CONTENTS

KCB

NOTICE OF THE 40TH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 40TH ANNUAL GENERAL MEETING OF THE KENYA COMMERCIAL BANK LIMITED will be held at the Tsavo Ballroom, Kenyatta International Conference Centre, Nairobi, on Friday, 6th May, 2011 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, 2010.

   b) Report and Financial Statements for the Year ended 31st December, 2010
   To receive and consider the Report of the Directors and Consolidated Financial Statements for the year ended 31st December, 2010 together with the auditors' report thereon.

   c) Dividend
   To declare a dividend and approve the closure of the Register of Members on 10th May, 2011.

   d) Election of Directors

   i) In accordance with the Article 94 of the Company's Articles of Association, Mr. Joseph Kinyua and Eng. Musa Ndeto, retire by rotation from office as Directors of the Company and, being eligible, offer themselves for re-election respectively.

   ii) Retirement of Director
   In accordance with the Bank's Board Charter Mrs. Catherine Ngima Kimura retires from the Board having served the Board for the maximum eight years.

   e) Remuneration of Directors
   To authorize the Board to fix the remuneration of the Directors.

   f) Appointment of Auditors
   To appoint Messrs KPMG Kenya, Certified Public Accountants, as the Auditors of the Company in place of Ernst & Young until conclusion of the next Annual General Meeting.

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

3. **Any Other Business**
   To transact any other business which may be properly transacted at an Annual General Meeting.

Dated at Nairobi this 24 Day of February, 2011
By Order of the Board

K.D. Malakwen
Secretary

ARIFA YA MKUTANO MKUU WA 40 WA MWAKA

ILANI IMETOLEWA KWAMBA MKUTANO MKUU WA MWAKA WA 40 WA BENKI YA KENYA COMMERCIAL utafanywa katika ukumbi wa Tsavo Ballroom, katika jumba la Kenyatta International Conference Centre, Nairobi, Ijumaa, tarehe 6, Mei, 2011 saa tano za asubuhi, ambapo mambo yafuatayo yatajadiliwa:-

AJENDA

1. **Kujumuika kwa mkutano**
   Kusoma taarifa ya kuitisha kuandaliwa kwa mkutano na kuamua iwapo kuna akidi.

2. **Shughuli za kawaida**

   a) Ripoti ya Wahasibu
   Kusoma ripoti ya Wahasibu na taarifa kamili za kifedha kwa mwaka uliomalizika tarehe 31, Disemba, 2010.

   b) Ripoti na taarifa za uhasibu kwa mwaka uliomalizika tarehe 31, Disemba, 2010
   Kupokea na kutafakari ripoti ya wakurugenzi na taarifa kamili za kifedha kwa mwaka uliomalizika tarehe 31, Disemba, 2010 pamoja na ripoti ya Wahasibu.

   c) Mgao wa faida
   Kutangaza mgao wa faida na kuidhinisha kufungwa kwa Sajili ya Wanachama tarehe 10, Mei, 2011.

   d) Uchaguzi wa Wakurugenzi

   i) Kwa mujibu wa kifungu 94 cha Kanuni za Kampuni, Bw.Joseph Kinyua na Mhandisi Musa Ndeto, wanastaafu kwa zamu kama Wakurugenzi wa Kampuni na kwa kuwa wanahitimu, wanajitolea kuchaguliwa tena.

   ii) Kustaafu kwa Mkurugenzi
   Kwa mujibu wa Kanuni za Kampuni Bi. Catherine Ngima Kimura anastaafu kutoka Halmashauri ya Wakurugenzi baada ya kukamilisha muda wake wa kuhudumu kama Mkurugenzi.

   e) Marupurupu ya Wakurugenzi
   Kuruhusu Halmashauri ya Wakurugenzi kuamua marupurupu ya Wakurugenzi.

   f) Uteuzi wa Wahasibu
   Kuteua kampuni ya KPMG Kenya, Wahasibu wa Umma Walioidhinishwa, kama Wahasibu wa Kampuni, badala ya Ernst & Young hadi kukamilishwa kwa Mkutano Mkuu wa Mwaka ujao.

   g) Marupurupu ya Wahasibu
   Kuidhinisha Wakurugenzi kuamua marupurupu ya Wahasibu.

3. **Shughuli nyingine yoyote**
   Kuendesha shughuli nyingine yoyote ambayo inaweza kutekelezwa katika Mkutano Mkuu wa Mwaka.

Nairobi, tarehe 24, Februari, 2011
Kwa Amri ya Halmashauri ya Wakurugenzi

K.D. Malakwen
Katibu

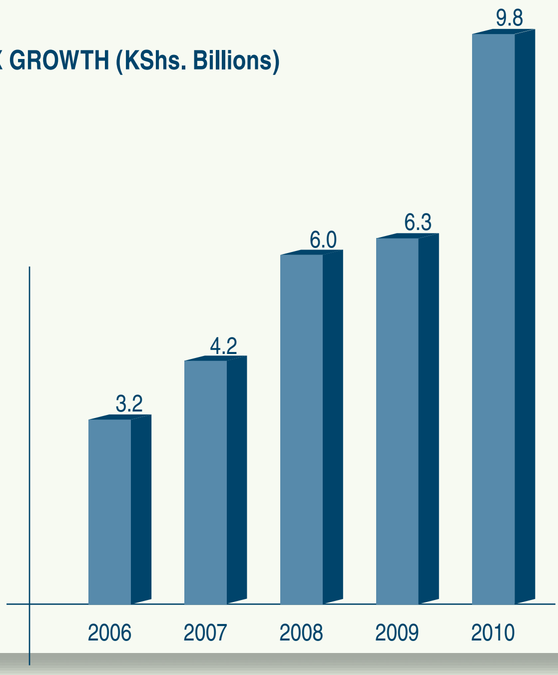
KCB

FINANCIAL HIGHLIGHTS 2010

KEY PERFORMANCE INDICATORS

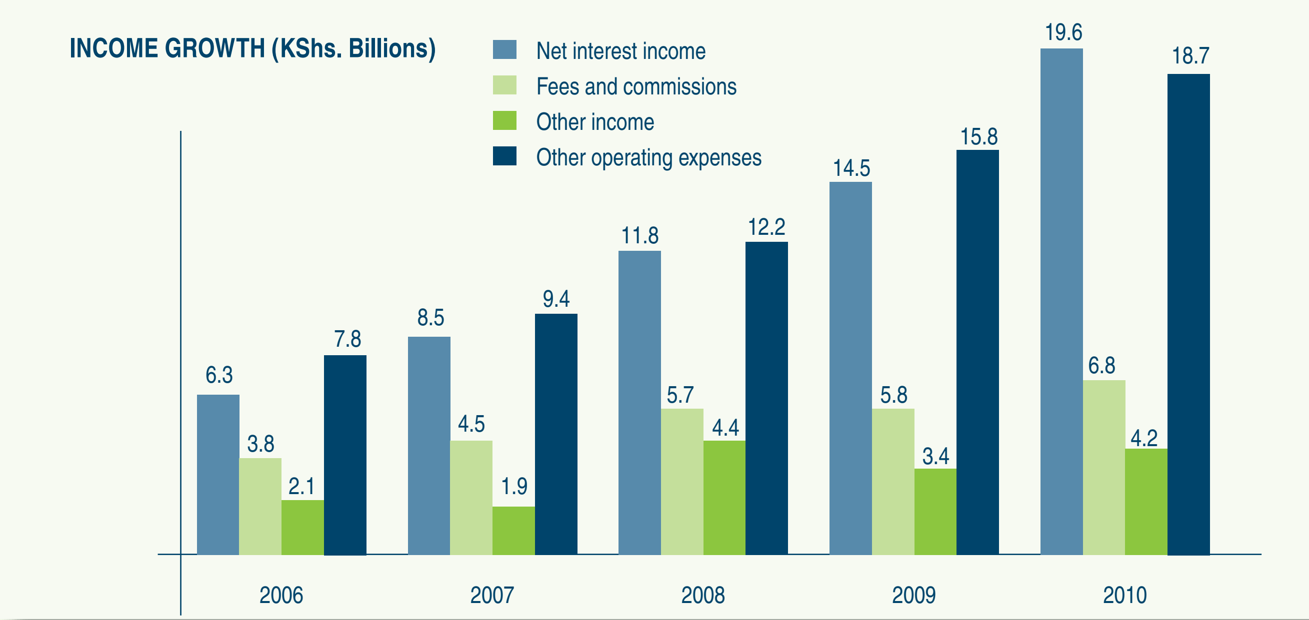
- **Profit before tax up by 56% to KShs. 9.8 billion** (2009 KShs. 6.3 billion)
- **Net loans and advances up by 21% to KShs. 148.1 billion** (2009 KShs. 122.7 billion)
- **Customer deposits up by 21% to KShs. 197 billion** (2009 KShs. 163 billion)
- **Operating income up by 29% to KShs. 29.6 billion** (2009 KShs. 22.9 billion)
- **Total assets growth by 29% to KShs. 251.3 billion** (2009 KShs. 194.7 billion)
- **Operating expenses up by 18%**
- **Branch network rose to 218** (2009 branches 203)

