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ANNUAL REPORT *and* FINANCIAL STATEMENTS 2002

# **KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2002**

### **Bank Information**

#### **Principal Place of Business**

Kencom House

Moi Avenue

P. O. Box 48400

00100 Nairobi GPO

#### **Registered Office**

Kencom House

P. O. Box 48400

00100 Nairobi GPO

#### **Solicitors**

Various

A list is available at the Bank

#### **Company Secretary**

Mr. K.D. Malakwen

P. O. Box 48400

00100 Nairobi GPO

#### **Company Auditors**

Ernst & Young

Kenya Re- Towers, Upperhill

Off Ragati Road

P. O. Box 44286

00100 Nairobi GPO

# ANNUAL REPORT & FINANCIAL STATEMENTS 2002

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## Notice of the 32nd Annual General Meeting

NOTICE IS HEREBY GIVEN that the 32ND ANNUAL GENERAL MEETING OF THE KENYA COMMERCIAL BANK LIMITED will be held at the Plenary Hall, Kenyatta International Conference Centre, Harambee Avenue on Friday, 13th June, 2003 at 11 a.m. when the following will be transacted, namely:-

### Agenda

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 Auditors' Report on the Consolidated Financial Statements for the year ended 31st December, 2002.
  - (b) **Report and Financial Statements for the year ended 31st December, 2002**  
To receive and consider the Report of the Directors and Consolidated Financial Statements for the year ended 31st December, 2002 together with the Auditors' Report thereon.
  - (c) **Dividend**  
To note that the Board does not recommend the payment of a dividend for the year 2002.
  - (d) **Election of Directors**
    - (i) In accordance with Article 101 of the Company's Articles of Association, the Board appointed Mr. Terence Michael Davidson to fill a casual vacancy on the Board and as Managing Director. Being eligible, the said Mr. Terence Michael Davidson, offers himself for re-election.
    - (ii) In accordance with Article 101 of the Company's Articles of Association, the Board appointed Mr. Joseph Magari to fill a casual vacancy on the Board. Being eligible, the said Mr. Joseph Magari offers himself for re-election.
    - (iii) In accordance with Article 94 of the Company's Articles of Association, Mr. Benjamin Kipkech Kipkulei, Mrs. Susan Outa Mudhune, Mr. William Rubaara Gitobu and Professor Francis Frederick Ojany, retire by rotation from the Office as Directors of the Company and, being eligible, offer themselves for re-election respectively.
  - (e) **Remuneration of the Directors**  
To authorize the Board to fix the remuneration of the Directors.
  - (f) **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.
  - (g) **Remuneration of the Auditors**  
To authorize the Directors to fix the remuneration of the Auditors.
3. **Special Business**  
**Amendment of the Company's Articles of Association**  
As the Nairobi Stock Exchange moves into the implementation of the Central Depository System (CDS), listed companies will need to amend their Articles of Association to embrace electronic records as evidence of ownership in compliance with the Central Depository Act 2000. It is proposed that the Company's Articles of Association be amended by insertion of the following additional Article No 137:  
  
137(a) "The provisions of the Central Depositories Act 2000 (CD Act) as amended or modified from time to time shall apply to the Company to the extent that any securities of the Company are in part or in whole immobilized or dematerialized or are required by the regulations or rules issued under the CD Act to be immobilized or dematerialized in part or in whole, as the case may be. Any provisions of these Articles that are inconsistent with the CD Act or any regulations or rules issued or made pursuant thereto shall be deemed to be modified to the extent of such inconsistencies in their application to such securities. For the purposes of these Articles of Association immobilization and dematerialization shall be construed in the CD Act".  
  
137(b) "Where any securities of the Company are forfeited pursuant to these Articles of Association after being immobilized or dematerialized, the Company shall be entitled to transfer such securities to a securities account designated by the directors for this purpose".
4. **Any Other Business**  
To transact any other business which may be properly transacted at an Annual General Meeting.

Dated at Nairobi this 27th day of February, 2003  
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.



## RIPOTI YA MWAKA NA TAARIFA ZA KIFEDHA 2002

### Ilani ya Mkutano Mkuu wa 32

ILANI INATOLEWA KWAMBA MKUTANO MKUU WA 32 WA BENKI YA KENYA COMMERCIAL utafanywa katika ukumbi wa Plenary katika Kenyatta International Conference Centre katika Harambee Avenue, siku ya Jumatatu tarehe 13 mwezi Juni mwaka wa 2003 kuanzia saa tano asubuhi wakati ambapo shughuli zifuatazo zitekelezwa.

#### Ajenda.

1. Kujumuika kwa mkutano.  
Kusomwa kwa ilani iliyoitisha mkutano na kuhainisha ikiwa kuna idadi ya watu wa kutosha kuendeleza mkutano.
2. Shughuli za kawaida.
  - (a) Kusomwa kwa Ripoti ya wahasibu wakaguzi kuhusu akaunti ya pamoja na mizania ya benki hii kwa mwaka uliomalizika tarehe 31 mwezi Disemba mwaka wa 2002.
  - (b) Ripoti na akaunti kwa mwaka uliomalizika tarehe 31 mwezi disemba mwaka wa 2002.  
Kupokea na kuzingatia ripoti ya wakurugenzi na taarifa ya akaunti ya pamoja na mizania ya benki kwa mwaka uliomalizika tarehe 31 mwezi Disemba mwaka wa 2002 pamoja na ripoti ya wakaguzi wa hesabu.
  - (c) Mgao wa faida.  
Kubaini kwamba halmashauri ya wakurugenzi haipendekezi malipo ya mgao wa faida kwa mwaka wa 2002.
  - (d) Uchaguzi wa wakurugenzi.
    - (i) Kuambatana na kipengele 101 cha masharti ya benki, Halmashauri ya wakurugenzi ilimteua Bw Terence Michael Davidson kujaza nafasi ya muda katika halmashauri ya wakurugenzi na pia kuwa mkurugenzi mkuu. Kwa vile anastahili Bw Terence Michael Davidson amejitolea achaguliwe tena kama mkurugenzi.
    - (ii) Kuambatana na kipengele 101 cha masharti ya benki Halmashauri ya wakurugenzi ilimteua Bwana Joseph Magari kujaza nafasi ya muda katika halmashauri ya wakurugenzi, kwa vile anastahili Bw Joseph Magari amejitolea achaguliwe tena kama mkurugenzi.
    - (iii) Kuambatana na kipengele 94 cha masharti ya Benki, Bwana Benjamin Kipketich Kipkulei, Bi Susan Outa Mudhune, Bwana William Ruhaara Gitobu na Professa Fredrick Ojany, wanastaafu kwa zamu kutoka afisini kama wakurugenzi wa benki hii, na kwa vile wanastahili, wamejitolea kutaka wachaguliwe tena.
  - (e) Malipo ya wakurugenzi.  
Kuidhinisha halmashauri ya wakurugenzi iweke viwango vya malipo ya wakurugenzi.
  - (f) Uteuzi wa wakaguzi wa hesabu.  
Kuteua tena kampuni ya Messrs Ernst & Young kuwa wakaguzi wa hesabu wa benki hii hadi kumalizika kwa mkutano mkuu wa mwaka ujao.
  - (g) Malipo ya wakaguzi wa hesabu.  
Kuidhinisha halmashauri ya wakurugenzi kuweka viwango vya malipo kwa wakaguzi wa hesabu.
3. Shughuli Maalum.  
Huku Soko la Hisa la Nairobi likielekea kutekeleza mpango wake wa kuweka tarakinishi kwa huduma za uuzaji na ununuzi wa hisa, Kampuni zote zilizoondheshwa katika soko hilo zitahitajika kufanyia marekebisho masharti yake ili kuzingatia utumiaji wa tarakinishi katika ulifadhi wa tarakimu zake kuambatana na sheria ya mwaka wa 2000 kuhusu mpango huo. Inapendekezwa kwamba masharti ya benki hii yafanyiwe marekebisho na kuwekwa kwa kipengele cha ziada nambari 137 kifuatacho.

137(a) "Sheria ya mwaka wa 2000 kuhusu mpango wa utumiaji wa tarakinishi kuhadithia tarakimu-CDS kama inavyofanywa marekebisho mara kwa mara itatumika katika benki hii hadi rasilimali zote za benki hii zinatumwa au kuuzwa kwa sehemu au kwa pamoja au zinahitajika chini ya masharti au kanuni zinazotolewa chini ya sheria ya CDS kutumiwa au kuuzwa kwa pamoja kama itokeavyo. Vipengele vyovyote vya sheria hii ambavyo haviambatani na sheria hii ya CDS au masharti yoyote yanayotolewa au kufuatiliwa baadaye yatachukuliwa kuwa yamefanywa marekebisho hadi kuyaambatanisha na utumiaji wake kuhusu rasilimali kama hizo. Hii ni kwa majali ya kuhakikisha kwamba masharti haya ya kampuni yanajumuishwa katika sheria ya CDS."

137(b) "Pole rasilimali zozote zote za kampuni zinatupiliwa mbali, kuhitiliwa kwa masharti ya kampuni baada ya kufanywa marekebisho, kampuni ina haki ya kuhamisha rasilimali kama hizo katika akaunti ya rasilimali ambayo imetengwa na wakurugenzi kwa shughuli hii."
4. Shughuli nyingine yoyote.  
Kutekeleza shughuli yoyote nyingine ambayo inaweza kutekelezwa wakati wa mkutano mkuu wa mwaka.

Tarehe 27 mwezi Februari mwaka wa 2003  
KWA AMRI YA HALMASHAURI YA WAKURUGENZI.

K.D. MALAKWEN-KATIBU.

Kumbuka: Mwanachama ambaye amaruhusiwa kushiriki na kupiga kura katika mkutano uliotajwa hapo juu amaruhusiwa kudhuhuria yeye mwenyewe, kuakalishwa na mtu mwingine au wakili na kama ni shiriki pia linaweza kuwakalishwa na mwakilishi aliyetuliwa kuambatana na kipengele no.76 cha benki hii. Mwalilishi kama huyo si lazima awe mwanachama wa benki hii. Fomu ya uakalishi imeunganishwa hapa ni ikiizwa lazima ipelekwe au kuwasilishwa kwa njia ya Posta kwa afisi ya msajili wa benki hii, Ofisi ya nane, Kencom House, Moi Avenue, Nairobi. Ili ipokewe masaa 48 kabla ya wakati wa kufanyika kwa mkutano.



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## KCB BOARD of DIRECTORS



Benjamin Kipkulei  
Chairman



Terry Davidson  
Chief Executive



Albert Ruturi  
Chief Operating Officer



Kiprop Malakwen  
Company Secretary



Prof. Francis Ojany  
Director



Joseph Magari  
Director



Esther Koimett  
Director



Sarah Wainaina  
Director



Susan Mudhune  
Director



William Gitobu  
Director



Charles Barongo  
Director



Amb. Chirau Mwakwere  
Director



## DIRECTORS *of the* SUBSIDIARIES



**Anthony Ondiegi**  
MD-KCB(T)



**B.C. Mwenda**  
Director-KCB(T)



**Nassir Arte**  
Director-KCB(T)



**B.A. Omollo**  
Director-Savings & Loan



**Prof. G.K. Misoi**  
Director-Savings & Loan



**Francis Koske**  
Director-Savings & Loan



**Prof. Jeremiah Musuva**  
Director-Savings & Loan



**Prof. Nzele Nzomo**  
Director-Savings & Loan

## SENIOR MANAGEMENT



**Alex Chumo**  
Director-Information Technology



**Alban Mwendar**  
Director-Human Resources



**John Kiarie**  
Director-Risk Management



**Bazra Tabulo**  
Director-Corporate & Correspondent Banking



**Stanley Towett**  
Director-Audit



**Catherine Njoroge**  
Director-Retail Banking



**Samuel Kimani**  
Financial Controller



**Fred Mutiso**  
Director-Strategy & Change Programme



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## Chairman's Review

I present the 2002 Financial Statements with some disappointment as they reflect a large loss of Kshs 3 billion. However, I also believe that the steps that we have taken will stem any further losses from our historical non performing loan book, which will position us for growth and enable us to focus on rebuilding the bank. Hence I anticipate 2003 to be a watershed year where the bank returns to profitability.

As you will notice from the income statement, the Kshs 3 billion loss that we have reported is solely the result of provisions of Kshs 4.9 billion and exceptional one-off charges of Kshs 884 million. We took additional provisions of Kshs 4.4 billion against the legacy loan portfolio and Kshs 500 million against loans booked in the past three years. The major items in the one-off charges are Kshs 397 million relating to interest earned but not collected for the years 1992 to 1997, Kshs 232 million relating to the voluntary early retirement program and Kshs 152 million relating to a write-off of expenses incurred in the core banking system. It's encouraging to note that our normal business stood up well in the face of declining margins and increasing competition.

Overall operating costs were stable at Kshs 5.6 billion and should record a decline in 2003, as we reap the benefits of our voluntary early retirement schemes and better expense management. The number of employees reduced to 2,808 which is now far closer to the staffing levels of our major competitors.

Recent political changes in the country bode well for both the business community and your bank. We anticipate that relations with the donor community will soon be back to normal and that balance of payments support and developmental investment will flow into the country. In addition we are optimistic that the new Government will create an enabling environment that is conducive to investment and growth. Your bank, with its large branch network and strong brand awareness should be a major beneficiary of these positive developments. In addition the current focus on corporate governance and strengthening of the judiciary should result in far more success in getting many of our non performing loans repaid.

