at after charging/(crediting):		
Depreciation	179,618,499	174,412,961
Amortisation of intangible assets	114,313,956	110,226,348
Directors' emoluments: - Fees	10,000,000	8,410,000
- Other	21,630,000	18,000,000
Auditors' remuneration	3,811,000	3,700,000
Amortisation of prepaid operating lease rentals	4,778,855	4,778,854
Net profit on sale of property and equipment	99,065	(1,585,603)

13. INCOME TAX EXPENSE AND TAX PAYABLE

(a) Income tax expense

	2013 KShs	2012 KShs
(i) Group		
Current year's tax	2,438,381,470	1,698,186,437
Under provision in prior year - Current tax	1,832,759	(41,564,338)
Over provision in prior year - Deferred tax	58,123,892	-
	2,498,338,121	1,656,622,099
Deferred tax credit (Note 24)	(217,033,021)	(73,875,224)
Income tax expense	**2,281,305,100**	**1,582,746,875**

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

	2013 KShs	2012 KShs
Accounting profit before taxation	**7,262,666,022**	**5,702,304,336**
Computed tax using the applicable corporation tax rate	2,183,963,838	1,662,162,838
Under provision in the prior year	1,832,759	(40,120,734)
Effect on non-deductible costs	57,242,090	(14,025,431)
Under provision in prior year – Deferred tax	58,123,892	(25,269,798)
Prior period tax recoverable	(4,522,390)	-
Tax discount in accordance with Rwandan tax laws	(15,335,089)	-
	2,281,305,100	**1,582,746,875**

13. INCOME TAX EXPENSE AND TAX PAYABLE (CONTINUED)

(a) Income tax expense (continued)

	2013 KShs	2012 KShs
(ii) Company		
Current year's tax at 30%	2,023,926,996	1,466,626,525
Under provision in prior year - Current tax	(1,284,180)	(41,564,338)
Over provision in prior year - Deferred tax	48,218,735	-
	2,070,861,551	1,425,062,187
Deferred tax credit (Note 24)	(205,479,202)	(66,414,340)
Income tax expense	**1,865,382,349**	**1,358,647,847**

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

	2013 KShs	2012 KShs
Accounting profit before taxation	**6,059,817,675**	**4,721,540,388**
Computed tax using the applicable corporation tax rate at 30%	1,817,945,303	1,416,462,116
Under provision in the prior year	(1,284,180)	(41,564,338)
Effect on non-deductible costs	502,491	(16,249,931)
Over provision in prior year - Deferred tax	48,218,735	-
	1,865,382,349	**1,358,647,847**

(b) Tax payable/ recoverable

	2013 KShs	2012 KShs
(i) Group		
At 1 January	107,095,241	313,210,128
Income tax expense (Note 13(a)(i))	2,440,214,228	1,656,622,099
Effect of tax in foreign jurisdiction	(2,377,845)	51,603,180
Tax paid (Note 31(a))	(1,975,218,891)	(1,914,340,166)
At 31 December	**569,712,733**	**107,095,241**
(ii) Company		
At 1 January	(2,909,947)	311,262,090
Income tax expense (Note 13(a)(i))	2,022,642,816	1,425,062,187
Tax paid (Note 31(c))	(1,607,682,453)	(1,739,234,224)
At 31 December	**412,050,416**	**(2,909,947)**

14. EARNINGS PER SHARE

	Consolidated		Company	
	2013	2012	2013	2012
Net profit after tax for the year (KShs)	4,617,470,815	3,860,460,435	4,194,435,326	3,362,892,541
Weighted average number of ordinary shares in issue during the year	28,802,453	28,802,453	28,802,453	28,802,453
Earnings per share (KShs)	160.32	134.03	145.63	116.76

There were no potentially dilutive shares outstanding at 31st December 2013 (2012 – Nil).

15. DIVIDEND PER SHARE

	2013 KShs	2012 KShs
The calculation of dividend per share is based on:		
Final dividend proposed during the year (KShs)	1,008,085,855	748,863,778
Weighted average number of ordinary shares in issue during the year	28,802,453	28,802,453
Final dividend per share (KShs)	35.00	26.00

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

16. CASH AND BALANCES WITH CENTRAL BANKS

	2013 KShs	2012 KShs
(a) Group		
Cash on hand	1,498,209,444	1,272,793,707
Balances with Central Banks:		
- Restricted balances (Cash Reserve Ratio)	5,752,974,264	5,041,222,170
- Unrestricted balances	1,658,040,293	430,116,779
	8,909,224,001	6,744,132,656
(b) Company		
Cash on hand	787,041,796	584,557,853
Balances with Central Bank of Kenya:		
- Restricted balances (Cash Reserve Ratio)	3,868,580,835	3,330,932,010
- Unrestricted balances	1,496,338,621	332,453,339
	6,151,961,252	4,247,943,202

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 31st December 2013, the Cash Reserve Ratio requirement was 5.25% of all customer deposits (2012 – 5.25%).

17. LOANS AND ADVANCES TO BANKS

	2013 KShs	2012 KShs
(a) Group		
Due within 90 days	6,050,626,986	6,774,013,121
Due after 90 days	-	-
	6,050,626,986	6,774,013,121
(b) Company		
Due within 90 days	1,695,669,062	1,492,544,276
Due after 90 days	-	-
	1,695,669,062	1,492,544,276

The company's weighted average effective interest rate on loans and advances to banks at 31st December 2013 was 7.70% (2012 – 4.30 %).

18. LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

	2013 KShs	2012 KShs
(i) Group		
Overdrafts	32,136,433,855	26,478,682,882
Loans	59,589,235,288	43,925,723,218
Bills discounted	286,902,412	662,384,822
Hire purchase	1,870,055,737	1,437,555,240
Gross loans and advances	**93,882,627,292**	**72,504,346,162**
Less: Impairment losses on loans and advances (Note 18(b)(i))	(1,999,963,386)	(1,491,386,039)
Net loans and advances	**91,882,663,906**	**71,012,960,123**
Repayable on demand	24,569,977,509	23,987,583,948
Less than 3 months	8,056,859,134	5,074,611,406
3 months to 1 year	11,566,385,550	7,521,553,556
1 to 5 years	29,829,778,985	22,413,048,135
5 to 10 years	16,161,237,804	12,083,802,915
Over 10 years	3,698,388,310	1,423,746,202
Gross loans and advances	**93,882,627,292**	**72,504,346,162**
(ii) Company		
Overdrafts	25,785,433,603	20,794,791,885
Loans	47,177,380,625	33,724,687,813
Bills discounted	250,368,727	662,384,822
Hire purchase	1,870,055,737	1,437,555,240
Gross loans and advances	**75,083,238,692**	**56,619,419,760**
Less: Impairment losses on loans and advances (Note 18(b)(ii))	(1,713,651,125)	(1,244,607,466)
Net loans and advances	**73,369,587,567**	**55,374,812,294**
Repayable on demand	22,066,532,700	22,299,948,866
Less than 3 months	6,677,944,501	3,792,079,885
3 months to 1 year	7,125,646,874	2,590,274,895
1 to 5 years	20,571,463,186	15,570,643,952
5 to 10 years	15,684,375,909	10,942,725,959
Over 10 years	2,957,275,522	1,423,746,203
Gross loans and advances	**75,083,238,692**	**56,619,419,760**

18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Impairment losses reserve

	Specific impairment losses KShs	Portfolio impairment provision KShs	Total KShs
(i) Group			
2013:			
At 1 January 2013	777,224,163	714,161,876	1,491,386,039
Impairment made in the year	96,251,622	509,855,408	606,107,030
Recoveries and impairment no longer required	(56,968,395)	-	(56,968,395)
Net recoveries, write offs during the year	(4,113,792)	-	(4,113,792)
Amounts written off during the year	(20,875,432)	-	(20,875,432)
Translation difference	(9,272,026)	(6,300,038)	(15,572,064)
At 31 December 2013	**782,246,140**	**1,217,717,246**	**1,999,963,386**
2012:			
At 1 January 2012	834,273,135	595,817,682	1,430,090,817
Acquisition of subsidiary	140,919,837	57,416,864	198,336,701
Impairment made in the year	102,206,416	60,939,911	163,146,327
Recoveries and impairment no longer required	(125,450,427)	-	(125,450,427)
Net recoveries, write offs during the year	(51,283,930)	-	(51,283,930)
Amounts written off during the year	(124,138,171)	-	(124,138,171)
Translation difference	697,303	(12,581)	684,722
At 31 December 2012	**777,224,163**	**714,161,876**	**1,491,386,039**
(ii) Company			
At 1 January 2013	611,766,979	632,840,487	1,244,607,466
Impairment made in the year	62,531,201	443,737,489	506,268,690
Recoveries and impairment no longer required	(37,225,031)	-	(37,225,031)
Net recoveries, write offs during the year	-	-	-
Amounts written off during the year	-	-	-
At 31 December 2013	**637,073,149**	**1,076,577,976**	**1,713,651,125**
2012:			
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 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**

18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Impairment losses on loans and advances

	2013 KShs	2012 KShs
(i) Group		
Impairment made in the year	606,107,030	163,146,327
Recoveries and impairment no longer required	(56,968,395)	(125,450,427)
Recoveries of loans and advances previously written off	(78,149,752)	(46,565,797)
Amounts directly written off during the year	1,100,089	3,978,800
	472,088,972	**(4,891,097)**
(ii) Company		
Impairment made in the year	506,268,690	114,885,984
Recoveries and impairment no longer required	(37,225,031)	(100,754,240)
Recoveries of loans and advances written off in prior years	(1,303,123)	-
Amounts directly written off during the year	134,045	35,801
Company	**467,874,581**	**14,167,545**

(d) Non-performing loans and advances - Company

The company's loans and advances include an amount of KShs 423,180,922 (2012 – KShs 145,436,373) net of impairment losses which are non-performing. The estimated realisable value of securities held against this balance is KShs 344,669,867 (2012 – KShs 248,384,978).

	2013 KShs	2012 KShs
Interest on impaired loans and advances which has not yet been received in cash	**355,354,486**	**266,442,983**

The company's weighted average effective interest rate on loans and advances to customers at 31 December 2013 was 13.93% (2012 – 16.63%).

