

# ANNUAL REPORT AND ACCOUNTS 2001



BRINGING THE FUTURE TO THE PEOPLE



**KCB**



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## Notice of the 31st Annual General Meeting

NOTICE IS HEREBY GIVEN that the 31ST ANNUAL GENERAL MEETING of the Kenya Commercial Bank Group will be held at the Plenary Hall, Kenyatta International Conference Centre, Harambee Avenue, on Friday, 31st May, 2002 at 11.00 a.m. when the following will be transacted, namely:-

### A G E N D A

**1. Constitution of Meeting**

To read the Notice convening the Meeting and determine if a quorum is present.

**2. Ordinary Business**

**(a) Report of the Auditors**

To read the Auditor's Report on the Consolidated Financial Statements of the Company for the year ended 31st December, 2001.

**(b) Report and Financial Statements for the year ended 31st December, 2001**

To receive and consider the Report of the Directors and the Statement of the Consolidated Financial Statements of the Company for the year ended 31st December, 2001 together with the Auditors' Report thereon.

**(c) Dividend**

To note that the Board does not recommend the payment of a dividend for the year 2001.

**(c) Election of Directors**

(i) To re-elect Mr. Albert Ruturi appointed by the Board as Director to fill a casual vacancy on the Board in accordance with Article 101 of the Company's Articles of Association and as Chief Operating Officer.

(ii) In accordance with Article 94 of the Company's Articles of Association, M/s S.W. Wainaina, Mr. L.R. Otundo and Dr. K.A. Lang'at, retire by rotation from the office as Directors of the Company and, being eligible, offer themselves for re-election as Directors respectively.

(iii) To elect a replacement for Mr. N. Kirira who retired as a Director in accordance with Article 93(g) of the Company's Articles of Association.

**(d) Remuneration of the Directors**

To authorize the Board to fix the remuneration of the Directors.

**(e) Appointment of Auditors**

To re-appoint Messrs Ernst & Young, Certified Public Accountants, as the Auditors of the Company until the conclusion of the next Annual General Meeting.

**(f) Remuneration of the Auditors**

To authorize the Directors to fix the remuneration of the Auditors.

**3. Any Other Business**

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

Dated at Nairobi this 28th day of February, 2002

BY ORDER OF THE BOARD

**K.D. MALAKWEN**

SECRETARY

**NOTE:** A member entitled to attend and vote at the above Meeting is entitled to be present in person or by proxy or attorney and, if a Corporation, is also entitled to be present by a representative appointed in accordance with Article 76 of the Articles of Association of the Company or by proxy of such representative. Such proxy or representative need not be a Member of the Company. A proxy form is attached herewith and if used, must be deposited at or mailed to the Registered Office of the Company, 8th Floor, Kencom House, Moi Avenue, Nairobi, so as to be received not later than 48 hours before the time appointed for holding the Meeting.





ILANI INATOLEWA kwamba MKUTANO MKUU WA 31 wa Kampuni ya Kenya Commercial Bank utafanywa katika ukumbi wa Plenary katika Kenyatta International Conference Centre katika Harambee Avenue, mjini Nairobi, siku ya Jumatatarehe 31 mwezi wa Mei mwaka wa 2002, saa tano asubuhi ambapo yafuatayo yatajadiliwa:

### AJENDA

1. **Kujumuika kwa Mkutano**  
Kusomwa kwa ilani ya kuitisha mkutano na kubainisha ikiwa kuna idadi ya Watu wa kutosha kuendelea nao.
2. **Shughuli za kawaida**
  - (a) **Ripoti ya wahasibu**  
Kusomwa kwa ripoti ya wahasibu kuhusu Akaunti ya Pamoja na Mizania ya kampuni hii kwa mwaka uliomalizika tarehe 31 Disemba, 2001.
  - (b) **Ripoti na Akaunti kwa mwaka uliomalizika tarehe 31 Disemba, 2001**  
Kupokea na kuzingatia Ripoti ya Wakurugenzi na Taarifa ya Akaunti ya Pamoja na Mizania ya Kampuni kwa mwaka uliomalizika tarehe 31 Disemba, 2001 na hatimaye Ripoti ya Wahasibu.
  - (c) **Mgao wa faida**  
Kubaini kwamba Halmashauri ya Wakurugenzi haipendekezi malipo ya mgao wa faida kwa mwaka wa 2001.
  - (d) **Uchaguzi wa wakurugenzi**
    - i. Kumchagua Bw. Albert Ruturi aliyeteuliwa na Halmashauri kama Mkurugenzi kujaza nafasi kwenye Halmashauri ya Wakurugenzi kuambatana na kifungu 101 cha masharti ya Kampuni kama Afisa Mkuu wa kusimamia Shughuli za Kampuni.
    - ii. Kuambatana na Kifungu 94 cha masharti ya Kampuni, Bi. S.W. Wainaina, Bw. L.R. Otundo na Dkt. K.A. Lang'at, wanastaafu kwa zamu kutoka afisi ya Wakurugenzi wa Kampuni, na kwa vile wanastahili, wote wanajitolea kuchaguliwa tena kama Wakurugenzi.
    - iii. Kumchagua mtu atakayechukua mahala pa Bw. N. Kirira ambaye alistaafu kama Mkurugenzi kuambatana na kipengele 93 (g) cha masharti ya Makampuni.
  - (e) **Malipo ya wakurugenzi**  
Kuidhinisha Halmashauri iweke viwango vya malipo ya Wakurugenzi.
  - (f) **Uteuzi wa Wahasibu**  
Kuteua tena kampuni ya Messrs Ernst & Young kuwa Wahasibu wa Kampuni hii hadi kumalizika kwa mkutano mkuu ujao.
  - (g) **Malipo ya Wahasibu**  
Kuidhinisha Wakurugenzi kuweka viwango vya malipo ya Wahasibu.
3. **Shughuli Nyingine Yoyote**  
Kutekeleza shughuli yoyote nyingine ambayo inaweza kutekelezwa katika Mkutano Mkuu wa Mwaka.

Tarehe 28 Februari, 2001

KWA AMRI YA HALMASHAURI YA WAKURUGENZI

**K.D. Malakwen**

KATIBU

**KUMBUKA:** Mwanachama mwenye mamlaka ya kuhudhuria na kupiga kura katika Mkutano huu ana mamlaka ya kuhudhuria yeye mwenyewe au kwa uwakilishi au wakili wake, na iwapo ni Shirika, pia lina mamlaka ya kuwakilishwa na mwakilishi aliyeteuliwa kuambatana na Kipengele cha 76 cha Masharti ya Kampuni au Mwakilishi sawa na huyo. Fomu ya uwakilishi imeambatanishwa humu ndani, na iwapo itatumiwa, ni lazima iwekwe au kutumwa kwa njia ya barua kwa Afisi ya Kampuni Iliyosajiliwa, Ghorofa ya 8, Kencom House, Moi Avenue, Nairobi, ili iweze kupokelewa katika muda usiozidi masaa 48 kabla ya mda uliopangwa wa kufanywa kwa Mkutano.



Benjamin Kipkutei



Gareth George



William Gitobu



Dr. Kipkirui Lang'at



Susan Mudhune



Mwaghazi Mwachofi



Prof. Francis Ojany



Livingstone Otundo



Albert Ruturi



Sarah Wainaina



## KCB Subsidiary Board Directors



Benjamin Kipkulei



Nassir Arte



Gareth George



John Kiarie



Francis Koske



Dr. Gideon Misoi



Prof. Jeremiah Musuva



Balthazar Mwenda



Prof. Nzele Nzomo



Mohamed Rayi

## KCB Senior Management Team



Gareth George



Joseph Kakai



John Kiarie



Alban Mwendar



Kiriinya Mwenda



Catherine Njoroge



Siraj Siddiqui



Stanley Towett



Albert Ruturi



Colin Ryan



### 2001 - KCB RETURNS TO PROFITABILITY

Following two years of losses (albeit much reduced in 2000 compared with 1999), I am pleased to report a return to Profitability. The Profit Before Tax of KShs.369 million achieved in 2001, whilst modest, is a clear indication that the KCB turnaround is on track. However, we still have a long way to go.

Our business suffers from two fundamental weaknesses, both of which have appropriate Board and Management attention - the quality of our assets (lending); and our outdated IT Systems.

Credit Management throughout KCB has improved significantly over the last year or so and, no doubt, this will bring financial benefits in due course. In the meantime, we continue to suffer from the legacy of the high risks in our lending portfolio, risks which are reflected in the Net Provisions Charge, down from KShs.3.2 billion in 2000, but still unacceptably high at KShs.2.3 billion. Similarly, our Net Interest Income is adversely impacted by a heavy proportion of Non-Performing Debt. Moving these into the performing category is not easy, given the economic environment, but through professional and rigorous Credit Management, we are confident of making material headway in 2002.

Recognizing the difficulties we face in growing our Net Interest Income, exacerbated by falling Interest Rates, we have sensibly focused on Non-Interest Income, e.g. from Foreign Exchange activities. It is pleasing to report a 12% increase in Non-Interest Income, much more than compensating for the 7% fall in Net Interest Income.

Turning to the second fundamental weakness, our IT Systems impact adversely on our cost base and on our customer service standards. Board and Management are working closely together, having decided on a new Core Banking System, to transform our IT infrastructure as soon as possible. Implementation is progressing well and we expect to pilot the new System in a few Branches in the middle of this year.

Given the inefficiency of our current IT Systems, it is noteworthy that we managed to control Operating Costs down 2% from Ksh 5.7 billion in 2000 to KShs.5.6 billion.

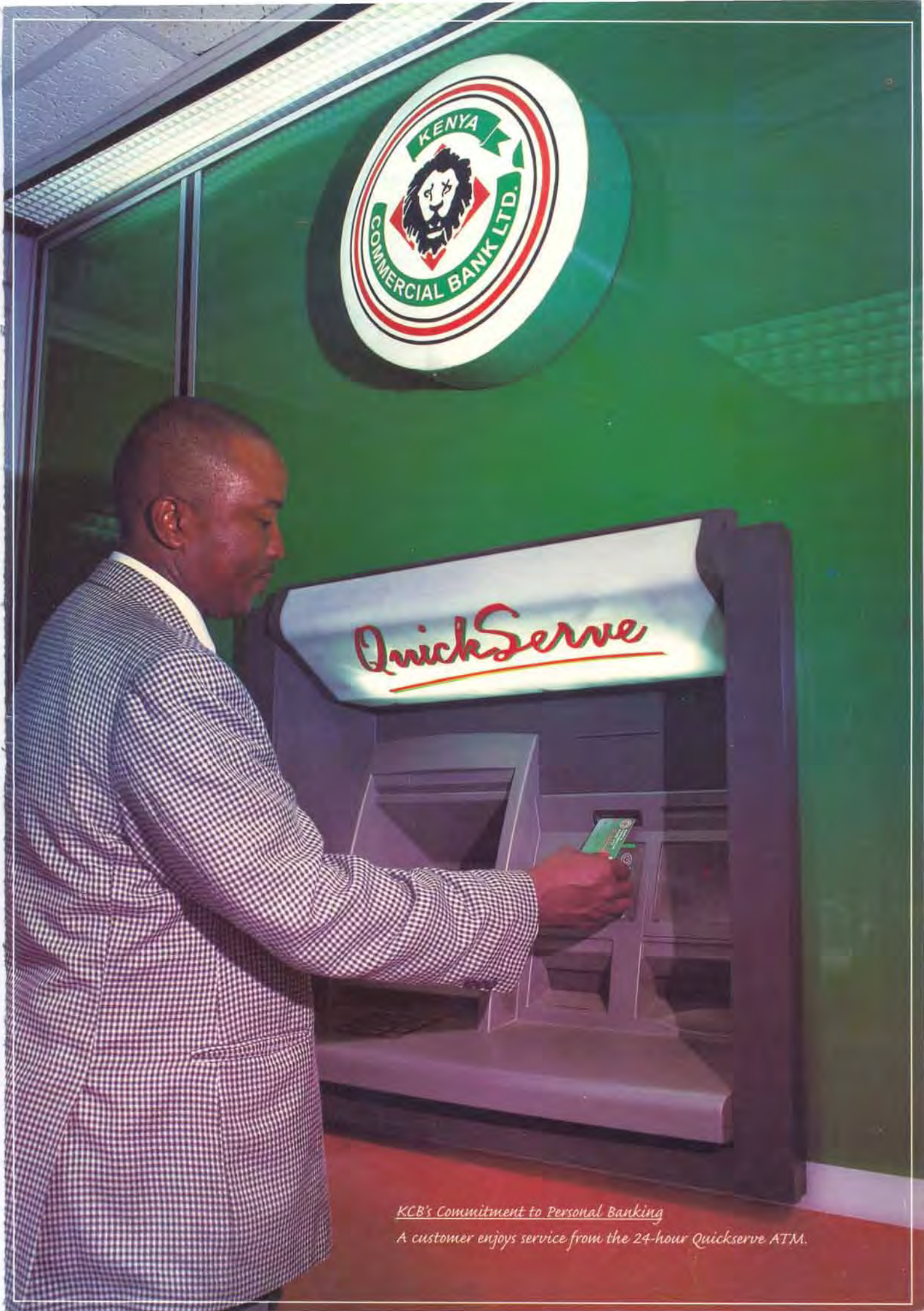
It is also pleasing, considering our Systems inefficiency, that customer feedback acknowledges some improvement in our service standards. But, as with our Financials, and the two are inextricably linked, our customer service must continue to improve quickly and substantially.