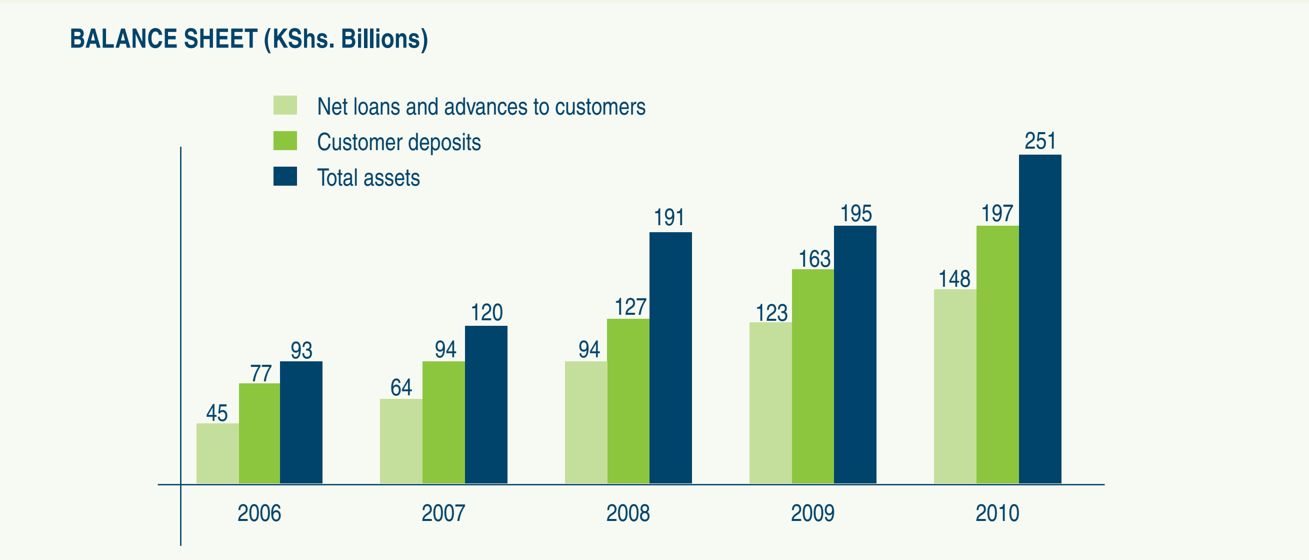
PROFIT BEFORE TAX GROWTH (KShs. Billions)

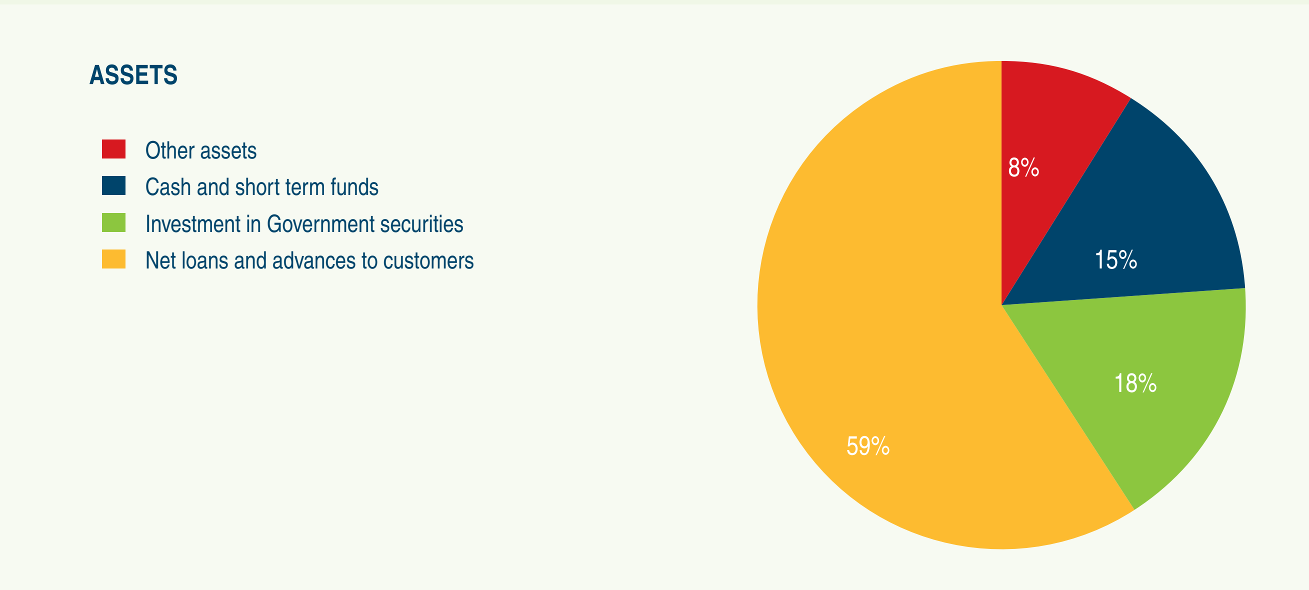


FIVE YEAR PERFORMANCE ANALYSIS

PERFORMANCE & STATUTORY RATIOS	2006	2007	2008	2009	2010
Cost to income ratio	64%	63%	62%	69%	63%
Return on equity	21%	23%	20%	18%	18%
Core capital to deposit	13%	12%	12%	13%	22%
Total capital to total weighted assets	16%	14%	16%	15%	23%
Liquidity ratio	42%	33%	32%	28%	31%
Net impaired advances to net advances	9%	3%	3%	5%	4%
Net impaired advances to gross impaired advances	33%	22%	26%	44%	41%


INCOME GROWTH (KShs. Billions)
Net interest income
Fees and commissions
Other income
Other operating expenses
6.3
3.8
2.1
7.8
8.5
4.5
1.9
9.4
11.8
5.7
4.4
12.2
14.5
5.8
3.4
15.8
19.6
6.8
4.2
18.7
2006
2007
2008
2009
2010


BALANCE SHEET (KShs. Billions)
Net loans and advances to customers
Customer deposits
Total assets
45
77
93
64
94
120
94
127
191
123
163
195
148
197
251
2006
2007
2008
2009
2010


ASSETS
Other assets
Cash and short term funds
Investment in Government securities
Net loans and advances to customers
8%
15%
18%
59%

KCB Group Chairman
Peter W. Muthoka, MBS, FKIB, FKIM

Dear Shareholders,

I am pleased to present to you our Annual Report and Financial Statements for 2010.

During the year under review, the KCB Group performed extremely well, reporting a 56% increase in pretax profit from KShs 6.3 billion in 2009 to KShs 9.8 billion. This performance is anchored on good growth in total operating income amounting to KShs 29.6 billion, which is a 29% improvement from KShs 22.9 billion the year before and better management of our operating expenses at KShs 18.7 billion, an 18% increase from 2009, on the back of our recent investment in a new Core Banking System.

Although our provisions for bad and doubtful debts increased by 36% to KShs 2.1 billion (2009 – KShs 1.6 billion) our recovery amounted to KShs 1 billion, a 20% improvement over 2009 (KShs 856 million). The provisions increase also takes into account the inherent risks in our loan growth. Profit after tax was significantly higher at KShs 7.2 billion up 76% from KShs 4.1 billion in 2009 due to the higher operating profit as well as good tax management during the year. Our total assets grew by 29% and now stand at KShs 251 billion from KShs 195 billion in 2009. This was driven by good growth in both deposits and loans.

Owing to this impressive performance, the Board recommends a dividend payout of KShs 1.25 for every ordinary share held amounting to KShs 3.7 billion, a 66% increase over the previous period.

THE OPERATING ENVIRONMENT

The operating environment during 2010 was characteristic of an economy coming out of the effects of the 2008-2009 global financial crises.

After two years of low growth, the provisional results of the first three quarters of 2010 show that Kenya's economic performance has been improving. Average growth rate for the first three quarters of 2010 was 5.4% compared to 2.1% and 2.3% for similar periods in 2008 and 2009, respectively. This growth is largely attributed to favourable weather conditions, increased liquidity in the banking system for savings and investment across the productive sectors and prudent macroeconomic management.

These factors led to the turnaround in such sectors as agriculture and power generation which grew at an average of 5.7% and 12.6%, respectively. As a consequence, the manufacturing sector grew at an average of 7.8% and the construction sector at 12.5%. The Financial services sector recorded the fastest growth at an average of 15.8% in quarter 3 compared to 2009 when it only expanded by 3.6% over the same period.

Kenya's credit rating was raised to B+ from B, by Standard & Poors (S&P) based on the country's political risks which were perceived to have reduced after the promulgation of the new constitution. Kenyans voted in a peaceful referendum on August 5, 2010 to usher in a new constitutional order with increased checks and balances on executive powers and a stronger governance and institutional framework.

Emerging political realignments ahead of the 2012 general elections, however, could present serious challenges to continued economic growth. It is also expected that an anticipated drought situation could impair food production as well as generation of hydro-electric power. This could lead to food supply constraints aggravating the cost of industrial production.

In spite of the above anticipated challenges, the current growth momentum is expected to support increased optimism in the prospects of our economy. Consequently, the Kenyan economy is forecasted by World Bank to grow by between 5.7% and 6% in the year 2011.

THE FINANCIAL MARKETS

Inflation

The overall 12-month inflation declined significantly from 5.3% in December 2009 to 3.1% in October 2010, before rising to 4.5% in December 2010. The average annual inflation rate declined from 9.3% in December 2009 to 3.9% in December 2010. The steady decline in overall inflation largely reflected a decline in the prices of basic food items, the cost of communication services and the price of crude oil.

The government has put adequate measures in place to resolve the food distribution challenges stemming from the current drought ultimately reducing the possible impact of the dry weather conditions on inflation.

Foreign Exchange

In the foreign exchange market, the Kenya Shilling generally weakened against the US Dollar, Sterling Pound, and the Japanese Yen during the year 2010, but gained against the Euro. The Shilling traded at an average of KShs 80.59 against the Dollar, KShs 125.74 against the Sterling Pound, KShs 106.52 against the Euro and KShs 0.967 against the Japanese Yen during the month of December 2010. This is worse off when compared to 2009 rates during which the local currency exchanged at KShs 75.82 to the Dollar, KShs 121.893 to the Sterling Pound, KShs 108.935 to the Euro and KShs 0.733 to the Japanese Yen.

Interest Rates

Short term interest rates remained low and stable, creating an enabling environment for increased lending to support the economy. The average yield for the 91-day Treasury Bill, which is the benchmark for interest rates, declined significantly from 6.8% in December, 2009 to about 2.3% in December, 2010. Similarly, the average interbank rate declined from 2.95% in December 2009 to about 1% in October, 2010, rising thereafter to about 1.25% at the end of December, 2010. The weighted average lending rate by commercial banks declined marginally from 14.76% in December 2009 to 13.87% in December, 2010. The savings rate declined from 1.73% in December, 2009 to 1.45% in December, 2010.

The Stock Market

At the equities market, the NSE 20-share index increased by 36% from 3,247.4 points in December, 2009 to 4,432.6 points in December 2010. The annual bonds turnover increased significantly by 346% to close the year at KShs493 billion compared to an annual bonds turnover of KShs110 billion in 2009. During the year, total equity turnover stood at KShs110 billion representing an increase of 189% compared to 2009. The impressive performance of the equities market reflected improved business confidence and low interest rates which encouraged investors to shift to stocks as they offered better returns.