The Management team clearly understands their priorities to grow the business, enhance the customer base, improve balance sheet management and maximize repayments from the non performing debt portfolio. These priorities will get renewed impetus from our new Chief Executive, Terry Davidson. Terry was appointed on January 17, 2003 to replace Gareth George who retired from the bank. Terry was born in Kenya and has spent a large part of his life in this



Benjamin Kipkulei





## Chairman's Review

country both during his formative years and working career. He has broad banking experience having worked with Citibank in various capacities and in several locations around the world for over 30 years. I am optimistic that Terry will be able to re-energize the bank and put it back onto a growth trajectory. Other changes to your board are detailed in the Directors' Report.

KCB's community support programme continued in earnest in the year. Over 90 teams took part in the KCB Community Day early 2002 while about 120 teams participated in the Community Week later in the year. This is evidence of the bank's commitment to supporting the less fortunate members of the community as part of its Corporate Social Responsibility. This initiative shall continue to be strengthened to position your bank as a caring and responsible corporate citizen.

Your bank is committed to continuity of its customer focus strategy. We recently launched a new corporate identity that encompasses a new culture of commitment to quality service and innovative products. Part of this process necessitated the training of all of our staff through a two day team-building workshop and over the next two years we intend to revamp all of our branches in the new corporate colours. This major initiative is designed to provide a platform for all of our stakeholders to look to the future and to be optimistic that we will be able to rebuild KCB into a world-class bank, a bank we can all be proud of.

I would like to thank the management and staff of KCB for their efforts in 2002 and look forward with anticipation to a great 2003.

Kipande House-Nairobi



Benjamin Kipkulei

Chairman



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## Taarifa ya Mwenyekiti

**N**awasilisha matokeo ya kifedha ya mwaka wa 2002 kwa masikitiko kadiri kwa sababu yaonyesha hasara kubwa ya shilingi billioni tatu. Hata hivyo naamini pia kwamba hatua ambazo tumechukua zitazuia hasara zaidi kutoka kwa mikopo yetu ambayo hailipwi na kutuweka katika nafasi nzuri ya maendeleo na kutuwezesha kuzingatia uimarishaji wa benki hii. Kutokana na hayo natarajia mwaka wa 2003 wenye ufanisi ambapo benki hii itanza tena kupata faida.

Kama mtakavyofahamu kutokana na taarifa ya mapato, hasara hii ya shilingi billioni tatu ambayo tumetangaza inahusu kutengwa kwa shilingi billioni 4.9 na malipo mengine ya mara moja ya shilingi milioni 884. Tulinenga shilingi billioni 4.4 zaidi za kusimamia mikopo yote ambayo hailipwi na shilingi milioni 500 za mikopo iliyochukuliwa katika muda wa miaka mitatu iliyopita. Maswala maalum katika malipo ya mara moja ni shilingi milioni 397 zinazohusiana na riba iliyopatikana lakini haikuweza kukusanywa kuanzia mwaka wa 1992 hadi mwaka wa 1999. Shilingi milioni 232 zinahusu mpango wa kustaafu mapema kwa wafanyikazi kwa hiari na shilingi milioni 152 kuhusiana na gharama ya huduma muhimu za benki.

Jambo la kufurahisha ni kwamba shughuli zetu za kawaida ziliendelea kuwa thabiti licha ya kupungua kwa mapato na kuongezeka kwa mashindano. Gharama zote za jumla za shughuli zake zilikuwa thabiti katika kiwango cha shilingi billioni 5.6 na zinapasa kupungua katika mwaka wa 2003 huku tunapoendelea kunufaika na mpango wa kustaafu mapema kwa wafanyikazi kwa hiari na usimamizi bora wa matumizi ya fedha. Idadi ya wafanyikazi ilipungua hadi 2,808 ambayo sasa iko karibu na idadi ya wafanyikazi katika washindani wetu wakuu.

Mabadiliko ya kisiasa ya hivi majuzi hapa nchini ni ya kuvutia kwa wafanyibiashara na benki yenu. Tunatarajia uhusiano kati ya Kenya na wafadhili kurejea katika hali yake ya kawaida na kuanza tena kutolewa kwa misaada ya kigeni na uwekaji rasilimali hapa nchini. Pamoja na hayo tuna matumaini kwamba serikali mpya itabuni mazingira yafaayo kwa uwekaji rasilimali na maendeleo. Kutokana na mtandao wake mkubwa wa matawi na kufahamika vyema benki yenu inapaswa kunufaika sana na matukio haya.

Zaidi ya hayo hatua ya sasa ya kutilia maanani zaidi usimamizi wa kampuni na kuimarishwa kwa idara ya sheria inapaswa kuleta manufaa zaidi katika juhudi zetu za kulipwa mikopo ambayo haijalipwa.





## RIPOTI YA MWAKA NA TAARIFA ZA KIFEDHA 2002

### Taarifa ya Mwenyekiti

Wasimamizi wa benki hii wanaelewa barabara maswala yanayostahili kutiliwa maanani zaidi ili kuimarisha biashara, kupata wateja zaidi, kuimarisha usimamizi wa mizania na kutilia mkazo zaidi ulipaji wa mikopo ambayo haijalipwa kwa muda mrefu. Maswala hayo yatapelewa uzito na mkurugenzi mkuu mpya Terry Davidson. Terry aliteuliwa tarehe 17 mwezi Januari mwaka huu wa 2003 kuchukua mahala pa Gareth George ambaye alistaafu kutoka kwa benki hii. Terry alizaliwa nchini Kenya na amekaa kwa muda mrefu hapa nchini akitekeleza shughuli zake na akifanya kazi. Ana ujuzi mkubwa katika maswala ya benki kwani alihudumu katika CitiBank katika nyadhifa mbalimbali na sehemu mbalimbali kote duniani kwa zaidi ya miaka 30. Nina matumaini makubwa kuwa Terry ataiimarisha benki hii na kuiwezesha kuanza tena kupata faida. Mabadiliko mengine katika halmashauri ya wakurugenzi wenu yanaelezwa katika taarifa ya wakurugenzi.

Mpango wa Benki ya Kenya Commercial wa kusaidia jamii uliendelea kuimarika mwaka wa 2002. Zaidi ya makundi 90 yalishiriki katika siku ya kijamii ya Benki ya Kenya Commercial mapema mwaka wa 2002 na karibu makundi 120 yakashiriki katika wiki ya kijamii ya Benki ya Kenya Commercial baadaye mwaka huo. Hii ni dhihirisho ya kujitolea kwa benki hii kusaidia watu wasiobahatika katika jamii kama sehemu ya wajibu wake wa kusaidia jamii. Juhudi hizo zitaendelea kuimarishwa ili kuifanya benki yenu kuwa kampuni inayozingatia na kushughulikia masilahi ya jamii.

Benki yenu imejitolea kuendeleza utaratibu wake wa kutilia maanani zaidi wateja. Hivi majuzi tulizindua sura mpya ya benki ambayo inajumuisha utamaduni mpya wa kujitolea kuboresha huduma kwa wateja. Sehemu ya shughuli hii ililazimisha kutolewa kwa mafunzo kwa wafanyikazi wetu kupitia kwa warsha ya siku mbili ya kuthibiti umoja miongoni mwao na katika muda wa zaidi ya miaka miwili iliyayo tunadhamiria kuimarisha matawi yetu yote kwa rangi mpya za benki hii. Juhudi hii kubwa inalenga kuwavutia wahusika wetu wote kuhusu hali ya baadaye na kuwa na matumaini kwamba tutaweza kuimarisha Benki ya Kenya Commercial kuwa benki ya ngazi za kimataifa ambayo tutajivunia sisi wote.

Ningependa kuwashukuru wasimamizi na wafanyikazi wa Benki ya Kenya Commercial kwa juhudi zao katika mwaka wa 2002 na kuwatakiwa mwaka wa 2003 wenye ufanisi.

**Benjamin Kipkulei**  
**Mwenyekiti**

KCB Sponsored Race Day



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## Chief Executive's Review

I would like to start off by briefly introducing myself and also to say how happy I am for the opportunity to serve as Chief Executive of Kenya Commercial Bank. I worked for Citibank in Kenya for over 20 years and I am very familiar with the Kenyan economy and the various players in the financial sector. I am a past Chairman of the Kenya Bankers Association and past director of the Capital Markets Authority.

The 2002 results are disappointing, but in my view they also offer us the opportunity to close a chapter by correctly provisioning against the historical non performing loans and cleaning up the balance sheet by writing off any questionable items. I believe that we have successfully done this. We went through a detailed analysis to identify the correct level of provisioning against our legacy loans, which we then took in 2002. As a consequence I do not expect any losses from this portfolio to negatively impact future financial results.

Over the course of the next few months all the non performing loans in the bank will be segregated into a separate support unit and we will run this book as a stand-alone financial center. I am optimistic that with a more efficient judiciary and better economic prospects for Kenya, we should see positive progress in reducing the size of this non performing book. Recent indications support this optimism as we have seen significant efforts by debtors to reach an agreement with the bank.

By segregating out the non performing loans it gives us the opportunity to put in place plans to grow the 'good' or performing part of the bank, where the majority of our people and infrastructure reside. I see this as a critical part of the bank's future. Good progress has already been made in this regard.

In early April, we launched a new KCB Brand, complete with a new logo, colours and employee culture. This was an important step towards repositioning the bank and giving it a new beginning. The next step is to ensure our service reflects the new brand personality. Since the beginning of 2003 we have trained all our staff through a two day teambuilding and awareness exercise. This will then be followed by a two-year initiative to refurbish all our branches so that they can assume an impressive modern look replicated across the entire network. We shall also continue to expand our QuickServe ATM network to reach as many of our customers as possible. Currently, we have 55 outlets in various parts of the country, the largest network of any bank so far.



Terry Davidson





## Chief Executive's Review

We anticipate this to be an ongoing process, which will be enhanced through further staff training and customer sales campaigns aimed at increasing our overall level of customers and business. It's important that we live the new brand and deliver on our brand essence that 'Every day and in every way we are getting better and better'.

We in management recognize the immensity of the task ahead of us. Our challenge is to show continual and consistent improvement to our shareholders and to ultimately transform KCB into a world-class business. We must avoid the mistakes of the past and consistently outperform the competition. This will require a more pro-active focus on customer needs and solutions and disciplined management of our expenses. I am confident that we have the ability to achieve this.

Terry Davidson

Chief Executive

Treasury Square-Mombasa



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## RIPOTI YA MWAKA NA TAARIFA ZA KIFEDHA 2002

### Taarifa ya Mkurugenzi Mkuu

Ningependa kuanza kwa kujitambulisha na kusema kwamba nina furaha kubwa kupata fursa ya kuhudumu kama Mkurugenzi Mkuu wa Benki ya Kenya Commercial. Nilifanya kazi katika benki ya Citibank hapa nchini kwa muda wa zaidi ya miaka 20 na ninafahamu barabara maswala ya uchumi wa Kenya na wahusika mbalimbali katika sekta ya kifedha. Nimehudumu pia nikiwa Mwenyekiti wa Chama Cha Wenye Shughuli za Benki cha Kenya na ni mkurugenzi wa zamani wa Halmashauri ya Masoko ya Hisa.

Matokeo ya mwaka wa 2002 yanasikitisha, lakini kwa maoni yangu matokeo hayo pia yanatupatia fursa ya kufunga ukusara wa matokeo mabaya kwa kutenga ipasavyo mikopo yetu ambayo haijalipwa kwa muda mrefu na kuimarisha hesabu zetu kwa kufutia mbali mikopo yote tunayoshuku ulipaji wake. Nina imani kwamba tumefanikiwa kufanya hivyo. Tulifanya ukadiriaji kabambe wa kutambua kiwango kinachofaa cha kutengea mikopo hiyo, hatua ambayo tulitekeleza mwaka wa 2002. Kutokana na hayo sitarajii hasara yoyote katika mikopo hiyo kuathiri matokeo yetu ya baadaye ya kifedha.

Katika muda wa miezi kadhaa ijayo mikopo yote ambayo hailipwi katika benki hii itatengwa na kuwekwa katika kitengo tofauti na tutasimamia kitengo hiki kama kituo cha mikopo isiyoshughulikiwa.

Natarajia kwamba kupitia kwa idara thabiti ya kisheria na matumaini ya kuimarika kwa uchumi wa Kenya tutapata ufanisi katika kupunguza kiwango cha mikopo ambayo hailipwi.

Ishara za hivi majuzi zadhihirisha matumaini haya kwani tumeshuhudia juhudi za baadhi ya wadeni wetu za kufikia makubaliano na benki hii kuhusu ulipaji wa mikopo yao.

Kwa kuitenganisha mikopo ambayo hailipwi tutapata fursa ya kuratibu mipango ya kuimarisha sehemu ya benki inayofanya vyema ambako watu wetu wengi na muundo msingi wetu upo. Naichukulia hatua hii kuwa sehemu muhimu ya hali ya baadaye ya benki hii. Maendeleo makubwa yamepatikana kuhusiana na haya.

Mapema mwezi Aprili tulianzisha sura mpya ya Benki ya Kenya Commercial yenye nembo mpya, rangi na mwenendo mpya wa wafanyikazi. Hii ilikuwa hatua muhimu katika juhudi za kuimarisha benki hii na kuipatia mwanzo mpya. Hatua itakayofuata itakuwa kuhakikisha kwamba huduma zetu zinadhihirisha sura mpya ya benki hii. Tangu mwanzo wa mwaka wa 2003





## RIPOTI YA MWAKA NA TAARIFA ZA KIFEDHA 2002

### Taarifa ya Mkurugenzi Mkuu

tumetoa mafunzo kwa wafanyikazi wetu kupitia kwa shughuli ya siku mbili ya kuimarisha umoja miongoni mwao na kuwahamasisha ipasavyo.

Hii itafuatiwa na mpango wa miaka miwili wa kuimarisha matawi yetu yote ili yaweze kupata sura mpya. Tutaendelea pia kupanua huduma zetu za mitambo ya kutoa pesa (ATM) ili kuweza kuwahudumia wateja wetu wengi iwezekanavyo. Kwa sasa tuna vituo 55 vya ATM katika sehemu mbalimbali hapa nchini, huu ukiwa ndio mtandao mkubwa zaidi wa vituo hivyo katika benki yoyote ile hapa nchini kufikia sasa.

