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BANK INFORMATION

PRINCIPAL PLACE OF BUSINESS: KENCOM HOUSE, MOI AVENUE, PO BOX 48400 - 00100 NAIROBI, KENYA. REGISTERED OFFICE:

KENCOM HOUSE, MOI AVENUE, PO BOX 48400 - 00100 NAIROBI, KENYA.

SOLICITORS: VARIOUS, A LIST IS AVAILABLE AT THE BANK. COMPANY SECRETARY: MR K D MALAKWEN, PO BOX 48400 - 00100,

NAIROBI. AUDITORS: ERNST & YOUNG, KENYA RE TOWERS, UPPERHILL, OFF RAGATI RD, PO BOX 44286 - 00100, NAIROBI, KENYA.

NOTICE IS HEREBY GIVEN THAT THE 36TH 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, 15th June, 2007 at 11 a.m. when the following business 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, 2006.

b) Report and Financial Statements for the year ended 31st December, 2006

To receive and consider the Report of the Directors and Consolidated Financial Statements for the year ended 31st December, 2006 together with the Auditors' Report thereon.

c) Dividend

To declare a dividend

d) Election of Directors

In accordance with Article 94 of the Company's Articles of Association, Mrs. Susan Outa Mudhune, Mr. Peter Wanyaga Muthoka and Mrs. Susan Nkirote Omanga, 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.

NOTICE OF THE 36TH ANNUAL GENERAL MEETING

g) Remuneration of the Auditors

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

3. SPECIAL BUSINESS

Shares Split

To consider and if deemed fit, adopt the following Special Resolution:

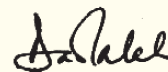
"That on the recommendation of the Board of Directors and subject to all relevant approvals being obtained, the authorized shares of the Company as at 2nd April, 2007 shall be split and divided in the ratio of ten (10) to one (1) and that the holding of those shareholders shown in the Register of Members of the Company at the close of the business on 2nd April, 2007 shall be adjusted proportionately to reflect the split of ten (10) new ordinary shares to every one (1) of the existing ordinary shares. The par value of the shares shall also be adjusted from KShs.10/= per share to KShs.1/= per share."

4. ANY OTHER BUSINESS

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

DATED AT NAIROBI THIS 5TH DAY OF MARCH, 2007

BY ORDER OF THE BOARD



K. D. MALAKWEN
SECRETARY

Arifa inatolewa kwamba mkutano mkuu wa kila mwaka wa KENYA COMMERCIAL BANK LIMITED utafanyika katika ukumbi wa Tsavo, Kenyatta International Conference Centre, Harambee Avenue, jijini Nairobi, Ijumaa tarehe 15 mwezi Juni, 2007 saa tano asubuhi kujadili yafuatayo:

1. KUJUMUIKA KWA MKUTANO.

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

2. SHUGHULI ZA KAWAIDA

(a) Ripoti ya wakaguzi wa hesabu

Kusomwa kwa ripoti ya wakaguzi kuhusu jumla ya hesabu ya pesa kwa mwaka uliomalizika tarehe 31 Desemba mwaka wa 2006.

(b) Ripoti na taarifa ya kifedha kwa mwaka uliomalizika tarehe 31 Desemba mwaka 2006.

Kupokea na kujadili ripoti ya wakurugenzi na taarifa za jumla za kifedha kwa mwaka uliomalizika tarehe 31 Desemba mwaka wa 2006, pamoja na ripoti ya wakaguzi wa hesabu.

(c) Mgao wa Faida

Kutangazwa kwa mgao wa faida.

(d) Uchaguzi wa Wakurugenzi

Kwa mujibu wa kifungu nambari 94 cha kanuni za kampuni, Bi. Susan Outa Mudhune, Bw. Peter Wanyaga Muthoka na Bi. Susan Nkirote Omanga, wanastaafu kwa zamu kama wakurugenzi wa Benki hii na kwa vile wanastahili wanajitolea kuchaguliwa tena.

(e) Malipo ya Wakurugenzi

Kuidhinisha halmashauri ya Wakurugenzi kuweka viwango vya malipo ya wakurugenzi.

(f) Uteuzi wa wakaguzi wa hesabu

Kuteua tena kampuni ya Ernst & Young, wakaguzi wa hesabu walioidhinishwa, kama wakaguzi 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 MAALUM

Ugawanyaji Hisa

Kujadili na inaponelewa kwamba inafaa, kupitisha azimio maalum:

“Kwamba kwa mapendekezo ya halmashauri ya Wakurugenzi na baada ya idhini kutolewa, hisa za kampuni zilizoidhinishwa kufikia tarehe 2 Aprili mwaka wa 2007 zitagawanywa kwa uwiano wa kumi (10) kwa moja (1) na kwamba wenye hisa hizo walioorodheshwa kwenye Sajili ya wanachama wa kampuni kufikia mwisho wa shughuli za siku ya tarehe 2 mwezi April 2007 zitaainishwa kuonyesha kugawanywa kwa hisa (10) mpya za kawaida kwa kila moja(1) ya hisa za kawaida zilizoko. Thamani ya hisa za awali pia itaainishwa kutoka shilingi 10 kwa hisa hadi shilingi moja kwa hisa.

4. SHUGHULI NYINGINE YOYOTE

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

TAREHE 5 MWEZI MACHI 2007, NAIROBI
KWA AMRI YA WAKURUGENZI.

K.D.MALAKWEN
KATIBU



1 2 3 4 5 6 7 8 9 10 11

1 MARTIN ODUOR-OTIENO, DEPUTY CEO (AGE 50)

Joined KCB in October 2005. Holds an MBA and Bachelor of Commerce degree in Accounting. He is a Fellow of the Institute of Certified Public Accountants of Kenya, Fellow of the Kenya Institute of Bankers and a Certified Public Secretary.

2 JOSEPH KINYUA (CBS), DIRECTOR (AGE 55)

Joined the Board in July 2004. Holds BA and MA degrees in Economics from University of Nairobi. Currently the Permanent Secretary, Treasury, a member of the Board of Governors of African Economic Research Consortium and alternate Governor of World Bank Board of Governors. He has served in various senior positions in the Ministry of Finance and Central Bank of Kenya. Also served as PS, Ministry of Planning and National Development and Ministry of Agriculture.

3 SUNIL SHAH, DIRECTOR (AGE 53)

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.

4 PROF. PETER KIMUYU, DIRECTOR (AGE 56)

Joined the Board in June 2006. Holds a PhD in Economics from University of Nairobi. He is currently Professor of Economics and also Director School of Economics at Nairobi University and Chairman, Board of Directors of the Export Promotion Council.

5 CATHERINE KIMURA, DIRECTOR (AGE 60)

Joined the Board in June 2003. Holds a Bachelor of Arts degree, Certificate in Public Finance and a Diploma in Tourism and International Relations. Chairman of the Bank's Human Resources and Remuneration Committee.

6 SUSAN MUDHUNE (MBS), CHAIRMAN (AGE 57)

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),

National Chairman of Kenya Girl Guides Association.

7 PETER W MUTHOKA (MBS), DIRECTOR (AGE 63)

Joined the Board in June 2004. Holds BA (Hons) Degree (NBI), MA Degree (UCLA/USA) and IMF/WTO/UNESCO Course Certificates. Currently Managing Director of Sasini Limited. Previously served in senior positions with GOK/UN, Central Bank of Kenya and Export Promotion Council of Kenya. Chairman Bank's Audit and Compliance Committee.

8 SUSAN OMANGA, DIRECTOR (AGE 46)

Joined the Board in June 2004. Holds a Degree in Business Management and Marketing. She is currently the Managing Director of Exclamation Marketing Limited. Has headed marketing departments in local banking industry for many years. Chairman of the Bank's Corporate Affairs and Social Responsibility Committee.

9 JAMES N. KOOME, DIRECTOR (AGE 54)

Joined the Board in June 2005. Holds a Post

Graduate Diploma in International Marketing & Trade. Currently the Managing Director of Coomes Group Ltd. Held senior management positions at Unga Group Ltd before retiring 10 years ago.

10 TERRY DAVIDSON, CHIEF EXECUTIVE (AGE 54)

Joined KCB in January 2003. Previously worked for 30 years with Citibank. Council member and Chairman of Audit Committee at University of Nairobi, member of Capital Markets Tribunal, Board member of Deposit Protection Fund, Board member of FKE, Trustee of Gertrude's Garden Hospital. Former Chairman of Kenya Bankers Association.

11 JOSEPH I. ADONGO, DIRECTOR (AGE 53)

Joined the Board in June 2005. Holds a BA and MA degrees in Economics. Fellow of the Economic Institute of the World Bank. Chairman of Betting Control and Licensing Board. Chairman of the Bank's Credit Committee.

DIRECTORS OF SUBSIDIARIES

5



1 2 3 4 5 6 7 8

1 RUPIN RAJANI,
DIRECTOR KCB (TZ) (AGE 45)

Joined the Board in May 2006. Holds a Masters Degree in Business Administration from Institute of Management Development, Lausanne, Switzerland.

2 ENG. JEREMIAH NDETTO,
DIRECTOR S&L (AGE 54)

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 Procurement Committee.

3 JOSEPH S MUIRU,
DIRECTOR S&L (AGE 57)

Joined the Board in August 2006 after working with the Central Bank of Kenya for over 23 years. Holds a Masters Degree in Economics from University of Nairobi. He is an examiner Kenya Institute of Bankers and a consultant with Ukweli Consult.

4 WANGUI NGATIA,
MD S&L (AGE 53)

Joined KCB in January 1978. Holds a Bachelor of Arts degree from the University of Nairobi.

5 DANIEL MAVINDU,
MD KCB (S) (AGE 45)

Joined KCB (S) in May 2006. Holds a Bachelor of Commerce degree in Accounting from the University of Nairobi and is a Certified Public Accountant. Previously worked for Chase Bank (K) Limited as Executive Director, Banking Operations, Finance and Administration.

6 DR. LEO ONEK,
DIRECTOR KCB (S) (AGE 54)

Joined the Board in 2006. Holds a PHD in Biochemistry from Lancaster University.

7 JANET MBENE,
DIRECTOR KCB (TZ) (AGE 55)

Joined the Board in May 2006. Holds Masters Degree in Economics from University of New England, Armidale New South Wales, Australia.

8 HERI BOMANI,
MD KCB (TZ) (AGE 36)

Joined KCB (T) in April 2006. Holds a Bachelor of Science Degree in Economics (Banking & Finance) from the University of Wales. Previously worked for Standard Chartered Bank Tanzania Limited as Executive Director, Consumer Banking.

KCB EXECUTIVE COMMITTEE



1 2 3 4 5 6 7 8 9 10 11 12 13 14

1 Martin Oduor-Otieno Deputy CEO, **2 Kalyan Mukherjee** Treasurer, **3 Dr. Tony Githuku** Divisional Director: IT & Operations, **4 Mary Ann Kirubi** Divisional Director: Marketing, **5 Samuel Kimani** Divisional Director: Finance, **6 Catherine Njoroge** Divisional Director: Retail, **7 Kepha Bosire** Head of Corporate Affairs, **8 Terry Davidson** Chief Executive, **9 Rose Kinuthia** Divisional Director: Risk, **10 Lyn Mengich** Divisional Director: Human Resources, **11 Fred Mutiso** Divisional Director: Strategy & Change Programme, **12 Stanley Towett** Divisional Director: Audit, **13 Philip Ilako** Divisional Director: Corporate, **14 Kiprop Malakwen** Company Secretary .





Susan Mudhune, Chairman

SHAREHOLDERS,

I am very pleased to present to you the Annual Report and Financial Statements for your business for the year 2006.

The past year witnessed the continued growth and prosperity of your enterprise, with both revenues and business volumes growing immensely over the period.

GROUP PERFORMANCE

The KCB Group registered a 63% growth in profitability, moving from KShs1.95 billion in pretax profit in 2005 to KShs. 3.2 billion last year. Total assets grew from KShs78.3 billion to KShs92.5 billion an 18% improvement over the past 12 months. Shareholder funds increased by 15% from KShs10.1 billion in 2005 to KShs. 11.6 billion in the year under review.

The Board and Management continued to implement a number of initiatives to ensure steady efficiency and growth in spite of stiff competition. These efforts are yielding positive results as manifested in the Group's results.

ECONOMY

The business thrived in an economic environment that was generally favourable for growth and which provided immense business opportunities in all sectors.

The domestic economy continued to record improved activity in 2006, bolstered by sustained stability of key macro-economic indicators and reflecting the outcome of economic reforms being implemented by government. Provisional data from main sectors indicate that there was improved performance particularly in tourism, agriculture, building and construction, manufacturing and transport and communication. Credit conditions remained supportive for the growth of businesses, facilitating increased spending in capital items. It is estimated that the economy achieved a GDP growth of 6% in 2006 against a growth of 5.8% in 2005.

Notwithstanding the drought experienced in the first quarter of 2006, restoration of favorable weather conditions for the rest of the year mitigated the adverse effects of drought on agriculture. The tax incentives advanced by the government provided additional impetus towards improved manufacturing activity. The tourism sector remained buoyant as vigorous marketing and improved security attracted more tourist arrivals from diverse destinations. Low and stable bank lending rates continued to cause sharp appetite for mortgage products leading to increased activity in the building and construction sector.

As implementation of major economic programmes gets underway, the upward growth momentum is forecast to be sustained in 2007 and over the next few years. Liberalization in ports, telecommunications and energy sectors as well as the recent concessioning of the Kenya Railways Corporation is expected to boost growth in these sectors.

Overall annual average inflation ended higher in 2006 compared to 2005 mainly reflected in rising food prices. In particular, overall annual average inflation reached a peak of 19.1% in March 2006, before moderating to 15.6% at the end of 2006 compared with 10.3% in 2005. Overall underlying inflation picked up to stand at 4.33% at the end of 2006, compared to 4.0% in January 2006. The pick up was reflected in the volatile oil prices in international markets and prices adjustments following implementation of fiscal reforms as outlined by the 2006/07 budget.