OUR REGIONAL BUSINESSES

Our subsidiaries reported mixed fortunes in their performance due to the varying states of their development and disparities in market dynamics.

KCB Sudan performed better than anticipated, returning a profit before tax of KShs 581 million. We see this business contributing more in 2011 as

His Excellency, President Mwai Kibaki, C.G.H, MP, officially launches the KCB Rights Issue in the year 2010 at KCB Leadership Centre in Karen. Looking on is the KCB Group Chairman, Peter W. Muthoka.

His Excellency, President Jakaya Kikwete, unveils a plaque to officially commemorate the launch of KCB Moshi Branch.

An inside view of ultra modern, KCB Advantage Banking in Juba, Sudan.

lending strategies are implemented to enhance revenues. KCB Tanzania recorded a loss of KShs 111 million owing to increase in non-performing loans and other operational losses, but showed positive signs of recovery towards the 4th quarter. KCB Uganda reported a loss of KShs 409 million and KCB Rwanda a loss of KShs 318 million. These are new businesses which have continued to improve their performance and are expected to break-even in 2011/2012. We are happy to note that the net loss for all our subsidiary businesses reduced in 2010 to KShs 259 million from KShs 778 million in 2009.

The Board has approved further capital injection into the subsidiaries in 2011, (KCB Uganda – KShs 1.1 billion, KCB Tanzania – KShs 225 million and KCB Rwanda – KShs 557 million) to support their efforts to grow. In addition, we have implemented a new regional structure to improve oversight. A new position of Regional Director has been created to oversee the businesses working with the respective country management and Boards. We believe that we will realize the benefits of these initiatives during 2011.

During the year the subsidiaries, with the exception of KCB Sudan, slowed down their branch expansion plans to concentrate more on consolidation in order to accelerate their move towards profitability. KCB Tanzania opened one new branch in Oysterbay, Dar-Es-Salaam while KCB Uganda opened three new branches in Kampala, Jinja and Ndeeba. KCB Sudan expanded its presence to 10 new locations at Malakia, Bilpam, Yambio, United Nations Mission in Sudan (UNMIS) Juba, Bor, Kuajok, Torit, UNMIS Malakal, UNMIS Wau and Nimule.

We shall continue to expand our presence in respective countries in line with our strategic objectives and business need in order to effectively take advantage of market opportunities as they arise.

GOVERNANCE

There were no major changes in the composition of the Boards at Group and Subsidiary levels except the exit of Sammy Itemere as Managing Director, KCB Sudan, to pursue other interests. He was replaced by John Kimanthi, a veteran of KCB with vast experience in banking.

In line with regulatory requirements and adherence to best practice, the Group Board constituted Committees for Audit, Risk, Credit, Human Resources and Procurement functions as well as the Board of Trustees of the KCB Foundation to support management in the execution of duties in respective functions. The Committees' memberships comprise Board members and respective executive directors.

All subsidiary Boards have also set up committees in tandem with regulatory requirements in their respective markets and in line with corporate governance best practices.

The Board continues to receive regular training and exposure through seminars and workshops in order to be up to date with corporate governance practices across the world. The Board sets annual objectives and undergoes an evaluation process to establish its performance against the set objectives. At all times, the Board upholds the principles of independence and integrity in line with the Board and Directors' charters, supporting the work of the management through Board and Committee meetings.

The KCB Group Chairman, Peter W. Muthoka (left) and the Group CEO, Dr Martin Oduor-Otieno (right) officially launch the KCB Rights Issue Offer price to shareholders in Nairobi.

TRANSFORMATION

During 2010, the KCB Group Board instituted a transformation programme to move the bank from a good business to a great enterprise. The project began in January, 2011 and is expected to focus on review of our business model, structures and strategies, our processes and procedures, risk management mechanisms as well as people-related issues including, performance management and productivity in line with global best practice.

The Board has engaged the services of internationally renowned consultants, McKinsey and Company, to work with a project management team and the Board Transformation Committee to deliver on the agenda. The programme is expected to last up to two years in implementation but the first phase of diagnostics, analysis and recommendations will be completed by mid 2011. Looking at the work so far done, we are confident that it will enable us put in place mechanisms that will drive KCB to achieve its full potential and deliver the right level of returns to its shareholders in the years to come.

KCB RIGHTS ISSUE 2010

Further to your approval at the last annual general meeting, Board and Management took the necessary steps to raise additional capital through the Third KCB Rights Issue. The exercise delivered a total of KShs 12.5 billion in new capital.

Of the 887.1 million shares on offer during the issue a total of 732 million shares were taken up representing an uptake rate of 82.50%. The total number of issued ordinary shares is now in excess of 2.95 billion with a nominal value of KShs 1 each while the untaken rights form part of the bank's authorized capital for future issuance.

KCB Community Champions participating in the UUNET Ear Walk.

The KCB Group Chairman, Peter W. Muthoka (centre), the KCB Foundation Chairman, Susan Omanga and Ms Jacqueline Novogratz of Acumen Fund officially launch the Friends of KCB Foundation.

As a result of this increase in capital, your bank's prudential ratios have improved significantly giving KCB the capacity to grow Group assets by over KShs 125 billion and deposits by over KShs 250 billion. Our capital base is now the largest of any bank in the region at KShs 39.1 billion.

I would like to take this opportunity to thank all our shareholders for their support during the successful rights issue and wish to assure you that the capital will be deployed diligently in order to yield expected returns for you.

CORPORATE SOCIAL RESPONSIBILITY

Through the KCB Foundation your bank continued to play its part in supporting needy members of society through a comprehensive corporate social responsibility programme.

During the year, the Foundation spent a total of KShs 78.6 million in the key focus areas of Education, Environment, Enterprise Development, Health and Humanitarian Intervention. Appropriate Community initiatives were implemented in respective countries in line with identified needs under the various thematic areas.

Our employees played a big part in the CSR initiatives implemented during the year planting close to 300,000 trees across the region during the KCB Community Day, supporting deserving schools and needy students during the KCB Community Week and donating essential items during the Eid and Christmas charity drives.

The Board of Trustees of the KCB Foundation has approved very exciting programmes to be implemented in 2011 with a view to further empowering marginalized members of our society.

FUTURE PROSPECTS

Following the consolidation efforts in the last three years, the KCB Group is finally assuming its rightful place as the leading bank in the region with its unmatched presence, assets and capital. We are now moving to address issues of innovation, performance and productivity.

With the Transformation Agenda underway we see good prospects in the future of the bank. We want to achieve a significant increase in market share and a commensurate level of profitability going forward. With the commitment and involvement of the Board, stewardship of Senior Management and the hard work and dedication of Staff we are confident we shall achieve this goal.

I would like to thank my fellow Board Members for tirelessly supporting me as their Chairman and for providing well considered guidance and counsel to the business. Their contribution to the ongoing success of the bank has been immense and is commendable.

Let me also thank Management and Staff for their efforts to produce such impressive results. Their hard work and dedication has moved KCB closer to the top of the league in terms of profitability and is a sign of good things to come.

Finally, we are indebted to our shareholders, customers, media, the community and other stakeholders for their contribution in making KCB such a good business. We are confident that with their support, we have the capacity, resources and resolve to make this bank a great operation today and in the years to come.

Thank you.

TAARIFA YA MWENYEKITI

Mwenyekiti wa KCB
Peter W. Muthoka, MBS, FKIB, FKIM

Wanahisa wapendwa,

Nina furaha kuwasilisha Ripoti yetu ya Mwaka na Taarifa za Kifedha kwa mwaka wa 2010.

Wakati wa kipindi cha mwaka, Kampuni ya KCB ilikuwa na mafanikio bora ya ongezeko la asili mia 56 kabla ya kodi kutoka Shilingi bilioni 6.3 mwaka wa 2009 hadi Shilingi bilioni 9.8. Matokeo haya yametokana na ukuaji mzuri katika matumizi ya jumla ya mapato ya Shilingi bilioni 29.6, ambayo ni ongezeko la asili mia 29 kutoka Shilingi bilioni 22.9 mwaka uliotangulia na uthabiti katika gharama za matumizi za Shilingi bilioni 18.7, ongezeko la asili mia 18 kutoka mwaka wa 2009.

Ingawaje vigezo vyetu vya madeni yasiyolipika viliongezeka kwa asili mia 36 hadi Shilingi bilioni 2.1(mwaka wa 2009-Shilingi bilioni 1.6) madeni tuliokusanya yalikuwa jumla ya Shilingi bilioni 1, imariko la asili mia 20 kulinganishwa na mwaka wa 2009(Shilingi milioni 856). Faida baada ya kodi iliimarika kiasi hadi Shilingi bilioni 7.2, ongezeko la asili mia 76 kutoka Shilingi bilioni 4.1 mwaka wa 2009.

Kutokana na ufanisi huu, Halmashauri ya Wakurugenzi inapendekeza mgao wa faida wa Shilingi 1.25 kwa kila hisa ya kawaida. Jumla ya Shilingi bilioni 3.7 italipwa kama mgao kwa faida. Hii ni ongezeko la asili mia 66 kulinganishwa na kipindi kilichotangulia.

MAZINGIRA YA KIBIASHARA

Ufanisi huu uliafikiwa wakati uchumi ulipokuwa ukijikwamua kutokana na athari za kudorora kwa uchumi mwaka wa 2008-2009 na unatupa fursa ya ongezeko la ukuaji katika siku za usoni.

Baada ya miaka miwili ya ukuaji wa taratibu, matokeo ya muda ya robo tatu za kwanza za mwaka wa 2010 yanaonyesha kwamba hali ya uchumi hapa Kenya imekuwa ikiimarika. Ukuaji wa wastani wa robo tatu za kwanza za mwaka wa 2010 ulikuwa asili mia 5.4 ikilinganishwa na asili mia 2.1 na 2.3 kwa vipindi sawa na hivyo mwaka wa 2008 na 2009 mtawalio. Kwa kiasi kikubwa ukuaji huu unasababishwa na mazingira bora ya kiuchumi, ongezeko la fedha katika mfumo wa benki na usimamizi bora wa biashara ndogo ndogo. Sababu hizi zilipelekea ufanisi katika sekta kama vile kilimo na uzalishaji wa umeme ambavyo vilikua kwa wastani wa asili mia 5.7 na 12.6 mtawalio. Kutokana na hayo, sekta ya uzalishaji ilikua kwa wastani wa asili mia 7.8 na sekta ya ujenzi kwa asili mia 12.5. Huduma za kifedha zilipata ukuaji mkubwa zaidi wa wastani wa asili mia 15.8 katika robo ya tatu ikilinganishwa na mwaka wa 2009 ilipokua kwa asili mia 3.6 tu katika kipindi sawa na hicho.