Tunatarajia kwamba shughuli hii itaendelea na kuimarishwa zaidi kupitia kwa mafunzo kwa wafanyikazi na kampeini za kuwahamasisha wateja kuhusu huduma zetu kwa lengo la kuongeza idadi ya wateja wetu na kuimarisha biashara. Ni muhimu kuzingatia sura hii mpya na kudhihirishia wateja kuhusu maudhui ya sura yetu mpya kwamba 'Kila siku na kwa kila njia tunaendelea kuimarika zaidi.'

Sisi katika usimamizi wa benki hii tunatambua jukumu kubwa lililoko mbele yetu. Changamoto kubwa kwetu ni kuwadhihirishia wenyehisa wetu kwamba tunathibiti na kuimarisha Benki ya Kenya Commercial na hatimaye kuifanya kuwa benki ya ngazi za kimataifa.

Sharti tuepuke makosa ya zamani na kuwashinda wapinzani wetu. Hii itahitaji kutilia maanani zaidi mahitaji ya wateja na suluhisho kwa maswala mbalimbali pamoja na usimamizi thabiti wa matumizi ya kifedha. Ninaamini kwamba tuna uwezo wa kutimiza haya.

**Terry Davidson**  
**Mkurugenzi Mkuu**

Staff Training-Living the Brand



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## Report of the Directors

The directors submit their report and the audited financial statements for the year ended 31 December 2002 which show the state of the affairs of the Bank and its subsidiary companies.

### 1. Principal Activities

The Bank continues to offer corporate and retail banking services. The activities of the subsidiary companies are those recorded in Note 5 to the financial statements.

### 2. Group Results

The Group's results are set out on page 26.

### 3. Bank Results

The Bank's results are set out on page 28.

### 4. Dividend

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2002.

### 5. Reserves

The reserves of the Group and the Bank are set out on page 29 & 30 respectively and note no. 19.

### 6. Directors

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

Mr. B.K. Kipkulei	-	Chairman
Mr. T. Davidson	-	Appointed on 17 January 2003
Mr. G. A. George	-	Retired on 17 January 2003
Ms. S. W. Wainaina		
Mr. L.R. Otundo	-	Retired on 31 May 2002
Dr. K. A. Lang'at	-	Retired on 31 May 2002
Mrs. S. Mudhune		
Mr. W.R. Gitobu		
Mr. M. Mwachofi	-	Retired on 31 August 2002
Prof. F.F. Ojany		
Mr. A.J.K. Ruturi		
Mr. J. Kinyua	-	Appointed on 31 August 2002 and retired on 3 January 2003
Amb. C. Mwakwere	-	Appointed on 31 May 2002
Mr C. Barongo	-	Appointed on 31 May 2002
Mrs. E. Koimett	-	Appointed on 31 May 2002
Mr. J. Magari	-	Appointed on 3 January 2003



## Report of the Directors

### 7. Audit Committee

The Group's audit committee consists of:-

Mr. C. Barongo	- Chairman
Mr. B.K. Kipkulei	
Prof. G.K. Misoi	
Prof. F.F. Ojany	
Mr. B.C. Mwenda	
Mrs. G. Biamah	- Secretary

### 8. Auditors

Ernst & Young have expressed their willingness to continue in office in accordance with the terms of Section 159 (2) of the Companies Act, and subject to Section 24(1) of the Banking Act.

By Order of the Board

MR. K.D. MALAKWEN  
Secretary

27th February 2003



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## Ripoti ya Wakurugenzi

Wakurugenzi wanawasilisha ripoti yao na taarifa za kifedha zilizokaguliwa za kipindi cha mwaka kilichomalizika tarehe 31 mwezi Desemba mwaka wa 2002 ambazo zinazonyesha hali ya shughuli za benki na makampuni washirika wake.

**1. Majukumu kuu.**

Benki inaendelea kutoa huduma kwa makampuni na watu binafsi. Shughuli za makampuni washirika zimetangazwa katika kipengele cha 5 cha taarifa za kifedha.

**2. Matokeo ya kundi.**

Matokeo ya kundi yametangazwa katika ukurasa wa 26.

**3. Matokeo ya benki.**

Matokeo ya benki yametangazwa katika ukurasa wa 28.

**4. Mgao wa faida.**

Wakurugenzi hawapendekezi kutolewa kwa mgao wa faida katika kipindi cha mwaka kilichomalizika tarehe 31 mwezi Desemba mwaka wa 2002.

**5. Akiba.**

Akiba za kundi na benki zimetangazwa katika ukurasa wa 29 na 30 na kipengele cha 19.

**6. Wakurugenzi.**

Wakurugenzi waliohudumu katika kipindi cha mwaka na hadi tarehe ya kutayarishwa na ripoti hii.

Bw. B.K. Kipkulei	Mwenyekiti.
Bw. T. Davidson	aliteuliwa tarehe 17 Januari mwaka wa 2003.
Bw. G. A. George	alistaafu tarehe 17 Januari mwaka wa 2003.
Bi. S. W. Wainaina.	
Bw. L. R. Otundo	alistaafu tarehe 31 mwezi Mei mwaka wa 2003.
Dr. K. A. Langa't	alistaafu tarehe 31 mwezi Mei mwaka wa 2003.
Bi. S. Mudhune	
Bw. W.R. Gitobu.	
Bw. M. Mwachofi	alistaafu tarehe 31 Agosti mwaka wa 2002.
Professa F.F. Ojany.	
Bw. A.J.K. Ruturi.	
Bw. J. Kinyua	aliteuliwa tarehe 31 mwezi Agosti mwaka wa 2002 na kustaafu tarehe 3 mwezi Januari mwaka wa 2003.
Amb. C. Mwakwere	aliteuliwa tarehe 31 mwezi Mei mwaka wa 2002
Bw. C. Barongo	aliteuliwa tarehe 31 mwezi Mei mwaka wa 2002.
Bi. E. Koimett	aliteuliwa tarehe 31 mwezi Mei mwaka wa 2002.
Bw. J. Magari	aliteuliwa tarehe 3 mwezi Januari mwaka wa 2003.



## Ripoti ya Wakurugenzi

7. Kamati ya wakaguzi wa hesabu.

Kamati ya wakaguzi wa hesabu ya kundi inajumuisha.

Bw. C. Barongo Mwenyekiti.

Bw. B.K. Kipkulei.

Prof. G.K. Misoi.

Prof. F.F.Ojany.

Bw. B.C. Mwenda.

Bi. G. Biamah katibu.

8. Wakaguzi wa hesabu.

Kampuni ya ukaguzi wa hesabu ya Ernst & Young ingelipenda kuendelea kuihudumia Benki kuambata na masharti ya kifungu nambari 159(2) ya sheria za makampuni na kulingana na kifungu nambari 24(1) cha sheria za benki.

Kwa Amri ya Halmashauri ya Wakurugenzi.

Bw. K.D. Malakwen

Katibu.

27th February 2003.



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## 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 and of the Bank for that year. It also requires the directors to ensure the Group and the Bank keep proper accounting records which disclose, with reasonable accuracy at any time, 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 judgements and estimates, in conformity with International Financial Reporting Standards and the requirements 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 and of the operating results of the Group and the Bank. 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                      27th February 2003

Mrs. S.O. Mudhune                      27th February 2003

Mr. C. Barongo                      27th February 2003



## RIPOTI YA MWAKA NA TAARIFA ZA KIFEDHA 2002

### Taarifa ya Majukumu ya Wakurugenzi

Kulingana na sheria za makampuni, wakurugenzi wanahitajika kutayarisha taarifa za kifedha 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 zinawahitaji wakurugenzi kuhakikisha kwamba kundi na benki zinaweka hesabu sawa za uhasibu ambazo zinaonyesha kwa uhakika wakati wowote ule hali ya kifedha ya kampuni na kundi nzima. Wakurugenzi pia wanahitajika kulinda mali ya kundi hili.

Wakurugenzi wanakubali kuwajibikia taarifa za kifedha za mwaka ambazo zimetayarishwa kwa kufuata maongozi ya uhasibu yanayokubalika zikiungwa mkono na uamuzi wa makadirio yaliyo sawa, kulingana na viwango vya kimataifa vya kufanya uhasibu na sheria za makampuni. Wakurugenzi wana maoni kwamba taarifa za uhasibu zinaonyesha ukweli wa hali halisi ya kifedha na matokeo ya shughuli za kundi na benki. Wakurugenzi pia wanakubali jukumu la kuweka hesabu ambazo zinaweza kutegemewa katika kutayarisha taarifa za kifedha na mipango ya uhasibu na usimamizi wa kifedha katika kampuni.

Hakuna jambo ambalo limejitokeza kuonyesha wakurugenzi kwamba benki na mashirika yake hazitaendelea kutoa huduma zake kwa muda wa miezi kumi na miwili ijayo kutoka tarehe ya kuwasilishwa kwa taarifa hii.

Bw. B.K. Kipkulei 27th Februari 2003

Bi. S.O. Mudhune 27th Februari 2003

Bw. C. Barongo 27th Februari 2003



## Corporate Governance Statement

Kenya Commercial Bank Limited is committed to the new standards of Corporate Governance introduced by the Capital Markets Authority. The Board of Directors is responsible for the long-term growth and profitability of the Company, whilst being accountable to the shareholders for compliance with the law and maintaining the highest standards of corporate governance and business ethics.

### The Board of Directors

The Board is made up of a substantial majority of independent, non-executive Directors, including the Chairman. The Directors are given appropriate and timely information so that they can maintain full and effective control over all strategic, financial, operational and compliance issues. All the non-executive directors on the Board are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

Whilst the day to day running of the business of the Company is delegated to the Managing Director who is also the Chief Executive Officer, the Board is responsible for establishing and maintaining the Company's system of internal controls so that its objectives for increased growth in profitability and shareholder value are realized.

### Board Meetings

The Board of Directors meets every month in order to monitor the Company's planned strategy and review it in conjunction with its financial performance. Specific reviews of management performance, operational issues and future planning are also undertaken. The Board has a formal schedule of matters reserved to it and in this regard all directors have access to the Company Secretary.

### Board Committees

There are four principal committees that meet regularly under the terms of reference set by the Board.

#### 1. Audit Committee

The Board has constituted an Audit Committee, which meets bi-monthly, or as required. Its responsibilities include the review of interim and full year financial statements so as to ensure compliance with accounting standards and other disclosure requirements; the maintenance of the Company's system of accounting and internal controls; liaison with the external auditors of the company and putting into effect their recommendations. The external auditors, internal auditors and the Bank's management may be called to attend any Meetings of the Committee to clarify any issues as required by the Committee.

#### 2. Credit Committee

The Credit Committee meets two times a month to review the risk profile of the KCB Group and recommends to the Board policies and standards for risk governance and management. The frequency of meetings has ensured that the needs of the Bank's customers are given timely attention.

#### 3. Human Resources Committee

The Human Resources Committee meets bi-monthly and is mandated to review human resource policies and also make suitable recommendations to the Main Board on senior management appointments.



#### **4. Information Technology Committee**

The Information Technology Committee meets bi-monthly to review information technology needs of the Bank and make recommendations to the Main Board on suitable technological requirements by the Group for efficient service delivery.

The Board appoints other committees as and when required.

#### **Communication with Shareholders**

The Company is committed to ensuring that shareholders and the financial markets are provided with full and timely information about its performance. This is usually done through the distribution of the Company's Annual Report and the release of notices in the national press of its quarterly and annual results.

In this regard, the Company complies with its obligations contained in the Nairobi Stock Exchange's Listing Rules, the Capital Markets Authority Act, the Banking Act and Regulations from Central Bank of Kenya.

#### **Directors' Emoluments and Loans**

The aggregate amount of emoluments paid to Directors for services rendered during the financial year 2002 is disclosed in note 23 to the financial statements.

Neither at the end of the financial year, nor at any time during the year did there exist any arrangement to which the Company is a party, whereby Directors might acquire benefits by means of the acquisition of the Company's shares.



## Taarifa ya Uongozi wa Kampuni

Benki ya Kenya Commercial imejitolea kuzingatia viwango vipya vya uongozi wa kampuni vilivyowekwa na halmashauri ya masoko ya hisa. Halmashauri ya wakurugenzi inawajibika kuhakikisha maendeleo ya muda mrefu na faida kwa kampuni, huku pia ikiwajibikia wenye hisa kuambatana na sheria na kudumisha viwango vya juu vya uongozi wa kampuni na maadili ya kibiashara.

### Halmashauri ya Wakurugenzi.

Halmashauri ya wakurugenzi inajumuisha wakurugenzi wengi huru wasio wasimamizi akiwemo Mwenyekiti. Wakurugenzi wanapewa habari zifaazo na kwa wakati ufaao ili kuwawezesha kudumisha usimamizi kamili na thabiti kuhusu taratibu zote, maswala ya kifedha, shughuli na utekelezaji thabiti wa kazi. Wakurugenzi wote wasio wasimamizi wakuu katika halmashauri hii wako huru kutoka kwa usimamizi wa kampuni na hawatekelezi shughuli zozote au kuwa na uhusiano wa aina yoyote ambao unaweza kuathiri uamuzi wao huru.

Huku usimamizi wa kila siku wa shughuli za kampuni ukiwa wajibu wa Mkurugenzi Mkuu aliyepia afisa mkuu, Halmashauri ya Wakurugenzi ina wajibika kuanzisha na kudumisha mfumo wa usimamizi wa ndani wa kampuni ili malengo yake ya kupata faida zaidi na dhamani kwa wenye hisa yafikiwe.

