CONTENTS

NOTICE OF THE 39TH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 39th ANNUAL GENERAL MEETING OF THE KENYA COMMERCIAL BANK LIMITED will be held at the Tsavo Ballroom, Kenyatta International Conference Centre, Nairobi, on Friday, 7th May, 2010 at 11.00 a.m. when the following business will be transacted, namely:-

AGENDA

1. CONSTITUTION OF THE 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 and the Consolidated Financial Statements for the year ended 31st December, 2009.

b) Report and Financial Statements for the Year ended 31st December, 2009
To receive and consider the Report of the Directors and Consolidated Financial Statements for the year ended 31st December, 2009 together with the auditors' report thereon.

c) Dividend
To declare a dividend and approve the closure of the Register of Members on 11th May, 2010.

d) Election of Directors
In accordance with the Article 94 of the Company's Articles of Association, Mr. Peter Wanyaga Muthoka, Prof. Peter Kiko Kimuyu and Mrs. Susan Nkirote Omanga retire by rotation from office as Directors of the Company and, being eligible, offer themselves for re-election respectively.

e) Remuneration of 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 conclusion of the next Annual General Meeting.

g) Remuneration of the Auditors
To authorize Directors to fix the remuneration of the Auditors.

3. SPECIAL BUSINESS

a) Increase of Authorized Share Capital
To consider and, if found fit, to pass the following resolution as an ordinary resolution:

THAT the authorized share capital of the company be increased from Kenya Shillings Two Billion Four Hundred Million (KShs.2,400,000,000) to Kenya Shillings Three Billion Five Hundred Million (KShs.3,500,000,000) by creation of One Billion One Hundred Million new ordinary shares of Kenya Shillings one (KShs.1) each ranking pari passu in all respects with the existing ordinary shares in the capital of the company.

b) Rights Issue
To consider, and if found fit, to pass the following resolution as an ordinary resolution:

THAT subject to the passing of resolution 3(a) above, the Directors be and are hereby authorized and directed that up to one billion one hundred million ordinary shares of Kenya Shillings one (KShs.1) each in the capital of the Company increased pursuant to the Resolution numbered 3(a) above, be offered subject to any required consent or authorization, including but not limited to the approval of the Capital Markets Authority, at a premium to be determined by the Directors, to and among the holders of the issued ordinary shares in Kenya Shillings one (KShs.1) each in the capital of the Company registered at the close of business on such a date as shall be determined by the Directors, and notified to the members through the press, in proportion to their respective holdings in the issued share capital of the Company, subject to the Articles of Association of the Company, upon such terms as the Directors shall think fit, and that the Directors be, and are hereby authorized generally to do and effect all acts and things required to give effect to the Resolution, and to deal with fractions in such manner as they think fit subject to the Articles of Association of the Company.

4. ANY OTHER BUSINESS

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

Dated at Nairobi this 24th Day of February, 2010
By Order of the Board

K.D. Malakwen, Secretary

ARIFA YA MKUTANO MKUU WA 39 WA MWAKA

Arifa inatolewa kwamba mkutano mkuu wa kila mwaka wa KENYA COMMERCIAL BANK LIMITED utafanyika katika ukumbi wa Tsavo, Kenyatta International Conference Centre, jijini Nairobi, Ijumaa tarehe 7 mwezi Mei, 2010 saa tano asubuhi kujadili yafuatayo:

AJENDA

1. KUJUMUIKA KWA MKUTANO

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

2. SHUGHULI ZA KAWAIDA

a) Ripoti ya wakaguzi wa hesabu
Kusomwa kwa ripoti ya wakaguzi na taarifa ya jumla ya hesabu ya pesa kwa mwaka uliomalizika tarehe 31 Desemba mwaka wa 2009.

b) Ripoti na taarifa ya kifedha kwa mwaka uliomalizika tarehe 31 Desemba mwaka wa 2009.
Kupokea na kujadili ripoti ya Wakurugenzi na taarifa za jumla za fedha kwa mwaka uliomalizika tarehe 31 Desemba mwaka wa 2009, pamoja na ripoti ya wakaguzi wa hesabu.

c) Mgao wa faida
Kutangazwa kwa mgao wa faida na kuidhinisha kufungwa kwa sajili ya wanachama tarehe 11, Mei 2010.

d) Uchaguzi wa Wakurugenzi
Kwa mujibu wa kifungu nambari 94 cha kanuni za kampuni, Bw. Peter Wanyaga Muthoka, Prof. Peter Kiko Kimuyu na Bi. Susan Nkirote Omanga wanastaafu kwa zamu kama wakurugenzi wa Kampuni hii na kwa vile wanahitimu wanajitolea kuchaguliwa tena.

e) Malipo ya Wakurugenzi
Kuidhinisha Halmashauri 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 hadi kumalizika kwa mkutano mkuu wa mwaka ujao.

g) Malipo ya wakaguzi wa hesabu
Kuidhinisha Wakurugenzi kuweka viwango vya malipo kwa wakaguzi wa hesabu.

3. SHUGHULI MAALUM

a) Kuongeza mtaji wa hisa ulioidhinishwa
Kujadili na inapoonelewa inafaa, kupitisha azimio lifuatalo kama azimio la kawaida:

Kwamba mtaji wa hisa ulioidhinishwa na kampuni uongezwe kutoka Shilingi bilioni mbili na milioni mia nne (Shilingi 2,400,000,000) hadi Shilingi bilioni tatu na milioni mia tano (Shilingi 3,500,000,000) kwa kubuni hisa mpya za kawaida za Shilingi bilioni moja na milioni mia moja (Shillingi 1,100,000,000) za shilingi moja kila moja zitakazokuwa sawa kwa kila hali na hisa za kawaida zilizoko katika mtaji wa kampuni.

b) Toleo la hisa
Kujadili na inapoonelewa inafaa, kupitisha azimio lifuatalo kama azimio la kawaida:

Kwamba kwa kupitishwa kwa kwa azimio 3(a) hapo juu, Wakurugenzi wameidhinishwa na kuagizwa kwamba hisa bilioni moja na millioni mia moja za kawaida za Shilingi moja kila moja kwenye mtaji wa Kampuni kuongezwa kufungamana na azimio 3(a) huko juu, kutolewa kutegemea na ruhsa au idhini, ikiwa ni pamoja na idhini ya Mamlaka ya Masoko ya Hisa, kwa kiwango kitakachoamuliwa na Wakurugenzi, na miongoni mwa wenye hisa za kawaida za Shilingi moja kwa hisa ya kawaida katika tarehe itakayoamuliwa na Wakurugenzi, na kuwasilishwa kwa wanachama kupitia vyombo vya habari kulingana na idadi ya hisa zao katika mtaji wa Kampuni, kuambatana na kanuni za Kampuni, kutegemea masharti ambayo yataamuliwa na Wakurugenzi, na kwamba wakurugenzi wameidhinishwa kutekeleza azimio hilo kuambatana na kanuni za Kampuni.

4. SHUGHULI NYINGINE YEYOTE

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

Tarehe 24, Februari 2010, Nairobi
Kwa Amri ya Wakurugenzi

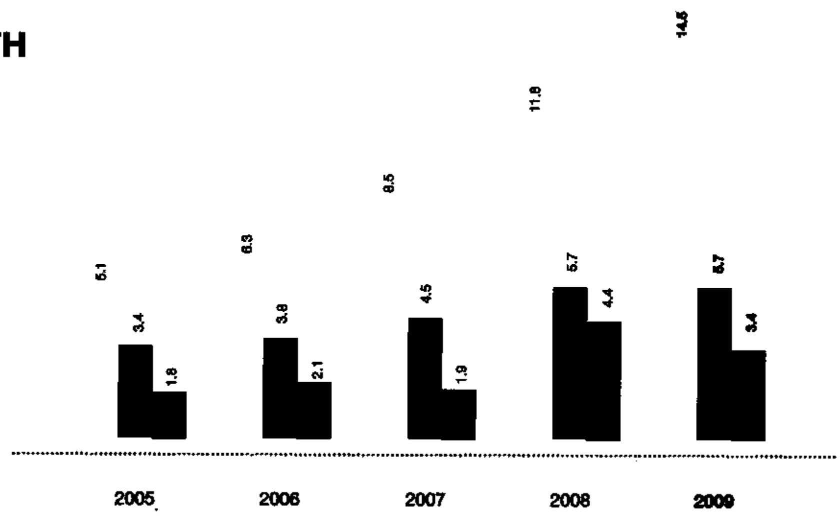
K.D. Malakwen, Katibu

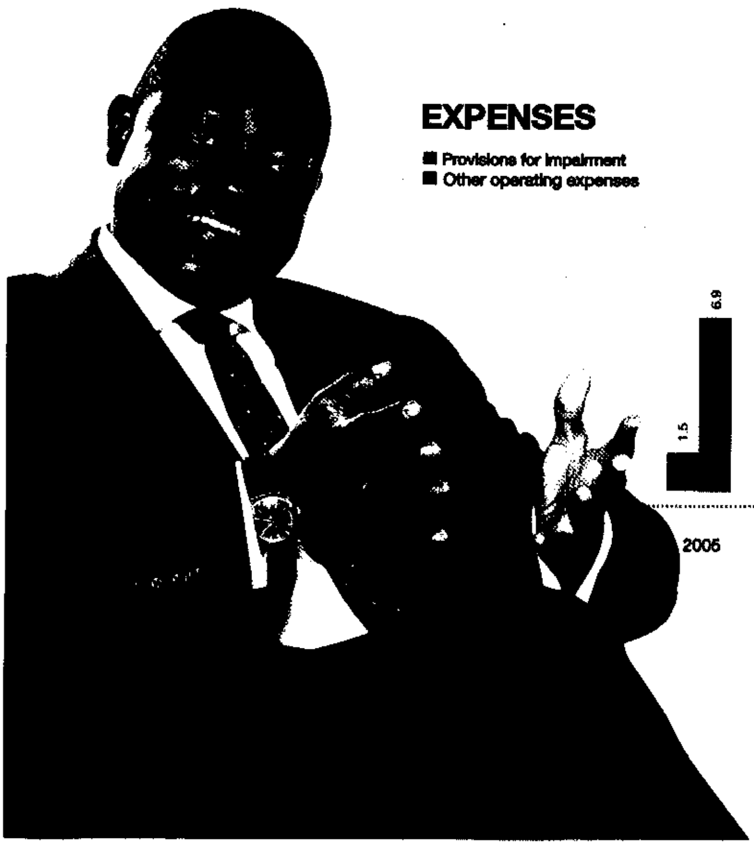
FIVE YEAR PERFORMANCE ANALYSIS

PERFORMANCE & STATUTORY RATIOS	2005	2006	2007	2008	2009
Cost to income ratio	67%	64%	63%	62%	69%
Return on equity	13%	21%	23%	20%	18%
Core capital to deposit	16%	13%	12%	12%	13%
Total capital to total weighted assets	18%	16%	14%	16%	15%
Liquidity ratio	44%	42%	33%	32%	28%
Net impaired advances to net advances	11%	9%	3%	3%	5%
Net impaired advances to gross impaired advances	29%	33%	22%	26%	44%

INCOME GROWTH

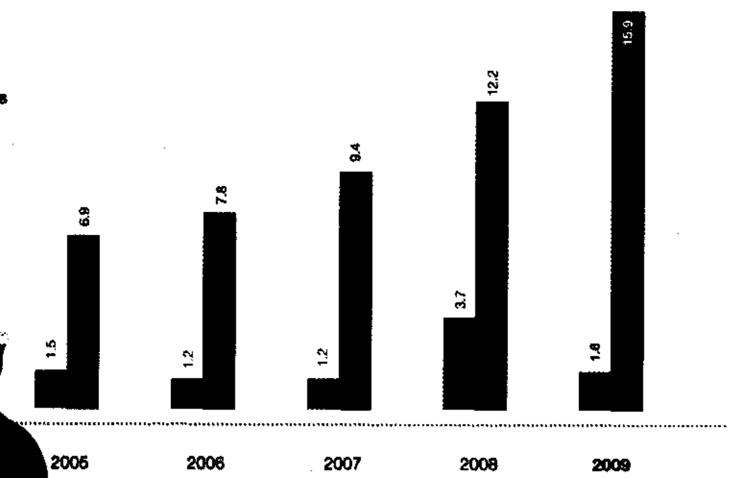
- Net interest income
- Fees and commissions
- Other income





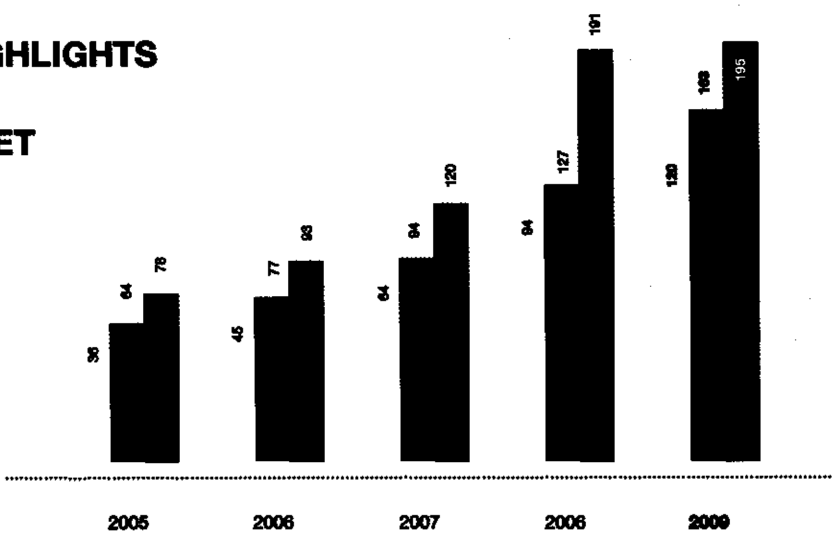
EXPENSES

- Provisions for impairment
- Other operating expenses

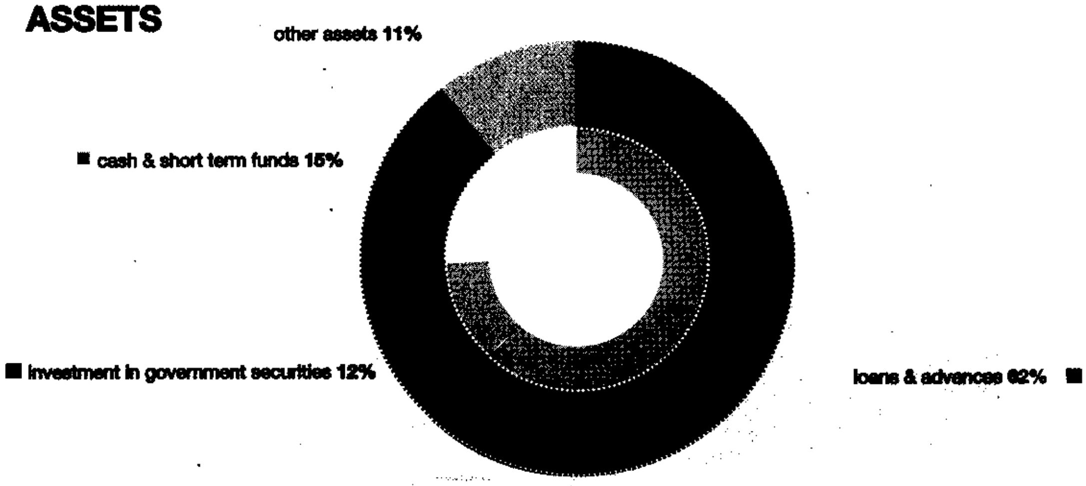


FINANCIAL HIGHLIGHTS

BALANCE SHEET



ASSETS



KEY PERFORMANCE INDICATORS

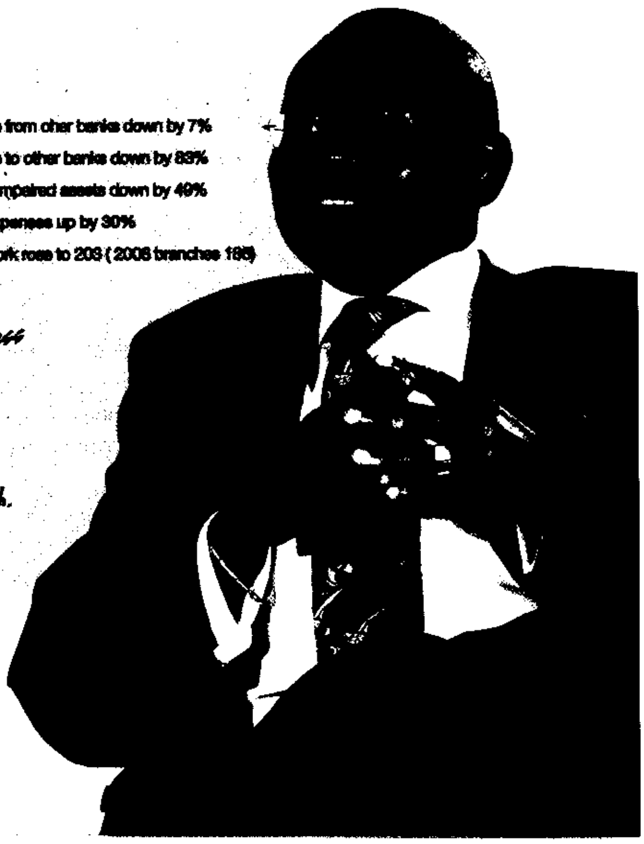
- Profit Before Tax up by 5% to KShs. 6.3 billion (2008 KShs. 6.0 billion)
- Net Loans and Advances up by 29% to KShs. 120.5 billion (2008 KShs. 93.5 billion)
- Customer Deposits up by 28% to KShs.162.5 billion (2008 KShs. 126.7 billion)
- Operating Income up by 17% to KShs. 22.9 billion KShs. (2008 KShs. 19.7 billion)
- Total Assets growth by 2% to KShs. 195.0 billion (2008 KShs. 191.2 billion)
- Balances due from other banks down by 7%
- Balances due to other banks down by 83%
- Provision for impaired assets down by 49%
- Operating expenses up by 30%
- Branch network rose to 203 (2008 branches 186)

Our Vision

To be the preferred financial solutions provider in Africa with a global reach.

Our Mission

To grow our existing business whilst building the platform to be the preferred financial solutions provider in Africa with a global reach.



CHAIRMAN'S STATEMENT

"In line with this performance, the Board recommends payment of a dividend of KShs.1 per ordinary share held, amounting to KShs. 2.2 billion."

Peter W. Muthoka (MBS)

SHAREHOLDERS

I am pleased to present to you the Annual Report and Financial Statements for the KCB Group for the year 2009. The Group made a profit before tax of KShs.6.3 billion, which is a modest 5% growth compared to 2008. The performance, however, reflects good growth in net interest income of 23% to KShs. 14.5 billion and an impressive total operating income of KShs. 22.9 billion (a 17% growth over 2008).
We had great success in recoveries of non-performing loans (KShs.856 million recovered) and improvement in the quality of our loan book with provisions going down by 57% to KShs.1.6 billion, reflecting improved quality in our lending business.

In line with this performance, the Board recommends payment of a dividend of KShs.1 per ordinary share held, amounting to KShs. 2.2 billion.

THE OPERATING ENVIRONMENT

Kenya's economic performance remained subdued in 2009, with dismal growth being realized in key economic sectors notably; agriculture, manufacturing, transport and construction. Real Gross Domestic Product during the year slowed down to less than 1% and below the target of 3% for the year compared to overall growth of 1.7% in 2008. The slow-down was particularly significant during the third quarter of 2009 when the economy stagnated at 0.0 percent, compared with 2.2% growth during the same period in 2008.
Following the prolonged drought of 2009, the agriculture, forestry and energy sectors contracted as high energy costs and the impact of global economic recession hampered activities in the manufacturing, construction, and transport and communications sectors. Many farming communities suffered extensive crop failure, while livestock perished in semi arid and arid areas. Kenya's economic environment is expected to improve in 2010, supported by better macro-economic conditions, friendly weather and the positive impact of the national economic stimulus programme. Economic growth is projected to range between 3.5% and 4.5%.

INFLATION

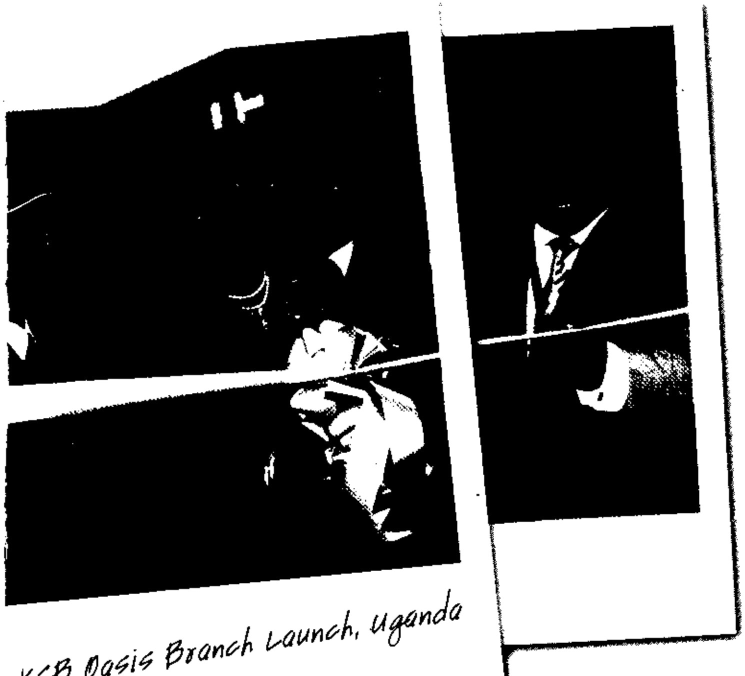
The Consumer Price Index increased marginally from 134.7points in December 2008 to 141.5 points in December 2009. The overall 12-month inflation maintained a downward trend throughout 2009 from 17.8% in December 2008 to settle at 5.3 % last December. Overall annual average inflation rate also declined from16.2% in December 2008 to 9.25% in December 2009 reflecting the impact of falling prices of essential goods and services. Inflation is expected to slow down further in view of the drop in food prices due to the abundance of food as a result of adequate rains.

INTEREST RATES

The monetary authorities managed to keep interest rates low in 2009 with the Central Bank of Kenya lowering both the Central Bank Rate (CBR) and the cash reserve ratio during the year. Consequently, short term interest rates exhibited declining trends in tandem with Central Bank's objective of lowering the cost of funding in the country.
The benchmark 91-day Treasury bill rate declined from 8.59% in December 2008 to 6.84% at the end of December 2009 following

increased liquidity. The interest rate on 182-day Treasury bill also declined from 9.05% in December 2008 to 7.38% in December 2009. During the year, the interbank rate dropped significantly from 6.66% in December 2008 to 2.95% at the end of December 2009. The Central Bank of Kenya continued to lower the Central Bank Rate (CBR) throughout 2009 standing at 7% at the end of the year from 8.5% at the end of 2008.

In the foreign exchange market, the Kenya shilling strengthened against major world currencies in 2009 compared to 2008. The shilling was stronger against the US dollar and the Japanese yen but weakened against the Euro and the sterling pound during the year. The local currency traded at an average of KShs. 75.43, KShs. 84, KShs.122.54 and KShs.110.27 to the US Dollar, Japanese yen, Sterling pound and the Euro, respectively in December 2009 compared to KShs. 78.04, KShs. 85, KShs.116.53 and KShs.105.56 in December 2008 respectively.


KCB Oasis Branch Launch, Uganda

The movements of the Kenya shilling over this period was largely attributed to the strong performance of the US Dollar in the international currency market following the global financial crisis where the dollar turned out to be the safe currency of choice.

The performance at Nairobi Stock Exchange remained subdued with key performance indicators recording significant declines. The stock market during the year was characterized by low equity prices due to diminished investor expectations. The NSE 20 Share Index declined to close at 3,247.44 points in 2009 from 3,521.18 points in 2008. Total market capitalization declined to KShs. 831.83 billion in 2009 from KShs.853.67 billion in December 2008. The drop in market capitalization in 2009 is attributed to a decline in equity prices at most counters.
The market continued to view our business positively with KCB Shares moving at between KShs. 32 and KShs. 15, averaging KShs. 23.5 per ordinary share in spite of low investor confidence in the market during the year. With the ongoing business growth initiatives already in place and anticipated returns from investments across the region, we expect that KCB Shares will continue to attract investors and that business growth momentum will continue.


Launch of KCB Avenue De La Paix Branch, Kigali, Rwanda

THE REGIONAL BUSINESSES

We continued to expand our regional footprint across the region with the establishment of 34 new branches and over 100 new automated teller machines across the region. The additional outlets and channels reaffirmed KCB's position as the largest commercial bank in the region with 203 branches and 325 ATMs ensuring our customers have convenient access to their funds at all times.

With the growing branch and ATM networks, KCB has established itself as a key player in the regional integration of banking and financial services, providing a one-branch banking platform to our customers across the region. While this development ensures KCB's presence in key urban and rural centres across East Africa, it underlines our objective to promote one modern and efficient financial system that would boost trade and investment in the East African Community in line with the efforts of the five states to integrate into one cultural and socio-economic block. Having successfully implemented our new core banking system in Kenya and Rwanda, we are in the process of rolling it out to KCB Tanzania and KCB Sudan, ensuring that our customers enjoy our service on one platform wherever they may be across the region in coming days.

KCB Launch of Buluk Branch, Juba, Southern Sudan

During the year, we opened eight new branches in Rwanda, all spread across the country, as we moved the business into our fourth market of operation. Additionally, the KCB brand was also officially launched by His Excellency, President Paul Kagame, amid pomp and pageantry, giving the bank the highest possible profile in that market.

We have invested immensely in growing our network over the past few years in order to attain the position of the region's largest bank. We now need to move into the consolidation mode in order to reap the benefits of our expansion and technological investments. Going forward, we shall focus on growing market share, enhancing efficiency and product and service innovation to give the business the required edge in the industry.

We also completed the cross-listing of KCB Shares in the three target markets, inaugurating their trading at the Rwanda Over the Counter Market. This, alongside the cross-listing at the Uganda Securities Exchange and Dar-Es-Salaam Stock Exchange, makes KCB stocks available to investors within the East African Community and gives the business added visibility and market acceptability.

In Uganda and Tanzania, there was heightened visibility as we undertook various initiatives to boost sales and market presence. We moved to reaffirm our leadership position in the young financial sector of Southern Sudan by opening the largest branch of any bank in that market. His Excellency, President Salvar Kiir Mayardit, was the guest of honour at the opening of KCB Buluk branch in Juba, a spacious state-of-the-art banking facility with automated teller machines and a KCB Advantage banking section for the discerning customers. Alongside this we also inaugurated a housing partnership with the Government of Southern Sudan to finance construction of houses for civil servants. This project is set to commence after delays that were occasioned by the negotiation process which took longer than anticipated but is now on track. We are confident that even as the country goes into its first multiparty elections this year and a referendum in 2011 that your investment remains secure and that KCB Sudan will retain its leadership role in that market in spite of entry of new competitors especially from Kenya.