Consistent with a tight monetary policy environment which has remained in place since December 2004, short term interest rates, though stable remained on a downward trend in 2006. During the year the 91-day Treasury bill rate declined to 5.78% at the end of 2006, compared with 8.1% at the end of 2005. Similarly, interest rate on 182-day Treasury bill slowed down to 7.44% at the end of 2006, compared with 8.5% in 2005. The Inter-bank rate over the same period declined to 6.3% from 7.8% in 2005. The decline in short term interest rates continued to reflect high levels of liquidity following increase in short term capital inflows. With prudent management of existing monetary policy and a sustainable fiscal position, we expect the stability exhibited by short term interest rates to continue.



THE FINANCIAL MARKETS

The Kenya shilling experienced mixed fortunes against major world currencies. The shilling gained against the US dollar to end the year at KShs 69.60 compared with an average of KShs75.50 in 2005. The shilling however, depreciated to the Sterling Pound and Euro, respectively, trading at an average of KShs 136.8 and 92.03 compared with KShs127.62 and KShs86.70 to the Sterling Pound and Euro respectively in December 2005. The shilling is expected to weaken and trade within a range of KShs72.50 and KShs73.50 into 2007 as foreign investors opt to convert local currency denominated assets to hard currency denominated assets to hedge against any uncertainty in the market.

The Stock Market was bullish for most of 2006 drawing a lot of interest from burgeoning investors from a variety of local and multinational stocks. The NSE 20-share index improved by 42% gaining from 3,973.04 points at the end of 2005 to stand at 5,645.65 points in 2006. Market capitalization increased by over 71% from KShs462.5 billion at the end of 2005 to KShs791.9 billion. Total turnover was up by 160% from KShs36.5 billion at the end of 2005 to KShs94.95 billion in 2006. The number of shares traded increased by 66% when compared with the previous year.

The KCB share value increased from KShs113 in 2005 to KShs241 by the close of the year. Market capitalization more than doubled from KShs22.5 billion in 2005 to KShs48.1 billion in 2006. This growth was a reflection of the overall good performance of the business throughout the year.

As a result of sustained macro-economic stability, the banking sector achieved a more favourable financial performance in 2006 compared to previous years. Gross assets of the banking industry grew significantly to over KShs760 billion in 2006 compared with KShs640 billion achieved in 2005. The increase in bank assets created opportunities for increased investments in government securities as well as in new lending products to the market.

REGIONAL EXPANSION AND SUBSIDIARIES

Back to our business, we moved a step closer towards realizing our vision to be the best bank in the region by commencing business in the Southern Sudan market. KCB (Sudan) began operations in June 2006 and has recorded a loss of KShs34 million for the year. The prospects for KCB (Sudan) are however good with the two branches at Juba and Rumbek attracting increasing business. There are plans to increase the network in the next two years if the business environment allows.

We are looking at other regional markets with a view to extending our footprint especially to Uganda and Rwanda in the near future.

S&L reported a pretax profit of KShs130 million up from KShs77 million while KCB (Tanzania) reported a loss before tax of KShs35 million down from a pretax profit of KShs11.4 million in 2005. The Board of KCB (Tanzania) has approved plans to increase the number of outlets in that market to encourage further growth, in line with the expanding economy.

Both KCB (Tanzania) and S&L have introduced new products and services to increase revenues and attract new customers. We expect the three subsidiaries to contribute significantly to Group bottom line in future.

CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

The Bank continues to be managed under the principles of global best practice, embracing good corporate governance, integrity and ethics. KCB is zero tolerant to all manner of corruption. The bank will implement an ethics programme in 2007 to create awareness on the ills of corruption and provide an avenue for whistle blowing.

The Board of Directors and Management participated in team-building and strategy formulation sessions last year with a view to giving them insights into modern governance practices while also providing teambuilding opportunities. The Board Charter and the Directors' Charter continue to guide directors as to their responsibilities while also facilitating a harmonious working relationship with Management.



As part of the bank's three-year strategy to exhibit good corporate citizenship, the bank continued to invest in social responsibility activities. During the year the bank spent about KShs30 million in various community activities. Key activities implemented in 2006 include planting of trees during the KCB Community Day and support to needy schools during the KCB Community Week. The bank made donations to Operation Smile Kenya, Kenya Red Cross Society, Ndakaini Dam Environmental Conservation Organization and the United States International University's Centre for Excellence in Entrepreneurship Development (CEED) among others.

In 2006, the Board approved the formation of the KCB Foundation; a charitable trust to run the bank's CSR Programmes and manage other components of good Corporate Citizenship.

DIVIDENDS

As a result of this impressive performance the Board of Directors recommended a 50% increase in dividend payout from KShs. 4 per ordinary share held to KShs6 per share. This is a just reward to our loyal shareholders who have supported this business throughout the turnaround period.

SHARE SPLIT

As you must have observed, the share price of your Company rose significantly over the past period. This rise has made the shares out of reach for many Kenyans. The Board, therefore, recommends to the shareholders that the shares should be sub-divided in the ratio of ten (10) to one (1). This will be subject to approvals by the regulatory authorities and the shareholders at the AGM to be held on 15th June 2007.

FUTURE OUTLOOK

The future looks bright for your business. Over the past year, the growth of the business has been tremendous, owing to unswerving support from all our stakeholders. Business volumes have increased immensely due to the good business climate prevailing in the country and improving service and product innovation. We see this going on into the future as the Group gears up to be the leading provider of financial solutions in the region.

The image of the bank is at an all time high having been ranked the most popular brand in the financial sector in a 2006 research by Steadman Group. There is overall positive sentiment among our employees, customers and general public that KCB Group is poised for a better future.

The Board has approved a five-year strategic plan to take the business into the future. This comes after a successful business reorganization exercise aimed at optimizing utilization of human resources and rationalizing operating expenditure across the business. We feel that KCB is ready now, more than ever before to stake claim on East Africa's financial markets as a leading player.

I am indebted to my fellow directors for their selfless contribution to the business over the past year and on a more personal note, the support they gave me as their Chairman. The Management and Staff put in a lot of effort to produce the impressive results we have released and I would like to thank all of them most sincerely.

I am also deeply indebted to our customers, for their unwavering support to our business across the region, as well as the communities that give us the licence to operate in their midst. To our shareholders, your support and encouragement is much appreciated. Together we can make KCB the best bank in the region.

THANK YOU.



**WANAHISA**

Nina furaha kuwasilisha kwenu ripoti ya mwaka na taarifa za kifedha kwa mwaka wa 2006.

Mwaka uliopita umedhihirisha endelea kukua na mafanikio ya kampuni yenu, huku mapato na kiwango cha biashara vikikua kwa kiwango kikubwa wakati wa kipindi hicho.

UTENDAJI WA KAMPUNI

Kampuni ya KCB ilipata ukuaji wa asili mia 63 katika faida, ongezeko kutoka shilingi bilioni 1.95 kabla ya kodi mwaka wa

2005 hadi shilingi bilioni 3.2 kabla ya kodi mwaka jana. Jumla ya mali iliongezeka kutoka shilingi bilioni 78.3 hadi shilingi bilioni 92.5, imariko la asili mia 18 katika miezi 12 iliyopita. Fedha za wanahisa ziliongezeka kwa asili mia 15 kutoka shilingi bilioni 10.1 mwaka wa 2005 hadi shilingi bilioni 11.6 mwaka tunaozungumzia.

Halmashauri na Wasimamizi waliendelea kutekeleza mikakati kadhaa kuhakikisha utendaji bora na ukuaji licha ya ushindani mkali. Juhudi hizi zinazaa matunda mema kama inavyoonyeshwa kwenye matokeo ya kampuni.

UCHUMI

Biashara ilinawiri katika mazingira ya kiuchumi ambayo kwa ujumla yalifaa kwa ukuaji na ambayo yalitoa nafasi nyingi za kibiashara kwa sekta zote.

Uchumi wa kitaifa uliendelea kuimarika mwaka wa 2006, kutokana na uthabiti endelevu wa viashirio vya biashara ndogo ndogo na kuakisi matokeo ya marekebisho ya kiuchumi yanayotekelezwa na serikali. Takwim za muda kutoka sekta kuu zinaonyesha kwamba kulikuwa na imariko hasa katika sekta za utalii, kilimo, ujenzi, utengenezaji wa bidhaa usafirishaji na mawasiliano. Masharti ya mikopo yaliendelea kuwa bora kwa ukuaji wa biashara hivyo kuwezesha ongezeko la matumizi katika bidhaa kuu. Inakadiriwa kwamba uchumi uliafikia ukuaji wa bidhaa na huduma wa asili mia 6 mwaka wa 2006 kulinganisha na ukuaji wa asili mia 5.8 mwaka wa 2005.

Licha ya hali ya ukame uliokuweco robo ya kwanza ya mwaka wa 2006, hali bora ya hali ya hewa kwa kipindi kilichobaki cha mwaka ilipelekea matokeo bora katika kilimo. Vishawishi vya kodi vilivyotolewa na serikali viliongeza himizo katika sekta ya utengenezaji bidhaa. Sekta ya utalii iliendelea kuwa na uchangamfu huku ongezeko la mauzo na kuimarika kwa usalama vikivutia watalii zaidi kutoka maeneo mbali mbali. Viwango vya chini vya riba vya benki vya ukopeshaji viliendelea kuwa na mvuto mkali kwa mikopo ya nyumba, hivyo kupelekea ongezeko la shughuli za sekta ya ujenzi.

Huku utekelezaji wa mipango muhimu ya kiuchumi ukiendelea, kasi ya ukuaji wa juu inatarajiwa kudumishwa mwaka wa 2007 na katika miaka michache ijayo. Mfumo huru katika sekta za bandari, mawasiliano ya simu na nishati pamoja na kuchukuliwa kibiashara kwa muda kwa shirika la reli kunatarajiwa kuongeza ukuaji katika sekta hizi.

Jumla ya wastani wa viwango vya gharama ya maisha kwa mwaka vilikuwa vya juu zaidi mwaka wa 2006 kulinganishwa na mwaka wa 2005 hasa katika bei za vyakula. Hasa wastani wa mwaka wa viwango vya gharama ya maisha vilifikia kilele cha asili mia 19.1 mwezi Machi mwaka wa 2006, kabla ya kupungua hadi asili mia 15.6 mwishoni mwa mwaka wa 2006 kulinganishwa na asili mia 10.3 mwaka wa 2005. Kwa ujumla viwango vya gharama ya maisha viliongezeka na kufikia asili mia 4.33 mwishoni mwa 2006, kulinganishwa na asili mia 4.0 mwezi Januari 2006. Ongezeko hilo lilidhihirika kwenye bei za mafuta zilizopanda na kushuka katika masoko ya kimataifa na marekebisho ya bei kufuatia kutekelezwa kwa marekebisho ya kifedha kama ilivyoonyeshwa kwenye bajeti ya 2006/07.

Kuambatana na mazingira ya kudhibiti sera ya fedha ambayo imekuwako tangu Desemba mwaka wa 2004, viwango vya riba vya muda mfupi, japokuwa thabiti, vimekuwa vikididimia mwaka wa 2006. Wakati wa mwaka huo, viwango vya dhamana za serikali za siku 91 vilipungua hadi asili mia 5.78 mwishoni mwa mwaka wa 2006, kulinganishwa na asili mia 8.1 mwishoni mwa mwaka wa 2005. Hivyo hivyo viwango vya riba kwa dhamana za serikali za siku 182 vilipungua hadi asili mia 7.44 mwishoni mwa mwaka wa 2006 kulinganishwa na asili mia 8.5 mwaka wa 2005. Viwango miongoni mwa mabanki katika kipindi hicho hicho vilipungua hadi asili mia 6.3 kutoka asili mia 7.8 mwaka wa 2005.



Kupungua kwa viwango vya riba vya muda mfupi kuliendelea kuakisi wingi wa fedha kufuatia mumiminiko wa fedha kutoka biashara za muda mfupi. Kwa kuendelea na usimamizi bora wa sera iliyoko ya fedha na hali endelevu ya kifedha, tunatarajia uthabiti ulioletwa na viwango vya riba vya muda mfupi kuendelea.

MASOKO YA KIFEDHA

Shilingi ya Kenya iliendelea kupanda na kushuka dhidi ya sarafu muhimu duniani. Shilingi ilipanda thamani dhidi ya dola ya Marekani na kumaliza mwaka kwa shilingi 69.60 kulinganishwa na wastani wa shilingi 75.50 mwaka wa 2005. Hata hivyo shilingi, ilishuka thamani dhidi ya pauni ya Uingereza na Euro, na kuuza kwa shilingi 136.8 na 92.03 mtawalia kulinganishwa na shilingi 127.62 na shilingi 86.70 dhidi ya pauni na Euro mtawalia mwezi Desemba 2005. Shilingi inatarajiwa kuwa dhaifu na kuuza katika mawanda ya shilingi 72.50 na 73.50 kwenye mwaka wa 2007 huku wawekezaji wa kigeni wanapoamua kubadilisha mali za humu nchini kwa fedha halisi ili kujikinga na hali ya sintofahamu katika soko.

Bei katika soko la hisa ziliendelea kuongezeka kwa kipindi kikubwa cha mwaka wa 2006 na kusababisha mvuto mkubwa miongoni mwa wawekezaji kwa hisa za humu nchini na na zile za kigeni. Kipimo cha kampuni bora 20 katika soko la hisa kiliimarika kwa asili mia 42 na kupata pointi 3,973.04 mwishoni mwa mwaka wa 2005 na kufikia pointi 5,645.65 mwaka wa 2006.

Kiasi cha fedha katika soko la hisa kiliongezeka kwa zaidi ya asili mia 71 kutoka shilingi bilioni 462.5 mwishoni mwa mwaka wa 2005 hadi shilingi bilioni 791.9. Jumla ya mauzo yaliongezeka kwa asili mia 160 kutoka shilingi bilioni 36.5 mwishoni mwa mwaka wa 2005 hadi shilingi bilioni 94.95 mwaka wa 2006. Idadi ya hisa zilizouzwa iliongezeka kwa asili mia 66 kulinganishwa na mwaka uliotangulia.

Thamani ya hisa ya KCB iliongezeka kutoka shilingi 113 mwaka wa 2005 hadi shilingi 241 kufikia mwishoni mwa mwaka. Fedha za biashara ziliongezeka zaidi ya mara dufu kutoka shilingi bilioni 22.5 mwaka wa 2005 hadi shilingi bilioni 48.1 mwaka wa 2006.

