



KCB



Catherine Njoroge, Divisional Director - Retail, selects a winning ticket at the close of the KCB Credit Card promotion.



KCB CEO, Terry Davidson at the Nairobi Stock Exchange, rings the bell to officially launch the KCB Rights Issue.



KCB Group Chairman, Susan Mudhune cuts the tape to mark the official launch of refurbished KCB Sarit Centre Branch. Looking on is the Chief Executive, Terry Davidson.



Performance of KCB Shares at the Nairobi Stock Exchange



Inmates at Langata Women's Prison demonstrate their skills on computers donated by KCB during the KCB Community Week.

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Bank Information

Principal place of business: Kencom House, Moi Avenue, P. O. Box 48400, 00100 Nairobi, **Registered office:** Kencom House, P. O. Box 48400, 00100, Nairobi, **Solicitors:** Various, a list is available at the Bank. **Company secretary:** Mr. K.D. Malakwen, P. O. Box 48400, 00100, Nairobi. **Auditors:** Ernst & Young, Kenya Re Towers, Upperhill, Off Ragati Road, P. O. Box 44286, 00100, Nairobi.

NOTICE OF THE 34TH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE 34TH ANNUAL GENERAL MEETING OF THE KENYA COMMERCIAL BANK LIMITED will be held at the Plenary Hall, Kenyatta International Conference Centre, Harambee Avenue, Nairobi, on Friday, 17th June, 2005 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, 2004.

b) Report and Financial Statements for the year ended 31st December, 2004

To receive and consider the Report of the Directors and Consolidated Financial Statements for the year ended 31st December, 2004 together with the Auditors' Report thereon.

c) Dividend

To declare a dividend

d) Election of Directors

i) In accordance with Article 101 of the Company's Articles of Association, the Board appointed Mr. Joseph Kinyua to fill a casual vacancy on the Board. Being eligible the said Mr. Joseph Kinyua offers himself for re-election.

ii) In accordance with Article 94 of the Company's Articles of Association, Mrs. Susan Outa Mudhune, Mr. William Rubaara Gitobu and Prof. Francis Fredrick 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. Any Other Business

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

Dated at Nairobi this 24th day of February, 2005

By order of the Board

K. D. Malakwen
Secretary

ARIFA YA MKUTANO MKUU WA 34

ARIFA INATOLEWA KWAMBA MKUTANO MKUU WA 34 WA KILA MWAKA WA KENYA COMMERCIAL BANK LIMITED utafanyika katika ukumbi wa Plenary, Kenyatta International Conference Centre, Harambee Avenue jijini Nairobi, Ijumaa tarehe 17 mwezi Juni mwaka 2005 saa tano asubuhi kujadili yafuatayo:

AJENDA

1. Kujumuika kwa mkutano

Kusomwa kwa arifa iliyoitisha mkutano na kubainisha ikiwa kuna idadi ya watu wa kutosha kuendeleza mkutano.

2. Shughuli za kawaida

a) Ripoti ya Wakaguzi-wahasibu

Kusomwa kwa ripoti ya wahasibu wakaguzi kuhusu akaunti ya pamoja na mizania ya benki hii kwa mwaka uliomalizika tarehe 31 mwezi Desemba mwaka 2004.

b) Ripoti na akaunti kwa mwaka uliomalizika tarehe 31 mwezi Desemba mwaka 2004

Kupokea na kujadilia ripoti ya wakurugenzi na taarifa ya akaunti ya pamoja na mizania ya benki kwa mwaka uliomalizika tarehe 31 mwezi Desemba mwaka 2004.

c) Mgao wa Faida

Kutangazwa kwa mgao wa faida

d) Uchaguzi wa wakurugenzi

- i) Kuambatana na kipengele nambari 101 cha sheria na masharti ya kampuni, halmashauri ya wakurugenzi ilimteua Bw. Joseph Kinyua

kujaza nafasi kwenye halmashauri hiyo. Kwa vile anastahili, Bw. Joseph Kinyua amejitolea kuchaguliwa tena.

- ii) Kuambatana na kipengele nambari 94 cha sheria na masharti ya kampuni, Bi.Susan Outa Mudhune, Bw. William Rubaara Gitobu na Prof. Francis Fredrick Ojany wanastaafu kwa zamu kutoka afisini kama wakurugenzi wa benki hii na kwa vile wanastahili wamejitolea 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 Ernst and Young kuwa wakaguzi wa hesabu za pesa wa kampuni ya KCB 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 nyingine yoyote

Kutekeleza shughuli yoyote nyingine ambayo inaweza kutekelezwa wakati wa mkutano mkuu wa mwaka.

Tarehe 24 mwezi February mwaka 2005 kwa amri ya wakurugenzi.

K.D.Malakwen
Katibu.

BOARD OF DIRECTORS



Susan Mudhune, MBS
Chairman (age 55) joined the Board in May, 2001 and became Chairman of the Board in April, 2003. Holds a Bachelor of Arts Degree in Education and an MBA. A Fellow of Kenya Institute of Bankers (KIB).



Terry Davidson
Chief Executive (age 52) joined KCB in January, 2003. Former Head of Citibank in East Africa. Current Chairman of Kenya Bankers Association and former Chairman American Business Association.



Prof. Francis Ojany
Director (age 68) joined the Board in May, 2001. Professor of Geography, University of Nairobi. Director Savings and Loan Kenya Limited and Bank of Baroda. Chairman of the Bank's Procurement Committee.



Joseph Kinyua
Director- (age 54) joined the Board in July, 2004. Holds a Master of Arts in Economics. Currently the Permanent Secretary, Treasury. He has worked with the ministry in various senior positions including the Chief Economist, Director of Financial Markets & Financial Secretary.



Susan Omanga
Director (age 44) joined the Board in June, 2004. Holds a Degree in Business Management and Marketing. She is currently the Managing Director of Exclamation Marketing Limited.



Catherine Kimura
Director (age 58) joined the Board in June, 2003. Holds a Bachelor of Arts and a Diploma in Tourism and International Relations. Advisor, State Corporations, Office of the President.



William Gitabu
Director (age 68) joined the Board in May, 2001. Holds a Bachelor of Arts Degree and a Diploma in Education. Currently Executive Director with the Institute of Personnel Management.



Albert Ruturi
Chief Operating Officer (age 56) joined KCB in 2001 having worked with Barclays Bank of Kenya Limited for 32 years at various senior management positions including General Manager and Chief Operating Officer.



Sunil Shah
Director (age 51) joined the Board in June, 2004. He is currently the Executive Director and Managing Director of United Millers Limited and a member of various Professional Bodies among other directorships.



Eng. Musa Ndetto
Director (age 52) joined the Board in June, 2003. He is a member of IEE (UK) and practices as a Consulting Electrical Engineer. Director of Kenya Electricity Generating Company Limited (KenGen). Chairman of the Bank's Human Resources Committee.



Peter Muthoka, MBS
Director (age 60) joined the Board in June, 2004. Holds a Bachelor of Arts Degree in Economics and Masters of Arts Degree in Education with special reference to U.N Agencies. Current Managing Director of Sasini Tea and Coffee limited. Chairman of the Bank's Audit Committee.

DIRECTORS OF SUBSIDIARIES



(l - R) Prof N.D Nzomo CPA(K), Director S&L (age 61) joined Board in 1992. He is an Associate Professor, Accounting at the University of Nairobi. Prof. G K Misoi, Director S&L (age 52) joined Board in 1998. Holds a PhD in Mechanical Engineering, and currently a Lecturer at Moi University in the Department of Production Technology. He has also worked for Ministry of Transport and Communications as Assistant Engineer. B O Amollo, Director S&L (age 50) joined Board in 1996. Holds a Bachelor of Arts Degree in Economics and Government. Currently in Ministry of Finance in charge of the Monetary Division of the Fiscal & Monetary Affairs Department.



Prof. J.K Musuva, Director KCPC (age 57) joined Board in 1987. Holds a PhD in Mechanical Engineering. He is a registered Engineer and a member of Institution of Engineers of Kenya. Former Executive Chairman of Kenya Railways Corporation.

(l - R) F.K.A Koske, Director KCB (T) (age 57) joined the Board in 2000. He is a Chartered Company Secretary. An associate of the Institute of Chartered Secretaries and Administration. B.C. Mwenda, Director KCB (T) (age 64) Holds an MA in Public Administration and an MBA. He has held various senior positions including Commissioner of Income Tax (Tanzania) and Commissioner of Internal Revenue (Uganda). N.M Arte, Director KCB (T) (age 55) joined the Board in 1992. Former Regional Manager HCE in charge of North Eastern Province. Currently he is the Chairman National Disaster Response Committee.

KCB EXECUTIVE COMMITTEE



(Seated l - R) Dr. Tony Githuku - Divisional Director - Information Technology, Albert Ruturi - Chief Operating Officer, Terry Davidson - Chief Executive, Rose Kinuthia - Divisional Director - Risk, Samuel Kimani - Divisional Director - Finance.
(Standing l - R) Kepha Bosire - Head of Corporate Affairs, Fred Mutiso - Divisional Director - Strategy & Change Programme, Kiprop Malakwen - Company Secretary, Catherine Njoroge - Divisional Director - Retail, Wangui Ngatia - MD S&L, Stanley Towett - Divisional Director - Audit, Lyn Mengich - Divisional Director - Human Resources, Kalyan Mukherjee - Treasurer, Philip Ilako - Divisional Director - Corporate, Bazra Tabulo - MD KCB (T)

CHAIRMAN'S STATEMENT



> | **SUSAN MUDHINE**
Chairman

SHAREHOLDERS,

Once again, I am pleased to present to you the Annual Report and Financial Statements for the year ended 31 December, 2004. This was a very successful year for the KCB Group as the Bank continued to grow stronger, recording a significant improvement in both quality and size of assets and liabilities over 2003.

Your Group posted a profit before tax of KShs. 1.1 billion, 22% higher than 2003 reflecting the fruits of efforts that have been made to boost the business in all segments. The Board and Management are confident that the Bank is firmly on a growth path and should be able to achieve better results year on year going forward.

Over the past year, the average share price improved by 18% from KShs. 54 at the end of 2003 to KShs. 64 at the end of 2004 although there were significant fluctuations during the review period. Earnings per share grew from KShs. 3.06 in 2003 to KShs. 3.94 in 2004. This represents a significant capital gain for shareholders and overall improvement in shareholder value.

Operating Environment

Kenya's Gross Domestic Product (GDP) grew from 1.8% in 2003 to 2.6% in 2004. The country's overall economic growth was supported by improved performance in agriculture, manufacturing, tourism and transport and communication sectors. Going forward, the country's economic growth is projected to accelerate to 3.5% in 2005. The prevalent stability in the

country's key macroeconomic variables is also expected to support growth while the manufacturing sector will continue to benefit from increased access to the wider regional and global markets.

The Government set itself a target of maintaining average underlying inflation at below 5% while overall annual average inflation rate remained high and closed at 11.62% due to increased costs of energy, transport and foodstuff.

The banking sector, however, operated in a very competitive environment in 2004, but there were also some positive developments. The resumption of donor funding programs demonstrated confidence in the country's economic development agenda and further encouraged investment in the country. Credit to the private sector also grew by 23% following substantial reduction in the level of interest rates. This led to creation of employment and reduction of poverty, which were some of the Government's macro-economic objectives.

Kenya's major foreign exchange earner, tourism, was boosted by an inflow of tourists from all over the world in spite of continued issuance of travel advisories by the United States of America over presumed terrorist threats. The sector returned to its rightful place as the country's top foreign exchange earner bringing back optimism to the hotel industry that depends on tourism for its business. A record KShs. 42 billion was earned from tourism in 2004, a 66% increase from KShs. 26 billion in 2003. This improvement is attributable to the efforts of the Kenya Tourist Board in intensifying marketing activities abroad, among other factors.

CHAIRMAN'S STATEMENT (cont)

The Financial Sector, which is Kenya's fifth largest economic sector contributing 10.6% of the country's GDP, continued to experience volatility in interest and foreign exchange rates. Although base rates for most major players in the industry ranged between 9% and 13%, the feeling among investors and the business community was that borrowing had become expensive and inhibitive to expansion of enterprise. However, there have been attempts to support an interest rate structure that promotes savings and equitable distribution of investment funds. On this score, it is expected that Central Bank of Kenya (CBK) will announce a bank rate in 2005 as a way of stabilizing the interest rate regime in the country.

Further positive developments were instituted by the Ministry of Finance; the reduction of the cash ratio from 8% to 6% released a wave of liquidity that posed an investment challenge to banks; and the reduction of the minimum core capital for banks from KShs. 350 million to KShs. 250 million made it easier for new players to emerge. These developments serve to provide the ingredients for a dynamic competitive financial industry under close supervision of CBK.

On interest rates, the benchmark 91-day Treasury Bills closed at 8.096% in December, 2004 up from 1.585% at the start of the year while the 182-day security moved at 2.388% in January, 2004 and 8.337% at the end of the year. We expect the rates to stabilize at below 10% in 2005 following improved Government revenue collection and continuing balance of payments support from bilateral development partners. This would continue to influence the movement in bank lending rates.

The Kenya shilling generally depreciated against major world currencies in 2004 compared to the previous year. On average, the shilling exchanged at KShs. 79.180 to the US Dollar, compared to KShs. 75.913 in 2003. In relation to the Sterling Pound, the local currency traded at an average of KShs. 145.770 in 2004 from an average of KShs. 123.962 in 2003. The shilling lost to the Euro exchanging at an average of KShs. 98.410 in 2004 from an average of KShs. 85.553 in 2003. We expect stability in the foreign exchange market in 2005 with the Kenya shilling's exchange rate

remaining below KShs. 80.00 to the US Dollar subject to stability in international oil prices, good donor relations and improved agricultural production.

Competition continued to intensify especially in the consumer loans sector. Our personal loan portfolio grew tremendously with activity being recorded at all our outlets countrywide and was a major boost to our balance sheet. The base rate of the Bank, however, remained stable at 10%.

KCB Rights Issue

During the year, shareholders mandated the Board to issue 50 million additional shares to shareholders in a rights issue exercise to raise additional capital. The continued erosion of our key prudential ratios by years of poor performance necessitated this. I am pleased to announce that the exercise conducted between June and September, 2004 was very successful enabling the Bank to raise KShs. 2.35 billion in additional capital. I would like to take this opportunity to thank all shareholders who took up their allotment and those who applied for additional rights for making the exercise such a huge success.

Your Subsidiaries

The two subsidiaries of your Bank, Savings and Loan Kenya Limited, (S&L) and Kenya Commercial Bank (Tanzania) Limited (KCB-T) registered improved performance in 2004.

During the year under review, S&L recorded a commendable KShs. 18.2 million in pretax profit up from KShs. 13.2 million in 2003. The subsidiary will undergo a brand makeover in 2005 to give it a modern look and revitalize the mortgage business.