### Mikutano ya Halmashauri ya Wakurugenzi.

Halmashauri ya wakurugenzi hukutana kila mwezi ili kukadiriya mipango ya kampuni na kuichunguza upya kuambatana na matokeo yake ya kifedha. Uchunguzaji maalum wa matokeo ya wasimamizi, maswala yanayohusu utekelezaji wa shughuli za kampuni na mipango ya baadaye pia unatekelezwa. Halmashauri ya wakurugenzi ina ratiba rasmi ya maswala ambayo imetengewa kushughulikia na kutokana na haya wakurugenzi wote wanaweza kukutana na katibu wa kampuni.

### Kamati za Halmashauri ya Wakurugenzi.

Kuna kamati nne kuu za halmashauri hii ambazo hukutana mara kwa mara kulingana na masharti yaliyowekwa na halmashauri.

#### 1. Kamati ya Ukaguzi wa Hesabu.

Halmashauri ya Wakurugenzi imebuni kamati ya ukaguzi wa hesabu ambayo hukutana mara mbili kwa mwezi au kama inavyohitajika. Majukumu yake ni pamoja na kuchunguza taarifa za muda na za kila mwaka za kifedha ili kuhakikisha kwamba zinazingatia viwango vya uhasibu na mahitaji mengine ya utayarishaji wake. Udumishaji wa mfumo wa kampuni wa uhasibu na usimamizi wa ndani, kushirikiana na wakaguzi huru wa hesabu za kampuni na kutekeleza mapendekezo yao. Wakaguzi huru wa hesabu, wakaguzi wa hesabu wa kampuni pamoja na wasimamizi wa benki wanaweza kutakiwa wahudhurie mkutano wowote wa kamati hii ili kubainisha swala lolote lile kama inavyohitajika na kamati hii.

#### 2. Kamati ya Mikopo.

Kamati ya Mikopo hukutana mara mbili kwa mwezi kuchunguza upya maswala ya hatari ya utoaji wa mikopo ya kundi la Benki ya Kenya Commercial na hupendekeza kwa Halmashauri ya Wakurugenzi, maongozi na viwango vinavyohitajika katika kushughulikia hatari hii na usimamizi wa mikopo. Kukutana mara kwa mara kwa kamati hii kumehakikisha kwamba mahitaji ya wateja wa benki yanashughulikiwa kwa wakati ufaao.



## RIPOTI YA MWAKA NA TAARIFA ZA KIFEDHA 2002

### Taarifa ya Uongozi wa Kampuni(cont)

3. Kamati ya Maswala ya Wafanyikazi.

Kamati hii hukutana mara mbili kwa mwezi na imepewa mamlaka ya kuchunguza upya maongozi kuhusu wafanyikazi na pia kutoa mapendekezo yafaayo kwa halmashauri kuu kuhusu uteuzi wa nyadhifa kuu za usimamizi.

4. Kamati ya Tekinolojia ya Habari.

Kamati ya Tekinolojia ya habari hukutana mara mbili kwa mwezi kuchunguza upya mahitaji ya benki kuhusiana na tekinolojia ya habari na kutoa mapendekezo kwa halmashauri kuu kuhusu mahitaji yafaayo kwa kundi la benki ili kuimarisha huduma zake.

Halmashauri ya Wakurugenzi hubuni kamati nyingine panapo haja.

#### Mawasiliano na Wenyekisa.

Kampuni imejitolea kuhakikisha kwamba wenyekisa na masoko ya kifedha yamepewa kwa wakati ufaao habari kamili kuhusu matokeo yake. Hii hufanywa kwa kuwasilisha nakala za Ripoti ya mwaka ya kampuni na kutolewa kwa ilani katika vyombo vya habari kuhusu matokeo yake ya muda wa robo mwaka na mwaka mzima.

Kutokana na haya kampuni huzingatia majukumu yake kuambatana na masharti yaliyowekwa na Soko la Uuzaji wa Hisa la Nairobi ya kuorodheshwa katika soko hilo, Sheria kuhusu masoko ya kifedha, Sheria ya mabanki na masharti kutoka kwa Benki Kuu ya Kenya.

#### Marupurupu kwa Wakurugenzi na Mikopo.

Kiwango cha kadri cha marupurupu ya wakurugenzi kwa huduma zao katika kipindi cha mwaka wa 2002 kimetangazwa katika taarifa za kifedha.

Haikutokea wakati wa kumalizika kwa kipindi cha mwaka, au wakati wowote ule katika kipindi hicho, hali ambapo kampuni ilishiriki kwenye mpango ambapo huenda wakurugenzi wakapata faida kupitia ununuzi wa hisa za kampuni.



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## Report of Independent Auditors

to the members of Kenya Commercial Bank Limited and Subsidiaries

We have audited the financial statements on pages 25 to 56, which have been prepared on the basis of the accounting policies set out on pages 32 to 35. 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 17, the directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs and of the operating results of the Group and the Bank. 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 provides 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 2002 and of the loss of the Group and the Bank and cash flows of the Group for the year then ended and comply with International Financial Reporting Standards and the Companies Act.

 **ERNST & YOUNG**

Certified Public Accountants  
Nairobi

27th February 2003



## Ripoti ya Wakaguzi

kwa Wanachama wa Benki ya Kenya Commercial na Mashirika yake

Tumefanya ukaguzi wa taarifa za kifedha katika kurasa 25 hadi 56 ambazo zimetayarishwa kwa misingi ya maongozi ya uhasibu yaliyoelezwa katika kurasa 32 hadi 35. Tulipata taarifa na maelezo ambayo tuliyachukulia kuwa muhimu kwa shughuli za uhasibu.

### Majukumu Maalum ya Wakurugenzi na Wakaguzi Huru wa Hesabu

Kama ilivyoelezwa katika ukarasa 18 wakurugenzi ndio wanaowajibika kutayarisha taarifa za kifedha ambazo zinaonyesha hali halisi ya shughuli za kundi na benki. Wajibu wetu ni kutoa maoni huru kuhusu taarifa hizo za kifedha kuambatana na ukaguzi wetu wa hesabu na kuwaeleza maoni yetu.

### Misingi ya Maoni

Tulifanya ukaguzi wa hesabu kuambatana na viwango vya kimataifa vya uhasibu. Viwango hivyo vinahitaji kwamba tupange na kufanya ukaguzi wa hesabu ili kuhakikisha kwamba taarifa hizo za kifedha hazina kasoro.

Uhasibu unajumuisha kuchunguza, kwa makadirio ushahidi unaounga mkono taarifa za kifedha zilizotayarishwa. Na pia kukadiria sera za uhasibu zilizotumiwa na makadirio yaliyofanywa na wakurugenzi pamoja na kukadiria utaratibu wa jumla wa kuwasilisha taarifa za kifedha. Tunaamini kwamba ukaguzi wetu wa hesabu unatoa msingi halisi wa maoni yetu.

### Maoni

Kwa maoni yetu vitabu vya hesabu vimewekwa kama inavyotakikana na taarifa za kifedha zinazolingana sawa sawa na hali ya kifedha katika kundi hili na benki kufikia Desemba 31, 2002 na ile ya hasara kwa kundi hilo na matumizi au mapato ya pesa kwa kundi hilo kwa mwaka uliomalizika na vinaambatana na viwango vya kimataifa vya uhasibu na sheria zinazosimamia makampuni.

**ANNUAL REPORT & FINANCIAL STATEMENTS 2002**  
**Consolidated Balance Sheet**  
as at 31st December 2002

	Note	2002 KShs'000	2001 KShs'000
<b>Assets</b>			
Cash and balances with Central Banks	3	5,646,602	6,936,682
Cheques and items for clearing		45,835	78,836
Government securities	4	8,141,329	10,277,018
Placements and balances with other banking institutions		6,381,251	2,739,605
Investments	5	129,824	34,739
Tax recoverable	9	496,342	495,547
Loans and advances to customers	6	29,907,214	34,987,282
Other assets	10	3,659,313	5,145,628
Intangible assets	11	2,533	6,906
Prepaid leases on leasehold land	12(c)	227,799	230,468
Property and equipment	12(a)	2,511,343	2,628,922
Deferred tax	9	2,605,484	1,422,446
<b>Total Assets</b>		<b>59,754,869</b>	<b>64,984,079</b>
<b>Liabilities</b>			
Balances due to Central Bank of Kenya		1,550,000	400,000
Deposits and balances from other banking institutions	13	3,446,737	5,748,631
Other customer deposits	14	46,122,308	46,840,852
Other liabilities	15	3,032,047	3,316,322
Lines of credit	16	336,322	519,599
Corporate bonds	17	-	1,000
<b>Total Liabilities</b>		<b>54,487,414</b>	<b>56,826,404</b>
<b>Capital Employed</b>			
Share capital	18	1,496,000	1,496,000
Reserves	19	3,771,455	6,661,675
<b>Shareholders' Funds</b>		<b>5,267,455</b>	<b>8,157,675</b>
<b>Total Liabilities and Shareholders' Funds</b>		<b>59,754,869</b>	<b>64,984,079</b>

The financial statements were approved by the Board of Directors on 27th February 2003 and were signed on its behalf by:-

B.K. Kipkulei - Chairman

S.O. Mudhune - Director

C. Barongo - Director

K.D. Malakwen - Secretary



ANNUAL REPORT & FINANCIAL STATEMENTS 2002  
**Consolidated Profit and Loss Account**  
for the year ended 31st December 2002

	Note	2002 KShs'000	2001 KShs'000
Interest income	20	4,735,345	6,608,506
Interest expense	21	(1,767,455)	(2,511,504)
Net interest income		2,967,890	4,097,002
Fees and commission income		3,049,704	3,314,544
Dividend income		18,414	16,416
Gain on foreign exchange		456,125	449,224
Other income	22	704,557	913,205
		7,196,690	8,790,391
Operating expenses	23	(5,609,549)	(5,625,360)
Provision for bad and doubtful debts		(4,877,062)	(2,771,995)
(Loss)/profit before exceptional items, share of loss of associated companies and taxation		(3,289,921)	393,036
Exceptional items	24	(883,899)	(203,208)
Share of loss of associated companies		(4,737)	(6,870)
(Loss)/profit before taxation		(4,178,557)	182,958
Taxation	9	1,177,918	12,686
(Loss)/profit after taxation		(3,000,639)	195,644
		KShs.	KShs.
Basic and diluted (loss)/earnings per share	26	(20.06)	1.31



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Difference

**Balance Sheet of the Bank**

as at 31st December 2002

	Note	2002 KShs'000	2001 KShs'000
<b>Assets</b>			
Cash and balances with Central Bank of Kenya	3	5,544,351	6,809,129
Cheques and items for clearing		17,404	44,522
Government securities	4	7,016,783	9,181,804
Placements and balances with other banking institutions		5,868,031	1,711,287
Investments	5	1,227,418	1,129,173
Tax recoverable	9	352,770	352,770
Loans and advances to customers	6	27,650,978	32,553,828
Balances due from group companies	8(a)	1,550,944	1,000,477
Other assets	10	3,114,558	4,647,531
Intangible assets	11	2,140	4,765
Property and equipment	12(b)	2,297,561	2,388,515
Prepaid leases on leasehold land	12(c)	127,424	128,841
Deferred tax	9	2,489,316	1,328,869
<b>Total Assets</b>		<b>57,259,678</b>	<b>61,281,511</b>
<b>Liabilities</b>			
Balances due to Central Bank of Kenya		1,550,000	400,000
Deposits and balances from other banking institutions	13	4,108,772	6,298,891
Other customer deposits	14	43,095,879	44,037,200
Other liabilities	15	2,567,321	2,984,719
Lines of credit	16	336,322	519,599
Corporate bonds	17	-	1,000
Balances due to group companies	8(b)	1,285,358	820,362
<b>Total Liabilities</b>		<b>52,943,652</b>	<b>55,061,771</b>
<b>Capital Employed</b>			
Share capital	18	1,496,000	1,496,000
Reserves	19	2,820,026	4,723,740
<b>Shareholders' Funds</b>		<b>4,316,026</b>	<b>6,219,740</b>
<b>Total Liabilities and Shareholders' Funds</b>		<b>57,259,678</b>	<b>61,281,511</b>

The financial statements were approved by the Board of Directors on 27th February 2003 and were signed on its behalf by:-

B.K. Kipkulei - Chairman

S.O. Mudhune - Director

C. Barongo - Director

K.D. Malakwen - Secretary



**ANNUAL REPORT & FINANCIAL STATEMENTS 2002**  
**Profit and Loss Account of the Bank**  
for the year ended 31st December 2002

	Note	2002 KShs'000	2001 KShs'000
Interest income	20	4,273,082	5,695,449
Interest expense	21	(1,628,781)	(2,097,924)
Net interest income		2,644,301	3,597,525
Fees and commission income		3,000,571	3,264,850
Dividend income	25	938,414	-
Gain on foreign exchange		448,103	434,609
Other income	22	661,009	804,126
		7,692,398	8,101,110
Operating expenses	23	(5,320,870)	(5,159,883)
Provision for bad and doubtful debts		(4,684,057)	(2,732,389)
(Loss)/profit before exceptional items and taxation		(2,312,529)	208,838
Exceptional items	24	(886,898)	(225,711)
Loss before taxation		(3,199,427)	(16,873)
Taxation	9	1,160,447	69,869
(Loss)/profit after taxation		(2,038,980)	52,996
		Kshs	kshs
(Loss)/earnings per share	26	(13.63)	0.35