In line with our Corporate Values, our focus on the customer is improving - we really are placing the customer at the very heart of our business, strategically as we develop our Core Business, but also on a day-to-day basis.

Internally, the focus is moving to a team-based approach, which is proving to be so much more effective in performance terms, and also more rewarding for the KCB Management and Staff.

This teamwork is being seen increasingly in Branches, with our Service Focus Teams dealing effectively with customer issues.





*KCB's Commitment to Personal Banking*

*A customer enjoys service from the 24-hour Quickservice ATM.*



Teamwork is also seen in our ever-growing Community Initiatives. It gives me so much pleasure and pride to see that our Community Champions and Teams are making a real difference to the lives of so many in need.

It leaves me to pay tribute to all our stakeholders:-

- to our Customers - for their loyalty and understanding;
- to our Shareholders - for their patience - as a Shareholder myself, I fully appreciate the importance of KCB paying Dividends at the earliest opportunity; and
- the KCB Team, who can reflect on 2001 Results as a job well done.

**BENJAMIN KIPKULEI**  
CHAIRMAN





*KCB Keeping abreast of Technology:  
KCB dealers in action.*



### 2001- KCB yaanza tena kupata faida

Kufuatia miaka miwili ya kupata hasara (ingawa hasara hiyo ilipunguzwa sana mwaka wa 2000 ikilinganishwa na 1999) nina furaha kuwaeleza kwamba tumeanza tena kupata faida. Faida kabla ya kutozwa ushuru ya KShs. 369 milioni iliyopatikana mwaka wa 2001, japo ni ndogo, ni ishara wazi kwamba mabadiliko katika KCB yanafanyika kama ilivyopangwa. Ingawa hivyo, bado tuko mbali.

Biashara yetu inakumbwa na matatizo mawili ya kimsingi, matatizo ambayo yamefahamika na Halamashauri ya Wakurugenzi na Wasimamizi - kiwango cha rasilimali zetu (kukopesha); na mfumo wa zamani wa kompyuta.

Usimamizi wa madeni kote katika KCB umeimarika kwa kiasi kikubwa katika muda wa mwaka mmoja, na hapana shaka, hali hii italeta mafanikio ya kiuchumi katika muda usio mrefu. Wakati huo huo, tunaendelea kupata matatizo makubwa kutokana na hali tuliyorithi ya ukopesha, hali ambayo imeonyeshwa katika madeni yasiyolipwa, yaliyopungua kutoka KShs. 3.2 bilioni mwaka wa 2000, hadi KShs. 2.3 bilioni ambacho bado ni kiwango cha juu na kisichokubalika. Vilevile kiwango chetu cha jumla cha faida kimeathiriwa sana na kiasi kikubwa cha madeni yasiyolipwa. Kuweka madeni haya katika kiwango cha madeni yanayolipwa si rahisi, tukitilia maanani hali ya kiuchumi, lakini kupitia juhudi za kitaalam na usimamizi bora wa kifedha, tuna imani kwamba tutapiga hatua mwaka wa 2002.

Tukitilia maanani matatizo tunayopata katika kukuza pato letu la jumla, ambalo limeathiriwa na kuanguka kwa viwango vya riba, tumelenga mapato yasiyotokana na riba, k.m. kutoka shughuli za kubadilisha fedha za kigeni. Nina furaha kuwaelezea ongezeko la asilimia 12 katika mapato yasiyotokana na riba, hali ambayo ilifidia asilimia 7 ya Kupunguka kwa jumla mapato yatokanayo na riba.

Tukigeukia tatizo la pili la kimsingi, mfumo wetu wa kompyuta umeathiri mapato yetu na viwango vya huduma kwa wateja. Halamashauri ya Wakurugenzi na Wasimamizi wanafanya kazi kwa ushirikiano, baada ya kuafikiana kuhusu mfumo mpya wa kompyuta, kubadilisha mfumo wa teknolojia ya mawasiliano haraka iwezekanavyo. Utekelezaji unaendelea vyema na tunatarajia kuanza kufanya majaribio ya mfumo huo mpya katika Matawi machache katikati ya mwaka huu.

Tukitilia maanani utendaji mbaya wa mfumo wetu wa kompyuta, ni vyema ifahamike kwamba tulifanikiwa kuthibiti shughuli za matumizi ya kifedha na matumizi hayo yakapungua kwa asilimia 2 kutoka KShs. 5.7 bilioni mwaka wa 2000 hadi KShs. 5.6 bilioni.

Aidha inafurahisha, tukitilia maanani utendaji mbaya wa mfumo wetu wa kompyuta, kwamba wateja wameona mabadiliko fulani katika viwango vya huduma zetu. Lakini, kama ilivyo katika shughuli zetu za kifedha, na vitu hivi viwili vimewiana, huduma zetu kwa wateja ni lazima ziendeleo kuimarika haraka na kwa kiwango kikubwa.

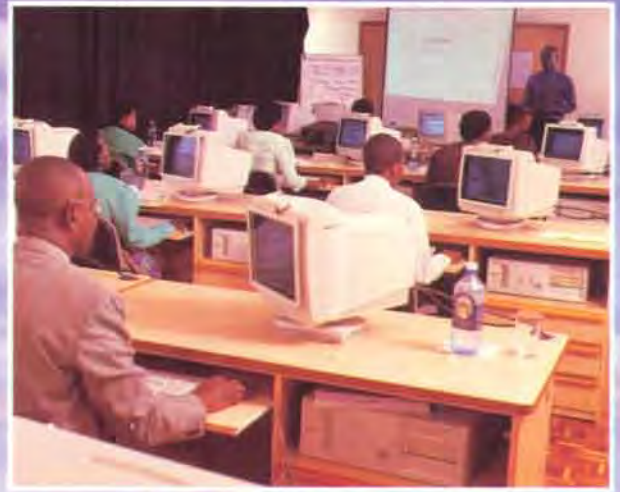
Sambamba na huduma zetu za Kampuni, malengo yetu kwa wateja yanaimarika - kwa kweli tunamuweka mteja katika shina la biashara yetu, mahali pafaapo huku tunapoimarisha biashara yetu muhimu, lakini pia katika mawasiliano ya siku-kwa-siku.

Katika shughuli za ndani, lengo ni kuwa na utendaji kazi wa pamoja, jambo ambalo limeleta utendaji bora zaidi, na pia kuwa na manufaa kwa Wasimamizi wa KCB na Wafanyakazi.

Utendaji kazi huu wa pamoja umeanza kuonekana zaidi katika Matawi, huku huduma ya vikundi vyetu ikishughulikia kikamilifu maswala ya wateja.

Utendaji kazi wa pamoja pia unaonekana katika mipango ya huduma kwa jamii zinazozidi kuongezeka. Nina furaha kuona kwamba wahudumu wa jamii na makundi wanabadilisha maisha ya watu wengi wenye mahitaji.





KCB's Commitment to Excellence:

*The KCB Management Centre where the Bank undertakes comprehensive training of staff.*

*(Inset) A computer workshop in session.*

Ningependa kutoa shukrani kwa wahusika wetu wote:

- Kwa wateja wetu - kwa uaminifu wao na uelewano;
- Kwa wenyehisa wetu - kwa uvumilivu wao - mimi nikiwa mwanahisa, naelewa umuhimu kwa KCB kulipa mgao wa faida haraka iwezekanavyo; na
- Kundi la KCB, kwa matokeo mazuri ya mwaka wa 2001

**BENJAMIN KIPKULEI**  
MWENYEKITI





KCB's Commitment to Relationship Banking:

The imposing Uchumi Railway Hyper, one of the latest outlets of Uchumi Supermarkets Limited, a corporate client. (Inset) Kennedy Thairu (left), MD Uchumi Supermarkets in his office with James Chege, Head of Corporate Banking.





### 2002 and beyond - KCB committed to getting better and better ...

As reviewed by the Chairman, Benjamin Kipkulei, KCB's return to Profitability is a major milestone in the Bank's turnaround, but there is still a long way to go. We must give our Shareholders much better value in the form of Dividends, which, in turn, will contribute to a rising share price. This means that we must deliver much higher profits and, given our Balance Sheet size, our Profit Before Tax should be in the region of Ksh. 2-3 billion within the next two/three years.

Our short-term financial strategies will therefore, be pursued relentlessly:

- Rigorous, professional Credit Management will continue to address our non-performing lendings.
- Strategies will be implemented to develop Non-Interest Income, which will reduce the Interest Rate sensitivity of our profits. For example, our Custodial and Share Registry Services are now positioned to attract external customers; we have an equity interest in an Insurance Broking firm, which offers potential for growing commissions drawing on our large customer base and our countrywide Branch Network.
- Operating Costs will remain under scrutiny and control.
- We shall continue to identify Non-Core Assets for sale to generate Exceptional Income and to cover our Restructuring Costs.

As we remain focused on these short-term financial priorities, we will not waver in the development of our Core Business around our Key Customer Groups. This strategic development will now be enhanced by our decision to create a new Corporate Identity, which will extend beyond considerations of Logo and corporate colours, to the comprehensive development of a powerful Brand.

Our Brand Programme has been launched and, prior to the AGM, we will have appointed a Brand/Advertising Agency Partner. We will also have appointed a Research Firm to carry out Customer Surveys, recognizing that we must have clarity about our customer service expectations and gaps in our service delivery against these expectations, so that we can address the gaps without which we shall seriously undermine our Brand aspirations.

The key to achieving the full transformation of KCB is to give our customers outstanding service - that requires great People and great Systems.

The Chairman has highlighted the importance of our new Core Banking System. We need to harness a modern, efficient, flexible IT System in conjunction with improvements to our Branch and ATM Networks. These improvements will not be confined to Kenya but will extend to our business in Tanzania.





KCB's Commitment to sport.

A dash to the finishing line during the recent KCB Race Day at Ngong Racecourse. (Inset) Chief Executive, Gareth George and Donnette George join the Hospitality Team that organized the event.



Having a great Brand is very much about having in place a wide range of tangibles that contribute to a Corporate Image and to service delivery - Logo, Advertising, Merchandizing, Product Range, Quality of Delivery Channels (Branches and ATMs) and IT Systems. However, a great Brand is also very much about having great People to "Live the Brand". Our Human Resources Change Programme is creating a modern, progressive HR Environment, the necessary ingredient for developing great People.

Whilst pleased with our achievements in 2001, we are not complacent; we have a long way to go to satisfy all our stakeholders. We are clearly focused on what needs to be done and we can promise that KCB will get better and better ...

**GARETH GEORGE**  
CHIEF EXECUTIVE



*KCB's Commitment to the Community:*

*KCB community teams plant trees during the Community Day. Our new Community Programme is making a difference in the lives of many Kenyans.*





### 2002 na baadaye - KCB inayodhamiria kuwa bora hata zaidi...

Kama ilivyoelezwa na Mwenyekiti, Benjamin Kipkulei, kuanza tena kwa KCB kupata faida ni hatua kubwa katika maendeleo ya Benki hii, lakini bado kuna mengi ya kufanywa. Ni lazima tuwape wenyehisa wetu faida zaidi kwa njia ya mgao wa faida, ambao utawezesha kuchangia kupanda kwa bei ya hisa. Hii ina maana kwamba ni lazima tupate faida zaidi, hasa ikitiliwa maanani ukubwa wa hesabu zetu, faida yetu kabla ya kodi inapaswa kuwa katika kiwango cha Kshs. 2-3 bilioni katika kipindi cha miaka miwili/mitatu ijayo.