18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Loans and advances concentration by sector - Company

	2013 KShs	%	2012 KShs	%
Manufacturing	18,260,894,362	24.32	14,809,540,634	26.16
Wholesale and retail trade	2,614,292,354	3.48	5,810,773,015	10.26
Building and construction	6,681,418,716	8.90	5,266,524,225	9.30
Agriculture	4,050,740,654	5.39	3,060,657,990	5.41
Real estate	12,857,373,778	17.12	10,325,352,350	18.24
Transport and communication	3,671,664,254	4.89	3,143,923,638	5.55
Business services	16,259,204,707	21.65	11,297,283,397	19.95
Electricity and water	110,845,697	0.15	97,358,068	0.17
Finance and insurance	852,966,217	1.15	119,024,995	0.21
Mining and quarrying	1,397,792,429	1.86	230,556,868	0.41
Others	8,326,045,524	11.09	2,458,424,580	4.34
	75,083,238,692	**100.00**	**56,619,419,760**	**100.00**

(f) Finance leases - Company

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

	2013 KShs	2012 KShs
Receivable no later than 1 year	197,566,619	208,276,529
Receivable later than 1 year and no later than 5 years	1,672,489,118	1,229,278,711
	1,870,055,737	**1,437,555,240**

19. INVESTMENT SECURITIES

	2013 KShs	2012 KShs
(a) Group		
Available-for-sale		
Corporate bonds - available-for-sale	677,463,026	864,613,516
Treasury bonds - available-for-sale	7,153,679,008	5,575,247,268
Treasury bills - available-for-sale	1,133,447,000	-
Total available-for-sale	8,964,589,034	6,439,860,784
Held-to-maturity		
Treasury bonds	10,163,169,598	10,457,572,701
Treasury bills	7,069,643,497	10,302,353,990
Other investment securities	-	122,428,630
Total held to maturity	17,232,813,095	20,882,355,321
Total investment securities	**26,197,402,129**	**27,322,216,105**
(b) Company		
Available-for-sale		
Medium term notes	-	-
Corporate bonds - available-for-sale	677,463,026	864,613,516
Treasury bonds - available-for-sale	7,017,816,498	5,386,845,201
Treasury bills - available-for-sale	1,133,447,000	-
Total available-for-sale	8,828,726,524	6,251,458,717
Held-to-maturity		
Treasury bonds	8,917,420,771	8,949,705,918
Treasury bills	3,229,009,804	8,116,721,333
Total held to maturity	12,146,430,575	17,066,427,251
Total investment securities	**20,975,157,099**	**23,317,885,968**

19. INVESTMENT SECURITIES (CONTINUED)

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 2013:				
At 1 January 2013	22,453,272,452	864,613,516	-	**23,317,885,968**
Additions	20,841,000,000	-	-	**20,841,000,000**
Disposals and maturities	(22,873,850,000)	(210,341,346)	-	**(23,084,191,346)**
Changes in fair value	(72,978,417)	27,288,513	-	**(45,689,904)**
Amortisation of discounts and premiums	29,633,187	-	-	**29,633,187**
Unearned interest	(93,748,491)	-	-	**(93,748,491)**
Interest receivable	14,365,342	(4,097,657)	-	**10,267,685**
At 31 December 2013	**20,297,694,073**	**677,463,026**	**-**	**20,975,157,099**

	Treasury bonds and bills KShs	Corporate bond KShs	Medium term floating notes KShs	Total KShs
31 December 2012:				
At 1 January 2012	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)	-	-	**(8,948,151)**
Unearned interest	(145,598,273)	-	-	**(145,598,273)**
Interest receivable	45,556,085	(2,567,505)	(676,680)	**42,311,900**
At 31 December 2012	**22,453,272,452**	**864,613,516**	**-**	**23,317,885,968**

The weighted average effective interest rate on Government securities at 31st December 2013 was 9.90% (2012 – 9.40%).

The weighted average effective interest rate on corporate bonds at 31st December 2013 was 12.20% (2012 – 11.67%).

At 31st December 2013, unamortized premiums on investment securities amounted to KShs 255,114,032 (2012 – KShs 329,138,430) and unamortized discounts amounted to KShs 245,568,274 (2012 – KShs 439,883,297).

20. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES

(a) Investment in Joint Venture

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

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

	Activity	Beneficial ownership %	2013 KShs	2012 KShs
Company				
Bank One Limited	Commercial Banking	50	1,245,537,610	1,245,537,610
Additional Investment through rights issue			253,276,869	-
			1,498,814,479	**1,245,537,610**
(b) Investment in subsidiaries				
I&M Bank (T) Limited	Commercial banking	55.03	1,122,911,360	1,122,911,360
I&M Bank (Rwanda) Limited	Commercial banking	54.99	1,629,277,260	1,629,277,260
			2,752,188,620	**2,752,188,620**

21.PROPERTY AND EQUIPMENT- GROUP AND COMPANY

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

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

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

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

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

2013:	Leasehold buildings KShs	Leasehold improvements KShs	Furniture, fittings, fixtures and office, equipment KShs	Computers KShs	Motor vehicles KShs	Capital work in progress KShs	Total KShs
(b) Company							
Cost/valuation							
At 1 January 2013	950,000,000	565,338,128	418,076,248	270,286,126	34,453,710	-	2,238,154,212
Additions	-	39,237,392	32,533,927	25,012,063	7,590,000	145,217,792	249,591,174
Reclassification	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-
Disposals	-	-	(2,898,969)	-	-	-	(2,898,969)
Surplus on revaluation	400,000,000	-	-	-	-	-	400,000,000
At 31 December 2013	1,350,000,000	604,575,520	447,711,206	295,298,189	42,043,710	145,217,792	2,884,846,417
Depreciation							
At 1 January 2013	74,868,651	312,158,200	253,275,347	179,181,029	31,203,710	-	850,686,937
Reclassification	-	-	-	-	-	-	-
Charge for the year	21,870,036	67,120,444	37,673,426	48,789,589	4,165,004	-	179,618,499
On disposals	-	-	(2,357,035)	-	-	-	(2,357,035)
Reversal on revaluation	(91,506,129)	-	-	-	-	-	(91,506,129)
At 31 December 2013	5,232,558	379,278,644	288,591,738	227,970,618	35,368,714	-	936,442,272
Net book value							
At 31 December 2013	**1,344,767,442**	**225,296,876**	**159,119,468**	**67,327,571**	**6,674,996**	**145,217,792**	**1,948,404,145**