GOVERNANCE

I would like to take this opportunity to commend our Chief Executive, Dr. Martin Oduor-Otieno, on the award of a doctorate degree in Business Leadership from KCA University in recognition of his contribution to leadership development in the financial sector and for his role in the ongoing growth and success of the bank. He also received, on Jamhuri Day, a presidential award, the First Class Chief of the Order of the Burning Spear (CBS), from His Excellency, President Mwai Kibaki , for his contribution to the stewardship of industry.

Let me also congratulate Mr. Peter Munyiri, the Deputy Chief Executive, Group Businesses, on receipt of the Head of State Commendation during last year's Jamhuri Day for his role in steering the growth of entrepreneurship in the country. These recognitions augur well for our business and give fresh impetus to our quest for excellence in the banking and financial sector due to the quality of leadership we have in the bank.

We continued to strengthen the governance structure of the business across East Africa, revamping our subsidiary boards and increasing their sizes to accommodate more resident directors. Consequently, the number of directors on all subsidiary boards has been increased as has that of resident directors for each respective market. Mr. Jashinto Genye and Mr. Ambrose Mou Thiik joined their Sudanese compatriots, Dr. Leonzio Onek and Mrs. Yar Manoah Majok Deng on the board of KCB Sudan whereas Mrs. Florence Kata was appointed the new director of the KCB Uganda board joining Mr. Samwiri Njuki and Mr. David Nyende as resident directors. In Tanzania, Mr. Philemon Shimwela and Dr. Edmund Mndolwa joined the Board of KCBT as new resident directors. Dr. Edmund Mndolwa was elected as new Chairman of KCBT to replace Ms. Janet Mbene who has since retired from the Board. Mr. Faustin Mbundu, Mrs. Sarah Mukandutiye, Mrs. Jose-Marie Kankera and Ms. Anne Kirima were appointed to the new board of KCB Rwanda. In the main Board, Mr. Sunil Narshi Shah and Mrs. Catherine N. Kimura were re-elected following the 2009 annual general meeting while Mrs. Catherine Kola replaced Mrs. Susan Mudhune who retired from the Board after serving her full term. In the KCB Foundation, Mr. George Odo and Mrs. Grace Akumu were appointed to the Board bringing with them immense experience and knowledge in the areas of corporate social responsibility, sustainability and management of charitable trusts and foundations.

Mr. Daniel Mavindu and Mr. Heri Bomani left the Group to pursue other interests. As a result Mr. Sammy Itemere and Mr. Joram Kiarie were appointed as Managing Directors of KCBS and KCBT respectively.

The Board is working on a new regional management structure that would ensure adequate support for the subsidiaries from Nairobi and strict supervision of the regional businesses to make them more efficient and profitable.

SOCIAL RESPONSIBILITY

Under the umbrella of the KCB Foundation, the KCB Group continued to support various community initiatives empowering needy members of society across the region. During the year, we spent close to KShs.70 million to meet essential community needs in the areas of health, environment, education, entrepreneurship and welfare. Among some of the key initiatives we supported include the planting of over 200,000 trees during the KCB Community Day that was marked by KCB staff across the region, support to victims of the Nakumatt and Sachang'wan fire disasters and aid for needy schools and educational centres during the KCB Community Week. During this time KCB branches and head office divisions donated teaching/learning materials and furniture as well as boarding facilities and equipment to deserving schools across the region.

Going forward the Board of the KCB Foundation has reviewed its strategy to focus 80% of its funds on the environment, education as well as enterprise development as key areas of support. We view support to these areas as paramount in empowering communities to become more productive and self-reliant but will, however, spare the remainder of our budget (20%) to meet essential community needs in health and humanitarian intervention.

The Board will continue to embrace best practices in the implementation of our community support programmes focusing on partnerships with other stakeholders to take advantage of competencies that are not available within the bank and sustainable support for needy communities.

BUSINESS GROWTH AND CAPITAL ADEQUACY

Our business has grown tremendously over the last five years with net loans and advances going up from KShs.36 billion in 2004 to KShs.120.5 billion in 2009 while deposits increased from KShs. 56 billion in 2004 to KShs.162.5 billion in 2009. Total assets have also grown from KShs.70 billion in 2004 to KShs.195 billion last year. This growth has put pressure on our prudential ratios and curtailed further efforts to increase our lending as well as the level of deposits that we can collect from our branch network. Consequently, the Board has approved a management plan to raise additional capital of KShs.21 billion over the next five-year plan period to support our projected growth. A resolution will be brought before you to approve a rights issue this year to complement our capital base with a further request for approval to raise debt capital to come later.

We know we have been coming to you for more capital whenever necessary to meet business needs and we are grateful for that support. It is in the interest of your business that we ensure capital adequacy that will strengthen our capacity to take advantage of growth opportunities in the market.

LOOKING AHEAD

The future of this bank is, indeed, bright as we ready ourselves for growth in 2010 and beyond. The year 2010 will be a year of consolidation; increasing market share, enhancing efficiency, reaping benefits of our new core-banking system, T24, enhancing employee productivity and improving customer service.

Going forward, the Board has approved a strategy that will underpin our performance objectives over the next five years. We have identified the pillars of customer service, financial, operations and technology, risk management, regional markets, human resources and social relevance as key to our growth into the future and will implement key initiatives in each of these areas to support business.

I would like to thank my fellow Board members for supporting me in providing leadership and decisions for the business over the past year. Their commitment and passion contributed immensely to our performance in 2009.

I commend management and staff for working hard to achieve the level of business growth that we witnessed during the year. We are confident that they shall spare no effort to meet and even exceed the targets we have set for 2010.

Finally, I would like to thank you, our shareholders, our customers, the community and the general public for supporting the business in one way or the other. We pledge to do our best to make KCB a banker of choice in our various markets and ensure we achieve the right level of stakeholder returns.

Thank you.

TAARIFA YA MWENYEKITI

"Kuambatana na utendaji huu, Halmashauri ya Wakurugenzi inapendekeza malipo ya mgao wa faida wa Shilingi moja kwa hisa moja ya kawaida, ambayo jumla yake ni Shilingi bilioni 2.2 malipo ya mgao wa jumla."

Peter W. Muthoka (MBS)

WANAHISA

Nina furaha kuwasilisha kwenu ripoti ya mwaka na taarifa za kifedha za Kampuni ya KCB kwa mwaka wa 2009. Kampuni ilipata faida ya Shilingi bilioni 6.3 kabla ya kodi, ambayo ni ongezeko dogo la asili mia 5 ikilinganishwa na mwaka wa 2008. Hata hivyo utendaji huu unaakisi ukuaji bora katika mapato ya jumla ya riba ya asilimia 23 hadi Shilingi bilioni 14.5 na jumla ya mapato ya kuvutia ya utekelezaji ya Shilingi bilioni 22.9 (ukuaji wa asili mia 17 kuliko mwaka wa 2008).

Tulikuwa na ufanisi mkubwa katika ukusanyaji wa madeni ya mikopo isiyolipwa (Shilingi bilioni 856 zilikusanywa) na imariko katika hesabu yetu ya mikopo ambapo kiwango kisicholipwa kilipungua kwa asili mia 57 hadi Shilingi bilioni 1.6, na kuakisi kuimarika kwa kiwango cha biashara yetu ya kutoa mikopo.

Kuambatana na utendaji huu, Halmashauri ya Wakurugenzi inapendekeza malipo ya mgao wa faida wa Shilingi moja kwa hisa moja ya kawaida, ambayo jumla yake ni Shilingi bilioni 2.2 malipo ya mgao wa jumla.

MAZINGIRA YA UTENDAJI

Uchumi wa Kenya ulidumaa mwaka wa 2009, ambapo kiwango kidogo cha ukuaji kiliafikiwa katika sekta muhimu za kiuchumi kama vile; kilimo, utengenezaji bidhaa, usafiri na ujenzi. Pato la Jumla la Nchi wakati wa kipindi hicho cha mwaka kilipungua na kufikia chini ya asili mia moja na chini ya matarajio ya asili mia 3 kwa mwaka huo ikilinganishwa na ukuaji wa jumla wa asili mia 1.7 mwaka wa 2008. Kiwango hicho cha ukuaji wa polepole kilidhihirika zaidi wakati wa robo ya tatu ya mwaka wa 2009, uchumi ulipokwama kwenye asili mia 0.0, ikilinganishwa na ukuaji wa asili mia 2.2 wakati wa kipindi kama hicho mwaka wa 2008.

Kufuatia kipindi kirefu cha ukame wa mwaka wa 2009, sekta za kilimo, misitu na kawi zilididimia huku gharama ya juu ya kawi na athari za kudidimia kwa uchumi duniani zikikwamisha shughuli katika sekta za utengenezaji bidhaa, ujenzi na usafiri na mawasiliano. Jamii nyingi zinazotegemea kilimo ziliathiriwa na kukauka kwa mimea yao kwa kiwango kikubwa, na mifugo wakaangamia katika maeneo kame.

Mazingira ya uchumi Kenya yanatarajiwa kuimarika mwaka wa 2010, kwa usaidizi wa hali bora zaidi ya biashara ndogo ndogo, kuimarika kwa hali ya hewa na hali chanya ya mpango wa taifa wa kufufua uchumi. Ukuaji wa uchumi unatarajiwa kuwa katika viwango vya kati ya asili mia 3.5 na asili mia 4.5.

GHARAMA YA MAISHA

Kiwango cha gharama za bidhaa kiliongezeka kidogo kutoka alama 134.7 mwezi Desemba 2008 hadi alama 141.5 mwezi Desemba 2009. Kiwango cha jumla cha gharama ya maisha kwa miezi 12 kiliendelea kupungua kipindi chote cha mwaka wa 2009 kutoka asili mia 17.8 mwezi Desemba 2008 na kufikia asili mia 5.3 mwezi Desemba mwaka jana. Jumla ya wastani wa kiwango cha maisha pia kilipungua kutoka asili mia 16.2 mwezi Desemba 2008 hadi asili mia 9.25 mwezi Desemba 2009 hali iliyoakisi kupungua kwa bei ya bidhaa muhimu na huduma. Kiwango cha gharama ya maisha kinatarajiwa kupungua hata zaidi kwa sababu ya punguo la bei ya chakula kutokana na wingi wa chakula kufuatia mvua za kutosha.

VIWANGO VYA RIBA

Wasimamizi wa fedha walifanikiwa kudumisha viwango vya chini vya riba mwaka wa 2009 huku Benki Kuu ya Kenya ikipunguza viwango vya Benki Kuu(CBR) na uwiano wa fedha za akiba wakati wa kipindi hicho cha mwaka. Kwa sababu hiyo, viwango vya muda mfupi vya riba vilionyesha dalili za kupungua kufungamana na lengo la Benki Kuu la kupunguza gharama za kifedha nchini.

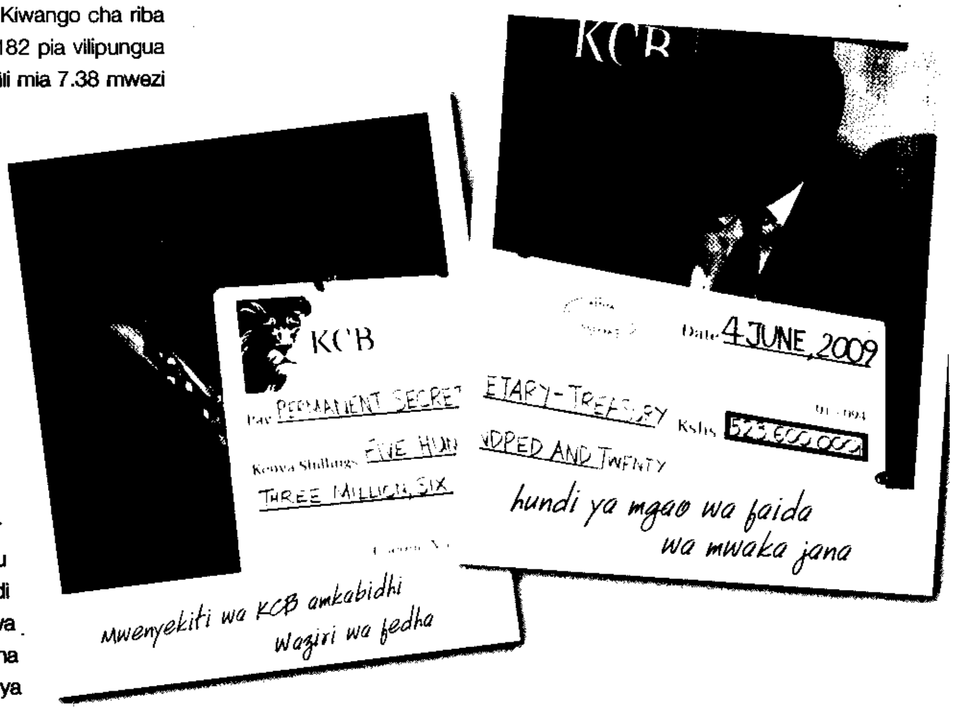
Hati za dhamana za serikali za muda wa siku 91 zilipungua kutoka asili mia 8.95 mwezi Desemba 2008 hadi asili mia 6.84 mwishoni mwa mwezi Desemba 2009 kufuatia ongezeko la fedha. Kiwango cha riba kwa hati za dhamana za serikali za muda wa siku 182 pia vilipungua kutoka asili mia 9.05 mwezi Desemba 2008 hadi asili mia 7.38 mwezi Desemba 2009. Wakati wa kipindi hicho cha mwaka, kiwango cha riba kati ya benki kilipungua kwa kiasi kikubwa kutoka asili mia 6.66 mwezi Desemba 2008 hadi asili mia 2.95 mwishoni mwa mwezi Desemba 2009. Benki kuu ya Kenya iliendelea kupunguza viwango vya Benki Kuu katika kipindi chote cha 2009 hadi kufikia asili mia 7 mwishoni mwa mwaka huo kutoka asili mia 8.5 mwishoni mwa mwaka wa 2008.

Katika soko la kubadilisha fedha za kigeni, shilingi ya Kenya iliimarika dhidi ya sarafu muhimu za kimataifa mwaka wa 2009 ikilinganishwa na mwaka wa 2008. Shilingi ilikuwa imara zaidi dhidi ya dollar ya Marekani na Yen ya Japan, lakini ikawa dhaifu dhidi ya Euro na Pauni ya Uingereza wakati wa kipindi cha mwaka. Sarafu ya humu nchini ilibadilishwa kwa wastani wa KShs. 75.43, KShs.84.12, KShs.122.54 na KShs.110.27 dhidi ya Dollar, Yen ya Japan, Pauni ya Uingereza na Euro mtawalio mwezi Desemba 2009 ikilinganishwa na KShs.78.04,KShs.85.42, KShs.116.53 na KShs.105.56 mwezi Desemba 2008 mtawalio.

Kubadilika kwa shilingi ya Kenya wakati wa kipindi hiki ilitokana kwa kiasi kikubwa na uthabiti wa Dollar ya Marekani katika soko la fedha la kimataifa kufuatia msukosuko wa fedha kimataifa ambapo dollar ilionelewa na wengi kuwa sarafu salama zaidi.

Shughuli katika Soko la Hisa la Nairobi zilidumaa huku viashirio muhimu vikionyesha viwango vikubwa vya kudidimia. Wakati wa kipindi cha mwaka soko la hisa lilikumbwa na bei za chini za hisa kutokana na kudidimia kwa matarajio ya wawekezaji. Kipimo cha Kampuni bora 20 katika Soko la Hisa la Nairobi kilipungua na kufunga kwa pointi 3,247.44 mwaka wa 2009 kutoka pointi 3,521.18 mwaka wa 2008. Kiasi cha fedha katika soko la hisa kilipungua hadi Shilingi bilioni 831.83 mwaka wa 2009 kutoka Shilingi 853.67 bilioni mwezi Disemba 2008. Punguo la fedha katika soko la hisa mwaka wa 2009 kunaambatanishwa na kupungua kwa bei za hisa za makampuni mengi.

Soko hilo liliendelea kuwa na mtizamo chanya kwa hisa za KCB ambazo zilinunuliwa na kuuzwa kati ya shilingi 32 na 15, wastani wa shilingi 23.5 kwa hisa ya kawaida licha ya kudidimia kwa imani ya wawekezaji katika soko wakati wa kipindi cha mwaka. Huku mikakati ya ukuaji wa biashara ikiwa imewekwa na matarajio ya faida kutokana na uwekezaji kote katika kanda, tunatarajia hisa za KCB zitaendelea kuwavutia wawekezaji na kwamba msukumo wa kukua kwa biashara utaendelea.



BIASHARA KATIKA KANDA

Tuliendelea kupanua biashara katika kanda kwa kuanzisha matawi mapya 34 na zaidi ya mashini 100 za ATM kote katika kanda. Ongezeko la matawi hayo na mashini hizi kulidhihirisha nafasi ya KCB kama benki kubwa zaidi ya biashara katika kanda ikiwa na matawi 203 na mashini 325 za ATM kuhakikisha wateja wetu wanapata kwa urahisi fedha zao wakati wote. Ifahamike kwamba kwa sasa KCB ipo nchini Kenya, Tanzania, Sudan Kusini, Uganda na Rwanda.

Kutokana na kuongezeka kwa matawi na mtandao wa ATM, KCB imejikita kama mshirika muhimu katika kushirikisha huduma za benki na zile za kifedha katika kanda,na kufanya wateja wetu kupata huduma kote katika kanda. Wakati hali hii ikihakikisha kuweko kwa KCB katika vituo muhimu vya mijini na mashambani kote Afrika Mashariki, ni dhihirisho la lengo letu kuimarisha mfumo thabiti na wa kisasa wa fedha ambao utaimarisha biashara na uwekezaji katika Jumuiya ya Afrika Mashariki sambamba na juhudi za mataifa matano kuwa na eneo moja la utamaduni, kijamii na kiuchumi. Baada ya kutekeleza kwa ufanisi mfumo wetu mkuu wa shughuli za benki nchini Kenya na Rwanda, tuko katika mchakato wa kupeleka huduma hizo KCB Tanzania na KCB Sudan, ili kuhakikisha kuwa wateja wetu wanafurahia huduma zetu wanaposafiri katika kanda katika siku zijazo.

Tumewekeza kwa kiwango kikubwa katika kukuza mtandao wetu katika muda wa miaka michache iliyopita ili kupata nafasi ya kuwa benki kubwa zaidi katika kanda. Tunahitaji sasa kushirikisha juhudi zetu ili tunufaike na manufaa ya upanuzi wetu na uwekezaji wa teknolojia. Katika siku zinazokuja tutalenga kuwa na nafasi katika soko linalokua, kuimarisha utendaji na huduma na uboreshaji ili kutoa ushindani wa kibiashara katika sekta ya benki na kuwapa faida zaidi wanahisa.

Wakati wa kipindi cha mwaka tulifungua matawi manane mapya huko Rwanda, yote yakiwa yamesambazwa kote nchini humo, huku tukipeleka biashara katika soko letu la nne la shughuli zetu. Pamoja na hayo nembo ya KCB ilizinduliwa rasmi na Rais Paul Kagame, kwa vifijo na nderemo, na kuipa benki hadhi ya juu zaidi nchini humo.

Pia tulikamilisha kuorodhesha hisa za KCB katika masoko matatu yaliyolengwa, kuanzisha mauzo yake katika soko la hisa la Rwanda. Hii pamoja na kuorodhesha hisa hizo katika soko la hisa la Uganda na soko la hisa la Dar-es-salaam, inafanya hisa za KCB kupatikana kwa wateja ndani ya Jumuiya ya Afrika Mashariki na kufanya biashara ionekane zaidi na kukubalika katika soko.

Nchini Uganda na Tanzania, biashara ilikuwa dhahiri zaidi huku tukijishughulisha na mikakati kadhaa kuimarisha mauzo na uwepo wetu katika soko.

Tulidhihirisha uongozi wetu katika sekta changa ya kifedha Sudan Kusini kwa kufungua tawi kubwa zaidi kuliko benki yoyote katika soko. Rais Salvar Kiir Mayardit alikuwa mgeni wa heshima wakati wa kufunguliwa kwa tawi la KCB Buluk huko Juba, benki kubwa ya kisasa yenye mashini za ATM na tawi la KCB Advantage kwa wateja maalum.

Pamoja na haya tulianzisha ushirika wa nyumba na serikali ya Sudan Kusini kufadhili ujenzi wa nyumba kwa wafanya kazi wa umma. Mradi huu unatarajiwa kuanza baada ya kucheleweshwa na mchakato wa majadiliano ambayo yalichukua muda mrefu zaidi kuliko ilivyotarajiwa lakini sasa yamekamilika.

Tuna imani kwamba hata wakati nchi inapoingia katika uchaguzi wake wa kwanza wa vyama vingi mwaka huu na kura ya kutafuta maoni mwaka wa 2011, kuwa uwekezaji wako unabakia kuwa salama na kwamba KCB Sudan itadumisha uongozi wake katika soko hilo licha ya kuingia kwa washindani wapya hasa kutoka Kenya.

USIMAMIZI

Ningependa kuchukua nafasi hii kumpongeza Mkurugenzi wetu mkuu, Dkt. Martin Oduor-Otieno, kwa kutunukiwa shahada ya uongozi wa biashara kutoka chuo kikuu cha KCA kwa kutambua mchango wake wa kuendeleza uongozi katika sekta ya kifedha na katika jukumu lake katika ukuaji unaoendelea na ufanisi wa benki. Aidha siku ya Jamhuri, alipokea tuzo la Rais la, First Class Chief of the Order of the Burning Spear(CBS) kutoka kwa Rais Mwai Kibaki, kwa mchango wake katika uongozi wa sekta ya fedha.

Kengele inapigwa kuashiria mwanzo wa kuuzwa kwa hisa nchini Rwanda

Ningependa pia kumshukuru Bw. Peter Munyiri, Naibu Mkurugenzi anayesimamia biashara katika kampuni, kwa kupokea tuzo la Rais la Head of State Commendation wakati wa siku ya Jamhuri mwaka jana kwa mchango wake wa kuongoza ukuaji wa biashara nchini. Tuzo hizi zinaashiria mambo mema kwa biashara yetu na zinatoa azma mpya katika malengo yetu ya kuimarika zaidi katika sekta za benki na kifedha kutokana na uongozi bora tulio nao katika benki.

Tuliendelea kuimarisha miundo ya usimamizi wa biashara kote Afrika mashariki, kwa kuimarisha halmashauri zetu tanzu na kuongeza ukubwa wao ili kuwa na wakurugenzi zaidi kutoka nchi hizo. Hivyo idadi ya wakurugenzi katika halmashauri tanzu zote imeongezwa sawa na ile ya wakurugenzi kutoka nchi husika kwa lengo la kuimarisha mfumo wa usimamizi.

Bw. Jashinto Genye na Bw. Ambrose Mou Thiik walijiunga na wenzao wa Sudan, Dkt. Leonzio Onek na Bi. Yar Manoah Majok Deng katika halmashauri ya KCB Sudan naye Bi. Florence Kata akateuliwa kuwa mkurugenzi mpya wa halmashauri ya KCB Uganda na kujiunga na Bw. Samuel Njuki na Bw. David Nyende kama wakurugenzi nchini humo. Huko Tanzania, Bw. Philemon Shimwela na Dkt. Edmund Mndolwa waliteuliwa kama wakurugenzi wapya nchini humo. Dkt. Edmund Mndolwa aliteuliwa kuwa Mwenyekiti kuchukua mahala pa Bi. Janet Mbene. Bw. Faustin Mbundu, Bi. Sera Mukandutiye, Bi. Jose-Marie Kankera na Bi. Ann Kirima waliteuliwa kujiunga na halmashauri mpya ya KCB Rwanda. Katika halmashauri kuu, Bw. Sunil Narshi Shah na Bi. Catherine N. Kimura walichaguliwa tena kufuatia mkutano mkuu wa mwaka wa 2009 wakati Bi. Catherine Kola alipochukua mahali pa Bi. Susan Mudhune aliyestaafu kutoka kwa halmashauri baada ya kuhudu kipindi chake chote.


Wanafunzi wa St. George's wanashiriki kwa


kuanzishwa kwa mpango wa KCB Green Wave

Katika wakfu wa KCB, Bw. George Odo na Bi. Grace Akumu waliteuliwa kwenye halmashauri na kuleta tajiriba kubwa na ujuzi katika tasnifu ya uwajibikaji wa kampuni kwa jamii, kudumisha na kusimamia hazina za kusaidia jamii na wakfu.

Bw. Sammy Itemere na Bw. Joram waliteuliwa kama Wakurugenzi wakuu wa KCBS na KCBT mtawalia.

Halmashauri inaandaa mfumo mpya wa usimamizi wa kanda ambao utahakikisha usaidizi wa kutosha kwa matawi kutoka Nairobi na usimamizi thabiti wa biashara ya kanda kuzifanya kuwa na utendaji bora zaidi na zenye faida zaidi.

WAJIBU KWA JAMII

Chini ya usimamizi wa Wakfu wa KCB, Kampuni ya KCB iliendelea kuunga mkono mikakati kadhaa ya jamii na kuwapa uwezo wanajamii kote katika kanda. Wakati wa kipindi cha mwaka, tulitumia takribani Shilingi milioni 70 kuafika mahitaji muhimu ya kijamii katika tasnia za afya, mazingira, elimu, biashara na maslahi ya jamii.

Miongoni mwa mikakati muhimu tuliyosaidia ni pamoja na upanzi wa zaidi wa miche 200,000 wakati wa siku ya jamii ya KCB ambayo iliadhimishwa na wafanyakazi wa KCB kote katika kanda, usaidizi wa waathiriwa wa mikasa ya moto ya Nakumatt na Sachang'wan na usaidizi kwa shule zenye mahitaji na taasisi za elimu wakati wa wiki ya jamii ya KCB. Wakati huo matawi ya KCB na idara za makao makuu zilichanga vifaa vya kusoma/kufunzia na fanicha pamoja na vifaa vya shule za malazi na vifaa kwa shule zenye mahitaji katika kanda.

Halmashauri ya wakfu wa KCB imetathimini mkakati wake kulenga asili mia 80 ya fedha zake katika mazingira, elimu pamoja na kuendeleza maendeleo kama nyanja muhimu ya kusaidiwa. Tunaonelea usaidizi wa nyanja hizi ni muhimu katika kuizipa uwezo jamii kuwa na utekelezi zaidi na kujitegemea, ijapokuwa tutabakisha asili 20 iliyobakia ya bajeti yetu kukimu mahitaji muhimu ya kijamii katika nyanja za afya na usaidizi wa kibinadamu.