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## Consolidated Statement of Changes in Equity

for the year ended 31st December 2002

	Share capital KShs'000	Revaluation reserves KShs'000	Revenue reserves KShs'000	Share premium KShs'000	Translation reserves KShs'000	Total KShs'000
Balance at 1 January 2001	1,122,000	285,807	6,498,878	473,800	13,869	8,394,354
Prior year adjustments (note 27)	-	(64,111)	(317,618)	-	-	(381,729)
As restated	1,122,000	221,696	6,181,260	473,800	13,869	8,012,625
Bonus share issue	374,000	-	(374,000)	-	-	-
Transfer from capital reserves	-	(80,357)	80,357	-	-	-
Translation differences	-	-	-	-	(50,594)	(50,594)
Profit and loss account	-	-	195,644	-	-	195,644
Balance at 31 December 2001	1,496,000	141,339	6,083,261	473,800	(36,725)	8,157,675
Balance at 1 January 2002	1,496,000	192,424	6,254,305	473,800	(36,725)	8,379,804
Prior year adjustments (note 27)	-	(51,085)	(171,044)	-	-	(222,129)
As restated	1,496,000	141,339	6,083,261	473,800	(36,725)	8,157,675
Transfer to revenue reserve	-	(130,886)	130,886	-	-	-
Appreciation in value of quoted shares on first adoption of IAS 39	-	-	135,266	-	-	135,266
Translation differences	-	-	-	-	(24,847)	(24,847)
Profit and loss account	-	-	(3,000,639)	-	-	(3,000,639)
Balance at 31 December 2002	1,496,000	10,453	3,348,774	473,800	(61,572)	5,267,455



ANNUAL REPORT & FINANCIAL STATEMENTS 2002  
**Statement of Changes in Equity of the Bank**  
for the year ended 31st December 2002

	Share capital KShs'000	Revaluation reserves KShs'000	Revenue reserves KShs'000	Share premium KShs'000	Total KShs'000
Balance at 1 January 2001	1,122,000	62,843	4,811,265	473,800	6,469,908
Prior year adjustments (note 27)	-	-	(303,164)	-	(303,164)
As restated	1,122,000	62,843	4,508,101	473,800	6,166,744
Bonus share issue	374,000	-	(374,000)	-	-
Transfer from capital reserve	-	(62,843)	62,843	-	-
Profit and loss account	-	-	52,996	-	52,996
Balance at 31 December 2001	1,496,000	-	4,249,940	473,800	6,219,740
Balance at 1 January 2002	1,496,000	-	4,436,276	473,800	6,406,076
Prior year adjustments (note 27)	-	-	(186,336)	-	(186,336)
As restated	1,496,000	-	4,249,940	473,800	6,219,740
Appreciation in value of quoted shares on first adoption of IAS 39	-	-	135,266	-	135,266
Profit and loss account	-	-	(2,038,980)	-	(2,038,980)
Balance at 31 December 2002	1,496,000	-	2,346,226	473,800	4,316,026



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**ANNUAL REPORT & FINANCIAL STATEMENTS 2002**  
**Consolidated Cash Flow statement**  
for the year ended 31st December 2002

	Note	2002 KShs'000	2001 KShs'000
Net Cash Outflows from Operating Activities	28(a)	(801,196)	(964,297)
Taxation paid		(6,053)	(2,674)
<b>Financing Activities</b>			
Lines of credit		(183,277)	23,708
<b>Net Cash Flows (to)/from Financing Activities</b>		(183,277)	23,708
<b>Investing Activities</b>			
Purchase of investments		(1,150)	(3,500)
Proceeds from sale of property and equipment		277,382	488,091
Purchase of property and equipment		(353,578)	(403,528)
<b>Net Cash Flows (to)/from Investing Activities</b>		(77,346)	81,063
Decrease in cash and cash equivalents		(1,067,872)	(862,200)
Effects of exchange rate changes on opening net investment in foreign entity		(24,847)	(50,594)
Cash and cash equivalents at the beginning of the year		3,593,074	4,505,868
<b>Cash and Cash Equivalents at the end of the year</b>	28(b)	2,500,355	3,593,074



**ANNUAL REPORT & FINANCIAL STATEMENTS 2002**  
**Notes to the financial statements**  
for the year ended 31st December 2002

**I. Accounting Policies**

**a. Basis of preparation**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards.

The financial statements of the Bank and its subsidiaries have been prepared on the historical cost basis of accounting as modified by the revaluation of certain property and equipment and financial instruments.

**b. Consolidation**

The consolidated financial statements of the Group comprise the financial statements of the Bank and its subsidiaries made up to 31 December 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. All inter group transactions and balances are eliminated on consolidation.

**c. Income recognition**

- (i) Income is recognised in the year in which it is earned except for dividend income, which is recognised when the shareholder's right to receive payment is established. 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 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 estimated 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.



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Making the  
Difference

**Notes to the financial statements** (continued)  
for the year ended 31st December 2002

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) Government and municipal securities with stated redemption dates are shown at amortised cost.
- (ii) Quoted equity investments are shown at their fair value.
- (iii) Unquoted investments are shown at cost, including transaction costs, less impairment losses.
- (iv) The Group's investments in associated companies have been incorporated in the consolidated financial statements to take account of the share of net assets attributable to the Group.

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 transactions. 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 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.



**ANNUAL REPORT & FINANCIAL STATEMENTS 2002**  
**Notes to the financial statements** (continued)  
for the year ended 31st December 2002

**1. Accounting Policies (continued)**

**k. Retirement benefits cost**

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.

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 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. Leases of leasehold land are classified as operating leases. The costs incurred to acquire the land is included in the financial statements as long term prepayments which is amortised in the profit and loss account on a straight line basis over the lease period.

**m. Guarantees, acceptances and letters of credit**

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

**n. Employee entitlements**

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

**o. Amortisation of intangible assets**

The intangible assets are amortised on the straight line basis at the rate of 20% per annum. The intangible assets comprise of computer software and associated costs.



**ANNUAL REPORT & FINANCIAL STATEMENTS 2002**  
**Notes to the financial statements** (continued)  
**for the year ended 31st December 2002**

**1. Accounting Policies (continued)**

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

**q. Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 91 days of maturity from the date of acquisition, and include cash balances on hand, balances deposited with Central Banks, net balances from banking institutions and short term investments.

**2. Central Bank of Kenya (Amendment) Act, 2000**

The Kenya Bankers Association (KBA), on behalf of its members, filed an application in the Constitutional Court challenging the operational legality of the Central Bank of Kenya (Amendment) Act 2000 (the Act), which had received Assent on 6 August 2001. The court delivered its judgement on 24 January 2002.

A decree to confirm the judgement was extracted on 22 February 2002; the Decree declared that the Act was null and void, unconstitutional and Ultra Vires the Constitution and, therefore, not binding on the members of KBA.

On 17 April 2002, the Attorney General filed an application to vary the Decree on the matter of the Act being Ultra Vires the Constitution. A consent order to vary the Decree was granted but soon after challenged by both the Central Bank of Kenya and the KBA. The matter has yet to be determined by the Court.

The directors, based on legal advice from the bank's lawyers and guidance from the KBA, have interpreted the Court decision to mean that the Act is not operational for 2002, and will therefore not have any adjusting implications on the financial statements for the year. The financial statements have been prepared based on this interpretation.



ANNUAL REPORT & FINANCIAL STATEMENTS 2002  
**Notes to the financial statements** (continued)  
for the year ended 31st December 2002

3. Cash and Balances with Central Banks	Group		Bank	
	2002 KShs'000	2001 KShs'000	2002 KShs'000	2001 KShs'000
Cash on hand	2,055,475	2,006,783	2,007,405	1,927,324
Balances with Central Banks	3,591,127	4,929,899	3,536,946	4,881,805
	<u>5,646,602</u>	<u>6,936,682</u>	<u>5,544,351</u>	<u>6,809,129</u>
4. Government Securities				
a) Treasury bills				
Maturing within 1 month	-	561,628	-	200,200
Maturing between 1-3 months	394,106	-	-	-
Maturing between 3-12 months	609,242	1,499,871	-	935,921
	<u>1,003,348</u>	<u>2,061,499</u>	<u>-</u>	<u>1,136,121</u>
b) Treasury bonds				
Maturing within 1 month	55,380	-	55,380	-
Maturing between 1-3 months	52,183	437,336	52,183	267,500
Maturing between 3-12 months	439,459	912,897	439,459	912,897
Maturing between 1-5 years	6,590,959	6,365,286	6,469,761	6,365,286
Maturing over 5 years	-	500,000	-	500,000
	<u>7,137,981</u>	<u>8,215,519</u>	<u>7,016,783</u>	<u>8,045,683</u>
Total Government Securities	<u>8,141,329</u>	<u>10,277,018</u>	<u>7,016,783</u>	<u>9,181,804</u>
Maturing as follows:-				
Maturing within 1 month	55,380	561,628	55,380	200,200
Maturing between 1-3 months	446,289	437,336	52,183	267,500
Maturing between 3-12 months	1,048,701	2,412,768	439,459	1,848,818
Maturing between 1-5 years	6,590,959	6,365,286	6,469,761	6,365,286
Maturing over 5 years	-	500,000	-	500,000
	<u>8,141,329</u>	<u>10,277,018</u>	<u>7,016,783</u>	<u>9,181,804</u>



# Notes to the financial statements (continued)

for the year ended 31st December 2002

## 5. Investments

## a) Investment in Subsidiaries and Associated Companies

Company	Activity	Beneficial ownership %	Group		Bank	
			2002 KShs'000	2001 KShs'000	2002 KShs'000	2001 KShs'000
Kenya Commercial Finance Co. Ltd	Investment	100	-	-	150,000	150,000
Savings & Loan Kenya Ltd	Mortgage finance	100	-	-	167,402	167,402
Enterprise Consultants Ltd	Dormant	100	-	-	-	-
Kenya Commercial Bank Nominees Ltd	Nominee shareholders	100	-	-	*	*
Kencom House Ltd	Property ownership & management	100	-	-	363,025	363,025
Kenya Commercial Bank (Tanzania) Ltd	Commercial Banking	100	-	-	422,438	422,438
Notcutt Longaroni & Co (K) Ltd	Investments	100	-	-	3,663	3,663
United Finance Ltd	Hire purchase & lease finance	45	-	186	125	125
Clarkson Notcutt (Insurance Broker) Ltd	Insurance broking	50	9,059	12,033	-	-
			9,059	12,219	1,106,653	1,106,653
b) Quoted Investments			108,750	11,655	108,750	11,655
c) Unquoted Investments			12,015	10,865	12,015	10,865
			120,765	22,520	120,765	22,520
			129,824	34,739	1,227,418	1,129,173

- i) \*An amount of KShs.160 was eliminated after rounding the value of the investments off to the nearest one thousand Kenya Shillings.
- ii) During the year, the bank adopted the policy of stating investments in quoted shares at fair value, being the market value at the balance sheet date.



**ANNUAL REPORT & FINANCIAL STATEMENTS 2002**  
**Notes to the financial statements** (continued)  
for the year ended 31st December 2002

6. Loans and Advances to Customers	Group		Bank	
	2002 KShs'000	2001 KShs'000	2002 KShs'000	2001 KShs'000
6.1(i) Loans and advances to customers				
Loans and advances to customers net of provisions and suspended interest	29,907,214	34,987,282	27,650,978	32,553,828
Add:-				
Specific provisions for bad and doubtful debts	8,681,895	6,927,018	8,395,153	6,743,378
Interest in suspense	4,220,396	3,681,357	3,957,730	3,323,005
Subtotal (Note 7.1(a))	12,902,291	10,608,375	12,352,883	10,066,383
General provisions for bad and doubtful debts (Note 7.1(b))	207,766	289,118	190,000	271,352
	13,110,057	10,897,493	12,542,883	10,337,735
Loans and advances to customers (gross)	43,017,271	45,884,775	40,193,861	42,891,563

6.1(ii) Included in loans and advances as at 31 December 2002, is an amount of KShs.2.5 billion due from one of the bank's customers. The loan is currently not being serviced as discussions are in progress between the debtor and the bank, aimed at regularizing documentation issues regarding the loan, so as to enable the debtor to resume repaying the debt. These discussions have not yet been concluded.

However, the bank has received a written undertaking from the debtor committing to make a substantial down payment on the loan, and to reschedule the balance. In view of this, no provisions have been made in these financial statements for the loan, and further, the bank has also taken into income interest accrued on the loan during the year amounting to KShs.336 million, as no loss is expected on this debt.