KCB (T) inched closer to profitability after years of loss making. In 2004, the subsidiary reported a pretax loss of KShs. 22.9 million down from a pretax loss of KShs. 59.7 million in 2003. The Board and Management are reviewing the subsidiary's strategy with a view to

CHAIRMAN'S STATEMENT (cont)

enhancing its business growth and achieving the much-desired profitability.

Our Corporate Governance and Ethics Policy

Your Board continues to pursue the principles of good Corporate Governance in running the business on your behalf. The Board Charter we put in place in 2003 has proved a reliable guide in our involvement in business decision-making and has been the ideal platform for maintaining harmony with Management in the running of the Bank. We have held several Corporate Governance workshops for the Board and Management to appraise ourselves on current thinking in enterprise management and acquire relevant knowledge and skills for effective ethical business management.

Your Directors are well aware of their responsibilities to the business and their limit of authority in making business decisions and have played their role effectively over the past year. In line with the principles of good Corporate Governance, the Board has mandated Management to take measures to eliminate corruption in the workplace. As a starting point, all employees are now aware of the policy of zero tolerance to corruption and have agreed on specific performance objectives to achieve this desired position. I am confident that in the medium term, we should be able to achieve a graft-free corporate status.

Our Corporate Social Responsibility (CSR)

Your Bank played a key role last year in providing service to the community as part of its corporate social responsibility (CSR). Recognizing that CSR is an important ingredient to business success, the Bank spent over Kshs. 10 million in provision of free community service throughout the country with the participation of staff during the KCB Community Week and the KCB Community Day. The turnout among employees was extremely encouraging. We also supported various charitable causes during the year.

The highlight of our CSR activities last year was the launch of United Against Hunger Initiative to raise money to feed

about 3 million people in hunger-stricken areas in the country. This initiative that drew together partners from several sectors was in response to an appeal by the Government following prolonged drought in some parts of Kenya. Over KShs. 6 million was raised with staff contributing KShs. 1 million towards the worthy cause. About 12,000 people in 12 districts received food aid from the initiative. We shall continue to play our part as responsible corporate citizens to the communities among whom we operate.

Your Bank is fully aware of the dangers posed by HIV/Aids at the workplace and recognizes the need to take steps to protect employees from the scourge. Consequently, I am pleased to confirm that we have concluded an employee awareness campaign that involved all members of staff in our countrywide network at the cost of KShs. 8.5 million.

I am confident that our employees are now better prepared to protect themselves against the pandemic or manage their condition in the unfortunate event that they are already infected.

Your Dividends

Last year, our shareholders were paid a dividend for the first time in five years. We pledged that as the business performance improved, we would improve our level of dividend payout. Following the impressive performance of the Group in 2004, the Board has recommended a dividend payment of KShs. 2 per ordinary share held against last year's figure of KShs. 1 per ordinary share held. The total dividend payout will amount to KShs. 399 million.

Our future

The future of the KCB Group is brighter than ever before. The business is clearly poised for growth as we pursue our strategy to revamp the branch network and expand our product/service offering. The Bank was recently allowed by Central Bank of Kenya to open seven more branches this year thus taking our network further into viable rural areas. There are fresh opportunities in the

CHAIRMAN'S STATEMENT (cont)

Horn of Africa and Southern Sudan following recent peace agreements between formerly warring factions. We plan to fully take advantage of the opportunities to further improve on shareholder value.

The Board and Senior Management recently reviewed the Strategic Plans for 2005-2007 and agreed on a Balanced Score Card framework to enable Management achieve its strategic objectives going into the future. We believe that this process is in top gear and would enable KCB to increase its market share and value hence becoming the bank of choice.

On behalf of the Board, I take this opportunity to thank the KCB Team for putting in a lot of effort to achieve this good result. I believe they will continue with similar dedication, determination and hard work in order to consistently deliver quality financial products and services in years to come.

I also want to thank my fellow Board members for their

team spirit and commitment to the business without which we would not have achieved the goals for 2004.

Further, I would like to recognize the invaluable support the Bank received from our customers and the communities among whom we do business.

To our shareholders, your business is doing well and you can rest assured that you will fully enjoy the fruits of your investment in the foreseeable future. We will continue to rely on your support as a source of energy to build this Bank to greater heights.

Thank you.



> | KCB Group Chairman, Susan Mudhune flags off a truck full of relief food to Makueni District. Makueni was one of the 12 districts whose famine situation caught the attention of KCB. Looking on are KCB Chairman Francis Kangwana, KCB Chief Executive Terry Davidson and other officials.

TAARIFA YA MWENYEKITI

Wenyehisa wa KCB.

Kwa mara nyingine, nina furaha kuwasilisha kwenu ripoti ya mwaka na taarifa ya kifedha ya mwaka uliomalizikia tarehe 31 mwezi Desemba mwaka 2004. Mwaka huo ulikuwa wa mafanikio makubwa kwa KCB kwani benki hii iliendelea kunawiri, kuimarisha huduma na kupanuka katika sekta zake zote ikilinganishwa na mwaka 2003.

Kampuni yenu ya KCB ilijipatia faida ya shilingi billioni 1.1 kabla ya kutozwa ushuru hii ikiwa ni nyongeza ya asilimia 22 ikilinganishwa na mwaka 2003. Nyongeza hiyo ya faida ni dhahirisho la juhudi zilizofanywa kwa lengo la kuimarisha sekta zake zote. Halmashauri ya wakurugenzi na wasimamizi wana imani kwamba benki hii imechukua mkondo wa kustawi na inapaswa kuwa na uwezo wa kujipatia faida zaidi mwaka huu na miaka ijayo.

Katika kipindi cha mwaka uliopita bei ya kadri ya hisa iliimarika kwa asilimia 18 kutoka shilingi 54 kwa hisa mwishoni mwa mwaka 2003 hadi shilingi 64 mwishoni mwa mwaka 2004 ingawa bei hiyo ilibadilika badilika wakati wa kipindi hicho. Pato la kila hisa liliongezeka kutoka shilingi 3.06 mwaka 2003 hadi shilingi 3.94 mwaka 2004. Hii ni faida kubwa kwa wenye hisa na kuimarika kwa jumla kwa hisa za KCB.

Mazingara ya Biashara

Jumla ya pato la nchi ya Kenya liliongezeka kutoka asilimia 1.8 mwaka wa 2003 hadi asilimia 2.6 katika mwaka wa 2004. Ongezeko katika ukuaji wa uchumi wa nchi lilitokana na matokeo ya kufana katika sekta za kilimo, viwandani, utalii na uchukuzi na mawasiliano. Kuenda mbele, uchumi wa nchi unatarajiwa kukua hadi kufika asilimia 3.5 mwaka wa 2005. Uthabiti ulioko katika nyanja mbalimbali za kiuchumi utaendelea kuunga mkono ongezeko hilo huku sekta ya viwanda ikinufaika kutokana na nyongeza ya masoko katika kanda hii na kokote ulimwengu.

Serikali iliweka kiwango cha ongezeko la gharama ya maisha cha chini ya asilimia tano ilhali kiwango cha kadri cha kupanda kwa gharama ya maisha kilikuwa cha juu na

kufikia asilimia 11.62 mwishoni mwa mwaka 2004 kwa sababu ya ongezeko la bei za kawi, vyakula na uchukuzi.

Sekta ya benki hata hivyo iliendesha biashara katika mazingira yenye ushindani mkali mwaka 2004. Lakini kulikuwa pia na mafanikio kadhaa. Kurejelewa tena kwa mipango ya kutoa misaada ya kifedha kulidhihirisha imani ya wafadhili kwa juhudi za serikali za ufufuzi wa uchumi na pia kuwapa motisha wawekezaji kuweka rasimali zao hapa nchini. Mikopo kwa sekta ya kibinafsi pia iliongezeka kwa asilimia 23 kufuatia kupunguzwa kwa viwango vya riba. Hii ilisaidia kuongeza nafasi za kazi na hatimaye kupunguza umasikini kuambatana na malengo ya serikali ya kuimarisha sekta ya uchumi.

Sekta ya utalii abayo huiletea Kenya pesa nyingi za kigeni iliimarika kutokana na idadi kubwa ya watalii waliozuru nchi hii licha ya tahadhari za usafiri zilizotolewa na Amerika kwa raia wake dhidi ya kuzuru Kenya eti kwasababu ya vitisho vya mashambulizi ya kigaidi. Sekta hiyo ilichukua tena nafasi yake ya awali ya kuiletea nchi hii pesa nyingi zaidi za kigeni na kurejesha matumaini katika sekta ya hoteli ambayo huwategemea sana watalii katika biashara yake. Jumla ya shilingi billioni 42 zilipatikana kutoka sekta ya utalii mwaka 2004, hii ikiwa ni nyongeza ya asili mia 66 kutoka shilingi billioni 26 mwaka 2003. Ufanisi huo ulitokana na kampeini kabambe ya halmashauri ya utalii nchini ya kutangaza ngambo vivutio vya watalii vinavyopatikana nchini Kenya, miongoni mwa maswala mengine.

Sekta ya fedha ambayo ni ya tano katika uchumi wa Kenya ikichangia asilimia 1.6 ya jumla ya pato la nchi iliendelea kukumbwa na matatizo kadhaa wa kadhaa ya viwango vya riba na pia katika masoko ya ubadilishanaji wa pesa za kigeni. Ingawa viwango vya chini vya riba za mikopo katika taasisi nyingi za kifedha vilikuwa kati ya asilimia 9 na 13, wawekaji rasimali wengi na wafanyi biashara walihisi kwamba gharama ya mikopo imekuwa ghali mno na inazuia ustawishaji na upanuzi wa biashara. Hata hivyo, majaribio kadhaa yamekuwa yakifanywa kuunga mkono mfumo mmoja wa viwango vya riba unaoweza kuimarisha uwekaji akiba na utoaji wa mikopo ya uwekezaji kwa wote. Kutokana na haya, ni matumaini yetu

TAARIFA YA MWENYEKITI

kwamba benki kuu ya Kenya, mwaka huu wa 2005 itatangaza kiwango cha riba kitakachozingatiwa na benki zote kama njia moja ya kuthibiti viwango vya riba hapa nchini.

Matukio mengine muhimu yalikuwa hatua ya Wizara ya Fedha kupunguza kiasi cha akiba ya mtaji kinachohitajika kuendesha biashara ya benki kutoka shilingi milioni 350 hadi shilingi milioni 250. Matukio haya yalitoa fursa na masharti nafuu kwa wawekezaji zaidi katika sekta ya benki chini ya usimamizi wa Benki Kuu ya Kenya na kuleta ushindani mkali katika sekta hii.

Viwango vya riba vya hati za thamani ambazo hulipwa kila baada ya siku 91 viliongezeka hadi asilimia 8.096 kufikia mwisho wa mwezi Desemba mwaka 2004 kutoka asilimia 1.5865 mwanzoni mwa mwaka ilhali viwango vya riba za hati za thamani za miezi sita vikaongezeka kutoa asilimia 2.388 mwezi Januari hadi asilimia 8.337 mwishoni mwa mwaka. Tunatarajia viwango hivyo kudumishwa chini ya asilimia 10 mwaka 2005 kufuatia hatua ya serikali ya kuimarisha ukusanyaji ushuru na ya washirika wetu wa kimaendeleo ya kutoa msaada wa kusawazisha nakisi ya bajeti ya nchi hii. Hii itaendelea kuchangia pakubwa mabadiliko ya viwango vya riba za mikopo.

Thamani ya shilingi ya Kenya kwa jumla ilipungua dhidi ya sarafu kuu za kimataifa mwaka 2004 ikilinganishwa na mwaka 2003. Kwa kadri shilingi ya Kenya ilibadilishwa kwa shilingi 79.180 dhidi ya Dola ya Marekani, ikilinganishwa na shilingi 75.913 mwaka 2003. Shilingi ya Kenya pia ilibadilishwa kwa kadri ya shilingi 145.770 dhidi ya Pauni ya Uingereza mwaka 2004 ikilinganishwa shilingi 123.962 mwaka 2003. Shilingi pia ilipungua thamana dhidi ya sarafu ya Euro na kubadilishwa kwa shilingi 98.410 mwaka 2004 kutoka shilingi 85.553 mwaka 2003. Tunatarajia shilingi ya Kenya kuwa thabiti dhidi ya sarafu muhimu za kimataifa mwaka huu ambapo tungependa kuona ikibadilishwa kwa kiwango cha chini ya shilingi 80 dhidi ya Dola mradi tu bei za kimataifa za mafuta zithibitiwe, uhusiano mwema na wafadhili wetu kudumishwa na uzalishaji wa mazao ya kilimo kuimarishwa nchini.

Ushindani uliendelea kuongezeka hasa katika idara ya utoaji wa mikopo midogo midogo. Mikopo ya kibinafsi

tuliyotoa iliongezeka kwa kiwango kikubwa katika matawi yetu yote nchini na hii iliimarisha sana mapato yetu. Hata hivyo benki ya KCB ilidumisha kiwango cha riba inayototwa mikopo cha asilimia 10 pekee.

Uuzaji wa Hisa za KCB

Mwaka uliomalizika wenyehisa waliidhinisha halmashauri ya wakurugenzi kutoa hisa nyingine milioni 50 kwa wenye hisa kwenye shughuli iliyokusudiwa kuongeza mtaji wa benki ya KCB. Hii ilitokana na hasara ambayo benki hii ilipata miaka ya mbeleni. Nina furaha kutangaza kwamba shughuli hiyo ya uuzaji wa hisa iliyofanywa kati ya mwezi Juni na Septemba mwaka 2004 ilikuwa ya kufana sana na iliwezesha benki ya KCB kukusanya mtaji zaidi wa shilingi billioni 2.35. Ninachukua fursa hii kuwashukuru wenye hisa wote waliokubali mgao wao wa hisa na wale walionunua hisa za ziada kwa kufanikisha shughuli hiyo.

Kampuni zenu tanzu

Kampuni mbili tanzu za benki yenu, Savings and Loan Kenya Limited (S&L) na Kenya Commercial Bank (Tanzania) Limited (KCB-T) zilikuwa na matokeo ya kifedha yaliokuwa mazuri kuliko awali.

Mwakani, S&L ilipata faida mwafaka ya shilingi milioni 18.2 kabla ya ushuru ikilinganishwa na shilingi milioni 13.2 ilizopata mwaka wa 2003. Tunadhamiria kuzindua nembo mpya ya kampuni hii tanzu itakayoipatia sura mpya na kuchangia ongezeko la biashara. KCB-T nayo inakaribia kupata faida baada ya miaka mingi ya kuripoti hasara. Mwaka wa 2004, kampuni hii tanzu ilipata hasara ya shilingi milioni 22.9 ikilinganishwa na hasara ya shilingi milioni 59.7 iliyopata mwaka wa 2003. Halmashauri ya wakurugenzi na wasimamizi wanachunguza upya mipango ya kampuni hii kwa lengo la kuimarisha biashara na kuiwezesha kupata faida.