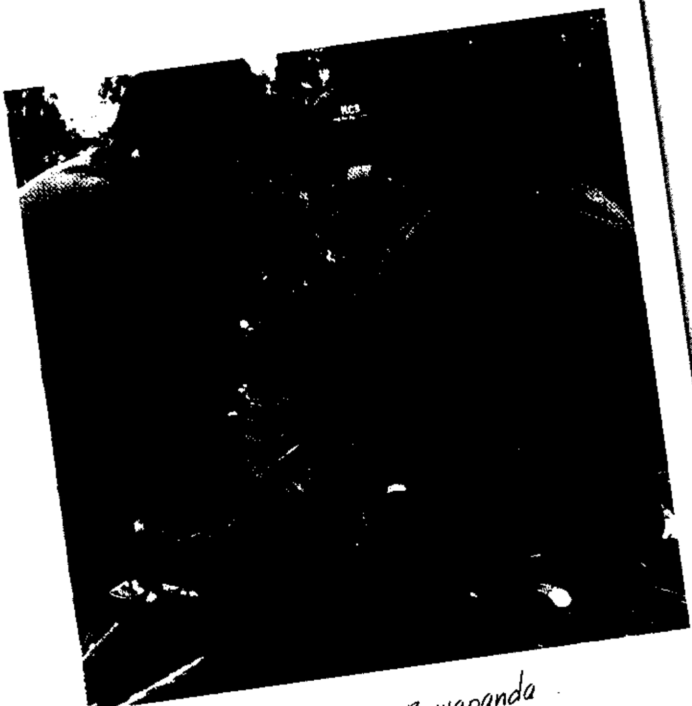
Halmashauri hiyo itaendelea kutumia mbinu bora zaidi katika utekelezaji wa mipango yetu ya kusaidia jamii huku tukilenga ushirikiano na washika dau wengine kusaidia jamii zenye mahitaji.

UKUAJI WA BIASHARA NA UWEZO WA KIFEDHA

Biashara yetu imekua kwa kiwango kikubwa katika muda wa miaka mitano iliyopita ambapo juma ya mikopo iliyotolewa iliongezeka kutoka

Shilingi bilioni 36 mwaka wa 2004 hadi Shilingi bilioni 120.5 mwaka wa 2009 huku pesa zilizowekwa akiba zikiongezeka kutoka Shilingi bilioni 56 mwaka wa 2004 hadi Shilingi bilioni 162.5 mwaka wa 2009. Jumla ya rasilimali zimekua kutoka Shilingi bilioni 70 mwaka wa 2004 hadi Shilingi bilioni 195 mwaka jana.

Ongezeko hili limeweka shinikizo katika viwango vyetu vya riba na kukatiza juhudi zaidi za kuongeza utoaji wa mikopo pamoja na viwango vya fedha zinazowekwa akiba ambazo tunakusanya kutoka mtandao wa matawi yetu. Hivyo Halmashauri imeidhinisha mpango wa usimamizi kuongeza mtaji wa ziada katika mpango wa kipindi cha miaka mitano kusaidia malengo ya ukuaji wetu. Azimio litawasilishwa mbele yenu kuidhinisha mauzo ya hisa mwaka huu kuongezea mtaji wetu wa fedha pamoja na ombi lingine la idhini ya kutafuta fedha za madeni ambalo litatolewa baadaye.



Wafanyi kazi wa KCB wapanda miti katika msitu wa Karura

Tumekuwa tukiwataka mtupe mtaji zaidi kila kunapokuwa na haja hiyo kutekeleza mahitaji ya biashara na tunashukuru kwa usaidizi huo. Ni kwa manufaa ya biashara yenu ambapo tunahakikisha kuna mtaji wa kutosha ambao utaimarisha uwezo wetu ili tuweze kushiriki kikamilifu katika nafasi za ukuaji zinazojitokeza kwenye soko.

MATARAJIO YA BAADAYE

Hali ya baadaye ya benki hii inaonekana kuwa nzuri kwa ukuaji wa mwaka wa 2010 na kuendelea. Mwaka wa 2010 utakuwa mwaka wa kujiimarisha; kuongeza mtaji wa soko, kuimarisha utendaji, kupata faida za mfumo wetu mkuu wa shughuli za benki,T24, kuimarisha utendaji kazi kwa wafanyakazi na kuboresha huduma kwa wateja.

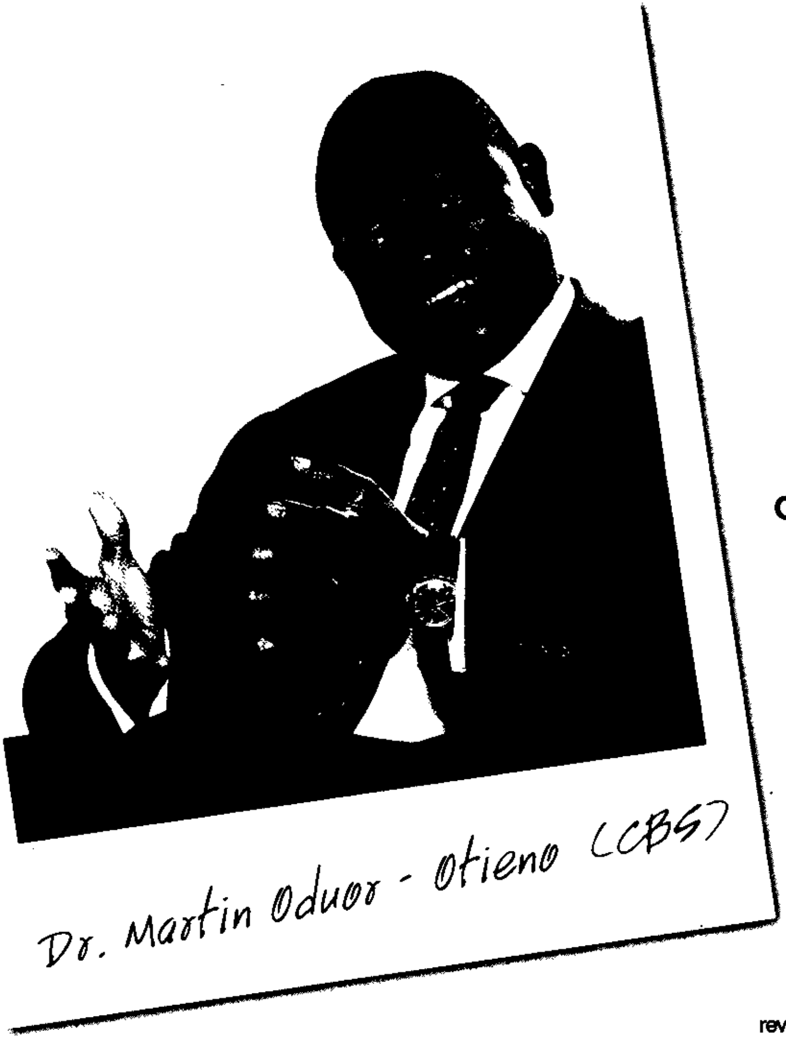
Halmashauri imeidhinisha mkakati ambao utakuwa kiini cha malengo yetu ya utendaji katika kipindi cha miaka mitano ijayo. Tumetambua mihimili ya huduma kwa wateja, utendaji na teknolojia, usimamizi wa hatari za kibiashara, masoko ya kanda, rasilimali ya kibinadamu na umuhimu wa kijamii kama kigezo muhimu cha ukuaji kwenda mbele na tutatekeleza mikakati muhimu katika nyanja hizi kusaidia biashara yetu.

Ningependa kuwashukuru wanachama wenzangu kwenye Halmashauri kwa kuniunga mkono katika uongozi na maamuzi kwa biashara katika kipindi cha mwaka mmoja uliopita. Kujitolea kwao na hamasa kulichangia kwa kiasi kikubwa ufanisi wetu mwaka wa 2009.

Nashukuru Usimamizi na wafanyakazi kwa kufanya kazi kwa bidii kuafikia kiwango cha ukuaji wa biashara ambacho tulishuhudia wakati wa kipindi hicho cha mwaka. Tuna imani kwamba tutafanya kila tuwezalo kuafiki na hata kupita malengo ambayo tumeweka kwa mwaka wa 2010.

Hatimaye ningependa kuwashukuru, wanahisa wetu, wateja wetu, jamii na umma kwa jumla kwa kuunga mkono biashara hii kwa njia moja ua nyingine. Tunaahidi kujitahidi kadri ya uwezo wetu kuifanya KCB benki chaguo la kwanza katika masoko yetu mbalimbali na kuhakikisha tunaafiki kiwango kinachohitajika cha faida kama washikadau.

Asanteni.



CHIEF EXECUTIVE'S COMMENTARY

"We reported excellent growth in total operating income up from KShs.19.6 billion to KShs.22.9 billion."

SHAREHOLDERS,

Despite a difficult trading environment in 2009, KCB Group maintained growth momentum, recording a profit before tax of KShs. 6.3 billion which was 5% higher than our 2008 performance.

We reported excellent growth in total operating income up from KShs.19.6 billion to KShs. 22.9 billion (17%) which was, however, offset by a huge jump in operating expenses of 30% (from KShs.12 billion to KShs.15.9 billion). Net interest income also went up significantly by 23% from KShs.11.8 billion in 2008 to KShs.14.5 billion reflecting good lending in both Retail and Corporate segments. However, revenues from foreign exchange and fees and commissions remained flat due to low volatility in exchange rates, maintenance of tariffs at previous year's levels and low transaction volumes due to the difficult trading environment.

The increase in costs was primarily due to ongoing investment in information technology upgrades, opening up of new service delivery channels and investment in marketing and sales activities which we see as good costs and which should start to pay dividends in terms of increased business, better customer service and efficiency in the near future.

The quality of our loan book continued to improve as reflected in the reduction of provisions for bad and doubtful debts by 57% from KShs.3.7 billion in 2008 to KShs.1.6 billion. We should see this figure coming down further as we enhance our risk management efforts. Our debt recovery initiatives yielded fruits over the year, bringing back to revenue over KShs.856 million from our non-performing book.

Total assets increased by 2% from KShs.191.2 billion in 2008 to KShs.195.0 billion in 2009. Within this, the Bank registered very good growth in customer deposits to KShs.162.5 billion up 28% from KShs.126.7 billion the previous year, while net loans and advances were up by 29% from KShs.93.5 billion in 2008 to KShs.120.5 billion. This demonstrates that even during the hard times, KCB continued to lend money to support our customers make investments and grow their business. It shows KCB's commitment to national development.

The bank's prudential ratios as at the year-end were in compliance with regulatory requirements with core capital to total deposit liabilities at 13% (CBK minimum – 8%), core capital to total risk weighted assets at 15% (CBK minimum – 8%), total capital to total risk weighted assets at 15% (CBK minimum – 12.0%) and liquidity at 28% (CBK minimum – 20%).

PRODUCT AND SERVICE INNOVATION

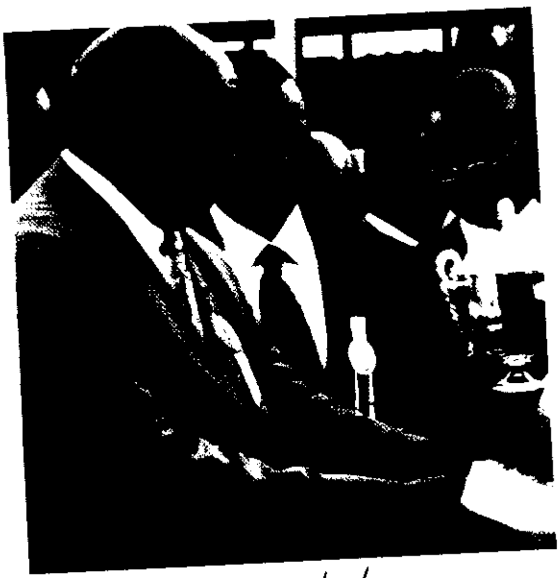
The year 2009 was of phenomenal importance to our business as we finally started to benefit from the implementation of our new core banking system, T24, which was operationalised at the end of 2008. In spite of initial problems at implementation, the system finally stabilized giving our branch network the capacity to deliver customer service much more efficiently and on a real-time online basis. We have significantly invested in data management and technology optimization devices to ensure we take full advantage of the system's capacity.

This new system has began to produce benefits and we have rolled out new products and services starting with a new state of the art customer contact centre which gives our customers capacity to interact with us using web chats, telephone calls, emails, fax and ordinary mail.

The contact centre has enabled us solve customer queries and complaints much faster and boosted relations with our customers.

Additionally, we relaunched a revamped KCB Connect, one of the best mobile telephone banking solutions in the market. With this facility, using mobile telephone handsets, customers can check their balances, receive mini-statements and transfer funds between KCB accounts as well as to M-Pesa accounts, among other services. We are working on enabling utility payments to provide added convenience to our customers.

During the first quarter of 2010 we rolled out our internet banking service thus facilitating our customers to manage their accounts from the convenience of their offices and homes. This is especially important for our corporate and business clients who are hard-pressed for time and require fast service and banking information.



Award received at AGK Show

Mombasa

We shall be rolling out more technology driven products and services as a basis of enhancing customer service during 2010.

OUR BRAND

The KCB brand has continued to be strong across the region due to our growing network and visibility through the various sponsorships and CSR initiatives we implemented over the last year. In 2009, we increased our physical presence across the markets through new branches, creating synergies within our network and providing enhanced access to our customers.

During the year, we launched the East African Rally Challenge, a motorsport platform that incorporated Kenya's KCB Safari Rally, Uganda's KCB Pearl of Africa Rally and Rwanda's KCB Mountain Gorilla Rally. The rallies formed an East African Circuit that helped promote our regional profile and boost the sales and marketing efforts of the subsidiaries. We also sponsored a number of regional forums and other initiatives aimed at endearing KCB to the East African business community and general population.

Besides the KCB East African Rally Challenge, in 2010 we shall sponsor the KCB East African Golf Tour, an international quality golf tour for professionals and amateurs that will feature events in Kampala, Arusha, Kigali and parts of Kenya with the objective of attracting the affluent golfing community and giving KCB requisite regional publicity.

We shall continue to identify opportunities for collaboration with various sectors of our target market in order to take KCB to the next level of growth.

EXPANSION OF SERVICE DELIVERY CHANNELS

We invested significantly in expanding our service delivery channels to enhance reach and provide added convenience to our customers.

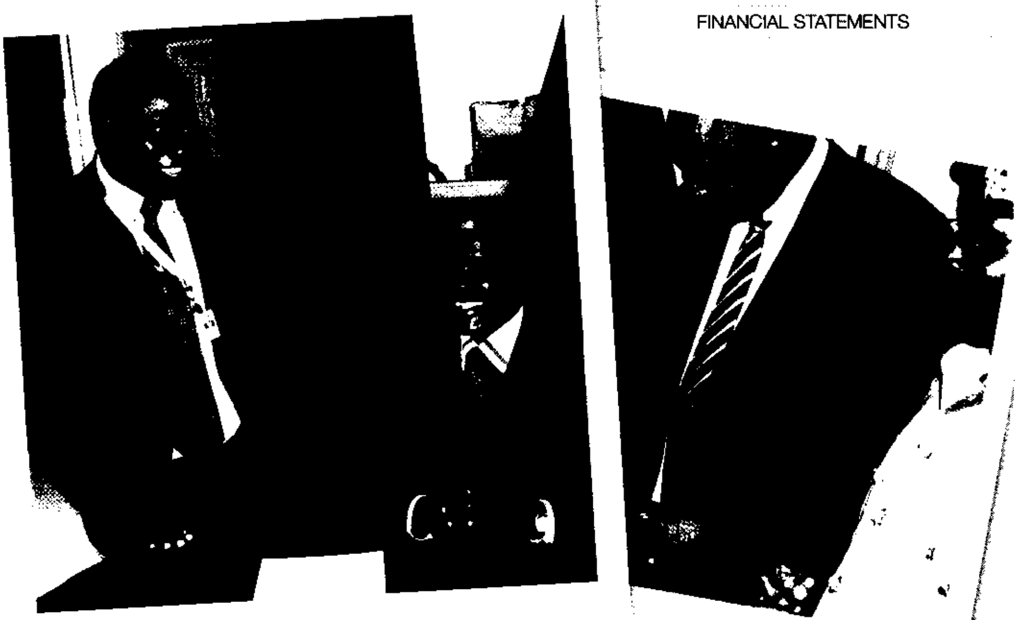
On branch network, we opened 34 new branches, 14 of them in Kenya, eight in Rwanda, four in Sudan, four in Uganda and one in Tanzania bringing our total number of branches to 203. We also installed over 100 new automated teller machines at our branches, supermarkets, malls and petrol stations as we worked towards enhancing customer service and convenience.

In February, 2010 we launched Kenya's first intelligent ATM, which has the capacity to accept and process cash deposits. While we plan to install 12 more such machines we also intend to add a further 60 ordinary ATMs at strategic locations in the region. We shall continue to review the need for new branches in line with our growth plans and market needs.

EMPLOYEE PRODUCTIVITY AND DEVELOPMENT

At the end of 2009 KCB Group had 5,492 permanent and contract employees at various levels of the business. We continued to give employees the opportunity to attend various training courses and forums to acquire skills and competencies necessary for them to perform their jobs. In the past year we attained an average of five training days per employee ensuring the bank continues to develop a pool of talent that will take the business forward. We continued to utilize our performance management tool, the balanced score card, to set, monitor and measure the performance of each employee to ensure we achieved our business targets.

In 2009 we introduced a new performance tracking and measurement tool, the Mission Leadership Dashboard, which has been rolled out across the Bank. The dashboard enables us to monitor performance on a regular basis throughout the year.



All smiles at Launch of KCB Kyuso Branch

SUSTAINABILITY MANAGEMENT AND THE KCB GREEN AGENDA

KCB is among the first group of organizations in Kenya and, indeed, in East Africa to have recognized the need to manage its resources in an efficient and sustainable manner. As our contribution to global efforts to curb waste of scarce natural resources such as energy, paper and water, and environmental pollution and degradation, KCB has introduced a sustainability management programme.

In 2008, KCB became the first bank in East Africa to issue a sustainability report detailing our status in social, economic and environmental sustainability and committing to improvements in these areas going forward. The next report will be issued in 2010 to show progress in our journey towards becoming a sustainable enterprise.

Meanwhile, we are implementing the KCB Green Agenda, our blue print for sustainability management and reporting and have put measures in place to reduce consumption of paper, electricity and fuel and installation of tools and equipment that are friendly to the environment. We have appointed Sustainability Champions across the network to push this agenda and strategies are in place to make KCB a green organization in the coming years.

FUTURE FOCUS

Our Vision is to be the preferred financial solutions provider in Africa with global reach. In line with this vision, we want to focus on improving the quality of our service across all channels with critical attention on customer satisfaction. The future of our business shall remain anchored on how well we are able to attract and retain quality customers, efficiently process increased transactions and nurture enduring relationships with our customers.

We have set stretched performance targets for 2010 to grow our business in line with our vision. To achieve these targets we must be efficient in our operations and invest in initiatives that deliver value to our bottom-line, and grow market share. We shall also invest in product and process reengineering to ensure the bank has efficient processes while also offering attractive products and services in the market.

I would like to thank all shareholders for continuing to keep the faith in the leadership of this bank and giving us support throughout the year. We want to assure you that the strategies we have put in place will increase returns on your investment and enable KCB grow into a stronger bank and investment of choice.

Let me also extend my sincere gratitude to the Board of Directors of all our businesses across the region for their support, wise counsel and positive engagement during the year. I am also greatly indebted to my colleagues, the staff of this bank for their dedication and commitment towards delivering this encouraging performance. We are confident that working together as a team we shall similarly deliver improved performance in 2010.

Thank you.

TAARIFA YA MKURUGENZI MKUU

"Tulikuwa na ukuaji bora ambapo jumla ya matumizi ya mapato yetu yaliongezeka kutoka Shilingi bilioni 19.6 hadi Shilingi bilioni 22.9"

Dr. Martin Oduor - Otieno (CBS)

WANAHISA,

Licha ya mazingira magumu ya kibiashara mwaka wa 2009, Kampuni ya KCB ilidumisha ukuaji, na kupata faida ya Shilingi bilioni 6.3 kabla ya kodi ambayo ilikuwa asili mia 5 zaidi kuliko ufanisi wetu wa mwaka wa 2008.

Tulikuwa na ukuaji bora ambapo jumla ya matumizi ya mapato yetu yaliongezeka kutoka Shilingi bilioni 19.6 hadi Shilingi bilioni 22.9 (asili mia 17) ambayo hata hivyo yalifutwa na ongezeko kubwa la gharama ya shughuli zetu ya asili mia 30 (kutoka Shilingi bilioni 12.2 hadi Shilingi bilioni 15.9). Mapato ya jumla ya riba yaliongezeka kwa kiasi kikubwa cha asili mia 23 kutoka Shilingi bilioni 11.8 mwaka wa 2008 hadi Shilingi biloni 14.5 hali iliyoakisi hatua bora ya mikopo kwa watu binafsi na mashirika. Hata hivyo mapato ya ada na bakshishi ya ubadilishanaji wa fedha za kigeni hayakuongezeka kutokana na kuduma kwa viwango vya ubadilishanaji, kudumishwa kwa kodi katika viwango vya mwaka uliotangulia na biashara hafifu kutokana na mazingira magumu ya kibiashara.

Ongezeko la gharama kimsingi kulitokana na uwekezaji unaoendelea katika uboreshaji wa teknolojia ya habari, ufunguzi wa maeneo mapya ya kutoa huduma na uwekezaji katika shughuli za masoko na mauzo ambazo tunaziona kuwa ni gharama zinazofaa na ambazo zinapaswa kuanza kuzalisha matunda kwa ajili ya ongezeko la biashara, huduma bora zaidi kwa mteja na utendaji bora zaidi katika siku za karibuni.

Hesabu yetu ya mikopo iliendelea kuimarika kama ilivyoakisiwa katika kupungua kwa madeni yasiyolipwa na yale tusiyo na uhakika nayo kwa asili mia 57 kutoka Shilingi bilioni 3.7 mwaka wa 2008 hadi Shilingi bilioni 1.6. Takwimu hizi zitapungua zaidi tunapoimarisha juhudi zetu za kukusanya madeni yetu. Mikakati yetu ya kukusanya madeni ilifanikiwa katika kipindi cha mwaka, na kuwezesha kupatikana kwa Shilingi milioni 856 kutoka kwa wadeni wetu.

Jumla ya mali iliongezeka kwa asili mia 2 kutoka Shilingi bilioni 191.2 mwaka wa 2008 hadi Shilingi bilioni 195 mwaka wa 2009. Katika hali hii, Benki ilipata ukuaji bora katika fedha zinazowekwa na wateja zilizofikia Shilingi bilioni 162.5 ongezeko la asili mia 28 kutoka Shilingi bilioni 126.7 mwaka uliotangulia, huku mikopo ya jumla ikiongezeka kwa asili mia 29 kutoka Shilingi bilioni 93.5 mwaka wa 2008 hadi Shilingi bilioni 120.5. Hii inaonyesha kwamba hata wakati wa hali ngumu, KCB iliendelea kutoa mikopo kusaidia wateja wetu kuwekeza na kukuza biashara zao. Inaonyesha kujitolea kwa KCB katika maendeleo ya kitaifa.

Kufikia mwishoni mwa mwaka viwango vya riba vilikuwa vinaafiki kanuni zilizowekwa na Benki Kuu huku kukiwa na jumla ya mtaji dhidi ya madeni ya jumla ya asili mia 13 (Kiwango cha chini cha Benki Kuu-asili mia 8) jumla ya mtaji dhidi ya ukadiriaji jumla wa madeni kwenye mali ikiwa asili mia 15 (Kiwango cha chini cha Benki Kuu- asili mia 8), jumla ya mtaji dhidi ya madeni yaliyokadiriwa asili mia 15 (Kiwango cha chini cha Benki Kuu-asili mia 12) na fedha taslimu katika asili mia 28 (Kiwango cha Benki Kuu ni asili mia 20).

HUDUMA NA UBORESHAJI

Mwaka wa 2009 ulikuwa na umuhimu mkubwa katika biashara yetu kwani hatimaye tulianza kunufaika na utekelezaji wa mfumo wetu mpya wa kuendeleza shughuli za benki, T24, ambao ulianza kutumika mwishoni mwa 2008. Licha ya matatizo ya awali ulipoanza kutekelezwa, mfumo huo hatimaye uliridhia na kulipa tawi letu uwezo wa kutoa huduma kwa wateja kwa njia bora zaidi na kwa wakati katika njia ya mtandao. Tumewekeza kwa kiwango kikubwa katika usimamizi wa teknolojia ya takwimu ili kutumia mfumo huo kikamilifu.

Kutunza mazingira huko Rongo

Mfumo huu mpya umeanza kuzalisha matunda na tumeanzisha huduma mpya kuanzia na kituo cha kisasa ambacho kinawapa wateja wetu uwezo wa kuwasiliana nasi kwa kutumia mawasiliano ya mtandao, kupiga simu, barua pepe, faxi na kupitia barua za kawaida. Kituo hicho kimetuwezesha kujibu maswali ya wateja na malalamishi haraka zaidi na hivyo kuimarisha uhusiano na wateja wetu.

Pamoja na hayo tulizindua upya huduma ya KCB Connect, moja wapo wa huduma bora zaidi za kutekeleza huduma za benki kupitia simu ya mkononi katika soko. Kwa kutumia huduma hii, wateja wanaweza kutumia simu zao za mkononi kuangalia kiwango cha akiba kwenye akaunti zao, kupata taarifa fupi na kuwasilisha fedha katika akaunti za KCB pamoja na akaunti za Mpesa, miongoni mwa huduma nyingine. Tunatafuta uwezekano wa kutumia njia hii kutoa fedha na pia kuongeza huduma kwa wateja wetu.

Wakati wa robo ya kwanza ya mwaka wa 2010 tulianzisha huduma yetu ya benki ya mtandao, hivyo kuwawezesha wateja wetu kushughulikia akaunti zao kutoka afisini au nyumbani kwao. Hii ni muhimu hasa kwa wateja wa mashirika na wafanyabiashara ambao wana shughuli nyingi na wanataka huduma za haraka na habari za benki.

Tutaanzisha huduma zaidi za teknolojia kama msingi wa kuimarisha huduma kwa wateja mwaka wa 2010.