Uwezo wa Kenya wa kulipa madeni uliongezwa hadi kiwango cha B+ kutoka kile cha B, na kampuni ya Standard & Poor (S&P) kuambatana na hatari za kibiashara za nchi ambazo zilikuwa zimepungua baada ya kuzinduliwa kwa katiba mpya. Wakenya walipiga kura kwa amani katika kura ya maamuzi mnamo Agosti 5, 2010 kuashiria katiba mpya ambayo inaimarisha usimamizi wa maswala ya kitaifa.

Uwiano mpya wa kisiasa kabla ya uchaguzi mkuu wa 2012 unaweza kuzua changamoto kali kwa uchumi kuendelea kukua. Pia inakisiwa kwamba ukame unaotarajiwa unaweza kukwaza uzalishaji wa chakula pamoja na uzalishaji wa umeme. Hali hii inaweza kusababisha upungufu wa chakula na kupanda kwa gharama za kuzalisha bidhaa za viwandani.

Licha ya changamoto hizo zinazotarajiwa, kiwango cha ukuaji wa sasa kinatarajiwa kusimamia ongezeko la matarajio yetu ya kiuchumi. Kutokana na hayo, uchumi wa Kenya umebashiriwa na Benki ya Dunia kukua kwa kati ya asili mia 5.7 na asili mia 6 mwaka wa 2011.

MASOKO YA KIFEDHA

Mfumuko wa bei

Mfumuko wa bei katika kipindi cha miezi 12 kwa jumla ulipungua kwa kiasi kikubwa kutoka asili mia 5.3 mwezi Disemba 2009 hadi asili mia 3.1 mwezi Oktoba 2010, kabla ya kupanda hadi asili mia 4.5 mwezi Disemba 2010. Wastani wa mwaka wa kiwango cha mfumuko wa bei ulipungua kutoka asili mia 9.3 mwezi Disemba 2009 hadi asili mia 3.9 mwezi Disemba 2010. Kuendelea kwa punguo la mfumuko wa bei kwa jumla kuliashiria kushuka kwa bei za vyakula vya kimsingi, gharama za mawasiliano na bei ya mafuta ghafi.

Serikali imeweka hatua za kutosha kukabiliana na changamoto za kusambaza chakula kutokana na ukame unaoendelea kwa sasa na hivyo kupunguza athari za hali ya ukame katika mfumuko wa bei.

Ubadilishanaji wa fedha za kigeni

Katika soko la kubadilisha fedha za kigeni, kwa ujumla Shilingi ya Kenya ilidhoofika dhidi ya Dola ya Marekani, Pauni ya Uingereza na Yen ya Japani wakati wa kipindi cha mwaka wa 2010, lakini ikaimarika dhidi ya Euro. Shilingi iliuzwa na kununuliwa kwa wastani wa Shilingi 80.59 dhidi ya Dola, Shilingi 125.74 dhidi ya Pauni ya Uingereza, Shilingi 106.52 dhidi ya Euro na Shilingi 0.967 dhidi ya Yen ya Japani wakati wa mwezi Disemba, 2010. Hali hii ilikuwa mbaya zaidi ikilinganishwa na viwango vya 2009 wakati ambapo Shilingi ilinunuliwa na kuuzwa kwa wastani wa Shilingi 75.82 dhidi ya Dola, Shilingi 121.893 dhidi ya Pauni, Shilingi 108.935 dhidi ya Euro na Shilingi 0.733 dhidi ya Yen.

Viwango vya riba

Viwango vya riba vya muda mfupi vilibakia vya chini na thabiti, na hivyo kujenga mazingira bora ya kuendelea kutoa mikopo ili kudhibiti uchumi. Faida ya wastani kwa hati za dhamana za serikali kwa siku 91, ambazo ni vigezo vya riba, vilipungua kwa kiasi kikubwa kutoka asili mia 6.8 mwezi Disemba, 2009 hadi takribani asili mia 2.3 mwezi Disemba 2010. Halikadhalika viwango vya wastani vya riba miongoni mwa benki vilipungua kutoka asili mia 2.95 mwezi Disemba, 2009 hadi takribani asili mia 1 mwezi Oktoba 2010, na baadaye kupanda hadi takribani asili mia 1.25 mwezi Disemba. Wastani wa kiwango cha kutoa mikopo ya kibiashara ulipungua kidogo kutoka asili mia 14.76 mwezi Disemba 2009 hadi asili mia 13.87 mwezi Disemba,2010. Viwango vya kuweka akiba vilipungua kutoka asili mia 1.73 mwezi Disemba, 2009 hadi asili mia 1.45 mwezi Disemba, 2010.

Soko la hisa

Katika soko la hisa, kipimo cha makampuni bora 20 kiliongezeka kwa asili mia 36 kutoka pointi 3,247.4 mwezi Disemba, 2009 hadi 4,432.6 mwezi Disemba, 2010. Hisa zilizonunuliwa na kuuzwa kwa mwaka ziliongezeka kwa kiwango kikubwa cha asili mia 346 na kufunga mwaka kwa Shilingi bilioni 493 ikilinganishwa na hisa za thamani ya Shilingi bilioni 110 zilizouzwa na kununuliwa mwaka wa 2009. Wakati wa kipindi cha mwaka, thamani ya hisa za kampuni ilikuwa Shilingi bilioni 110, kiwakilishi cha ongezeko la asili mia 189 ikilinganishwa na 2009.

Maendeleo bora ya soko la hisa yaliakisi kuimarika kwa imani ya kibiashara na viwango vya chini vya riba ambavyo vilivutia wawekezaji kufanya biashara ya hisa kwa kuwa ilikuwa na faida zaidi.

Mkurugenzi wa Idara ya Fedha ya KCB, Stanley Towett, akipokea kwa niaba ya KCB, Tuzo Kuu ya Mlipa Ushuru mwaka wa 2009 kutoka kwa Rais Mwai Kibaki. Akiangalia ni Kamishna Mkuu wa Halmashauri ya Ukusanyaji Ushuru nchini M.G. Waweru.

Kuanzisha msingi. Mwenyekiti wa Benki ya KCB, Peter W.Muthoka(kushoto), akisaidiwa kuanzisha msingi na mfanyakazi wa kampuni ya China, Wu Yi, Martin Ndoria(kulia), kuashiria ujenzi wa jengo la kisasa la Hazina ya Kustaafu ya KCB.

Wafanyakazi wa KCB wakimkaribisha Katibu wa Fedha, Mutua Kilaka, katika kibanda cha KCB wakati wa siku ya wazi ya mwaka ya Hazina ya Kustaafu.

BIASHARA ZA KANDA

Matawi yetu yalikuwa na matokeo ya kibiashara mchanganyiko kutokana na hali zao tofauti za kimaendeleo katika mikakati ya masoko. KCB Tanzania iliandikisha hasara ya Shilingi milioni 111 kutokana na matatizo katika soko lile, lakini ikaonyesha dalili chanya za kuimarika katika kipindi cha mwisho wa mwaka. KCB Sudan ilikuwa na matokeo bora zaidi kuliko ilivyotarajiwa, baada ya kuwasilisha faida ya Shilingi milioni 581 kabla ya kodi. Tunatumai kuwa tawi hili litakuwa na ufanisi zaidi mwaka wa 2011 huku mikakati ya kutoa mikopo ikitekelezwa kuimarisha njia za mapato. KCB Uganda lililopata hasara ya Shilingi milioni 409 na KCB Rwanda hasara ya Shilingi milioni 318, ziliendelea kuimarisha biashara zao huku zikijitahidi kupata faida katika kipindi cha miaka miwili ijayo. Jumla ya hasara ya biashara za kanda ulipungua kutoka Shilingi milioni 778 mwaka jana na kuwa Shilingi milioni 259 mwaka wa 2010.

Halmashauri ya Wakurugenzi imeidhinisha kuongezwa mtaji zaidi katika matawi (KCB Uganda – Shilingi bilioni 1.1, KCB Tanzania – Shilingi milioni 225 na KCB Rwanda – Shilingi milioni 557) kusaidia katika juhudi zao za ukuaji na utekelezaji wa muundo mpya wa kanda kuimarisha biashara. Wadhifa mpya wa Mkurugenzi wa Kanda umebuniwa kusimamia biashara sambamba na viongozi wa kanda hizo.

Wakati wa kipindi hicho cha mwaka, matawi hayo, mbali na lile la KCB Sudan, yalipunguza kasi yao ya mipango ya upanuzi kutilia maanani zaidi uimarishi ili kuharakisha juhudi zao za kupata faida. KCB Tanzania ilifungua tawi moja jipya Oysterbay, Dar-es-Salaam nayo KCB Uganda ikafungua matawi matatu mapya Kampala, Jinja na Ndeeba. KCB Sudan lilipanua uwepo wake katika maeneo kumi huko Malakia, Bilpam, Yambio, Makao ya Umoja wa Mataifa huko Sudan (UNMIS) Juba, Bor, Kuajok, Torit, UNMIS Malakal, UNMIS Wau na Nimule. Tutaendelea kuzingatia kuimarisha uwepo wetu katika nchi husika sambamba na malengo yetu na mahitaji ya kibiashara ili kutumia fursa ya kufanya biashara katika masoko hayo.

MAONGOZI

Hakuna mabadiliko makubwa katika wanachama wa Halmashauri ya Wakurugenzi na kiwango cha matawi, isipokuwa kuondoka kwa Sammy Itemere kama Mkurugenzi Mkuu wa KCB Sudan. Mahali pake palichukuliwa na John Kimanthi, mwenye ujuzi wa maswala ya benki na tajiriba kuu katika KCB.