6.2 Maturity analysis of gross loans and advances to customers	Group		Bank	
	2002 KShs'000	2001 KShs'000	2002 KShs'000	2001 KShs'000
Maturing within 30 days	8,313,792	8,655,484	8,239,550	8,578,313
Maturing after 30 days but within 3 months	1,865,576	2,202,434	1,806,115	2,144,578
Maturing after 3 months but within 1 year	3,691,556	6,757,676	3,324,184	6,735,644
Maturing after 1 year but within 5 years	27,562,977	25,435,582	26,792,558	25,399,463
Maturing after 5 years	1,583,370	2,833,599	31,454	33,565
	43,017,271	45,884,775	40,193,861	42,891,563

6.3 Sectorial analysis of gross loans and advances to customers	Group		Bank	
	2002 KShs'000	2001 KShs'000	2002 KShs'000	2001 KShs'000
Private sector and individuals	37,717,314	40,932,016	34,893,904	37,938,804
Government departments and parastatals	5,299,957	4,952,759	5,299,957	4,952,759
	43,017,271	45,884,775	40,193,861	42,891,563



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**Notes to the financial statements** (continued)

for the year ended 31st December 2002

7.	Provisions	Group		Bank	
		2002	2001	2002	2001
		KShs'000	KShs'000	KShs'000	KShs'000
7.1	Provisions for bad and doubtful debts				
a)	Specific provisions and interest suspended (Note 6.1)				
	Balance held as at 1 January	10,608,375	12,133,556	10,066,383	10,437,985
	Provisions made during the year	4,877,062	2,771,305	4,684,057	2,732,389
	Interest suspended during the year	1,609,999	1,809,340	1,554,399	1,620,168
	Write downs/write offs during the year	(3,412,164)	(4,406,283)	(3,197,766)	(4,074,602)
	Transfer from Kenya Commercial Finance Company Limited	-	-	-	891,973
	Recoveries/provisions written back during the year	(780,981)	(1,699,543)	(754,190)	(1,541,530)
	Balance as at 31 December	12,902,291	10,608,375	12,352,883	10,066,383
b)	General provisions (Note 6.1)				
	Balance held as at 1 January	289,118	288,428	271,352	250,000
	Provisions made during the year	-	690	-	-
	Transfer from Kenya Commercial Finance Company Limited	-	-	-	21,352
	Provisions written back	(81,352)	-	(81,352)	-
	Balance as at 31 December	207,766	289,118	190,000	271,352
7.2	Non-performing loans where interest is suspended				
	Non-performing loans and advances of the Group amounted to KShs12,238,183,000 (2001 – KShs.13,757,358,000) net of specific provisions and interest in suspense. For the Bank, this amounted to KShs.11,780,321,000 (2001 – KShs.13,245,430,000). Interest is not 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 recognises grades 3, 4 and 5 as non-performing, in compliance with the Central Bank of Kenya guidelines.				
8.	(a) Balances due from Group Companies			Bank	
				2002	2001
				KShs'000	KShs'000
	Kencom House Limited			532,049	462,049
	Savings and Loan Kenya Limited			268,895	169,753
	Kenya Commercial Finance Company Limited			750,000	368,675
				1,550,944	1,000,477
	(b) Balances due to Group Companies				
	Kencom House Limited			785,896	781,362
	Kenya Commercial Finance Company Limited			460,462	-
	Savings and Loan Kenya Limited			39,000	39,000
				1,285,358	820,362



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9. Taxation	Group		Bank	
9.1 Balance Sheet	2002 KShs'000	2001 KShs'000	2002 KShs'000	2001 KShs'000

**Tax Recoverable**

The movement in the tax recoverable account is as follows:

Balance as at 1 January	495,547	526,550	352,770	352,770
Tax paid during the year	6,053	2,674	-	-
Tax charge during the year	(5,258)	(33,677)	-	-
	<u>496,342</u>	<u>495,547</u>	<u>352,770</u>	<u>352,770</u>

**Deferred Tax**

Deferred tax asset	2,606,131	1,426,905	2,489,316	1,328,869
Deferred tax liability	(647)	(4,459)	-	-

<u>Net deferred tax asset</u>	<u>2,605,484</u>	<u>1,422,446</u>	<u>2,489,316</u>	<u>1,328,869</u>
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The net deferred tax asset is attributable to the following items:

Excess of depreciation over tax allowances	22,889	49,942	28,056	58,040
Provisions held	101,653	97,304	95,936	91,974
Tax loss carried forward	2,480,942	1,275,200	2,365,324	1,178,855
	<u>2,605,484</u>	<u>1,422,446</u>	<u>2,489,316</u>	<u>1,328,869</u>

**9.2 Profit and Loss Account**

Current tax	5,258	33,677	-	-
Deferred tax credit	(1,183,038)	(46,336)	(1,160,447)	(69,869)
Share of tax of associated companies	(138)	(27)	-	-
	<u>(1,177,918)</u>	<u>(12,686)</u>	<u>(1,160,447)</u>	<u>(69,869)</u>

Deferred tax credit in the profit and loss account comprises of the following temporary differences:

Excess of depreciation over tax allowances	27,053	(16,914)	29,984	(19,546)
Provisions held	(4,349)	(10,776)	(3,962)	(16,974)
Tax loss carried forward	(1,205,742)	(18,646)	(1,186,469)	(33,349)
	<u>(1,183,038)</u>	<u>(46,336)</u>	<u>(1,160,447)</u>	<u>(69,869)</u>



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for the year ended 31st December 2002

## 9. Taxation (Continued)

	Group		Bank	
	2002	2001	2002	2001
	KShs'000	KShs'000	KShs'000	KShs'000
The tax charge differs from the theoretical amount that would arise using basic tax rates as follows:				
Accounting (loss)/profit before taxation	(4,178,557)	182,958	(3,199,427)	(16,873)
Tax calculated at tax rate of 30%	(1,253,567)	54,887	(959,828)	(5,062)
Tax effects on items not deductible for tax purposes	200,887	441,374	196,462	102,690
Originating and reversing temporary differences	(125,238)	(508,947)	(397,081)	(167,497)
	(1,177,918)	(12,686)	(1,160,447)	(69,869)

## 10. Other Assets

Head Office and Branches clearing accounts	-	1,006,290	-	1,006,290
Interest earned not collected	73,648	652,621	56,737	649,368
Prepayments	218,694	149,674	185,440	131,357
Other receivables	3,366,971	3,337,043	2,872,381	2,860,516
	3,659,313	5,145,628	3,114,558	4,647,531

## 11. Intangible Assets

Cost	28,994	28,994	13,124	13,124
Amortisation				
At 1 January	22,088	17,732	8,359	5,752
Amortisation for the year	4,373	4,356	2,625	2,607
At 31 December	26,461	22,088	10,984	8,359
Net Book Value	2,533	6,906	2,140	4,765

Intangible assets with an original cost of KShs.14,762,583 are fully amortized. The theoretical amortization charge on cost at the notional rates for the current year, would be KShs.2,952,517.



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12.a) Property and Equipment (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 2001	2,100,978	206,707	2,486,831	287,084	5,081,600
Reclassification	(364,444)	-	-	-	(364,444)
Prior year adjustment	36,875	-	-	-	36,875
Restated balance	1,773,409	206,707	2,486,831	287,084	4,754,031
Additions	497	10,848	183,708	158,525	353,578
Disposals	(92,445)	-	(106,555)	(312)	(199,312)
Adjustments/write offs	(2,937)	41,777	(46,532)	(127,009)	(134,701)
At 31 December 2002	1,678,524	259,332	2,517,452	318,288	4,773,596
Made up of:-					
Assets at valuation	31,372	-	-	-	31,372
Assets at cost	1,647,152	259,332	2,517,452	318,288	4,742,224
	1,678,524	259,332	2,517,452	318,288	4,773,596
<b>Depreciation</b>					
At 31 December 2001	258,380	105,029	1,846,201	-	2,209,610
Reclassification	(82,891)	-	-	-	(82,891)
Prior year adjustment	(1,610)	-	-	-	(1,610)
Restated balance	173,879	105,029	1,846,201	-	2,125,109
Charge for the year	32,635	14,491	269,580	-	316,706
Disposals	(10,283)	-	(95,150)	-	(105,433)
Adjustments/write offs	(633)	-	(73,496)	-	(74,129)
At 31 December 2002	195,598	119,520	1,947,135	-	2,262,253
<b>Net Book Value</b>					
At 31 December 2002	1,482,926	139,812	570,317	318,288	2,511,343
At 31 December 2001	1,599,530	101,678	640,630	287,084	2,628,922

Property and equipment in use with an original cost of KShs.1,393,486,122 (2001 - KShs.795,635,735) are fully depreciated. The theoretical depreciation charge on cost at the normal rates (Note 1(d)) for the current year, would be KShs 262,829,770 (2001 - KShs.140,217,220).

A revaluation of certain properties held by the Group was carried out by Professional Valuers on the basis of open market value. The revaluation surplus was transferred to revaluation reserve (note 19).

The reclassification arises from full adoption of IAS No. 17 on leases, resulting in transfer of leasehold land and the related accumulated depreciation which is presented separately under revaluation leases (note 12(c)), and reversal of the related revaluation surplus on the leasehold land.

The prior year adjustment is in respect of a sale of a property which was subsequently cancelled.



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**Notes to the financial statements** (continued)

for the year ended 31st December 2002

## 12. b) Property and Equipment (Bank)

	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</b>					
At 31 December 2001	1,730,723	161,888	2,360,223	287,084	4,539,918
Reclassification	(190,558)	-	-	-	(190,558)
Prior year adjustment	36,875	-	-	-	36,875
Restated balance	1,577,040	161,888	2,360,223	287,084	4,386,235
Additions	-	10,648	179,326	147,547	337,521
Disposals	(75,445)	-	(93,625)	(312)	(169,382)
Adjustments/write offs	-	41,777	(43,991)	(127,009)	(129,223)
At 31 December 2002	1,501,595	214,313	2,401,933	307,310	4,425,151
<b>Depreciation</b>					
At 31 December 2001	220,877	81,281	1,750,068	-	2,052,226
Reclassification	(61,717)	-	-	-	(61,717)
Prior year adjustment	7,211	-	-	-	7,211
Restated balance	166,371	81,281	1,750,068	-	1,997,720
Charge for the year	25,921	11,137	257,864	-	294,922
Disposals	(10,283)	-	(82,546)	-	(92,829)
Adjustments/write offs	-	-	(72,223)	-	(72,223)
At 31 December 2002	182,009	92,418	1,853,163	-	2,127,590
<b>Net Book Value</b>					
At 31 December 2002	1,319,586	121,895	548,770	307,310	2,297,561
At 31 December 2001	1,410,669	80,607	610,155	287,084	2,388,515

- (i) Property and equipment in use with an original cost of KShs. 1,329,938,773 (2001- KShs. 643,901,711) are fully depreciated. The theoretical depreciation charge, on cost at the normal rates (Note 1(d)) for the current year, would be KShs.250,861,613 (2001 - KShs.128,780,342).
- (ii) The reclassification adjustments arises from full adoption of IAS No. 17 on leases, resulting in transfer of leasehold land and the related accumulated depreciation which is presented separately under prepaid leases (note 12c).
- (iii) The prior year adjustment is in respect of a sale of a property, which was subsequently cancelled.



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12(c) Prepaid Leases on Leasehold Land

	Group		Bank	
	2002	2001	2002	2001
	KShs '000	KShs '000	KShs '000	KShs '000
Cost				
At 1 January	313,359	364,444	190,558	190,558
Disposals/adjustments	(3,879)	(51,085)	(3,879)	-
At 31 December	309,480	313,359	186,679	190,558
Amortisation				
At 1 January	82,891	79,517	61,717	59,594
Disposals/adjustments	(4,453)	-	(4,453)	-
Charge for the year	3,243	3,374	1,991	2,123
At 31 December	81,681	82,891	59,255	61,717
Net Book Value				
At 31 December	227,799	230,468	127,424	128,841

13. Deposits and Balances from other Banking Institutions

Deposits and balances from other banks	1,497,466	3,136,142	2,159,501	3,686,402
Overnight borrowings	1,924,000	887,895	1,924,000	887,895
Borrowed funds	25,271	1,724,594	25,271	1,724,594
	3,446,737	5,748,631	4,108,772	6,298,891
Maturing as follows:				
Payable within 30 days	2,933,875	1,831,114	3,595,910	2,381,374
Payable after 3 months but within 1 year	512,862	3,917,517	512,862	3,917,517
	3,446,737	5,748,631	4,108,772	6,298,891



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### 14. Other Customers Deposits

	Group		Bank	
	2002	2001	2002	2001
	KShs'000	KShs'000	KShs'000	KShs'000
a) From government departments and parastatals				
Payable within 30 days	6,781,210	5,439,437	5,584,668	4,558,837
Payable after 30 days but within 3 months	2,315,707	-	2,314,707	-
Payable after 3 months but within 1 year	18,723	4,299,161	18,723	4,299,161
	9,115,640	9,738,598	7,918,098	8,857,998
b) From private sector and individuals				
Payable within 30 days	28,529,574	16,129,019	27,733,840	14,875,338
Payable after 30 days but within 3 months	7,244,158	20,856,848	6,927,731	20,277,088
Payable after 3 months but within 1 year	1,232,629	116,387	516,210	26,776
Payable after 1 year but within 5 years	307	-	-	-
	37,006,668	37,102,254	35,177,781	35,179,202
<b>Total Other Customer Deposits</b>	<b>46,122,308</b>	<b>46,840,852</b>	<b>43,095,879</b>	<b>44,037,200</b>
Maturing as follows:-				
Payable within 30 days	35,310,784	21,568,456	33,318,508	19,434,175
Payable after 30 days but within 3 months	9,559,865	20,856,848	9,242,438	20,277,088
Payable after 3 months but within 1 year	1,251,352	4,415,548	534,933	4,325,937
Payable after 1 year but within 5 years	307	-	-	-
	46,122,308	46,840,852	43,095,879	44,037,200

### 15. Other Liabilities

Head Office and Branches				
Clearing accounts	259,604	-	269,534	-
Bills payable	771,520	745,696	750,719	732,128
Provisions for expenses	273,498	348,035	263,785	204,243
Other payables	1,727,425	2,222,591	1,283,283	2,048,348
	3,032,047	3,316,322	2,567,321	2,984,719



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16. Lines of Credit

	Group		Bank	
	2002	2001	2002	2001
	KShs'000	KShs'000	KShs'000	KShs'000
<b>Opec Line III</b>				
Payable after 3 months but within 1 year	33,474	34,059	33,474	34,059
Payable after 1 year but within 5 years	48,927	83,841	48,927	83,841
	82,401	117,900	82,401	117,900
<b>USAID/RPE Loans</b>				
Payable after 3 months but within 1 year	-	5,163	-	5,163
<b>EIB Kenya Shillings Loans</b>				
Payable after 3 months but within 1 year	31,596	41,947	31,596	41,947
Payable after 1 year but within 5 years	42,473	72,865	42,473	72,865
	74,069	114,812	74,069	114,812
<b>EIB Foreign Currency Loans</b>				
Payable after 3 months but within 1 year	90,885	144,925	90,885	144,925
Payable after 1 year but within 5 years	88,967	136,799	88,967	136,799
	179,852	281,724	179,852	281,724
<b>Total Lines of Credit</b>	<b>336,322</b>	<b>519,599</b>	<b>336,322</b>	<b>519,599</b>
<b>Maturing as follows:-</b>				
Payable after 3 months but within 1 year	155,955	226,094	155,955	226,094
Payable after 1 year but within 5 years	180,367	293,505	180,367	293,505
	336,322	519,599	336,322	519,599

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 was fully paid during the year.

c) European Investment Bank (EIB) Kenya Shillings Loans

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.

d) European Investment Bank (EIB) Foreign Currency Loans

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 and Euro Currency.