Wanafunzi wafurahia ufadhili

NEMBO YETU

Nembo ya KCB imeendelea kuimarika kote katika kanda kutokana na kukua kwa mtandao wetu na kuwepo kwetu kupitia udhamini kadhaa na mikakati ya CSR ambayo tulitekeleza katika kipindi cha mwaka. Mwaka wa 2009 tuliongeza uwepo wetu kote katika soko kupitia matawi mapya, kuimarisha huduma ndani ya mtandao wetu na kuwezesha wateja wetu kufikiwa na huduma zaidi. Wakati wa kipindi cha mwaka, tulizindua mashindano ya magari ya East African Rally Challenge, mashindano yaliyojumuisha mashindano ya Kenya ya KCB Safari Rally, yale ya Uganda ya KCB Pearl of Africa Rally na yale ya Rwanda ya KCB Mountain Gorilla Rally. Mashindano hayo yalibuni mzunguko wa Afrika Mashariki ambao ulisaidia kuimarisha hadhi yetu ya kanda na juhudi zetu za mauzo na masoko katika matawi. Aidha tulidhamini shughuli kadhaa za kanda na mikakati mingine iliyolengwa kuifanya KCB kuwa kivutio kwa jumuiya ya biashara ya Afrika Mashariki na watu kwa jumla.

Mbali na KCB East Africa Rally Challenge, mwaka huu wa 2010 tutadhamini KCB East African Golf Tour, ziara ya kimataifa ya gofu kwa wataalamu na wale wanaoanza mchezo huo ambayo itakuwa na michezo Kampala, Arusha, Kigali na sehemu za Kenya kwa lengo la kuvutia jamii tajiri ya wacheza gofu na kuitangaza KCB katika kanda. Tutaendelea kutambua nafasi za ushirikiano na sekta mbali mbali zilizolengwa kwenye soko letu ili kuikuza zaidi KCB.

UPANUZI WA MTANDAO WA KUTOA HUDUMA

Tuliwekeza kwa kiasi kikubwa katika mtandao wa kutoa huduma ili kuimarisha uwezo wa kufikia wateja wetu.

Kuhusu mtandao wa matawi, tulifungua matawi 34 mapya, 14 nchini Kenya, nane huko Rwanda, manne Sudan, manne Uganda na moja nchini Tanzania na kufikisha jumla ya matawi kuwa 203. Aidha tuliweka mashini mpya za ATM katika matawi yetu, maduka ya jumla na Malls na katika vituo vya kuuza mafuta, katika kuimarisha huduma kwa wateja wetu.

Mwezi Februari, 2010 tulianzisha mashini ya kwanza ya ATM nchini Kenya yenye vihisi, ambayo ina uwezo wa kukubali pesa zinazowekwa katika akaunti. Tunapanga kuweka mashini nyingine 12 kama hizo, tunakusudia pia kuongeza mashini nyingine 60 za ATM za kawaida katika maeneo muhimu katika kanda. Tutaendelea kuchunguza umuhimu wa mahitaji ya matawi mapya sambamba na mipango yetu ya ukuaji na mahitaji ya soko.

UTENDAJI KAZI NA MAENDELEO

Mwishoni mwa mwaka wa 2009 KCB ilikuwa na wafanyakazi wa kudumu na vibarua 5492 katika ngazi mbali mbali za biashara. Tuliendelea kuwapa wafanyakazi fursa ya kushirika kozi mbali mbali za mafunzo na vikao vya kupata ujuzi na uelewa unaohitajika kwa utendaji kazi. Katika muda wa mwaka mmoja uliopita tulikuwa na wastani wa siku tano za mafunzo kwa kila mfanyakazi kuhakikisha banki inaendelea kuimarisha kundi la wafanyakazi wenye ujuzi ambao wataendeleza biashara.

Tuliendelea kutumia mbinu yetu ya Usimamizi, uwiano wa kuonyesha kiwango cha utendaji kazi, kuweka na kufuatilia utendaji kazi wa kila mfanyakazi kuhakikisha tumeafiki malengo yetu ya biashara.

Mwaka wa 2009 tulianzisha mbinu mpya ya kufuatilia utendaji kazi ya Mission Leadership Dashboard, ambayo inatumika kote katika Benki. Mbinu hii inatuwezesha kufuatilia utendaji kazi kila mara wakati wote wa mwaka.

Mkurugenzi mkuu wa KCB aanzisha mtambo wa kwanza wa ATM wenye vihisi katika tawi la Moi Avenue

USIMAMIZI ENDELEVU NA AJENDA YA KCB YA UPANZI MITI

KCB ni miongoni mwa kundi la kwanza la mashirika nchini Kenya, na hata Afrika Mashariki kutambua haja ya kusimamia rasili mali zake kwa njia bora na endelevu. Kama mchango wetu katika juhudi za kuzuia uharibifu wa rasili mali chache kama vile kawi, karatasi na maji na uchafuzi wa mazingira, KCB imeanzisha mpango wa maendeleo endelevu.

Mwaka wa 2008, KCB ilikuwa benki ya kwanza katika Afrika Mashariki kutoa ripoti ya uendelevu ikieleza hadhi yetu katika kuendeleza hali ya kijamii, kiuchumi na mazingira na kujitolea kuendelea kuimarisha nyanja hizi. Ripoti hii itatolewa 2010 kuonyesha juhudi za kuwa biashara endelevu.

Wakati huo huo, tunatekeleza ajenda ya KCB ya upanzi wa mti, mhimili wetu katika kuendeleza usimamizi na kutoa ripoti na tumeweka juhudi kupunguza matumizi ya karatasi, umeme na mafuta na kuweka vifaa ambavyo haviharibu mazingira. Tumeteua wataalamu wa uendelevu kote katika mtandao wetu kusukuma ajenda hii na mikakati imewekwa kuifanya KCB shirika lenye miti katika miaka ijayo.

PETER. W. MUTHOKA (MBS)

Chairman

He joined the Board in June 2004 and became Chairman of the Board in May 2008. He holds BA (Hons) Degree from University of East Africa (Nairobi Campus), MA Degree from University of California, Los Angeles (USA) and Bank of England/IMF/WTO/UNESCO Course Certificates. He has served in senior positions with GOK/UN, Central Bank of Kenya, College of Banking and Finance, Export Promotion Council of Kenya and Sasini Limited. He is a Fellow of Kenya Institute of Bankers (FKIB) and Fellow of Kenya Institute of Management (FKIM). He is the Chairman of KCB (S), KCB (U), KCB (R) and Director of KCB (T), S&L, KCB Foundation and Sasini Limited.

JOSEPH KINYUA (CBS)

Permanent Secretary - Treasury

He holds a Bachelor of Arts Degree and a Masters of Arts Degree in Economics from the University of Nairobi. He is a career economist having served in various capacities in the Treasury and the Central Bank of Kenya; and he has also worked as an economist with the International Monetary Fund between 1985 ad 1990. He has served as a Board member in various State Corporations and as a member of the Programme Committee of the African Economic Research Consortium (AERC) and currently is a member of the Board AERC and an Alternate Governor, World Bank Board of Governors.

SUNIL SHAH

Director

He joined the Board in June 2004. He is currently the Executive Director and Managing Director of United Millers Limited and member of various professional bodies among other directorship. He is the Chairman of the Procurement Committee.

PROF. PETER KIMUYU

Director

He joined the Board in June 2006. He holds a PhD in Economics from University of Nairobi. He is currently Professor of Economics, Founder Director School of Economics at Nairobi University and Chairman, Privatization Commission.

CATHERINE KIMURA

Director

She joined the Board in June 2003 (Representing Permanent Secretary Treasury). She holds a Bachelor of Arts Degree (Hon) from University of East Africa (Nairobi), a Diploma in Tourism and International Relations (Finance), a Certificate in Public Finance (University of Connecticut) and a Certificate in Budgeting (Havard). She has served in senior positions in Government rising to the position of Investment Secretary, Ministry of Finance. She is currently the Chairman of the Bank's Audit Committee and a Director of KCB Uganda.

SUSAN OMANGA

Director

She joined the Board in June 2004. She holds a Degree in Business Management and Marketing. She is currently the Managing Director of Exclamation Marketing Limited. She has headed the marketing function in a local banking industry for many years. She is also the Chairman of the KCB Foundation.

JOSEPH I. ADONGO

Director

He joined the Board in June 2005. He holds a BA and MA degrees in Economics. He is a fellow of the Economic Institute of the World Bank and Chairman of Betting Control and Licensing Board.
He is the Chairman of the Credit Committee.

ENG. MUSA NDETO

Director

He joined the Board in June 2003. He is a member of IEE (UK) and practices as a Consulting Electrical Engineer. He is also a Director of Kenya Electricity Generating Company (KenGen). He is the Chairman of the Bank's Risk Management Committee.

CATHERINE KOLA

Director

She joined the Board in May 2009. She has over 26 years experience in law practice and company secretarial in the Financial and Energy sectors. She is an advocate of the High Court of Kenya, Certified Public Secretary of Kenya (CPSK) and an associate member of the Chartered Institute of Arbitrators. She holds a Bachelor of Laws (LL.B) degree from the University of Nairobi. She is the Chairman of the Human Resource Committee.

DR. MARTIN ODUOR-OTIENO, (CBS)

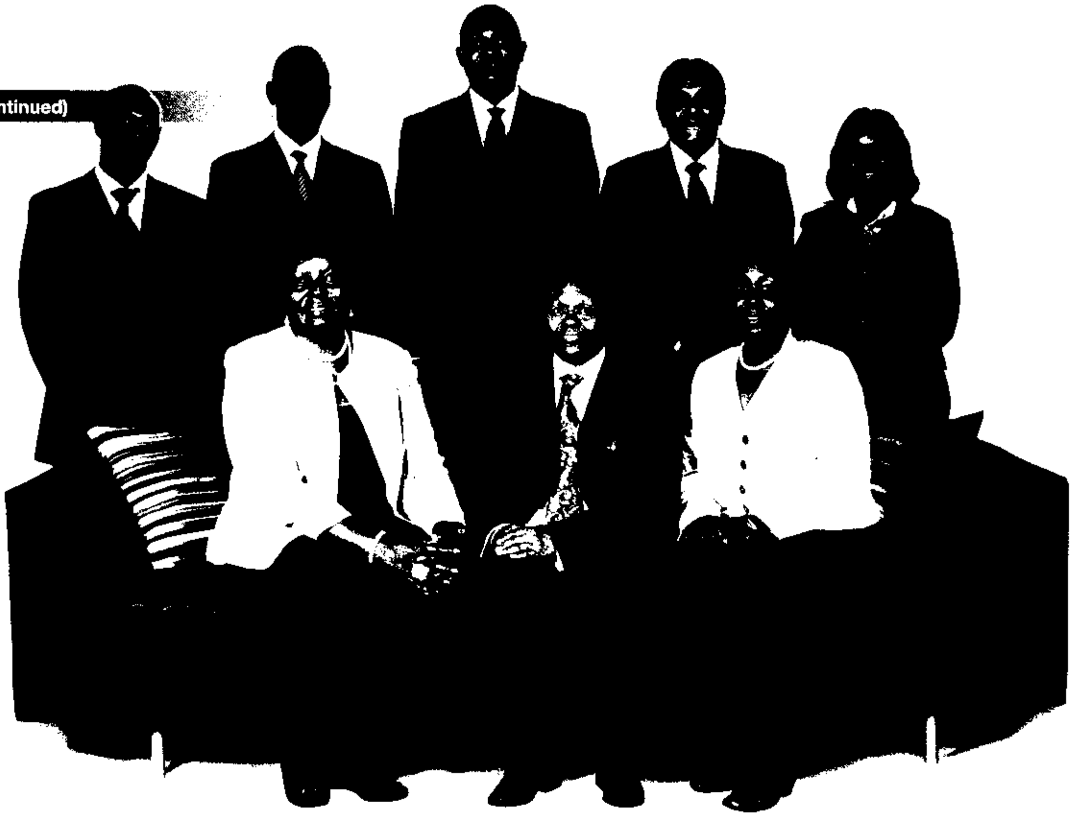
Chief Executive Officer

He joined the bank in the year 2005 and is a Director of all KCB Group Companies. He holds an honorary Doctor of Business Leadership degree from the KCA University. He also has an MBA and a Bachelor of Commerce Degree in Accounting and is an Alumnus of Harvard Business School's Advanced Management Program, a Fellow of the Institute of Certified Public Accountants of Kenya (ICPAK), Fellow of the Kenya Institute of Bankers (KIB) and a Certified Public Secretary (CPS). He has been awarded the Chief of the Order of the Burning Spear (CBS) for his distinguished service to the nation by His Excellency, the President of the Republic of Kenya. He is the current Chairman of the Kenya Bankers Association, and in this capacity represents the industry on the Boards of Kenya Private Sector Alliance (KEPSA) and Federation of Kenya Employers (FKE).

SAMUEL KIMANI

DCEO, Group Controls

He joined KCB in the year 2000. He has over 20 years experience in Financial Management having previously worked with PriceWaterHouse and the Central Bank of Kenya. He holds a Bachelor of Science Degree in Civil Engineering and an MBA Strategic management both from the University of Nairobi. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK).



KCB FOUNDATION DIRECTORS

Back Row (left to right): Kepha Bosire, George Odo, Dr. Martin Oduor-Otieno (CBS), Sunil Shah, Irene Metto
Front Row (left to right): Grace A. Akumu, Peter W. Muthoka (MBS), Susan Omanga

GRACE A. AKUMU
Non-Executive Director

She joined the Board in June, 2009. She has a Bachelor of Arts Degree in International Relations and a diploma in French from Switzerland. She is the Executive Director of Climate Network Africa, in Kenya. She is actively involved in climate change and sustainable development issues at the national and international levels. She has served in various capacities in the public sector and non-governmental organizations. She has previously served as the National Chairperson, Governing Council, NEPAD- African Peer Review Mechanism Kenya, and Project Manager for Kenya Women Literature Group.

GEORGE OOO
Non-Executive Director

He joined the Board in June 2009. He has a Bachelor of Commerce in Accounting from the University of Rani Durgavati in India, studied for his Certified Public Accountant (CPA) at Strathmore College in Kenya and attained his Partnership Brokering (PBAS) professional qualifications from Wales. He is currently the Managing Director of AfricInvest Capital Partners East Africa, a Pan African Private Equity group that invests in midsized SMEs and prior to that had almost 10 years with CARE International where he left as the Regional Director of CEP the Investments unit. He has a vast experience in the public, private and development sectors in areas of policy development, fund management, fundraising and private sector partnerships in development and working with Foundations. He has served in several boards in the past and currently sits in the boards of 2 Financial Institutions in Zambia and 1 International Aid Agency in Kenya.

KEPHA BOSIRE
Executive Director

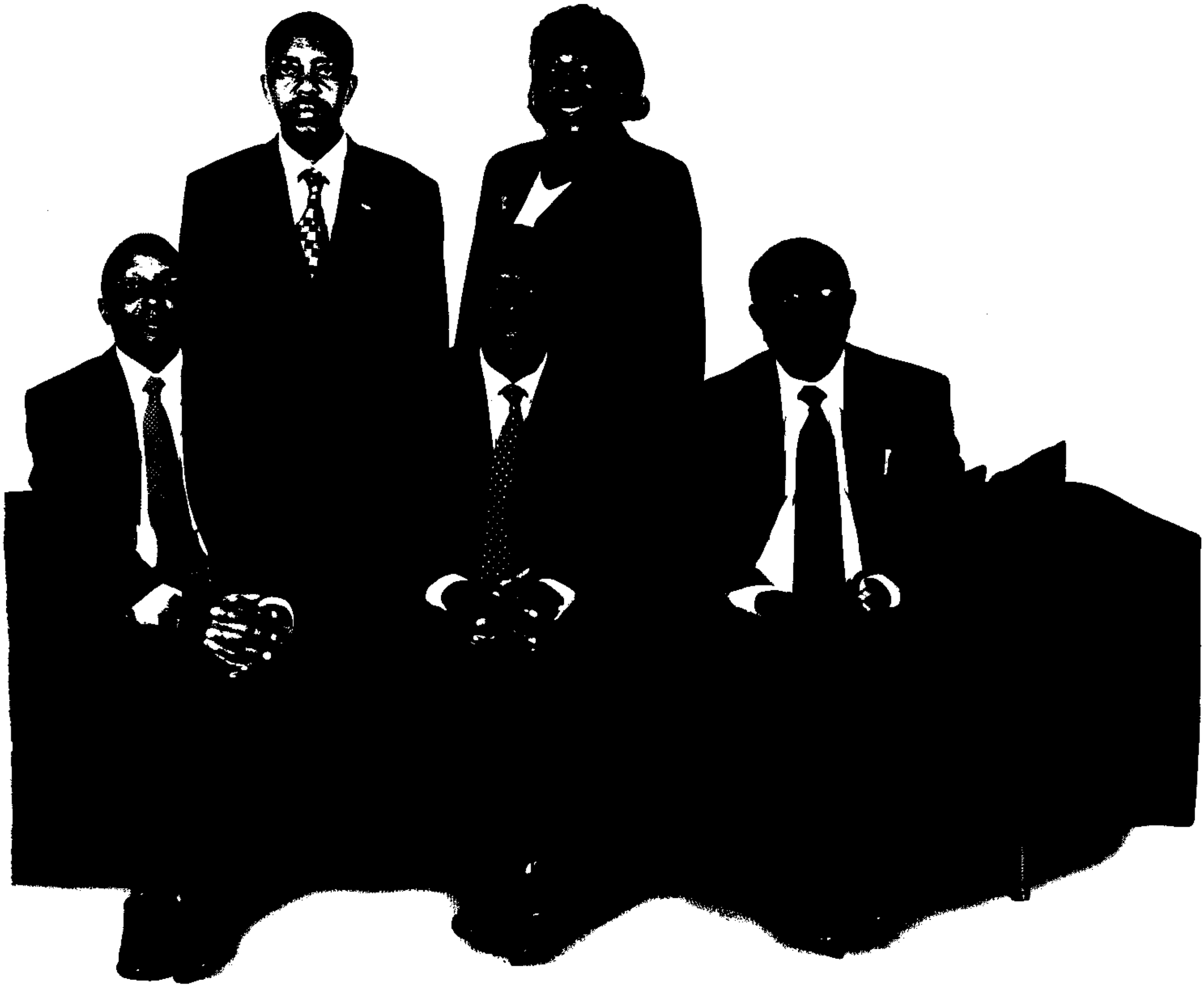
He joined KCB in 1995 as a Trainee Officer and has over the years rose through the ranks to his present position. He was a Public Relations Officer and later Manager, Corporate Relations before his appointment to Head of Corporate Affairs in 2003. He has attended various courses and workshops in management and banking and business development. He holds an MBA in Strategic Management and B.Sc., in Information Science from Moi University and a Diploma in Strategic Public Relations from The Management School of London.

IRENE METTO
Company Secretary

Irene Metto is the Company Secretary of KCB Foundation. She has over 16 years working experience in the bank. She joined KCB in April, 1994 and has served in various capacities. She is currently the Legal Manager of the KCB Group. She holds an LLB Degree (Hons) from Nairobi University, is an Advocate of the High Court and a Certified Public Secretary.

KCB EXECUTIVE COMMITTEE

Back Row (left to right):	Timothy Kabiru	Divisional Director:	Treasury
	Paul Tikani	Divisional Director:	Operations
	Charles Maranga	Divisional Director:	Human Resources
	Kiprop Malakwen	Company Secretary	
	Wilfred Sang	Divisional Director:	Corporate Banking
	Stanley Towett	Divisional Director:	Finance and Strategy
	Dr. Tony Githuku	Divisional Director:	Information Technology
	Fred Mutiso	Divisional Director:	Audit
Front Row (left to right):	Kepha Bosire	Divisional Director:	Public Affairs and Communications
	Mary-Ann Musangi	Divisional Director:	Marketing and Research
	Catherine Njoroge	Divisional Director:	Retail Banking
	Rose Kinuthia	Chief Risk Officer	
	John Mark Wandolo	Divisional Director:	Credit



Back Row (from left):

Joseph Kinyua
Permanent Secretary - Treasury

Catherine Kola
Director

Front Row (from left):

Samuel Kimani
Deputy Chief Executive Officer
Group Controls

Joseph Adongo
Director

Eng. Musa Ndeto
Director

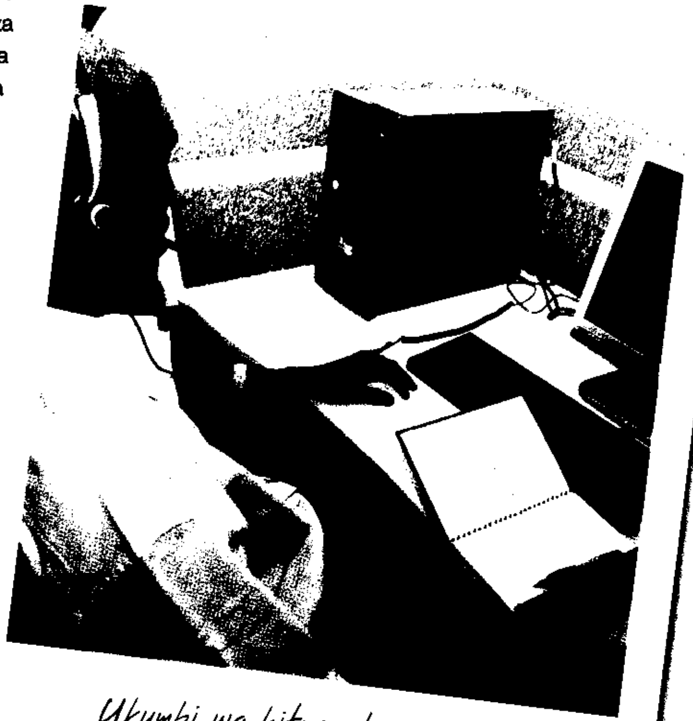
MATARAJIO YA BAADAYE

Ruwaza yetu ni kuwa benki inayopendwa na wengi kwa suluhisho la kifedha barani Afrika ambayo ina matawi kote duniani. Kufungamana na ruwaza hii, tunalenga kuimarisha hali ya huduma katika mtandao wetu tukipania kumridhisha mteja. Hali ya baadaye ya biashara yetu itategemea kiwango chetu cha kuvutia na kuwa na wateja bora, kushughulikia biashara inayoongezeka na kudumisha uhusiano na wateja wetu.

Tumeweka malengo ya kukuza biashara yetu mwaka wa 2010 sambamba na ruwaza yetu. Ili kuafikia malengo haya ni lazima tuwe na utekelezaji bora katika shughuli zetu na kuwekeza katika mikakati ambayo inaongeza thamani ya huduma zetu na kuongeza uwezo wetu katika soko. Aidha tutawekeza katika huduma na mchakato wa kujiimarisha kuhakikisha benki ina utekelezaji bora huku tukitoa huduma za kuvutia kwenye soko.

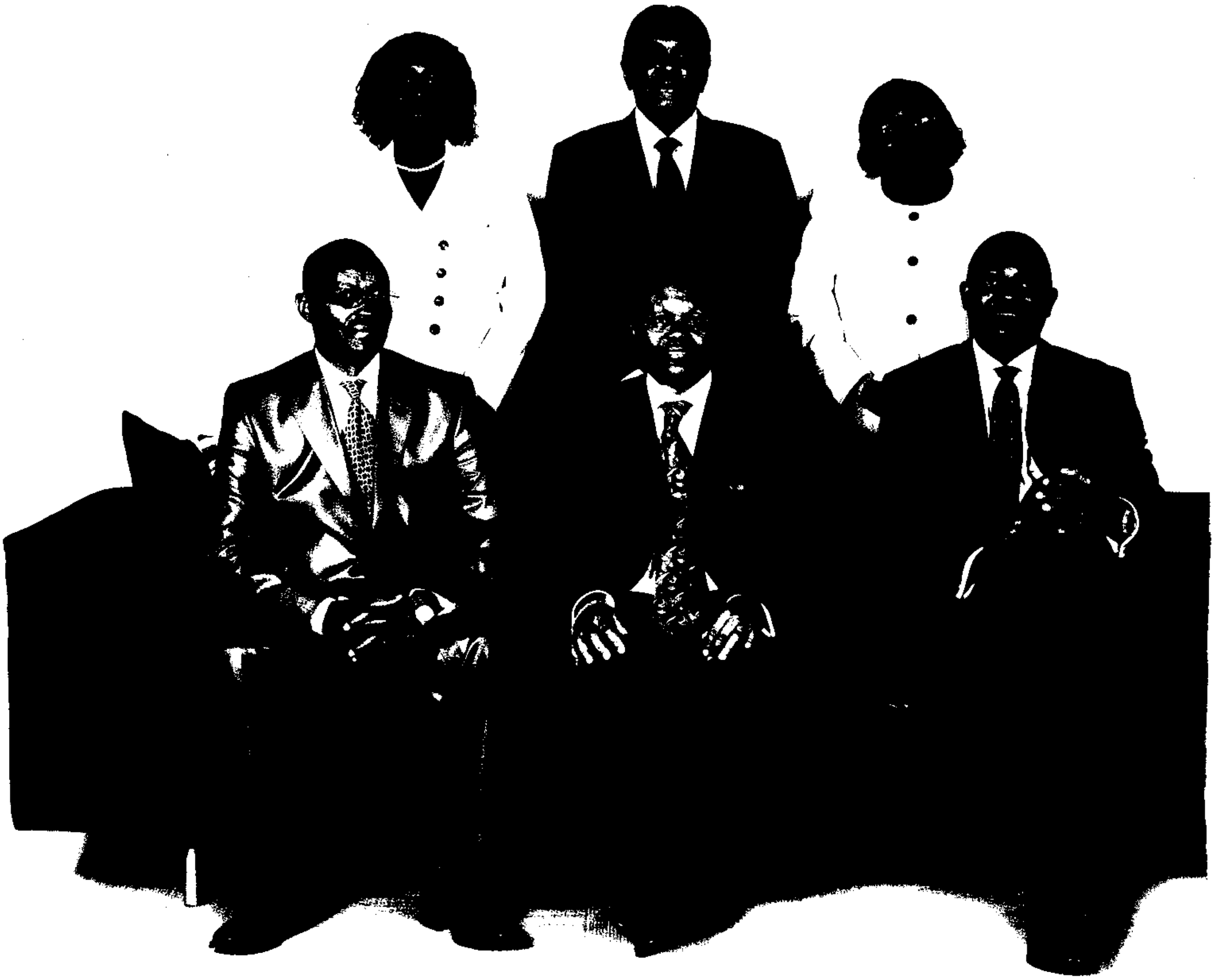
Ningependa kuwashukuru wenye hisa wote kwa kuendelea kuwa na imani na uongozi wa benki hii na kutuunga mkono kipindi chote cha mwaka. Tungependa kuwahakikishia kwamba mikakati tuliyoweka itaongeza faida katika uwekezaji wenu na kuiwezesha KCB kuimarika na kuwa benki thabiti na chaguo bora la kufanya uwekezaji.
Ningependa pia kuishukuru kwa dhati Halmashauri ya Wakurugenzi wa biashara kote katika kanda kwa kutuunga mkono, ushauri wa busara na mazungmzo ya maufaa kipindi chote cha mwaka. Natoa shukurani za dhati kwa wenzangu, wafanyakazi wa benki hii kwa kujitolea kwao katika kuafikia matokeo haya ya kuridhisha. Nina imani kwamba kwa kufanya kazi pamoja kama kundi, pia tutaimarisha matokeo ya mwaka huu wa 2010.