Sambamba na mahitaji ya kibiashara na kuzingatia maadili bora, Halmashauri ya Wakurugenzi ilibuni kamati za Ukaguzi, Kuzuia Hatari, Malipo, Rasilimali za Kibinadamu na Shughuli za Ununuzi pamoja na Halmashauri ya Wasimamizi wa Wakfu wa KCB kusaidia wasimamizi katika utekelezaji wa kazi zao katika shughili mbali mbali.

Aidha kumekuwa na kamati za Hazina ya Kustaafu kwa Wafanyakazi wa KCB, pamoja na ile ya Kuimarisha Mtaji na Mabadiliko. Wanachama wa kamati hizo walijumuisha wale wa Halmashauri ya wakurugenzi na wakurugenzi watendaji katika vitengo hivyo.

Halmashauri zote za matawi pia zimebuni kamati kuambatana na mahitaji ya kibiashara katika masoko yao husika na kwa mujibu wa maadili bora ya usimamizi wa kampuni.

Halmashauri ya Wakurugenzi inaendelea kupokea mafunzo ya mara kwa mara na ufahamu kupitia semina na warsha ili kujifahamisha maadili ya usimamizi wa kampuni kama yanavyotekelezwa kote duniani. Halmashauri huweka malengo ya kila mwaka na mchakato wa kuamua utendaji kazi dhidi ya malengo hayo. Wakati wote, Halmashauri ya Wakurugenzi huendeleza misingi ya uhuru na nidhamu sambamba na maadili ya Halmashauri ya wakurugenzi, huku wakiunga mkono kazi ya wasimamizi kupitia mikutano ya Halmashauri na Kamati.

MABADILIKO

Mwishoni mwa mwaka jana Halmashauri ya Wakurugenzi wa KCB walianzisha ajenda ya mabadiliko kuisongeza benki kutoka biashara bora hadi ile yenye ufanisi mkubwa. Mradi huo ulianza Januari, 2011 na unatarajiwa kushughulikia mabadiliko ya muundo wa biashara yetu,mikakati, mchakato wetu na utaratibu, usimamizi wa hatari pamoja na maswala yanayohusiana na watu kama vile takwim, mahali pa kazi, malipo, utendaji kazi dhidi ya maadili bora kwa lengo la kutoa mapendekezo ya kuendeleza biashara.

Halmashauri ya Wakurugenzi imetafuta huduma za washauri wanaotambulika kimataifa, MCKinsey & Company, kufanya kazi na kundi la kusimamia mradi na Kamati ya Halmashauri ya Mabadiliko kutekeleza ajenda hiyo. Mradi huo unatarajiwa kudumu kwa miaka miwili katika utekelezwaji wake lakini awamu ya kwanza ya uchunguzi, tathmini na mapendekezo itachukua miezi mitano au sita. Tukiangalia kazi iliyoafikiwa hadi sasa, tuna imani kuwa hatimaye tutakuwa na mikakati ambayo itaiwezesha KCB kuafikia uwezo wake kamili na kuwezesha kupatikana kwa faida inayotakikana kwa wanahisa wake.

TOLEO LA HISA ZA KCB 2010

Baada ya idhini yenu katika mkutano wa mwaka uliopita, Halmashauri ya Wakurugenzi na Wasimamizi walichukua hatua muafaka kupata mtaji zaidi kupitia toleo la tatu la mauzo ya hisa za KCB. Shughuli hiyo ilituwezesha kupata jumla ya Shilingi bilioni 12.5 kama mtaji mpya.

Kati ya hisa milioni 887.1 zilizokuwa zinauzwa wakati wa toleo hilo jumla ya hisa milioni 732 zilinunuliwa hili likiwa ni wakilisho la kiwango cha asili mia 82.50. Jumla ya hisa za kawaida sasa ni zaidi ya bilioni 2.95 zikiwa na thamani ndogo ya Shilingi moja kila moja huku hisa zilizosalia zikiwa sehemu ya mtaji wa benki ulioidhinishwa kutolewa katika siku za usoni.
Kutokana na ongezeko hili la mtaji, kiwango cha fedha cha benki yenu

kimeimarika na kuipa KCB uwezo wa kukuza rasilimali za Kampuni kwa zaidi ya Shilingi bilioni 125 na akiba kwa zaidi ya Shilingi bilioni 250. Kiwango chetu cha mtaji cha Shilingi bilioni 39.1 kwa sasa ndicho kikubwa zaidi kushinda benki yeyote katika kanda.

Ningependa kuchukua fursa hii kuwashukuru wanahisa wetu wote kwa kutuunga mkono wakati wa toleo la hisa lililofaulu na kuwahakikishia kuwa mtaji huo utawekezwa kwa uadilifu ili kuzalisha mafao yanayotarajiwa kwa minajili yenu.

WAJIBU WA KAMPUNI KWA JAMII

Kupitia kwa Wakfu wa KCB benki yenu iliendelea kutekeleza wajibu wake kusaidia wale wenye mahitaji katika jamii kupitia kwa mpango kabambe wa wajibu wa kampuni kwa jamii.

Wakati wa kipindi cha mwaka, Wakfu ulitumia jumla ya Shilingi milioni 78.6 katika nyanja muhimu za Elimu, Mazingira, Maendeleo ya Biashara, Afya na Usaidizi wa Kibinadamu. Mikakati inayofaa ya kijamii ilitekelezwa katika nchi husika kwa misingi ya mahitaji yaliyotambuliwa.

Wafanyakazi wetu walitekeleza wajibu mkubwa katika shughuli za Wajibu wa Kampuni kwa Jamii. Baadhi ya mambo walitenda ni kupanda takribani miche 300,000 kote katika eneo wakati wa siku ya KCB kwa Jamii, kusaidia shule zinazostahili na wanafunzi wenye mahitaji wakati wa Wiki ya KCB kwa Jamii na kutoa michango ya vifaa muhimu wakati wa sikukuu ya Eid na Krismasi.

Halmashauri ya Wasimamizi wa Wakfu wa KCB imeidhinisha mipango ya kuvutia itakayotekelezwa mwaka wa 2011 kwa lengo la kusaidia watu wa jamii zisizo na uwezo.

Wanariadha wakishiriki katika makala ya mbio za nyika za kitaifa za KCB/Athletics Kenya.

MATARAJIO YAJAYO

Kampuni ya KCB hatimaye inachukua nafasi yake inayostahili kama benki inayoongoza katika kanda ikiwa na uwezo wa kipekee, mali na mtaji. Kiwango kinachohitajika cha utendaji na uzalishaji ndivyo vitu vinavyosalia kukamilisha taswira ya KCB.

Hata hivyo, kwa kuwa Ajenda ya Mabadiliko inatekelezwa tunatarajia mafanikio makubwa ya benki katika siku zijazo. Tunataka kuafikia ongezeko kubwa la soko na kiwango sawa na hicho cha ongezeko la faida. Kwa kujitolea na kujihusisha kwa Halmashauri ya Wakurugenzi, muongozo wa Wasimamizi Wakuu na juhudi na kujitolea kwa Wafanyakazi tuna imani kuwa tutaafikia lengo hili.

Ningependa kuwashukuru wenzangu katika Halmashauri ya Wakurugenzi kwa kuniunga mkono bila kuchoka nikiwa Mwenyekiti na kwa kutoa muongozo na ushauri unaofaa kwa biashara. Mchango wao kwa ufanisi wa benki unaoendelea umekuwa mkubwa na wa kupongezwa.

Ningependa pia kuwashukuru Wasimamizi na Wafanyakazi kwa juhudi zao zilizowezesha matokeo ya kufana. Bidii yao kazini na kujitolea kumeisongeza KCB karibu zaidi na kilele cha fanaka kibiashara na ni dalili za mafanikio bora yajayo.

Mwisho, tunawashukuru wanahisa wetu, wateja, vyombo vya habari, jamii na wadau wengine kwa mchango wao, kwa njia moja au nyingine, kwa kuifanya KCB biashara iliyofana. Tuna imani kwamba kwa usaidizi wao tuna uwezo, rasilimali na azma kuifanya benki hii biashara kubwa ya Afrika katika miaka inayokuja.

Asanteni.

Mkurugenzi wa Idara ya KCB ya Huduma za Benki kwa Wateja wa Kibinafisi, Tim Kabiru, akipanda mti katika Chuo Kikuu cha Egerton kama sehemu ya Ushirikiano wa Kuhifadhi mazingira na taasisi hiyo.

KCB Group Chief Executive
Dr. Martin Oduor-Otieno, CBS

Shareholders,

The year 2010 was a great year for our business in spite of the hangovers of the challenges that faced the economy following a global financial meltdown in 2008-2009.

Our profit before tax improved by 56% from KShs 6.3 billion in 2009 to KShs 9.8 billion as a result of increased business and improved operational efficiency. Total operating income went up by 29% from KShs 22.9 billion to KShs 29.6 billion on the back of good growth in net interest income (36% to KShs 19.6 billion), fees and commissions (16% to KShs 6.8 billion) and foreign exchange income (68% to KShs 2.8 billion).

Total operating expenses at KShs 18.7 billion went up by 18% from KShs 15.9 billion the previous year mainly due to ongoing investment in Information Technology upgrades and other business-related initiatives. This is commendable since, for the first time, our costs grew at a lower rate than our operating income.

There was a slight increase in gross provisions for bad debts, by 36% from KShs 1.6 billion in 2009 to KShs 2.1 billion as a result of a deliberate effort to cushion our growing loan book. However, debt recoveries of KShs 1.02 billion was a good improvement from KShs 856 million in 2009. Profit after tax went up significantly by 76% from KShs 4.1 billion in 2009 to KShs 7.2 billion in 2010, based on both the growth in operating profit and tax efficiency.

On the balance sheet, we achieved an impressive growth of 29%, taking our value up from KShs 194.8 billion in 2009 to KShs 251.4 billion in 2010. On the assets side, loans and advances increased by 21% from KShs 122.7 billion in 2009 to KShs 148.1 billion in 2010 due to aggressive business development whereas investment in Government securities increased to KShs 44.2 billion, up 80% from KShs 24.6 billion the year before to take care of surplus liquidity from the Rights Issue proceeds and growth in customer deposits.

In terms of liabilities growth, our deposits increased at a commendable rate of 21% to stand at KShs 197 billion up from KShs 163 billion the year before while balances due to the other banks increased to KShs 11.1 billion up from KShs 6.7 billion in 2009.