Ukuaji huu ulikuwa unaakisi utendaji bora wa biashara mwaka wote.

Kutokana na kudumishwa kwa uthabiti wa kiuchumi, sekta ya benki ilipata utendaji bora wa kifedha mwaka wa 2006 kulinganishwa na miaka iliyotangulia. Jumla ya mali za sekta ya benki zilikuwa kwa kiasi kikubwa hadi kufikia zaidi ya shilingi bilioni 760 mwaka wa 2006 kulinganishwa na shilingi bilioni 640 zilizoafikiwa mwaka wa 2005. Ongezeko la mali za benki lilibuni nafasi ya uwekezaji zaidi katika dhamana za serikali pamoja na kuanzisha aina mpya ya mikopo katika soko.

UPANUZI WA MAENEO NA MASHIRIKA

Tukirejea tena kwenye shughuli zetu, tulisonga zaidi katika lengo letu la kuwa benki bora zaidi katika kanda kwa kuanzisha biashara katika soko la Kusini mwa Sudan. KCB(Sudan) ilianza shughuli zake mwezi Juni mwaka wa 2006 na imepata hasara ya shilingi milioni 34 kwa mwaka huo. Matarajio ya KCB(Sudan) ni mazuri ambapo matawi mawili yaliyoko Juba na Rumbek yanaendelea kuvutia biashara. Kuna mpango wa kuongeza matawi katika miaka miwili ijayo iwapo mazingira ya biashara yataruhusu.

Tunaangalia masoko mengine ya kanda kwa lengo la kueneza shughuli zetu hasa Uganda na Rwanda katika siku zijazo.

Shirika la S&L liliripoti faida kabla ya kodi ya shilingi milioni 130, ongezeko kutoka shilingi milioni 77 nayo KCB(Tanzania) ikaripoti hasara ya shilingi milioni 35 kabla ya kodi ikiwa ni chini ya faida ya shilingi milioni 11.4 kabla ya kodi iliyoripotiwa mwaka wa 2005. Halmashauri ya KCB(Tanzania) imepitisha mipango ya kuongeza matawi zaidi katika soko hilo ili kuhimiza ukuaji zaidi, sambamba na panuko la kiuchumi.

KCB(Tanzania) na S&L zimeanzisha mikopo mipya na huduma kuogezwa mapato na kuvutia wateja wapya. Tunatarajia mashirika hayo matatu yataendelea kuchangia kwa kiasi kikubwa juhudi za kimsingi za kampuni katika siku zijazo.

MAONGOZI NA WAJIBU KWA JAMII

Benki inaendelea kusimamiwa chini ya misingi ya maongozi bora ya kimataifa, kwa kutilia maanani usimamizi bora wa kampuni, uwajibikaji na maadili. KCB inapinga kabisa ufisadi wa aina yoyote.

Benki itaanzisha mpango wa maadili mwaka wa 2007 kubuni ufahamu kuhusu maovu ya ufisadi na kutoa nafasi kwa wale wanaotoa habari kuhusu ufisadi.

Halmashauri ya Wakurugenzi na Wasimamizi walishiriki katika vikao vya kujenga mshikamano na kubuni mikakati mwaka jana kwa lengo la kuwapa uelewano kuhusu mbinu za usimamizi wa kisasa huku pia wakitoa nafasi za kujenga mshikamano. Kanuni za halmashauri na zile za wakurugenzi zinaendelea kutoa muongozo kwa Wakurugenzi kuhusu wajibu wao, huku pia zikisaidia kuwepo kwa hali ya kirafiki ya utendaji kazi na wasimamizi.

Kama sehemu ya mkakati wa Benki wa miaka mitatu wa kuonyesha sura bora kwa umma, benki iliendelea kuwekeza katika shughuli za kijamii. Wakati wa kipindi hicho cha mwaka Benki ilitumia takribani shilingi milioni 30 katika shughuli mbali mbali za kijamii. Shughuli muhimu zilizotekelezwa mwaka wa 2006 ni pamoja na upanzi wa miti wakati wa siku ya Jumuiya ya KCB na usaidizi kwa shule masikini wakati wa wiki ya Jumuiya ya KCB. Benki ilitoa mchango kwa Chama cha kurekebisha midomo nchini, chama cha msalaba mwekundu, shirika la kuhifadhi mazingira ya bwawa la Ndakaini na kituo cha maendeleo ya kibiashara cha chuo kikuu cha United States International(CEED) miongoni mwa nyingine.

Mwaka wa 2006, halmashauri ilipitisha kubuniwa kwa mfuko wa fedha wa KCB (KCB Foundation); hazina ya kutoa usaidizi wa kuendesha mipango ya benki ya CSR na kusimamia mipango mingine ya ushirika bora kwa umma.

MGAO WA FAIDA

Kutokana na matokeo haya bora halmashauri ya Wakurugenzi ilipendekeza ongezeko la asili mia 50 katika malipo ya mgao wa faida kutoka shilingi 4 kwa hisa ya kawaida hadi shilingi 6 kwa hisa. Hii ni zawadi ya haki kwa wana hisa wetu waaminifu ambao wameunga mkono biashara hii wakati wote wa kipindi cha marekebisho.

KUGAWANYWA KWA HISA

Kama mliyooona, bei ya hisa ya Kampuni yenu ilipanda kwa kiasi kikubwa katika kipindi kilichopita. Ongezeko hili limefanya Wakenya wengi kushindwa kununua hisa. Hivyo Halmashauri inapendekeza kwa wanahisa kwamba hisa zigawanywe kwa uwiano wa kumi(10) kwa moja (1). Hii itategemea kupitishwa na mamlaka inayohusika na uuzaji wa hisa na wanahisa katika mkutano wa mwaka utakaofanywa tarehe 15 mwezi Juni 2007.

MATARAJIO YA BAADAYE

Hali ya baadaye inaonekana nzuri kwa biashara. Katika kipindi cha mwaka uliopita, ukuaji wa biashara umekuwa mkubwa, kutokana na kuungwa mkono kwa dhati na wanahisa.

Kiwango cha biashara kimeongezeka kwa kiasi kikubwa kufuatia mazingira mazuri ya kibiashara yaliyoko nchini, kuboresha huduma na kuanzisha aina mpya ya mikopo. Hii itaendelea katika siku zijazo wakati Kampuni inapojiweka kuwa kiongozi wa kutoa suluhisho la kifedha katika kanda.

Sifa ya benki imefikia kilele baada ya kuorodheshwa kuwa benki maarufu zaidi katika sekta ya kifedha mwaka wa 2006 na utafiti uliofanywa na kundi la Steadman. Kuna hali ya matarajio miongoni mwa wafanyakazi wetu, wateja na umma kwa jumla kwamba Kampuni ya KCB itakuwa na hali bora zaidi katika siku zijazo.

Halmashauri imepitisha mkakati wa miaka mitano wa kusukuma mbele biashara katika siku zijazo. Hii imekuja baada ya shughuli iliyofaulu ya kupanga upya biashara uliokusudiwa kutumia kikamilifu rasilimali ya wafanyakazi na kuratibu matumizi katika sekta zote za biashara. Tunaonelea kwamba KCB sasa iko tayari kuchukua hatamu wakati wowote ule kuwa kiongozi mkuu katika masoko ya kifedha ya Afrika Mashariki.

Nawashukuru wakurugenzi wenzangu kwa kujitolea katika mchango wao kwa biashara katika kipindi cha mwaka mmoja uliopita na katika hali ya kibinafsi zaidi, usaidizi walionipa kama mwenyekiti wao. Wasimamizi na wafanyakazi waliweka juhudi nyingi kupata matokeo ya kupendeza ambayo tumepata na ningependa kuwashukuru wote kwa dhati.



Nisingependa kuwasahau wateja wetu, kwa kuunga mkono biashara yetu katika maeneo yote kwa kujitolea, pamoja na jamii ambazo zilitupa lesini ya kufanya biashara yetu miongni mwao. Kwa wanahisa wetu, nimefurahia sana usaidizi wenu na himizo. Kwa pamoja tunaweza kuifanya KCB kuwa benki bora zaidi katika kanda.

AHSANTENI.



KCB Sudan Licensing - Elijah Malok Mayen (centre), Governor Bank of Southern Sudan signs the license allowing KCB to operate a subsidiary in Southern Sudan. Looking on is Fred Mutiso, Divisional Director Strategy & Change (left) and Harun Kibogong (former Business Development Manager, KCB Sudan).



Amana Account Launch - KCB entrenched itself further in the market with the launch of a Shariah compliant banking product dubbed the Amana Account. A camel handler and his camel display the Amana Account Card during the launch ceremony in July 2006.



THE ECONOMY

The economy performed well in 2006 with real GDP growth forecast at 6% up from 5.8% in 2005 as a result of broad based expansion. Key sectors such as tourism and telecommunications continued to perform strongly whilst agriculture, especially the tea and coffee sectors have recently picked up due to good rains in the latter part of 2006. We expect the growth momentum of the past four years to continue for the foreseeable future.

Terry Davidson, Chief Executive

Stable monetary policy contained inflation and ensured that interest rates remained stable. The benchmark Central Bank rate remained steady at 10%, which in turn enabled the banking sector to aggressively lend to the private sector.

The Kenya Shilling remained strong throughout 2006 which was positive for importers but created difficulties for exporters and especially those whose exports are denominated in US dollars.

The Financial Services sector generally performed very well in 2006 with many banks reporting significantly higher earnings and large increases in their balance sheets.

INCOME STATEMENT

I am pleased to share with you the continuing good story of your business. In 2006, the bank recorded a pretax profit of KShs3.2 billion which is 63% up on the previous year. This performance was boosted by significant growth in revenues with interest income up by 23%, non-interest income up by 28% and a 36% increase in foreign exchange revenue. This pushed our total operating income up by 25% from KShs9.4 billion in 2005 to KShs11.7 billion last year.

Total operating expenses also went up as we continued with investments in infrastructure and people to be able to more effectively handle the increased customer volumes. However we have been encouraged by the positive reduction in our cost to income ratio down from 73% in 2005 to 67% last year.

Due to this good performance, the Board has proposed a dividend payment of KShs6 per ordinary share which is a 50% increase over the KShs4 dividend paid out in 2005.

THE BALANCE SHEET

The balance sheet grew by 18%, up from KShs78 billion in 2005 to KShs92.5 billion last year. Customer deposits grew by 20% jumping from KShs64 billion in 2005 to KShs77 billion in 2006, with strong growth coming from current, transactional and savings accounts. Net loans and advances grew by KShs9 billion (25%) from KShs36 billion in 2005 to KShs45 billion last year with the good book increasing by 27% to KShs41.3 billion.

The group's capital base now stands at KShs11.6 billion up from KShs10 billion in 2005, making KCB one of the strongest banks in East Africa.

Following the consistent growth in the bank's profitability, the value of KCB's shares at the NSE has increased from KShs113 at the end of 2005 to well over KShs200 at present. We believe that this growth in value has made the stock inaccessible to the small retail investor and as a result the Board has recommended a ten for one share split. This means that a holder of 10 shares with a current value of approximately KShs220 each will subsequently own 100 shares with a value of KShs22 each.

NON-PERFORMING LOANS (NPLS)

Gross NPLs continued to reduce going down from KShs13 billion in 2005 to KShs12 billion in 2006. Despite the large increase in new loans over the past few years the overall delinquency rate has remained low.

Net NPLs grew marginally in line with increased asset bookings from KShs3.85 billion in 2005 to KShs3.98 billion last year but was well within acceptable loss norms for the market. This is due to continued successful collection and settlement strategies with minimal migration of new loans to the bad book reflecting the strong risk management framework that we have introduced over the past few years.

PRODUCT AND SERVICE INNOVATION

In 2006, KCB maintained its competitiveness by introducing a number of new products and repackaging others. The KCB Children's Accounts, the industry's longest existing children's offering was revamped and re-launched as the KCB Cub Account. Two new products, the KCB Amana Account, for Muslims and KCB Connect, the bank's mobile telephone banking service that is available for customers 24 hours a day were also launched during the year.



We have revamped and strengthened our Marketing and Retail divisions to make them more customer and product focused.

NETWORK EXPANSION

As the Nation's bank, we continued to expand by opening five new branches, the same number as 2005. This brings our total branch network to 131 across the region. We have plans to continue to grow our network by between 5 and 10 branches every year to build on what we believe is a major competitive advantage for us.

We also increased our ATM network to 115 and we will continue to expand this network to enable our customers to access convenient banking services closer to their homes.

REGIONAL GROWTH AND BUSINESS REORGANIZATION

During the year we reorganized our subsidiary in Tanzania with the recruitment of a new managing director, a 50% increase in staffing, refurbishment of our Dar and Mwanza branches and the approval of a strategic plan which includes the establishment of two new branches in Dar es Salaam in 2007. The business has also been recapitalized through an injection of \$5 million which will give it the basis for strong growth over the next few years.

Last year we set up a new business in Southern Sudan. In the short time that it has been operating KCB Sudan has already established a strong foothold in that economy through its two branches in Juba and Rumbek.

EMPLOYEE MATTERS

We have made good progress to make KCB a performance driven organization. All employees of the bank have signed up to a Balanced Scorecard, and are now eligible for performance-related emoluments and rewards.

We launched an electronic learning capability for all employees to support their quest for superior training and academic development.

In 2007 we are set to launch a recognition scheme to complement the performance management framework and embed our brand values.

We also continue to focus on employee safety and health awareness and will continue to implement programs to enhance their wellness and improve productivity.

IT IMPROVEMENTS

Over the past year we upgraded and modernized our network and telecommunications infrastructure which has enabled us to put most of our branches onto a one-branch banking platform. This has enhanced the accessibility of banking services to our customers at any branch of KCB.

The Board recently approved the acquisition of a new core banking system which we will start to implement later this year. The process of identifying the system was rigorous and conducted in an open and collaborative environment. This would result in significant efficiencies, better MIS and more flexibility in providing innovative solutions to our clients.

CORPORATE SOCIAL RESPONSIBILITY

KCB continues to comply with all relevant legislative and regulatory obligations in line with the laws of the land.