Asanteni.



Ukumbi wa kituo cha KCB contact centre

BOARD OF DIRECTORS



Back Row (from left):

Susan Omanga
Director

Sunil Shah
Director

Catherine Kimura
Director

Front Row (from left):

Prof. Peter Kimuyu
Director

Peter. W. Muthoka (MBS)
Chairman

Dr. Martin Oduor-Otieno (CBS)
Chief Executive Officer

SAVINGS AND LOAN KENYA LIMITED DIRECTORS

Back Row (left to right): Joshua S. Muiru, Dr. Martin Oduor-Otieno (CBS), Peter Munyiri (HSC), Gladys Biamah,
Front Row (left to right): Caroline Kariuki, Peter W. Muthoka (MBS), Susan Omanga

JOSHUA S. MUIRU
Chairman
He joined the Board in August 2006 after working with Central Bank of Kenya for over 23 years. Holds a Masters Degree in Economics from the University Nairobi. He is an examiner with Kenya Institute of Bankers and Consultant with Ukweli Consult. He was elected Chairman of S&L from 1st July 2007.

GLADYS BIAMAH
Company Secretary
Gladys Biamah is the Company Secretary of S&L. She has over 24 years working experience in KCB. She joined KCB in January, 1986 and has served in various capacities. She is currently the Senior Legal Manager of the KCB Group. She holds an LLB Degree (Hons) from Nairobi University, is an Advocate of the High Court and a Certified Public Secretary.

PETER MUNYIRI (HSC)
Deputy CEO - Group Businesses
He joined KCB in 2007. He has vast experience in banking and finance having previously worked in senior and executive management at Barclays, Standard Chartered and Cooperative Bank in Kenya. He holds a Bachelor of Arts Degree in Economics from the University of Nairobi and an MBA in Strategic Management. He is an Associate of the Chartered Institute of Bankers (UK) and Fellow of the Kenya Institute of Bankers. He is a Director of S&L, KCB (TZ), KCB (U), KCB(R), KCB(S) and attends all Group Board meetings.

CAROLINE KARIUKI
Executive Director
Caroline Kariuki is currently the Director, KCB Mortgage Division following the merger of S&L Kenya Limited with Kenya Commercial Bank on 1st January 2010. She was previously the Managing Director of S&L, the KCB Group's Mortgage subsidiary. She has over 16 years working experience in the banking sector. She joined KCB in January 2006 as Unit Head, Corporate Banking having previously worked in Commercial Bank of Africa and ABN AMRO Bank. She holds an MBA from Warwick Business School, UK and a Bachelor of Commerce degree from the University of Nairobi.

KCB BANK UGANDA LIMITED DIRECTORS

KIPROP DAVID MALAKWEN	**Company Secretary**
DR. MARTIN ODUOR-OTIENO (CBS)	**CEO**
PETER W MUTHOKA (MBS)	**Chairman**
SUSAN OMANGA	**Director**
PETER MUNYIRI (HSC)	**Deputy CEO - Group Business**

SAMWIRI NJUKI
Non - Executive Director

He joined KCB (U) as a non-executive Board Member in November, 2007. He holds a Bachelor of Arts Degree and an Advanced Diploma in Economics of Banking. Before he joined KCB (U), he worked as the Managing Director of Orient Bank Uganda Limited from where he retired in July 2007. He is the Chairman of Uganda Securities Exchange and was the Chairman Uganda Bankers Association. He has been in banking for over 30 years.

DAVID NYENDE
Non - Executive Director

Joined KCB (U) in August 2008 as a non-Executive Board member. He holds a Bachelor of Commerce degree and is a Fellow of Association of Chartered Certified Accountants (FCCA) and a member of the Uganda Institute of Certified Public Accountants (CPA). He is currently a Partner with Johnson and Nyende, Certified Public Accountants in Kampala. He has diverse international experience in Finance and related disciplines obtained in several countries including Nigeria, United Kingdom, Germany, Kenya, Tanzania and Uganda.

FLORENCE KATA
Non - Executive Director

She joined the bank in July 2009. She has over 28 years of experience in both the public and private sectors, specializing in the marketing of services and products, to international markets. She has a Bachelor of Arts Honors Degree in Economics/Rural Economics from Makerere University, Post Graduate Diploma in Business Management and a Masters in Management. She is an Executive Director, Uganda Export Promotion Board.

JAMES AGIN
Managing Director

He joined the bank in January 2008. He has over 16 years of banking experience. He has a Bachelor of Science Degree from University of Nairobi and an MBA from IESE Business School, Spain. He is an associate of the Chartered Institute of Bankers, UK. He previously worked for Barclays Bank of Uganda as the Corporate Director.

NOK BWONDITI
Executive Director

He joined the Board in October, 2007. He holds an MBA in Marketing from Daystar University, Masters in Banking and Finance from Fina Africa University in Italy and a Bachelor of Arts Degree in Economics from the University of Nairobi. He has worked for the bank for the past 24 years having served as Head of Strategic Planning, Head of Brand Programme before his current appointment as Executive Director in Uganda.

KCB (TANZANIA) LIMITED DIRECTORS

FISHA MARTIN	**Company Secretary**
DR. MARTIN ODUOR-OTIENO (CBS)	**CEO**
PETER W MUTHOKA (MBS)	**Chairman**
PETER MUNYIRI (HSC)	**Deputy CEO - Group Business**
CATHERINE KIMURA	**Director**
JOSHUA S MUIRI	**Director**

DR. EDMUND BERNARD MNDOLWA
Chairman

He joined the Board in April, 2010. He holds an MBA from Mzumbe University in Banking and Finance and PhD in Finance. He is also a graduate of the Commonwealth Association of Corporate Governance. He is a professional accountant who qualified as an ACCA in the United Kingdom in December, 1972, then working for the East African Community until 1976. He joined Deloitte in 1977 where he worked for four years up to 1980 serving the last two years as a Partner. He joined PWC as a Partner in January 1981 where he served as a Senior Partner until his retirement in June 2009 after 29 years of service. Over the years he has served as a non executive Director of NBC and as Chairman of the Board of Tanzania Postal Bank.

PHILEMON NIKUBUKA SHIMWELA
Non - Executive Director

He Joined the Board in March 2010. He holds a Master's degree in public policy and administration from the University of Wisconsin at Madison, WI. USA (1977), and a Bachelor's degree in economics, management and administration from the University of Dar es Salaam (1973). He retired from public service in 2002. He is the current Chairman of the Fair Competition Commission, member of the Tax Revenue Appeals Tribunal and CEO and Lead Consultant of Kasuto Company Limited. He has been external director of many companies including the former state-owned National Bank of Commerce, which he served for nine years.

JORAM KIARIE
Managing Director

Joram Kiarie is the Managing Director for KCB Tanzania. He holds a Masters Degree in Business Administration from the University of Birmingham, a Bachelor of Arts Degree from Nairobi University and a Bachelor of Science Degree from University of Manchester Institute. He is an Associate of the Chartered Institute of Bankers.

Before joining the bank he worked with Cooperative Bank of Kenya, ABN Amro Bank and Express Travel Group gaining over 15 years experience.

KCB SUDAN LIMITED DIRECTORS

KIPROP DAVID MALAKWEN	**Company Secretary**
DR. MARTIN ODUOR-OTIENO (CBS)	**CEO**
PETER W MUTHOKA (MBS)	**Chairman**
PETER MUNYIRI (HSC)	**Deputy CEO - Group Business**
MUSA NDETO	**Director**

DR. LEONZIO ONEK
Non-Executive Director

Dr. Onek joined KCB Sudan in 2006. He holds a Bachelor of Science degree in Biological Sciences, University of Ulster and a PhD in Biochemistry, Lancaster University, UK. He is currently the Chief Executive Director of Equatoria Civic Fund, a non-governmental organization and a founding Chief Executive Director of Southern Sudan Energies and Mining Co. Limited, member of the KCB Group Procurement Committee and Chairman of Audit Committee of KCB Sudan Ltd.

YAR MANOA MAJOK DENG
Non-Executive Director

She joined KCB Sudan in September 2008. She holds a Bachelors Degree in Business Administration from Cairo University. She is currently the Managing Director of Sudan Business Link Ltd. She has previously worked as a Money Management Trainer, fundraiser, Interpreter / Translator Arabic/English/Dinka.

MOU AMBROSE THIIK
Non - Executive Director

Mou joined KCB Sudan in July 2009. He holds a Bachelor of Science degree in Economics from Christian Albrechts University, Germany and a Bachelor of Arts degree in Comparative Literature (Arabic and English) at Ain Shams University in Cairo, Egypt. He currently works in the Honorary Consul General for the Republic of Turkey and serves as a Programme Manager for Freidrich-Ebert-Foundation. He is also an independent consultant to the Ministry of Trade and Industry, GOSS.

JASHINTO PAKON GENYE
Non - Executive Director

He joined KCB Sudan in July 2009.
Jashinto holds an Msc. in National Development and Project Planning from Bradford University, UK. Pg/D (Economic Development) Glasgow University, UK and B.sc (Business Administration) Khartoum University, Sudan. He previously worked as a Regional Facilitator, Relief and Development Coordinator and an Executive Director for SCC, Western Sudan region. He is currently the Chairman and Executive Director of the Consultancy:
Centre for Alternative Development (CEFAD) and a member of Board of Directors in a number of Private companies.

SAMMY ITEMERE
Managing Director

Sammy Itemere is the Managing Director for KCB Sudan. He holds a Masters of Business Administration and Bachelor of Arts from University of Poona.
He has served in various management roles in the KCB Group since 2004. He has served in various capacities as National Retail Manager, Head of Marketing, and Regional Business Manager for Western and Nairobi Regions.
He has previously worked with Barclays bank of Kenya and Cadbury Kenya Limited gaining over 17 years experience in the business environment.

KCB RWANDA SA DIRECTORS

KIPROP DAVID MALAKWEN	**Company Secretary**
DR. MARTIN ODUOR-OTIENO (CBS)	**CEO**
PETER W MUTHOKA (MBS)	**Chairman**
PROF. PETER KIKO KIMUYU	**Director**
PETER MUNYIRI (HSC)	**Deputy CEO - Group Business**

ANNE WANGARI KIRIMA
Non-Executive Director

She joined the KCB (R) Board in October 2009, she holds a Masters degree (Brunel University London) and an Msc in Commercial Property Management (Liverpool John Moores University) and a Bachelor of Arts (Hons) Politics and Economics from University of London. She has over 10 years experience in property consultancy in Kenya, Uganda, Tanzania and UK. She is qualified at graduate level in international development studies and in political economy of developing countries with special reference to East Africa.

SARAH MUKANDUTIYE
Non-Executive Director

She joined the KCB (R) Board in November 2009. She is a holder of a Master of Arts (Econ) degree in Development Administration and Management from the University of Manchester, UK and a Bachelors of Arts degree in Social Administration from Makerere University. She has over 10 years of practical experience in financial management, operations and administration. She is the Managing Director of SEROMA Ltd, a private limited liability company that deals with building materials.

MARIE - JOSE KANKERA
Non-Executive Director

She joined the KCB (R) Board in November 2009. She holds a Masters degree in Business from Maastricht School of Management-Netherlands and a Bachelor Degree in Management from University of Rwanda. She iscurrently an independent consultant-She has been involved in different projects such as Projects Management, M&E Systems, Good Governance and Gender Development.

FAUSTIN MBUNDU
Non-Executive Director

He joined the KCB (R) Board in October 2009. He holds a Bachelor of Commerce degree (Honors) from Makerere University. He has a lot of entrepreneurial experience having started and runs several companies in East Africa. Currently, he runs and holds equity in a number of companies involved in different businesses ranging from Information Technology, Tourism, Agri-business to Education. He is the Chairman of East African Business Association.

MAURICE TOROITICH
Managing Director

He joined the bank in October 2008.
He holds a Bachelor's Degree in Commerce from the University of Nairobi and is currently completing his MBA at Strathmore Business School.
He is a Certified Public Accountant of Kenya (CPAK) and an Associate of the Chartered Institute of Bankers (ACIB), London. He has over 16 years banking experience in Retail and Corporate Banking. He previously worked for CfC Stanbic Bank.

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 December 2009, 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 23 to the financial statements.

2. **RESULTS**
   The results of the Group and the Bank are set out on pages 40 and 43, respectively.

3. **DIVIDEND**
   The directors recommend the payment of a dividend of KShs 2,217,777,777, which represents KShs 1.00 per share in respect of the year ended 31 December 2009 (2008:- KShs 2,217,777,777, representing KShs. 1.00 per share).

4. **RESERVES**
   The reserves of the Group and the Bank are set out on pages 46 and 47, respectively, and on note 28.

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

Mr. P. W. Muthoka	- Chairman
Dr. M. L. Oduor-Otieno	- Chief Executive Officer
Mrs. S. O. Mudhune	- Retired on 8 May 2009
Mr. S. N. Kimani	
Mr. J. I. Adongo	
Mr. J. K. Kinyua	
Mrs. C. N. Kimura	
Eng. J. M. Ndeto	
Mrs. S. N. Omanga	
Mr. S. N. Shah	
Prof. P. K. Kimuyu	
Mrs. C. A. Kola	- Appointed on 8 May 2009

6. **AUDITORS**
   Ernst & Young have expressed their willingness to continue in office in accordance with the provisions of section 159 (2) of the Kenyan Companies Act and section 24(1) of the Banking Act.

By Order of the Board

Mr. K.D. Malakwen
Secretary

24th February 2010

STATEMENTS OF THE DIRECTORS' RESPONSIBILITIES

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs and of the operating results of the Group and the Bank. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of the 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

24th February 2010

CORPORATE GOVERNANCE STATEMENT

KCB is committed to the standards of corporate governance as set from time to time by the Capital Markets Authority and by itself in accordance with international best practise. 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 full, 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 meet 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. In 2009 the Board and Directors" self evaluation was conducted with the benefit of external consultancy.

The Board held 14 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) Risk Management Committee
This Committee was set up to oversee the Group's mitigation and appreciation of all risks in the business. It meets quarterly to advise the business on all matters pertaining to credit, market, operations, legal, environmental and other risks.

The Committee had 5 Meetings during the year.

(b) Audit Committee
The Audit 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.

(c) Credit Committee
This Committee meets twice a month to review the credit 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.

(d) 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 6 times during the year under review.

(e) Procurement
The Committee meets monthly to review the procurement needs of the Company deemed necessary for efficient service delivery.

The Committee met 12 times during the year under review

(f) KCB Foundation
In recognition of the importance of Corporate Social Responsibility (CSR), the Board constituted this Foundation which meets twice a year to set guidelines for the Company's CSR involvement. The Foundation is registered as a Company limited by guarantee and managed by its own Board of Directors. 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

(f) KCB Foundation (continued)
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.

The Foundation held 4 Meetings during the year.

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 release of notices in the media of its quarterly, half-yearly and full year results and electronically as approved by the shareholders in the 2009 Annual General Meeting.

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 rendered during the Year 2009 is disclosed in Note 10 to the Financial Statements.

Neither at the end of the financial year, not 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.

BOARD/BOARD COMMITTEES ATTENDANCE

The following table gives the record of attendance of the KCB Board and its Committee Meetings for the year ended 31 December, 2009.

	Main Board	Audit	Credit	Risk Management	Human Resources	Procurement	KCB Foundation
No. Meeting held	14	5	21	5	6	12	4
			Meeting Attended				
MR. P. W. MUTHOKA (MBS)	14						4
MRS. C. A. KOLA*	8		11		4		
ENG. J. M. NDETO	13	2		4		12	
MR. J. I. ADONGO	12		21				
MR. J. K. KINYUA	13		18	4			
MRS. C. N. KIMURA	13	2			6	6	
MRS. S. N. OMANGA	13	3	8	4		6	4
MR. S. N. SHAH	12			5	6	12	4
PROF. P. K. KIMUYU	12	1		2	5		
DR. M. ODUOR-OTIENO (CBS)	14		10	4	6		3
MR. S. N. KIMANI	9		8			6	

*** Joined the Board in May, 2009**

CORPORATE GOVERNANCE STATEMENT (continued)

Directors Interests as at 31st December, 2009

Name of Director	Number of Shares	% Shareholding
Permanent Secretary to the Treasury of Kenya	523,600,000	23.61
Peter Wanyaga Muthoka	170,933	0.01
Dr. Martin Oduor-Otieno	30,000	0.00
Catherine Ngima Kimura	140,620	0.01
Sunil Narshi Shah	51,779,088	2.33
Susan Nkirote Omanga	2,222	0.00
Joseph Isaac Adongo	12,222	0.00
Eng. Jeremiah Musa Ndeto	25,704	0.00
Catherine Adongo Kola	11,100	0.00

Shareholders' Profile as at 31st December, 2009	Number of Shares Held	Number of Shares Held	% of Issued Share Capital
Kenyan Individual Investors	162,295	736,978,651	33.23
Kenyan Institutional Investors	6,069	1,406,038,632	63.40
East African Individual Investors	198	1,099,800	0.05
East African Institutional Investors	21	2,642,040	0.12
Foreign Individual Investors	438	6,851,514	0.31
Foreign Institutional Investors	55	64,167,140	2.89
	169,076	2,217,777,777	100.00

Major Shareholders	Number of Shares Held	% Shareholding
Permanent Secretary to the Treasury of Kenya	523,600,000	23.61
National Social Security Fund	115,933,812	5.23
Stanbic Nominees Kenya Ltd A/C ICDCI	74,524,907	3.36
Mr. Sunil Narshi Shah	51,779,088	2.33
Stanbic Nominees Kenya Ltd A/C R48701	44,022,433	1.98
United Millers Ltd	30,407,633	1.37
KCB Nominees Ltd A/C 744A	28,438,260	1.28
Barclays (K) Nominees Ltd A/C 9230	22,871,277	1.03
Nomura Nominees Ltd A/C NSSF	22,490,333	1.01
Kenya Re-Insurance Corporation Ltd	19,187,944	0.87
	933,255,687	42.07

Summary of Totals Shares Range	Shareholders	Number of Shares Held	% Shareholding
1 to 5,000	138,471	234,360,425	10.57
5,001 to 50,000	28,873	296,338,653	13.36
50,001 to 100,000	784	54,148,313	2.44
100,001 to 1,000,000	782	215,546,926	9.72
1,000,001 to 10,000,000	148	438,410,558	19.77
10,000,001 & above	18	978,972,902	44.14
	169,076	2,217,777,777	100.00

COMMUNITY SOCIAL DEVELOPMENT

The KCB Foundation continued to be the leader in community social development, providing needed financial assistance to underprivileged and deserving members of our society across the region.
A total budget of KShs90 million was available for investment in the key social areas of Health, Environment, Entrepreneurship, Education and Welfare targeting communities that are underserved and have potential for empowerment. Total spent for the year, however, was just over KShs. 67 million.

In order to be more effective and impactful in supporting needy communities, the KCB Foundation reviewed its core focus areas to bring together related needs and refocus its support towards more deserving social groups. Consequently, the Water and Sanitation area was incorporated into the Environment whereas sports related support was eliminated as this would be best handled from the core units of the bank. This was done to enable the Foundation to be more responsive to community needs through impactful delivery of social investment support.

The year 2009 began on a tragic note with two major fire disasters one at Nakumatt Supermarket in Nairobi and another in Sachangw'an in the Rift Valley Province, claiming many innocent lives. In addition, Kenya experienced immense food shortage due to failed rains in past seasons and depletion of national strategic reserves. The KCB Foundation supported famine victims through the KCB Branch network delivering food stuff and other basic provisions.

The following is a summary of the community initiatives that KCB was involved in during the year.

HEALTH

Health continued to be a key focus area with the most notable contribution being the sponsorship of Ahadi Kenya's Anti-Jigger Eradication Campaign. Working with our branches in the respective localities, the KCB Foundation financed free treatment of jigger-afflicted villagers in Muranga District, Central Province and Emuhaya Division, Western Province. Additionally, awareness was created on jigger infestation, a unique medical issue that remains largely unaddressed in Kenya.

We partnered with a number of stakeholders to conduct medical camps in Kiambu, Ongata Rongai, Sotik, Mai Mahiu, Emali as well as Kampala, Uganda. Our involvement included provision of medical equipment, drugs and other provisions. We also supported various hospitals and health centers across the region in various ways.

The partnership with Operation Smile Kenya, which was in its third and final year, saw many more Kenyans receive reconstructive surgery for cleft lips and palettes. KCB's contribution to women empowerment was also demonstrated through a donation to Nairobi Women's Hospital's Gender Violence and Recovery Centre.

Investment in Health: KShs. 6,646,872

EDUCATION

As in previous years, education continued to be a key social investment sector for the KCB Foundation. This is in recognition of the role education plays in the socio-economic development of our society and the need to invest in the future of the youth who will take our nations forward. In 2009, we again dedicated one week towards supporting needy educational centres and schools with our branch network identifying deserving cases in their neighbourhood and facilitating support. A total of 164 schools and other learning institutions across the region received donations from the KCB Foundation ranging from books, desks and chairs to bedding, Braille facilities and other equipment during the KCB Community Week.

Our partnership with Palmhouse Foundation saw another eight needy students receive scholarships for the four years of their secondary education. This brings to 28 the number of pupils that have benefited from KCB's generosity. Buluk Primary School in Southern Sudan and Bukhoba Primary School in Siaya, Kenya, benefited from construction of four classrooms and two classrooms, respectively, as the KCB Foundation sought to create a conducive learning environment for children in needy circumstances.

Investment in Education: KShs. 36, 020,887

ENVIRONMENT

KCB's commitment to environmental protection continued to receive great impetus from the planting of trees across the region during the KCB Community Day and pursuit of partnerships with environmentally conscious stakeholders. KCB and the Nairobi City Council launched the Green Wave project, an initiative aimed at greening Nairobi schools and inculcating the green culture among students. As part of this project, the partners planted trees in 10 primary schools in Nairobi with plans to expand this initiative to cover more schools in the future. During the annual KCB Community Day which was marked across the region, over 225,000 trees were planted in over 100 forest sites.

KCB once again supported the UAP Ndakaini half marathon, a campaign to highlight the plight of the excessively low water levels at Ndakaini Dam, Nairobi's chief source of water. Other small scale interventions in the preservation of the environment included the provision of dustbins in markets by some of our branches and sponsorship of clean up days.

Investment in Environment: KShs. 12, 930,108

ENTREPRENEURSHIP

This key focus area suffered insufficiency in the number of deserving projects presented to the Foundation partly due to limitations in terms of validity and sustainability of some of the proposed projects. Nevertheless, KCB sponsored the African Institute for Health and Development's (AIHD) Recycling Project in Nairobi, Kenya and made progress in identifying prospective partners in this area. This initiative involved the up-scaling of the project that produces recycled plastic materials in the form of bags and baskets. Members of the group, predominantly women, were able to raise money through the sale of these products which also had the effect of contributing to towards environmental protection.

WELFARE

KCB's response to the fire tragedies at Nakumatt Supermarket and Sachang'wan was in the form of financial contribution to assist the fire victims reconstruct their lives. KCB, through its Chief Executive, was a member of the National Steering Committee that was responsible for fundraising and disbursement of funds to affected Kenyans. In addition, the bank also hosted and managed the key account through which financial assistance to the fire victims was channeled.

The bank contributed food to hungry Kenyans who were victims of persistent drought in recent years leading to low food yields and high cost of food. Through the Mercy Train, an initiative of the Kenya Red Cross, KCB, Kenya Railways and the Standard Media Group, the bank provided food stuff and other provisions to be shared among affected Kenyans in parts of the country.

The KCB Tuungane Initiative, a staff community initiative wherein the KCB Foundation matches employee contribution shilling for shilling, saw various institutions and individuals receive support to meet such needs as school fees, learning materials, and purchase of wheelchairs amongst others. Some of the beneficiaries included Administration Police, Muranga, Enoomatasiani Secondary School, donations to various institutions during the festive period, Laikipia Community Library, Kenya Paraplegic Organisation, Mogotio Girls High School, Gertrudes Children's Hospital and Henry Wanyoike's Fundraising Marathon.

Investment in Welfare: KShs. 13,026,997

REPORT OF THE INDEPENDENT AUDITORS

to the members of Kenya Commercial Bank Limited

We have audited the accompanying financial statements of Kenya Commercial Bank Limited and its subsidiaries as set out on pages 40 to 99, which comprise the statement of financial position of the Group and the Bank as at 31 December 2009 and the income statement of the Group and the Bank, statement of comprehensive income of the Group and the Bank, statement of changes in equity of the Group and the Bank, statement of cash fl ows of the Group and the Bank for the year then ended and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable under the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an independent opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the Group and the Bank as at 31 December 2009 and of the profit and cash flows of the Group and the Bank for the year then ended in accordance with the requirements of International Financial Reporting Standards and the Kenyan Companies Act.

REPORT ON OTHER LEGAL REQUIREMENTS

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

i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) In our opinion, proper books of account have been kept by the Group and the Bank, so far as its appears from our examination of those books;

iii) The Group's and the Bank's statement of financial position, income statement and statement of comprehensive income are in agreement with the books of account.