Sera ya Maongozi Yetu na Maadili

Halmashauri yenu ya wakurugenzi inaendelea kudumisha kanuni za maongozi bora ya kampuni katika kuendesha vyema shughuli za benki ya KCB kwa niaba yenu. Mkataba

wa halmashauri hiyo ambao tulitia saina mwaka 2003 umethihirisha kuwa muhimu katika kutoa mwongozo kwa jinsi tunavyoshiriki katika kutoa maamuzi na umekuwa nguzo muhimu ya kudumisha uelewano na wasimamizi wakuu katika kuendesha shughuli za benki hii. Tumeandaa warsha kadhaa kuhusu maongozi ya benki hii kwa wanachama wa halmashauri ya wakurugenzi na wasimamizi wakuu wa benki hii ili kujifahamisha mengi kuhusu hali ya sasa ya usimaizi wa biashara na pia kujielimisha kuhusu maadili bora ya usimamizi wa biashara.

Wakurugenzi wenu wanafahamu barabara majukumu yao kwa shughuli za kibiashara za benki hii na pia mipaka yao katika kutoa maamuzi na wametekeleza vyema majukumu yao kwa kipindi cha mwaka mmoja uliopita. Kuambatana na kanuni za uongozi bora wa kampuni, halmashauri ya wakurugenzi imewapa wasimamizi wakuu idhini ya kuchukua hatua za kukabiliana na ufasidi kazini. Kama mwanzo tu, wafanyikazi wote sasa wanafahamu wanachohitajika kufanya ili kuangamiza ufasidi kazini. Iina imani kwamba tutafulu kuangamiza kabisa ufasidi atika kampuni hii.

kumu Letu kwa Jamii

iki yenu ilitekeleza jukumu kubwa mwaka uliopita ika kuihudumia jamii kama sehemu ya jukumu lake i jamii. Kwa kutambua kwamba jukumu la kampuni kwa jamii ni muhimu katika kufanikisha biashara, i hii ilitumia zaidi ya shilingi milioni 10 kutoa ma kwa jamii bila malipo kote nchini ambapo shirikisha wafanyikazi wake kuihudumia jamii wakati iki na siku ya kijamii ya KCB. Wafanyikazi wengi wa walijitolea kuihudumia jamii. Pia tulitoa misaada mbali mwaka uliopita.

cha shughuli zetu za huduma kwa jamii mwaka a kilikuwa uzinduzi wa hazina ya pamoja ya gisha pesa za kutoa msaada wa chakula kwa zaidi milioni tatu wanaokumbwa na baa la njaa katika kame za nchi hii. Hazina hii ambayo iliwaleta washiriki kutoka sekta mbali mbali ilikuwa ya vito wa serikali kufuatia kiangazi cha muda mrefu hemu kadhaa za kenya.

Zaidi ya shilingi milioni sita zilichangwa ambawafanyikazi wa Benki ya KCB walitoa shilingi millio moja kwa hazina hiyo. Takriban watu elfu 12 katika wilaya 12 walipokea msaada wa chakula uliotolewa na hazina hiyo. Tutaendelea kutekeleza jukumu letu kama Benki inayojali maslahi ya jamii tunayoendesha biashara miongoni mwao.

Benki yenu inafahamu vyema kuhusu athari za ugonjwa wa ukimwi mahala pa kazi na inatambua umuhimu wa kuchukua hatua za kuwalinda wafanyikazi wake dhidi ya janga hili. Vile vile ningependa kuwathibitisha kwamba tumekamilisha kampeini ya kuwahamasisha wafanyikazi wetu katika matawi yetu kote nchini kuhusu ugonjwa huu hatari. Kampeini hii iliharimu shilingi milioni 8.5.

Ninaamini kwamba wafanyikazi wetu sasa wamejiandaa vilivyo kujikinga dhidi ya ugonjwa huu hatari au kumudu hali yao kwa wale ambao tayari wameambukizwa.

Mgao wenu wa Faida

Mwaka uliopita, wenye hisa wetu walilipwa mgao wao wa faida kwa mara ya kwanza katika kipindi cha miaka mitano. Tuliadhi kwamba tutaendelea kuongeza viwango vya mgao wa faida iwapo biashara yetu itaendelea kunawiri. Kufuatia ufanisi mkubwa wa KCB mwaka 2004, halmashauri ya wakurugenzi imependekeza mgao wa faida wa shilingi mbili kwa kila hisa ikilinganishwa na shilingi moja iliyolipwa kila hisa mwaka 2003. Malipo hayo ya mgao wa faida yatakuwa jumla ya shilingi milioni 399.

Hali Yetu ya Baadaye

Nyota ya baadaye ya benki ya KCB inangara zaidi kuliko hali ilivyokuwa miaka michache iliyopita. Biashara zake bila shaka zitaendelea kunawiri huku tunapotekeleza mikakati yetu ya kuimarisha matawi yetu na kupanua huduma tunazotoa.

Benki ya KCB hivi majuzi ilikubaliwa na benki kuu ya Kenya kufungua matawi saba zaidi mwaka huu hivyo basi kutuwezesha kupeleka huduma zetu muhimu katika sehemu za mashambani. Kuna fursa zaidi za biashara

TAARIFA YA MWENYEKITI

katika upembe wa Afrika na kusini mwa Sudan kufuatia mikataba ya hivi majuzi ya amani kati ya makundi ambayo yamekuwa yakizozana kwa muda mrefu. Tunapanga kutumia vyema fursa hii ili kuwapa wenye hisa faida zaidi. Halmashauri ya wakurugenzi na wasimamizi wakuu hivi majuzi walichunguza upya mipango ya mwaka 2005/2007 na wakakubaliana kuanzisha utaratibu wa kuwawezesha wasimamizi kutimiza malengo ya kampuni hii siku zijazo. Tunaamini kwamba utaratibu huu utaiwezesha KCB kuimarisha faida yake na thamana yake na kuifanya benki ya chaguo la wengi.

Kwa niaba ya halmashauri, ninachukua fursa hii kuwashukuru wafanyikazi wote wa KCB kwa juhudi zao nyingi ambazo zimeuwezesha benki hii kujipatia faida na matokeo mema kwa jumla. Ninaamini kwamba wataendelea na moyo huo huo wa kujitoa mhangana kazini

ili kuendeleza huduma bora za benki hii miaka ijayo.

Pia ningependa kuwashukuru wanachama wenzangu wa halmashauri kwa kuunga mkono na kujitolea kuihudumia benki hii na kuiwezesha kutimiza malengo yake ya mwaka 2004. Kadhalika, ninawashukuru wateja wetu na jamii tunazoendesha biashara miongoni mwao kwa ushirikiano wao ambao umetusaidia kutimiza ndoto zetu.

Kwa wenyehisa wetu, biashara yenu inafanya vyema na ninawahakikishia kwamba mtaendelea kufurahia matunda ya jasho lenu siku zijazo. Tutaendelea kutegemea kuungwa mkono nanyi ili mtutie nguvu na imani ya kuistawisha benki hii zaidi.

Ahsanteni.



> | KCB Group Chairman, Susan Mudhune welcomes Ambassador Francis Muthaura at the start of the Corporate Governance Workshop for Board of Directors and Senior Management. Chief Executive, Terry Davidson and Director of KCB (T), Balthazar Mwenda look on.

CHIEF EXECUTIVE'S COMMENTARY



> **TERRY DAVIDSON**
Chief Executive

Shareholders,

2004 continued the recovery story for the KCB Group with all performance indicators recording significant improvements over 2003. Pretax profit grew by 22% from KShs. 877 million in 2003 to KShs. 1,073 million in 2004. Following this improved performance the Board of Directors has approved the payment of a dividend of KShs. 2 per share up from KShs. 1 per share paid out in 2003.

Despite the difficult trading conditions in the economy and increased competition in the sector the Group recorded strong growth across the board. Total operating income increased by KShs. 950 million or 13% to KShs. 8.37 billion. Encouragingly income increased across all customer and product sectors. Net interest income grew by 11% from KShs. 3.45 billion to KShs. 3.83 billion while foreign exchange earnings improved by 20% from KShs. 351 million in 2003 to KShs. 421 million in 2004. Fees, commissions and other income were also up 14% from KShs. 3.61 billion to KShs. 4.12 billion in 2004. We expect revenue collection to improve further in 2005 as we continue to grow our customer base and reap the efficiencies through centralization of our processing and better collection of fees and other charges throughout the network.

Total operating expenses increased by 21%. This is largely attributable to the growth of our business and especially due to the large number of retail loans that were extended together with a large number of current and transactional accounts that were opened. In addition we continued to spend on building a more

robust infrastructure through upgrading our IT system and refurbishing and better equipping our branches. In 2005 we intend to implement various initiatives to contain further expense growth and to ensure that revenue growth outstrips expense growth with the intention of bringing our revenue to expense ratio to within industry norms

On the balance sheet net loans and advances grew by a strong 34% to KShs. 36.2 billion. The good book increased from KShs. 19.2 billion to KShs. 28.7 billion, from both retail and corporate business, and the bad bank (net non performing loans) shrunk further from KShs. 7.9 billion at the end of 2003 to KShs. 7.5 billion in 2004. Customer deposits grew from KShs. 50.6 billion to KShs. 55.9 billion as a result of strong growth in current accounts. Investments in Government Securities also increased by KShs 1.1 billion to absorb excess liquidity however the mix changed with a stronger bias towards Treasury Bills.

One of the major milestones for the Group last year was the successful Rights Issue which raised a net amount of KShs. 2.35 billion. This, together with the previous year's net income and payment of a dividend resulted in an impressive increase in shareholder funds of over 50% or KShs. 3 billion bringing total shareholder funds to KShs. 8.6 billion. As a result, the Group now has strong capital and liquidity ratios with core capital to deposits of 14.5%, total capital to weighted assets of 16.7% and liquidity of 39%."

Good progress continues to be witnessed in the non-performing loan (NPL) book as we continue to negotiate settlements,

CHIEF EXECUTIVE'S COMMENTARY (cont)

successfully liquidate assets through sales and restructure debts through negotiation. Our net NPL's dropped to KShs. 7.5 billion from KShs. 7.9 billion in 2003. We have completed the centralization of all NPL's into Head Office for ease of administration, a development that has freed our branch network from administering the bad book to growing the good book. We expect this trend to continue in 2005 with continued growth in customer loans and overdrafts and a further reduction in our NPL's leading to a stronger balance sheet.

Our new corporate brand, launched in 2003, has been well accepted by our customers and the general public, leading to a very positive perception that has contributed to business growth. We recently launched Phase II of the Brand Program aimed at entrenching a more customer-focused organization that we are building. A media campaign is planned to this effect to be supported by various promotional activities.

As a key to delivering our strategy, we have introduced a Balanced Scorecard as a performance measurement tool for all management staff and we hope to incorporate non-management staff in 2005. The tool will enable the bank to evaluate each individual's contribution to the achievement of corporate objectives and is essential in determining compensation and growth of all employees in future.

We have made significant progress with Project Mteja as we seek to mould KCB into a customer-focused organization. We have undertaken a number of significant upgrades of our IT system to make it more efficient and are in the process of rolling out a new customer interface module that would also make KCB a one-branch bank by the end of 2005. We refurbished 29 branches in our new brand colours in 2004 bringing the total number of refurbished branches to 34. We intend to refurbish another 45 branches in 2005 bringing the total number of rebranded branches to 79 by the end of 2005.

We established a new branch at the NHIF building on Capital Hill in 2004 and have received approval to open an additional seven new branches this year. Our ATM

network considerably expanded in 2004 from 56 to a current network of 84. This will be further expanded to 116 by the end of 2005. This is the currently the largest network of ATMs of any bank in the region.

Our mortgage subsidiary, Savings and Loan, will launch a new brand in mid 2005 which it will use as a platform to more aggressively grow its business. We see many opportunities for this subsidiary to increase its market share through aggressive product innovation and competitive pricing.

We will launch a partnership with Western Union in April 2005 for a money transmission service and we intend to issue Mastercard credit cards in the near future. We also intend to launch a leasing activity initially aimed at the corporate sector and thereafter at the retail sector. Our e-statement product has been well received in the market and enables us to offer real-time account information to our corporate clients.

Our Corporate Social Responsibility activities went well last year with over 100 teams taking part in both the KCB Community Day and KCB Community Week. In the KCB Community Day, the KCB team did a fantastic job providing free service and donating equipment and other materials to prisoners all over the country. We have reviewed our overall Community Program this year with a view to concentrating on more sustainable and effective programs.

For the second year running, we sponsored a successful KCB Safari Rally in Mombasa in conjunction with the Kenya Motor Sport Foundation. The event drew huge support from the Coast and was an integral part of our plans to promote the new KCB brand and to market our products. In 2005 we are sponsoring the Kenya National Rally Championship series that takes the motor rallies to various parts of Kenya. We plan to use the opportunity to showcase our refurbished branches and aggressively market for more business while also taking Kenya's topflight auto-rallying to the people.

CHIEF EXECUTIVE'S COMMENTARY (cont)

During the year, our Chairman, Susan Mudhune and Director, Peter Muthoka were recognized by the President for their outstanding contribution to the development of the sectors that they lead. Both received the Moran of the Burning Spear (MBS) award during the 2004 Jamhuri Day celebrations and I congratulate them on this award.

We had two new Divisional Directors join us in 2004. Rose Kinuthia is the new Divisional Director, Risk and Lyn Mengich is the new Divisional Director Human Resources.


Rose formerly worked as a senior risk manager with Barclays Bank and has wide knowledge in business risk management. Lyn joined us from Shell Africa and had previously worked in Unilever and GlaxoSmithline in various senior human resource management roles.

Virtually the entire bank attended one or more training programs in 2004 as part of our goal to retrain and upskill staff. The entire Board and Executive Management team of KCB Group underwent a 3-day corporate governance workshop hosted by the Centre for Corporate Governance to

increase awareness of global best practice.

I would like to thank the Chairman and the entire Board for their leadership and support in 2004. In addition I would like to thank all of our staff for their significant contribution, which made 2004 such a successful year for the KCB Group.

Thank you.



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TAARIFA YA MKURUGENZI MKUU

WENYEHISA

Ufanisi wa benki ya KCB na makampuni tanzu wake uliendelea kuonekana mwaka 2004 sawa na ule wa mwaka uliotangulia wa 2003. Faida kabla ya kutozwa ushuru iliongezeka kwa asilimia 22 kutoka shillingi milioni 877 mwaka 2003 hadi shillingi milioni 1,073 mwaka uliopita wa 2004. Kufuatia kuongezeka kwa faida, halmashauri ya wakurugenzi imeongeza malipo ya mgao wa faida kwa asilimia 100 hadi shillingi mbili kwa kila hisa ikilinganishwa na shillingi moja kwa kila hisa zilizolipwa wenye hisa mwaka 2003.