In 2006 the bank set up a foundation to handle its Community activities. Corporate Social Responsibility is a key image driver for the organization and we will continue to invest in community social development initiatives as part of our business strategy. KCB was very visible throughout 2006, investing about KShs30 million in the areas of education, environment, health and general welfare. In a research conducted by Steadman, the bank was recognized as the second most responsible organization in the country. With the formation of the foundation, we expect to invest much more in this activities going forward.

In conclusion, I would like to thank the Board and management for a great 2006 and have no doubt that 2007 will be an equally impressive year.

THANK YOU.





UCHUMI

Uchumi ulikuwa na utendaji bora mwaka wa 2006 ambapo ukuaji wa jumla wa thamani ya bidhaa na huduma(GDP) ulibashiriwa kuwa asili mia 6 imariko la kutoka asili mia 5.8 mwaka wa 2005 kutokana na mikakati mbali mbali ya upanuzi. Sekta muhimu kama vile utalii na mawasiliano ya simu ziliendelea kufanya vyema huku kilimo, hasa sekta za majani na kahawa zikiimarika katika siku za hivi karibuni kufuatia mvua nzuri katika kipindi cha mwisho cha mwaka wa 2006.

Tunatarajia kasi ya ukuaji wa miaka minne iliyopita kuendelea katika siku za usoni.

Sera thabiti ya kifedha ilidhibiti mfumuko wa bei na kuhakikisha kwamba viwango vya riba vinabakia thabiti. Kipimo cha Benki Kuu kilibaki kuwa thabiti katika kima cha asili mia 10, na kuwezesha sekta ya benki kukopesha kwa wingi sekta ya kibinafsi.

Shilingi ya Kenya ilibaki kuwa imara kipindi chote cha 2006 hali ambayo ilifaa kwa wanunuzi wa bidhaa kutoka nje, lakini ikawadhuru wauzaji wa bidhaa nje na hasa wale ambao bidhaa zao zinategemea dola ya Marekani.

Sekta ya huduma za kifedha kwa ujumla ilikuwa na utendaji bora mwaka wa 2006 ambapo benki nyingi ziliripoti mapato makubwa na ongezeko kubwa la faida.

TAARIFA YA MAPATO

Nina furaha kuwaeleza maendeleo bora ya biashara yenu. Katika mwaka wa 2006, benki ilipata faida ya shilingi bilioni 3.2 kabla ya kodi hili likiwa ni ongezeko la asili mia 63 kutoka mwaka uliotangulia. Utendaji huu uliimarishwa na ukuaji mkubwa wa mapato ambapo kipato cha riba kiliongezeka kwa asili mia 23, kipato kisicho na riba kikaongezeka kwa asili mia 28 na ongezeko la asili mia 36 katika mapato ya kubadilisha fedha za kigeni. Hii iliongeza jumla ya mapato yetu ya utekelezaji kwa asili mia 25 kutoka shilingi bilioni 9.4 mwaka wa 2005 hadi shilingi bilioni 11.7 mwaka jana.

Jumla ya gharama za utekelezaji wetu pia zilipanda tulipokuwa tukiendelea kuwekeza katika muundo msingi na watu ili kutuwezesha kushughulikia idadi kubwa ya ongezeko la wateja vyema zaidi. Hata hivyo tumetiwa moyo na punguo katika gharama zetu katika uwiano wa mapato kwa punguo la asili mia 73 mwaka wa 2005 hadi asili mia 67 mwaka jana.

Kutokana na utendaji huu bora, Halmashauri imependekeza malipo ya mgao wa faida ya shilingi 6 kwa hisa ya kawaida ambalo ni ongezeko la asili mia 50 juu ya mgao wa faida wa shilingi 4 uliolipwa mwaka wa 2005.

RIKODI YA HESABU

Rekodi ya hesabu ilionyesha ukuaji kwa asili mia 18, ongezeko la kutoka shilingi bilioni 78 mwaka wa 2005 hadi shilingi bilioni 92.5 mwaka jana. Fedha zilizowekwa na wateja ziliongezeka kwa asili mia 20 kutoka shilingi bilioni 64 mwaka wa 2005 hadi shilingi bilioni 77 mwaka wa 2006, ambapo ukuaji mkubwa ulitokana na akaunti za hundi, biashara na akiba. Jumla ya mikopo iliongezeka kwa shilingi bilioni 9 (asili mia 25) kutoka shilingi bilioni 36 mwaka wa 2005 hadi shilingi bilioni 45 mwaka jana, huku kiwango cha mikopo inayoshughulikiwa vyema ikiongezeka kwa asili mia 27 hadi shilingi bilioni 41.3.

Kiwango cha fedha za kampuni sasa ni shilingi bilioni 11.6 ongezeko la kutoka shilingi bilioni 10 mwaka wa 2005, na kufanya KCB kuwa benki ya pili yenye uwezo zaidi katika Afrika Mashariki.

Kufuatia ukuaji mfululizo wa faida ya benki, thamani ya hisa za KCB katika soko la hisa la Nairobi imeongezeka kutoka shilingi 113 mwishoni mwa 2005 hadi kufika zaidi ya shilingi 200 kwa wakati huu. Tunaamini kwamba ukuaji huu wa thamani umefanya wawekezaji wadogo kutopata hisa na kutokana na hilo Halmashauri imependekeza gawanyo la hisa la kumi kwa moja. Hii inamaanisha kwamba mwenye hisa 10 kwa thamani ya sasa ya shilingi 220 kila moja hatimaye atakuwa na hisa 100 za thamani ya shilingi 22 kila moja.

MIKOPO ISIYOLETA FAIDA

Jumla ya mikopo isiyoleta faida iliendelea kupungua kutoka shilingi bilioni 13 mwaka wa 2005 hadi shilingi bilioni 12 mwaka wa 2006.

Licha ya ongezeko kubwa la mikopo mipya katika kipindi cha miaka michache iliyopita jumla ya mikopo isiyoleta faida imebakia kuwa kidogo.

Kiwango kamili cha mikopo iliyozorota iliongezeka kidogo sambamba na mali kutoka shilingi bilioni 3.85 mwaka wa 2005 hadi shilingi bilioni 3.98 mwaka jana lakini ilikuwa katika kiwango kinachokubalika cha hasara katika soko. Hii imetokana na ufanisi katika mikakati ya ukusanyaji na malipo ambapo kuna mikopo michache isiyoleta faida, hali inayoakisi muundo bora wa usimamizi ambao tumeanzisha katika miaka michache iliyopita.

HUDUMA MPYA NA UBORESHAJI

Mnamo 2006 KCB ilidumisha ushindani wake kwa kuanzisha huduma mpya na kupanga upya nyingine. Akaunti ya watoto ya KCB, ambayo ndiyo akaunti ya zamani zaidi katika sekta ya benki ilifufuliwa na kuzinduliwa tena na kuwa KCB Club Account.

Huduma Mpya KCB Amana Account kwa Waislamu na KCB Connect, huduma ya benki kupitia simu ya mkononi inayopatikana kwa wateja saa 24 kwa siku pia zilizunduliwa wakati wa kipindi cha mwaka.

Tumefufua na kuimarisha vitengo vyetu vya Masoko na Uuzaji ili viweze kumulika zaidi wateja na huduma.

UPANUZI WA MATAWI

Tukiwa benki ya kitaifa, tuliendelea kupanuka kwa kufungua matawi matano zaidi, idadi sawa na ile ya mwaka wa 2005. Hii inafanya jumla ya mtandao wetu kuwa na matawi 131 kote katika kanda. Tuna mipango ya kuendelea kupanua mtandao wetu kwa kati ya matawi matano na 10 kila mwaka ili kuongezea kile tunachoamini ni faida kubwa ya ushindani kwetu.

Pia tumeongeza mtandao wetu wa ATM kufikia 115 na tutaendelea kupanua mtandao huu kuwezesha wateja wetu kupata huduma zisizo na usumbufu karibu na makwao.

UKUAJI WA KANDA NA UPANGAJI UPYA BIASHARA

Wakati wa kipindi cha mwaka tulipanga upya shirika letu la Tanzania kwa kumwajiri Meneja Mkurugenzi mpya, nyongeza ya asili mia 50 ya wafanyakazi, ukarabati wa matawi yetu ya Dar es Salaam na Mwanza na kupitishwa kwa mpango wa mkakati mpya ambao unahusisha kuanzishwa kwa matawi mawili mapya Dar es Salaam mwaka wa 2007. Biashara hiyo pia imeimarishwa kifedha ambapo imepatiwa dola milioni 5 kuifanya kuwa msingi wa ukuaji thabiti katika kipindi cha miaka michache ijayo.

Mwaka jana tulianzisha biashara mpya kusini mwa Sudan. Katika kipindi kifupi ambapo imekuwa ikihudumu KCB Sudan tayari imeweka msingi thabiti katika uchumi wa eneo hilo kupitia matawi yake mawili ya Juba na Rumbek.

MASWALA YA WAFANYAKAZI

Tumepiga hatua kubwa kuifanya KCB kampuni inayoongozwa na utendaji. Wafanya kazi wote wa benki wametia saina barua za utendaji kazi, na sasa wanaweza kupata marupurupu na zawadi kutokana na utendaji bora wa kazi.

Tulianzisha mafunzo kwa njia ya mitambo ya kompyuta kwa wafanyakazi wote ili kusaidia azma yao ya kupata mafunzo bora zaidi na maendeleo ya kielimu.

Mnamo mwaka wa 2007 tumepanga kuanzisha mpango wa utambuzi kusaidia muundo wa kusimamia utendaji kazi na kuimarisha thamani ya nembo yetu.

Pia tunaendelea kumulika usalama wa wafanyakazi wetu na ufahamu wa afya na tutaendelea kutekeleza mipango ili kuimarisha afya zao pamoja na utendaji.

KUIMARISHA TEKNOLOJIA YA HABARI

Katika kipindi cha mwaka uliopita tumeimarisha na kuboresha mtandao wetu wa mawasiliano ambao umetuwezesha kujumuisha mengi ya matawi yetu kuwa sehemu moja ya benki. Hii imeimarisha kupatikana kwa huduma za benki kwa wateja wetu katika tawi lolote la KCB.



Hivi majuzi Halmashauri ilipitisha kununuliwa kwa mfumo muhimu wa shughuli za benki ambao utekelezaji wake utanza baadaye mwaka huu. Utaratibu wa kutambua mfumo huo ulifanywa kwa juhudi kubwa kwenye mazingira ya uwazi na ushirikiano. Hii itapelekea utendaji bora na hali nzuri zaidi ya kuhudumia wateja wetu.

WAJIBU WA SHIRIKA KWA JAMII

KCB inaendelea kuafiki vipengee vyote vya sheria na wajibu wa kanuni kuambatana na sheria za nchi hii.

Mwaka wa 2006, benki ilianzisha hazina ya kutekeleza shughuli zake kwa jamii. Wajibu wa shirika kwa jamii ni kihimizo kikuu cha utambulishi kwa shirika na tutaendelea kuwekeza katika shughuli za maendeleo ya kijamii kama sehemu ya mkakati wetu wa kibiashara. KCB ilijitokeza sana mwaka wa 2006, ambapo iliwekeza takribani shilingi milioni 30 katika nyanja za elimu, mazingira, afya na usaidizi wa jamii kwa jumla. Katika utafiti uliofanywa na kampuni ya Steadman, benki hii ilitambuliwa kuwa shirika la pili linalowajibika zaidi nchini. Kwa kuundwa hazina hiyo, tunatarajia kuwekeza zaidi katika shughuli hizi sasa na kuendelea.

Kwa kumaliza ningependa kushukuru Halmashauri na Usimamizi kwa mwaka wa 2006 wenye ufanisi na sina shaka kwamba mwaka wa 2007 pia utakuwa na mafanikio.

AHSANTENI.



E-Learning Launch - KCB Deputy Chief Executive Martin Oduor-Otieno (left) and Customer Care Representative Betty Njiru (right) are taken through the basics of E-Learning by Human Resources, Business Support Manager Kenneth Wamae during the launch of E-Learning in August 2006.



Cecilia Wambui Ndungu, Risk Management Division and her children Ndungu and Leah plant a tree to mark KCB's Community Day at Karura Forest in May 2006.

The directors submit their report and the audited financial statements for the year ended 31 December 2006 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 6(a) to the financial statements.

2. GROUP RESULTS

The Group's results are set out on page 27.

3. BANK RESULTS

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

4. DIVIDEND

The directors recommend the payment of a dividend of KShs 1,197,600,000, which represents KShs 6 per share in respect of the year ended 31 December 2006 (2005:- KShs 798,400,000, representing KShs.4 per share).

5. RESERVES

The reserves of the Group and the Bank are set out on pages 30 and 31 respectively, and note 19.

6. DIRECTORS

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

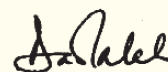
Mrs. S.O. Mudhune	- Chairman
Mr. T.M. Davidson	- Chief Executive Officer
Mr. M.L. Oduor-Otieno	- Deputy Chief Executive Officer
Mr. J.N. Koome	

Mr. J. I. Adongo	
Mr. J.K. Kinyua	
Mrs. C.N. Kimura	
Mr. J.M. Ndetto	- Retired on 16 June 2006
Mrs. S.N. Omanga	
Mr. S.N. Shah	
Mr. P.W. Muthoka	
Prof. P.K. Kimuyu	- Appointed on 16 June 2006

7. AUDITORS

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

BY ORDER OF THE BOARD



MR. K.D. MALAKWEN
SECRETARY

5TH MARCH 2007



Wakurugenzi wanawasilisha ripoti yao na taarifa za kifedha zilizokaguliwa za kipindi cha mwaka kilichomalizika tarehe 31 mwezi Desemba mwaka 2006 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 6 (a) cha taarifa za kifedha.

2. MATOKEO YA KUNDI

Matokeo ya kifedha ya kundi yamechapishwa katika ukurasa wa 27.

3. MATOKEO YA BENKI

Matokeo ya Benki yamechapishwa katika ukurasa wa 29.

4. MGAO WA FAIDA

Wakurugenzi wanapendekeza kutolewa kwa mgao wa faida wa shilingi. 1,197,600,000, hii ikiwa ni shilingi sita kwa kila hisa katika kipindi kilichomalizika tarehe 31 mwezi Desemba mwaka 2006 ikilinganishwa na mwaka uliotangulia wa 2005 ambapo mgao wa faida ulikuwa shilingi 798,400,000, hii ikiwa ni shilingi nne kwa kila hisa.