Shareholders equity grew by an impressive 73% partly due to the successful KCB Rights Issue which brought in an additional KShs 12.5 billion to stand at KShs 39.1 billion up from KShs 22.6 billion the year before. The Board has, consequent to this good performance, recommended a final dividend payment totaling KShs 3.7 billion, a 66% increase from 2009.

The bank remains very strong in key parameters with the largest balance sheet (KShs 251.4 billion), capital base (KShs 39.1 billion) and branch network (218) in the region which positions us favourably to take advantage of market opportunities and derive good value for our investors. The total capital to total deposit liabilities ratio went up from 12.8% to 21.6% while that of core capital to total risk weighted assets increased from 14.8% to 23.1%. The total capital to total risk weighted assets ratio rose from 14.9% to 23.2% whereas that of liquidity remained stable at 30.7% from 28.1% in 2009

SERVICE DELIVERY AND PRODUCT INNOVATION

During the year we experienced a marked improvement in the stability of our core banking system with increased availability and enhanced efficiency across the business. This has enabled us to begin the process of rolling out key technology-driven products in order to derive value from the huge investment that went into the implementation of the system.

Meanwhile, we shall continue to invest in essential upgrades that would give the system capacity to support our efforts to tap into the opportunities in the market. In 2011 we expect to launch our new internet banking product that will enable our customers enjoy service from any convenient location so long as they have access to internet connectivity.

During the year we continued to consolidate our presence in the regional market with an additional 15 branches and 88 new automated teller machines. As a result, we now have 218 branches across the region spread over the countries of Kenya, Tanzania, Southern Sudan, Uganda and Rwanda. In all, our customers can access our services through 804 ATMs including our strategic partnerships with PesaPoint (110) and Kenswitch (303). Arrangements are advanced to launch our agency banking platform further increasing our reach across the markets.

In terms of new product innovation, in 2010 we launched the country's first intelligent ATM that is able to accept deposits and offer a variety of other services (we have since added a couple of them to our network), introduced a new youth focused banking product, Bankika, and unveiled an E-Tourism online payment system to support the hospitality sector. We also inaugurated mortgage finance related partnerships with a number of customers as we sought to enhance the reach of our S&L mortgages.

THE KCB BRAND IN THE REGION

The KCB brand remains strong in Kenya and across the region and continues to showcase the role of the banking sector in the success of the East African regional integration. We invested significantly in visibility initiatives and sponsorships that profile the bank as a key player in the region and are working with various partners to create a connection with our target market. We are a key member of the East African Business Council, and through this we continue to promote our brand and contribute to economic integration.

We sponsored the KCB East African Rally challenge, a motor sport circuit that helps position the bank as a regional giant and the first KCB East African Golf Tour 2010 which proved a hit to the golfers, spectators and the media. We will continue with our investments as appropriate while also considering other opportunities in the years ahead.

EMPLOYEE PRODUCTIVITY & DEVELOPMENT

KCB continues to be an employer of choice with a staff complement of over 5000 staff across the region who enjoy exciting career development opportunities. In 2010 we provided specialist training and development opportunities to employees at various levels in a bid to equip the business with necessary skills and competencies to flourish.

We have in the past used the balanced score card to measure employee performance and the mission leadership dashboard to monitor enterprise-wide business performance. In 2010 we added the use of 360 degrees evaluation process to get a complete picture of the performance of employees and have incorporated it in every member of staff's annual performance measurement.

KCB staff go through a health wellness programme at Kencom House.

The KCB Group CEO, Dr Martin Oduor-Otieno, operates a new intelligent ATM installed at KCB Moi Avenue Branch

The KCB Group Director, Sunil Shah awards the winner of the Boda Boda race with a motor cycle in Kisumu.

KCB

We continue to look for ways to enhance employee productivity and motivation in order to positively influence the bank's performance into the future.

SUSTAINABILITY AND ENVIRONMENTAL STEWARDSHIP

The Second KCB Sustainability Report has been published and is in circulation, detailing our sustainability performance in the pillars of Society, Economy and the Environment. The report demonstrates KCB's progress towards becoming a sustainable business through focus on its economic objectives, social obligations and environmental responsibilities.

The bank was a recipient of the annual Total Eco-challenge Award for its tree planting initiatives in 2010, planting close to 300,000 trees in partnership with Kenya Forest Service, UNEP and KCB staff, among other stakeholders. In 2011 the bank has a target to plant one million trees and will work with various partners to achieve this huge target.

GOING FORWARD

Going by our performance in 2010, our stakeholders should be delighted with KCB's ability to reach its full potential. With our size, status and resources, we are keen on taking measures to achieve maximum returns for our stakeholders.

The year 2011 is of immense significance for us as we seek to transform KCB from a good business to a great enterprise. The key to achieving this transformation is in understanding the underlying hindrances to our success and together, pursuing the opportunities that will deliver KCB to that much desired state of prosperity and profitability.

We want to tackle the issues that will make this bank efficient so that we deliver increased value to our investors. We also want to build an infrastructure that reflects our PanAfrican vision with world class systems, processes and frameworks to push us to the edge of innovation, risk management, strategic planning and productivity.

In conclusion, I would like to thank our shareholders for their continued support to the business as demonstrated during the successful Third KCB Rights Issue which gave us much needed capital to grow. On behalf of Management and Staff, I would like to assure you that we will do everything possible to deliver decent returns on your investment.

Special thanks also go to our loyal customers who have entrusted us with their business during the year. I wish to promise them improved levels of service in 2011 and to ask them to continue to support KCB in the year ahead so that together we can grow.

I would also like to thank the Board of Directors for working very closely with Management in order to grow your business. We appreciate their patient and wise counsel as well as support to drive this business to the next level. I am also grateful to my colleagues, staff of KCB, without whom this impressive performance would not have been possible. Their hard work, dedication and loyalty are invaluable in our pursuit of excellence in the region's financial sector and I am confident they will continue to deliver in the same spirit in 2011 and beyond.

Thank you.

The KCB Group Director and Chairman of KCB Foundation, Susan Omanga, presents a token of appreciation to the Chairman of National Museums of Kenya, Mr Issa Timamy, during the Lamu Cultural Celebrations.

Uganda's Deo Akope playing in Kampala during the KCB East African Golf Tour.

WE THANK OUR STAKEHOLDERS FOR PUTTING US ON TOP.

KCB, Kenya's largest bank, recently received the following Capital Markets Awards.

- Winner - Best Quoted Company of the Year
- Winner - Best CEO of the Year
- Winner - Leading Custodian
- 2nd Runners Up - Best Pension Fund

We at KCB are proud to have won these awards and we dedicate them to you. We could not have done it without you our board, management, treasured customers and staff. Thank you all.

TAARIFA YA MKURUGENZI MKUU

Mkurugenzi Mkuu wa KCB
Dkt. Martin Oduor-Otieno, CBS

Wanahisa,

Mwaka wa 2010 ulikuwa wa ufanisi kwa biashara yetu licha ya athari za changamoto zilizokabili uchumi kufuatia hali ya kudorora kwa uchumi mwaka wa 2008-2009.

Faida yetu kabla ya kodi iliimarika kwa asili mia 56 kutoka Shilingi bilioni 6.3 mwaka wa 2009 hadi Shilingi bilioni 9.8 kutokana na kuimarika kwa biashara na ufanisi katika utendaji kazi. Jumla ya mapato ya kufanyia shughuli yaliongezeka kwa asili mia 29 kutoka Shilingi bilioni 22.9 hadi Shilingi bilioni 29.6 kutokana na ukuaji bora katika jumla ya mapato ya riba (asili mia 36 hadi Shilingi bilioni 19.6), ada na kamisheni (asili mia 16 hadi Shilingi bilioni 6.8) na mapato ya kubadilisha fedha za kigeni (asili mia 68 hadi Shilingi bilioni 2.8).

Jumla ya fedha za kufanya shughuli zilikuwa thabiti katika kiwango cha Shilingi bilioni 18.7 huku kikiimarika kwa asili mia 18 kutoka Shilingi bilioni 15.9 mwaka uliotangulia kutokana na shinikizo la uwekezaji unaoendelea kuboresha kitengo cha habari na teknolojia na mikakati mingine yenye uhusiano na biashara.

Kuna ongezeko kiasi la madeni ya jumla yasiyolipika, kwa asili mia 36 kutoka Shilingi bilioni 1.6 mwaka wa 2009 hadi Shilingi bilioni 2.1 kutokana na juhudi maridhawa za kuwa makini katika mikopo inayoendelea kutolewa. Hata hivyo kiasi cha Shilingi bilioni 1.02 cha madeni yaliyokusanywa kilikuwa imariko bora kutoka Shilingi milioni 856 ya madeni yasiyolipika mwaka wa 2009. Faida baada ya kodi iliongezeka kwa kiasi kikubwa kwa asili mia 76 kutoka Shilingi bilioni 4.1 mwaka wa 2009 hadi Shilingi bilioni 7.2 mwaka wa 2010.

Kwenye taarifa ya fedha na rasilimali, tulipata ukuaji mkubwa wa asili mia 29, na kuongeza thamani yetu kutoka Shilingi bilioni 194.8 mwaka wa 2009 hadi Shilingi bilioni 251.4 mwaka wa 2010. Mbali na rasilimali, mikopo iliongezeka kwa asili mia 21 kutoka Shilingi bilioni 122.7 mwaka wa 2009 hadi Shilingi bilioni 148.1 mwaka wa 2010 kutokana na kuimarika kwa juhudi za kuuza, huku uwekezaji wa hati za dhamana za serikali ukiongezeka kwa kiasi kikubwa hadi Shilingi bilioni 44.2, kwa asili mia 80 kutoka Shilingi bilioni 24.6 mwaka uliotangulia kusimamia mapato ya fedha ya ziada.

Kwa upande wa kuongezeka kwa madeni, akiba yetu iliongezeka kwa kiwango cha kuvutia cha asili 21, kufikia Shilingi bilioni 197 kutoka Shilingi bilioni 163 mwaka uliotangulia huku fedha zilizotakikana kutolewa kwa benki nyingine zikiongezeka kwa kiasi kikubwa na kufikia Shilingi bilioni 11.1 kutoka Shilingi bilioni 6.7 mwaka wa 2009.