Licha ya masharti magumu ya kibiashara katika uchumi na ongezeko la ushindani katika sekta ya benki, kundi hili liliimarisha faida na ukuaji wake kwa jumla. Kiasi cha pesa za matumizi kiliongezeka kwa shillingi milioni 950, hii ikiwa ni nyongeza ya asilimia 13 hadi shillingi billioni 8.37. La kuvutia ni kwamba mapato yaliongezeka katika sekta zake zote za wateja na huduma nyingine. Pato la jumla baada ya kutozwa ushuru liliongezeka kwa asilimia 11 kutoka shillingi billioni 3.45 hadi shillingi billioni 3.83 ilhali mapato ya ubadilishanaji wa pesa za kigeni yaliongezeka kwa asilimia 20 kutoka shillingi milioni 351 mwaka 2003 hadi shillingi milioni 421 mwaka 2004. Ada na mapato mengine pia yaliongezeka kwa asilimia 14 kutoka shillingi billioni 3.61 hadi shillingi billioni 4.12 mwaka 2004. Tunatarajia ukusanyaji wa ushuru kuimarika zaidi mwaka huu wa 2005 huku tunapoendelea kuimarisha huduma kwa wateja wetu na kuvuna matunda ya bidii yetu kupitia kuunganisha huduma mbali mbali na kulainisha ukusanyaji wa ada na mapato mengine katika matawi yetu yote.

Gharama ya shughuli zetu iliongezeka kwa asilimia 21. Hii ilitokana na ongezeko la shughuli zetu za kibiashara hasa kutokana na idadi kubwa ya mikopo ndogo ndogo tuliyotoa kwa watu binafsi pamoja na idadi kubwa ya akaunti tulizofungulia wateja wetu. Vile vile tuliendelea kutumia kiasi kikubwa cha pesa kuimarisha mitambo yetu ya teknolojia ya kisasa ya habari na kukarabati na kuweka vifaa bora katika matawi yetu kote nchini. Mwaka huu wa 2005 tunanua kutekeleza hatua mbali mbali ili kupunguza gharama zaidi na kuhakikisha kwamba ukuaji wa pato unazidi gharama ili kujimudu.

Mikopo iliyotolewa iliongezeka kwa asilimia 34 hadi shillingi billioni 36.2. Mikopo hii iliongezeka kutoka shillingi billioni 19.2 hadi shillingi billioni 28.7 kutokana na mikopo kwa watu binafsi na makampuni, na ile mikopo ambayo hailipwi ikapungua kutoka shillingi billioni 7.9

mwisho wa mwaka 2003 hadi shillingi billioni 7.5 mwaka 2004. Akiba za wateja ziliongezeka kutoka shillingi billioni 50.6 hadi shillingi billioni 55.9 kutokana na akaunti thabiti za wateja. Uwekezaji katika hati za dhamana za serikali pia uliongezeka kwa shillingi billioni 1.1.

Mojawapo wa mafanikio makubwa ya kundi hili ilikuwa uuzaji wa hisa zake ambao uliiletea pato la shillingi billioni 2.35. Hii pamoja na pato la mwaka 2003 na malipo ya mgao wa faida ilisababisha ongezeko la zaidi ya asilimia 50 la pesa za wenye hisa ambayo ni sawa na shillingi billioni tatu kufikia shillingi billioni 8.6. Kutokana na haya, benki ya KCB sasa ina mtaji thabiti.

Ufanisi uliendelea kudhihirika katika mikopo isiyolipwa kupitia makubaliano ya jinsi ya kuilipa, uuzaji wa rasimali iliyowekwa rehani na kuongeza muda wa kulipa madeni kupitia maelewano. Mikopo isiyolipwa ilipungua kutoka shillingi billioni 7.9 mwaka 2003 hadi shillingi billioni 7.5 mwaka uliopita. Tumehamisha hadi makao yetu makuu mikopo yote isiyolipwa ili iweze kushughulikiwa kwa urahisi, hatua ambayo imerahisishia matawi yetu jukumu gumu la kushughulikia mikopo hiyo huku yanapojitahidi kuimarisha faida. Ni matumaini yetu kwamba mwenendo huu utadumishwa mwaka 2005 kwa kuwapa wateja zaidi mikopo ya muda mrefu na ile ya muda mfupi na pia kupunguza zaidi kiwango cha mikopo isiyolipwa ili kuimarisha zaidi faida.

Nembo mpya ya kampuni yetu, iliyozinduliwa mwaka 2003, imepokewa vyema na wateja wetu na wananchi kwa jumla na kuwafanya kubadili hisia na mawazo yao kwa benki ya KCB, hali ambayo imechangia pakubwa katika ongezeko la wateja na biashara. Hivi majuzi tulizindua awamu ya pili ya mpango wa nembo yetu unaonuiwa kuifanya kampuni yetu kuzingatia zaidi maslahi na mahitaji ya wateja wetu. Ili kufanikisha mpango huu tumepanga kampeini kubwa katika vyombo vya habari zitakazoambatana na shughuli mbali mbali za kujitangaza kibiashara.

Ili kuafikia malengo yetu, tumeanzisha utaratibu wa kuchunguza utendaji kazi miongoni mwa maafisa wetu wakuu na tungependa pia kuwashirikisha wafanyikazi wetu wengine katika kipimo hiki mwaka 2005. Utaratibu huu utaiwezesha benki kukadiria mchango wa kila mfanyikazi katika ufanisi wa kampuni yetu na ni muhimu mno katika maamuzi ya viwango vya malipo na kuwapandisha vyeo wafanyikazi siku za usoni.

Tumepiga hatua kubwa katika mradi wetu uitwao Mteja huku tunapojitahidi kuifanya KCB benki inayojali maslahi

TAARIFA YA MKURUGENZI MKUU

ya wateja wake. Tumetekeleza hatua kadhaa za kuimarisha mtandao wetu wa teknolojia ya kisasa ya habari na hivi karibuni tutazindua huduma mpya kwa wateja wetu ambayo itayaunganisha matawi yote ya KCB ifikapo mwisho wa mwaka 2005 ili kuwawezesha wateja wetu kuhudumiwa haraka katika tawi lolote la KCB.

Tulirembesha matawi yetu 29 kwa rangi za nembo na sura yetu mpya mwaka 2004 na kuongeza idadi ya matawi yetu yaliyopewa sura mpya kufikia 34. Tunadhamiria kuyarembesha matawi yetu mengine 45 mwaka 2005 na kuongeza idadi ya matawi yenye sura mpya kufikia 79 ifikapo mwisho wa mwaka 2005.

Tulifungua tawi jipya katika jengo la NHIF lililoko Capital Hill jijini Nairobi mwaka 2004 na tumepokea idhini ya kufungua matawi mengine mapya saba mwaka huu. Mtandao wa mitambo yetu ya ATM uliongezeka mwaka 2004 kutoka mitambo 56 hadi 84. Mitambo hii itaongezwa na kufikia 116 ifikapo mwisho wa mwaka 2005. Hii ndiyo idadi kubwa zaidi ya mtandao wa mitambo ya ATM katika benki yoyote ile katika eneo hili.

Kampuni yetu tanzu ya kutoa mikopo ya ununuzi wa nyumba kwa malipo ya pole pole liitwalo Savings and Loans, litazindua nembo mpya katikati mwa mwaka 2005 ambayo litatumia kama jukwaa la kuimarisha biashara zake. Tunaona fursa nyingi kwa Kampuni hii tanzu kuimarisha pato lake kupitia mikopo ya masharti nafuu na viwango vya chini vya riba.

Tutaanza kushirikiana na Western Union mwezi Aprili mwaka 2005 kwa minajili ya kuanzisha huduma ya kimataifa ya kutuma na kupokea pesa na tunanuiia kutoa kadi maalum za Mastercard. Huduma yetu ya kutoa taarifa ya moja kwa moja ya hali ya akaunti imepokewa vyema katika sekta ya biashara za benki na hutuwezesha kuzipa kampuni wateja wetu habari kamili kuhusu akaunti zao haraka.

Shughuli za kampuni yetu kutoa huduma kwa jamii ziliendelea vyema mwaka uliopita ambapo zaidi ya timu mia moja zilishiriki katika siku ya KCB kuhudumia jamii na wiki ya KCB kuihudumia jamii. Wakati wa siku ya KCB kuihudumia jamii, wafanyikazi wa benki ya KCB walifanya kazi nzuri ya kuihudumia jamii bila malipo na kutoa michango ya vifaa mbali mbali kwa wafungwa kote nchini. Tumefanyia marekebisho mpango wetu wa mwaka huu wa huduma kwa jamii kwa lengo la kuzingatia zaidi mipango yenye manufaa makubwa kwa jamii.

Kwa mwaka wa pili mfululizo tuliyadhamini mashindano

ya magari ya KCB Safari Rally huko Mombasa tukishirikiana na wakfu wa Kenya Motor Sport. Mashindano hayo yaliwavutia mashabiki wengi huko pwani na yalikua mojawapo ya mipango yetu ya kuendeleza sura yetu mpya na kuuza bidhaa zetu. Katika mwaka 2005 tunadhamini mashindano ya kitaifa ya magari ambayo yatafanyika katika pembe zote za nchi. Tunataraji kutumia fursa hiyo kuonyesha sura mpya ya matawi yetu na pia kujinyakulia biashara zaidi huku tukiwapatia wakenya fursa ya kujionea pambano kuu kali la uendashaji magari nchini.

Katika mwaka huo wa 2004, mwenyekiti wetu Susan Mudhune na mkurugenzi, Peter Muthoka walitunukiwa tuzo na Rais wa Kenya kutokana na michango yao katika maendeleo ya sekta wanazoongoza. Wote wawili walitunukiwa tuzo la Moran of the Burning Spear (MBS) wakati wa sherehe za Jamuhuri mwaka huo na nawapongeza sana kutokana na kutuzwa kwao.

Wakurugenzi wapya wawili walijiunga nasi mwaka 2004. Rose Kinuthia ndiye mkurugenzi wetu mpya wa idara ya kushughulikia maswala ya mikopo na Lyn Mengich ndiye mkurugenzi mpya wa idara ya kushughulikia maswala ya wafanyikazi.

Rose awali alifanya kazi kama meneja mkuu katika idara ya mikopo katika benki ya Barclays na ana ujuzi mwingi katika usimamizi wa maswala hayo.

Lyn aliungana nasi kutoka Shell Afrika na awali alihudumu katika nyadhifaa kuu za usimamizi wa maswala ya wafanyikazi katika kampuni za Unilever na GlaxoSmithline.

Wafanyikazi wote wa benki mwaka 2004 walihudhuria mpango mmoja au kadhaa ya masomo kama sehemu ya lengo letu la kuimarisha ujuzi wa wafanyikazi wetu. Halmashauri nzima ya wakurugenzi na wasimamizi wakuu wa kundi la kampuni ya KCB walihudhuria warsha ya siku tatu kuhusu usimamizi wa kampuni iliyoandaliwa na shirika la usimamizi bora wa makampuni ili kuwaelimisha kuhusu usimaizi bora wa kampuni.

Ningependa kuchukua fursa hii kumshukuru mwenyekiti na halmashauri nzima ya wakurugenzi kwa uongozi wao mwema mwaka 2004. Pia ningependa kuwashukuru wafanyikazi wetu wote kwa bidii yao kazini ambayo iliufanya mwaka 2004 kuwa mwaka wa mafanikio makubwa kwa Kampuni ya KCB.

Ahsanteni

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 December 2004 which show the state of 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(a) to the financial statements.

2. GROUP RESULTS

The Group's results are set out on page 30.

3. BANK RESULTS

The Bank's results are set out on page 32.

4. DIVIDEND

The directors recommend the payment of a dividend of KShs 399,200,000 which represent KShs 2 per share in respect of the year ended 31 December 2004 (2003:- KShs 149,600,000, representing KShs.1 per share).

5. RESERVES

The reserves of the Group and the Bank are set out on pages 33 and 34 respectively, and note 18.

6. DIRECTORS

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

Mrs. S.O. Mudhune - Chairman
 Mr. T.M. Davidson

Ms. S.W. Wainaina - Retired on 28 May 2004
 Mr. W.R. Gitobu
 Prof. F.F. Ojany
 Mr. A.J.K. Ruturi
 Mr. C.N. Barongo - Retired on 28 May 2004
 Mrs. E.J. Koimett - Retired on 28 May 2004
 Mr. J.M. Magari - Retired on 29 July 2004
 Mr. J.K. Kinyua - Appointed on 29 July 2004
 Mrs. C.N. Kimura
 Mr. J.M. Ndetto
 Mrs. S.N. Omanga - Appointed on 28 May 2004
 Mr. S.N. Shah - Appointed on 28 May 2004
 Mr. P.W. Muthoka - Appointed on 28 May 2004

7. AUDIT AND COMPLIANCE COMMITTEE

The Group's audit and compliance committee consists of:-

Mr. P.W. Muthoka - Chairman
 Prof. G.K. Misoi
 Mr. B.C. Mwenda
 Mr. N.M. Arte
 Mrs. C.N. Kimura
 Mr. W.R. Gitobu
 Mrs. G. Biamah - Secretary

REPORT OF THE DIRECTORS

8. REVERSAL OF SALE OF KENCOM HOUSE PROPERTY

In 2000, Kencom House property was sold to Kenya Commercial Bank Staff Pension Fund Registered Trustees. Although the transfer of title took place and was duly registered in the Lands Office, there was a civil case pending in court on this matter. During the year, an out of court settlement was arrived at between the concerned parties which registered consent in court to have the sale rescinded and the property to revert back to Kencom House Limited.

9. 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

K.D. Malakwen

Secretary

24 February 2005

RIPOTI YA WAKURUGENZI

Wakurugenzi wanawasilisha ripoti yao na taarifa za kifedha zilizokaguliwa za kipindi cha mwaka kilichomalizika tarehe 31 mwezi Desemba mwaka 2004 ambazo zinaonyesha hali ya shughuli za benki na makampuni washirika wake.

1. Majukumu muhimu zaidi

Benki inaendelea kutoa huduma kwa makampuni na watu binafsi. Shughuli za makampuni washirika zimechapishwa katika kipengele cha 5(a) cha taarifa za kifedha.

2. Matokeo ya kundi

Matokeo ya kifedha ya kundi yamechapishwa katika ukurasa wa 30.

3. Matokeo ya Benki

Matokeo ya benki yamechapishwa katika ukurasa wa 32.

4. Mgao wa Faida

Wakurugenzi wanapendekeza kutolewa kwa mgao wa faida wa Ksh.399,200,000, hii ikiwa ni shilingi mbili kwa kila hisa katika kipindi kilichomalizika tarehe 31 mwezi Desemba mwaka 2004 ikilinganishwa na mwaka uliotangulia wa 2003 ambapo mgao wa faida ulikuwa Ksh.149,600,000, hii ikiwa ni shilingi moja kwa kila hisa.

5. Akiba

Akiba za kundi na benki zimechapishwa katika kurasa za 33 na 34 na kipengele cha 18.