5. AKIBA

Akiba za kundi na Benki zimechapishwa katika kurasa za 30 na 31 na kipengele cha 19.

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	- Mkurugenzi Mkuu
Bw. M.L. Oduor-Otieno	- Naibu Mkurugenzi Mkuu

Bw. J.N. Koome	
Bw. J.I. Adongo	
Bw. J.K. Kinyua	
Bi. C.N. Kimura	
Bw. J.M. Ndetto	- Alistaafu tarehe 16, Juni 2006
Bi. S.N. Omanga	
Bw. S.N. Shah	
Bw. P.W. Muthoka	
Prof. P.K. Kimuyu	- Aliteuliwa tarehe 16, Juni 2006

7. WAKAGUZI WA HESABU ZA PESA

Kampuni ya ukaguzi wa hesabu ya Ernst and Young ingelipenda kuendelea kuihudumia Benki ya KCB 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

5TH MACHI 2007



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.



.....
DIRECTOR



.....
DIRECTOR



.....
DIRECTOR

5TH MARCH 2007



KCB is committed to the standards of corporate governance as set from time to time by the Capital Markets Authority. The Board of Directors is responsible for the long-term strategic direction for profitable growth of the Company whilst being accountable to the shareholders for legal compliance and maintenance of the highest corporate governance standards and business ethics.

THE BOARD OF DIRECTORS

The Board is made up of eleven directors out of whom nine are independent non-executive directors, including the Chairman. The Directors are provided with appropriate and timely information so that they can maintain full and effective control over the strategic financial, operational and compliance issues.

The day-to-day running of the business of the Company is delegated to the CEO but the Board is responsible for establishing and maintaining the Company's system of internal controls so that the objectives of profitable growth and shareholder value are realized. The Board also makes recommendations to the shareholders on Board succession planning.

BOARD MEETINGS

The Board of Directors meets bi-monthly or as required in order to monitor the implementation of the Company's planned strategy and review it in conjunction with its financial performance. Specific reviews are also undertaken on operational issues and future planning. At the end of each financial year, the Board reviews itself, Board Committees, Senior Management and CEO against targets agreed to at the beginning of the year.

The Board held 16 Meetings during the year under review.

BOARD COMMITTEES

The Board has created the following principal committees which meet regularly under well defined and materially delegated terms of reference set by the Board.

(a) Audit and Compliance Committee

The Audit and Compliance Committee meets quarterly, or as required. In accordance with regulatory requirement, the Committee comprises non-executive members of the Board who are independent of the day-to-day management of the Company's operations.

The Committee deals with all matters relating to the financial statements and internal control systems of the Company including dealing with independent auditors and Central Bank of Kenya inspectors.

The Committee held 5 Meetings during the year under review.

(b) Credit Committee

This Committee meets twice a month to review the risk profile of the Company and recommend for Board approval policies and standards for risk governance and management. The frequency of the Meetings has ensured that the needs of the Company's customers are given timely attention.

The Committee held 21 Meetings during the year under review.

(c) Human Resources Committee

This Committee meets quarterly to review human resource policies and make suitable recommendations to the Board on Senior Management appointments.

The Committee met 10 times during the year under review.

(d) Procurement and Information Technology Committee

The Committee meets monthly to review the information technology and procurement needs of the Company deemed necessary for efficient service delivery.

The Committee met 10 times during the year under review.



(e) Corporate Affairs and Social Responsibility Committee

In recognition of the importance of Corporate Social Responsibility (CSR), the Board constituted this Committee which meets twice a year to set guidelines for the Company's CSR involvement. The Company is committed to the principle of responsible corporate citizenship and makes CSR an integral part of its annual business plans. Under its CSR programmes, the Company conducts community support activities every year during KCB Community Day and KCB Community Week, with the involvement of all staff across the business. The Company sponsors local, regional and national activities and regularly donates towards needy and charitable causes of all kinds.

Going forward, the Board has decided to apply for registration of The KCB Foundation to undertake the functions of this Committee from Year 2007.

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 media of its quarterly, half-yearly and full year results.

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

DIRECTORS' EMOLUMENTS AND LOANS

The aggregate amount of emoluments paid to Directors for services tendered during the Year 2006 is disclosed in Note 25 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.

There were no Directors loans at any time during the year.

BOARD COMMITTEE ATTENDANCE

The following table gives the record of attendance at the KCB Board and its committee meetings for the year ended 31 December 2006.

BOARD COMMITTEES

		MAIN BOARD	AUDIT & COMPLIANCE	CREDIT	HUMAN RESOURCES	PROCUREMENT & INFORMATION TECHNOLOGY	CORPORATE AFFAIRS & SOCIAL RESPONSIBILITY
NUMBER OF MEETINGS HELD		16	5	21	10	10	2
MEETINGS ATTENDED							
MRS S O MUDHUNE		14		17			1
MR T M DAVIDSON		14		18	5		2
MR M L ODUOR-OTIENO		15				10	
MR J N KOOME		14				9	1
MR J I ADONGO		16		9		6	1
MR J K KINYUA		12	5				
MRS C N KIMURA		16		9	10		
MR J M NDETTO	RETIRED 16.06.06	4			10	10	
MRS S N OMANGA		16		21	10		2
MR S N SHAH		15	3			10	
MR P W MUTHOKA		16	5		9		
PROF P K KIMUYU	APPOINTED 16.06.06	7	1		3	3	

Directors interest in the shares of the Company, the distribution of the Company's shareholding and analysis of the ten largest shareholders as at 31st December, 2006 were as per following page.



Directors Interests as at 31st December, 2006

Name of Director	Number of shares
Permanent Secretary to the Treasury of Kenya	52,360,000
Mrs. Susan Mudhune	5,020
Mr. Terence Davidson	34
Mr. Sunil Shah	4,660,118
Mrs. Catherine Kimura	19,926
Eng. Jeremiah Ndeto	2,268
Mrs. Susan Omanga	2,000

The shareholder profile as at 31st December 2006

	Number of Shareholders	Number of Shares Held	% of issued Share Capital
Kenyan Individual Investors	111,215	62,921,462	31.52
Kenyan Institutional Investors	2,618	135,072,823	67.67
East African Individual Investors	5	42,796	0.02
East African Institutional Investors	1	11,000	0.01
Foreign Individual Investors	120	613,276	0.31
Foreign Institutional Investors	13	938,643	0.47
	113,972	199,600,000	100.00

Major Shareholders

	Number of Shares	% Holding
Permanent Secretary to the Treasury of Kenya	52,360,000	26.23
National Social Security Fund	11,871,327	5.95
ICDC Investment Company Limited	10,068,074	5.04
KCB Staff Pension Fund Registered Trustees	6,751,311	3.38
Mr. Sunil Narshi Shah	4,660,118	2.33
Stanbic Nominees Kenya Limited A/C R48701	2,962,019	1.48
Nomura Nominees Limited A/C NSSF	2,389,699	1.20
Barclays (Kenya) Nominees Limited A/C 9230	1,611,145	0.81
Steel Son Limited	1,650,000	0.83
Kenya Re-Insurance Corporation Limited	1,526,915	0.76
	95,850,608	48.02

Summary of Totals

Shares Range	Shareholders	No. of Shares	% Holding
1 to 500	85,509	19,420,837	9.73
501 to 5000	27,016	26,159,906	13.11
5001 to 10000	670	4,749,849	2.38
10001 to 100000	656	18,522,909	9.28
100001 to 1000000	104	29,847,652	14.95
100000 & above	17	100,898,847	50.55
	113,972	199,600,0	100.00



TO THE MEMBERS OF KENYA COMMERCIAL BANK LIMITED

We have audited the financial statements on pages 26 to 58 for the year ended 31 December 2006 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. The financial statements are in agreement with the books of account.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE INDEPENDENT AUDITORS

As stated on page 20, the directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs and of the operating results of the Group and the Bank. Our responsibility is to express an independent opinion on the financial statements based on our audit and to report our opinion to you.

BASIS OF OPINION

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

OPINION

In our opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the Group and of the Bank at 31 December 2006, 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.

NAIROBI**5 MARCH 2007**

KWA WANACHAMA WA BENKI YA KENYA COMMERCIAL

Tumefanya ukaguzi wa taarifa za kifedha katika kurasa za 26 hadi 58 za mwaka uliomalizika tarehe 31 mwezi Desemba mwaka 2006. Tumepata taarifa na maelezo ambayo tumeyachukulia kuwa muhimu kwa shughuli ya ukaguzi wetu wa hesabu za pesa.

MAJUKUMU YA WAKURUGENZI NA WAKAGUZI HURU WA HESABU

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

MISINGI YA MAONI

Tulifanya ukaguzi wa hesabu kuambatana na viwango vya kimataifa vya uhasibu. Viwango hivyo vinahitaji kwamba tupange na kufanya ukaguzi wa hesabu ili kuhakikisha kwamba taarifa hizo za kifedha hazina kasoro. Uhasibu unajumuisha kuchunguza, kwa makadirio ushahidi unaounga mkono taarifa za kifedha zilizotayarishwa. Pia kukadiria kanuni za uhasibu zilizotumiwa na makadirio yaliyofanywa na wakurugenzi pamoja na kukadiria utaratibu wa jumla wa kuwasilisha taarifa za kifedha. Tunaamini kwamba ukaguzi wetu wa hesabu za fedha unatoa msingi halisi kwa 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 tarehe 31 mwezi Desemba mwaka 2006 na ile ya faida kwa kundi hili na matumizi na mapato ya pesa kwa kundi hili ya mwaka uliomalizika na vinaambatana na viwango vya kimataifa vya uhasibu na sheria zinazosimamia makampuni.

NAIROBI

5 MACHI 2007



CONSOLIDATED BALANCE SHEET AS AT 31ST DECEMBER 2006

ASSETS	Note	2006 KShs'000	2005 KShs'000
Cash and balances with Central Banks	3	7,394,536	6,322,971
Cheques and items for clearing		527,534	168,933
Held to maturity investments	4	17,939,890	17,035,034
Held for trading investments	5	3,530,419	4,013,193
Placements and balances with other banking institutions		6,936,108	4,023,708
Available for sale investments	6(b)	902,860	949,995
Tax recoverable	7	452,515	454,418
Loans and advances to customers	8	45,269,726	36,311,636
Other assets	11	4,436,745	3,854,708
Intangible assets	12	110,076	146,995
Property and equipment	13(a)	4,067,788	3,414,975
Leasehold land	13(c)	192,113	196,383
Deferred tax	7.1	766,261	1,422,103
TOTAL ASSETS		92,526,571	78,315,052
LIABILITIES			
Deposits and balances from other banking institutions	14	609,624	295,685
Other customer deposits	15	77,192,889	64,216,629
Other liabilities	16	2,997,312	3,582,512
Tax payable	7	24,270	11,667
Lines of credit	17	82,170	126,568
TOTAL LIABILITIES		80,906,265	68,233,061
CAPITAL EMPLOYED			
Share capital	18	1,996,000	1,996,000
Reserves	19	8,426,706	7,287,591
Proposed dividend	20	1,197,600	798,400
SHAREHOLDERS' FUNDS		11,620,306	10,081,991
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		92,526,571	78,315,052

The financial statements were approved by the Board of Directors on 5th March 2007 and were signed on its behalf by:

S O MUDHUNE - CHAIRMAN



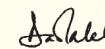
T M DAVIDSON - CHIEF EXECUTIVE



P W MUTHOKA - DIRECTOR



K D MALAKWEN - SECRETARY




CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2006

27

	Note	2006 KShs'000	2005 KShs'000
INTEREST INCOME	21	7,064,400	5,725,090
INTEREST EXPENSE	22	(750,928)	(597,280)
Net interest income		6,313,472	5,127,810
Fees and commission income		3,780,573	3,385,279
Dividend income	23	42,534	50,872
Gain on foreign exchange		658,595	483,384
Other operating income	24	952,028	379,088
Bad and doubtful debts expense	9.2	11,747,202	9,426,433
Other operating expenses	25	(752,939)	(591,074)
		(7,827,510)	(6,887,751)
PROFIT BEFORE TAXATION		3,166,753	1,947,608
TAXATION	7.2	(734,875)	(621,581)
PROFIT AFTER TAXATION		2,431,878	1,326,027
EARNINGS PER SHARE			
Basic and diluted earnings per share (KShs.)	26	12.18	6.64

BALANCE SHEET OF THE BANK AS AT 31ST DECEMBER 2006

	Note	2006 KShs'000	2005 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	3	6,829,837	6,031,779
Cheques and items for clearing		516,386	161,904
Held to maturity investments	4	17,220,424	15,981,937
Held for trading investments	5	3,530,419	4,013,193
Placements and balances with other banking institutions		5,905,342	3,551,061
Investment in subsidiaries and associated companies	6(a)	2,321,809	1,596,308
Available for sale investments	6(b)	902,860	949,995
Tax recoverable	7	330,336	329,887
Loans and advances to customers	8	40,658,629	32,849,035
Balances due from group companies	10	1,649,333	1,446,470
Other assets	11	3,880,233	3,685,322
Intangible assets	12	109,472	145,846
Property and equipment	13(b)	2,678,125	2,119,628
Leasehold land	13(c)	150,246	153,065
Deferred tax	7.1	642,619	1,322,849
TOTAL ASSETS		87,326,070	74,338,279
LIABILITIES			
Deposits and balances from other banking institutions	14	1,419,060	900,154
Other customer deposits	15	71,494,612	59,954,425
Other liabilities	16	2,849,592	3,387,991
Lines of credit	17	82,170	126,568
TOTAL LIABILITIES		75,845,434	64,369,138
CAPITAL EMPLOYED			
Share capital	18	1,996,000	1,996,000
Reserves	19	8,287,036	7,174,741
Proposed dividend	20	1,197,600	798,400
SHAREHOLDERS' FUNDS		11,480,636	9,969,141
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		87,326,070	74,338,279

The financial statements were approved by the Board of Directors on 5th March 2007 and were signed on its behalf by:

S O MUDHUNE - CHAIRMAN



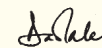
T M DAVIDSON - CHIEF EXECUTIVE



P W MUTHOKA - DIRECTOR



K D MALAKWEN - SECRETARY




INCOME STATEMENT OF THE BANK FOR THE YEAR ENDED 31ST DECEMBER 2006

29

	Note	2006 KShs'000	2005 KShs'000
INTEREST INCOME	21	6,567,773	5,284,718
INTEREST EXPENSE	22	(670,889)	(518,426)
Net interest income		5,896,884	4,766,292
Fees and commission income		3,629,717	3,279,815
Dividend income	23	42,534	54,925
Gain on foreign exchange		604,551	457,936
Other operating income	24	884,628	285,888
Operating income		11,058,314	8,844,856
Bad and doubtful debts expense	9.2	(749,631)	(565,912)
Other operating expenses	25	(7,273,774)	(6,370,360)
PROFIT BEFORE TAXATION		3,034,909	1,908,584
TAXATION	7.2	(680,230)	(564,978)
PROFIT AFTER TAXATION		2,354,679	1,343,606
EARNINGS PER SHARE			
Basic and diluted earnings per share (KShs)	26	11.80	6.73

30 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2006

	SHARE CAPITAL KShs'000	CAPITAL RESERVE KShs'000	REVENUE RESERVE KShs'000	SHARE PREMIUM KShs'000	PROPOSED DIVIDEND KShs'000	TRANSLATION RESERVE KShs'000	REVALUATION RESERVE KShs'000	TOTAL KShs'000
At 1 January 2005	1,996,000	275,422	3,388,668	2,319,764	399,200	(84,702)	285,807	8,580,159
Change in value of available for sale investments	-	-	-	-	-	-	647,768	647,768
Dividend paid – 2004	-	-	-	-	(399,200)	-	-	(399,200)
Proposed dividend – 2005	-	-	(798,400)	-	798,400	-	-	-
Translation differences	-	-	-	-	-	(72,763)	-	(72,763)
Profit for the year	-	-	1,326,027	-	-	-	-	1,326,027
At 31 December 2005	1,996,000	275,422	3,916,295	2,319,764	798,400	(157,465)	933,575	10,081,991
At 1 January 2006	1,996,000	275,422	3,916,295	2,319,764	798,400	(157,465)	933,575	10,081,991
Change in value of available for sale investments	-	-	-	-	-	-	302,863	302,863
Realised on disposal	-	-	-	-	-	-	(347,647)	(347,647)
Dividend paid – 2005	-	-	-	-	(798,400)	-	-	(798,400)
Proposed dividend – 2006	-	-	(1,197,600)	-	1,197,600	-	-	-
Translation differences	-	-	-	-	-	(50,379)	-	(50,379)
Profit for the year	-	-	2,431,878	-	-	-	-	2,431,878
At 31 December 2006	1,996,000	275,422	5,150,573	2,319,764	1,197,600	(207,844)	888,791	11,620,306



STATEMENT OF CHANGES IN EQUITY OF THE BANK FOR THE YEAR ENDED 31ST DECEMBER 2006

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	SHARE CAPITAL KShs'000	REVENUE RESERVE KShs'000	REVALUATION RESERVE KShs'000	SHARE PREMIUM KShs'000	PROPOSED DIVIDEND KShs'000	TOTAL KShs'000
At 1 January 2005	1,996,000	3,376,196	285,807	2,319,764	399,200	8,376,967
Dividend paid – 2004	-	-	-	-	(399,200)	(399,200)
Proposed dividend - 2005	-	(798,400)	-	-	798,400	-
Change in value of available for sale investments	-	-	647,768	-	-	647,768
Profit for the year	-	1,343,606	-	-	-	1,343,606
At 31 December 2005	1,996,000	3,921,402	933,575	2,319,764	798,400	9,969,141
At 1 January 2006	1,996,000	3,921,402	933,575	2,319,764	798,400	9,969,141
Dividend paid – 2005	-	-	-	-	(798,400)	(798,400)
Proposed dividend – 2006	-	(1,197,600)	-	-	1,197,600	-
Realised on disposal	-	-	(347,647)	-	-	(347,647)
Change in value of available for sale investments	-	-	302,863	-	-	302,863
Profit for the year	-	2,354,679	-	-	-	2,354,679
At 31 December 2006	1,996,000	5,078,481	888,791	2,319,764	1,197,600	11,480,636



CONSOLIDATED CASHFLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2006

	Note	2006 KShs'000	2005 KShs'000
NET CASH FLOWS FROM OPERATING ACTIVITIES	27(a)	919,999	6,624,428
Taxation paid		(64,778)	-
INVESTING ACTIVITIES			
Proceeds from disposal of property and equipment		52,696	89,948
Proceeds from disposal of available for sales investments		497,256	-
Purchase of intangible assets		(38,902)	(51,765)
Purchase of property and equipment		(1,237,267)	(1,132,241)
Net cash flows from investing activities		(726,217)	(1,094,058)
FINANCING ACTIVITIES			
Lines of credit		(44,398)	(107,113)
Dividends paid		(798,400)	(399,200)
Net cash flows from financing activities		(842,798)	(506,313)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(713,794)	5,024,057
EFFECTS OF EXCHANGE RATE CHANGES ON OPENING NET INVESTMENT IN FOREIGN ENTITIES		(50,379)	(72,763)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		14,817,415	9,866,121
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	27(b)	14,053,242	14,817,415



1. GENERAL INFORMATION

Kenya Commercial Bank Limited, a financial institution licensed under the Kenyan Banking Act (Chapter 488), provides corporate and retail banking services in various parts of the country. The Bank is incorporated in Kenya under the Kenyan Companies Act. The shares of the Bank are listed on the Nairobi Stock Exchange

2. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied, unless otherwise stated.

a. Basis of preparation

The consolidated financial statements of the Bank and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The financial statements have been prepared on the historical cost basis, except for certain financial assets and financial liabilities that have been measured at fair value.

b. Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of the Bank and its subsidiaries as at 31 December each year.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated.

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. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The accounting policies for the subsidiaries are consistent with the policies adopted by the Bank.

c. Significant accounting judgments and estimates

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates. The most significant use of judgments and estimates are as follows:

i) Impairment losses on loans and advances

The Group reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognised in the income statement. In particular, judgement by the directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

In addition to specific allowances against individual significant loans and advances, the Group makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration such factors as any deterioration in industry, technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

ii) Fair value of financial instruments

Where the fair values of the financial assets and liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

iii) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is possible that taxable profit will be available against which the losses can be utilised. Significant directors' judgement is required to determine the amount of deferred tax asset that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

iv) Pensions

The cost of the defined benefit pension plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.



d. Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific criteria must be met before revenue is recognised:

i) Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial instruments, interest income or expense is recognised at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recognised as interest income or expense.

Interest income is recognised in the income statement 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 Group's right to receive payment is established.

iii) Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party is recognised on completion of the underlying transaction.

iv) Rental income

Rental income is accounted for on a straight-line basis over the lease terms on ongoing leases.

e. Property, equipment and depreciation

Property and equipment are stated at cost or valuation, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value.

Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

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	25%
Furniture and fittings	10%
Office equipment	20%
Computers	20%

Property and equipment are periodically reviewed for impairment. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the income statement.

Property and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is de-recognised.

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.



g. Financial instruments**i) Loans and advances to customers**

Loans and advances to customers are financial assets with fixed or determinable payments and are not quoted in an active market. After initial measurement at cost, loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate.

ii) Investments held for trading

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

iii) Held to maturity investments

Held to maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Group has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation and losses arising from impairment of such investments are recognised in the income statement.

iv) 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 re-measured at fair value, based on quoted bid prices or amount derived from cash flow models. Unrealised gains and losses arising from changes in the fair value of securities classified as available for sale are recognised directly in equity until the asset is de-recognised, at which time the cumulative gains or losses previously recognised in equity shall be recognised in the income statement.

h. Impairment of financial assets

The Group assesses, at each balance sheet date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial re-organisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

i) Loans and advances to customers

For loans and advances to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Loans and the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised. If, in subsequent years, the amount of the estimated impairment loss decreases or increases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the income statement.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.



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.

ii) Renegotiated loans and advances

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subjected to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

iii) Held to maturity investments

For held to maturity investments, the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

If, in subsequent years, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the income statement.

iv) Available for sale investments

For available for sale financial investments, the Group assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value less any impairment loss on that investment previously recognised in the income statement, is removed from equity and recognised in the income statement. Increases in their fair value after impairment are recognised directly in equity.

i. Foreign currencies

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

ii) As at the reporting date, the assets and liabilities of foreign subsidiaries are translated into the Bank's presentation currency (Kenya Shillings) at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

j. Taxation

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted in accordance with the tax legislation.

Deferred taxation is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and the unused tax credits can be utilised.

k. Retirement benefit costs

The Group contributes to defined benefit and defined contribution pension schemes. The defined benefit pension scheme 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 income statement 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 income statement in the year to which they relate.

l. Leases

Where:-

i) A group company is the lessee

The total payments made under operating leases are charged to the income statement 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.

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.

m. Guarantees, acceptances and letters of credit

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

n. 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.

o. Foreign exchange forward and spot contracts

Foreign exchange forward and spot 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 and spot contract rates.

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

p. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months of maturity from the balance sheet date.

q. 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.

r. 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.

s. Borrowing costs

Borrowing costs are recognised as an expense when incurred.

t. Impairment of non-financial assets

The Group assesses, at each reporting date or more frequently, whether there is an indication that an asset may be impaired. If such indication exists, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement.

u. Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.



3. CASH AND BALANCES WITH CENTRAL BANK

	GROUP		BANK	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
Cash on hand	2,513,850	2,455,883	2,347,614	2,300,845
Balances with Central Bank	4,880,686	3,867,088	4,482,223	3,730,934
	7,394,536	6,322,971	6,829,837	6,031,779

Cash held in Central Bank represent cash reserve ratio in non interest earning accounts 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.

4. HELD TO MATURITY INVESTMENTS

	GROUP		BANK	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
a) Treasury bills				
Maturing within 1 month	698,093	854,168	599,481	754,866
Maturing between 1-3 months	456,862	1,826,337	198,223	1,161,703
Maturing between 3-12 months	2,968,080	289,161	2,605,865	-
	4,123,035	2,969,666	3,403,569	1,916,569
b) Treasury bonds				
Maturing within 1 month	-	610,794	-	610,794
Maturing between 1-3 months	-	1,160,084	-	1,160,084
Maturing between 3-12 months	2,263,794	833,575	2,263,794	833,575
Maturing between 1-5 years	9,197,356	10,026,903	9,197,356	10,026,903
Maturing over 5 years	2,355,705	1,434,012	2,355,705	1,434,012
	13,816,855	14,065,368	13,816,855	14,065,368
TOTAL GOVERNMENT SECURITIES	17,939,890	17,035,034	17,220,424	15,981,937
Maturing as follows:-				
Maturing within 1 month	698,093	1,464,962	599,481	1,365,660
Maturing between 1-3 months	456,862	2,986,421	198,223	2,321,787
Maturing between 3-12 months	5,231,874	1,122,736	4,869,659	833,575
Maturing between 1-5 years	9,197,356	10,026,903	9,197,356	10,026,903
Maturing over 5 years	2,355,705	1,434,012	2,355,705	1,434,012
	17,939,890	17,035,034	17,220,424	15,981,937

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 2006, was 11.633 % p.a and 8.116 % p.a, respectively (2005- 9.585% p.a and 8.136% p.a, respectively).



5. 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 2006 was 11.633% p.a (2005: 9.585% p.a)

6. INVESTMENTS

a) INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Company	Activity	Beneficial ownership %	2006	2006
			KShs'000	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
KCB (Tanzania) Ltd	Commercial banking	100	878,385	530,136
KCB Sudan Ltd	Commercial banking	100	377,252	-
United Finance Ltd	Dormant	45	125	125
			<u>2,321,809</u>	<u>1,596,308</u>

b) AVAILABLE FOR SALE INVESTMENTS

	2006	2005
	KShs'000	KShs'000
Quoted investments	898,095	945,230
Unquoted investments	4,765	4,765
	<u>902,860</u>	<u>949,995</u>

Available for sale financial assets consist of investments in ordinary shares and therefore, have no fixed maturity date or coupon rate.



7. TAXATION

7.1 BALANCE SHEET

TAX RECOVERABLE

	GROUP		BANK	
	2006 KShs'000	2005 KShs'000	2006 KShs'000	2005 KShs'000
At 1 January	442,751	472,349	329,887	329,887
Tax paid during the year	64,778	-	449	-
Tax charge during the year	(58,752)	(29,167)	-	-
Translation difference	(251)	(431)	-	-
Under-provision in the previous years	(20,281)	-	-	-
At 31 December	428,245	442,751	330,336	329,887
Comprising of:				
Tax recoverable	452,515	454,418	330,336	329,887
Tax payable	(24,270)	(11,667)	-	-
	428,245	442,751	330,336	329,887

DEFERRED TAX

The net deferred tax asset is attributable to the following items:

Excess of depreciation over tax allowances	29,189	3,496	10,303	6,146
Provisions held	279,875	240,788	250,779	226,733
Tax losses carried forward	457,197	1,177,819	381,537	1,089,970
	766,261	1,422,103	642,619	1,322,849

7.2 INCOME STATEMENT

Current tax	58,752	29,167	-	-
Deferred tax charge	655,842	592,414	680,230	564,978
Underprovision in the previous years	20,281	-	-	-
	734,875	621,581	680,230	564,978

The tax charge differs from the theoretical amount that would arise using basic tax rates as follows:

Accounting profit before taxation	3,166,753	1,947,608	3,034,909	1,908,584
Tax calculated at tax rate of 30%	950,026	584,282	910,473	572,575
Tax effects on items not deductible for tax purposes	202,657	237,348	185,949	220,624
Originating and reversing temporary differences	(417,808)	(200,049)	(416,192)	(228,221)
	734,875	621,581	680,230	564,978



8. LOANS AND ADVANCES TO CUSTOMERS

	GROUP		BANK	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
8.1 Loans and advances to customers				
Loans and advances to customers (gross)	53,878,600	46,200,207	48,801,561	42,262,250
Specific provisions for impairment (Note 9.1(a))	(8,106,321)	(9,520,018)	(7,690,932)	(9,071,215)
General provisions for impairment (Note 9.1(b))	(502,553)	(368,553)	(452,000)	(342,000)
Loans and advances to customers (net)	45,269,726	36,311,636	40,658,629	32,849,035
8.2 Maturity analysis of gross loans and advances to customers				
Maturing within 30 days	5,445,946	3,907,449	4,707,986	3,367,709
Maturing after 30 days but within 3 months	462,389	773,260	457,724	735,674
Maturing after 3 months but within 1 year	4,258,872	4,243,208	4,123,955	4,086,379
Maturing after 1 year but within 5 years	37,745,350	32,308,059	37,192,061	31,770,517
Maturing after 5 years	5,966,043	4,968,231	2,319,835	2,301,971
	53,878,600	46,200,207	48,801,561	42,262,250
8.3 Sectorial analysis of gross loans and advances to customers				
Private sector and individuals	48,070,876	41,721,374	42,993,837	37,783,417
Government departments and parastatals	5,807,724	4,478,833	5,807,724	4,478,833
	53,878,600	46,200,207	48,801,561	42,262,250

The weighted average effective interest rates on loans and advances as at 31 December 2006 was 11.25 % p.a (2005 - 10.27 % p.a).