Akiba ya wanahisa iliongezeka kwa kiwango cha kuridhisha cha asili mia 73 kutokana na ufanisi wa mpango wa kuuza hisa za KCB ambazo zilichangia ziada ya Shilingi bilioni 12.5 na kuwa Shilingi bilioni 39.1 kutoka Shilingi bilioni 22.6 mwaka uliotangulia. Kutokana na ufanisi huu, Halmashauri ya Wakurugenzi, imependekeza mgao wa faida wa mwisho wa jumla ya Shilingi bilioni 3.7, ongezeko la asili mia 66 kutoka mwaka wa 2009.

Benki inaendelea kuwa imara katika nyanja muhimu ikiwa na Shilingi bilioni 251.4, kiasi kikubwa zaidi cha fedha na rasilimali, Shilingi bilioni 39.1 na matandao mkubwa zaidi wa matawi(218) katika kanda, hali ambayo inatuweka katika nafasi nzuri ya kutumia nafasi za masoko na kupata thamani bora kwa wawekezaji wetu.

Uwezo wa benki yetu kifedha ni mkubwa kuliko awali kutokana na ongezeko la mtaji kufuatia ufanisi wa mauzo ya hisa zetu. Jumla ya mtaji kwa jumla ya madeni ulipanda kutoka asili mia 12.8 hadi asili mia 21.6 ilihali ile ya mtaji muhimu kwa hatari ya jumla dhidi ya kiwango cha chini zaidi cha rasilimali kinachohitajika uliongezeka kutoka asili mia 14.9 hadi asili mia 23.2 nacho kiwango cha fedha kikabakia thabiti kwa asili mia 30.7 kutoka asili mia 28.1 mwaka wa 2009.

UTOAJI WA HUDUMA NA UBUNIFU

Wakati wa kipindi cha mwaka tulishuhudia kuimarika kwa uthabiti wa mfumo wetu mkuu wa benki ambao uliendelea kutoa huduma kwa ufanisi zaidi kote katika biashara. Hii imetuwezesha kuanzisha mchakato wa kuanzisha huduma

Mkurugenzi Mkuu wa KCB, Dkt. Martin Oduor-Otieno (kulia), akianzisha huduma ya Bankika akiwa na mwanamziki Jimmy Gait (kushoto).

muhimu zinazotumia teknolojia ili kupata thamani kutoka uwekezaji mkubwa uliotumiwa kutekekeza mpango huo.

Wakati huo, tutaendelea kuwekeza katika kuimarisha mfumo ambao utakuwa na uwezo wa kusaidia juhudi zetu kutumia nafasi zilizoko kwenye soko. Mnamo mwaka wa 2011, tunatarajiwa kuanzisha huduma ya benki ya mtandao wa internet.

Wakati wa kipindi cha mwaka tuliendelea kuimarisha uwepo wetu katika masoko ya kanda kwa kuongeza matawi 15 na mashini mpya 88 za ATM. Kutokana na hayo, sasa tuna matawi 218 kote katika kanda katika mataifa ya Kenya, Tanzania, Sudan Kusini, Uganda na Rwanda. Kwa ujumla wateja wetu wanaweza kupata huduma kupitia ATM 804 ikiwa ni pamoja na ATM 110 zilizo kwenye ushirikiano wetu na Pesa Point na 303 za Kenswitch. Tumepiga hatua katika mipango yetu kuanzisha wakala wa shughuli za benki hivyo kuongeza uwepo wetu kote katika masoko.

Kuhusu kubuni huduma mpya, mwaka wa 2010 tulianzisha ATM ya kwanza yenye viakisi ambayo inaweza kukubali fedha zinazowekwa akiba na kutoa huduma nyingine nyingi(kutokea hapo tumeongeza nyingine katika mtandao wetu), kuanzisha huduma ya benki yenye kuwalenga vijana, Bankika, na kuanzisha mfumo wa malipo kwa njia ya mtandao, E-Tourism ili kusaidia sekta za kitalii. Aidha tulianzisha mpango wa mkopo wa nyumba kwa ushirikiano na kampuni ya saruji ya East Africa Portland na Shirika la Ujenzi wa Nyumba, miongoni mwa nyingine, huku tukijitahidi kuongeza kiwango cha mikopo yetu ya nyumba ya S & L.

NEMBO YA KCB KATIKA KANDA

Nembo ya KCB bado ni imara nchini Kenya na katika kanda na inaendelea kuwa kielelezo cha sekta ya benki katika ufanisi wa ushirika wa Afrika Mashariki. Tuliwekeza kwa kiasi kikubwa katika mikakati ya kujitangaza na udhamini ambao unatambulisha benki yetu kama mshirika muhimu katika kanda na tunafanya kazi na washirika mbalimbali kubuni mshikamano na soko tunalolenga.

Tulidhamini mashindano ya magari ya KCB East African Rally, mzunguko wa magar,i ambao umekusudia kutangaza benki kuwa mwamba katika kanda na mashindano ya kwanza ya KCB East African Golf Tour 2010 ambayo yalikuwa na mvuto mkubwa miongoni mwa wachezaji wa golf, watazamaji na waandishi wa habari. Tutaendelea kuwekeza kama inavyohitajika huku tukitilia maanani mipango mingine katika siku zinazokuja.

UZALISHAJI NA MAENDELEO

Huku ikiwa na wafanyakazi zaidi ya 5000, KCB inaendelea kuwa chaguo la wafanyakazi kote katika kanda huku wakifurahia nafasi za kuvutia za kujiendeleza na malipo yakuridhisha pamoja na fursa za kuvutia. Katika mwaka wa 2010 tuliafikia lengo letu la mafunzo kwa wafanyikazi. Aidha tulitoa nafasi za mafunzo maalum na maendeleo kwa wafanyakazi katika nyanja zote katika jitihada za kutoa ujuzi unaohitajika kuendeleza biashara.

Katika siku zilizopita tumetumia vigezo vya ulinganifu kukadiria utendaji kazi na kile cha uongozi kukadiria mwelekeo wa biashara. Katika mwaka wa 2010 tuliongeza matumizi ya utathimini wa nyuzi 360 kupata picha kamili ya utendaji kazi na tumejumuisha mbinu hiyo katika kipimo cha mwaka cha kila mfanyakazi.

Tunaendelea kutumia mfumo wa utendaji na mbinu zakuwawezesha na kuwapa motisha wafanyikazi ili watende kazi zao vyema zaidi.

UENDELEVU NA ULINZI WA MAZINGIRA

Ripoti ya Pili ya KCB ya uendelevu imechapishwa na kusambazwa, huku ikieleza kwa kina uendelevu wetu katika nyanja ya jamii, uchumi na mazingira. Ripoti hiyo inadhihirisha maendeleo ya KCB katika jitihada za kuwa biashara endelevu kupitia malengo yake ya kiuchumi, majukumu ya kijamii na wajibu wa kimazingira.

Benki ilitunukiwa tunzo za mwaka za Total Eco-challenge kwa juhudi zake za upanzi wa miti mwaka wa 2010, ambapo ilipanda miche 300,000 kwa ushirikiano na Shirika la ulinzi wa misitu, UNEP na wafanyakazi wa KCB, miongoni mwa wadau wengine. Mwaka wa 2011, benki imelenga kupanda miche milioni moja na itafanya kazi na washika dau wengine kuafikia lengo hili kuu.

KWENDA MBELE

Kwa kutathimini matokeo ya mwaka wa 2010, washikadau wetu wanapaswa kuanza kuamini uwezo wa KCB wa kufikia kilele cha uwezo wake. Kwa ukubwa wetu, hadhi na rasilimali, wakati umewadia wa kuafikia matokeo hayo na tunajitahidi kuchukua hatua ili kupata faida ya kiwango cha juu kwa wanahisa wetu.

Mwaka wa 2011 ni wa umuhimu mkubwa kwetu tunapojitahidi kuibadilisha KCB kutoka biashara nzuri hadi biashara kubwa. Kigezo cha kuafikia mabadiliko haya ni katika kuelewa vikwazo vilivyoko kwa ufanisi wetu na kwa pamoja, kutumia mbinu ambazo zitaifikisha KCB kufikia ufanisi na hali ya kupata faidi inayohitajika.

Tunataka kukabiliana na maswala ambayo yanaifanya benki hii kutotoa huduma inavyotakikana ili tuweze kuwanufaisha wawekezaji wetu. Pia tunataka kujenga muundo msingi ambao unaakisi ruwaza yetu ya Kusambaa Afrika tukiwa na mifumo ya viwango vya kimataifa, michakato na miundo ya kutufikisha kilele cha ubunifu, kukabiliana na hatari, mikakati kabambe na uzalishaji. Tuko tayari kufanya kazi kuafikia lengo hili.

Wakati huo huo, tumeweka viwango vya juu katika malengo yetu ya utendaji kwa mwaka wa 2011 ambayo yatatupeleka hatua moja mbele kwa nafasi tunayowania. Nimelihimiza kundi la KCB kufanya kazi kwa bidii kufikia malengo yetu ya 2011 ili kuifanya KCB moja wapo wa biashara zinazopata faida kubwa zaidi Afrika.

Mwisho, ningependa kuwashukuru wanahisa wetu kwa kuendelea kuunga mkono biashara kama ilivyodhihirishwa katika toleo la tatu la hisa za KBC lililofaulu ambalo lilitupa mtaji muhimu wa kujiendeleza. Kwa niaba ya Wasimamizi na Wafanyakazi, ningependa kuwahakikishia kwamba hatuchukulii kwa mzaha juhudi zenu za kutuunga mkono na tungependa kufanya kila jitihada kuvutia faida kwa ajili ya uwekezaji wako.

Ningependa kuishukuru Halmashauri ya Wakurugenzi kwa kufanya kazi kwa karibu na Wasimamizi ili kukuza biashara yenu. Tunatambua uvumilivu wao na mawaidha ya busara pamoja na juhudi zao za kuendeleza biashara hii hadi upeo wa juu.

Nawashukuru pia wenzangu, kwani bila wao ufanisi huu mkubwa haungeweza kuafikiwa. Kujitolea kwao kazini na uaminifu ni muhimu katika juhudi zetu za kuwa benki yenye ufanisi zaidi katika kanda na nina imani kuwa wataendelea kufanya kazi kwa moyo huo huo mwaka wa 2011 kwenda mbele.