In 2013, the leasehold building was revalued after 4 years by an independent valuer, Kiragu and Mwangi Limited. The valuation is level 3 under the Fair value hierarchy. Included in the property and equipment are assets with a gross value of KShs 506,223,876 (2012 – KShs 423,653,667) 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 102,462,277 (2012 – KShs 86,583,778).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

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

2012:

	Leasehold buildings KShs	Leasehold improvements KShs	Furniture, fittings, fixtures and office, equipment KShs	Computers KShs	Motor vehicles KShs	Capital work in progress KShs	Total KShs
(b) Company (continued)							
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 (CONTINUED)

Measurement of fair values

(i) Valuation techniques and significant unobservable inputs

Financial assets measured at fair value

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

Level 3 fair values

Reconciliation of level 3 fair values

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

	KShs'000
Balances at 1 January 2011	915,061
Total gains or losses in profit or loss in OCI	(19,965)
Balances at 1 January 2012	895,096
Total gains or losses in profit or loss in OCI	(19,965)
Balances at 1 January 2013	875,131
Change in fair value	491,506
Total gains or losses in profit or loss in OCI	(21,870)
Balances at 31 December 2013	**1,344,767**

22. INTANGIBLE ASSETS

(a) Goodwill

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

22. INTANGIBLE ASSETS (CONTINUED)

(a) Goodwill (continued)

The recoverable amounts for I&M Bank (T) Limited and I&M Bank (Rwanda) Limited have been calculated based on their value in use, determined by discounting the future cash flows expected to be generated from the continuing use of the Cash Generating Unit (CGU). The present value of the recoverable amounts on I&M Kenya's share were Kshs 3.46 billion and Kshs 2.35 billion for I&M Bank (T) Limited and I&M Bank (Rwanda) Ltd respectively. No impairment losses were recognised during 2013, because the recoverable amounts of these CGUs were determined to be higher than their carrying amounts. The key assumptions used in the calculation of value in use were as follows:

	I&M (T) Ltd	I&M Rwanda Ltd
(i) Group (continued)		
5 year risk free rate	9.18%	11.25%
Risk premium	13.00%	14.00%
Terminal growth rate	3.00%	2.50%
Exchange rate	Kshs 1 = Tzs 18.52	Kshs 1 = Rwf 7.80

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

These cash flows have been projected for 4 years for I&M (T) Limited and 5 years for I&M Rwanda Limited, based on the approved Business plans of the respective units. For I&M (T) Limited and I&M Rwanda Limited, the terminal growth rates estimated were 3.00% and 2.50% respectively.

(ii) Company

Goodwill on assets purchased from Biashara Bank of Kenya Limited	**10,746,998**	**10,746,998**

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

(b) Computer software

2013:	Software KShs	Capital work in progress KShs	Total KShs
(i) Group			
Cost			
At 1 January as previously stated	689,704,668	78,965,067	768,669,735
Acquistion of subsidiary	-	-	-
Additions	75,945,492	-	75,945,492
Transfers	78,965,067	(78,965,067)	-
Exchange differences	(13,848,252)	-	(13,848,252)
At 31 December	830,766,975	-	830,766,975
Amortisation			
At 1 January as previously stated	525,757,776	-	525,757,776
Acqusition of subsidiary	-	-	-
Amortisation for the year	141,997,314	-	141,997,314
Exchange differences	(11,995,857)	-	(11,995,857)
At 31 December	655,759,233	-	655,759,233
Net carrying amount at 31 December 2013	**175,007,742**	**-**	**175,007,742**

22. INTANGIBLE ASSETS (CONTINUED)

(b) Computer software (continued)

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

2013:	Software KShs	Capital work in progress KShs	Total KShs
(ii) Company			
Cost			
At 1 January as previously stated	447,872,273	78,965,067	526,837,340
Additions	52,459,550	-	52,459,550
Transfers	78,965,067	(78,965,067)	-
At 31 December	579,296,890	-	579,296,890
Amortisation			
At 1 January as previously stated	362,216,590	-	362,216,590
Amortisation for the year	114,313,954	-	114,313,954
At 31 December	476,530,544	-	476,530,544
Net carrying amount at 31 December 2013	**102,766,346**	**-**	**102,766,346**

22. INTANGIBLE ASSETS (CONTINUED)

(b) Computer software (continued)

2012:	Software KShs	Capital work in progress KShs	Total KShs
(ii) Company (continued)			
Cost			
At 1 January as previously stated	293,756,481	-	293,756,481
Additions	154,115,792	78,965,067	233,080,859
Transfers	-	-	-
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
At 31 December	362,216,590	-	362,216,590
Net carrying amount at 31 December 2012	**85,655,683**	**78,965,067**	**164,620,750**

The company's computer software with a gross value of KShs 210,191,737 (2012 – KShs 199,675,209) are fully amortised but still in use.