Ernst & Young

Nairobi

30th March 2010

CONSOLIDATED INCOME STATEMENT

for the year ended 31st December 2009

	Note	2009 KShs'000	2008 KShs'000
INTEREST INCOME	4	17,968,455	14,745,585
INTEREST EXPENSE	5	(3,499,734)	(2,970,468)
Net interest income		14,468,721	11,775,117
FEES AND COMMISSION INCOME		5,849,668	5,778,501
FEES AND COMMISSION EXPENSE		(310,135)	(229,346)
Net fees and commission income		5,539,533	5,549,155
Foreign exchange income	6	1,648,227	1,628,566
Dividend income	7	1,138	6,721
Other operating income	8	936,154	467,983
		8,125,052	7,652,425
Operating income		22,593,773	19,427,542
Allowance for impairment losses	9	(717,921)	(1,408,510)
Other operating expenses	10	(15,575,491)	(12,006,170)
PROFIT BEFORE TAX		6,300,361	6,012,862
INCOME TAX EXPENSE	11.2	(2,216,490)	(1,822,172)
PROFIT FOR THE YEAR		4,083,871	4,190,690
EARNINGS PER SHARE			
Basic and diluted (KShs.)	12	1.84	1.97

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31st December 2009

	2009 KShs'000	2008 KShs'000
PROFIT FOR THE YEAR	4,083,871	4,190,690
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	(154,031)	291,376
Net gain/(loss) on available for sale investments	4,911	(402,574)
Income tax effect	-	-
Other comprehensive income for the year, net of taxes	(149,120)	(111,198)
Total comprehensive income for the year, net of taxes	3,934,751	4,079,492
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the parent	3,934,751	4,079,492
Non-controlling interest	-	-
	3,934,751	4,079,492

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31st December 2009

ASSETS	Note	2009 KShs'000	2008 KShs'000
Cash and balances with Central Banks	13	19,870,878	17,239,280
Due from banks		9,067,840	42,175,191
Held for trading investments	14	2,628,843	3,765,417
Tax recoverable	11.1	509,370	123,966
Available for sale investments	15	1,921,277	457,066
Held to maturity investments	16	21,484,138	20,940,910
Loans and advances to customers	17	120,467,051	93,522,105
Other assets	19	9,472,103	5,114,593
Deferred tax asset	11.1	107,280	661,485
Intangible assets	20	1,354,478	1,237,733
Property and equipment	21(a)	7,980,332	5,787,978
Prepaid operating lease rentals	22	147,958	185,862
TOTAL ASSETS		195,011,548	191,211,586
LIABILITIES			
Due to banks	24	6,668,388	38,506,010
Other customer deposits	25	162,544,539	126,691,068
Other liabilities	26	2,871,972	4,185,801
Tax payable	11.1	110,361	741,755
Deferred tax liability	11.1	12,363	-
TOTAL LIABILITIES		172,207,623	170,124,634
EQUITY			
Share capital	27	2,217,778	2,217,778
Reserves	28	18,368,369	16,651,396
Proposed dividend	29	2,217,778	2,217,778
TOTAL EQUITY		22,803,925	21,086,952
TOTAL LIABILITIES AND EQUITY		195,011,548	191,211,586

The financial statements were approved by the Board of Directors on 24th February, 2010 and were signed on its behalf by:-

P. W. MUTHOKA
Chairman

DR. M. L. ODUOR-OTIENO
Chief Executive

ENG. J. M. NDETO
Director

K. D. MALAKWEN
Secretary

INCOME STATEMENT OF THE BANK

for the year ended 31st December 2009

	Note	2009 KShs'000	2008 KShs'000
INTEREST INCOME	4	15,244,472	13,154,921
INTEREST EXPENSE	5	(2,876,112)	(2,608,754)
Net interest income		12,368,360	10,546,167
FEES AND COMMISSION INCOME		4,812,982	5,020,605
FEES AND COMMISSION EXPENSE		(310,135)	(229,346)
Net fees and commission income		4,502,847	4,791,259
Foreign exchange income	6	1,332,444	1,223,743
Dividend income	7	387,138	206,721
Other operating income	8	927,103	355,391
		7,149,532	6,577,114
Operating income		19,517,892	17,123,281
Allowance for impairment losses	9	(314,961)	(1,289,427)
Other operating expenses	10	(12,777,373)	(10,440,004)
PROFIT BEFORE TAX		6,425,558	5,393,850
INCOME TAX EXPENSE	11.2	(1,872,879)	(1,582,365)
PROFIT FOR THE YEAR		4,552,679	3,811,485
EARNINGS PER SHARE Basic and diluted (KShs.)	12	2.05	1.80

STATEMENT OF COMPREHENSIVE INCOME OF THE BANK

for the year ended 31st December 2009

	2009 KShs'000	2008 KShs'000
PROFIT FOR THE YEAR	4,552,679	3,811,485
OTHER COMPREHENSIVE INCOME		
Net gain/(loss) on available for sale investments	4,911	(402,574)
Income tax effect	-	-
Other comprehensive income for the year, net of taxes	4,911	(402,574)
Total comprehensive income for the year, net of taxes	4,557,590	3,408,911

STATEMENT OF FINANCIAL POSITION OF THE BANK

as at 31st December 2009

ASSETS	Note	2009 KShs'000	2008 KShs'000
Cash and balances with Central Bank of Kenya	13	13,511,975	13,284,166
Due from banks		5,936,128	38,591,215
Held for trading investments	14	2,628,843	3,765,417
Tax recoverable	11.1	494,903	-
Available for sale investments	15	1,921,277	457,066
Held to maturity investments	16	20,837,600	18,360,658
Loans and advances to customers	17	96,557,588	79,343,099
Balances due from group companies	18	9,370,024	5,307,849
Other assets	19	8,608,795	4,422,669
Deferred tax asset	11.1	-	502,521
Intangible assets	20	1,354,478	1,237,733
Property and equipment	21(b)	5,827,993	4,828,556
Prepaid operating lease rentals	22	145,674	183,543
Investment in subsidiaries and associated companies	23	5,188,850	4,427,072
TOTAL ASSETS		172,384,128	174,711,564
LIABILITIES			
Due to banks	24	9,309,706	40,800,470
Other customer deposits	25	137,967,920	109,844,869
Other liabilities	26	2,696,362	3,413,476
Tax payable	11.1	-	594,646
Deferred tax liability	11.1	12,225	-
TOTAL LIABILITIES		149,986,213	154,653,461
EQUITY			
Share capital	27	2,217,778	2,217,778
Reserves	28	17,962,359	15,622,547
Proposed dividend	29	2,217,778	2,217,778
TOTAL EQUITY		22,397,915	20,058,103
TOTAL LIABILITY AND EQUITY		172,384,128	174,711,564

The financial statements were approved by the Board of Directors on 24th February, 2010 and were signed on its behalf by:-

P.W. MUTHOKA	**DR. M. L. ODUOR-OTIENO**	**ENG. J.M. NDETO**	**K.D. MALAKWEN**
Chairman	**Chief Executive Officer**	**Director**	**Secretary**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December 2009

	Share capital KShs'000	Revaluation reserve KShs'000	Retained earnings KShs'000	Share premium KShs'000	Regulatory reserve KShs'000	Proposed dividend KShs'000	Translation reserve KShs'000	Available-for Sale reserve KShs'000	Total KShs'000
At 1 January 2008	1,996,000	275,422	6,727,945	2,319,764	-	1,397,200	(257,242)	745,571	13,204,660
Transfer to retained earnings	-	(40,063)	40,063	-	-	-	-	-	-
Rights issue	221,778	-	-	4,978,222	-	-	-	-	5,200,000
Dividend paid – 2007	-	-	-	-	-	(1,397,200)	-	-	(1,397,200)
Proposed dividend – 2008	-	-	(2,217,778)	-	-	2,217,778	-	-	-
Total comprehensive income for the year	-	-	4,190,690	-	-	-	291,376	(402,574)	4,079,492
At 31 December 2008	2,217,778	235,359	8,740,920	7,297,986	-	2,217,778	34,134	342,997	21,086,952
At 1 January 2009	2,217,778	235,359	8,740,920	7,297,986	-	2,217,778	34,134	342,997	21,086,952
Transfer to retained earnings	-	(1,646)	1,646	-	-	-	-	-	-
Dividend paid – 2008	-	-	-	-	-	(2,217,778)	-	-	(2,217,778)
Proposed dividend – 2009	-	-	(2,217,778)	-	-	2,217,778	-	-	-
Total comprehensive income for the year	-	-	4,083,871	-	-	-	(154,031)	4,911	3,934,751
Transfer to regulatory reserve	-	-	(104,670)	-	104,670	-	-	-	-
At 31 December 2009	2,217,778	233,713	10,503,989	7,297,986	104,670	2,217,778	(119,897)	347,908	22,803,925

All the reserves are attributable to equity holders of the parent. Note 28 gives the description of the nature and purpose of each reserve within equity.

STATEMENT OF CHANGES IN EQUITY OF THE BANK

for the year ended 31st December 2009

	Share capital KShs'000	Retained earnings KShs'000	Regulatory reserve KShs'000	Available-for-sale reserve KShs'000	Share premium KShs'000	Proposed dividend KShs'000	Total KShs'000
At 1 January 2008	1,996,000	6,387,857	-	745,571	2,319,764	1,397,200	12,846,392
Rights issue	221,778	-	-	-	4,978,222	-	5,200,000
Dividend paid – 2007	-	-	-	-		(1,397,200)	(1,397,200)
Proposed dividend – 2008	-	(2,217,778)	-		-	2,217,778	-
Total comprehensive income for the year	-	3,811,485	-	(402,574)	-	-	3,408,911
At 31 December 2008	2,217,778	7,981,564	-	342,997	7,297,986	2,217,778	20,058,103
At 1 January 2009	2,217,778	7,981,564	-	342,997	7,297,986	2,217,778	20,058,103
Dividend paid – 2008	-	-	-	-	-	(2,217,778)	(2,217,778)
Proposed dividend – 2009	-	(2,217,778)		-	-	2,217,778	-
Total comprehensive income for the year	-	4,552,679	-	4,911	-	-	4,557,590
Transfer to regulatory reserve	-	(86,215)	86,215	-	-	-	-
At 31 December 2009	2,217,778	10,230,250	86,215	347,908	7,297,986	2,217,778	22,397,915

Note 28 gives the description of the nature and purpose of each reserve within equity.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31st December 2009

	Note	2009 KShs'000	2008 KShs'000
NET CASH FLOWS FROM OPERATING ACTIVITIES	30 (a)	10,463,200	8,851,621
Tax recovered		198,260	7,073
Tax paid	11.1	(2,866,449)	(2,070,918)
		(2,668,189)	(2,063,845)
INVESTING ACTIVITIES			
Proceeds from disposal of property and equipment		77,304	66,121
Purchase of intangible assets		(420,711)	(1,106,567)
Purchase of property and equipment		(3,296,120)	(2,017,645)
Purchase of corporate bond		(1,459,300)	-
Net cash outflows from in investing activities		(5,098,827)	(3,058,091)
FINANCING ACTIVITIES			
Proceeds from rights issue		-	5,200,000
Lines of credit		-	(67,695)
Dividends paid		(2,217,778)	(1,397,200)
Net cash flows (used in)/from financing activities		(2,217,778)	3,735,105
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		478,406	7,464,790
EFFECTS OF EXCHANGE RATE CHANGES ON OPENING NET INVESTMENT IN FOREIGN ENTITIES		(154,031)	291,376
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		21,023,772	13,267,606
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	30(b)	21,348,147	21,023,772

STATEMENT OF CASH FLOWS OF THE BANK

for the year ended 31st December 2009

	Note	2009 KShs'000	2008 KShs'000
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	30(a)	8,565,141	4,750,346
Tax recovered		85,961	11,518
Tax paid	11.1	(2,533,643)	(1,915,423)
		(2,447,682)	(1,903,905)
INVESTING ACTIVITIES			
Proceeds from disposal of property and equipment		45,588	80,816
Purchase of intangible assets		(420,711)	(1,106,567)
Purchase of property and equipment		(1,866,619)	(1,379,221)
Investment in subsidiary companies		(761,778)	(1,473,196)
Purchase of a corporate bond		(1,459,300)	-
Net cash outflows from in investing activities		(4,462,820)	(3,878,166)
FINANCING ACTIVITIES			
Proceeds from rights issue		-	5,200,000
Lines of credit		-	(67,695)
Dividends paid		(2,217,778)	(1,397,200)
Net cash flows (used in)/generated from financing activities		(2,217,778)	3,735,105
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(563,139)	2,703,378
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE		10,456,494	7,753,116
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	30(b)	9,893,355	10,456,494

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

1. REPORTING ENTITY

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 and has subsidiaries in Kenya, Southern Sudan, Tanzania, Uganda and Rwanda. The consolidated financial statements of the Bank as at and for the year ended 31 December 2009 comprise the Bank and its subsidiaries (together referred to as the "Group" and individually referred to as the "Group entities").

The Bank has a 100% ownership in Kenya Commercial Finance Company Ltd, Savings & Loan Kenya Ltd, Kenya Commercial Bank Nominees Ltd, Kencom House Ltd, KCB Tanzania Ltd, KCB Sudan Ltd, KCB Rwanda SA, KCB Uganda Ltd and a 45% ownership in United Finance Ltd.

The shares of the Bank are listed on the Nairobi Stock Exchange, Uganda Securities Exchange and Dar-es-Salaam Stock Exchange.

The consolidated financial statements for the year ended 31 December 2009 were authorised for issue by the directors on 24 February 2010.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented in these consolidated financial statements.

(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 land and buildings, certain financial assets and financial liabilities that have been measured at fair value as disclosed in the accounting policies hereafter. The financial statements are presented in Kenya Shillings (KShs.) and all values are rounded to the nearest thousand (KShs'000) except where otherwise indicated.

(b) Basis of consolidation

i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

ii) Associate

The Group's investment in its associate is accounted for using the equity method. Under the equity method the investment in the associate is carried in the statement of the financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill related to the associated is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

iii) Funds Management

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity.

iv) Transactions eliminated on consolidation

Intra-group balances and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements have been prepared on the going concern basis.

(d) Significant accounting judgements 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 may ultimately differ from those estimates. The most significant use of judgements 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 judgment 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.

v) Property and equipment

Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Significant accounting judgements and estimates (continued)

v) Property and equipment (continued)
The rates used are set out on accounting policy (f) (ii) below.

(e) Recognition of income and expense
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, which in the case of quoted securities is the ex-dividend date.

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.

Other fees and commission income including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. Other fees and commission expense relate mainly to transaction and services fee, which are expensed as
the services are received.

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

(f) Property and equipment

i) Recognition and measurement
Property and equipment are stated at cost or valuation, less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the asset. The cost of self constructed assets includes

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Property and equipment (continued)

i) Recognition and measurement (continued)
the cost of materials, direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they were located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Gains and losses arising on disposal of an item of property and equipment are determined by comparing the net proceeds from disposal with the carrying amount of the item and are recognised net within 'other income' in the income statement. When revalued items are sold, the amount included in the revaluation surplus reserve is transferred to retained earnings.

Increases in the carrying amount arising on revaluation are credited to a revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus. All other decreases are charged to the incom e statement. Each year, the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the income statement) and depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

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. Impairment losses are recognised in the income statement. 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.

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 period the item is de-recognised.

ii) Depreciation
Depreciation is recognised in the income statement on a straight line basis over the estimated useful lives of each part of property and equipment. The annual depreciation rates in use are:-

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

The assets residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Property and equipment (continued)

iii) Subsequent costs (continued)

The costs of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Group and its costs can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day - to - day servicing of property and equipment are recognised in the income statement as incurred.

(g) Provisions

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

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

(h) 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 shortterm profit-taking exists. Investments held for trading are initially recognised at cost and subsequently remeasured 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 other comprehensive income 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) 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 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 assets 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 periods, 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 collective impairment 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) Re-negotiated 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 re-negotiated, 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 that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets 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 periods, 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Taxes (continued)

Deferred income tax assets and liabilities is determined using tax rates that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the asset is realised or the liability is settled.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax except where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables that are stated with the amount of value added tax included. The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of accounts receivables or payables in the balance sheet.

(l) Employee benefit cost

i) Defined contribution plans

The group contributes to a defined contribution plan under which it pays fixed contributions into a into a separate entity and will make no legal or constructive obligation to pay further amounts. Obligations for contributions to the defined contribution plan are recognised as expenses in the income statement.

ii) Retirement benefit plans

The Group contributes to a defined benefit plan. 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 period to which they relate.

iii) Short-term benefits

Short-term benefits consist of salaries, bonuses and any non-monetary benefits such as medical aid contributions and free services. They exclude equity based benefits and termination benefits. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under a short-term cash bonus only if the Bank and its subsidiaries have a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and if the obligation can be measured reliably.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

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.

(n) 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.

(o) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

The useful lives of intangible assets are assessed to be either finite or indefinite. 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.

There are no intangible assets with indefinite useful lives.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) 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.

(q) Cash and cash equivalents

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

(r) Fiduciary assets

When the Group acts in a fiduciary capacity such as nominee or agent, assets and income arising thereon with related undertakings to return such assets to customers are excluded from these financial statements.

(s) 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.

(t) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(u) 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..

(v) 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.

(w) Investment in subsidiaries

Investments in subsidiary companies are carried at cost which is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The carrying amount is reduced to recognise any impairment in the value of individual investments. The impairment loss is taken to the income statement.

(x) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Determination of fair values (continued)

i) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

ii) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

iii) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, but including service concession receivables, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

iv) Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

v) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS

The Group has adopted the following new standards, amendments and interpretations as at 1 January 2009.

- IFRS 7 Financial Instruments: Disclosures. The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, are reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. Estimated fair value is the amount at which an instrument could be exchanged in a current transaction between willing parties other than enforced or liquidation sale.

- The Group has concluded that the fair value of financial instruments approximate to their carrying amounts as they bear variable interest rates determined under market conditions. The fair value measurement disclosures are presented in note 33. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 41.

- IFRS 8 Operating Segments. This standard requires disclosure of information about the company's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the company. IFRS 8 replaces IAS 14 Segment Reporting upon effective date. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in note 32.

- IAS 1 (Revised 2007) Presentation of Financial Statements. The revised IAS 1 was issued in September 2007 and is effective for accounting periods beginning on or after 1 January 2009 with early application permitted. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income, which presents income and expense items recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group has chosen to present two statements.

- IAS 23 Borrowing Costs (effective from 1 January 2009) -The IASB issued an amendment to IAS 23 in April 2007. The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. During the year, there were no borrowings for the acquisition of capital assets.

- IAS 32, Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements Puttable Financial Instruments and Obligations Arising on Liquidation -These amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for financial years beginning on or after 1 January 2009. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The adoption of these standards had no material impact on the financial position or the performance of the Group.

- IFRS 2, Amendments to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (effective from 1 January 2009). The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. This amendment had no material impact on the financial position or performance of the Group.

3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

- IFRIC 13, Customer Loyalty Programmes, which was issue in June 2007 and effective for accounting periods beginning 1 July 2008. This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to award credits and deferred. This is then recognized as revenue over the period that the award credits are redeemed. IFRIC 13 had no material impact on the financial position or performance of the Group.

- IFRIC 15 Agreement for the Construction of Real Estate IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. This standard has no material effect on the Group's financial statements.

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation. IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This standard has no material impact on the Group's financial statements

Improvements to IFRSs

In May 2008 and April 2009 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies an clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.

- IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 32.

- IAS 1 Presentation of Financial Statements: Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position. The Group analysed whether the expected period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any reclassification of financial instruments between current and non-current in the statement of financial position.

- IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2009 upon cash settlement.

- IAS 16 Property, Plant and Equipment: Replaces the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

- IAS 18 Revenue: IASB has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:

  - Has primary responsibility for providing the goods or service
  - Has inventory risk
  - Has discretion in establishing prices
  - Bears the credit risk

- IAS 20 Accounting for Government Grants and Disclosures of Government Assistance: Loans granted with no or low interest will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates. This amendment did not impact the Group's financial position or performance.

- IAS 23 Borrowing Costs: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.

- IAS 36 Impairment of Assets: When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment had no immediate impact on the consolidated financial statements of the Group because the recoverable amount of its cash generating units is currently estimated using 'value in use'.

  The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

- IAS 38 Intangible Assets: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities.
  The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed. The Group reassessed the useful lives of its intangible assets and concluded that the straight-line method was still appropriate.

  Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 2 Share-based Payment
- IFRS 7 Financial Instruments: Disclosures
- IAS 8 Accounting Policies, Change in Accounting Estimates and Error
- IAS 10 Events after the Reporting Period
- IAS 19 Employee Benefits
- IAS 27 Consolidated and Separate Financial Statements
- IAS 28 Investments in Associates
- IAS 31 Interest in Joint Ventures
- IAS 34 Interim Financial Reporting
- IAS 38 Intangible Assets
- IAS 40 Investment Properties

3. **NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)**

- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation

The Group has chosen not to early adopt the following standards, amendments and interpretations to existing standards that were issued, but not yet effective, for accounting periods beginning on 1 January 2009. The Group expects that adoption of these standards, amendments and interpretations not to have any significant impact on the Group's financial statements in the period of initial application but additional disclosures will be required.

- IFRS 1 First-time Adoption of International Financial Reporting Standards – effective for periods beginning on or after 1 July 2009. The objective of this IFRS is to ensure that an entity's first IFRS financial statements, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that: is transparent for users and comparable over all periods presented; provides a suitable starting point for accounting in accordance with International Financial Reporting Standards (IFRSs); and can be generated at a cost that does not exceed the benefits.

- IFRS 2 Share-based Payment (Revised): The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions and is effective for the periods beginning on or after 1 January 2010.

- IFRS 3 (Revised) Business Combinations and IAS 27 (Revised) Consolidated and Separate Financial Statements (effective I July 2009) -The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The changes by IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests.

- IFRS 9 Financial Instruments -The objective of this IFRS is to establish principles for the financial reporting of financial assets that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows. An entity shall apply this IFRS to all assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement.

- IAS 24 Related Party Disclosure (Revised): The revised Standard was issued in November 2009 and shall be applied retrospectively for annual periods beginning on or after 1 January 2011. The objective of this Standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties. This Standard shall be applied in: identifying related party relationships and transactions; identifying outstanding balances, including commitments, between an entity and its related parties; identifying the circumstances in which disclosure of these items is required; and determining the disclosures to be made about those items. This Standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of a parent, venturer or investor presented in accordance with IAS 27 Consolidated and Separate Financial Statements. This Standard also applies to individual financial statements.

3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

- IAS 39 Financial Instruments: Recognition and Measurement Eligible Hedged Items - These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. As per the management assessment the amendment has no impact on the financial position or performance of the bank as the bank has not entered into such hedges.

- IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement: This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss.

- IFRIC 17 - Distribution of Non-Cash Assets to Owners-effective for periods beginning on or after 1 July 2009 -This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. This standard has no effect on the Group's financial statements.

- IFRIC 18- Transfers of Assets from Customers effective for periods beginning on or after 1 July 2009 -This interpretation provides guidance on how to account for items of property, plant and equipment received from customers, or cash that is received and used to acquire or construct specific assets. This interpretation only applies to such assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. This standard has no effect on the Group's financial statements.

4. INTEREST INCOME

	GROUP 2009 KShs'000	GROUP 2008 KShs'000	BANK 2009 KShs'000	BANK 2008 KShs'000
Interest on loans and advances	14,483,274	10,222,805	11,823,622	8,777,453
Interest on held to maturity and trading investments	3,122,695	2,872,421	2,952,520	2,738,909
Interest on placements and bank balances	362,486	1,650,359	468,330	1,638,559
	17,968,455	14,745,585	15,244,472	13,154,921

5. INTEREST EXPENSE

	GROUP 2009 KShs'000	GROUP 2008 KShs'000	BANK 2009 KShs'000	BANK 2008 KShs'000
Interest on deposits	3,136,547	2,514,178	2,553,410	2,152,464
Interest on borrowed funds	363,187	456,290	322,702	456,290
	3,499,734	2,970,468	2,876,112	2,608,754

6. FOREIGN EXCHANGE INCOME

	GROUP 2009 KShs'000	GROUP 2008 KShs'000	BANK 2009 KShs'000	BANK 2008 KShs'000
Foreign currency dealings	751,491	543,681	607,513	408,535
Translation gains	896,736	1,084,885	724,931	815,208
	1,648,227	1,628,566	1,332,444	1,223,743

7. DIVIDEND INCOME

	GROUP 2009 KShs'000	GROUP 2008 KShs'000	BANK 2009 KShs'000	BANK 2008 KShs'000
Dividend from subsidiary company	-	-	386,000	200,000
Available for sale investments	1,138	6,721	1,138	6,721
	1,138	6,721	387,138	206,721

8. OTHER OPERATING INCOME

	GROUP 2009 KShs'000	GROUP 2008 KShs'000	BANK 2009 KShs'000	BANK 2008 KShs'000
Rent income	109,223	89,691	105,585	44,867
Profit on disposal of property and equipment	14,242	65,107	13,956	65,085
Miscellaneous income	812,689	313,185	807,562	245,439
	936,154	467,983	927,103	355,391

9. ALLOWANCE FOR IMPAIRMENT LOSSES

	GROUP 2009 KShs'000	GROUP 2008 KShs'000	BANK 2009 KShs'000	BANK 2008 KShs'000
Additional specific provisions (note 17.2)	1,457,030	2,967,425	1,203,928	2,836,050
Additional collective provisions (note 17.3)	117,171	733,136	(47,227)	660,085
Bad debts recovered during the year (note17.2)	(856,280)	(2,292,051)	(841,740)	(2,206,708)
	717,921	1,408,510	314,961	1,289,427

10. OTHER OPERATING EXPENSES

	GROUP		BANK	
	2009 KShs'000	2008 KShs'000	2009 KShs'000	2008 KShs'000
Administrative expenses	6,926,723	5,015,950	5,400,967	4,217,657
Personnel costs (note 31)	7,144,078	5,973,000	6,099,659	5,307,420
Directors' emoluments:	-		-	
-As directors	36,484	29,545	22,746	24,113
-As executives	67,663	78,682	67,663	78,682
Depreciation of property and equipment	1,078,012	794,484	871,392	704,617
Amortisation of intangible assets	303,966	97,552	303,966	97,285
Amortisation of prepaid operating lease rentals	2,065	1,797	2,030	1,430
Auditors' remuneration	16,500	15,160	8,950	8,800
	15,575,491	12,006,170	12,777,373	10,440,004

11. INCOME TAX

11.1 STATEMENT OF FINANCIAL POSITION

	GROUP 2009	GROUP 2008	BANK 2009	BANK 2008
At 1 January	(617,789)	(731,726)	(594,646)	(809,744)
Tax paid during the year	2,866,449	2,070,918	2,533,643	1,915,423
Tax charge for the year	(1,652,425)	(1,941,245)	(1,358,133)	(1,685,269)
Translation difference	6,052	1	-	-
Over / (under) provision in the previous years	2,503	(8,664)	-	(3,538)
Write off during the year	(7,521)	-	-	-
Offset against other taxes	(198,260)	(7,073)	(85,961)	(11,518)
At 31 December	399,009	(617,789)	494,903	(594,646)
Comprising:				
Tax recoverable	509,370	123,966	494,903	-
Tax payable	(110,361)	(741,755)	-	(594,646)
	399,009	(617,789)	494,903	(594,646)

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

	GROUP 2009	GROUP 2008	BANK 2009	BANK 2008
Depreciation over tax allowances	(150,943)	(94,730)	(151,286)	(93,184)
Provisions	164,467	665,631	139,061	595,705
Tax losses carried forward	81,393	90,584	-	-
	94,917	661,485	(12,225)	502,521
Comprising:				
Deferred tax asset	107,280	661,485	-	502,521
Deferred tax liability	(12,363)	-	(12,225)	-
	94,917	661,485	(12,225)	502,521

11.2 INCOME STATEMENT

	GROUP		BANK	
	2009	**2008**	**2009**	**2008**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Current tax	1,652,425	1,941,245	1,358,133	1,685,269
Deferred tax charge/(credit)	566,568	(127,737)	514,746	(106,442)
(Over)/under provision in the previous years	(2,503)	8,664	-	3,538
	2,216,490	1,822,172	1,872,879	1,582,365

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

	GROUP		BANK	
	2009	**2008**	**2009**	**2008**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Accounting profit before tax	6,300,361	6,012,862	6,425,558	5,393,850
Tax calculated at tax rate of 30%	1,890,108	1,803,859	1,927,667	1,618,155
Deferred tax charge/(credit)	566,568	(127,737)	514,746	(106,442)
Tax effects on non-taxable/non-deductible items				
Depreciation on non qualifying assets	(45,460)	(81,670)	(46,023)	(83,097)
Provisions	(239,163)	67,278	(239,163)	67,278
Unrealised exchange gains	(222,737)	(236,386)	(222,737)	(236,386)
(Over)/under provisions in previous years	(2,503)	8,664	-	3,538
Other non deductible items	269,677	338,164	(61,611)	319,319
	2,216,490	1,822,172	1,872,879	1,582,365

12. EARNINGS PER SHARE

Earnings per share is calculated on the profit attributable to ordinary shareholders of KShs 4,084 million and KShs 4,553 million for the Group and Bank, respectively (2008: KShs 4,191 million and KShs 3,811 million for the Group and Bank, respectively) and on the weighted average number of ordinary shares during the year of 2,218 million (2008: 2123 million shares after adjusting for the effect of the rights issue).