9. PROVISIONS FOR IMPAIRMENT

	GROUP		BANK	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
9.1(a) Specific provisions for impairment (Note 8.1)				
At 1 January	9,520,018	12,888,577	9,071,215	12,428,547
Provisions made during the year	1,023,858	1,426,485	976,509	1,380,082
Interest suspended during the year	625,246	548,560	601,167	531,232
Write downs/write offs during the year	(2,657,882)	(4,428,193)	(2,621,081)	(4,382,476)
Recoveries during the year	(404,919)	(915,411)	(336,878)	(886,170)
At 31 December	8,106,321	9,520,018	7,690,932	9,071,215

9. PROVISIONS FOR IMPAIRMENT (Cont)

	GROUP		BANK	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
9.1(b) General provisions (Note 8.1)				
At 1 January	368,553	288,553	342,000	270,000
Provisions made during the year	134,000	80,000	110,000	72,000
At 31 December	502,553	368,553	452,000	342,000
9.2 Bad and doubtful debt expense				
Additional specific provisions	1,023,858	1,426,485	976,509	1,380,082
Additional general provisions	134,000	80,000	110,000	72,000
Recoveries made during the year	(404,919)	(915,411)	(336,878)	(886,170)
	752,939	591,074	749,631	565,912

9.3 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. 3,985,000,000 (2005 – KShs. 3,853,616,000) net of specific provisions for impairment and interest in suspense. For the Bank, this amounted to KShs. 3,791,360,000 (2005 – KShs. 3,602,732,000).

10. GROUP COMPANIES BALANCES

	2006	2005
	KShs'000	KShs'000
Kencom House Limited	669,102	660,741
Savings and Loan Kenya Limited	927,459	517,591
Kenya Commercial Finance Company Limited	170	85
KCB (Tanzania) Limited	248	268,053
KCB Sudan Limited	52,354	-
	1,649,333	1,446,470

The net amount due from Savings and Loan Kenya Limited, as at 31 December 2006, includes a loan of KShs.1 billion. The loan attracts interest at an average rate of 5.11 % p.a.

11. OTHER ASSETS

	GROUP		BANK	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
Other receivables	4,108,186	3,765,240	3,575,868	3,627,485
Prepayments	328,559	89,468	304,365	57,837
	4,436,745	3,854,708	3,880,233	3,685,322



	GROUP		BANK	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
12. INTANGIBLE ASSETS				
COST				
At 1 January	347,324	101,265	329,563	83,463
Additions	38,902	51,765	38,902	51,765
Disposals	(285)	-	(285)	-
Reclassification from property and equipment	-	194,335	-	194,335
Translation differences	-	(41)	-	-
At 31 December	385,941	347,324	368,180	329,563
AMORTISATION				
At 1 January	200,329	44,100	183,717	27,824
Amortisation for the year	75,821	49,713	75,276	49,377
Disposals	(285)	-	(285)	-
Reclassification from property and equipment	-	106,516	-	106,516
At 31 December	275,865	200,329	258,708	183,717
NET BOOK VALUE				
At 31 December	110,076	146,995	109,472	145,846

The intangible assets are in respect of computer software costs.

13 (a) PROPERTY AND EQUIPMENT (GROUP)

As at 31 December 2005:

	Freehold and leasehold premises KShs'000	Leasehold improvements KShs'000	Motor vehicles furniture & equipment KShs'000	Total KShs'000
COST/VALUATION				
At 1 January 2005	1,803,679	258,506	3,378,677	5,440,862
Additions	3,300	-	1,128,941	1,132,241
Disposals	(20,610)	-	(246,484)	(267,094)
Adjustment	(5,900)	29,773	(191,943)	(168,070)
Reclassification to intangible assets(Note 12)	-	-	(194,335)	(194,335)
Translation differences	(7,564)	-	(9,629)	(17,193)
At 31 December 2005	1,772,905	288,279	3,865,227	5,926,411
DEPRECIATION				
At 1 January 2005	274,543	147,654	2,296,654	2,718,851
Charge for the year	27,278	14,422	263,801	305,501
Disposals	(4,327)	-	(234,509)	(238,836)
Reclassification to intangible assets (Note 12)	-	-	(106,516)	(106,516)
Translation differences	(3,593)	-	(5,347)	(8,940)
Adjustment	-	(16,515)	(142,109)	(158,624)
At 31 December 2005	293,901	145,561	2,071,974	2,511,436
NET BOOK VALUE				
At 31 December 2005	1,479,004	142,718	1,793,253	3,414,975

Adjustment is in respect to write off of unidentified property and equipment arising from a physical asset count carried out during the year.

13 (a) PROPERTY AND EQUIPMENT (GROUP) (Continued)

As at 31 December 2006:

	Freehold and leasehold premises KShs'000	Leasehold improvements KShs'000	Motor vehicles furniture & equipment KShs'000	Total KShs'000
COST/VALUATION				
At 1 January 2006	1,772,905	288,279	3,865,227	5,926,411
Additions	57,375	54,710	1,125,182	1,237,267
Disposals	(2,660)	(4,817)	(313,458)	(320,935)
Reclassification	-	(113,956)	113,956	-
Translation differences	(4,505)	-	(6,278)	(10,783)
Adjustment	-	(36,875)	82,088	45,213
At 31 December 2006	1,823,115	187,341	4,866,717	6,877,173
DEPRECIATION				
At 1 January 2006	293,901	145,561	2,071,974	2,511,436
Charge for the year	20,236	17,403	402,332	439,971
Disposals	(542)	(1,018)	(283,612)	(285,172)
Reclassification	-	(85,818)	85,818	-
Translation differences	(2,611)	-	(3,827)	(6,438)
Adjustment	-	(6,782)	156,370	149,588
At 31 December 2006	310,984	69,346	2,429,055	2,809,385
NET BOOK VALUE				
At 31 December 2006	1,512,131	117,995	2,437,662	4,067,788

i) 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 19).

ii) The translation difference arises from retranslation of the balances in KCB (Tanzania) Limited and KCB Sudan Limited using the current year's closing exchange rate.

iii) Adjustment relates to differences arising from the reconciliation of the fixed assets register to the general ledger.



13 (b) PROPERTY AND EQUIPMENT (BANK)

	Freehold and leasehold premises KShs'000	Leasehold improvements KShs'000	Motor vehicles furniture & equipment KShs'000	Total KShs'000
COST				
At 1 January 2005	409,166	214,314	3,237,644	3,861,124
Additions	2,493	-	1,112,837	1,115,330
Reclassification to intangible assets (Note 12)	-	-	(194,335)	(194,335)
Adjustment	-	29,773	(191,943)	(162,170)
Disposals	(20,610)	-	(240,985)	(261,595)
At 31 December 2005	391,049	244,087	3,723,218	4,358,354
DEPRECIATION				
At 1 January 2005	158,833	114,693	2,188,173	2,461,699
Charge for the year	10,805	11,137	253,297	275,239
Disposals	(4,327)	-	(228,745)	(233,072)
Adjustment	-	(16,515)	(142,109)	(158,624)
Reclassification to intangible assets (Note 12)	-	-	(106,516)	(106,516)
At 31 December 2005	165,311	109,315	1,964,100	2,238,726
NET BOOK VALUE				
At 31 December 2005	225,738	134,772	1,759,118	2,119,628
COST				
At 1 January 2006	391,049	244,087	3,723,218	4,358,354
Additions	-	28,869	1,070,203	1,099,072
Reclassification	-	(113,956)	113,956	-
Adjustments	-	(36,875)	82,088	45,213
Disposals	-	(4,817)	(313,458)	(318,275)
At 31 December 2006	391,049	117,308	4,676,007	5,184,364
DEPRECIATION				
At 1 January 2006	165,311	109,315	1,964,100	2,238,726
Charge for the year	-	13,910	388,646	402,556
Disposals	-	(1,018)	(283,613)	(284,631)
Adjustments	-	(6,782)	156,370	149,588
Reclassification	-	(85,818)	85,818	-
At 31 December 2006	165,311	29,607	2,311,321	2,506,239
NET BOOK VALUE				
At 31 December 2006	225,738	87,701	2,364,686	2,678,125



13 (b)PROPERTY AND EQUIPMENT (BANK) (Continued)

Adjustment in the previous year was in respect to write off of unidentified property and equipment arising from a physical asset count carried out.
Adjustment in the current year relates to differences arising from the reconciliation of the fixed assets register to the general ledger.

13(c)LEASEHOLD LAND

	GROUP		BANK	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
COST				
At 1 January	290,119	290,119	228,488	228,488
Disposals	(2,462)	-	(1,453)	-
At 31 December	287,657	290,119	227,035	228,488
AMORTISATION				
At 1 January	93,736	90,896	75,423	73,039
Disposals	(1,223)	-	(1,017)	-
Amortisation for the year	3,031	2,840	2,383	2,384
At 31 December	95,544	93,736	76,789	75,423
NET BOOK VALUE				
At 31 December	192,113	196,383	150,246	153,065

14. DEPOSITS AND BALANCES FROM OTHER BANKING INSTITUTIONS

	GROUP		BANK	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
Deposits and balances from other banks	609,624	295,685	1,419,060	900,154
Maturing as follows:				
Payable within 30 days	609,624	295,685	1,419,060	900,154

The weighted average effective interest rates on deposits and balances from other banking institutions as at 31 December 2006 was 5.85% p.a (2005- 7.50% p.a).

15. OTHER CUSTOMER DEPOSITS

	GROUP		BANK	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
a)From government departments and parastatals:				
Payable within 30 days	15,697,771	13,195,908	14,099,865	11,760,579
Payable after 30 days but within 3 months	1,540,258	1,144,085	1,527,230	1,131,408
Payable after 3 months but within 1 year	49,392	40,953	49,392	40,953
	17,287,421	14,380,946	15,676,487	12,932,940



15. OTHER CUSTOMER DEPOSITS (Continued)

	GROUP		BANK	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
b) From private sector and individuals:				
Payable within 30 days	53,965,339	43,126,896	51,423,361	41,478,802
Payable after 30 days but within 3 months	3,654,925	5,548,692	2,919,374	4,920,227
Payable after 3 months but within 1 year	2,213,539	1,136,465	1,407,905	622,456
Payable after 1 year but within 5 years	71,665	23,630	67,485	-
	59,905,468	49,835,683	55,818,125	47,021,485
TOTAL OTHER CUSTOMER DEPOSITS	77,192,889	64,216,629	71,494,612	59,954,425
Maturing as follows:-				
Payable within 30 days	69,663,110	56,322,804	65,523,226	53,239,381
Payable after 30 days but within 3 months	5,195,183	6,692,777	4,446,604	6,051,635
Payable after 3 months but within 1 year	2,262,931	1,177,418	1,457,297	663,409
Payable after 1 year but within 5 years	71,665	23,630	67,485	-
	77,192,889	64,216,629	71,494,612	59,954,425

The weighted average effective interest rates on customer deposits as at 31 December 2006 was 2.4 % p.a (2005- 1.95% p.a).

16. OTHER LIABILITIES

	GROUP		BANK	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
Items in transit	-	611,499	-	611,499
Bills payable	1,769,209	739,260	1,767,798	736,225
Accrued expenses	470,619	812,971	445,065	806,937
Other payables	757,484	1,418,782	636,729	1,233,330
	2,997,312	3,582,512	2,849,592	3,387,991

17. LINES OF CREDIT

	GROUP		BANK	
	2006 KShs'000	2005 KShs'000	2006 KShs'000	2005 KShs'000
EIB Kenya Shillings Loans				
Payable after 3 months but within 1 year	-	9,435	-	9,435
Payable after 1 year but within 5 years	-	14,029	-	14,029
	-	23,464	-	23,464
EIB Foreign Currency Loans				
Payable after 3 months but within 1 year	47,930	29,968	47,930	29,968
Payable after 1 year but within 5 years	34,240	73,136	34,240	73,136
	82,170	103,104	82,170	103,104
TOTAL LINES OF CREDIT	82,170	126,568	82,170	126,568
Maturing as follows:-				
Payable after 3 months but within 1 year	47,930	39,403	47,930	39,403
Payable after 1 year but within 5 years	34,240	87,165	34,240	87,165
	82,170	126,568	82,170	126,568

a) EIB Kenya Shillings Loans

This represented amounts which the Group 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 10.64 % p.a.

b) 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 4.76% p.a (2005 - 4.76 % p.a).

18. SHARE CAPITAL

	2006 KShs'000	2005 KShs'000
Authorised:-		
200,000,000 ordinary shares of KShs.10 each	2,000,000	2,000,000
Issued and fully paid:-		
199,600,000 ordinary shares of KShs.10 each	1,996,000	1,996,000



19. RESERVES

	GROUP		BANK	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
Capital reserve	275,422	275,422	-	-
Revenue reserve	5,150,573	3,916,295	5,078,481	3,921,402
Share premium	2,319,764	2,319,764	2,319,764	2,319,764
Revaluation reserve	888,791	933,575	888,791	933,575
Translation reserve	(207,844)	(157,465)	-	-
	8,426,706	7,287,591	8,287,036	7,174,741

The capital reserve arose on the revaluation of certain freehold and leasehold properties as shown under note 13(a).