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**17. Corporate Bonds**

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

18. Share Capital	2002 KShs'000	2001 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 of KShs.10 each	1,496,000	1,496,000

19. Reserves	Group		Bank	
	2002 KShs.'000	2001 KShs.'000	2002 KShs.'000	2001 KShs.'000
Revaluation reserve	10,453	141,339	-	-
Revenue reserve	3,348,774	6,083,261	2,346,225	4,249,940
Share premium	473,800	473,800	473,800	473,800
Translation reserve	(61,572)	(36,725)	-	-
	3,771,455	6,661,675	2,820,025	4,723,740

The revaluation reserve arose on the revaluation of certain properties as shown under note 12. The translation reserve arises from translation of the opening net investment in Kenya Commercial Bank (Tanzania) Limited to Kenya Shillings.

**20. Interest Income**

	Group		Bank	
	2002 KShs'000	2001 KShs'000	2002 KShs'000	2001 KShs'000
Interest on loans and advances	3,289,955	5,003,839	2,950,114	4,347,564
Interest on government securities	1,265,236	1,324,148	1,182,479	1,184,792
Interest on placements and bank balances	180,154	280,519	140,489	163,093
	4,735,345	6,608,506	4,273,082	5,695,449

**21. Interest Expense**

Interest on deposits	1,595,838	2,208,545	1,457,164	1,865,025
Interest on borrowed funds	171,617	299,171	171,617	232,899
Interest on corporate bonds	-	3,788	-	-
	1,767,455	2,511,504	1,628,781	2,097,924



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22. Other Income	Group		Bank	
	2002 KShs'000	2001 KShs'000	2002 KShs'000	2001 KShs'000
Rent receivable	50,769	68,883	39,747	58,779
Profit on sale of property and equipment	36,327	14,747	32,443	13,616
Overprovision recredited (recoveries)	363,061	494,855	336,939	486,942
Other miscellaneous income	254,400	334,720	251,880	244,789
	<u>704,557</u>	<u>913,205</u>	<u>661,009</u>	<u>804,126</u>
23. Operating Expenses				
Fees and commission paid	53,590	32,824	53,590	32,824
Administrative expenses	5,107,081	5,169,455	4,852,594	4,747,472
Directors' emoluments				
As directors	24,007	14,136	17,448	6,917
As executives	54,668	64,295	54,668	64,295
Diminution in value of quoted shares	36,732	-	36,732	-
Depreciation of property and equipment	316,706	326,843	294,922	297,345
Amortisation of intangible assets	4,373	4,356	2,625	2,607
Amortisation of prepaid leases on leasehold land	3,243	3,374	1,991	2,123
Auditors' remuneration (KCB (T) Ltd - KShs 1,409,000, 2001-KShs.1,157,000)	9,149	10,077	6,300	6,300
	<u>5,609,549</u>	<u>5,625,360</u>	<u>5,320,870</u>	<u>5,159,883</u>
24. Exceptional Items				
Income				
Profit on sale of non-core assets	147,750	196,379	152,250	196,379
Absorption of dormant accounts	79,213	213,474	65,000	178,473
Writeback of long outstanding credit balances	89,000	100,000	89,000	100,000
	<u>315,963</u>	<u>509,853</u>	<u>306,250</u>	<u>474,852</u>
Expenses				
Voluntary early retirement costs	232,732	401,541	226,018	389,043
Staff costs on the information systems project	152,000	100,000	152,000	100,000
Pension fund deficit contribution	117,000	117,930	117,000	117,930
Legal and change programme costs	-	93,590	-	93,590
Items written off	163,121	-	163,121	-
Union Award	54,000	-	54,000	-
Interest earned not collected written off	397,009	-	397,009	-
Fidelity insurance claims	84,000	-	84,000	-
	<u>1,199,862</u>	<u>713,061</u>	<u>1,193,148</u>	<u>700,563</u>
Net amount	<u>(883,899)</u>	<u>(203,208)</u>	<u>(886,898)</u>	<u>(225,711)</u>



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25. Dividend Income	2002	2001
	KShs'000	KShs'000
Receivable from subsidiaries:		
Kenya Commercial Finance Company Limited	750,000	-
Savings and Loan Kenya Limited	100,000	-
Kencom House Limited	70,000	-
	920,000	-
Other investments	18,414	-
	938,414	-
26. (Loss)/Earnings Per Share		
(Loss)/earnings per share is calculated on the (loss)/profit after tax and on the number of ordinary shares in issue during the year.		
27. Prior Year Adjustments		
	Group	Bank
	2002	2002
	KShs'000	KShs'000
Depreciation of leasehold properties-(a)	- (110,745)	- (80,999)
Deferred tax-(b)	- (13,026)	- -
Leave accrual-(c)	- (97,165)	- (97,165)
Dividends-(d)	- (125,000)	- (125,000)
Profit on sale of property-(e)	(186,336) -	(186,336) -
Leasehold land adjustments-(f)	(35,793) (35,793)	- -
	(222,129) (381,729)	(186,336) (303,164)

The prior year adjustments relate to:

- Depreciation on leasehold properties relating to previous years which had not been provided for in accordance with International Accounting Standard (IAS) No.17.
- Deferred tax provision relating to previous years which had not been provided for in accordance with International Accounting Standard (IAS) No.12.
- Accrued leave relating to previous years which had not been provided for in accordance with International Accounting Standard (IAS) No.19.
- Dividend not adjusted for in the previous years.
- Reversal of profit recognized in year 2001 on a sale of property, which was subsequently cancelled.
- Effect of full compliance with International Accounting Standard (IAS) No. 17 on leases, specifically reclassification of leasehold land to long term prepayments from properties and reversal of related revaluation surplus



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28. Notes to the Consolidated Cash Flow Statement

	2002 KShs'000	2001 KShs'000
<b>a)Net Cash Outflows from Operating Activities</b>		
This has been derived as follows:-		
(Loss)/profit before taxation	(4,178,557)	182,958
Adjustments for:		
Depreciation	316,706	326,843
Amortisation of leasehold land	3,243	3,374
Amortisation of intangible asset	4,373	4,356
Profit on sale of property and equipment	(184,077)	(211,126)
Diminution in value of investments	36,732	-
Share of loss of associated companies	4,737	6,870
Cash reserve ratio	1,338,772	(8,232)
Government securities	1,638,394	(2,753,101)
Placement and balances with other banking institutions	(2,000,000)	-
Loans and advances	5,080,068	4,116,168
Other assets	1,486,315	4,129,902
Deposits and balances from other banking institutions	(3,404,655)	(203,328)
Other customer deposits	(718,544)	(1,796,651)
Other liabilities	(284,275)	(4,595,381)
Corporate bonds	(1,000)	(175,000)
Fixed assets adjustment/write-offs	60,572	8,051
	(801,196)	(964,297)
<b>b)Analysis of Cash and Cash Equivalents</b>		
Cash on hand	2,055,475	2,006,783
Cheques and items for clearing	45,835	78,836
Government securities	501,669	998,964
Placements and balances with other banking institutions	4,381,251	2,739,605
Deposits and balances from other banking institutions	(2,933,875)	(1,831,114)
Balances due to Central Bank of Kenya	(1,550,000)	(400,000)
	2,500,355	3,593,074



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# Notes to the financial statements (continued)

for the year ended 31st December 2002

## 29. 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	
	2002	2001	2002	2001
	KShs'000	KShs'000	KShs'000	KShs'000
At 31 December	11,413	11,413	11,413	11,413

### b) Inter-company transactions

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

	Bank	
	2002	2001
	KShs'000	KShs'000
Due from subsidiary companies (Note 8(a))	1,550,944	1,000,477
Due to subsidiary companies (Note 8(b))	1,285,358	820,362

### 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	
	2002	2001	2002	2001
	KShs'000	KShs'000	KShs'000	KShs'000
Government of Kenya (Treasury)	3,932,719	3,586,233	3,932,719	3,586,233
Directors	91,909	6,900	91,909	6,900
Employees	1,832,517	1,858,477	1,790,615	1,810,522
	5,857,145	5,451,610	5,815,243	5,403,655

## 30. 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 and thus, no detailed geographical segments have been disclosed.



**ANNUAL REPORT & FINANCIAL STATEMENTS 2002**  
**Notes to the financial statements** (continued)  
**for the year ended 31st December 2002**

**31. Sale of Kencom House to Kenya Commercial Bank Staff Pension Fund**

In the year 2000, Kencom House Limited, a fully owned subsidiary of the bank sold the Kencom House property to the staff pension fund, at a profit of KShs.447,808,000.

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. In addition to the foregoing, efforts are also underway between the concerned parties to have this matter resolved out of court.

**32. Commitments**

	Group		Bank	
	2002	2001	2002	2001
	KShs'000	KShs'000	KShs'000	KShs'000
a) Capital commitments contracted for at year end	286,800	347,120	255,514	315,834
b) Loans committed but not disbursed at year end	1,230,972	528,924	1,101,513	331,651
c) Foreign currency commitments	1,504,399	1,231,942	1,504,399	1,231,942

**33. Contingent Liabilities**

Letters of credit, acceptances, guarantees, indemnities and other engagements entered into on behalf of customers at 31 December

	14,070,883	12,977,746	14,038,198	12,888,439
--	------------	------------	------------	------------

Taxation	941,885	941,885	941,885	941,885
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Dormant accounts	690,028	610,797	640,797	575,797
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Litigation	92,144	-	56,000	-
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Other contingent liabilities	163,855	-	163,855	-
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**(i) Taxation**

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 an 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.

**(ii) Dormant accounts**

These relate to balances on dormant accounts transferred to income. There is a potential liability due to possible claims by customers.

**(iii) Litigation**

The amounts included above as contingent liabilities are in respect of court rulings against the bank and its subsidiaries. In all cases, the bank has either appealed against judgement or are in the process of lodging appeals. The advice from external lawyers is that there are very reasonable chances of succeeding on appeal. No provision has been made in the financial statements as the directors are of a similar view that the appeal is likely to succeed.

In addition to the above, in the ordinary course of business, the bank and its subsidiaries are defendants in various litigations and claims. The group believes, based on information currently available, that the ultimate resolution of these legal proceedings would not likely have a material effect on its operation.



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# ANNUAL REPORT & FINANCIAL STATEMENTS 2002

## Notes to the financial statements (continued)

for the year ended 31st December 2002

34. Foreign Currency Exposure	Group		Bank	
	2002 KShs'000	2001 KShs'000	2002 KShs'000	2001 KShs'000
Assets in foreign currencies	10,903,269	10,945,957	10,735,105	10,945,770
Liabilities in foreign currencies	(7,620,485)	(11,249,332)	(7,385,040)	(11,249,168)
Net foreign currency exposure at 31 December	3,282,784	(303,375)	3,350,065	(303,398)

## 35. Retirement Benefits 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 15 February 2002. The deficit is being amortised over a period of three years at KShs 117 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	
	2002 KShs'000	2001 KShs'000
Past service pension benefits	(5,376,300)	(5,376,300)
Fair value of scheme assets	5,022,500	5,022,500
Past service pension deficit	(353,800)	(353,800)

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

Current contribution costs	268,217	281,306
Amortisation of past service pension deficit	117,000	117,930
	385,217	399,236

The principal actuarial assumptions used are as follows:

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%	14.9%
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.