Diluted earnings per share is the same as basic earnings per share as there were no dilutive potential ordinary shares.

13. CASH AND BALANCES WITH CENTRAL BANKS

	GROUP		BANK	
	2009	**2008**	**2009**	**2008**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Cash on hand	7,066,591	4,909,178	4,760,954	4,400,074
Balances with Central Banks:				
Cash reserve ratio	6,659,317	6,257,487	5,982,176	5,695,668
Other current accounts (note 30)	6,144,970	6,072,615	2,768,845	3,188,424
	19,870,878	17,239,280	13,511,975	13,284,166

Cash held with Central Banks represent cash ratio and other non-interest earning current accounts and is based on the value of deposit as adjusted for Central Banks' requirements. Mandatory cash reserve ratio is not available for use in the Group's day-to-day operations.

14. HELD FOR TRADING INVESTMENTS

These are treasury bonds and treasury bills issued by the Government of the Republic of Kenya and acquired by the Group for the generation of revenue from short term fluctuations in interest rates. The weighted average effective interest rates on treasury bonds and bills as at 31 December 2009, was 12.20 % and 11.29 %, respectively (31 December 2008 - 11.28 % and 8.79 %, respectively).

15. AVAILABLE FOR SALE INVESTMENTS

	GROUP		BANK	
	2009	**2008**	**2009**	**2008**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Quoted investments	357,212	352,301	357,212	352,301
Unquoted investments	1,564,065	104,765	1,564,065	104,765
	1,921,277	457,066	1,921,277	457,066
Unquoted investments				
Equity	4,765	4,765	4,765	4,765
Corporate bonds	1,559,300	100,000	1,559,300	100,000
	1,564,065	104,765	1,564,065	104,765

Available for sale financial assets consist of investments in ordinary shares and corporate bonds whose maturity period is between five and ten years.

16. HELD TO MATURITY INVESTMENTS

		GROUP		BANK	
		2009	2008	2009	2008
		KShs'000	KShs'000	KShs'000	KShs'000
(a)	Treasury bills				
	Maturing within 1 month	784,900	810,700	784,900	810,700
	Maturing between 1-3 months	2,323,391	1,796,681	2,323,391	501,134
	Maturing between 3-6 months	2,693,620	1,617,035	2,165,650	500,000
		5,801,911	4,224,416	5,273,941	1,811,834
(b)	Treasury bonds				
	Maturing between 3-12 months	3,493,729	2,708,562	3,375,162	2,540,892
	Maturing between 1-5 years	4,967,498	8,657,932	4,967,497	8,657,932
	Maturing after 5 years	7,221,000	5,350,000	7,221,000	5,350,000
		15,682,227	16,716,494	15,563,659	16,548,824
	TOTAL GOVERNMENT SECURITIES	21,484,138	20,940,910	20,837,600	18,360,658
	Maturing as follows:-				
	Maturing within 1 month	784,900	810,700	784,900	810,700
	Maturing between 1-3 months	2,323,391	1,796,681	2,323,391	501,134
	Total (maturing within 3 months -note 30)	3,108,291	2,607,381	3,108,291	1,311,834
	Maturing between 3-12 months	6,187,349	4,325,597	5,540,812	3,040,892
	Maturing between 1-5 years	4,967,498	8,657,932	4,967,497	8,657,932
	Maturing after 5 years	7,221,000	5,350,000	7,221,000	5,350,000
		21,484,138	20,940,910	20,837,600	18,360,658

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

The weighted average effective interest rates on treasury bonds and bills as at 31 December 2009, was 12.20 % and 11.29 %, respectively (31 December 2008 - 11.28 % and 8.79 %, respectively).

17. LOANS AND ADVANCES TO CUSTOMERS

17.1 LOANS AND ADVANCES TO CUSTOMERS

	GROUP		BANK	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
Gross loans and advances to customers	130,225,424	102,656,274	105,416,405	87,917,665
Specific provisions for impairment (Note 17.2)	(8,189,513)	(7,682,480)	(7,593,959)	(7,262,481)
Collective provisions for impairment (Note 17.3)	(1,568,860)	(1,451,689)	(1,264,858)	(1,312,085)
Loans and advances to customers (net)	120,467,051	93,522,105	96,557,588	79,343,099

17.2 SPECIFIC PROVISIONS FOR IMPAIRMENT

	GROUP		BANK	
	2009 KShs'000	2008 KShs'000	2009 KShs'000	2008 KShs'000
At 1 January	7,682,480	7,900,913	7,262,481	7,488,715
Provisions made during the year	1,457,030	2,967,425	1,203,928	2,836,050
Interest suspended during the year	597,153	475,144	588,815	450,566
Bad debts recovered during the year	(856,280)	(2,292,051)	(841,740)	(2,206,708)
Write downs/write offs during the year	(690,870)	(1,368,951)	(619,525)	(1,306,142)
At 31 December	8,189,513	7,682,480	7,593,959	7,262,481

17.3 COLLECTIVE PROVISIONS FOR IMPAIRMENT

At 1 January	1,451,689	718,553	1,312,085	652,000
Provisions made during the year	117,171	733,136	(47,227)	660,085
At 31 December	1,568,860	1,451,689	1,264,858	1,312,085

17.4 MATURITY ANALYSIS OF GROSS LOANS AND ADVANCES TO CUSTOMERS:

Maturing within 1 month	11,008,866	8,572,112	8,788,862	6,708,638
Maturing after 1 month, but before 3 months	4,021,631	3,146,131	3,494,000	2,921,440
Maturing after 3 months, but within 1 year	11,964,241	9,031,280	9,681,638	8,095,115
Maturing after 1 year, but within 5 years	55,096,544	40,818,797	51,659,333	37,806,200
Maturing after 5 years	48,134,142	41,087,954	31,792,572	32,386,272
	130,225,424	102,656,274	105,416,405	87,917,665

17.5 SECTORAL ANALYSIS OF GROSS LOANS AND ADVANCES TO CUSTOMERS:

Private sector and individuals	122,523,105	97,165,895	97,714,086	82,427,286
Government and parastatals	7,702,319	5,490,379	7,702,319	5,490,379
	130,225,424	102,656,274	105,416,405	87,917,665

The weighted average effective interest rates on loans and advances as at 31 December 2009 was 13.20% (31 December 2008 - 12.93%).

17.5 SECTORAL ANALYSIS OF GROSS LOANS AND ADVANCES TO CUSTOMERS (cont.)

As at 31 December, the aging analysis of past due but not impaired loans and advances was as follows:

	GROUP		BANK	
	2009	**2008**	**2009**	**2008**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Less than 60 days	15,995,000	25,523,000	15,995,000	25,523,000
Between 60 – 120 days	1,179,878	1,765,884	1,151,000	1,748,000
Greater than 120 days	-	-	-	-
	17,174,878	27,288,884	17,146,000	27,271,000

Non – Performing Loans

Non-performing loans and advances on which interest has been suspended amount to KShs 6,450,068 and KShs 4,578,916 for the Group and Bank, respectively, net of specific provisions (2008: KShs 2,672,734 and KShs 2,375,638 for the Group and Bank, respectively). Interest on these accounts is not being recognized as these advances are classified as doubtful. Dicounted value of securities held in respect of these loans and advances are valued at KShs 6,450,068 and KShs 4,578,916 for the Group and Bank, respectively (2008: KShs 2,672,734 and KShs 2,375,638 for the Group and Bank, respectively) and are considered adequate.

18. RELATED PARTY TRANSACTIONS

A number of transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. The volumes of related party transactions, outstanding balances at the year end and the related expenses and income for the year are as follows:

BALANCES DUE FROM GROUP COMPANIES	**2009**	**2008**
	KShs'000	**KShs'000**
Savings and Loan Kenya Limited	11,724,526	5,655,444
KCB Bank Uganda Limited	27,777	47,171
KCB Rwanda SA	-	457
KCB (Tanzania) Limited	-	3,187
KCB Sudan Limited	-	132,700
	11,752,303	5,838,959
BALANCES DUE TO GROUP COMPANIES		
Kencom House Limited	504,589	507,171
Kenya Commercial Finance Company Limited	115,550	-
KCB Foundation	42,633	23,939
KCB Rwanda SA	629	-
KCB Sudan Limited	1,683,644	-
KCB (Tanzania) Limited	35,234	-
	2,382,279	531,110
TOTAL BALANCES DUE FROM GROUP COMPANIES	9,370,024	5,307,849

18. RELATED PARTY TRANSACTIONS (cont.)

BALANCES DUE FROM GROUP COMPANIES (continued)

The net amount due from Savings and Loan Kenya Limited, as at 31 December 2009, includes a loan of KShs. 10.9 billion. The loan attracts interest at an average rate of 3 % p.a. Other balances due from and due to group companies are non interest bearing, are current and are generally on 30-90 day term. The above balances relate to transactions entered into with the subsidiary companies at arm's length in the ordinary course of business. Except as disclosed for the loan to Savings and Loan Kenya Limited, these transactions are carried out on normal commercial terms and at prevailing market rates.

	GROUP		BANK	
	2009	**2008**	**2009**	**2008**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Loans				
Government of Kenya	44,001	402,217	44,001	402,217
Directors	1,764,159	1,673,725	1,749,747	1,648,093
Senior management	160,000	129,799	158,693	113,363
Other employees	3,988,943	3,042,668	3,956,355	2,826,230
	5,957,103	5,248,409	5,908,796	4,989,903
Movement in loans to directors and senior management				
At 1 January	1,803,524	1,583,882	1,761,456	1,553,880
Loans issued during the year	949,398	829,902	915,465	783,659
Loans repayments during the year	(828,763)	(610,260)	(768,481)	576,083)
At 31 December	1,924,159	1,803,524	1,908,440	1,761,456
Interest income earned	767,794	719,657	658,454	607,741
Deposits				
Government of Kenya	21,851,853	19,300,684	21,851,853	19,300,684
Directors	1,111,840	932,040	1,066,162	887,220
Senior management	395,472	257,242	382,794	246,219
Other employees	93,708	84,110	78,308	69,321
At 31 December	23,452,873	20,574,076	23,379,117	20,503,444
Movement in deposits by directors and senior management				
At 1 January	1,189,282	864,438	1,133,439	766,481
Deposits received during the year	2,237,613	1,979,799	2,136,220	1,949,754
Deposits withdrawn during the year	(1,919,583)	(1,654,955)	(1,820,703)	(1,582,796)
At 31 December	1,507,312	1,189,282	1,448,956	1,133,439

18. RELATED PARTY TRANSACTIONS (cont.)

	GROUP		BANK	
	2009	2008	**2009**	2008
	KShs'000	KShs'000	**KShs'000**	KShs'000
Deposits (continued)				
Interest expense	66,845	64,349	61,713	59,755
Senior management compensation				
(Included under personnel costs - note 31)				
Short term employee benefits	324,429	311,243	240,436	203,815
Post employment pension and medical benefits	7,908	7,586	5,861	4,968
	332,337	318,829	246,297	208,783

19. OTHER ASSETS

Other receivables	8,482,151	4,565,122	7,953,886	4,033,641
Prepayments	989,952	549,471	654,909	389,028
	9,472,103	5,114,593	8,608,795	4,422,669

Other receivables are current and non-interest bearing and are generally between 30 to 90 days term.

20. INTANGIBLE ASSETS

	GROUP		BANK	
	2009	2008	**2009**	2008
COST	**KShs'000**	KShs'000	**KShs'000**	KShs'000
At 1 January	1,669,495	562,928	1,651,734	545,167
Additions	420,711	1,106,567	420,711	1,106,567
At 31 December	2,090,206	1,669,495	2,072,445	1,651,734
AMORTISATION				
At 1 January	431,762	334,210	414,001	316,716
Amortisation for the year	303,966	97,552	303,966	97,285
At 31 December	735,728	431,762	717,967	414,001
NET BOOK VALUE				
At 31 December	1,354,478	1,237,733	1,354,478	1,237,733

The intangible assets are in respect of computer software costs.

21. PROPERTY AND EQUIPMENT

(a) GROUP

As at 31 December 2009:	Freehold and leasehold premises KShs'000	Leasehold Improvements KShs'000	Motor vehicles furniture & equipment KShs'000	Total KShs'000
COST/VALUATION				
At 1 January 2009	2,017,032	311,670	7,416,902	9,745,604
Additions	324,028	213,786	2,758,306	3,296,120
Disposals	(7,864)	(39,327)	(223,350)	(270,541)
Reclassification from prepaid operating lease rentals (note 22)	47,014	15,303	-	62,317
Translation differences	(19,103)	780	(19,161)	(37,484)
At 31 December 2009	2,361,107	502,212	9,932,697	12,796,016
Comprising:				
Cost	2,014,595	502,212	9,932,697	12,449,504
Valuation	346,512	-	-	346,512
	2,361,107	502,212	9,932,697	12,796,016
DEPRECIATION				
At 1 January 2009	317,832	89,149	3,550,645	3,957,626
Charge for the year	61,521	33,391	983,100	1,078,012
Disposals	(7,864)	(39,327)	(191,719)	(238,910)
Reclassification from prepaid operating lease rentals (note 22)	(8,330)	34,808	-	26,478
Translation differences	(3,033)	43	(4,532)	(7,522)
At 31 December 2009	360,126	118,064	4,337,494	4,815,684
NET BOOK VALUE				
At 31 December 2009	2,000,981	384,148	5,595,203	7,980,332
As at 31 December 2008:				
COST/VALUATION				
At 1 January 2008	1,830,717	135,964	5,824,673	7,791,354
Additions	235,811	172,876	1,608,958	2,017,645
Disposals	(57,981)	-	(26,746)	(84,727)
Translation differences	8,485	2,358	16,404	27,247
Adjustments	-	472	(6,387)	(5,915)
At 31 December 2008	2,017,032	311,670	7,416,902	9,745,604
Comprising:				
Cost	1,670,520	311,670	7,416,902	9,399,092
Valuation	346,512	-	-	346,512
	2,017,032	311,670	7,416,902	9,745,604

21 . PROPERTY AND EQUIPMENT (cont.)

(a) GROUP (continued)
as at 31 December 2009:

	Freehold and leasehold premises KShs'000	Leasehold Improvements KShs'000	Motor vehicles furniture & equipment KShs'000	Total KShs'000
DEPRECIATION				
At 1 January 2008	324,943	70,556	2,830,023	3,225,522
Charge for the year	32,977	20,151	741,356	794,484
Disposals	(42,538)	-	(26,459)	(68,997)
Reclassification	-	(1,656)	1,656	-
Translation differences	2,450	98	4,069	6,617
At 31 December 2008	317,832	89,149	3,550,645	3,957,626
NET BOOK VALUE				
At 31 December 2008	1,699,200	222,521	3,866,257	5,787,978

i) A revaluation of certain property held by the Group was carried out by Tysons Limited, registered professional valuers, in 1990 on the basis of open market value. The net book value of this property as at 31 December 2009 was KShs 307.5 million (2008: Kshs 309.5 million). If this property was measured using the cost model, the carrying amount would have been KShs 51.6 million (2008: KShs 52.0 million).

ii) The translation difference arises from translation of opening balances in foreign subsidiaries using the current year's closing exchange rate.

(b) BANK

As at 31 December 2009:	Freehold and leasehold premises KShs'000	Leasehold Improvements KShs'000	Motor vehicles furniture & equipment KShs'000	Total KShs'000
COST				
At 1 January 2009	1,566,755	62,005	6,833,530	8,462,290
Additions	-	-	1,866,619	1,866,619
Reclassification from prepaid operating lease rentals (note 22)	47,014	15,303	-	62,317
Disposals	-	-	(221,931)	(221,931)
At 31 December 2009	1,613,769	77,308	8,478,218	10,169,295
DEPRECIATION				
At 1 January 2009	248,260	34,571	3,350,903	3,633,734
Charge for the year	16,319	2,410	852,663	871,392
Disposals	-	-	(190,302)	(190,302)
Reclassification from prepaid operating lease rentals (note 22)	(8,330)	34,808	-	26,478
At 31 December 2009	256,249	71,789	4,013,264	4,341,302

21. PROPERTY AND EQUIPMENT (cont.)

(b) BANK (continued)

	Freehold and leasehold premises KShs'000	Leasehold Improvements KShs'000	Motor vehicles furniture & equipment KShs'000	Total KShs'000
NET BOOK VALUE				
At 31 December 2009	1,357,520	5,519	4,464,954	5,827,993
As at 31 December 2008:				
COST				
At 1 January 2008	391,049	61,956	5,480,539	5,933,544
Additions	-	49	1,379,172	1,379,221
Transfers	1,233,687	-	-	1,233,687
Disposals	(57,981)	-	(26,181)	(84,162)
At 31 December 2008	1,566,755	62,005	6,833,530	8,462,290
DEPRECIATION				
At 1 January 2008	165,311	26,003	2,686,134	2,877,448
Charge for the year	5,387	8,568	690,662	704,617
Transfers	120,100	-	-	120,100
Disposals	(42,538)	-	(25,893)	(68,431)
At 31 December 2008	248,260	34,571	3,350,903	3,633,734
NET BOOK VALUE				
At 31 December 2008	1,318,495	27,434	3,482,627	4,828,556

22. PREPAID OPERATING LEASE RENTALS

	GROUP		BANK	
	2009	2008	**2009**	2008
COST	**KShs'000**	KShs'000	**KShs'000**	KShs'000
At 1 January	285,348	285,348	281,891	225,647
Transfers	-	-	-	56,244
Reclassification to property and equipment (note 21)	(62,317)	-	(62,317)	-
At 31 December	223,031	285,348	219,574	281,891
AMORTISATION				
At 1 January	99,486	97,689	98,348	78,714
Transfers	-	-		18,204
Reclassification to property and equipment (note 21)	(26,478)	-	(26,478)	-
Amortisation for the year	2,065	1,797	2,030	1,430
At 31 December	75,073	99,486	73,900	98,348
NET BOOK VALUE				
At 31 December	147,958	185,862	145,674	183,543

23. INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in subsidiaries incorporated in Kenya:

Company	**Activity**	**% Beneficial ownership**	**2009 KShs'000**	**2008 KShs'000**
Kenya Commercial Finance Co. Ltd	Dormant	100	150,000	150,000
Savings & Loan Kenya Ltd	Mortgage Finance	100	167,402	167,402
KCB Foundation	Corporate social responsibility	-	-	-
Kenya Commercial Bank Nominees Ltd	Nominee Shareholders	100	-	-
Kencom House Ltd	Property ownership & management	100	748,645	748,645
Investment in associate:				
United Finance Ltd	Dormant	45	125	125
Investments in Subsidiearies incorporated outside Kenya:				
KCB (Tanzania) Ltd	Commercial Banking	100	1,163,371	878,385
KCB Sudan Ltd	Conventional Banking	100	1,025,363	1,025,363
KCB Rwanda SA	Commercial Banking	100	883,924	757,032
KCB Bank Uganda Ltd	Commercial banking	100	1,050,020	700,120
			5,188,850	4,427,072

24. DUE TO BANKS

	GROUP		BANK	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
Deposits and balances due to other banks	6,668,388	38,506,010	9,309,706	40,800,470
Maturing as follows:				
Payable within 1 month	6,668,388	38,506,010	9,309,706	40,800,470

The weighted average effective interest rates on deposits due from other banks as at 31 December 2009 was 4.3 %
(31 December 2008 - 6.58%).

25. OTHER CUSTOMER DEPOSITS

	GROUP		BANK	
	2009	2008	2009	2008
(a) From government and parastatals:	KShs'000	KShs'000	KShs'000	KShs'000
Payable within 1 month	31,593,617	30,983,111	30,115,743	29,228,746
Payable after 1 month, but within 3 months	5,158,629	642,523	5,148,585	630,000
Payable after 3 months, but within 1 year	11,107,870	5,664	11,117,773	5,664
Payable after 1 year, but within 5 years	393,054	-	393,054	-
	48,253,170	31,631,298	46,775,155	29,864,410
b) From private sector and individuals:				
Payable within 1 month	85,814,367	77,270,938	72,363,900	65,327,229
Payable after 1 month, but within 3 months	7,335,708	6,871,547	2,956,714	4,923,797
Payable after 3 months, but within 1 year	18,237,120	10,910,430	14,243,114	9,729,433
Payable after 1 year, but within 5 years	2,904,174	6,855	1,629,037	-
	114,291,369	95,059,770	91,192,765	79,980,459
TOTAL OTHER CUSTOMER DEPOSITS	162,544,539	126,691,068	137,967,920	109,844,869
Maturing as follows:-				
Payable within 1 month	117,407,984	108,254,049	102,479,643	94,555,975
Payable after 1 month but within3 months	12,494,337	7,514,070	8,105,299	5,553,797
Payable after 3 months but within 1 year	29,344,990	10,916,094	25,360,887	9,735,097
Payable after 1 year but within 5 years	3,297,228	6,855	2,022,091	-
	162,544,539	126,691,068	137,967,920	109,844,869

The weighted average effective interest rates on interest bearing customer deposits as at 31 December 2009 was 2.2%
(31 December 2008- 2.5%).

26. OTHER LIABILITIES

	GROUP		BANK	
	2009 KShs'000	2008 KShs'000	2009 KShs'000	2008 KShs'000
Bills payable	726,022	1,529,813	720,205	1,516,313
Accrued expenses	693,880	1,638,017	583,328	1,551,905
Other payables	1,452,070	1,017,971	1,392,829	345,258
	2,871,972	4,185,801	2,696,362	3,413,476

27. SHARE CAPITAL

	2009 KShs'000	2008 KShs'000
Authorised:-		
2,400,000,000 ordinary shares of KShs.1 each	2,400,000	2,400,000
Issued and fully paid:-		
2,217,777,777 ordinary shares of KShs.1 each	2,217,778	2,217,778

The top ten largest shareholders as at 31 December 2009 were:

Shareholder	No. of Shares	%
Permanent Secretary to the Treasury of Kenya	523,600,000	23.61
National Social Security Fund	115,933,812	5.23
Stanbic Nominees Kenya Limited A/C ICDCI	74,524,907	3.36
Mr Sunil Narshi Shah	51,779,088	2.33
Stanbic Nominees Kenya Limited A/C R48701	44,022,433	1.98
United Millers Limited	30,407,633	1.37
KCB Nominees Limited A/C 744A	28,438,260	1.28
Barclays (Kenya) Nominees Limited A/C 9230	22,871,277	1.03
Nomura Nominees Limited A/C NSSF	22,490,333	1.01
Kenya Re-Insurance Corporation Ltd	19,187,944	0.87
Total shares	933,255,687	42.07

The distribution of shareholders as at 31 December 2009 was as follows:

Share range	No. of shareholders	Shares held	%
1 to 5000	138,471	234,360,425	10.57
5001 to 50,000	28,873	296,338,653	13.36
50,001 to 100,000	784	54,148,313	2.44
100,001 to 1,000,000	782	215,546,926	9.72
1,000,001 to 10,000,000	148	438,410,558	19.77
10,000,001 and above	18	978,972,902	44.14
	169,076	2,217,777,777	100.00

28. RESERVES

	GROUP 2009 KShs'000	GROUP 2008 KShs'000	BANK 2009 KShs'000	BANK 2008 KShs'000
Revaluation reserve	233,713	235,359	-	-
Retained earnings	10,503,989	8,740,920	10,230,250	7,981,564
Share premium	7,297,986	7,297,986	7,297,986	7,297,986
Available-for-sale reserve	347,908	342,997	347,908	342,997
Regulatory reserve	104,670	-	86,215	-
Translation reserve	(119,897)	34,134	-	-
	18,368,369	16,651,396	17,962,359	15,622,547

The revaluation reserve arose on the revaluation of certain property in 1990.

The available-for-sale reserve arises from marking to market of investment securities classified under available-for-sale category.

The translation reserve arises from translation of the net investment in foreign subsidiaries to Kenya Shillings.

Regulatory reserve represents an amount set aside to cover additional provision for loan losses required to comply with the requirements of Central Banks prudential guidelines. This amount is not available for distribution.

29. DIVIDEND

	BANK 2009 KShs'000	BANK 2008 KShs'000
Final proposed	2,217,778	2,217,778
Dividend per share (KShs)	1.00	1.00

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

30. NOTES TO THE STATEMENT OF CASH FLOWS

(a) CASH FLOWS FROM OPERATING ACTIVITIES

	GROUP 2009 KShs'000	GROUP 2008 KShs'000	BANK 2009 KShs'000	BANK 2008 KShs'000
This has been derived as follows:-				
Profit before tax	6,300,361	6,012,862	6,425,558	5,393,850
Adjustments for:				
Depreciation of property and equipment	1,078,012	794,484	871,392	704,617
Amortisation of prepaid operating lease rentals	2,065	1,797	2,030	1,430
Amortisation of intangible assets	303,966	97,552	303,966	97,285
Profit on disposal of property and equipment	(14,242)	(65,107)	(13,959)	(65,085)
Cash reserve ratio	(401,830)	(1,344,451)	(286,508)	(782,632)
Held to maturity investments	(42,318)	(1,491,039)	(680,485)	(495,334)
Loans and advances	(26,944,946)	(29,243,982)	(17,214,489)	(22,865,651)
Balances due from group companies	-	-	(4,062,175)	(2,338,316)
Other assets	(4,357,510)	3,735,351	(4,186,126)	3,281,551
Other customer deposits	35,853,471	32,298,707	28,123,051	24,206,730
Other liabilities	(1,313,829)	(1,944,553)	(717,114)	(2,388,099)
	10,463,200	8,851,621	8,565,141	4,750,346

30. NOTES TO THE STATEMENT OF CASH FLOWS (cont.)

(b) ANALYSIS OF CASH AND EQUIVALENTS	GROUP 2009 KShs'000	GROUP 2008 KShs'000	BANK 2009 KShs'000	BANK 2008 KShs'000
Balances with Central Banks(note13)	6,144,970	6,072,615	2,768,845	3,188,424
Cash on hand (note 13)	7,066,591	4,909,178	4,760,954	4,400,074
Held to maturity investments (note 16)	3,108,291	2,607,381	3,108,291	1,311,834
Held for trading investments	2,628,843	3,765,417	2,628,843	3,765,417
Due from banks	9,067,840	42,175,191	5,936,128	38,591,215
Due to banks	(6,668,388)	(38,506,010)	(9,309,706)	(40,800,470)
	21,348,147	21,023,772	9,893,355	10,456,494

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 Banks.