Kwa hivyo mipango ya malengo yetu ya kifedha ya kipindi kifupi yatazingatiwa kikamilifu:

- Usimamizi wa kitaalamu thabiti wa shuguli za ukopeshaji utaendelea kushughulikia madeni ambayo hayajalipwa.
- Mipango ya kuendeleza mapato yasiyotokana na riba itatekelezwa, ambayo itapunguza athari ya viwango vya riba kwa faida yetu. Kwa mfano, huduma za Uhifadhi na Orodha ya hisa sasa zinawekwa katika hali ya kuwavutia wateja; tuna mtaji katika kampuni ya bima, ambayo inatoa uwezekano wa kuongezeka kwa komisheni inayotokana na idadi kubwa ya wateja wetu na matawi yetu yaliyo sehemu mbali mbali nchini.
- Gharama za matumizi zitaendelea kuthibitiwa na kuchunguzwa.
- Tutaendelea kubainisha rasilimali zisizotumika kwa shughuli zetu muhimu na kuziua ili tupate mapato ya ziada ya kugharamia marekebisho katika Benki.

Tunaposhughulikia malengo ya kifedha ya kipindi kifupi, hatutayumba katika kuendeleza biashara yetu muhimu kwa makundi muhimu ya wateja wetu. Mpango huu sasa utaimarishwa na uamuzi wetu wa kuwa na sura mpya ya kampuni, ambao utazingatia maendeleo ya kuwa na sura ya kuvutia mbali na nembo na rangi za utambulishi wa kampuni.

Mpango wetu wa kuwa na sura mpya umeanzishwa, na kabla ya mkutano wa mwaka, tutakuwa tumemteua mshiriki wa kutangaza mpango. Pia tutateua kampuni ya utafiti ambayo itafanya uchunguzi wa wateja, kwa kuwa tunatambua ni lazima tujue huduma zinazotarajiwa na wateja wetu na kasoro zilizopo katika matarajio ya utoaji wa huduma hizi, ili tushughulikie kasoro zenyewe kwani bila ya kufanya hivyo tutaathiri matarajio ya sura mpya.

Njia ya kuafikia marekebisho kamili katika KCB ni kuwapa wateja wetu huduma bora zaidi - ambayo inahitaji watu thabiti na mfumo bora wa kompyuta.

Mwenyekiti ameelezea umuhimu wa mfumo mpya wa kompyuta kwa Benki. Tunahitaji kuwa na mfumo wa kisasa wa kompyuta unaofanya kazi vyema sambamba na kuimarisha matawi na mitambo ya ATM. Marekebisho haya hayatakuwa Kenya peke yake, bali pia yatafanywa katika kampuni yetu ndogo nchini Tanzania.

Kuwa na sura bora ni sawa na kuwa na malengo kadhaa yanayochangia sura ya kampuni na utoaji wa huduma - nembo, matangazo, mauzo, Huduma Mbalimbali, Mifumo bora ya Kutoa Huduma (Matawi na Mitambo ya ATM) na mifumo ya kompyuta. Ingawa hivyo kuwa na sura bora ni sawa na kuwa na watu thabiti wa "Kusisimua sura hiyo". Mpango wetu wa kubadilisha utendaji kazi unabuni hali ya kisasa ya uwiano wa kikazi, ambao ni kiungo muhimu cha kuwa na watu thabiti.

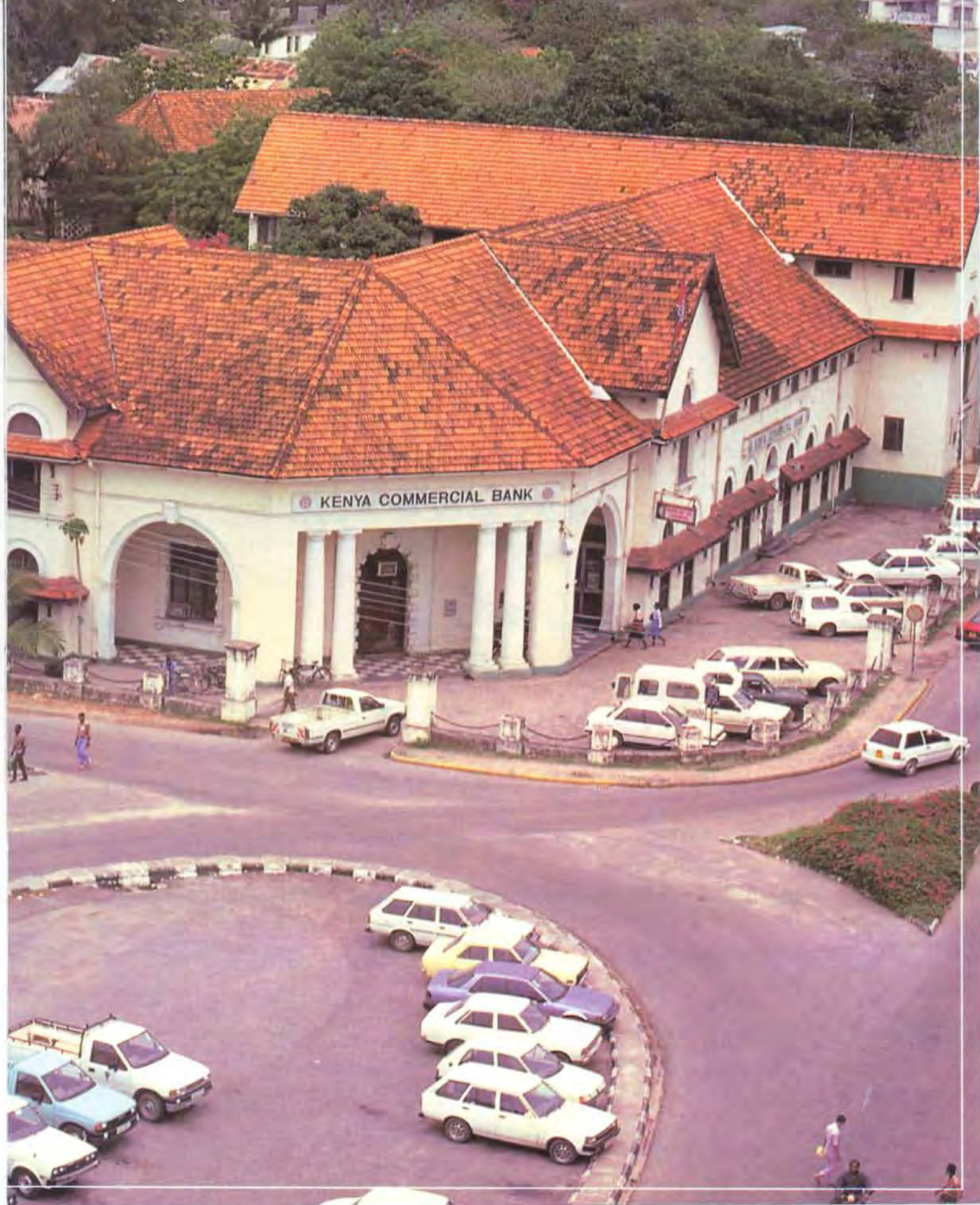
Ingawa tumependezwa na mafanikio ya mwaka wa 2001, hatujatosheka; kuna mengi ya kufanya kutosheleza wahusika wetu. Tunaelewa vyema yale yanayohitajika kufanywa na tunaahidi kwamba KCB itaendelea kuwa bora hata zaidi...

**GARETH GEORGE**  
MKURUGENZI MKUU



The KCB Heritage:

*Treasury Square Branch, built in 1904, was the first branch of the then National Bank of India that later became National and Grindlays Bank (1958) before being renamed Kenya Commercial Bank (1970).*





The Directors have pleasure in submitting their report, together with the audited financial statements of the Bank and its subsidiary companies, for the year ended 31 December, 2001.

**1. PRINCIPAL ACTIVITIES**

The Bank's principal activity is provision of corporate and retail banking services. The activities of the subsidiary companies are those recorded in Note 5 to the financial statements.

**2. GROUP OPERATIONS**

During the year, the operations of the subsidiary Company, Kenya Commercial Finance Company Limited (KCFC) were merged with those of the Bank. All assets and liabilities of KCFC, except placements and balances with other banking institutions, were transferred to the Bank at net book values. KCFC will continue to carry out investment activities.

**3. GROUP RESULTS**

The Group's results are set out on page 29.

**4. DIVIDEND**

The directors do not recommend the payment of a dividend.

**5. DIRECTORS**

The directors who served during the year and to the date of this report were:-

Mr. P.C.J.O. Nyakiamo	-	Chairman - Retired on 25 May 2001
Mr. B.K. Kipkulei	-	Chairman - Appointed on 25 May 2001
Mr. G. A. George		
Ms. S. W. Wainaina		
Mr. L.R. Otundo		
Dr. K. A. Lang'at		
Prof. A.W. Mwang'ombe	-	Retired on 25 May 2001
Mr. J. E. Kiriimi	-	Retired on 25 May 2001
Mr. N. Kirira	-	Retired on 25 May 2001
Mr. M. L. Oduor-Otieno	-	Retired on 26 March 2001
Mrs. S. Mudhune	-	Appointed on 25 May 2001
Mr. W.R. Gitobu	-	Appointed on 25 May 2001
Mr. M. Mwachofi	-	Appointed on 26 March 2001
Prof. F.F. Ojany	-	Appointed on 25 May 2001
Mr. A.J.K. Ruturi	-	Appointed on 28 June 2001



**6. AUDIT COMMITTEE**

The Group's audit committee consists of:-

Mr. J.E. Kirimi	-	Chairman	- Retired on 25 May 2001
Dr. K. Lang'at	-	Chairman	- Appointed 25 May 2001
Mr. N. Kirira	-		Retired on 25 May 2001
Mr. B.K. Kipkulei	-		Appointed on 28 June 2001
Mr. G.A. George	-	Member	
Mr. B.O. Amollo	-	Member	
Prof. G.K. Misoi	-	Member	
Prof. F.F. Ojany	-	Member	
Mr. B.C. Mwenda	-	Member	
Mr. N.M. Arte	-	Member	
Mrs. G. Biamah	-	Secretary	

**7. AUDITORS**

Ernst & Young have expressed their willingness to continue in office in accordance with the terms of section 159 (2) of the Companies Act.

By Order of the Board

**K.D. MALAKWEN**

Secretary

28th February, 2002



Wakurugenzi wana furaha kuwasilisha ripoti yao, pamoja na hesabu za uhasibu za Benki na Mashirika yake, ya mwaka uliomalizika Disemba 31, 2001

**1. MAJUKUMU MAUU**

Jukumu kuu la Benki ni kutoa huduma za kuweka na kukopa kwa wateja wa makampuni na wale wadogo wadogo. Majukumu ya mashirika yake ni yale yaliyotajwa katika kipengele cha 5 katika hesabu za uhasibu.

**2. UTENDAKAZI WA KUNDI**

Wakati wa mwaka, shughuli za shirika, Kenya Commercial Finance Company Limited (KCFC) ziliunganishwa na zile za Benki. Jumla ya mali na madeni ya KCFC yalihamishwa kwa Benki kulingana na bei yake ya wakati huo isipokuwa baki na pesa taslimu zilizotwaliwa na taasisi nyingine za kifedha. KCFC itaendelea kushughulikia uwekaji rasilmali.

**3. MATOKEO YA KIBIASHARA YA KUNDI**

Matokeo ya kibiashara ya kundi yamechapishwa katika ukurasa wa 29.

**4. MGAO WA FAIDA**

Wakurugenzi hawapendekezi kutolewa kwa mgao wa faida.