6. Wakurugenzi

Wakurugenzi waliohudumu katika kipindi cha mwaka na hadi tarehe ya kutayarishwa kwa ripoti hii ni;

Bi. S.O. Mudhune - Mwenyekiti
Bw. T.M. Davidson
Bi. S.W. Wainaina - Alistaafu tarehe 28, Mei 2004

Bw. W.R Gitobu

Prof. F.F. Ojany

Bw. A.J.K Ruturi

Bw. C.N Barongo - Alistaafu tarehe 28, Mei 2004

Bi. E.J. Koimett - Alistaafu tarehe 28, Mei 2004

Bw. J.M. Magari - Alistaafu tarehe 29, Julai 2004

Bw. J.K. Kinyua - Aliteuliwa tarehe 29, Julai 2004

Bi. C.N. Kimura

Bw. J.M. Ndetto

Bi. S.N. Omanga - Aliteuliwa tarehe 28, Mei 2004

Bw. S.N. Shah - Aliteuliwa tarehe 28, Mei 2004

Bw. P.W. Muthoka - Aliteuliwa tarehe 28, Mei 2004

7. Kamati ya Ukaguzi wa hesabu.

Kamati ya ukaguzi wa hesabu ya kundi inajumuisha,

Bw. P.W. Muthoka - Mwenyekiti

Prof. G.K Misoi

Bw. B.C.Mwenda

Bw. N.M Arte

Bi. C.N. Kimura

Bw. W.R.Gitobu

Bi. G.Biamah - Katibu

8. Kubatilishwa kwa uuzaji wa jumba la Kencom

Mnamo mwaka 2000, jumba la Kencom liliuziwa wadhamini wa hazina ya malipo ya uzeeni ya wafanyikazi wa benki ya KCB. Ingawa uuzaji wa jengo hilo ulifanywa kwa njia halali na hati ya wamiliki wanya kusajiliwa katika afisi za Wizara ya Ardhi na Makao, kulikuwa na kesi mahakamani kuhusiana na swala hilo. Wakati wa kipindi cha mwaka huo, wahusika kwenye kesi hiyo walikubaliana nie va mahakama na kuandikisha mahakamani kubatilishwa kwa uuzaji huo na mali hiyo ikarejeshewa kampuni ya Kencom House Limited.

RIPOTI YA WAKURUGENZI

9. Wakaguzi wa hesabu za Pesa

Kampuni ya ukaguzi wa hesabu ya Ernst & Young ingelipenda kuendelea kuihudumia Benki kuambatana na masharti ya kifungu nambari 159(2) cha 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

24 Februari 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan 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, 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 Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs and 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.

S. O. Mudhune 24 February 2005

T. M. Davidson 24 February 2005

P. W. Muthoka 24 February 2005

CORPORATE GOVERNANCE STATEMENT

Kenya Commercial Bank Limited (the Company) is committed to the 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 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

Strategic Plan and review it in conjunction with its financial performance. Specific reviews of Management performance, operational issues and future planning are also undertaken.

Board Committees

There are four principal Committees that meet regularly under the Terms of Reference set out by the Board.

1. Audit and Compliance Committee

The Board has constituted the Audit and Compliance 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 External Auditors of the Company and putting into effect their recommendations and ensuring that the Risk Management Framework that is in place is effective and addresses all key Business Risks. The External Auditors, Internal Auditors and the Company's Management may, on invitation, attend any meeting of the Committee.

2. Credit Committee

The Credit Committee meets twice a month to review the risk profile of the KCB Group and recommend to the Board policies and standards for risk governance and management. The frequency of meetings has ensured that the needs of the

CORPORATE GOVERNANCE STATEMENT (cont)

Company'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 make suitable recommendations to the main Board on Senior Management appointments.

4. Procurement and Information Technology Committee

The Procurement and Information Technology Committee meets monthly to review information technology and procurement needs of the Bank and make recommendations thereon to the Main Board with a view to achieving efficient service delivery.

The Board appoints other Committees as and when required.

Corporate Social Responsibility

The Company is committed to the principle of responsible corporate citizenship. Corporate Social Responsibility (CSR) is an integral part of the Company's annual business plans and funds are put aside to finance related activities. Every year, the Company conducts community support activities during the KCB Community Day and the KCB Community Week' involving all our staff in the Company's branches across the country. The Company sponsors local, regional and national activities and regularly donates towards charitable causes of all kinds.

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 is in compliance with its obligations under the Nairobi Stock Exchange Listing Rules, the Capital Markets Authority Act, the Banking Act and Central Bank of Kenya Act together with the Guidelines issued thereunder.

Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services rendered during the financial year 2004 is disclosed in note 24 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, under which Directors acquired benefits by means of acquisition of the Company's shares.

CORPORATE GOVERNANCE STATEMENT (cont)

Directors Interests as at 31st December 2004

Name of Director	Number of Shares
Permanent Secretary to the Treasury of Kenya	52,360,000
Mrs. Susan Mudhune	2,020
Mr. Terence Davidson	187,334
Mr. Albert Ruturi	13,333
Mr. Sunil Shah	4,860,118
Mrs. Catherine Kimura	7,926
Prof. Francis Ojany	13,333
Mr. Peter Muthoka	10,000
Eng. Jeremiah Ndeto	2,268
Mr. William Gitobu	1,426

The Shareholder profile as at 31st December 2004

	Number of Shareholders	Number of Shares Held	% of issued share capital
Kenyan Individual Investors	116,620	73,290,529	36.72
Kenyan Institutional Investors	2,522	126,090,832	63.17
East African Individual Investors	2	9,729	0.01
East African Institutional Investors	0	0	0.00
Foreign Individual Investors	23	57,411	0.03
Foreign Institutional Investors	3	151,499	0.07
	119,170	199,600,000	100.00

Major Shareholders

	Number of shares	% of issued Shares Held
Permanent Secretary to the Treasury of Kenya	52,360,000	26.23
ICDC Investment Company Limited	10,218,311	5.12
KCB Staff Pension Fund	8,930,728	4.47
National Social Security Fund	7,520,067	3.77
Investments & Mortgages Nominees Limited a/c JMM	5,295,868	2.65
Mr. Sunil Shah	4,860,118	2.44
Nomura Nominees Limited a/c JMM	4,677,465	2.34
UAP Provincial Insurance Company Limited	2,080,178	1.04
Northbound Holdings Limited	1,750,000	0.88
Steel Son Limited	1,650,000	0.83
	99,342,735	49.77

Summary of Totals

Shares Range	Shareholders	No. of shares	% Holding
1 to 500	86,830	20,793,404	10.42
501 to 5,000	30,775	29,941,487	15.00
5,001 to 10,000	779	5,446,813	2.73
10,001 to 100,000	698	17,359,863	8.70
100,001 to 1,000,000	74	20,916,865	10.47
1,000,001 & above	14	105,141,568	52.68
	119,170	199,600,000	100.00

REPORT OF THE INDEPENDENT AUDITORS

TO THE MEMBERS OF KENYA COMMERCIAL BANK LIMITED

We have audited the financial statements on pages 29 to 62 for the year ended 31 December 2004, and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE INDEPENDENT AUDITORS

As stated on page 23, 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.

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 statement 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 give a true and fair view of the state of the financial affairs of the Group and of the Bank at 31 December 2004, and of the profit 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 Kenyan Companies Act.

 **ERNST & YOUNG**

Nairobi

24th February 2005

KWA WANACHAMA WA BENKI YA KENYA COMMERCIAL

Tumefanya ukaguzi wa taarifa za kifedha katika kurasa 29 hadi 62 za mwaka uliomalizika 31 Desemba 2004. Tulipata taarifa na maelezo ambayo tuliyachukulia kuwa muhimu kwa shughuli za uhasibu.

MAJUKUMU MAALUM YA WAKURUGENZI NA WAKAGUZI HURU WA HESABU

Kama ilivyoelezwa katika ukurasa 23 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 tarifa za kifedha zilizotayarishwa. Na pia kukadiria sera za uhasibu zilizotumiwa na makadirio yaliyaofanywa 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, 2004 na ile ya faida 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.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2004

ASSETS	Note	2004 KShs'000	2003 KShs'000
Cash and balances with Central Banks	2	5,798,081	4,955,206
Cheques and items for clearing		93,414	46,025
Held to maturity investments	3	15,320,329	15,818,599
Held for trading investments	4	1,684,066	-
Placements and balances with other banking institutions		1,681,365	2,887,963
Available for sale investments	5(b)	302,227	156,208
Tax recoverable	6	472,349	471,600
Loans and advances to customers	7	36,225,440	27,114,888
Other assets	10	3,029,980	4,009,088
Intangible assets	11	57,165	49,844
Prepaid leases on land	12(c)	199,223	203,673
Property and equipment	12(a)	2,722,011	2,475,327
Deferred tax	6	2,014,517	2,299,734
TOTAL ASSETS		69,600,167	60,488,155
LIABILITIES			
Deposits and balances from other banking institutions	13	1,628,715	706,211
Other customer deposits	14	55,893,730	50,613,268
Other liabilities	15	3,263,882	3,270,366
Lines of credit	16	233,681	315,900
TOTAL LIABILITIES		61,020,008	54,905,745
CAPITAL EMPLOYED			
Share capital	17	1,996,000	1,496,000
Reserves	18	6,184,959	3,936,810
Proposed dividends	19	399,200	149,600
SHAREHOLDERS' FUNDS		8,580,159	5,582,410
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		69,600,167	60,488,155

The financial statements were approved by the Board of Directors on 24th February 2005 and were signed on its behalf by:-

S. O. Mudhune	-	Chairman
T. M. Davidson	-	Chief Executive
P. W. Muthoka	-	Director
K. D. Malakwen	-	Secretary

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 KShs'000	2003 KShs'000
Interest income	20	4,219,575	4,394,635
Interest expense	21	<u>(388,276)</u>	<u>(944,043)</u>
Net interest income		3,831,299	3,450,592
Fees and commission income		3,202,453	2,946,253
Dividend income	22	14,147	4,850
Gain on foreign exchange		420,757	351,762
Other income	23	<u>904,343</u>	<u>667,744</u>
		8,372,999	7,421,201
Bad and doubtful debts expense	24	(1,047,084)	(1,378,474)
Other operating expenses		<u>(6,175,616)</u>	<u>(5,112,180)</u>
Profit before exceptional items, share of loss of associated companies and taxation		1,150,299	930,547
Exceptional items	25	(76,832)	(44,916)
Share of loss of associated companies		<u>-</u>	<u>(8,559)</u>
Profit before taxation		1,073,467	877,072
Taxation	6	<u>(286,416)</u>	<u>(264,631)</u>
Profit after taxation		<u>787,051</u>	<u>612,441</u>
Earning per share			
Basic and diluted earnings per share (KShs)	26	<u>3.94</u>	<u>3.06</u>

BALANCE SHEET OF THE BANK AS AT 31 DECEMBER 2004

	Note	2004 KShs'000	2003 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	2	5,507,578	4,748,586
Cheques and items for clearing		82,384	-
Held to maturity investments	3	14,156,966	15,076,751
Held for trading investments	4	1,684,066	-
Placements and balances with other banking institutions		1,475,692	2,887,963
Investment in subsidiaries and associated companies	5(a)	1,599,971	1,599,971
Available for sale investments	5(b)	302,227	156,208
Tax recoverable	6	329,887	329,887
Loans and advances to customers	7	33,644,314	24,949,459
Balances due from group companies	9(a)	1,173,706	1,520,111
Other assets	10	2,894,324	3,471,223
Intangible assets	11	55,639	48,231
Property and equipment	12(b)	1,399,425	1,131,327
Prepaid leases on land	12(c)	155,449	157,834
Deferred tax	6	1,887,827	2,171,069
TOTAL ASSETS		66,349,455	58,248,620
LIABILITIES			
Deposits and balances from other banking institutions	13	2,406,369	2,013,031
Other customer deposits	14	52,419,418	48,019,646
Other liabilities	15	2,907,573	2,506,945
Lines of credit	16	233,681	315,900
Balances due to group company	9(b)	5,447	5,600
TOTAL LIABILITIES		57,972,488	52,861,122
CAPITAL EMPLOYED			
Share capital	17	1,996,000	1,496,000
Reserves	18	5,981,767	3,741,898
Proposed dividends	19	399,200	149,600
SHAREHOLDERS' FUNDS		8,376,967	5,387,498
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		66,349,455	58,248,620

The financial statements were approved by the Board of Directors on 24th February 2005 and were signed on its behalf by:-

S. O. Mudhune	-	Chairman
T. M. Davidson	-	Chief Executive
P. W. Muthoka	-	Director
K. D. Malakwen	-	Secretary

PROFIT AND LOSS ACCOUNT OF THE BANK FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 KShs'000	2003 KShs'000
Interest income	20	3,921,685	4,049,045
Interest expense	21	(341,751)	(823,151)
Net interest income		3,579,934	3,225,894
Fees and commission income		3,099,455	2,877,022
Dividend income	22	14,147	69,850
Gain on foreign exchange		391,273	348,883
Other income	23	784,521	596,603
		<u>7,869,330</u>	<u>7,118,252</u>
Bad and doubtful debts expense		(1,038,471)	(1,331,324)
Other operating expenses	24	(5,722,199)	(4,757,999)
Profit before exceptional items and taxation		1,108,660	1,028,929
Exceptional items	25	(32,313)	(40,916)
Profit before taxation		1,076,347	988,013
Taxation	6	(283,242)	(274,793)
Profit after taxation		<u>793,105</u>	<u>713,220</u>
Earning per share			
Basic and diluted earnings per share (KShs)	26	<u>3.97</u>	<u>3.57</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DEC 2004

	Share capital KShs'000	Capital reserve KShs'000	Revenue reserve KShs'000	Share premium KShs'000	Proposed dividend KShs'000	Translation reserve KShs'000	Total KShs'000
At 1 January 2003	1,496,000	10,453	3,348,774	473,800	-	(61,572)	5,267,455
Transfer from revenue reserve	-	411,410	(411,410)	-	-	-	-
Prior year adjustments (note 27)	-	(145,280)	(114,742)	-	-	-	(260,022)
As restated	1,496,000	276,583	2,822,622	473,800	-	(61,572)	5,007,433
Proposed dividends - 2003	-	-	(149,600)	-	149,600	-	-
Translation differences	-	-	-	-	-	(37,464)	(37,464)
Profit and loss account	-	-	612,441	-	-	-	612,441
At 31 December 2003	<u>1,496,000</u>	<u>276,583</u>	<u>3,285,463</u>	<u>473,800</u>	<u>149,600</u>	<u>(99,036)</u>	<u>5,582,410</u>
At 1 January 2004	1,496,000	10,453	3,583,036	473,800	149,600	(99,036)	5,613,853
Transfer from revenue reserves	-	411,410	(411,410)	-	-	-	-
Prior year adjustments (note 27)	-	(145,280)	113,837	-	-	-	(31,443)
As restated	1,496,000	276,583	3,285,463	473,800	149,600	(99,036)	5,582,410
Rights issue	500,000	-	-	1,845,964	-	-	2,345,964
Dividends paid - 2003	-	-	-	-	(149,600)	-	(149,600)
Proposed dividends-2004	-	-	(399,200)	-	399,200	-	-
Transfer from capital reserves	-	(1,161)	1,161	-	-	-	-
Translation differences	-	-	-	-	-	14,334	14,334
Profit and loss account	-	-	787,051	-	-	-	787,051
At 31 December 2004	<u>1,996,000</u>	<u>275,422</u>	<u>3,674,475</u>	<u>2,319,764</u>	<u>399,200</u>	<u>(84,702)</u>	<u>8,580,159</u>

Transfer from revenue reserves relates to re-instatement of capital reserves on Kencom House property, which reverted to the group during the year.