31. PERSONNEL COSTS

	GROUP 2009 KShs'000	GROUP 2008 KShs'000	BANK 2009 KShs'000	BANK 2008 KShs'000
Salaries and wages	6,219,850	5,366,517	5,318,185	4,802,189
Medical expenses	448,221	238,177	342,281	182,552
Pension scheme contributions	355,305	350,154	329,031	314,665
Other	120,702	18,152	110,162	8,014
	7,144,078	5,973,000	6,099,659	5,307,420

The number of employees of the Group as at 31 December 2009 was 5,492 (31 December 2008 – 4,083).

32. SEGMENT REPORTING

Business segments

The Group's main business comprises of the following business segments:

Retail banking – incorporating banking services such as customer current accounts, savings and fixed deposits to individuals. Retail lending are mainly consumer loans and mortgages based lending.

Corporate banking – incorporating banking services such as current accounts, fixed deposits. overdrafts, loans and other credit facilities both in local and foreign currencies.

Other Group's operations comprise of trade finance and forex business. The Group also participates in investment in Treasury bills and bonds from the Central Banks. Transactions between the business segments are on normal commercial terms and conditions. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet.

The table below analyses the breakdown of segmental assets, liabilities, income and expenses;

INCOME STATEMENT	Corporate banking	Retail banking	Treasury	Other	Total
For the year ended 31 December 2009:	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Net interest income	4,191,653	6,599,037	3,242,257	435,774	14,468,721
Net fees and commission income	1,004,287	2,521,181	1,593,485	420,580	5,539,533
Other income	472,847	319,665	1,772,517	20,490	2,585,519
Operating expenses	(4,216,726)	(6,022,738)	(1,247,415)	(4,806,533)	(16,293,412)
Profit before tax	1,452,061	3,417,145	5,360,844	(3,929,689)	6,300,361
For the year ended 31 December 2008:					
Net interest income	2,835,268	4,944,502	3,995,347	-	11,775,117
Net fees and commission income	635,311	3,654,776	501,172	757,896	5,549,155
Other income	325,049	530,342	723,743	524,136	2,103,270
Operating expenses	(2,925,689)	(4,916,375)	(214,108)	(5,358,508)	(13,414,680)
Profit before tax	869,939	4,213,245	5,006,154	(4,076,476)	6,012,862
STATEMENT OF FINANCIAL POSITION					
As at 31 December 2009:					
Total assets	63,620,669	59,254,160	66,838,222	5,298,497	195,011,548
Total liabilities	75,804,251	86,135,421	10,036,074	231,877	172,207,623
Total equity	-	-	-	22,803,925	22,803,925
	75,804,251	86,135,421	10,036,074	23,035,802	195,011,548
As at 31 December 2008:					
Total assets	39,991,742	47,219,067	73,752,019	30,248,758	191,211,586
Total liabilities	74,159,497	50,045,530	38,026,628	7,892,979	170,124,634
Total equity	-	-	-	21,086,952	21,086,952
	74,159,497	50,045,530	38,026,628	28,979,931	191,211,586

Geographical segments

Four of the Group companies, KCB (Tanzania) Limited, KCB Sudan Limited, KCB Bank Uganda Limited and KCB Rwanda SA operate outside the domestic financial market. The table below analyses the geographical segments (per country) where the Group operates in.

For the year ended 31 December 2009:	Kenya KShs'000	Tanzania KShs'000	Southern Sudan KShs'000	Uganda KShs'000	Rwanda KShs'000	Total KShs'000
Net interest income	13,734,813	382,267	200,473	85,900	65,268	14,468,721
Net fees and commission income	4,601,994	251,869	515,390	135,970	34,310	5,539,533
Other income	2,267,142	47,762	260,193	(1,679)	12,101	2,585,519
Operating expenses	(13,535,101)	(822,905)	(891,693)	(658,332)	(385,381)	(16,293,412)
Profit before tax	7,068,848	(141,007)	84,363	(438,141)	(273,702)	6,300,361
For the year ended 31 December 2008:						
Net interest income	11,354,491	295,798	100,216	24,359	253	11,775,117
Net fees and commission income	4,872,599	179,185	458,625	38,681	65	5,549,155
Other income	1,677,893	88,670	280,415	56,207	85	2,103,270
Operating expenses	(12,241,479)	(531,343)	(308,992)	(307,934)	(24,932)	(13,414,680)
Profit before tax	5,663,504	32,310	530,264	(188,687)	(24,529)	6,012,862

STATEMENT OF FINANCIAL POSITION

As at 31 December 2009:	Kenya	Tanzania	Southern Sudan	Uganda	Rwanda	Total
Total assets	169,179,130	8,037,166	11,009,887	4,652,683	2,132,682	195,011,548
Total liabilities	149,351,014	7,253,427	9,827,485	4,344,085	1,431,612	172,207,623
Total equity	19,828,116	783,739	1,182,402	308,598	701,070	22,803,925
	169,179,130	8,037,166	11,009,887	4,652,683	2,132,682	195,011,548
As at 31 December 2008:						
Total Assets	171,454,200	6,406,743	10,124,353	2,373,522	852,768	191,211,586
Total Liabilities	153,961,031	5,727,725	8,515,066	1,903,246	17,566	170,124,634
Total equity	17,493,169	679,018	1,609,287	470,276	835,202	21,086,952
	171,454,200	6,406,743	10,124,353	2,373,522	852,768	191,211,586

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have significant effect on the recorded fair value that are not based on observable market data.

33. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
GROUP				
Held for trading investments	2,628,843	-	-	2,628,843
Available for sale investments	357,212	1,564,065	-	1,921,277
Held to maturity investments	21,484,138	-	-	21,484,138
Loans and advances	-	120,467,051	-	120,467,051
	24,470,193	122,031,116	-	146,501,309
BANK				
Held for trading investments	2,628,843	-	-	2,628,843
Available for sale investments	357,212	1,564,065	-	1,921,277
Held to maturity investments	20,837,600	-	-	20,837,600
Loans and advances	-	96,557,588	-	96,557,588
	23,823,655	98,121,653	-	121,945,308

34. COMMITMENTS

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

	GROUP		BANK	
	2009 KShs'000	2008 KShs'000	2009 KShs'000	2008 KShs'000
(a) Capital commitments contracted for at year end	981,347	740,244	485,264	564,047
(b) Loans committed but not disbursed at year end	19,840,492	13,601,111	13,798,145	9,538,585
(c) Foreign currency commitments	(28,787)	(95,564)	(28,787)	(95,564)

Commitments to extend credit represent contractual commitments to give 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.

35. CONTINGENT LIABILITIES

	GROUP		BANK	
	2009	**2008**	**2009**	**2008**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Letters of credit, acceptances, guarantees, indemnities and other engagements entered into on behalf of customers at year end	32,909,317	28,381,175	32,865,196	26,624,731

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.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 the information currently available, that the ultimate resolution of these legal proceedings would not likely have a material effect on its operations.

36. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, market risks, operational risks and interest rates risks. 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.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors of the Group has established the Credit, Audit, Risk, Human Resources and Procurement and Information Technology committees, which are responsible for developing and monitoring the Group risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring compliance with the Group's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in these functions by Internal Audit department. Internal Audit personnel undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to this Committee.

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's loans and advances to customers, placement and balances with other counterparties and investment securities. It arises from lending and other activities undertaken by the Group. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

36. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont.)

MANAGEMENT OF CREDIT RISK

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee. A separate credit department, reporting to the Credit Committee, is responsible for oversight of the Group's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit credit managers. Larger facilities require approval by the Board of Directors.
- Reviewing and assessing credit risk. The credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries and product types. Regular reports are provided to the Credit Committee on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.
- Each business unit is required to implement the Group's credit policies and procedures. Each business unit has a credit manager who reports on all credit related matters to local management and the Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.
- Regular audits of business units and the Group's credit processes are undertaken by Internal Audit Department

CREDIT RISK MEASUREMENT

The Group assesses the probability of default of customer or counterparty using internal rating scale tailored to the various categories of counter party. The rating scale has been developed internally and combines data analysis with credit officer judgment and is validated, where appropriate, by comparison with externally available information. Customers of the Group are segmented into five rating classes. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating scale is kept under review and upgraded as necessary. The Group regularly validates the performance of the rating and their predictive power with regard to default events.

36. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont.)

36.1 CREDIT RISK

The Group's internal ratings scale is as follows:

Grade 1 - Normal risk
Grade 2 - Watch risk
Grade 3 - Sub standard risk
Grade 4 - Doubtful risk
Grade 5 - Loss

IMPAIRMENT AND PROVISIONING POLICIES

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loans and advances portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures. The second component is in respect of losses that have been incurred but have not been identified in relation to the loans and advances portfolio that is not specifically impaired.

The impairment provision shown in the balance sheet at year-end is derived from each of the five internal rating grades. However, the impairment provision is composed largely of the bottom two grades.

The table below shows the Group's and the Bank's loans and advances and the associated impairment provision for each internal rating categories:

	GROUP		BANK	
	2009	**2008**	**2009**	**2008**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Individually impaired				
Grade 3	4,218,587	2,801,828	2,307,517	2,499,046
Grade 4	7,259,747	6,781,595	7,007,462	6,659,835
Grade 5	3,161,247	771,791	2,857,896	479,238
Gross amount	14,639,581	10,355,214	12,172,875	9,638,119
Allowance for impairment	(8,189,513)	(7,682,480)	(7,593,959)	(7,262,481)
Carrying amount	6,450,068	2,672,734	4,578,916	2,375,638
Collectively impaired				
Grade 1	97,749,533	64,184,430	76,753,485	51,967,187
Grade 2	17,836,310	28,116,630	16,490,045	26,312,359
Gross amount	115,585,843	92,301,060	93,243,530	78,279,546
Allowance for impairment	(1,568,860)	(1,451,689)	(1,264,858)	(1,312,085)
Carrying amount	114,016,983	90,849,371	91,978,672	76,967,461
Total carrying amount	120,467,051	93,522,105	96,557,588	79,343,099

36.1 CREDIT RISK (cont.)

Loans and advances graded 3, 4 and 5 in the Group's internal credit risk grading system are impaired. These are advances for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. Loans and advances graded 1 and 2 are not impaired. Allowances for impairment losses for these loans and advances are assessed collectively. The Group also complies with Central Banks' prudential guidelines on collective and specific impairment losses. Additional provisions for loan losses required to comply with the requirements of Central Banks' prudential guidelines are transferred to regulatory reserve.

The internal rating scale assists management to determine whether objective evidence of impairment exists, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of Group bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral.

The Group's policy requires the review of individual financial assets regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the impairment at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

CREDIT – RELATED COMMITMENT RISK

The Group makes available to its customers guarantees which may require the Group makes payments on their behalf and enters into commitments to extend lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

WRITE-OFF POLICY

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

COLLATERAL ON LOANS AND ADVANCES

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired.

36.1 CREDIT RISK (cont.)

CONCENTRATION OF CREDIT RISK

The Group's financial instruments do not represent a concentration of credit risk because the Group deals with a variety of customers and its loans and advances are structured and spread among a number of customers. The Group monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

	GROUP		BANK	
	2009	**2008**	**2009**	**2008**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Construction	20,782,526	17,466,635	4,600,913	6,633,447
Micro credit	39,906,217	32,809,733	37,528,299	31,870,748
Agriculture	8,599,126	6,615,909	8,459,479	6,510,852
SME	7,291,951	5,581,070	4,578,210	4,479,665
Corporate	53,645,604	40,182,927	50,249,504	38,422,953
	130,225,424	102,656,274	105,416,405	87,917,665

36.2 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 intraday positions which are monitored daily and hedging strategies used to ensure that positions are maintained within the established limits.

Transactions in foreign currency are recorded at the rate in effect at the date of the transaction. The Group translates monetary assets and liabilities denominated in foreign currencies at the rate of exchange in effect at the balance sheet date. The Group records all gains or losses on changes in currency exchange rates on the income statement.

Note 38 summarises the foreign currency exposure as at year end.

The following table demonstrates the sensitivity to a reasonably possible change in the below mentioned exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ decrease in exchange rate	Effect on profit before tax	
		2009	**2008**
		KShs'000	**KShs'000**
USD	10%	266,876	190,877
GBP	10%	13,965	22,326
EUR	10%	26,386	49,045

36.3 OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business units.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the yearly assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified.
- Requirements for the reporting of operational losses and proposed remedial action.
- Development of contingency plans.
- Training and professional development.
- Ethical and business standards
- Risk mitigation, including insurance where this is effective.

Compliance with Group's standards is supported by a programme of regular reviews undertaken by both the Internal Audit and Compliance department. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

36.4 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank's treasury maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers.

36.4 LIQUIDITY RISK (cont.)

Details of the reported Bank's ratio of net liquid assets to deposits from customers at the reporting date and during the reporting year were as follows:

	2009	2008
At close of the year	28.13%	31.60%
Average for the year	29.44%	33.47%
Maximum for the year	36.04%	36.70%
Minimum for the year	22.03%	28.20%

Note 41 summarises the Group's liquidity risk as at 31 December 2009 and 31 December 2008.

36.5 INTEREST RATE RISK

Interest rate is the risk that the future cash flows of financial instruments will fluctuate because of changes in the market interest rates. Interest margin may increase as a result of such changes but may reduce losses in the event that unexpected movement arises. The Group closely monitors interest rate movements and seeks to limit its exposure by managing the interest rate and maturity structure of assets and liabilities carried on the balance sheet.

If there was a 2% increase/decrease in interest rates, the Group's profit before tax would decrease /increase by KShs.280,115,100 (2008: KShs.95,869,100).

Note 40 summarises the interest rate risk of the Group as at 31 December 2009 and 31 December 2008.

37. CAPITAL MANAGEMENT

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

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Kenya. The Central Bank of Kenya sets and monitors capital requirements for the banking industry as a whole. In implementing current capital requirements, the Central Bank of Kenya requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for investments in financial institutions, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, irredeemable preference shares and convertible notes on similar capital investments.

Various limits are applied to elements of the capital base.

37. CAPITAL MANAGEMENT (cont.)

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

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

	2009 KShs'000	2008 KShs'000
Tier 1 capital		
Ordinary share capital	2,217,778	2,217,778
Retained earnings	12,448,028	10,199,342
Share premium	7,297,986	7,297,986
Less: Investments in financial institutions	(4,290,080)	(3,528,302)
Total Tier 1 / Capital	17,673,712	16,186,804
Tier 2 capital		
Regulatory reserve	86,215	-
Total regulatory capital	17,759,927	16,186,804
Risk weighted assets	119,237,891	104,751,865
Capital ratios:		
Total regulatory capital expressed as a percentage of total risk-weighted assets	14.9%	15.5%
Total tier 1 capital expressed as a percentage of risk-weighted assets	14.8%	15.5%
The minimum capital ratios, as per the Central Bank of Kenya regulations, is as follows:		
Total regulatory capital expressed as a percentage of total risk-weighted assets	12%	12%
Tier 1 capital expressed as a percentage of total risk-weighted assets	8%	8%

38. FOREIGN CURRENCY EXPOSURE

The table below summarises the foreign currency exposure as at 31 December 2009 and 31 December 2008.

	GROUP		BANK	
	2009	**2008**	**2009**	**2008**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Assets in foreign currencies	98,139,796	102,078,454	79,463,659	94,793,892
Liabilities in foreign currencies	(99,063,338)	(98,407,883)	(80,712,546)	(92,940,016)
Net foreign currency exposure at the end of the year	(923,542)	3,670,571	(1,248,887)	1,853,876

39. RETIREMENT BENEFIT OBLIGATIONS

(a) KCB Pension Fund and Staff Retirement Benefit Scheme

The pension fund was split with effect from 1 June 2006 with the introduction of a Defined Contribution Scheme alongside the Defined Benefit Scheme. An actuarial valuation of the Pension fund was done by the actuary as at 31 December 2008 and confirmed that the assets held by the scheme were not sufficient to cover the relevant liabilities accrued at that date. The results of the valuation showed that there is a past service actuarial deficit of KShs. 38.3 million. In the opinion of the actuary, the assets of the scheme together with the future contributions payable by members in accordance with the regulations should be sufficient to provide the future benefits payable under the scheme provided that the sponsor increases the contribution rate from the current 10% to 16.6% of the total pensionable salaries of the members in service.

(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.

40. INTEREST RISK RATE

The tables below show interest rate sensitivity position of the Group at 31 December 2009 and 31 December 2008 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.

As at 31 December 2009:	**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**	**KShs'000**
Cash and balances with Central Banks	-	-	-	-	-	19,870,878	19,870,878
Due from banks	6,568,549	2,499,291	-	-	-	-	9,067,840
Held for trading investments	2,628,843	-	-	-	-	-	2,628,843
Tax recoverable	-	-	-	-	-	509,370	509,370
Available for sale investments	-	-	-	1,100,000	459,300	361,977	1,921,277
Held to maturity investments	784,900	2,323,391	6,187,349	4,967,498	7,221,000	-	21,484,138
Loans and advances to customers	10,031,371	3,430,266	11,122,386	53,378,188	42,504,840	-	120,467,051
Other assets	-	-	-	-	-	9,472,103	9,472,103
Deferred tax	-	-	-	-	-	107,280	107,280
Intangible assets	-	-	-	-	-	1,354,478	1,354,478
Leasehold land	-	-	-	-	-	147,958	147,958
Property and equipment	-	-	-	-	-	7,980,332	7,980,332
Total assets	20,013,663	8,252,948	17,309,735	59,445,686	50,185,140	39,804,376	195,011,548
Due to banks	6,668,388	-	-	-	-	-	6,668,388
Other customer deposits	117,407,984	12,494,337	29,344,990	3,297,228	-	-	162,544,539
Other liabilities	-	-	-	-	-	2,871,972	2,871,972
Tax payable	-	-	-	-	-	110,361	110,361
Deferred tax	-	-	-	-	-	12,363	
Equity	-	-	-	-	-	22,803,925	22,803,925
Total liabilities and equity	124,076,372	12,494,337	29,344,990	3,297,228	-	25,798,621	195,011,548
Interest rate sensitivity gap	(104,062,709)	(4,241,389)	(12,035,255)	56,148,458	50,185,140	14,005,755	

40. INTEREST RISK RATE (cont.)

As at 31 December 2008:	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	-	-	-	-	-	17,239,280	17,239,280
Due from banks	42,175,191	-	-	-	-	-	42,175,191
Held for trading investments	3,765,417	-	-	-	-	-	3,765,417
Tax recoverable	-	-	-	-	-	123,966	123,966
Available for sale investments	-	-	-	-	-	457,066	457,066
Held to maturity investments	810,700	1,796,681	4,325,597	8,657,932	5,350,000	-	20,940,910
Loans and advances to customers	8,572,113	3,146,131	9,031,280	36,297,338	36,475,243	-	93,522,105
Other assets	-	-	-	-	-	5,114,593	5,114,593
Deferred tax	-	-	-	-	-	661,485	661,485
Intangible assets	-	-	-	-	-	1,237,733	1,237,733
Leasehold land	-	-	-	-	-	5,787,078	5,787,978
Property and equipment	-	-	-	-	-	185,862	185,862
Total assets	55,323,421	4,942,812	13,356,877	44,955,270	41,825,243	30,807,963	191,211,586
Due to banks	38,506,010	-	-	-	-	-	38,506,010
Other customer deposits	108,254,049	7,514,070	10,916,094	6,855	-	-	126,691,068
Other liabilities	-	-	-	-	-	4,185,801	4,185,801
Tax payable	-	-	-	-	-	741,755	741,755
Equity	-	-	-	-	-	21,086,952	21,086,952
Total liabilities and equity	146,760,049	7,514,070	10,916,094	6,855	-	26,014,508	191,211,586
Interest rate sensitivity gap	(91,436,638)	(2,571,258)	2,440,783	44,948,415	41,825,243	4,793,455	-

41. LIQUIDITY RISK MANAGEMENT

	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
As at 31 December 2009:						
Cash and balances with Central Banks	14,919,531	1,429,987	3,145,049	376,311	-	19,870,878
Due from banks	6,568,549	2,499,291	-	-	-	9,067,840
Held for trading investments	2,628,843	-	-	-	-	2,628,843
Tax recoverable	-	-	509,370	-	-	509,370
Available for sale investments	357,212	-	-	1,100,000	464,065	1,921,277
Held to maturity investments	784,900	2,323,391	6,187,349	4,967,498	7,221,000	21,484,138
Loans and advances to customers	10,031,371	3,430,266	11,122,386	53,378,188	42,504,840	120,467,051
Other assets	-	-	9,472,103	-	-	9,472,103
Deferred tax	-	-	-	107,280	-	107,280
Intangible assets	-	-	-	1,354,478	-	1,354,478
Property and equipment	-	-	-	-	7,980,332	7,980,332
Prepaid operating lease rentals	-	-	-	-	147,958	147,958
Total assets	35,290,406	9,682,935	30,436,257	61,283,755	58,318,195	195,011,548
Due to banks	6,668,388	-	-	-	-	6,668,388
Other customer deposits	117,407,984	12,494,337	29,344,990	3,297,228	-	162,544,539
Other liabilities	-	-	2,871,972	-	-	2,871,972
Tax payable	-	-	110,361	-	-	110,361
Deferred tax	-	-	-	12,363	-	12,363
Equity	-	-	-	-	22,803,925	22,803,925
Total liabilities and equity	124,076,372	12,494,337	32,327,323	3,309,591	22,803,925	195,011,548
Net liquidity gap	(88,785,966)	(2,811,402)	(1,891,066)	57,974,164	35,514,270	-

41. LIQUIDITY RISK MANAGEMENT (cont.)

As at 31 December 2008:

	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	16,410,404	337,811	490,756	309	-	17,239,280
Due from banks	42,175,191	-	-	-	-	42,175,191
Held for trading investments	3,765,417	-	-	-	-	3,765,417
Tax recoverable	-	-	123,966	-	-	123,966
Available for sale investments	-	-	-	-	457,066	457,066
Held to maturity investments	810,700	1,796,681	4,325,597	8,657,932	5,350,000	20,940,910
Loans and advances to customers	8,572,112	3,146,131	9,031,280	36,297,338	36,475,244	93,522,105
Other assets	-	-	5,114,593	-	-	5,114,593
Intangible assets	-	-	-	1,237,733	-	1,237,733
Property and equipment	-	-	-	-	5,787,978	5,787,978
Deferred tax				661,485	-	661,485
Prepaid operating lease rentals	-	-	-	-	185,862	185,862
Total assets	71,733,824	5,280,623	19,086,192	46,854,797	48,256,150	191,211,586
Due from banks	38,506,010	-	-	-	-	38,506,010
Other customer deposits	108,254,049	7,514,070	10,916,094	6,855	-	126,691,068
Other liabilities	-	-	4,185,801	-	-	4,185,801
Tax payable	-	-	741,755	-	-	741,755
Equity	-	-	-	-	21,086,952	21,086,952
Total liabilities and equity	146,760,059	7,514,070	15,843,650	6,855	21,086,952	191,211,586
Net liquidity gap	(75,026,235)	(2,233,447)	3,242,542	46,847,942	27,169,198	-

42. OPERATING LEASE COMMITMENTS

Operating lease commitments – Group as lessee

Non-cancellable operating lease rentals are payable as follows:	2009 KShs'000	2008 KShs'000
Up to five years	702,897	682,714
More than five years	81,110	144,654
	784,007	827,368

Operating leases – Group as lessor

Up to five years	59,122	48,898
More than five years	4,355	15,108
	63,477	64,006

The Group leases a number of branch and office premises under operating leases. The leases typically run between one up to ten years, with an option to renew the lease upon expiry. Lease rentals are increased accordingly to reflect market rentals.

43. COMPARATIVES

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

44. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

In 2009, approval was granted to the Bank by the Central Bank of Kenya to have the operations of Savings & Loan Kenya Limited (a company owned 100% by Kenya Commercial Bank Limited) merged with those of the Bank. Prior to the merger, Savings & Loans Kenya Limited principal activity was to provide mortgage finance products. The merger took place on 1 January 2010.

GROUP INFORMATION

REGISTERED OFFICES AND PRINCIPAL PLACES OF BUSINESS

Kenya Commercial Bank Limited
Kencom House
Moi Avenue
P.O. Box 48400-00100, NAIROBI
KENYA

KCB Sudan Limited
KCB Plaza
Ministry Road
P.O. Box 47, JUBA
SOUTHERN SUDAN

KCB (Tanzania) Limited
Harambee Plaza
Ali Hassan Mwinyi Road/Kaunda Road Junction
P.O. Box 804, DAR ES SALAAM
TANZANIA

KCB Bank Uganda Limited
Kampala Road Branch
Commercial Plaza
7 Kampala Road
P.O. Box 7399, KAMPALA
UGANDA

KCB Rwanda SA
Avenue de la Paix
P.O Box 5620, KIGALI
RWANDA

SOLICITORS

Various.
A list is available at the Bank's Head Office

SECRETARY

Mr. K.D. Malakwen
P.O. Box 48400 - 00100, NAIROBI
KENYA

AUDITORS

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

PROXY FORM

THE SECRETARY
KENYA COMMERCIAL BANK LTD
8TH FLOOR, KENCOM HOUSE, MOI AVENUE
P O BOX 48400 - 00100 NAIROBI KENYA

I/We ....

Shares A/C No ....

of P.O. Box ....

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

of P.O. Box ....

or failing him the Chairman of the meeting as my/our proxy vote for me/us and on my/our behalf at the 39th Annual General Meeting to be held on 7th May 2010 and at any adjournment thereof.

Signed this .... day of 2010

Signature (s)

....

Note: Incase of a Member being a corporate body, the Proxy Form must be under its common seal or under the hand of an officer or attorney duly authorised in writing. A proxy need not be a member of the Company.

Proxy forms must be in the hands of the Registrar not later than 48 hours before the time for holding the meeting.

KATIBU
BENKI YA KENYA COMMERCIAL
GHOROFA 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 39 wa Mwaka wa Kampuni utakaofanyika tarehe 7 Mei 2010 au pale utakapoarishwa.

imewekwa sahihi tarehe mwezi wa 2010

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.

Fomu ya uwakilishi lazime iwe imeshafikishwa kwa Msajili masaa 48 kabla ya mkutano

YOUR NOTES

YOUR NOTES