**5. WAKURUGENZI**

Wakurugenzi ambao walifanya kazi katika Kampuni mwaka huu hadi kufikia wakati wa kutayarishwa kwa ripoti hii ni:-

Bw. P.C.J.O. Naykiamo	-	Mwenyekiti – Alistaafu mnamo 25.5.2001
Bw. B.K. Kipkulei	-	Mwenyekiti – Aliteuliwa mnamo 25.5.2001
Bw. G.A. George		
Bi. S.W. Wainaina		
Bw. L.R. Otundo		
Dkt. K.A. Lang'at		
Prof. A.W. Wang'ombe	-	Alistaafu mnamo 25.5.2001
Bw. J.E. Kirimi	-	Alistaafu mnamo 25.5.2001
Bw. N. Kirira	-	Alistaafu mnamo 25.5.2001
Bw. M.L. Oduor-Otieno	-	Alistaafu mnamo 26.3.2001
Bi. S. Mudhune	-	Aliteuliwa mnamo 25.5.2001
Bw. W.R. Gitobu	-	Aliteuliwa mnamo 25.5.2001
Bw. M. Mwachofi	-	Aliteuliwa mnamo 26.3.2001
Prof. F.F. Ojany	-	Aliteuliwa mnamo 25.5.2001
Bw. A.J.K. Ruturi	-	Aliteuliwa mnamo 28.6.2001



**6. KAMATI YA WAHASIBU**

Kamati ya Wahasibu ya kundi hili inawajumuisha;

Bw. J.E. Kiriimi	-	Mwenyekiti – Alistaafu mnamo 25.5.2001
Dkt. K. Lang'at	-	Mwenyekiti – Aliteuliwa mnamo 25.5.2001
Bw. N. Kirira	-	Alistaafu mnamo 25.5.2001
Bw. B.K. Kipkulei	-	Aliteuliwa mnamo 28.6.2001
Bw. G.A. George	-	Mwanachama
Bw. B.O. Amollo	-	Mwanachama
Prof. G.K. Misoi	-	Mwanachama
Prof. F.F. Ojany	-	Mwanachama
Bw. B.C. Mwenda	-	Mwanachama
Bw. N.M. Arte	-	Mwanachama
Bi. G. Biamah	-	Katibu

**7. WAHASIBU -WAKAGUZI**

Ernst & Young wameonyesha nia ya kuendelea kufanya kazi hii kulingana na sehemu ya 159(2) sheria za kampuni.

Kwa Amri ya Halmashauri ya Wakurugenzi

**K.D. MALAKWEN**

Katibu

28 Febuary 2002



## Statement of the Directors' Responsibilities

The Companies Act requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and the Bank as at the end of the financial year and of the operating results of the Group for that year. It also requires the directors to ensure the Group and the Bank keep proper accounting records which disclose, with reasonable accuracy, the financial position of the Group and the Bank. They are also responsible for safeguarding the assets of the Group.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Accounting Standards and the requirement of the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and the Bank and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the Bank and its subsidiaries will not remain going concerns for at least the next twelve months from the date of this statement.

Mr. B.K. Kipkulei

28th February 2002

Mr. G.A. George

28th February 2002

Mrs. S.O. Mudhune

28th February 2002



Kulingana na sheria za makampuni, wakurugenzi wanahitajika kutayarisha hesabu za uhasibu kwa kila mwaka wa kifedha, ambazo zitaonyesha hali halisi ya kundi na benki kila mwisho wa mwaka wa kifedha, na jinsi kampuni imekuwa ikiendesha shughuli zake mwaka huo. Sheria hizo pia huagiza wakurugenzi kuweka hesabu sawa za uhasibu ambazo zinaonyesha kwa uhakika hali ya kifedha ya kampuni na kundi zima. Wanahitajika pia kulinda mali ya kundi hili.

Wakurugenzi wanakubali kuwajibika kwa hesabu za mwaka ambazo zimetayarishwa kwa kufuata sera za uhasibu zinazokubalika zikiungwa mkono na uamuzi wa makadirio yaliyo sawa, kulingana na sheria za kijumla za kufanya uhasibu na sheria za makampuni. Wakurugenzi wana maoni kuwa hesabu za uhasibu zinaonyesha ukweli wa hali halisi ya kifedha ya kundi na benki na hali ya kibiashara ya kampuni. Wakurugenzi pia wanakubali jukumu la kuweka hesabu za pesa ambazo zinaweza kutegemewa katika kutayarisha hesabu ya uhasibu pamoja na mipango ya uhasibu na usimamizi wa kifedha katika kampuni.

Hakuna ambalo limewaonyesha wakurugenzi kuwa benki na mashirika yake hazitaendelea kutoa huduma zake kwa miezi kumi na miwili ijayo kutoka tarehe ya taarifa hii.

Mr. B.K. Kipkulei

28th February 2002

Mr. G.A. George

28th February 2002

Mrs. S.O. Mudhune

28th February 2002





**Certified Public Accountants**

Alico House  
Mamlaka Road  
P.O. Box 44286  
Nairobi, Kenya

Phone: +254 2 727640  
Fax: +254 2 716271  
E-mail: eyoung@nbnet.co.ke

We have audited the financial statements on pages 28 to 58, which have been prepared on the basis of the accounting policies set out on pages 33 to 36. We obtained all the information and explanations which we considered necessary for our audit.

**RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE INDEPENDENT AUDITORS**

As stated on page 24, the directors are responsible for the preparation of financial statements which give a true and fair view of the state of the affairs of the Group and the Bank and of the operating results of the Group. Our responsibility is to express an independent opinion on the financial statements based on our audit and to report our opinion to you.

**BASIS OF OPINION**

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statements presentation. We believe that our audit presents a reasonable basis for our opinion.

**OPINION**

In our opinion, proper books of account have been kept and the financial statements, which are in agreement therewith, give a true and fair view of the state of the financial affairs of the Group and of the Bank at 31 December 2001 and of the profit and cash flows of the Group for the year then ended and comply with International Accounting Standards and the Companies Act.

**EMPHASIS OF MATTER**

We draw attention to notes 2, 9 and 24(a) to these financial statements relating to the Central Bank of Kenya (Amendment) Act 2000, potential additional tax liability and exceptional item respectively, without qualifying our opinion above.

*Ernst & Young*

Nairobi

28th February 2002

*on profit on sale of  
Kemari house*



Tumefanya uhasibu wa hesabu katika kurasa 28 hadi 58 ambao umetayarishwa katika misingi ya sera za uhasibu zilizoolezwa katika kurasa 33 hadi 36. Tulipata habari zote na maelezo ambayo tuliyachukulia kuwa muhimu kwa shughuli ya uhasibu.

Kama ilivyoolezwa katika ukurasa wa 24, wakurugenzi wana jukumu la kutayarisha hesabu inayotoa picha halisi ya shughuli za kundi na benki na matokeo ya shughuli za kampuni na kundi kwa jumla. Jukumu letu ni kutoa maoni huru kuhusu misingi ya uhasibu na kuwaeleza maoni yetu.

Tulifanya uhasibu wetu kulingana na viwango vya uhasibu vinavyokubalika. Tulipanga na kutekeleza uhasibu wetu ili kupata hakikisho kuwa hesabu hizo hazina kasoro. Uhasibu unahusisha kuchunguza kwa makadirio na uamuzi uliofanywa na wakurugenzi katika matayarisho ya hesabu iwapo sera za uhasibu zinafaa kwa kampuni na kutumika inavyotakikana.

Kwa maoni yetu, vitabu vya hesabu vimewekwa kama inavyotakikana, na hesabu ambazo zinalingana sawasawa, zimeonyesha, hali halisi na ya ukweli ya shughuli za kifedha za benki na kundi hili kufikia Disemba 31, 2001 na ya faida na matumizi au mapato ya pesa kwa kundi kwa mwaka uliomalizika na vinaambatana na viwango vya kimataifa vya uhasibu na sheria zinazosimamia makampuni.

Tunawakumbusha kuhusu kifungo cha 2.9 na 24(a) vya hesabu hizi vinavyohusiana na uwezekano wa kuongezeka kwa kodi ziada na vitu maalumu, bila ya kuzingatia maoni yetu.

## Consolidated Balance Sheet as at 31 December 2001

	Note	2001 KShs' 000	2000 KShs' 000
<b>ASSETS</b>			
Cash and balances with Central Banks	3	6,936,682	7,163,446
Cheques and items for clearing		78,836	79,590
Government securities	4	10,277,018	9,343,827
Placements and balances with other banking institutions		2,739,605	3,303,758
Investments	5	34,739	38,082
Tax recoverable	9	495,547	526,550
Loans and advances to customers	6	34,987,282	39,103,450
Other assets	10	5,361,630	9,491,532
Intangible assets	11	6,906	11,262
Property and equipment	12(a)	2,871,990	2,897,359
Deferred tax	9	1,415,973	1,369,637
<b>TOTAL ASSETS</b>		<b>65,206,208</b>	<b>73,328,493</b>
<b>LIABILITIES</b>			
Deposits and balances from other banking institutions	13	6,148,631	8,058,978
Other customer deposits	14	46,840,852	48,637,503
Other liabilities	15	3,316,322	7,911,703
Lines of credit	16	519,599	495,891
Corporate bonds	17	1,000	176,000
<b>TOTAL LIABILITIES</b>		<b>56,826,404</b>	<b>65,280,075</b>
<b>CAPITAL EMPLOYED</b>			
Share capital	18	1,496,000	1,122,000
Reserves	19	6,883,804	6,926,418
<b>SHAREHOLDERS' FUNDS</b>		<b>8,379,804</b>	<b>8,048,418</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<b>65,206,208</b>	<b>73,328,493</b>

The financial statements were approved by the Board of Directors on 28th February 2002 and were signed on its behalf by:-

B.K. Kipkulei Chairman

G.A. George Director

S.O. Mudhune Director

R.D. Malakwen Secretary



# Consolidated Profit and Loss account for the year ended 31 December 2001

	Note	2001	2000
		KShs' 000	KShs' 000
Interest income	20	6,608,506	8,785,274
Interest expense	21	(2,511,504)	(4,342,316)
Net interest income		4,097,002	4,442,958
Fees and commission income		3,314,544	2,732,478
Dividend income		16,416	13,137
Gain on foreign exchange		449,224	321,825
Other income	22	913,205	1,859,602
Operating expenses	23	(8,790,391)	(9,370,000)
Provision for bad and doubtful debts		(5,625,360)	(5,743,467)
Profit/(loss) before exceptional items, share of loss of associated companies and taxation		(2,771,995)	(4,359,799)
Exceptional items		393,036	(733,266)
Share of loss of associated companies	24	(16,872)	(29,377)
Profit/(loss) before taxation		(6,870)	(2,988)
Taxation	9	369,294	(765,631)
Profit/(loss) after taxation		12,686	301,162
Attributable to the Bank		381,980	(464,469)
Attributable to the subsidiaries and associated companies		239,332	(391,305)
		142,648	(73,164)
		381,980	(464,469)
Basic earnings/(loss) per share	25	KShs. 2.55	KShs. (4.14)
Diluted earnings/(loss) per share	25	2.55	(3.10)

# Balance Sheet of the Bank as at 31 December 2001

	Note	2001 KShs' 000	2000 KShs' 000
<b>ASSETS</b>			
Cash and balance with Central Bank of Kenya	3	6,809,129	6,741,422
Cheques and items for clearing		44,522	47,579
Government securities	4	9,181,804	8,397,369
Placements and balances with other banking institutions		1,711,287	1,541,164
Investments	5	1,129,173	1,108,635
Tax recoverable	9	352,770	352,770
Loans and advances to customers	6	32,553,828	33,140,550
Balances due from group companies	8(a)	1,000,477	1,322,726
Other assets	10	4,863,531	8,778,192
Intangible assets	11	4,765	7,372
Property and equipment	12(b)	2,487,692	2,458,571
Deferred tax	9	1,328,869	1,259,000
<b>TOTAL ASSETS</b>		<b>61,467,847</b>	<b>65,155,350</b>
<b>LIABILITIES</b>			
Deposits and balances from other banking institutions	13	6,698,891	7,933,485
Other customer deposits	14	44,037,200	42,149,352
Other liabilities	15	2,984,719	7,898,383
Lines of credit	16	519,599	1,353
Corporate bonds	17	1,000	-
Balances due to group companies	8(b)	820,362	1,006,033
<b>TOTAL LIABILITIES</b>		<b>55,061,771</b>	<b>58,988,606</b>
<b>CAPITAL EMPLOYED</b>			
Share capital	18	1,496,000	1,122,000
Reserves	19	4,910,076	5,044,744
<b>SHAREHOLDERS' FUNDS</b>		<b>6,406,076</b>	<b>6,166,744</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<b>61,467,847</b>	<b>65,155,350</b>

The financial statements were approved by the Board of Directors on 28th February 2002 and were signed on its behalf by:-