STATEMENT OF CHANGES IN EQUITY OF THE BANK FOR THE YEAR ENDED 31 DEC 2004

	Share capital KShs'000	Revenue reserve KShs'000	Share premium KShs'000	Proposed dividend KShs'000	Total KShs'000
At 1 January 2003	1,496,000	2,346,225	473,800	-	4,316,025
Prior year adjustments (note 27)	-	358,253	-	-	358,253
As restated	1,496,000	2,704,478	473,800	-	4,674,278
Proposed dividends - 2003	-	(149,600)	-	149,600	-
Profit and loss account	-	713,220	-	-	713,220
At 31 December 2003	<u>1,496,000</u>	<u>3,268,098</u>	<u>473,800</u>	<u>149,600</u>	<u>5,387,498</u>
At 1 January 2004	1,496,000	2,711,072	473,800	149,600	4,830,472
Prior year adjustments (note 27)	-	557,026	-	-	557,026
As restated	1,496,000	3,268,098	473,800	149,600	5,387,498
Rights issue	500,000	-	1,845,964	-	2,345,964
Dividends paid - 2003	-	-	-	(149,600)	(149,600)
Proposed dividends-2004	-	(399,200)	-	399,200	-
Profit and loss account	-	793,105	-	-	793,105
At 31 December 2004	<u>1,996,000</u>	<u>3,662,003</u>	<u>2,319,764</u>	<u>399,200</u>	<u>8, 376,967</u>

CONSOLIDATED CASHFLOW STATEMENT FOR THE YEAR ENDED 31 DEC 2004

	Note	2004 KShs'000	2003 KShs'000
NET CASH FLOWS FROM OPERATING ACTIVITIES	28(a)	2,702,581	3,449,344
Taxation paid		(1,948)	(476)
FINANCING ACTIVITIES			
Lines of credit		(82,219)	(20,422)
NET CASH FLOWS TO FINANCING ACTIVITIES		(82,219)	(20,422)
INVESTING ACTIVITIES			
Proceeds from sale of property and equipment		38,155	21,374
Proceeds from sale of shares		25,000	-
Proceeds from disposal of associated company		-	5,600
Purchase of intangible assets		(19,534)	(52,737)
Purchase of property and equipment		(750,986)	(121,200)
NET CASH FLOWS TO INVESTING ACTIVITIES		(707,365)	(146,963)
FINANCING ACTIVITIES			
Proceeds from rights issue		2,345,964	-
Dividends paid		(149,600)	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		2,196,364	-
Increase in cash and cash equivalents		4,107,413	3,281,483
Effects of exchange rate changes on opening net investment in foreign entity		14,334	(37,464)
Cash and cash equivalents at the beginning of the year		5,744,374	2,500,355
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	28(b)	9,866,121	5,744,374

1. ACCOUNTING POLICIES

a. Basis of preparation

The consolidated financial statements of the Bank and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards and Standing Interpretations Committee's interpretations approved by the International Accounting Standards Committee (IASC) that remain in effect. The financial statements have been prepared on the historical cost basis of accounting as modified by the revaluation of certain property and equipment, and financial instruments.

b. Basis of 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. Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. The accounting policies for the subsidiaries are consistent with the policies adopted by the bank.

c. Income recognition

i) Interest income

Interest income is recognised in the profit and loss account for all interest bearing instruments on an accrual basis taking into account the effective yield on the asset.

ii) Dividend income

Dividend income is recognised when the shareholder's right to receive payment is established.

iii) Fees and commission income

Fees and commission income is generally recognised on an accrual basis.

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%

1. ACCOUNTING POLICIES (Continued)

d. Property, equipment and depreciation (continued)

Furniture and fittings	10%
Office equipment	20%
Computers	20%

Property and equipment are periodically reviewed for impairment. When the carrying amount of the asset is greater than its estimated recoverable amount, it is written down immediately to its estimated recoverable amount.

e. Originating loans and provisions for loan impairment

Loans originated by the group by providing money directly to the borrower are categorised as loans originated by the group and are carried at amortised cost. All loans and advances are recognised when cash is advanced to borrowers.

Specific provision is made against loans and advances considered to be doubtful of recovery. The amount of provisions is the difference between the carrying amount and the recoverable amount, being the present value of expected future cashflows including amounts recoverable from guarantees and collateral, discounted at the effective interest rate of loans.

A general provision is maintained based on an evaluation of the portfolio of loans and advances in respect of losses, which, although not specifically identified, are known from experience to be present in any such portfolio. This provision is based on the directors' assessment of the risk of non-recovery known to be present in the portfolio of the group advances.

Where a loan or an advance is deemed unrecoverable, it is written off against the related provision for impairment. Subsequent recoveries of amount previously written off are credited to the profit and loss account in the year of recovery.

Loans and advances are stated after deduction of specific and general provisions.

f. 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.

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

1. ACCOUNTING POLICIES (Continued)

g. Investments

i) Trading securities

Trading securities are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at cost (which includes transaction costs) and subsequently re-measured at fair value based on quoted bid prices. All related realised and unrealised gains and losses are included in net trading income. Interest earned whilst holding trading securities is reported as interest income.

ii) Held to maturity investments

Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held to maturity, and are carried at amortised costs using the effective yield method, less any provision for impairment.

iii) Available for sale investments

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity, or changes in interest rates, exchange rates or equity prices are classified as available for sale and are initially recognised at cost. Available for sale investments are subsequently remeasured at fair value, where the fair value can be reliably determined.

h. 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.

i. 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.

I. ACCOUNTING POLICIES (Continued)

i. Taxation (Continued)

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.

j. Retirement benefit costs

The group contributes to a defined benefit pension scheme which is funded by the Bank and its 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.

k. Leases

i) A group company is the lessee

To date, the leases entered into by the group are operating leases. The total payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

1. ACCOUNTING POLICIES (Continued)

k. Leases (Continued)

ii) A group company is the lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

To date, the group has not entered into finance leases over group assets.

l. 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.

m. Computer software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. However, expenditure that enhances or extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over a period of five years.

n. 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.

o. 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 balance sheet date.

p. Fiduciary assets

Assets and income arising thereon with related undertakings to return such assets to customers are excluded from these financial statements when the group acts in a fiduciary capacity such as nominee or agents.

q. Dividends

Dividends are charged to equity in the year in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DEC 2004 (cont)

2. CASH AND BALANCES WITH CENTRAL BANKS	GROUP		BANK	
	2004 KShs'000	2003 KShs'000	2004 KShs'000	2003 KShs'000
Cash on hand	2,396,203	1,901,414	2,132,953	1,788,438
Balances with Central Banks	<u>3,401,878</u>	<u>3,053,792</u>	<u>3,374,625</u>	<u>2,960,148</u>
	<u>5,798,081</u>	<u>4,955,206</u>	<u>5,507,578</u>	<u>4,748,586</u>

Cash held in central banks represent cash reserve ratio in non interest earning account and is based on the value of deposits as adjusted for Central Bank requirements. Mandatory reserves are not available for use in the group's day to day operations.

3. HELD TO MATURITY INVESTMENTS	GROUP		BANK	
	2004 KShs'000	2003 KShs'000	2004 KShs'000	2003 KShs'000
a) Treasury bills				
Maturing within 1 month	2,994,271	499,943	2,494,759	399,953
Maturing between 1-3 months	1,755,299	2,508,299	1,238,360	2,073,811
Maturing between 3-12 months	<u>146,912</u>	<u>99,595</u>	<u>-</u>	<u>-</u>
	<u>4,896,482</u>	<u>3,107,837</u>	<u>3,733,119</u>	<u>2,473,764</u>
b) Treasury bonds				
Maturing within 1 month	-	29,313	-	29,313
Maturing between 1-3 months	890,218	410,396	890,218	410,396
Maturing between 3-12 months	1,359,384	1,285,404	1,359,384	1,177,629
Maturing between 1-5 years	5,308,860	7,404,870	5,308,860	7,404,870
Maturing over 5 years	<u>2,865,385</u>	<u>3,580,779</u>	<u>2,865,385</u>	<u>3,580,779</u>
	<u>10,423,847</u>	<u>12,710,762</u>	<u>10,423,847</u>	<u>12,602,987</u>
TOTAL GOVERNMENT SECURITIES	<u>15,320,329</u>	<u>15,818,599</u>	<u>14,156,964</u>	<u>15,076,751</u>
Maturing as follows:-				
Maturing within 1 month	2,994,271	529,256	2,494,759	429,266
Maturing between 1-3 months	2,645,517	2,918,695	2,128,578	2,484,207
Maturing between 3-12 months	<u>1,506,296</u>	<u>1,384,999</u>	<u>1,359,384</u>	<u>1,177,629</u>
Maturing between 1-5 years	5,308,860	7,404,870	5,308,860	7,404,870
Maturing over 5 years	<u>2,865,385</u>	<u>3,580,779</u>	<u>2,865,385</u>	<u>3,580,779</u>
	<u>15,320,329</u>	<u>15,818,599</u>	<u>14,156,964</u>	<u>15,076,751</u>

Treasury bills and bonds are debt securities issued by the Government of the Republic of Kenya. The bills and bonds are categorised as amounts held to maturity and carried at amortised cost.

The weighted effective interest rates on treasury bonds and bills as at 31 December 2004, was 9.589% p.a and 4.385% p.a, respectively (2003- 7.390% p.a and 1.740% p.a, respectively).

4. HELD FOR TRADING INVESTMENTS

These are treasury bonds issued by the Government of the Republic of Kenya and acquired by the group for the generation of profit from short term fluctuations in interest rates. The weighted effective interest rates on treasury bonds as at 31 December 2004 was 9.589% p.a.

5. INVESTMENTS
a) INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Company	Activity	Beneficial ownership %	BANK	
			2004 KShs'000	2003 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	748,645	748,645
Kenya Commercial Bank (Tanzania) Ltd	Commercial banking	100	530,136	530,136
Notcutt Longaroni & Co (K) Ltd	Dormant	100	3,663	3,663
United Finance Ltd	Dormant	45	125	125
			<u>1,599,971</u>	<u>1,599,971</u>

b) AVAILABLE FOR SALE INVESTMENTS

	GROUP		BANK	
	2004 KShs'000	2003 KShs'000	2004 KShs'000	2003 KShs'000
Quoted investments	297,462	144,193	297,462	144,193
Unquoted investments	4,765	12,015	4,765	12,015
	<u>302,227</u>	<u>156,208</u>	<u>302,227</u>	<u>156,208</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DEC 2004 (cont)

6. TAXATION	GROUP		BANK	
	2004	2003	2004	2003
6.1 BALANCE SHEET	KShs'000	KShs'000	KShs'000	KShs'000
TAX RECOVERABLE				
The movement in the tax recoverable account is as follows:				
At 1 January	471,600	473,459	329,887	329,887
Tax paid during the year	1,948	476	-	-
Tax charge during the year	(489)	(2,939)	-	-
(Under)/overprovision in the previous years	(710)	604	-	-
At 31 December	472,349	471,600	329,887	329,887
DEFERRED TAX				
The net deferred tax asset is attributable to the following items:				
Excess of depreciation over tax allowances	5,391	27,935	1,603	33,141
Provisions held	194,149	97,799	168,115	71,725
Tax losses carried forward	1,814,977	2,174,000	1,718,109	2,066,203
	2,014,517	2,299,734	1,887,827	2,171,069
6.2 PROFIT AND LOSS ACCOUNT				
Current tax	489	2,939	-	-
Deferred tax charge	285,217	262,296	283,242	274,793
(Under)/overprovision in the previous years	710	(604)	-	-
	286,416	264,631	283,242	274,793
The tax charge differs from the theoretical amount that would arise using basic tax rates as follows:				
Accounting profit before taxation	1,073,467	877,072	1,076,347	988,013
Tax calculated at tax rate of 30%	322,040	263,122	322,904	296,404
Tax effects on items not deductible for tax purposes	87,652	91,306	84,319	90,204
Originating and reversing temporary differences	(123,276)	(89,797)	(123,981)	(111,815)
	286,416	264,631	283,242	274,793

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DEC 2004 (cont)

7. LOANS AND ADVANCES TO CUSTOMERS

	GROUP		BANK	
	2004	2003	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000
7.1 Loans and advances to customers (gross)	49,402,570	40,298,902	46,342,861	37,602,993
Specific provisions for impairment (Note 8.1(a))	(12,888,577)	(12,976,248)	(12,428,547)	(12,463,534)
General provisions for impairment (Note 8.1(b))	(288,553)	(207,766)	(270,000)	(190,000)
Loans and advances to customers (net)	<u>36,225,440</u>	<u>27,114,888</u>	<u>33,644,314</u>	<u>24,949,459</u>

Included in loans and advances as at 31 December 2004, is an amount of KShs.1,324 billion due from one of the bank's customers. The loan is unsecured and is currently not being serviced as discussions between the debtor and the bank, aimed at regularising documentation issues regarding the loan, so as to enable the debtor to resume repaying the debt were concluded recently. However the bank has received a written undertaking from the debtor committing to make a payment on the loan of Kshs. 500 million by June 2005. In view of this, no provision have been made in these financial statements for the loan

7.2 Maturity analysis of gross loans and advances to customers

	GROUP		BANK	
	2004	2003	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000
Maturing within 30 days	5,998,004	6,046,435	5,364,761	5,672,383
Maturing within 30 days but before 3 months	884,479	1,861,974	819,246	1,842,136
Maturing after 3 months but within 1 year	2,869,040	7,001,098	2,741,958	6,943,973
Maturing after 1 year	36,114,389	23,567,195	35,848,649	23,144,501
Maturing after 5 years	3,536,658	1,822,200	1,568,247	-
	<u>49,402,570</u>	<u>40,298,902</u>	<u>46,342,861</u>	<u>37,602,993</u>

7.3 Sectorial analysis of gross loans and advances to customers

Private sector and individuals	43,863,168	37,077,395	40,803,459	34,381,486
Government departments and Parastatals	5,539,402	3,221,507	5,539,402	3,221,507
	<u>49,402,570</u>	<u>40,298,902</u>	<u>46,342,861</u>	<u>37,602,993</u>

The weighted average effective interest rates on loans and advances as at 31 December 2004 was 11.81% p.a (2003-9.25% p.a).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DEC 2004 (cont)
8. PROVISIONS FOR IMPAIRMENT

	GROUP		BANK	
	2004	2003	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000
8.1 (a) Specific provisions for impairment (Note 7.1)				
At 1 January	12,976,248	12,902,291	12,463,534	12,352,883
Bad and doubtful debts expense	966,297	1,378,474	958,471	1,331,324
Interest suspended	520,635	1,009,406	505,114	973,709
Write downs/write offs during the year	(1,365,355)	(1,929,868)	(1,338,056)	(1,840,269)
Recoveries/provisions written back during the year	(209,248)	(384,055)	(160,516)	(354,113)
At 31 December	<u>12,888,577</u>	<u>12,976,248</u>	<u>12,428,547</u>	<u>12,463,534</u>
8.1 (b) General provisions (Note 7.1)				
At 1 January	207,766	207,766	190,000	190,000
Provisions made during the year	80,787	-	80,000	-
At 31 December	<u>288,553</u>	<u>207,766</u>	<u>270,000</u>	<u>190,000</u>
8.2 Non performing loans and advances				

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. Non-performing loans and advances of the group amounted to KShs.7,489,887,000 (2003 -KShs. 7,898,525,000) net of specific provisions for impairment. For the bank, this amounted to KShs.7,343,754,000 (2003 - KShs. 7,340,714,000).