The translation reserve arises from translation of the net investment in KCB (Tanzania) Limited and KCB Sudan Limited to Kenya Shillings.

The revaluation reserve arises from fair value changes on available for sale investments.

20. DIVIDEND

	2006	2005
	KShs'000	KShs'000
Final proposed	1,197,600	798,400
Dividend per share (KShs)	6.00	4.00

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.

21. INTEREST INCOME

	GROUP		BANK	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
Interest on loans and advances	4,312,982	3,949,126	3,876,231	3,647,171
Interest on government securities	2,201,188	1,576,963	2,127,028	1,488,394
Interest on placements and bank balances	550,230	199,001	564,514	149,153
	7,064,400	5,725,090	6,567,773	5,284,718

22. INTEREST EXPENSE

	GROUP		BANK	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
Interest on deposits	733,192	568,502	653,606	489,648
Interest on borrowed funds	17,736	28,778	17,283	28,778
	750,928	597,280	670,889	518,426

23. DIVIDEND INCOME

Available for sale investments	42,534	50,872	42,534	50,872
Subsidiary company	-	-	-	4,053
	42,534	50,872	42,534	54,925

24. OTHER OPERATING INCOME

Rent income	117,750	110,421	41,920	22,421
Profit on sale of property and equipment	11,100	52,965	10,421	48,812
Gain on disposal of available for sale investments	494,903	-	494,903	-
Miscellaneous income	328,275	215,702	337,384	214,655
	952,028	379,088	884,628	285,888

25. OTHER OPERATING EXPENSES

Administrative expenses	3,117,732	2,576,132	2,875,166	2,270,548
Staff costs (note 28)	4,086,768	3,868,897	3,822,643	3,695,011
Directors' emoluments				
As directors	29,645	24,239	24,875	20,208
As executives	63,275	50,843	63,275	50,843
Depreciation of property and equipment	439,971	305,501	402,556	275,239
Amortisation of intangible assets	75,821	49,713	75,276	49,377
Amortisation of leasehold land	3,031	2,840	2,383	2,384
Auditors' remuneration	11,267	9,586	7,600	6,750
	7,827,510	6,887,751	7,273,774	6,370,360

26. EARNINGS PER SHARE

Earnings per share is calculated on the profit attributable to shareholders of KShs.2,431,878,000 and KShs.2,354,679,000 for the Group and Bank, respectively (2005: KShs. 1,326,027,000 and KShs. 1,343,606,000 for the Group and Bank, respectively) and on the number of ordinary shares in issue at the respective balance sheet dates of 199.6 million shares. There were no potentially dilutive shares outstanding at the respective balance sheet dates. Diluted earnings per share is therefore the same as basic earnings per share.



27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

a) CASH FLOWS FROM OPERATING ACTIVITIES

This has been derived as follows:-

	2006 KShs'000	2005 KShs'000
Profit before taxation	3,166,753	1,947,608
Adjustments for:		
Depreciation of property and equipment	439,971	305,501
Amortisation of leasehold land	3,031	2,840
Amortisation of intangible assets	75,821	49,713
Profit on sale of property and equipment	(11,100)	(52,965)
Gain on disposal of available for sale investments	(494,903)	-
Cash reserve ratio	(1,013,598)	(465,210)
Held to maturity investments	(4,201,284)	(2,903,110)
Loans and advances	(8,958,090)	(86,196)
Other assets	(582,037)	(824,728)
Other customer deposits	12,976,260	8,322,899
Other liabilities	(585,200)	318,630
Property and equipment adjustment	104,375	9,446
	919,999	6,624,428
b) ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash on hand	2,513,850	2,455,883
Cheques and items for clearing	527,534	168,933
Held to maturity investments	1,154,955	4,451,383
Held for trading investments	3,530,419	4,013,193
Placements and balances with other banking institutions	6,936,108	4,023,708
Deposits and balances from other banking institutions	(609,624)	(295,685)
	14,053,242	14,817,415

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the Balance Sheet date. Cash and cash equivalents excludes the cash reserve requirement held with the Central Bank.

28 STAFF COSTS

	GROUP		BANK	
	2006 KShs'000	2005 KShs'000	2006 KShs'000	2005 KShs'000
Salaries and wages	3,574,546	3,387,821	3,328,851	3,229,449
Medical	152,533	144,298	148,750	141,077
Pension scheme contributions	283,727	311,187	270,642	300,534
Other	75,962	25,591	74,400	23,951
	4,086,768	3,868,897	3,822,643	3,695,011

The number of employees of the Group as at the end of the year was 2,759 (2005 – 2,715).



29. RELATED PARTY TRANSACTIONS**a) Inter-company transactions**

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

	BANK	
	2006 KShs'000	2005 KShs '000
Due from subsidiary companies (Note 10)	1,649,333	1,446,470
Deposits and balances from other banking institutions	830,183	722,101

The above balances relate to transactions entered into with the subsidiary companies at arm's length in the ordinary course of business. These transactions are carried out on normal commercial terms and at prevailing market rates.

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

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

	GROUP		BANK	
	2006 KShs'000	2005 KShs'000	2006 KShs'000	2005 KShs'000
Government of Kenya	-	2,114,752	-	2,114,752
Directors	886,674	757,457	886,674	757,457
Senior management	111,642	94,279	101,626	93,331
Other employees	2,312,153	2,280,388	2,218,208	2,208,640
	3,310,469	5,246,876	3,206,508	5,174,180
b) Senior management compensations				
Salaries and allowances	212,668	167,024	195,383	157,583

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

Two of the Group companies, KCB (Tanzania) Limited and KCB Sudan Limited, operate outside the domestic financial market. The income derived from these companies is less than 10% of the Group's total income and thus, no detailed geographical segments have been disclosed.



31. COMMITMENTS

To meet the financial needs of the customers, the Group enters into various irrevocable commitments. Even though these obligations may not be recognized on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Group

	GROUP		BANK	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
a) Capital commitments contracted for at year end	267,999	212,850	264,154	195,749
b) Loans committed but not disbursed at year end	1,767,715	1,093,713	287,679	215,958
c) Foreign currency commitments	3,187,569	2,992,122	3,187,569	2,992,164

Commitments to extend credit represent contractual commitments to make loans and other credit facilities. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

32. CONTINGENT LIABILITIES

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

11,728,823	11,676,556	11,704,781	11,585,717
92,115	92,115	56,000	56,000

Letters of credit, guarantees and acceptances commit the Bank and its subsidiary companies to make payments on behalf of the customers in the event of a specific act, generally relating to the import and export of goods. Guarantees and letters of credit carry the same credit risk as loans.

The amounts included above as litigation are in respect of court rulings against the Bank and its subsidiary companies. In all cases, the Bank and its subsidiary companies appealed against judgments. The advice from external lawyers is that there are 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 this, litigation is a common occurrence in the banking industry due to the nature of the business. The Bank and its subsidiary companies have established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claim may have on its financial standing. At year end, the Group had several unresolved legal claims. However, 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 operations.

33. RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Assets and Liability Committee (ALCO) under policies approved by the Board of Directors. The ALCO Committee evaluates financial risk in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign-exchange risk, interest-rate risk, credit risk, and liquidity risk.

Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represent a concentration in the Group's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees and also entering into master netting agreements with counterparties.

In addition, the Group makes available to its customers guarantees which may require that the Group makes payments on their behalf. Such payments are collected from the customers based on the terms of the letter of credit. These expose the Group to similar risks as loans and are mitigated by the same control processes and policies.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Group has no significant concentration of market risk.

Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily and hedging strategies used to ensure that positions are maintained within the established limits.

Note 35 summarises the foreign currency exposure at year end.

Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

Note 37 summarises the interest rate risk of the Group as at 31 December 2006.

Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Note 38 summarises the liquidity risk of the Group as at 31 December 2006.

Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of Internal Audit.



34. CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to ensure that the Group complies with capital requirements and maintains healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Central Bank.

During the past year, the Group had complied in full with all its externally imposed capital requirements.

35. FOREIGN CURRENCY EXPOSURE

The table below summarises the foreign currency exposure as at 31 December 2006.

	GROUP		BANK	
	2006	2005	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000
Assets in foreign currencies	15,550,287	11,429,548	12,742,752	10,791,101
Liabilities in foreign currencies	(14,532,172)	(11,530,379)	(12,333,654)	(10,594,230)
Net foreign currency exposure at 31 December	1,018,115	(100,831)	409,098	196,871

36. 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 July 2005 and a surplus of KShs.925.2 million was reported.

The information below summarises the make up of the scheme surplus amount and actuarial assumptions made.	KShs '000'
Past service pension benefits	(7,225,100)
Fair value of scheme assets	8,150,300
Past service pension surplus	925,200
The amount recognised in the profit and loss account for the year is as follows:	
Current contribution costs	283,727

The principal actuarial assumptions used are as follows:

Expected rate of return on scheme assets	9.2%
Future salary increases	8.0%
Rate of contribution on members' pensionable salaries	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 income statement.



37. INTEREST RATE RISK

The table below shows interest rate sensitivity position of the Group at 31 December 2006 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.

	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	Non-interest bearing KShs'000	Total KShs'000
Cash and balances with Central Banks	-	-	-	-	-	7,394,536	7,394,536
Cheques and items for clearing	-	-	-	-	-	527,534	527,534
Held to maturity investments	698,093	456,862	5,231,874	9,197,356	2,355,705	-	17,939,890
Held for trading investments	3,530,419	-	-	-	-	-	3,530,419
Placements and balances with other banking institutions	6,936,108	-	-	-	-	-	6,936,108
Available for sale investments	-	-	-	-	-	902,860	902,860
Tax recoverable	-	-	-	-	-	452,515	452,515
Loans and advances to customers (net)	5,445,946	462,389	4,258,872	29,136,476	5,966,043	-	45,269,726
Other assets	-	-	-	-	-	4,436,745	4,436,745
Intangible assets	-	-	-	-	-	110,076	110,076
Leasehold land	-	-	-	-	-	192,113	192,113
Property and equipment	-	-	-	-	-	4,067,788	4,067,788
Deferred tax	-	-	-	-	-	766,261	766,261
Total Assets	16,610,566	919,251	9,490,746	38,333,832	8,321,748	18,850,428	92,526,571
Deposits and balances from other banking institutions	609,624	-	-	-	-	-	609,624
Other customer deposits	69,663,110	5,195,183	2,262,931	71,665	-	-	77,192,889
Other liabilities	-	-	-	-	-	2,997,312	2,997,312
Tax payable	-	-	-	-	-	24,270	24,270
Lines of credit	-	-	47,930	34,240	-	-	82,170
Shareholders' funds	-	-	-	-	-	11,620,306	11,620,306
Total liabilities and shareholders' funds	70,272,734	5,195,183	2,310,861	105,905	-	14,641,888	92,526,571
Interest rate sensitivity gap At 31 December 2005	(53,662,168)	(4,275,932)	7,179,885	38,227,927	8,321,748	4,208,540	-
Total assets	12,564,514	3,592,501	4,448,555	35,449,899	5,328,102	16,931,481	78,315,052
Total liabilities and shareholders' funds	(56,618,489)	(6,692,777)	(1,216,821)	(110,795)	-	(13,676,170)	(78,315,052)
Interest rate sensitivity gap	(44,053,975)	(3,100,276)	3,231,734	35,339,104	5,328,102	3,255,311	-



38. 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 2006 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	6,942,749	311,711	135,776	4,300	-	7,394,536
Cheques and items for clearing	527,534	-	-	-	-	527,534
Held to maturity investments	698,093	456,862	5,231,874	9,197,356	2,355,705	17,939,890
Held for trading investments	3,530,419	-	-	-	-	3,530,419
Placements and balances with other banking institutions	6,936,108	-	-	-	-	6,936,108
Available for sale investments	-	-	-	-	902,860	902,860
Tax recoverable	-	-	-	-	452,515	452,515
Loans and advances to customers (net)	5,445,946	462,389	4,258,872	29,136,476	5,966,043	45,269,726
Other assets	-	-	4,436,745	-	-	4,436,745
Intangible assets	-	-	-	-	110,076	110,076
Leasehold land	-	-	-	-	192,113	192,113
Property and equipment	-	-	-	-	4,067,788	4,067,788
Deferred tax	-	-	-	766,261	-	766,261
Total Assets	24,080,849	1,230,962	14,063,267	39,104,393	14,047,100	92,526,571
Deposits and balances from other banking institutions	609,624	-	-	-	-	609,624
Other customer deposits	69,663,110	5,195,183	2,262,931	71,665	-	77,192,889
Other liabilities	-	-	2,997,312	-	-	2,997,312
Tax payable	-	-	24,270	-	-	24,270
Lines of credit	-	-	47,930	34,240	-	82,170
Shareholders' funds	-	-	-	-	11,620,306	11,620,306
Total liabilities and shareholders' funds	70,272,734	5,195,183	5,332,443	105,905	11,620,306	92,526,571
Net liquidity gap	(46,191,885)	(3,964,221)	8,730,824	38,998,488	2,426,794	-
At 31 December 2005						
Total assets	18,581,056	3,995,536	8,374,166	36,873,426	10,490,868	78,315,052
Total liabilities and shareholders' funds	(56,618,489)	(6,692,777)	(4,811,000)	(110,795)	(10,081,991)	(78,315,052)
Net Liquidity Gap	(38,037,433)	(2,697,241)	3,563,166	36,762,631	408,877	-



39. COMAPATIVES

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

40. CURRENCY

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



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 PO Box _____

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

of PO Box _____

or failing him the Chairman of the meeting as my/our proxy vote for me/us and on my/our behalf at the 36th Annual General Meeting to be held on 15th June 2007 and at any adjournment thereof.

Signed this _____ day of _____ 2007

Signature(s) _____

Note: Incase 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.

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 36 wa Mwaka wa Kampuni utakaofanyika tarehe 15 Juni 2007 au pale utakapoarishwa.

Imewekwa sahihi tarehe _____ Mwezi wa _____ 2007

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.