B.K. Kipkulei      Chairman

G.A. George      Director

S.O. Mudhune      Director

R.D. Malakwen      Secretary





## Consolidated Statement of Changes in Equity for the year ended 31st December 2001

	Share Capital KShs'000	Capital Reserves KShs'000	Revenue Reserves KShs'000	Share Premium KShs'000	Translation Reserves KShs'000	Total KShs'000
Balance at 1 January 2000	1,122,000	285,807	6,919,628	473,800	(3,723)	8,797,512
Prior year adjustments (Note 26)	-	(13,026)	(289,191)	-	-	(302,217)
As restated	1,122,000	272,781	6,630,437	473,800	(3,723)	8,495,295
Translation differences	-	-	-	-	17,592	17,592
Transferred from profit and loss account	-	-	(464,469)	-	-	(464,469)
Balance at 31 December 2000	1,122,000	272,781	6,165,968	473,800	13,869	8,048,418
Balance at 1 January 2001	1,122,000	285,807	6,498,878	473,800	13,869	8,394,354
Prior year adjustments (Note 26)	-	(13,026)	(332,910)	-	-	(345,936)
As restated	1,122,000	272,781	6,165,968	473,800	13,869	8,048,418
Bonus share issue	374,000	-	(374,000)	-	-	-
Transfer from capital reserves	-	(80,357)	80,357	-	-	-
Translation differences	-	-	-	-	(50,594)	(50,594)
Transferred from profit and loss account	-	-	381,980	-	-	381,980
Balance at 31 December 2001	1,496,000	192,424	6,254,305	473,800	(36,725)	8,379,804

## Consolidated Cash Flow Statement for the year ended 31 December 2001

	Note	2001	2000
		KShs' 000	KShs' 000
NET CASH INFLOWS FROM OPERATING ACTIVITIES	27(a)	2,000,182	3,036,949
Taxation paid		(2,674)	(85,372)
CASH FLOWS FROM FINANCING ACTIVITIES			
Lines of credit		23,708	(131,678)
NET CASH FLOWS FROM FINANCING ACTIVITIES		23,708	(131,678)
INVESTING ACTIVITIES			
Sale of investments		-	411
Purchase of investments		(3,500)	-
Proceeds from sale of property and equipment		488,273	1,198,173
Purchase of property and equipment		(403,528)	(649,173)
NET CASH INFLOWS FROM INVESTING FROM INVESTING ACTIVITIES		81,245	549,411
Increase in cash and cash equivalents		2,102,461	3,369,310
Effects of exchange rate changes on opening net investment in foreign entity		(50,594)	17,592
Cash and cash equivalents at the beginning of the year		11,831,643	8,444,741
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	27(b)	13,883,510	11,831,643





**1. ACCOUNTING POLICIES**

**a. Basis of accounting**

The financial statements of the Bank and its subsidiaries are prepared on the historical cost basis of accounting modified by the revaluation of freehold and leasehold properties. The accounting policies conform with International Accounting Standards and are consistent in all material respects with those applied in the previous year.

**b. Consolidation**

The consolidated financial statements of the Group comprise the financial statements of the Bank and its subsidiaries made up to 31 December 2001 and the results and net assets of its associated companies based on financial statements made up to dates not earlier than three months prior to 31 December 2001. All inter group transactions and balances are eliminated on consolidation.

**c. Income recognition**

- (i) Income is recognised in the period in which it is earned except for dividends, which are recognised when declared. When an account becomes non-performing, interest is suspended until it is realised on a cash basis.
- (ii) The Bank reviews dormant accounts and determines the amount which is unlikely to be claimed. This amount is transferred to income and is disclosed in these financial statements as exceptional income.

**d. Property, equipment and depreciation**

Property and equipment are stated at cost or valuation, less accumulated depreciation.

Depreciation is calculated on the straight line basis at annual rates estimated to write off the carrying values of the assets over their expected useful lives. The annual depreciation rates in use are:-

Freehold land	Nil
Leasehold premises and improvements	Rates based on the shorter of the lease term or estimated useful lives
Motor vehicles	20% - 25%
Furniture and fittings	10%
Office equipment	20%
Computers	20%

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

**e. Provision for doubtful debts**

Specific provision is made in respect of advances considered to be doubtful of recovery. A general provision is made in respect of loans and advances to cover bad and doubtful debts which have not been separately identified but are known from experience to be present in any portfolio of advances.

1. ACCOUNTING POLICIES (Continued)

f. Write offs and write downs of advances

Advances are written off or written down only when the directors are of the opinion that their recoverability will not materialise. Subsequent recoveries are credited to the profit and loss account.

g. Provisions

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

h. Investments

i. Quoted government and municipal securities with stated redemption dates are shown at cost less any impairment in value.

ii. Quoted equity investments are shown at the fair value.

iii. Unquoted investments are shown at the lower of cost and directors' valuation.

iv. The Group's investments in associated companies have been incorporated in the consolidated accounts to take account of the share of net assets attributable to the Group. The Bank's investments in its associated companies are shown at cost less any impairment in value.

i. Foreign currencies

(i) Assets and liabilities in foreign currencies have been translated at rates approximating the mean rates of exchange ruling at the balance sheet date. Transactions during the year are converted at the rates ruling at the dates of the transaction. Gains and losses on conversion and translation are either included in the profit and loss account or, where appropriate, recharged to the relevant third party.

(ii) Exchange differences arising from translation of opening net investments in foreign entities are accounted for in the reserves.

j. Taxation

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted in accordance with the tax legislation. Deferred taxation is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and the unused tax credits can be utilised.



**1. ACCOUNTING POLICIES (Continued)**

**k. Retirement benefit costs**

The Group contributes to a defined benefit pension scheme which is funded by the Bank and subsidiaries. In determining the contributions to be made, the recommendations of independent qualified actuaries are taken into account. The pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who value the pension plan at least once in every three years. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. All actuarial gains and losses are spread over the average remaining service lives of the employees participating in the scheme.

The Group also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to KShs.200 per employee per month.

The Group's contributions to the above schemes are charged to the profit and loss account in the year to which they relate.

**l. Leases**

Leases are classified as finance leases where all the risks and rewards associated with ownership of an asset are substantially transferred from the lessor to the Group as lessee. Finance leases are capitalised at the present value of the minimum lease payments at the inception of the lease term and disclosed as leased property, plant and equipment. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. All other leases are classified as operating leases whose payments are recognised as expenses in the profit and loss account on a straight line basis over the lease term.

**m. Financial instruments**

Financial instruments recognised in the balance sheet include cash and balances with Central Banks, cheques and items for clearing, government securities, placement and other balances due from/to other banking institutions, other customer deposits, lines of credit and corporate bonds. Financial instruments are initially measured at cost. With the exception of investment in unquoted securities, whose value is not easily determinable, financial instruments are subsequently measured at fair value.

**n. Acceptances and letters of credit**

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

**1. ACCOUNTING POLICIES (Continued)**

**o. Employee entitlements**

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

**p. Amortisation of intangible assets**

The intangible assets are amortised on the straight line basis at the rate of 20% per annum.

**q. Foreign exchange forward contracts**

Foreign exchange forward contracts 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 foreign exchange forward contract rates. Gains and losses on foreign exchange forward contracts are included in net trading income as they arise.

**2. CENTRAL BANK OF KENYA (AMENDMENT) ACT 2000**

During 2001, the Kenya Bankers Association (KBA) on behalf of its members filed an application in the constitutional court challenging the legality of the Central Bank of Kenya (Amendment) Act 2000 (The Act). The court delivered its judgement on 24 January 2002.

Following the ruling, various conflicting interpretations have been published. On the basis of advice from its lawyers, KBA has issued guidance to its members to the effect that The Act is not operational. Accordingly, the directors have prepared these financial statements on the basis of this advice.



3.	CASH AND BALANCES WITH CENTRAL BANKS	GROUP		BANK	
		2001	2000	2001	2000
		KShs' 000	KShs' 000	KShs' 000	KShs' 000
	Cash on hand	2,006,783	2,241,779	1,927,324	2,187,789
	Balances with Central Banks	4,929,899	4,921,667	4,881,805	4,553,633
		6,936,682	7,163,446	6,809,129	6,741,422
4.	GOVERNMENT SECURITIES				
	a) Treasury bills				
	Maturing within 30 days	561,628	2,750,700	200,200	2,545,362
	Maturing after 30 days but within 1 year	1,499,871	5,486,170	935,921	4,852,007
		2,061,499	8,236,870	1,136,121	7,397,369
	b) Treasury bonds				
	Maturing within 30 days	-	58,174	-	-
	Maturing after 30 days but within 1 year	1,350,233	1,019,391	1,180,397	1,000,000
	Maturing after 1 year	6,865,286	19,392	6,865,286	-
		8,215,519	1,096,957	8,045,683	1,000,000
	c) Other Government stocks				
	Maturing within 30 days	-	10,000	-	-
	TOTAL GOVERNMENT SECURITIES	10,277,018	9,343,827	9,181,804	8,397,369
	Maturing as follows:-				
	Maturing within 30 days	561,628	2,818,874	200,200	2,545,362
	Maturing after 30 days but within 1 year	2,850,104	6,505,561	2,116,318	5,852,007
	Maturing after 1 year	6,865,286	19,392	6,865,286	-
		10,277,018	9,343,827	9,181,804	8,397,369

5.	INVESTMENTS	GROUP		BANK	
		2001	2000	2001	2000
		KShs' 000	KShs' 000	KShs' 000	KShs' 000
a)	INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES				
	COMPANY	ACTIVITY	BENEFICIAL OWNERSHIP %		
	Kenya Commercial Finance Co. Ltd	Investment	100	-	-
	Savings & Loan Kenya Ltd	Mortgage finance	100	-	-
	Enterprise Consultants Ltd	Dormant	100	-	-
	Kenya Commercial Bank Nominees Ltd	Nominee shareholders	100	-	-
	Kencom House Ltd	Property ownership & management	100	-	-
	Kenya Commercial Bank (Tanzania) Ltd	Commercial banking	100	-	-
	Notcutt Longaroni & Co (K) Ltd	Investment	100	-	-
	United Finance Ltd	Hire purchase & lease finance	45	186	4,198
	Clarkson Notcutt (Insurance Broker) Ltd	Insurance broking	50	12,033	14,864
				12,219	19,062
				1,106,653	1,102,865
b)	QUOTED INVESTMENTS			11,655	5,655
c)	UNQUOTED INVESTMENTS			10,865	115
				22,520	19,020
				34,739	38,082
				1,129,173	1,108,635

\*An amount of KShs. 160 was eliminated after rounding off the value of the investment to the nearest one thousand, Kenya Shillings.



**Notes to the Financial Statements** (continued) for the year ended 31st December 2001

6.	LOANS AND ADVANCES TO CUSTOMERS	GROUP		BANK	
		2001	2000	2001	2000
6.1	Loans and advances to customers	KShs' 000	KShs' 000	KShs' 000	KShs' 000
	Loans and advances to customers net of provisions and suspended interest	34,987,282	39,103,450	32,553,828	33,140,550
	Add:-				
	Specific provisions for bad and doubtful debts	6,927,018	7,765,707	6,743,378	6,786,241
	Interest in suspense	3,681,357	4,367,849	3,323,005	3,651,744
	Subtotal (Note 7.1(a))	10,608,375	12,133,556	10,066,383	10,437,985
	General provisions for bad and doubtful debts (Note 7.1(b))	289,118	288,428	271,352	250,000
		10,897,493	12,421,984	10,337,735	10,687,985
	Loans and advances to customers (gross)	45,884,775	51,525,434	42,891,563	43,828,535
6.2	Maturity analysis of gross loans and advances to customers				
	Maturing within 1 year	17,615,594	21,331,968	17,458,535	19,382,922
	Maturing after 1 year	28,269,181	30,193,466	25,433,028	24,445,613
		45,884,775	51,525,434	42,891,563	43,828,535
6.3	Sectorial analysis of gross loans and advances to customers				
	Private sector and individuals	40,932,016	45,317,559	37,938,804	37,858,368
	Government departments and parastatals	4,952,759	6,207,875	4,952,759	5,970,167
		45,884,775	51,525,434	42,891,563	43,828,535

7.	PROVISIONS	GROUP		BANK	
		2001	2000	2001	2000
7.1	Provisions for bad and doubtful debts	KShs' 000	KShs' 000	KShs' 000	KShs' 000
	a) Specific provisions and interest suspended (Note 6.1)				
	Balance held as at 1 January	12,133,556	9,394,630	10,437,985	8,259,974
	Provisions made during the year	2,771,305	4,359,799	2,732,389	3,966,244
	Interest suspended during the year	1,809,340	1,584,765	1,620,168	1,286,502
	Write downs/write offs during the year	(4,406,283)	(2,184,528)	(4,074,602)	(2,117,935)
	Transfer from Kenya Commercial Finance Company Limited	-	-	891,973	-
	Recoveries/provisions written back during the year	(1,699,543)	(1,021,110)	(1,541,530)	(956,800)
	Balance as at 31 December	10,608,375	12,133,556	10,066,383	10,437,985

b) General provisions (note 6.1)

Balance held as at 1 January	288,428	502,834	250,000	412,949
Provisions made during the year	690	-	-	-
Transfer from Kenya Commercial Finance Company Limited	-	-	21,352	-
Provisions written back	-	(214,406)	-	(162,949)
Balance as at 31 December	289,118	288,428	271,352	250,000

7.2 Non-performing loans where interest is suspended

Non-performing loans and advances for the Group amounted to KShs.13,757,358,000 (2000 - KShs.9,597,368,000) net of specific provisions and interest in suspense. For the Bank, this amounted to KShs.13,245,430,000 (2000 - KShs. 9,061,746,469). Interest is not being accrued on these advances as they are classified as substandard, doubtful or loss. The Group uses a grading system that classifies advances into grades 1 to 5 and which recognises grades 3, 4 and 5 as non-performing, in compliance with the Central Bank of Kenya guidelines.