23. PREPAID OPERATING LEASE RENTALS

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

24. DEFERRED TAX (ASSET/LIABILITIES)

Deferred tax assets at 31 December 2013 and 31 December 2012 are attributable to the following:

(a) Deferred tax asset	Balance at 1 January KShs	Prior year under/(over) provision KShs	Recognised in equity KShs	Exchange differences KShs	Recognised in Profit or loss KShs	Balance 31 December KShs
Group						
2013:						
Plant and equipment	55,667,083	(13,054,453)	-	142,319	20,898,285	63,653,234
General provisions	206,837,981	-	-	(185,736)	134,648,579	341,300,824
Other provisions	75,251,134	(45,069,439)	-	(101,704)	68,305,817	98,385,808
Available-for-sale reserves	-	-	72,648,993	-	-	72,648,993
	337,756,198	**(58,123,892)**	**72,648,993**	**(145,121)**	**223,852,681**	**575,988,859**
2012:						
Plant and equipment	28,246,822	-	-	(137,102)	27,557,363	55,667,083
General provisions	190,332,206	-	-	299,756	16,206,019	206,837,981
Other provisions	52,170,468	-	-	29,698	23,050,968	75,251,134
Available-for-sale reserves	-	-	-	-	-	-
	270,749,496	**-**	**-**	**192,352**	**66,814,350**	**337,756,198**
Company						
2013:						
Plant and equipment	63,731,790	(13,054,452)	-	-	31,909,981	82,587,319
General provisions	189,852,146	-	-	-	133,121,247	322,973,393
Other provisions	74,556,238	(35,164,282)	-	-	40,447,974	79,839,930
Available-for-sale reserves	-	-	72,648,993	-	-	72,648,993
	328,140,174	**(48,218,734)**	**72,648,993**	**-**	**205,479,202**	**558,049,635**
2012:						
Plant 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
Available-for-sale reserves	-	-	-	-	-	-
	261,725,834	**-**	**-**	**-**	**66,414,340**	**328,140,174**

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

(b) Deferred tax liability	Balance at 1 January KShs	Prior year under/(over) provision KShs	Recognised in equity KShs	Exchange differences KShs	Recognised in Profit or loss KShs	Balance 31 December KShs
Group						
2013:						
Plant and equipment	70,769,643	-	-	(4,930,650)	(6,601,198)	59,237,795
General provisions	(3,899,243)	-	-	142,744	3,756,499	-
Other provisions	(53,653,398)	-	-	3,561,064	9,664,359	(40,427,975)
Available-for-sale reserves	4,018,680	-	-	3,459,567	-	7,478,247
	17,235,682	**-**	**-**	**2,232,725**	**6,819,660**	**26,288,067**
2012:						
Plant and Equipment	-	72,950,360	-	(100,117)	(2,080,600)	70,769,643
General provisions	-	(17,719,866)	-	15,054	13,805,569	(3,899,243)
Other provisions	-	(34,929,255)	-	61,700	(18,785,843)	(53,653,398)
Available-for-sale reserves	-	4,024,283	-	(5,603)	-	4,018,680
	-	**24,325,522**	**-**	**(28,966)**	**(7,060,874)**	**17,235,682**

The deferred tax credit in Note 13(a) is a summation of the movement in deferred tax asset of KShs 223,852,681 (credit) and deferred tax liability of KShs 7,060,874 (charge) amounting to KShs 217,033,021.

25. OTHER ASSETS

	2013 KShs	2012 KShs
(a) Group		
Items in transit	491,742,685	792,434,973
Rent receivable	30,793,678	1,284,685
Prepayments	252,633,043	218,464,978
Other receivables	363,232,878	211,412,776
	1,138,402,284	**1,223,597,412**
(b) Company		
Items in transit	486,678,116	629,329,566
Rent receivable	9,864,122	1,284,685
Prepayments	188,167,327	138,947,321
Other receivables	326,302,394	179,160,057
	1,011,011,959	**948,721,629**

26. DEPOSITS FROM BANKS

	2013 KShs	2012 KShs
(a) Group		
Payable within one year	**6,411,628,429**	**5,877,198,410**
(b) Company		
Payable within one year	**2,895,022,029**	**4,730,413,541**

The company's weighted average effective interest rate on deposits from other banks and banking institutions at 31st December 2013 was 4.55% (2012 – 3.65%).

27. DEPOSITS FROM CUSTOMERS

	2013 KShs	2012 KShs
(a) Group		
Government and Parastatals	3,466,277,240	2,818,503,722
Private sector and individuals	93,679,291,161	84,955,644,848
	97,145,568,401	**87,774,148,570**
(b) Company		
Government and Parastatals	614,740,509	381,992,409
Private sector and individuals	73,879,534,025	65,258,252,459
	74,494,274,534	**65,640,244,868**

27. DEPOSITS FROM CUSTOMERS (CONTINUED)

The company's weighted average effective interest rate on interest bearing deposits from customers at 31st December 2013 was 5.76% (2012 – 9.30%).