**ANNUAL REPORT & FINANCIAL STATEMENTS 2002**  
**Notes to the financial statement** (continued)  
for the year ended 31st December 2002

**36. 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 2002 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	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	
Cash and balances with Central Banks	-	-	-	-	-	5,646,602	5,646,602
Cheques and items for clearing	-	-	-	-	-	45,835	45,835
Government securities	55,380	446,289	1,048,701	6,590,959	-	-	8,141,329
Placements and balances with other banking institutions	4,381,251	-	-	2,000,000	-	-	6,381,251
Investments	-	-	-	-	-	129,824	129,824
Tax recoverable	-	-	-	-	-	496,342	496,342
Loans and advances to customers	8,106,026	1,865,576	3,691,556	14,660,686	1,583,370	-	29,907,214
Other assets	-	-	-	-	-	3,659,313	3,659,313
Intangible assets	-	-	-	-	-	2,533	2,533
Prepaid leases on leasehold land	-	-	-	-	-	227,799	227,799
Property and equipment	-	-	-	-	-	2,511,343	2,511,343
Deferred tax	-	-	-	-	-	2,605,484	2,605,484
<b>Total Assets</b>	<b>12,542,657</b>	<b>2,311,865</b>	<b>4,740,257</b>	<b>23,251,645</b>	<b>1,583,370</b>	<b>15,325,075</b>	<b>59,754,869</b>
<b>Liabilities and Shareholders' Funds</b>							
Balances due to Central Bank of Kenya	1,550,000	-	-	-	-	-	1,550,000
Deposits and balances from other banking institutions	2,933,875	-	512,862	-	-	-	3,446,737
Other customer deposits	19,208,628	9,559,865	1,251,352	307	-	16,102,156	46,122,308
Other liabilities	-	-	-	-	-	3,032,047	3,032,047
Lines of credit	-	-	155,955	180,367	-	-	336,322
Shareholders' funds	-	-	-	-	-	5,267,455	5,267,455
<b>Total liabilities and shareholders' funds</b>	<b>23,692,503</b>	<b>9,559,865</b>	<b>1,920,169</b>	<b>180,674</b>	<b>-</b>	<b>24,401,658</b>	<b>59,754,869</b>
<b>Interest rate sensitivity gap</b>	<b>(11,149,846)</b>	<b>(7,248,000)</b>	<b>2,820,088</b>	<b>23,070,971</b>	<b>1,583,370</b>	<b>(9,076,583)</b>	<b>-</b>
<b>At 31 December 2001</b>							
Total assets	8,977,575	4,753,547	9,746,691	22,962,418	1,563,674	16,980,174	64,984,079
Total liabilities and shareholders' funds	(7,549,121)	(24,657,941)	(4,935,184)	(116,387)	-	(27,725,446)	(64,984,079)
<b>Interest rate sensitivity gap</b>	<b>1,428,454</b>	<b>(19,904,394)</b>	<b>4,811,507</b>	<b>22,846,031</b>	<b>1,563,674</b>	<b>(10,745,272)</b>	<b>-</b>



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# ANNUAL REPORT & FINANCIAL STATEMENTS 2002

## Notes to the financial statements (continued)

for the year ended 31st December 2002

### 37. 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 from 31 December 2002 to the contractual maturity date.

	Up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total
Cash and balances with Central Banks	4,804,807	744,340	97,431	24	-	5,646,602
Cheques and items for clearing	45,835	-	-	-	-	45,835
Government securities	55,380	446,289	1,048,701	6,590,959	-	8,141,329
Placements and balances with other banking institutions	4,381,251	-	-	2,000,000	-	6,381,251
Investments	-	-	-	-	129,824	129,824
Tax recoverable	-	-	-	-	496,342	496,342
Loans and advances to customers	8,106,026	1,865,576	3,691,556	14,660,686	1,583,370	29,907,214
Other assets	73,648	-	3,585,665	-	-	3,659,313
Intangible assets	-	-	-	-	2,533	2,533
Prepaid leases on leasehold land	-	-	-	-	227,799	227,799
Property and equipment	-	-	-	-	2,511,343	2,511,343
Deferred tax	-	-	-	2,605,484	-	2,605,484
<b>Total Assets</b>	<b>17,466,947</b>	<b>3,056,205</b>	<b>8,423,353</b>	<b>25,857,153</b>	<b>4,951,211</b>	<b>59,754,869</b>
<b>Liabilities and Shareholders' Funds</b>						
Balances due to Central Bank of Kenya	1,550,000	-	-	-	-	1,550,000
Deposits and balances from other banking institutions	2,933,875	-	512,862	-	-	3,446,737
Other customer deposits	35,310,784	9,559,865	1,251,352	307	-	46,122,308
Other liabilities	1,031,124	-	2,000,923	-	-	3,032,047
Lines of credit	-	-	155,955	180,367	-	336,322
Shareholders' funds	-	-	-	-	5,267,455	5,267,455
<b>Total liabilities and shareholders' funds</b>	<b>40,825,783</b>	<b>9,559,865</b>	<b>3,921,092</b>	<b>180,674</b>	<b>5,267,455</b>	<b>59,754,869</b>
<b>Net liquidity gap</b>	<b>(23,358,836)</b>	<b>(6,503,660)</b>	<b>4,502,261</b>	<b>25,676,479</b>	<b>(316,244)</b>	<b>-</b>
<b>At 31 December 2001</b>						
Total assets	15,993,093	5,770,956	14,586,459	25,988,687	2,644,884	64,984,079
Total liabilities and shareholders' funds	(23,800,570)	(24,401,225)	(8,508,222)	(481)	(8,273,581)	(64,984,079)
<b>Net liquidity gap</b>	<b>(7,807,477)</b>	<b>(18,630,269)</b>	<b>6,078,237</b>	<b>25,988,206</b>	<b>(5,628,697)</b>	<b>-</b>



**ANNUAL REPORT & FINANCIAL STATEMENTS 2002**  
**Notes to the financial statements** (continued)  
for the year ended 31st December 2002

38. Employees

The number of employees of the Group as at the end of the year was 2,808 (2001 - 3,050).

39. 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.

40. Incorporation

The Bank is incorporated in Kenya under the Companies Act.

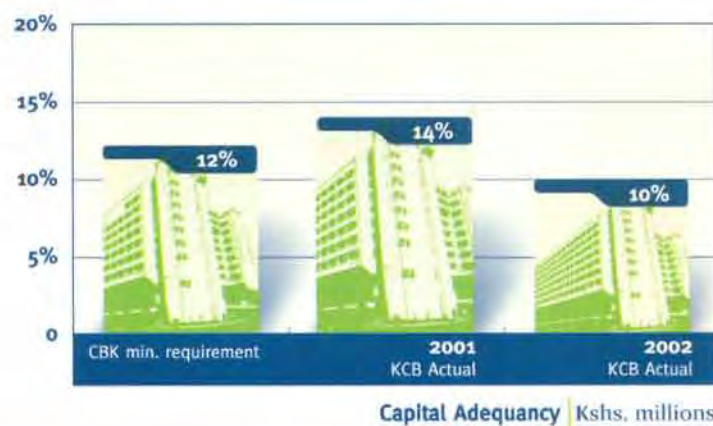
41. Currency

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



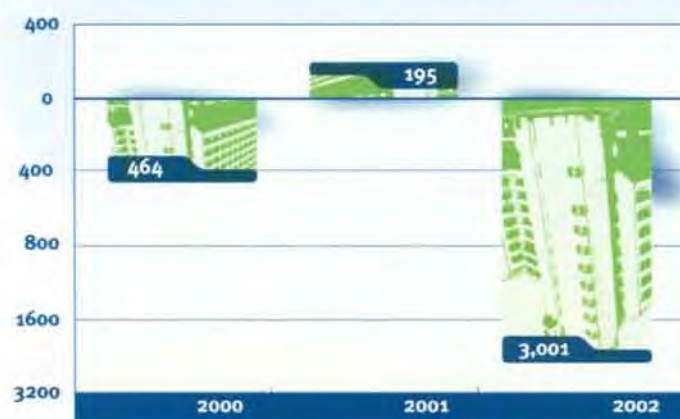
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## Financial Indicators





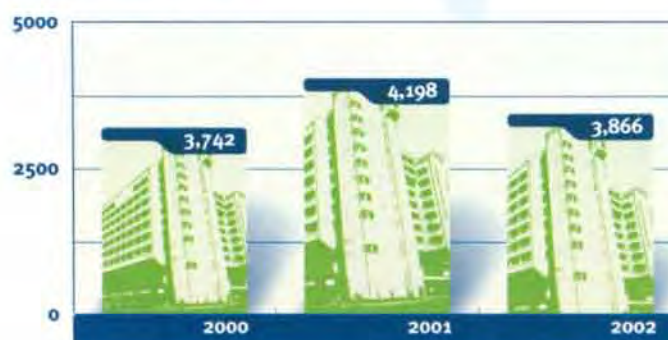
## Financial Indicators



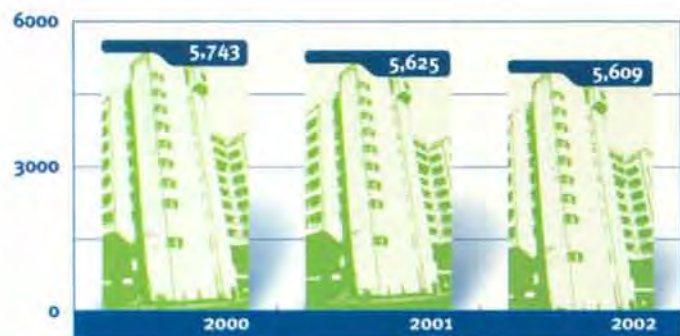
After Tax Group Results



Group Net Interest Income



Group Non-interest Income



Group Total Operating Expenses



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## Group Information

### PRINCIPAL PLACE OF BUSINESS

Kencom House  
Moi Avenue  
P. O. Box 48400  
00100 Nairobi GPO

### REGISTERED OFFICE

Kencom House  
P. O. Box 48400  
00100 Nairobi GPO

### SOLICITORS

Various  
A list is available at the Bank

### COMPANY SECRETARY

Mr. K.D. Malakwen  
P. O. Box 48400  
00100 Nairobi GPO

### COMPANY AUDITORS

Ernst & Young  
Kenya Re- Towers, Upperhill  
Off Ragati Road  
P. O. Box 44286  
00100 Nairobi GPO

### 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





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## Proxy form

The Secretary

Kenya Commercial Bank Ltd.

8th. Floor, Kencom House, Moi Avenue

P. O. Box 48400 00100 Nairobi, Kenya

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 32nd. Annual General Meeting to be held on the 13th. June 2003 and at any adjournment thereof.

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2003 \_\_\_\_\_

Signature(s) \_\_\_\_\_

Note: In case of a Member being a corporate body, 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.



RIPOTI YA MWAKA NA TAARIFA ZA KIFEDHA 2002  
**Fomu ya Uwakilishi**

Katibu

Benki ya Kenya Commercial

Ghorofa ya 8, Kencom House, Moi Avenue

Sanduku la Posta 48400 00100 Nairobi Kenya

Mimi/Sisi

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Nambari ya Akaunti ya Mwenyehisa

---

Sanduku la Posta

---

nikuwa/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 32 wa Mwaka wa Kampuni utakaofanyika tarehe 13 Juni 2003 au pale utakapoahirishwa.

imewekwa sahihi tarehe

Mwezi wa

2003

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Sahihi

---

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



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With only 1,000 shillings,  
you can now open a KCB  
Savers Account at selected  
KCB branches.\*

Enjoy a wide range of benefits including our  
countrywide QuickServe ATM network and access to  
KCB Personal Loan.

\*This does not apply in the following branches:

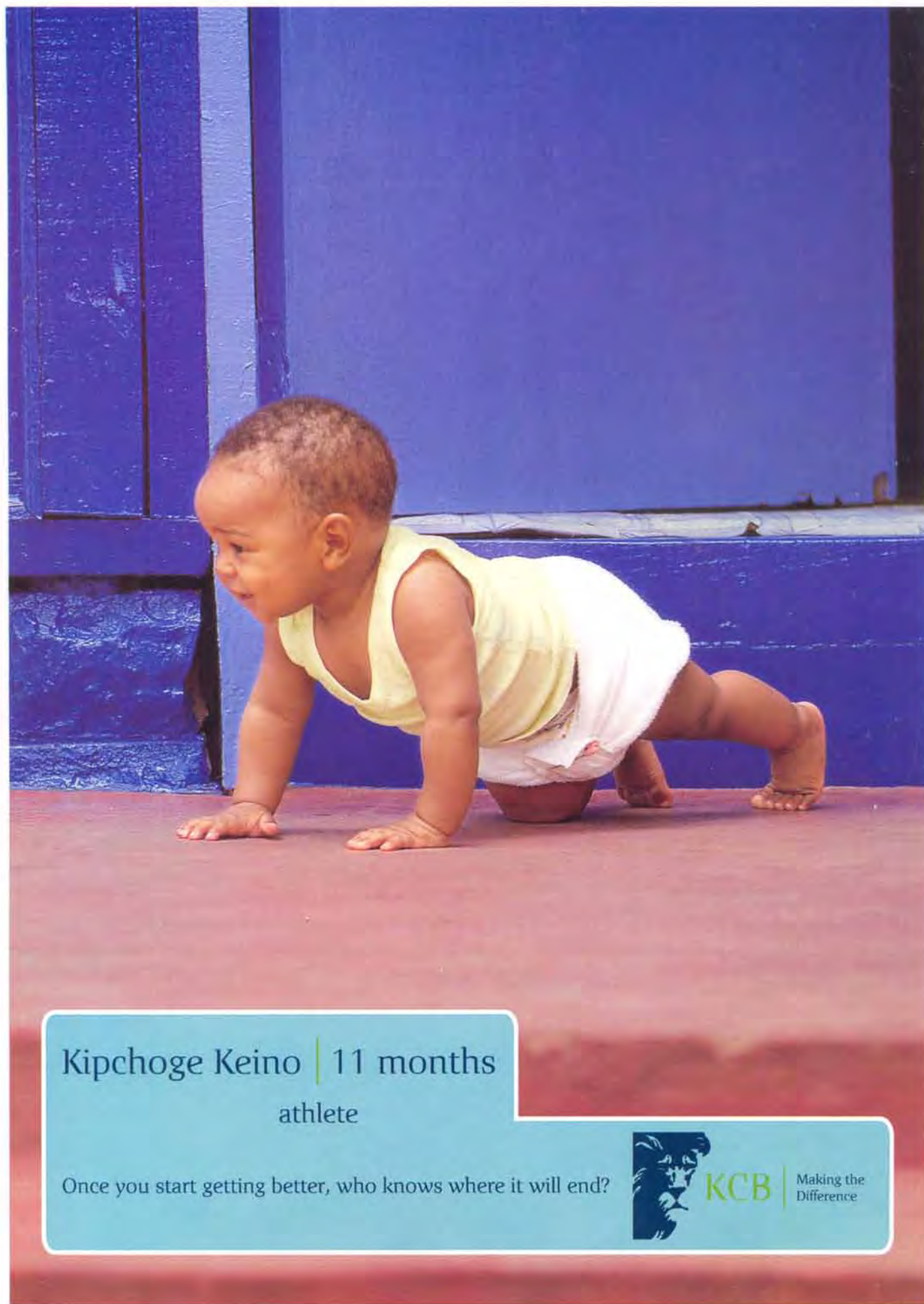
University Way, Kisumu, City Centre, Kipande House, Sarit Centre, KICC, Millimani, Moi Avenue and Treasury Square.



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Kipchoge Keino | 11 months  
athlete

Once you start getting better, who knows where it will end?



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