8.		GROUP		BANK	
		2001	2000	2001	2000
(a)	<b>BALANCES DUE FROM GROUP COMPANIES</b>	<b>KShs' 000</b>	<b>KShs' 000</b>	<b>KShs' 000</b>	<b>KShs' 000</b>
	Kencom House Limited			462,049	465,572
	Savings and Loan Kenya Limited			169,753	115,730
	Kenya Commercial Finance Company Limited			368,675	741,424
				<b>1,000,477</b>	<b>1,322,726</b>

(b)	<b>BALANCES DUE TO GROUP COMPANIES</b>				
	Kencom House Limited			781,362	-
	Kenya Commercial Finance Company Limited			-	717,033
	Savings and Loan Kenya Limited			39,000	289,000
				<b>820,362</b>	<b>1,006,033</b>

9. **TAXATION**  
**BALANCE SHEET**  
**TAX RECOVERABLE**  
The movement in the tax recoverable account is as follows:

	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Balance as at 1 January	526,550	492,885	352,770	352,770
Tax paid during the year	2,674	85,372	-	-
Tax charge during the year	(33,677)	(51,707)	-	-
	<b>495,547</b>	<b>526,550</b>	<b>352,770</b>	<b>352,770</b>

**DEFERRED TAX**

Deferred tax asset	1,425,829	1,377,280	1,328,869	1,259,000
Deferred tax liability	(9,856)	(7,643)	-	-

Net deferred tax asset	<b>1,415,973</b>	<b>1,369,637</b>	<b>1,328,869</b>	<b>1,259,000</b>
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The net deferred tax asset is attributable to the following items

Excess of depreciation over tax allowances	43,469	26,555	58,040	38,494
Provisions held	97,304	86,528	91,974	75,000
Tax loss carried forward	1,275,200	1,256,554	1,178,855	1,145,506
	<b>1,415,973</b>	<b>1,369,637</b>	<b>1,328,869</b>	<b>1,259,000</b>

9. TAXATION (continued)

PROFIT AND LOSS ACCOUNT

GROUP

	2001	2000
	KShs' 000	KShs' 000
Current tax	33,677	51,707
Deferred tax credit	(46,336)	(353,316)
Share of tax of associated companies	(27)	447
	(12,686)	(301,162)
Deferred tax credit in the profit and loss account comprises of the following temporary differences:		
Excess of depreciation over tax allowances	(16,914)	(8,682)
Provisions held	(10,776)	120,596
Tax loss carried forward	(18,646)	(465,230)
	(46,336)	(353,316)

The tax authorities have issued a notice confirming the additional assessment relating to 1998 year of income for the Bank demanding additional tax of KShs. 447,282,802 and a notice of intention to raise additional assessment for 1999 year of income for an amount of KShs. 494,601,735.

The directors have disputed the decision and have provided information required in support of the matter raised. Hence, no provision has been made in these financial statements for the liability.

10. OTHER ASSETS

GROUP

BANK

	2001	2000	2001	2000
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Head Office and Branches clearing accounts	1,006,290	4,980,764	1,006,290	4,980,764
Interest earned not collected	652,621	836,964	649,368	792,991
Prepayments	149,674	145,797	131,357	108,995
Other suspense accounts	3,553,045	3,528,007	3,076,516	2,895,442
	5,361,630	9,491,532	4,863,531	8,778,192

11. INTANGIBLE ASSETS

Reclassified from property and equipment-net book value at 1 January	11,262	14,653	7,372	7,589
Amortisation for the year	(4,356)	(3,391)	(2,607)	(217)
At 31 December	6,906	11,262	4,765	7,372



12. PROPERTY AND EQUIPMENT

(a) GROUP

	Freehold and leasehold premises	Leasehold improvements	Motor vehicles, furniture and equipment	Capital work in progress	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
<b>COST OR VALUATION</b>					
At 31 December 2000	2,167,291	202,856	2,324,205	186,758	4,881,110
Reclassification	-	-	(28,996)	-	(28,996)
Restated balance	2,167,291	202,856	2,295,209	186,758	4,852,114
Additions	39,398	5,023	248,637	110,470	403,528
Transfers	10,144	-	-	(10,144)	-
Disposals	(109,219)	(1,172)	(53,264)	-	(163,655)
Adjustments	(6,636)	-	(3,751)	-	(10,387)
At 31 December 2001	2,100,978	206,707	2,486,831	287,084	5,081,600
Made up of:-					
Assets at valuation	118,343	-	-	-	118,343
Assets at cost	1,982,635	206,707	2,486,831	287,084	4,963,257
	2,100,978	206,707	2,486,831	287,084	5,081,600
<b>DEPRECIATION</b>					
At 31 December 2000	142,894	92,303	1,626,547	-	1,861,744
Reclassification	-	-	(17,734)	-	(17,734)
Prior year adjustment	110,745	-	-	-	110,745
Restated balance	253,639	92,303	1,608,813	-	1,954,755
Charge for the year	26,309	13,224	290,684	-	330,217
Disposals	(20,904)	(498)	(51,624)	-	(73,026)
Adjustments	(664)	-	(1,672)	-	(2,336)
At 31 December 2001	258,380	105,029	1,846,201	-	2,209,610
<b>NET BOOK VALUE</b>					
At 31 December 2001	1,842,598	101,678	640,630	287,084	2,871,990
At 31 December 2000	1,913,652	110,553	686,396	186,758	2,897,359

12.a) PROPERTY AND EQUIPMENT (GROUP) (Continued)

Property and equipment in use with an original cost of KShs. 795,635,735 (2000 - KShs.559,674,735) are fully depreciated. The theoretical depreciation charge at the normal rates (Note 1(d)) for the current year, would be KShs 140,217,220 (2000 - KShs.108,206,060).

A revaluation of freehold and leasehold properties held by the Group was carried out by professional valuers on the basis of open market value. The revaluation surplus was transferred to capital reserve (note 19).

The re-classification relates to transfer of software costs and the related accumulated depreciation which is presented separately under intangible assets (Note 11).

b) BANK	Freehold and leasehold premises KShs'000	Leasehold improvements KShs'000	Motor vehicles, furniture and equipment KShs'000	Capital work in progress KShs'000	Total KShs'000
<b>COST</b>					
At 31 December 2000	1,775,756	140,009	2,157,765	176,614	4,250,144
Reclassification	-	-	(13,124)	-	(13,124)
Restated balance	1,775,756	140,009	2,144,641	176,614	4,237,020
Additions	40,129	5,023	237,000	110,470	392,622
Transfer from Kenya Commercial Finance Company Limited	24,057	17,530	25,257	-	66,844
Disposals	(109,219)	(674)	(46,675)	-	(156,568)
At 31 December 2001	1,730,723	161,888	2,360,223	287,084	4,539,918
<b>DEPRECIATION</b>					
At 31 December 2000	140,669	54,469	1,508,064	-	1,703,202
Reclassification	-	-	(5,752)	-	(5,752)
Prior year adjustment	80,999	-	-	-	80,999
Restated balance	221,668	54,469	1,502,312	-	1,778,449
Charge for the year	19,543	9,412	270,513	-	299,468
Transfer from Kenya Commercial Finance Company Limited	570	17,400	22,787	-	40,757
Disposals	(20,904)	-	(45,544)	-	(66,448)
At 31 December 2001	220,877	81,281	1,750,068	-	2,052,226
<b>NET BOOK VALUE</b>					
At 31 December 2001	1,509,846	80,607	610,155	287,084	2,487,692
At 31 December 2000	1,554,088	85,540	642,329	176,614	2,458,571

Property and equipment in use with an original cost of KShs. 643,901,711 (2000 - KShs.517,795,419) are fully depreciated. The theoretical depreciation charge, on cost at the normal rates (Note 1(d)) for the current year, would be KShs. 128,780,342 (2000 - KShs.101,066,311).



13.	DEPOSITS AND BALANCES FROM OTHER BANKING INSTITUTIONS	GROUP		BANK	
		2001	2000	2001	2000
		KShs' 000	KShs' 000	KShs' 000	KShs' 000
	Deposits and balances with branches	3,136,142	3,822,588	3,686,402	3,697,095
	Overnight borrowings	1,287,895	888,000	1,287,895	888,000
	Borrowed funds	1,724,594	3,348,390	1,724,594	3,348,390
		6,148,631	8,058,978	6,698,891	7,933,485
	Maturing as follows:				
	Payable within 30 days	2,231,114	3,938,133	2,781,374	3,834,460
	Payable after 30 days but within 1 year	3,917,517	2,576,705	3,917,517	2,554,885
	Payable after 1 year	-	1,544,140	-	1,544,140
		6,148,631	8,058,978	6,698,891	7,933,485
14.	OTHER CUSTOMER DEPOSITS				
a)	From government departments and parastatals				
	Payable within 30 days	5,439,437	5,490,021	4,558,837	4,847,584
	Payable after 30 days but within 1 year	4,299,161	4,085,586	4,299,161	3,860,000
		9,738,598	9,575,607	8,857,998	8,707,584
b)	From private sector and individuals				
	Payable within 30 days	16,129,019	27,680,455	14,875,338	25,857,519
	Payable after 30 days but within 1 year	20,856,848	11,355,683	20,277,088	7,559,188
	Payable after 1 year	116,387	25,758	26,776	25,061
		37,102,254	39,061,896	35,179,202	33,441,768
	<b>TOTAL OTHER CUSTOMER DEPOSITS</b>	<b>46,840,852</b>	<b>48,637,503</b>	<b>44,037,200</b>	<b>42,149,352</b>
	Maturing as follows:-				
	Payable within 30 days	21,568,456	33,170,476	19,434,175	30,705,103
	Payable after 30 days but within 1 year	25,156,009	15,441,269	24,576,249	11,419,188
	Payable after 1 year	116,387	25,758	26,776	25,061
		46,840,852	48,637,503	44,037,200	42,149,352

Bold.

15. OTHER LIABILITIES	GROUP		BANK	
	2001	2000	2001	2000
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Bills payable	745,696	1,424,780	732,128	1,409,801
Accounts payable in suspense	1,950,283	5,947,101	1,938,787	6,110,072
Interest payable	139,874	370,258	109,561	252,940
Provisions for expenses	480,469	169,564	204,243	125,570
	<b>3,316,322</b>	<b>7,911,703</b>	<b>2,984,719</b>	<b>7,898,383</b>
16. LINES OF CREDIT				
OPEC LINE I				
Payable within 1 year	-	1,353	-	1,353
OPEC LINE III				
Payable within 1 year	117,900	-	117,900	-
Payable after 1 year	-	117,075	-	-
	<b>117,900</b>	<b>117,075</b>	<b>117,900</b>	<b>-</b>
USAID/RPE LOANS				
Payable within 1 year	5,163	6,069	5,163	-
EUROPEAN INVESTMENT BANK				
Payable within 1 year	114,812	72,323	114,812	-
Payable after 1 year	-	47,064	-	-
	<b>114,812</b>	<b>119,387</b>	<b>114,812</b>	<b>-</b>
EIB DOLLAR LOAN				
Payable within 1 year	281,724	52,700	281,724	-
Payable after 1 year	-	198,695	-	-
	<b>281,724</b>	<b>251,395</b>	<b>281,724</b>	<b>-</b>
GOVERNMENT OF KENYA				
Payable within 1 year	-	612	-	-
<b>TOTAL LINES OF CREDIT</b>	<b>519,599</b>	<b>495,891</b>	<b>519,599</b>	<b>1,353</b>
Maturing as follows:-				
Payable within 1 year	519,599	133,057	519,599	1,353
Payable after 1 year	-	362,834	-	-
	<b>519,599</b>	<b>495,891</b>	<b>519,599</b>	<b>1,353</b>



**16. LINES OF CREDIT (Continued)**

**a) OPEC**

These amounts represent the net funds lent to the Bank by the Government of Kenya in accordance with loan agreements for lines of credit from the OPEC Fund for International Development. The funds are disbursed in accordance with the terms of the loan agreement.