28. OTHER LIABILITIES

	2013 KShs	2012 KShs
(a) Group		
Bankers cheques payable	361,362,041	416,779,842
Accruals	806,894,983	628,115,994
Other accounts payable	613,921,290	595,750,938
	1,782,178,314	**1,640,646,774**
(b) Company		
Bankers cheques payable	175,007,960	150,762,891
Accruals	516,382,825	368,839,952
Other accounts payable	389,332,787	366,968,592
	1,080,723,572	**886,571,435**

29. LONG TERM BORROWINGS

	2013 KShs	2012 KShs
(a) Group		
Less than one year	1,055,235,292	852,120,740
One to five years	5,685,464,695	3,435,122,280
Over five years	4,831,950,453	159,176,547
	11,572,650,440	**4,446,419,567**
(b) Company		
Less than one year	984,223,367	777,477,440
One to five years	5,092,803,788	2,894,095,996
Over five years	4,831,950,453	-
	10,908,977,608	**3,671,573,436**

29. LONG TERM BORROWINGS (CONTINUED)

The Company's long term borrowings constituted the following:

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

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

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

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

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

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

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

The Company's average effective interest rate on foreign currency long term borrowings was 3.79% (2012 –4.24%).

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

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

Loan movement schedule

	2013 KShs	2012 KShs
Group		
At 1 January	4,446,419,567	2,969,262,405
Funds received	8,022,500,000	1,689,036,526
Payments on principal and interest	(888,629,301)	(591,238,642)
Interest payable	21,980,695	3,533,792
Acquisition of subsidiary	-	375,825,486
Translation differences	(29,620,521)	-
At 31 December	**11,572,650,440**	**4,446,419,567**
Company		
At 1 January	3,671,573,436	2,969,262,405
Funds received	8,022,500,000	1,257,000,000
Payments on principal and interest	(807,076,523)	(558,222,762)
Interest payable	21,930,695	3,533,793
At 31 December	**10,908,977,608**	**3,671,573,436**

30. SHARE CAPITAL AND RESERVES

(a) Share capital

	2013 KShs	2012 KShs
Authorised		
30,000,000 Ordinary shares of KShs 100 each	3,000,000,000	3,000,000,000
Issued and fully paid		
28,802,453 Ordinary shares of KShs 100 each	2,880,245,300	2,880,245,300

(b) Major shareholders

The major shareholders at 31st December 2013 and 2012 were as follows:

	Number of shares	%
2013:		
I&M Holdings Limited	28,802,453	100%

	Number of shares	%
2012:		
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 31st December 2013 and 2012 was as follows:

	2013			2012		
Share range	Number of shareholders	Shares held	%	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	1	28,802,453	100.00	5	19,584,499	68.00
Total	**1**	**28,802,453**	**100.00**	**112**	**28,802,453**	**100.00**

SHARE CAPITAL AND RESERVES (CONTINUED)

(c) Share premium

	2013 KShs	2012 KShs
At 1 January and 31 December	3,773,237,119	3,773,237,119

(d) Revaluation reserve

The revaluation reserve relates to the revaluation of Leasehold buildings.

(e) Statutory loan loss reserve

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

(f) Translation reserve

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

(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

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

	Consolidated 2013 KShs	Consolidated 2012 KShs
Profit before income tax	7,262,666,022	5,702,304,336
Adjustments for:		
Depreciation	298,194,408	256,332,088
Amortisation of intangible asset	141,997,314	125,813,114
Amortisation of prepaid operating lease rentals	4,778,855	4,778,854
Profit on sale of property and equipment	(9,383,684)	(6,547,763)
Profit on sale of available for sale securities	(102,171,206)	(210,335,118)
Profit from Joint Venture	(76,332,182)	(289,991,785)
Exchange reserves	(75,863,652)	18,844,505
	7,443,885,875	5,601,198,231
Increase in operating assets		
Movement in loans and advances to customers	(20,869,703,783)	(10,977,169,657)
Investment in securities	(19,110,109,929)	(11,290,338,186)
Cash and balances with Central Banks:		
– Cash Reserve Ratio	(711,752,095)	(2,101,268,851)
Other assets	85,195,128	160,055,829
	(40,606,370,679)	(24,208,720,865)
Increase in operating liabilities		
Customer deposits	9,371,419,831	11,473,912,137
Other liabilities	40,219,352	(249,948,822)
	9,411,639,183	11,223,963,315
Cash flows used in operating activities	**(23,750,845,621)**	**(7,383,559,319)**
Tax paid	(1,975,218,891)	(1,914,340,166)
Net cash flows used in operating activities	**(25,726,064,512)**	**(9,297,899,485)**

(b) Analyses of cash and cash equivalents – Consolidated

	2013 KShs	2012 KShs	Change during the year KShs
Cash and balances with Central Banks – excluding Cash Reserve Ratio (Note 16)	3,156,249,737	1,702,910,487	1,453,339,250
Deposits and balances due from banking institutions	6,050,626,986	6,774,013,121	(723,386,135)
Deposits and balances due to banking institutions	(6,411,628,429)	(5,877,198,410)	(534,430,019)
	2,795,248,294	**2,599,725,198**	**195,523,096**

31. NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

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

	Company 2013 KShs	Company 2012 KShs
Profit before income tax	6,059,817,675	4,721,540,388
Adjustments for:		
Depreciation	179,618,499	174,412,960
Amortisation of intangible asset	114,313,954	110,226,348
Amortisation of prepaid operating lease rentals	4,778,855	4,778,854
Profit on sale of property and equipment	(99,065)	(1,585,603)
Profit on sale of available-for-sale securities	(102,171,206)	(210,335,118)
Dividend income	(97,285,812)	(103,578,700)
	6,158,972,900	4,695,459,129
Increase in operating assets		
Movement in loans and advances to customers	(17,994,775,273)	(8,595,877,017)
Investment in securities	(17,853,849,510)	(11,632,257,390)
Cash and balances with Central Bank of Kenya:		
– Cash Reserve Ratio	(537,648,825)	(453,674,707)
Other assets	(62,290,330)	(152,056,122)
	(36,448,563,938)	(20,833,865,236)
Increase in operating liabilities		
Customer deposits	8,854,029,666	8,696,539,572
Other liabilities	194,152,139	40,972,265
	9,048,181,805	8,737,511,837
Cash flows used in operating activities	**(21,241,409,233)**	**(7,400,894,270)**
Tax paid	(1,607,682,454)	(1,739,234,224)
Net cash flows used in operating activities	**(22,849,091,687)**	**(9,140,128,494)**

(d) Analyses of cash and cash equivalents – Company

	2013 KShs	2012 KShs	Change during the year KShs
Cash and balances with Central Bank of Kenya – excluding Cash Reserve Ratio (Note 16)	2,283,380,417	917,011,192	1,366,369,225
Deposits and balances due from banking institutions	1,695,669,062	1,492,544,276	203,124,786
Deposits and balances due to banking institutions	(2,895,022,029)	(4,730,413,541)	1,835,391,512
	1,084,027,450	**(2,320,858,073)**	**3,404,885,523**

32. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS

(a) Legal proceedings - Company

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

(b) Contractual off-balance sheet financial liabilities

In the ordinary course of business, 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:

	2013 KShs	2012 KShs
Contingencies related to:		
Letters of credit	7,343,073,675	8,372,703,777
Guarantees - Advances	11,831,033,053	9,512,830,363
- Central Bank of Kenya	-	79,123,945
Acceptances	6,817,240,141	7,581,824,082
	25,991,346,869	**25,546,482,167**
Commitments related to:		
Outstanding spot/forward contracts	7,906,232,902	7,629,404,965
	33,897,579,771	**33,175,887,132**

(c) Nature of contingent liabilities

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

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

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

Forward contracts are arrangements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate. The fair values of the respective currency forwards are carried on the face of the balance sheet.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

33. ASSETS PLEDGED AS SECURITY - COMPANY

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

34. RELATED PARTY TRANSACTIONS

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

	2013 KShs	2012 KShs
(a) Transactions with directors/shareholders		
(i) Loans to directors/shareholders	**13,160,550**	**2,621,508**
The related interest income for loans above was KShs 5,896,318 (2012 – KShs 8,002,801).		
(ii) Deposits from directors/shareholders	**140,258,599**	**311,532,237**
Interest expense on deposits from directors and shareholders was KShs 51,994,243 (2012 – KShs 109,295,847).		
(iii) Loans from shareholders	**-**	**1,269,950,668**
Interest expense on loans from shareholders was KShs 19,083,468 (2012 – KShs 122,439,958).		
(b) Transactions with related companies		
(i) Loans to related companies	**16,565,434**	**-**
Interest income on loans to related companies was KShs 3,244,849 (2012 –Nil).		
(ii) Loans from related companies	**866,692,232**	**-**
Interest expense on loans from related companies was KShs 17,378,544 (2012 –Nil).		
(iii) Deposits from related companies	**1,151,853,322**	**60,000,000**
Interest expense on deposits from related companies was KShs 56,661,967 (2012 – KShs 49,165,230).		
(iv) Loans and advances due from subsidiaries and Joint Venture	**75,941,316**	**470,085,187**
Interest income on loans and advances due from subsidiary and Joint Venture was KShs 1,428,786 (2012 – KShs 9,200,700).		
(v) Deposits from subsidiaries and Joint Venture	**374,624,376**	**756,851,177**
Interest expense on deposits from subsidiary and Joint Venture was KShs 1,718,379 (2012 – KShs 22,327,521).		
(c) Transactions with employees		
Staff loans	**393,869,076**	**273,624,964**

Interest earned on these loans was KShs 18,794,741 (2012 – KShs 13,270,556).

35. CAPITAL COMMITMENTS

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

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 116,245,255 (2012 – KShs 93,697,778) was charged to the Profit or loss statement in respect of operating leases. Future minimum lease payments under these operating leases are as follows:

	2013 KShs	2012 KShs
Less than one year	131,674,109	84,735,638
One to five years	467,207,073	246,730,016
Over five years	133,802,242	52,198,722
	732,683,424	**383,664,376**