9. (a) BALANCES DUE FROM GROUP COMPANY

	BANK	
	2004	2003
	KShs'000	KShs'000
Kencom House Limited	664,668	1,000,655
Savings and Loan Kenya Limited	215,700	229,858
Kenya Commercial Finance Company Limited	289,683	289,598
Kenya Commercial Bank (Tanzania) Limited	3,655	-
	<u>1,173,706</u>	<u>1,520,111</u>

(b) BALANCES DUE TO GROUP COMPANY

Notcutt Longaroni and Company Limited	<u>5,447</u>	<u>5,600</u>
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DEC 2004 (cont)

10. OTHER ASSETS	GROUP		BANK	
	2004 KShs'000	2003 KShs'000	2004 KShs'000	2003 KShs'000
Items in transit	533,703	1,366,588	533,703	1,366,588
Prepayments	198,643	247,566	142,459	219,527
Other receivables	2,297,634	2,394,934	2,218,162	1,885,108
	<u>3,029,980</u>	<u>4,009,088</u>	<u>2,894,324</u>	<u>3,471,223</u>
11. INTANGIBLE ASSETS				
COST				
At 1 January	81,731	28,994	64,178	13,124
Additions	<u>19,534</u>	<u>52,737</u>	<u>19,285</u>	<u>51,054</u>
At 31 December	<u>101,265</u>	<u>81,731</u>	<u>83,463</u>	<u>64,178</u>
AMORTISATION				
At 1 January	31,887	26,461	15,947	10,984
Amortisation for the year	<u>12,213</u>	<u>5,426</u>	<u>11,877</u>	<u>4,963</u>
At 31 December	<u>44,100</u>	<u>31,887</u>	<u>27,824</u>	<u>15,947</u>
NET BOOK VALUE				
At 31 December	<u>57,165</u>	<u>49,844</u>	<u>55,639</u>	<u>48,231</u>

The intangible assets are in respect of computer software costs.

Intangible assets for the group with an original cost of KShs.28,995,660 (2003-KShs 28,995,660) are fully amortised. The theoretical amortisation charge on cost at the normal rates (Note 1(m)) for the current year, would be KShs.5,799,132 (2003-KShs 5,799,132).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DEC 2004 (cont)

12(a). PROPERTY AND EQUIPMENT (GROUP)

	Freehold and Leasehold Premises KShs'000	Leasehold Improvements KShs'000	Motor vehicles, furniture & equipment KShs'000	Capital work in progress KShs'000	Total KShs'000
COST/VALUATION					
At 1 January 2004	1,677,605	258,625	2,596,901	313,649	4,846,780
Adjustment	132,502	-	-	-	132,502
Restated balance	1,810,107	258,625	2,596,901	313,649	4,979,282
Additions	9,167	-	735,361	-	744,528
Disposals	(17,054)	(119)	(28,289)	-	(45,462)
Write-off	-	-	-	(240,486)	(240,486)
Reclassification	-	-	73,163	(73,163)	-
Translation differences	1,459	-	1,541	-	3,000
At 31 December 2004	1,803,679	258,506	3,378,677	-	5,440,862
DEPRECIATION					
At 1 January 2004	235,144	133,116	2,126,933	-	2,495,193
Adjustment	8,762	-	-	-	8,762
Restated balance	243,906	133,116	2,126,933	-	2,503,955
Charge for the year	32,604	14,538	192,651	-	239,793
Disposals	(2,529)	-	(23,702)	-	(26,231)
Translation differences	562	-	772	-	1,334
At 31 December 2004	274,543	147,654	2,296,654	-	2,718,851
NET BOOK VALUE					
At 31 December 2004	1,529,136	110,852	1,082,023	-	2,722,011
At 31 December 2003	1,566,201	125,509	469,968	313,649	2,475,327

- Property and equipment in use with an original cost/valuation of KShs.1,582,290,981 (2003 - KShs. 1,407,762,605) are fully depreciated. The theoretical depreciation charge on cost/valuation at the normal rates (Note 1(d)) for the current year, would be KShs.310,746,521 (2003 - KShs. 275,111,520).
- A revaluation of certain freehold and leasehold properties held by the group was carried out by Professional Valuers, in previous years, on the basis of open market value. The revaluation surplus was transferred to capital reserve (note 18).
- The translation difference arises from retranslation of the opening balances in Kenya Commercial Bank (Tanzania) Limited using the current year's closing exchange rate.
- Adjustment is in respect to reversal of the Kencom House transaction where Kencom House property reverted back to the group and some properties were transferred back to Kenya Commercial Bank Pension Scheme.
- Write offs in respect to Core Banking System (CBS) costs.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DEC 2004 (cont)

12(c) PRE-PAID LEASES ON LAND

	GROUP		BANK	
	2004	2003	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000
COST				
At 1 January	309,480	309,480	228,488	186,679
Adjustment	127,590	127,590	-	-
Reversal of revaluation surplus	(145,280)	(145,280)	-	-
Restated balance	291,790	291,790	228,488	186,679
Transfer from Savings and Loan (K) Limited	-	-	-	119,200
Transfer to Kencom House Limited	-	-	-	(77,391)
Disposals	(1,671)	-	-	-
At 31 December	290,119	291,790	228,488	228,488
AMORTISATION				
At 1 January	84,965	81,681	70,654	59,255
Adjustment	3,152	3,046	-	-
Restated balance	88,117	84,727	70,654	59,255
Transfer to Kencom House Limited	-	-	-	(13,511)
Transfer from Savings and Loan (K) Limited	-	-	-	22,918
Disposals	(272)	-	-	-
Amortisation for the year	3,051	3,390	2,385	1,992
At 31 December	90,896	88,117	73,039	70,654
NET BOOK VALUE				
At 31 December	199,223	203,673	155,449	157,834

- At the end of the previous year, a leasehold property with a net book value of KShs. 96,282,000 was transferred from Savings and Loan Kenya Limited to the bank. In addition, some leasehold properties with a net book value of KShs. 63,880,000 were transferred by the bank to Kencom House Limited. The transfers were at net book values. Both Savings and Loan Kenya Limited and Kencom House Limited are wholly owned subsidiaries of the bank.
- Adjustment is in respect to reversal of the Kencom House transaction where Kencom House property reverted back to the group and some properties were transferred back to Kenya Commercial Bank Pension Scheme.

13. DEPOSITS AND BALANCES FROM OTHER BANKING INSTITUTIONS

	GROUP		BANK	
	2004 KShs'000	2003 KShs'000	2004 KShs'000	2003 KShs'000
Deposits and balances from other banks	856,389	622,668	1,684,043	1,929,488
Borrowed funds	772,326	83,543	722,326	83,543
	<u>1,628,715</u>	<u>706,211</u>	<u>2,406,369</u>	<u>2,013,031</u>
Maturing as follows:				
Payable within 30 days	1,628,715	538,979	2,406,369	1,845,799
Payable after 3 months but within 1 year	-	167,232	-	167,232
	<u>1,628,715</u>	<u>706,211</u>	<u>2,406,369</u>	<u>2,013,031</u>

The weighted average effective interest rates on deposits and balances from other banking institutions as at 31 December 2004 was 5.28% p.a (2003- 0.75% p.a).

14. OTHER CUSTOMER DEPOSITS

	GROUP		BANK	
	2004 KShs'000	2003 KShs'000	2004 KShs'000	2003 KShs'000
a) From government departments and parastatals				
Payable within 30 days	11,158,896	9,665,462	9,615,550	8,201,213
Payable after 30 days but within 3 months	2,108,821	4,326,243	2,094,390	4,323,726
Payable after 3 months but within 1 year	20,354	28,168	20,354	28,168
	<u>13,288,071</u>	<u>14,019,873</u>	<u>11,730,294</u>	<u>12,553,107</u>
b) From private sector and individuals				
Payable within 30 days	38,557,244	33,280,107	37,211,709	33,061,554
Payable after 30 days but within 3 months	3,130,919	2,153,472	2,847,680	1,481,558
Payable after 3 months but within 1 year	889,950	1,130,301	605,821	893,912
Payable after 1 year but within 5 years	27,546	29,515	23,914	29,515
	<u>42,605,659</u>	<u>36,593,395</u>	<u>40,689,124</u>	<u>35,466,539</u>
TOTAL OTHER CUSTOMER DEPOSITS	<u><u>55,893,730</u></u>	<u><u>50,613,268</u></u>	<u><u>52,419,418</u></u>	<u><u>48,019,646</u></u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DEC 2004 (cont)

14. OTHER CUSTOMER DEPOSITS (continued)

	GROUP		BANK	
	2004	2003	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000
Maturing as follows:-				
Payable within 30 days	49,716,140	42,945,569	46,827,259	41,262,767
Payable after 30 days but within 3 months	5,239,740	6,479,715	4,942,070	5,805,284
Payable after 3 months but within 1 year	910,304	1,158,469	626,175	922,080
Payable after 1 year but within 5 years	27,546	29,515	23,914	29,515
	<u>55,893,730</u>	<u>50,613,268</u>	<u>52,419,418</u>	<u>48,019,646</u>

The weighted average effective interest rates on customer deposits as at 31 December 2004 was 1.26% p.a (2003- 1.6% p.a).

15. OTHER LIABILITIES

	GROUP		BANK	
	2004	2003	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000
Bills payable	876,882	1,113,506	872,225	1,097,057
Accrued expenses	299,486	131,419	289,754	124,724
Other payables	2,087,514	2,025,441	1,745,594	1,285,164
	<u>3,263,882</u>	<u>3,270,366</u>	<u>2,907,573</u>	<u>2,506,945</u>

16. LINES OF CREDIT

OPEC Line III

Payable after 3 months but within 1 year	15,493	34,682	15,493	34,682
Payable after 1 year but within 5 years	-	15,233	-	15,233
	<u>15,493</u>	<u>49,915</u>	<u>15,493</u>	<u>49,915</u>

EIB Kenya Shillings Loans

Payable after 3 months but within 1 year	8,872	9,588	8,872	9,588
Payable after 1 year but within 5 years	29,299	37,741	29,299	37,741
	<u>38,171</u>	<u>47,329</u>	<u>38,171</u>	<u>47,329</u>

EIB Foreign Currency Loans

Payable after 3 months but within 1 year	12,679	62,113	12,679	62,113
Payable after 1 year but within 5 years	167,338	156,543	167,338	156,543
	<u>180,017</u>	<u>218,656</u>	<u>180,017</u>	<u>218,656</u>

TOTAL LINES OF CREDIT

	<u>233,681</u>	<u>315,900</u>	<u>233,681</u>	<u>315,900</u>
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16. LINES OF CREDIT (continued)

	GROUP		BANK	
	2004 KShs'000	2003 KShs'000	2004 KShs'000	2003 KShs'000
Maturing as follows:-				
Payable after 3 months but within 1 year	37,044	106,383	37,044	106,383
Payable after 1 year but within 5 years	196,637	209,517	196,637	209,517
	<u>233,681</u>	<u>315,900</u>	<u>233,681</u>	<u>315,900</u>

a) OPEC Line III

This represents funds lent to the group 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. The average interest rate for the year was 3% p.a (2003 -2% p.a).

b) 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 channeled through the Central Bank of Kenya. The loans are advanced in Kenya Shillings. The average interest rate for the year was 15.42% p.a (2003-13.63% p.a).

c) 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 channeled through the Approved Financial Institutions. The loans are advanced in US dollars and Euro Currency. The average interest rate for the year was 5.3% p.a (2003- 5.75 % p.a).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DEC 2004 (cont)

17. SHARE CAPITAL

	2004 KShs'000	2003 KShs'000
Authorised:- 200,000,000 (2003: 150,000,000) ordinary shares of KShs.10 each	2,000,000	1,500,000
Issued and fully paid:- 199,600,000 (2003:149,600,000) ordinary shares of KShs.10 each	1,996,000	1,496,000

During the Annual General Meeting held on 28 May 2004, the shareholders approved the increase in the authorized share capital of the company from KShs 1.5 billion to KShs 2 billion by the creation of 50 million ordinary shares of KShs 10 each. At the same meeting, the shareholders approved the increase in the issued share capital of the company from 149,600,000 ordinary shares of KShs.10 each to 199,600,000 ordinary shares of KShs.10 each through a rights issue of 50,000,000 ordinary shares.

18. RESERVES

	GROUP		BANK	
	2004 KShs'000	2003 KShs'000	2004 KShs'000	2003 KShs'000
Capital reserve	275,422	276,583	-	-
Revenue reserve	3,674,475	3,285,463	3,662,003	3,268,098
Share premium	2,319,764	473,800	2,319,764	473,800
Translation reserve	(84,702)	(99,036)	-	-
	<u>6,184,959</u>	<u>3,936,810</u>	<u>5,981,767</u>	<u>3,741,898</u>

The capital reserve arose on the revaluation of certain freehold and leasehold properties as shown under note 12(a).

The translation reserve arises from translation of the opening net investment in Kenya Commercial Bank (Tanzania) Limited to Kenya Shillings.