**b) USAID/RPE LOANS**

This represents amounts which the Group has on-lent to private enterprises under the Rural Project Enterprise Scheme, introduced in 1990 by the above named international development agency and channelled through the Central Bank of Kenya. The loan is secured by promissory notes.

**c) EUROPEAN INVESTMENT BANK**

This represents amounts which the Group has on-lent to private enterprises under the Global Private Enterprise Scheme, introduced in 1993 by the European Investment Bank and channelled through the Central Bank of Kenya. The loan is secured by 180 days promissory notes.

**d) EIB DOLLAR LOAN**

This represents amounts which the Group has on-lent to private enterprises under the Global Private Enterprise Scheme introduced by European Investment Bank and channelled through the approved financial institutions. The loans are advanced in US dollars.

**e) GOVERNMENT OF KENYA**

The loan was fully paid during the year.

**17. CORPORATE BONDS**

These represent deposits by customers for a fixed period of one year. They are issued at par with the minimum amount being KShs.1 million. Interest on the corporate bonds is payable quarterly.

**18. SHARE CAPITAL**

	2001	2000
	KShs' 000	KShs' 000
Authorised:-		
150,000,000 ordinary shares of KShs.10 each	1,500,000	1,500,000
Issued and fully paid:-		
149,600,000 ordinary shares (2000 - 112,200,000) of KShs.10 each	1,496,000	1,122,000

On 25 May 2001, a bonus issue of one share for every three held was made by capitalising KShs. 374 million from retained earnings. A total of 37.4 million ordinary shares were issued.

19. RESERVES	Capital reserves KShs'000	Revenue reserves KShs'000	Share premium KShs'000	Translation Reserves KShs'000	Total KShs'000
<b>GROUP</b>					
Balance at 31 December 2000	285,807	6,498,878	473,800	13,869	7,272,354
Prior year adjustment (Note 26)	(13,026)	(332,910)	-	-	(345,936)
As restated	272,781	6,165,968	473,800	13,869	6,926,418
Bonus share issue	-	(374,000)	-	-	(374,000)
Translation differences	-	-	-	(50,594)	(50,594)
Transfer from capital reserves	(80,357)	80,357	-	-	-
Transferred from profit and loss account	-	381,980	-	-	381,980
Balance at 31 December 2001	192,424	6,254,305	473,800	(36,725)	6,883,804
<b>BANK</b>					
Balance at 31 December 2000	62,843	4,811,265	473,800	-	5,347,908
Prior year adjustment (Note 26)	-	(303,164)	-	-	(303,164)
As restated	62,843	4,508,101	473,800	-	5,044,744
Bonus share issue	-	(374,000)	-	-	(374,000)
Transfer from capital reserve	(62,843)	62,843	-	-	-
Transferred from profit and loss account	-	239,332	-	-	239,332
Balance at 31 December 2001	-	4,436,276	473,800	-	4,910,076

The capital reserves arose on the revaluation of freehold and leasehold properties as shown under note 12(a). The translation reserves arise from translation of the opening net investment in Kenya Commercial Bank (Tanzania) Limited to Kenya Shillings.



20.	INTEREST INCOME	GROUP	
		2001	2000
		KShs' 000	KShs' 000
	Interest on loans and advances	5,003,839	6,692,673
	Interest on government securities	1,324,148	1,658,186
	Interest on placements and bank balances	280,519	429,354
	Other interest income	-	5,061
		6,608,506	8,785,274
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21.	INTEREST EXPENSE		
	Interest on deposits	2,208,545	3,737,007
	Interest on borrowed funds	299,171	568,968
	Interest on corporate bonds	3,788	36,341
		2,511,504	4,342,316
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22.	OTHER INCOME		
	Rent receivable	68,883	150,821
	Profit on sale of property and equipment	14,747	19,914
	Overprovision recredited (recoveries)	494,855	1,184,466
	Other miscellaneous income	334,720	504,401
		913,205	1,859,602
<hr/>			
23.	OPERATING EXPENSES		
	Fees and commission paid	32,824	42,327
	Administrative expenses	5,169,455	5,263,119
	Directors' emoluments		
	As directors	14,136	15,801
	As executives	64,295	80,090
	Depreciation of property and equipment	330,217	329,487
	Amortisation of intangible asset	4,356	3,391
	Auditors' remuneration		
	(Bank - KShs.6,300,000, 2000 - KShs 5,500,000;		
	KCB (T) Ltd - KShs 1,157,000, 2000-KShs.1,047,000)	10,077	9,252
		5,625,360	5,743,467

24. EXCEPTIONAL ITEMS

	GROUP	
	2001	2000
	KShs' 000	KShs' 000
<b>Income</b>		
Profit on sale of Kencom House	-	447,808
Profit on sale of non-core assets	382,715	170,430
Absorption of dormant accounts	213,474	397,000
Writeback of long outstanding credit balances	100,000	-
	<b>696,189</b>	<b>1,015,238</b>
<b>Expenses</b>		
Voluntary early retirement costs	401,541	1,044,615
Staff costs on the information systems project	100,000	-
Pension fund deficit contribution	117,930	-
Legal and change programme costs	93,590	-
	<b>713,061</b>	<b>1,044,615</b>
<b>Net amount</b>	<b>(16,872)</b>	<b>(29,377)</b>

a) **Profit on sale of Kencom House**

The profit on sale of Kencom House arose upon the sale of the building to Kenya Commercial Bank Staff Pension Fund Registered Trustees, by Kencom House Limited, a fully owned subsidiary of the Bank in 2000. The transfer of title has taken place and it is duly registered in the Lands Office. However, there is a civil case pending in court on this matter.

b) **Voluntary early retirement costs**

These relate to costs incurred in respect of members of staff who opted for early retirement under the Bank's Voluntary Early Retirement Scheme.



**25. EARNINGS/(LOSS) PER SHARE**

- a) Basic earnings/(loss) per share is calculated on the profit/(loss) after tax and on the number of ordinary shares in issue during the year.
- b) Diluted earnings/(loss) per share is calculated on the profit/(loss) after tax and on the average number of ordinary and bonus shares in issue.

**26. PRIOR YEAR ADJUSTMENTS**

	GROUP		BANK	
	2001	2000	2001	2000
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Depreciation of leasehold properties	(110,745)	(110,745)	(80,999)	(80,999)
Deferred tax	(13,026)	30,693	-	-
Leave accrual	(97,165)	(97,165)	(97,165)	(97,165)
Dividends	(125,000)	(125,000)	(125,000)	(125,000)
	(345,936)	(302,217)	(303,164)	(303,164)

The prior year adjustments relate to:

- a) Depreciation on leasehold properties relating to previous years which had not been provided for in accordance with International Accounting Standard (IAS) No.17.
- b) Deferred tax provision relating to previous years which had not been provided for in accordance with International Accounting Standard (IAS) No.12.
- c) Accrued leave relating to previous year which had not been provided for in accordance with International Accounting Standard (IAS) No.19.
- d) Dividend not adjusted for in the previous years.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

		GROUP	
		2001	2000
a)	NET CASH INFLOWS FROM OPERATING ACTIVITIES	KShs' 000	KShs' 000
	This has been derived as follows:-		
	Profit/(loss) before taxation	369,294	(765,631)
	Adjustments for:		
	Depreciation	330,217	329,487
	Amortisation of intangible assets	4,356	3,391
	Profit on sale of property and equipment	(397,644)	(638,152)
	Share of loss in associated companies	6,870	2,988
	Loans and advances	4,116,168	5,859,998
	Other assets	4,129,902	(4,625,452)
	Other customer deposits	(1,796,651)	98,772
	Other liabilities	(4,595,381)	2,894,582
	Corporate bonds	(175,000)	(119,000)
	Fixed assets adjustment/write-offs	8,051	(4,034)
		2,000,182	3,036,949

b) ANALYSIS OF CASH AND CASH EQUIVALENTS

Cash and balances with Central Banks	6,936,682	7,163,446
Cheques and items for clearing	78,836	79,590
Government securities	10,277,018	9,343,827
Placements and balances with other banking institutions	2,739,605	3,303,758
Deposits and balances from other banking institutions	(6,148,631)	(8,058,978)
	13,883,510	11,831,643

28. RELATED PARTY TRANSACTIONS

a) Amounts lent to associated companies.

The following amounts have been lent to associated companies in the ordinary course of business.

	GROUP		BANK	
	2001	2000	2001	2000
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
At 31 December	11,413	33,486	11,413	-



28. RELATED PARTY TRANSACTIONS (continued)

b) Inter-company transactions

The accounts include the following balances relating to transactions entered into with subsidiary companies.

	BANK	
	2001	2000
	KShs' 000	KShs' 000
Due from subsidiary companies (Note 8)	1,000,477	1,322,726
Amount due to subsidiary companies (Note 8)	820,362	1,006,033

c) Loans due from directors, staff and other related parties

Total amount of loans and advances granted to the Government of Kenya (Treasury), members of the board of directors and employees in the ordinary course of business include:-

	GROUP		BANK	
	2001	2000	2001	2000
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
Government of Kenya (Treasury)	3,586,233	3,966,356	3,586,233	3,966,356
Directors	6,900	2,339	6,900	2,339
Employees	1,858,477	2,069,966	1,810,522	2,001,786
	5,451,610	6,038,661	5,403,655	5,970,481

29. SEGMENT INFORMATION

a) Business segments

The Group's main business is banking/finance which accounts for more than 90% of the total income. There are therefore no material distinct business segments to necessitate detailed disclosures.

b) Geographical segments

One of the Group companies, Kenya Commercial Bank (Tanzania) Limited, operates in Tanzania, that is, outside the domestic financial market. However, the income derived from the company is less than 10% of the Group's total income.

	GROUP		BANK	
	2001	2000	2001	2000
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
<b>30. COMMITMENTS</b>				
a) Capital commitments contracted for at year end	347,120	-	315,834	-
b) Loans committed but not disbursed at year end	528,924	698,992	331,651	170,365
c) Foreign currency commitments	1,231,942	98,256	1,231,942	98,256

	GROUP		BANK	
	2001	2000	2001	2000
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
<b>31. CONTINGENT LIABILITIES</b>				
Letters of credit, acceptancies, guarantees, indemnities and other arrangements entered into on behalf of customers at 31 December	12,977,746	15,909,048	12,888,439	15,909,048
Other contingent liabilities	1,055,001	98,952	1,055,001	56,488
Dormant accounts	610,797	397,000	575,797	397,000

The KShs. 610,797,000 ((Bank KShs. 575,797,000) - 2000 - KShs. 397 million) relates to balances on dormant accounts transferred to income. There is a potential liability due to possible claims by customers.

	GROUP		BANK	
	2001	2000	2001	2000
	KShs' 000	KShs' 000	KShs' 000	KShs' 000
<b>32. FOREIGN CURRENCY EXPOSURE</b>				
Assets in foreign currencies	10,945,957	12,161,359	10,945,770	11,048,339
Liabilities in foreign currencies	(11,249,332)	(11,734,753)	(11,249,168)	(10,674,864)
Net foreign currency exposure at 31 December	(303,375)	426,606	(303,398)	373,475



**33. RETIREMENT BENEFIT OBLIGATIONS**

**a) KCB Staff Pension Scheme**

The scheme is independently managed and is funded by the Bank and the subsidiary companies. The pension plan assets are valued at least every three years by independent actuaries. The assets were last valued as at 1 January 2001 and a deficit of KShs. 353.8 million was reported in the actuarial report dated 15th February, 2002. The deficit is being amortised over a period of three years at KShs. 117.93 million per annum.

The information below summarises the make up of the scheme deficit, amount recognised in the profit and loss account for the year and actuarial assumptions made.

	GROUP	
	2001	2000
	KShs'000	KShs'000
Past service pension benefits	(5,376,300)	(5,065,500)
Fair value of scheme assets	5,022,500	4,172,900
Past service pension deficit	(353,800)	(892,600)

The amount recognised in the profit and loss account for the year is as follows:

Current contribution costs	281,306	452,152
Amortisation of past service pension deficit	117,930	-
	399,236	452,152

The principal actuarial assumptions made are as follows:	<b>2001</b>	<b>2000</b>
Expected rate of return on scheme assets	10.0%	10.0%
Future salary increases	8.0%	8.0%
Rate of contribution on members' pensionable salaries	14.9%	18.0%
Future pension increases	0.0%	0.0%

**b) National Social Security Fund (NSSF)**

This is a statutory defined contribution pension scheme in which both the employer and employees contribute equal amounts. The contributions are charged to the profit and loss account.