(b) Lessor

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

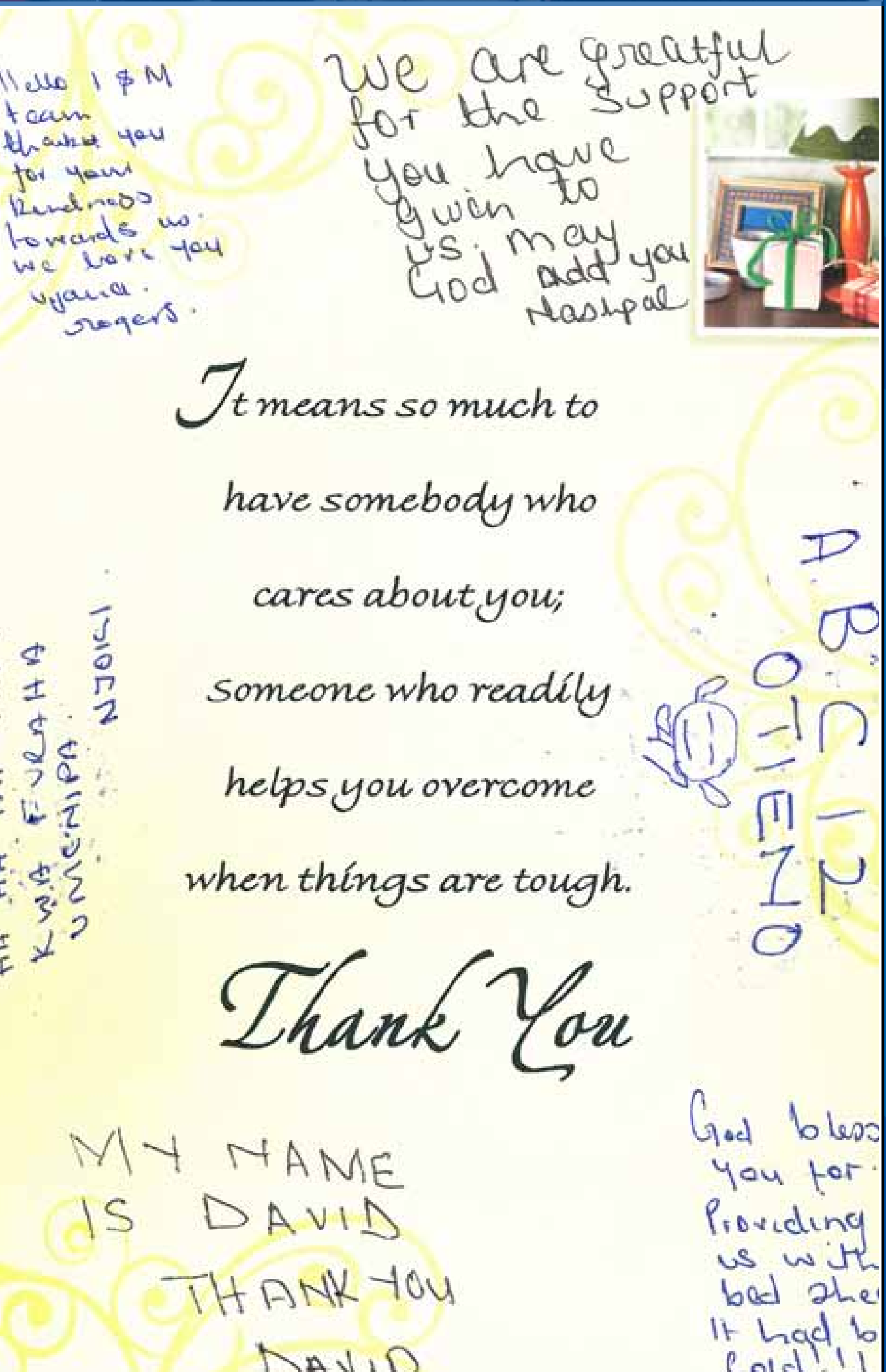
	2013 KShs	2012 KShs
Less than one year	84,484,423	73,944,110
One to five years	379,181,704	304,861,372
Over five years	-	-
	463,666,127	**378,805,482**

During the year, KShs 81,034,541 (2012 – KShs 77,575,884) was recognized as rental income in the income statement in respect of operating leases. In addition, KShs 40,069,169 (2012 – KShs 54,178,076) in respect of management expenses was recognized as an expense in the income statement in respect of the building.

37. EMPLOYEE BENEFITS SCHEME IN THE JOINT VENTURE

The Joint venture in Bank One Limited has an employee benefit scheme. The actuarial losses of KShs 22,036,978 (2012 actuarial gains – KShs 383,577) have been recognised in other comprehensive income.

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



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

Nourishing the mind.

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

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

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

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

EDUCATION

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

Palmhouse Foundation

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

Strathmore University Scholarship Programme

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

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

St Anne's Gichocho

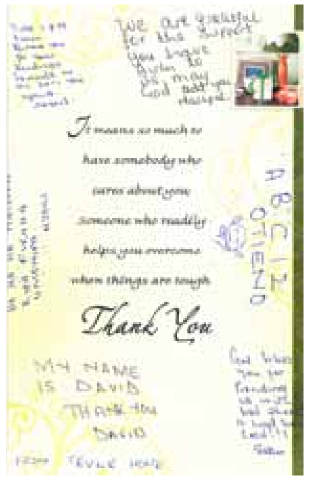
St. Anne's Gichocho Girls Secondary School is a Catholic girl's secondary school located in Gichocho approximately 4km from Ndumberi in Kiambu. Every year I&M Bank makes a contribution of KShs 375,000 for tuition for 5 students.

Oshwal Academy

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

Tuele Kenya

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



Roho Kwa Roho Foundation

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

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

HEALTH

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

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

Mamujee Brothers Foundation

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

Shree Jalaram Lab and Diagnostics Centre

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

Mathare Hospital

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

Gertrude's Children's Hospital

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

ENVIRONMENT

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

COMMUNITY SERVICE

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

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

Nest Children's Home

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

Asirit

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

St Martin's Kibagare – Annual Feeding Program

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

New Life Home Trust

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

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

Africa Heart Association

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