19. DIVIDENDS

	2004 KShs'000	2003 KShs'000
Final proposed	399,200	149,600
Dividend per share (KShs)	2.00	1.00

Dividend per share is calculated based on the amount of the proposed dividend and on the number of ordinary shares at the respective balance sheet dates.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DEC 2004 (cont)
20. INTEREST INCOME

	GROUP		BANK	
	2004	2003	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000
Interest on loans and advances	2,751,544	2,437,761	2,517,631	2,183,659
Interest on government securities	1,121,283	1,577,197	1,089,250	1,535,780
Interest on placements and bank balances	346,748	379,677	314,804	329,606
	<u>4,219,575</u>	<u>4,394,635</u>	<u>3,921,685</u>	<u>4,049,045</u>

21. INTEREST EXPENSE

Interest on deposits	330,998	826,323	284,473	705,431
Interest on borrowed funds	57,278	117,720	57,278	117,720
	<u>388,276</u>	<u>944,043</u>	<u>341,751</u>	<u>823,151</u>

22. DIVIDEND INCOME

Receivable from subsidiary company	-	-	-	65,000
Available for sale investments	14,147	4,850	14,147	4,850
	<u>14,147</u>	<u>4,850</u>	<u>14,147</u>	<u>69,850</u>

23. OTHER INCOME

Rent income	86,451	85,576	27,674	50,453
Profit on sale of property and equipment	6,783	8,183	5,998	7,779
Overprovision recredited (recoveries)	209,248	384,055	160,516	354,113
Appreciation in value of quoted shares	153,269	35,443	153,269	35,443
Gain on disposal of associated company	-	5,100	-	-
Other miscellaneous income	448,592	149,387	437,064	148,815
	<u>904,343</u>	<u>667,744</u>	<u>784,521</u>	<u>596,603</u>

24. OTHER OPERATING EXPENSES

Administrative expenses	5,853,452	4,765,738	5,437,586	4,440,834
Directors' emoluments				
As directors	15,092	18,604	12,371	15,601
As executives	42,437	39,970	42,437	39,970
Depreciation of property and equipment	239,793	269,826	208,793	248,039
Amortisation of intangible assets	12,213	5,426	11,877	4,963
Amortisation of prepaid leases land	3,051	3,390	2,385	1,992
Auditors' remuneration	9,578	9,226	6,750	6,600
	<u>6,175,616</u>	<u>5,112,180</u>	<u>5,722,199</u>	<u>4,757,999</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DEC 2004 (cont)

25. EXCEPTIONAL ITEMS

	GROUP		BANK	
	2004 KShs'000	2003 KShs'000	2004 KShs'000	2003 KShs'000
Income				
Profit on sale of properties	5,950	-	5,950	-
Expenses				
Voluntary early retirement costs	38,263	-	38,263	-
Provision for interest payable in dispute	44,519	-	-	-
Loss on sale of property	-	4,000	-	-
Rebranding expenses	-	40,916	-	40,916
	<u>82,782</u>	<u>44,916</u>	<u>38,263</u>	<u>40,916</u>
Net amount	<u>(76,832)</u>	<u>(44,916)</u>	<u>(32,313)</u>	<u>(40,916)</u>

26. EARNINGS PER SHARE

Earnings per share is calculated on the profit after tax and on the number of ordinary shares in issue at 31 December 2004 of 199,600,000 shares.

27. PRIOR YEAR ADJUSTMENTS

	GROUP		BANK	
	2004 KShs'000	2003 KShs'000	2004 KShs'000	2003 KShs'000
Effect of reversal of Kencom House transaction -(a)	113,837	(13,084)	557,026	424,590
Reversal of revaluation surplus - (b)	(145,280)	(145,280)	-	-
Other adjustments - (c)	-	(101,658)	-	(66,337)
	<u>(31,443)</u>	<u>(260,022)</u>	<u>557,026</u>	<u>358,253</u>

The prior year adjustments relate to:

- The net effect of the reversal of Kencom House sale transaction.
- Reversal of revaluation surplus on Kencom House leasehold land in compliance with International Accounting Standard No. 17, on leases.
- Effect of correction for understatement of interest payable in previous years of KShs.35,321,000, and the resolution of the treatment of certain items for tax with the Kenya Revenue Authority of KShs.66,337,000, relating to previous years.

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	2004 KShs'000	2003 KShs'000
a) NET CASH FLOWS FROM OPERATING ACTIVITIES		
This has been derived as follows:-		
Profit before taxation	1,073,467	877,072
Adjustments for:		
Depreciation of property and equipment	239,793	269,826
Amortisation of prepaid leases on land	3,051	3,390
Amortisation of intangible assets	12,213	5,426
Profit on sale of property and equipment	(12,733)	(4,183)
Gain on disposal of associated company	-	(5,100)
Gain on disposal of unquoted investments	(17,750)	-
Appreciation in value of quoted investments	(153,269)	(35,443)
Share of loss of associated companies	-	8,559
Cash reserve ratio	(348,086)	537,335
Held to maturity investments	2,690,107	(4,730,988)
Placement and balances with other banking institutions	2,000,000	-
Loans and advances	(9,110,552)	2,792,326
Other assets	979,108	(349,775)
Deposits and balances from other banking institutions	(167,232)	(345,630)
Other customer deposits	5,280,462	4,455,639
Other liabilities	(6,484)	(25,970)
Property and equipment write off/(adjustment)	240,486	(3,140)
	<u>2,702,581</u>	<u>3,449,344</u>
b) ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash on hand	2,396,203	1,901,414
Cheques and items for clearing	93,414	46,025
Held to maturity investments	5,639,788	3,447,951
Held for trading investments	1,684,066	-
Placements and balances with other banking institutions	1,681,365	887,963
Deposits and balances from other banking institutions	(1,628,715)	(538,979)
	<u>9,866,121</u>	<u>5,744,374</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DEC 2004 (cont)

29. RELATED PARTY TRANSACTIONS

a) Inter-company transactions

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

	2004 KShs'000	2003 KShs'000
Due from subsidiary companies (Note 9(a))	1,173,706	1,520,111
Amount due to subsidiary companies (Note 9(b))	<u>5,447</u>	<u>5,600</u>

b) 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	
	2004 KShs'000	2003 KShs'000	2004 KShs'000	2003 KShs'000
Government of Kenya (Treasury)	-	1,329,036	-	1,329,036
Directors	572,373	26,892	572,373	26,892
Employees	2,147,325	1,928,382	2,082,755	1,872,336
	<u>2,719,698</u>	<u>3,284,310</u>	<u>2,655,128</u>	<u>3,228,264</u>

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 derived from the company is less than 10% of the Group's total income and thus, no detailed geographical segments have been disclosed.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DEC 2004 (cont)

31. COMMITMENTS

	GROUP		BANK	
	2004 KShs'000	2003 KShs'000	2004 KShs'000	2003 KShs'000
a) Capital commitments contracted for at year end	<u>171,792</u>	<u>251,876</u>	<u>171,792</u>	<u>251,876</u>
b) Loans committed but not disbursed at year end	<u>2,636,112</u>	<u>3,394,087</u>	<u>2,185,092</u>	<u>3,236,051</u>
c) Foreign currency commitments	<u>422,799</u>	<u>1,560,041</u>	<u>429,818</u>	<u>1,560,041</u>

32. CONTINGENT LIABILITIES

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

12,985,457	10,371,469	12,907,893	10,371,469
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Dormant accounts

690,028	690,028	640,797	640,797
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Litigation

92,115	92,115	56,000	56,000
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(i) Dormant accounts

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

(ii) 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 appealed against judgement. 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.

(iii) Unionisable Employees Court Award

During the year, the Industrial court awarded bank's unionisable employees a salary increment of 15% in a trade dispute between the Banking, Insurance and Finance Union and Kenya Bankers Association (KBA). On behalf of its members, KBA appealed against the award and obtained a stay of execution stopping the implementation of the award until the dispute is heard a fresh. The dispute has not been concluded by the court.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DEC 2004 (cont)

33. FOREIGN CURRENCY EXPOSURE

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The board has set limits on foreign currency positions. The foreign currency positions are monitored on daily basis and hedging strategies used to ensure that positions are maintained within the established limits. The table below summarises the foreign currency exposure as at 31 December 2004.

	GROUP		BANK	
	2004 KShs'000	2003 KShs'000	2004 KShs'000	2003 KShs'000
Assets in foreign currencies	11,507,285	6,571,992	10,943,291	6,558,558
Liabilities in foreign currencies	(11,611,332)	(5,384,916)	(11,039,097)	(5,330,103)
Net foreign currency exposure at 31 December	<u>(104,047)</u>	<u>1,187,076</u>	<u>(95,806)</u>	<u>1,228,455</u>

34. RETIREMENT BENEFIT OBLIGATIONS

a) KCB Pension Fund 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 2004 and a surplus of KShs.479.4 million was reported.

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

	2004 KShs'000	2003 KShs'000
Past service pension benefits	(6,595,500)	(6,053,300)
Fair value of scheme assets	<u>7,074,900</u>	<u>5,861,700</u>
Past service pension surplus/(deficit)	<u>479,400</u>	<u>(191,600)</u>

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

Current contribution costs	<u>275,818</u>	<u>276,377</u>
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The principal actuarial assumptions used are as follows:

Expected rate of return on scheme assets	10.0%	10.0%
Future salary increases	8.0%	5.0%
Rate of contribution on members' pensionable salaries	14.9%	14.9%

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.

35. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The group is exposed to interest rate risk as a result of mismatches of interest rates re-pricing of assets and liabilities. The board of directors has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits. The table below shows interest rate sensitivity position of the Group at 31 December 2004 based on the earlier of maturity or re-pricing dates. Off balance sheet items do not pose any significant interest rate risk to the Group.

	Upto 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
Cash and balances with Central Banks	-	-	-	-	-	5,798,081	5,798,081
Cheques and items for clearing	-	-	-	-	-	93,414	93,414
Held to maturity investments	2,994,271	2,645,517	1,506,296	5,308,860	2,865,385	-	15,320,329
Held for trading investments	1,684,066	-	-	-	-	-	1,684,066
Placements and balances with other banking institutions	1,681,365	-	-	-	-	-	1,681,365
Available for sale investments	-	-	-	-	-	302,227	302,227
Tax recoverable	-	-	-	-	-	472,349	472,349
Loans and advances to customers (net)	5,746,533	847,397	1,999,384	25,167,490	2,464,636	-	36,225,440
Other assets	-	-	-	-	-	3,029,980	3,029,980
Intangible assets	-	-	-	-	-	57,165	57,165
Prepaid leases on land	-	-	-	-	-	199,223	199,223
Property and equipment	-	-	-	-	-	2,722,011	2,722,011
Deferred tax	-	-	-	-	-	2,014,517	2,014,517
Total Assets	12,106,235	3,492,914	3,505,680	30,476,350	5,330,021	14,688,967	69,600,167
Deposits and balances from other banking institutions	1,628,715	-	-	-	-	-	1,628,715
Other customer deposits	49,716,140	5,239,740	910,304	27,546	-	-	55,893,730
Other liabilities	-	-	-	-	-	3,263,882	3,263,882
Lines of credit	-	-	37,044	196,637	-	-	233,681
Shareholders' funds	-	-	-	-	-	8,580,159	8,580,159
Total liabilities and shareholders' funds	51,344,855	5,239,740	947,348	224,183	-	11,844,041	69,600,167
Interest rate sensitivity gap	(39,238,620)	(1,746,826)	2,558,332	30,252,167	5,330,021	2,844,926	-
At 31 December 2003							
Total assets	7,463,654	4,780,669	10,178,331	17,995,817	5,402,979	14,666,705	60,488,155
Total liabilities and shareholders' funds	(43,484,548)	(6,479,715)	(1,432,084)	(239,032)	-	(8,852,776)	(60,488,155)
Interest rate sensitivity gap	(36,020,894)	(1,699,046)	8,746,247	17,756,785	5,402,979	5,813,929	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DEC 2004 (cont)

36. LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that the group will be unable to meet its liabilities when they fall due. 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. Management has arranged diversified funding sources which monitors liquidity on daily basis. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date. The table below summaries the maturity profiles of the group's assets and liabilities based on remaining period from 31 December 2004 to the contractual 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 KShs'000
Cash and balances with Central Banks	5,422,092	318,908	55,405	1,676	-	5,798,081
Cheques and items for clearing	93,414	-	-	-	-	93,414
Held to maturity investments	2,994,271	2,645,517	1,506,296	5,308,860	2,865,385	15,320,329
Held for trading investments	1,684,066	-	-	-	-	1,684,066
Placements and balances with other banking institutions	1,681,365	-	-	-	-	1,681,365
Available for sale investments	-	-	-	-	302,227	302,227
Tax recoverable	-	-	-	-	472,349	472,349
Loans and advances to customers (net)	5,746,533	847,397	1,999,384	25,167,490	2,464,636	36,225,440
Other assets	-	-	3,029,980	-	-	3,029,980
Intangible assets	-	-	-	-	57,165	57,165
Prepaid leases on land	-	-	-	-	199,223	199,223
Property and equipment	-	-	-	-	2,722,011	2,722,011
Deferred tax	-	-	-	2,014,517	-	2,014,517
Total Assets	17,621,741	3,811,822	6,591,065	32,492,543	9,082,996	69,600,167
Deposits and balances from other banking institutions	1,628,715	-	-	-	-	1,628,715
Other customer deposits	49,716,140	5,239,740	910,304	27,546	-	55,893,730
Other liabilities	-	-	3,263,882	-	-	3,263,882
Lines of credit	-	-	37,044	196,637	-	233,681
Shareholders' funds	-	-	-	-	8,580,159	8,580,159
Total liabilities and shareholders' funds	51,344,855	5,239,740	4,211,230	224,183	8,580,159	69,600,167
Net liquidity gap	(33,723,114)	(1,427,918)	2,379,835	32,268,360	502,837	-
At 31 December 2003						
Total assets	11,998,663	5,166,248	14,266,306	20,297,307	8,759,631	60,488,155
Total liabilities and shareholders' funds	(43,484,548)	(6,479,715)	(4,702,450)	(239,032)	(5,582,410)	(60,488,155)
Net liquidity gap	(31,485,885)	(1,313,467)	9,563,856	20,058,275	3,177,221	-

37. CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group manages group credit risk by setting limits for individual borrowers and groups of borrowers, and for geographical and industrial segments. The bank also monitors credit exposures, and continually assesses the credit worthiness of counter parties. The group in addition, obtains security where appropriate, enters into master netting agreements and collateral arrangements with counter parties, and limits the duration of exposures. Credit risk in respect of derivative financial instruments is limited to those with fair values.

38. EMPLOYEES

The number of employees of the Group as at the end of the year was 2,679 (2003 – 2,741).

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.).

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 name 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 34th Annual General Meeting to be held on the 17th June 2005 and at any adjournment thereof.

Signed this _____ day of _____ 2005

Signature(s) _____

Note: In case of a Member being in 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.

CUT ALONG LINE



FOMU YA UWAKILISHI

Katibu
Benki ya Kenya Commercial
Chorofa ya 8, Kencom House, Moi Avenue
Sanduku la Posta 48400 00100 Nairobi Kenya

Mimi/Sisi _____

Nambari ya Akaunti ya Mwenyehisa _____

Sanduku la Posta _____

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

Wa Sanduku la Posta _____

au akishindwa, Mwenyekiti wa Mkutano, kama mwakilishi wangu/wetu kupiga kura kwa niaba yangu/yetu katika Mkutano Mkuu wa 34 wa Mwaka wa Kampuni utakaofanyika tarehe 17 Juni 2005 au pale utakapoarishwa.

Imewekwa sahihi tarehe _____ Mwezi wa _____ 2005

Sahihi _____

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



Sports Minister Najib Balala officially flagging off the 2004 KCB Safari Rally outside KCB Treasury Square, Mombasa.