**34. INTEREST RATE RISK**

Structural interest rate risk arises when assets and liabilities in the Group's commercial banking activities have different maturity profiles or repricing dates. The primary source of interest rate risk originating in other banking activities arises from the employment of non-interest bearing liabilities such as shareholders' funds and some current accounts. When assets reprice more or in greater proportion than liabilities during a given period, a positive interest rate sensitivity gap results and this tends to benefit net interest income in a rising interest rate environment. Conversely, when liabilities reprice more or in greater proportion than assets during a given period, a negative interest rate sensitivity gap results and this tends to benefit net interest income in a declining interest rate scenario. The Group monitors net interest income and market value effects of interest rate positions and in different interest rate scenarios with a view to limiting potential adverse effects on net interest income. The table below shows interest rate sensitivity gap for the Group at 31 December 2001 based on the earlier of maturity or repricing dates. This is not necessarily indicative of the position at other times. Off balance sheet items do not pose any significant interest rate risk to the Group.

	Up to 1 month KShs'000	1-12 months KShs'000	over 1 year KShs'000	Non-interest bearing KShs'000	Total KShs'000
<b>ASSETS</b>					
Cash and balances with Central Banks	-	-	-	6,936,682	6,936,682
Cheques and items for clearing	-	-	-	78,836	78,836
Government securities	561,628	2,850,104	6,865,286	-	10,277,018
Placements and balances with other banking institutions	2,739,605	-	-	-	2,739,605
Investments	-	-	-	34,739	34,739
Tax recoverable	-	-	-	495,547	495,547
Loans and advances to customers (net)	5,676,342	11,650,134	17,660,806	-	34,987,282
Other assets	-	-	-	5,361,630	5,361,630
Intangible assets	-	-	-	6,906	6,906
Property and equipment	-	-	-	2,871,990	2,871,990
Deferred tax	-	-	-	1,415,973	1,415,973
<b>Total Assets</b>	<b>8,977,575</b>	<b>14,500,238</b>	<b>24,526,092</b>	<b>17,202,303</b>	<b>65,206,208</b>
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>					
Deposits and balances from other banking institutions	2,231,114	3,917,517	-	-	6,148,631
Other customer deposits	21,568,456	25,156,009	116,387	-	46,840,852
Corporate bonds	1,000	-	-	-	1,000
Other liabilities	-	-	-	3,316,322	3,316,322
Lines of credit	-	519,599	-	-	519,599
Shareholders' funds	-	-	-	8,379,804	8,379,804
<b>Total liabilities and shareholders' funds</b>	<b>23,800,570</b>	<b>29,593,125</b>	<b>116,387</b>	<b>11,696,126</b>	<b>65,206,208</b>
<b>Interest rate sensitivity gap</b>	<b>(14,822,995)</b>	<b>(15,092,887)</b>	<b>24,409,705</b>	<b>5,506,177</b>	
<b>At 31 December 2000</b>					
Total assets	17,383,660	16,679,132	17,790,874	21,474,827	73,328,493
Total liabilities and shareholders' funds	(37,108,609)	(18,151,031)	(2,108,732)	(15,960,121)	(73,328,493)
<b>Interest rate sensitivity gap</b>	<b>(19,724,949)</b>	<b>(1,471,899)</b>	<b>15,682,142</b>	<b>5,514,706</b>	



## 35. LIQUIDITY RISK MANAGEMENT

The Group manages the liquidity structure of assets, liabilities and commitments so that cash flows are appropriately matched to ensure that all funding obligations are met when due. Banking operations are such that mismatch of assets and liabilities according to their maturity profiles cannot be avoided. However, management ensures that the mismatch is controlled in line with allowable risk levels. Liquidity is managed on daily basis both at the parent company and subsidiary companies and incorporates known and unanticipated cash needs. The table below analyses maturity profiles of assets and liabilities of the Group based on the remaining period up to 31 December 2001 to the contractual maturity date.

	Up to 1 month KShs'000	1-12 months KShs'000	Over 1 year KShs'000	Total KShs'000
<b>ASSETS</b>				
Cash and balances with Central Banks	6,936,682	-	-	6,936,682
Cheques and items for clearing	78,836	-	-	78,836
Government securities	561,628	2,850,104	6,865,286	10,277,018
Deposits and balances with other banking institutions	2,739,605	-	-	2,739,605
Investments	-	-	34,739	34,739
Tax recoverable	-	495,547	-	495,547
Loans and advances to customers (net)	5,676,342	11,650,134	17,660,806	34,987,282
Other assets	-	5,361,630	-	5,361,630
Intangible assets	-	-	6,906	6,906
Property and equipment	-	-	2,871,990	2,871,990
Deferred tax	-	-	1,415,973	1,415,973
<b>TOTAL ASSETS</b>	<b>15,993,093</b>	<b>20,357,415</b>	<b>28,855,700</b>	<b>65,206,208</b>
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>				
Deposits and balances from other banking institutions	2,231,114	3,917,517	-	6,148,631
Other customer deposits	21,568,456	25,156,009	116,387	46,840,852
Other liabilities	-	3,316,322	-	3,316,322
Lines of credit	-	519,599	-	519,599
Corporate bonds	1,000	-	-	1,000
Shareholders' funds	-	-	8,379,804	8,379,804
<b>Total liabilities and shareholders' funds</b>	<b>23,800,570</b>	<b>32,909,447</b>	<b>8,496,191</b>	<b>65,206,208</b>
<b>Net liquidity gap</b>	<b>(7,807,477)</b>	<b>(12,552,033)</b>	<b>20,359,509</b>	<b>-</b>
<b>At 31 December 2000</b>				
Total assets	32,952,847	18,920,707	21,454,939	73,328,493
Total liabilities and shareholders' funds	(44,480,490)	(19,218,128)	(9,629,875)	(73,328,493)
<b>Net liquidity gap</b>	<b>(11,527,643)</b>	<b>(297,421)</b>	<b>11,825,064</b>	<b>-</b>

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**36. EMPLOYEES**

The number of employees of the Group as at the end of the year was 3,050 (2000 - 3,493).

**37. COMPARATIVES**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, the comparative figures have been adjusted to take into account the effect of the prior year adjustments.

**38. INCORPORATION**

The Bank is incorporated in Kenya under the Companies Act.

**39. CURRENCY**

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

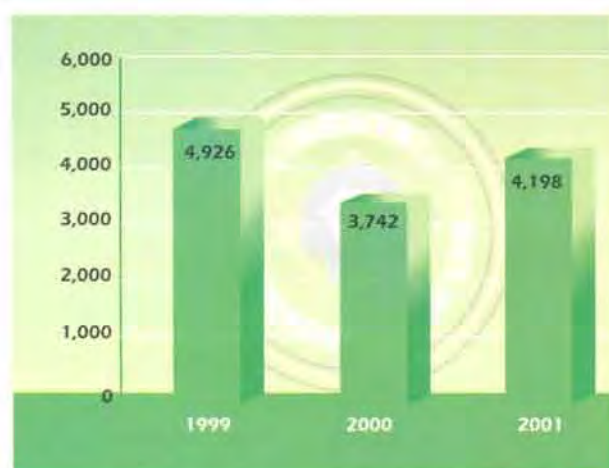




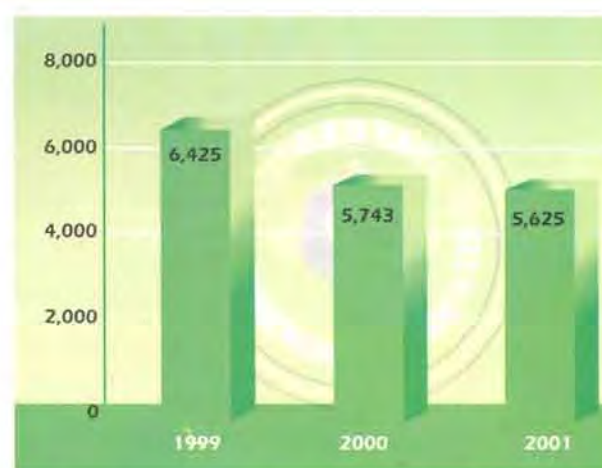
**Pre-tax Group Results**  
Kshs. millions



**Group Net Interest Income**  
Kshs. millions



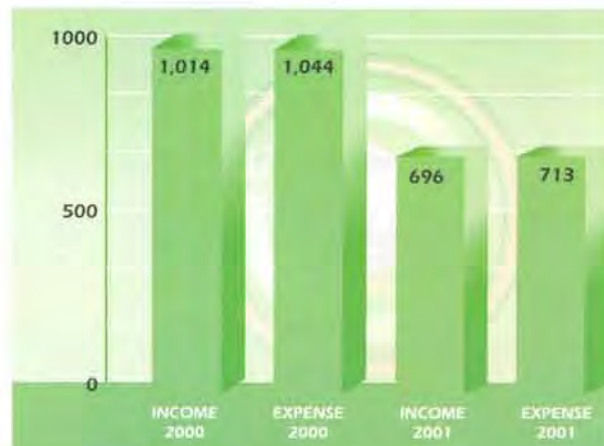
**Group Non Interest Income**  
Kshs. millions



**Group Total Operating Expenses**  
Kshs. millions



**Group Provisions Charge**  
Kshs. millions



**Group Exceptional Items**  
Kshs. millions



**Capital Adequacy**  
Kshs. millions



**Liquidity Ratio**  
Kshs. millions



## Group Information

### Principal Place of Business

Kencom House  
Moi Avenue  
P O Box 48400  
Nairobi

### Registered Office

Kencom House  
P. O. 48400  
Nairobi

### Solicitors

Various  
A list is available at the Bank

### Company Secretary

Mr. K D Malakwen  
P O Box 48400  
Nairobi

### Company Auditors

Ernst & Young  
Alico House  
P O Box 44286  
Nairobi

### Subsidiary Companies

Kenya Commercial Finance Company  
  
Savings and Loan Kenya Limited  
  
Kencom House Limited  
  
Kenya Commercial Bank (Tanzania) Limited  
  
Notcutt Longaroni & Co (Kenya) Limited  
  
Kenya Commercial Bank Nominees Limited

[illegible]



## Proxy Form

31st December 2001

### THE SECRETARY

Kenya Commercial Bank Limited  
8th Floor, Kencom House, Moi Avenue  
P O Box 48400, Nairobi

I/We

Shares A/c No:

of P O Box:

Being a Member/Members of the above named company, hereby appoint:

of P O Box:

or failing him, the Chairman of the Meeting, as my/our proxy to vote for me/us and on my/our behalf at the 31st Annual General meeting of the Company to be held on the 31st May, 2002 and at any adjournment thereof.

Signed this:

day of:

2002

Signature(s):

NOTE: In case of a Member being a corporation, the Proxy Form must be under its common seal or under the hand of an officer or attorney duly authorised in writing. A proxy need not be a member of the Company.



31 Disemba 2001

**KATIBU**

Benki ya Kenya Commercial

Ghorofa ya 8, Kencom House, Moi Avenue

Sanduku la Posta 48400, Nairobi

Mimi/Sisi \_\_\_\_\_

Nambari ya Akaunti ya Mwenyehisa: \_\_\_\_\_

Sanduku la Posta: \_\_\_\_\_

nikiwa/tukiwa Mwanachama/Wanachama wa Kampuni hii ninamteua/tunamteua

\_\_\_\_\_

wa Sanduku la Posta: \_\_\_\_\_

au akishindwa, Mwenyekiti wa Mkutano, kama mwakilishi wangu/wetu kupiga kura kwa niaba yangu/yetu katika Mkutano Mkuu wa 31 wa Mwaka wa Kampuni utakaofanyika tarehe 31 Mei 2002 au pale utakapoahirishwa.

Imewekwa sahihi tarehe: \_\_\_\_\_

Mwezi wa: \_\_\_\_\_

2002

Sahihi: \_\_\_\_\_

**KUMBUKA:**

Iwapo Mwanachama ni Shirika, Fomu ya Uwakilishi ni lazima iwe na mhuri wake au seal au iwe na afisa au wakili aliyeidhinishwa kwa maandishi. Si lazima mwakilishi awe mwanachama wa Kampuni.