Asanteni.

Meneja wa Biashara Kanda ya Magharibi, Harun Kibongong (kushoto), akimkabidhi vifaa vya afya Dkt. Rosemary Obara(kulia), wa zahanati ya Migosi huko Kisumu.

Mkuu wa Huduma za Mali na Biashara, Beatrice Mbuthia (kushoto), akipokea Tuzo ya huduma za Benki kwa Mwaka wa 2010 kwa huduma bora zaidi ya ufadhili wakati wa sherehe zilizofanyika huko Nairobi.

WE'RE OFFICIALLY KENYA'S

5 STAR BANK

THE BANKING AWARDS 2010

Presented by:

Think Business Limited

Though we received the most awards in the 2010 Banking Awards, we are honoured that our customers enjoy the rich rewards of our dedication to providing them with the best banking solutions.

- Best Bank in Product Marketing
- Best Bank in Mortgage Finance - S&L Mortgages
- Best Bank in Asset Finance
- Best Bank in Retail Banking
- Best Bank in Technology Use

KCB | Making the Difference

www.kcbbankgroup.com

BOARD OF DIRECTORS

Back Row (from left)
David Malakwen - Company Secretary | **Susan Omanga** - Director | **Eng. Musa Ndeto** - Director | **Joseph Kinyua, CBS** - Director and Permanent Secretary, Treasury
Prof. Peter Kimuyu – Director | **Joseph Adongo** –Director | **Catherine Kola** – Director | **Samuel Kimani** – DCEO - Group Controls

Front Row (from left)
Dr. Martin Oduor-Otieno, CBS - Group CEO | **Hon. Catherine Kimura** - Director | **Peter W. Muthoka, MBS** - Group Chairman | **Sunil Shah** - Director

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 Government of Kenya, United Nations related bodies and Central Bank of Kenya. He was Founder and Chief Executive of College of Banking and Finance of Kenya, Founder and Chief Executive of Export Promotion Council of Kenya and Managing Director of Sasini Limited. He is Chairman of KCB (S), KCB (R) and Director of KCB (T), KCB Bank (U), KCB Foundation and Sasini Limited. He is also Chairman of KCB Employee Share Option Scheme (ESOP). He is a Fellow of Kenya Institute of Bankers (FKIB) and Fellow of Kenya Institute of Management (FKIM).

JOSEPH K KINYUA, CBS
Director and PS 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. 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 Transformation and the Procurement Committees of the Board.

PROF. PETER KIMUYU
Director
He joined the Board in June 2006. He holds a PhD in Economics from University of Nairobi. He is a member of the New York Academy of Sciences, a Professor of Economics and Founder Director of School of Economics at Nairobi University and current Chairman, Privatization Commission of Kenya. He is the Chairman of the Risk Management Committee of the Board.

CATHERINE N 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, 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 Human Resource Committee of the Board and a Director of KCB Tanzania.

SUSAN OMANGA
Director
She joined the KCB Group Board in June 2004. She holds a Degree in Business Management and Marketing from Rocky Mt College in Billings Montana, USA. She is the founder and Managing Director of Exclamation Marketing Limited. She has vast marketing experience having headed the Marketing function in Barclays Bank Kenya for 5 years and was the Regional Head of Marketing for Standard Chartered for 4 years. She also sits in the Board of KCB Uganda and is 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 and the Bank's 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 Audit 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.

DR. MARTIN ODUOR-OTIENO, CBS
KCB Group Chief Executive
He was appointed to the Board of KCB in 2005. He holds an honorary Doctor of Business Leadership degree from the KCA University, an MBA and a Bachelor of Commerce Degree in Accounting and is an Alumnus of Harvard Business School's Advanced Management Program. He is also 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.

SAMUEL KIMANI
Deputy CEO, Group Controls
He joined the bank in the year 2000. He has over 20 years experience in Financial Management having previously worked with PricewaterhouseCoppers 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 an alumnus of Harvard Business School's Advanced Management Program. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK).

KIPROP DAVID MALAKWEN
Company Secretary
He joined the Bank in July 1994 as Company Secretary. He is a holder of the Degrees of Bachelor of Laws (LL.B. Hons) and Master of Laws (LL.M) from the University of Nairobi. He is an Advocate of the High Court of Kenya and a member of the East African Law Society and Commonwealth Bar Association. He is also a Fellow of the Institute of Certified Public Secretaries of Kenya (FICPSK).

KCB EXECUTIVE COMMITTEE

Not in the picture

Dr. Martin Oduor-Otieno, CBS	Group CEO
Samuel Kimani	DCEO, Group Controls
Peter Munyiri, HSC	DCEO, Group Business

Back Row (from left)

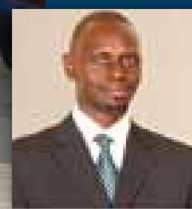
Timothy Kabiru	Divisional Director	Retail banking
Kepha Bosire	Divisional Director	Public Affairs and Communications
Paul Tikani	Divisional Director	Operations
David Thuo	Divisional Director	Treasury
Charles Maranga	Divisional Director	Human Resources
John Mark Wandolo	Divisional Director	Corporate Banking
Dr. Tony Githuku	Divisional Director	Information Technology
Fred Mutiso	Divisional Director	Audit
Stanley Towett	Divisional Director	Finance
Dr. Robert Ochola	Divisional Director	Strategy, Research and Innovation
Wilfred Sang	Divisional Director	Credit

Seated (from left)

Rose Kinuthia	Chief Risk Officer	Risk Division
Catherine Njoroge	Divisional Director	Special Projects
Caroline Kariuki	Divisional Director	Mortgage Business
Mary – Ann Musangi	Divisional Director	Marketing

Inset

James Agin	Divisional Director	Regional Business



Back Row (from left)
Susan Omanga (Chairman) | Irene Metto, Kepha Bosire
Seated (from left)
Dr. Martin Oduor-Otieno, CBS | Peter W. Muthoka, MBS | Sunil Shah

Inset
George Odo (top), Grace Akumu (bottom)

GEORGE ODO
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 a leasing company and a MFI in Zambia, 1 MFI in Tanzania, an International School in Kenya and 1 International Aid Agency in Kenya.

GRACE A. AKUMU
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, since 1992. She is actively involved in climate change and sustainable development issues at the national and international levels. She has been nominated twice as a Lead Author of the Intergovernmental Panel on Climate Change. She is a Technical Advisor to Kenya Government on Climate Change and was recently appointed a Board Member of the National Environment Council. She has served in various capacities in the public sector and non-governmental organizations. She has previously served as the National Chairman, Governing Council, NEPAD-African Peer Review Mechanism Kenya, World Bank Consultant on Carbon Fund and Project Manager for Kenya Women Literature Group.

KEPHA BOSIRE
Divisional Director, Public Affairs & Communications
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 a MBA in Strategic Management and B.Sc. in Information Sciences from Moi University and a Diploma in Strategic Public Relations from The Management School of London.

IRENE METTO
Company Secretary
She is the Company Secretary of KCB Foundation. 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 BANK UGANDA LIMITED DIRECTORS

Back Row (from left)

David Nyende | Albert Odongo | David Malakwen | Stanely Towett | Florence Kata

Seated (from left)

Samwiri Njuki, (Chairman) | Peter W. Muthoka, MBS

SAMWIRI H. K. NJUKI
Chairman

He joined KCB (U) as a non-executive Board Member in November, 2007. He was appointed the Chairman of KCB Uganda Limited in the year 2010. He holds a Bachelor of Arts Degree and an Advanced Diploma in Economics of Banking. Before he joined KCB (U), he has worked as the Managing Director of Orient Bank Uganda Limited from where he retired in July 2007. He is the past Chairman of Uganda Securities Exchange and was the former Chairman Uganda Bankers Association. He has been in banking for over 30 years.

DAVID M. NYENDE
Director

Joined KCB (U) in August 2008 as a non-Executive Board member. He holds a Bachelor of commerce degree from Makerere University 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 Senior Partner with PIM & Co, Certified Public Accountants in Kampala. He has diverse international experience in Finance and related disciplines obtained in several countries including Nigeria, the U. K., Germany, Kenya, Tanzania and Uganda.

FLORENCE KATA
Director

She joined the bank in July 2009. She has over 28 years of experience in both the public and private sector, 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.

ALBERT ODHIAMBO ODONGO
Managing Director

He was appointed to the Board of KCB Bank Uganda in 2010. He holds an MBA from ESSAMI/ Maastricht and a Bachelor of Arts Degree from the University of Nairobi. He joined the Bank in 1985 and has served in various management roles in the KCB Group. He has previously served as Ag. Managing Director for KCB Tanzania, Head of Central Services and also Head of Regional Subsidiaries Support.

STANLEY TOWETT
Divisional Director, Finance

He joined KCB in 1984 as a management trainee rising through the ranks to become the Chief Operating Manager, Savings and Loan and later to Assistant General Manager Administration KCB before being elevated to Divisional Director Audit and further to his current position. He holds a Bachelor of Commerce degree (Accounting Option) from the University of Nairobi and Masters of Business Administration degree from E.S.A.M.I. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He has attended numerous courses and workshops in the fields of Strategic and financial management.

Back Row (from left)

Peter W. Muthoka, MBS | Philemon Nikubuka Shimwela | Dr. Martin Oduor-Otieno, CBS | Joshua Muiru | Edward Lyimo

Seated (from left)

Joram Kiarie | Dr. Edmund Bernard Mndolwa - Chairman | Hon. Catherine Kimura

DR EDMUND BERNARD MNDOLWA
Chairman

He joined the Board in April 2010. He holds a Masters In Business Administration (MBA) from Mzumbe University in banking and Finance and a Doctorate of Philiosophy (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. During this period he was working for the East African Community till 1976. He joined Deloitte in 1977 where he worked for four years upto 1980. 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 a Chairman of the Board of Tanzania Postal Bank.

PHILEMON NIKUBUKA SHIMWELA
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, with honours, in economics, management and administration from the University of Dar es Salaam (1973). He is currently Chairman of the Fair Competition Commission, member of the Tax Revenue Appeals Tribunal and CEO and Lead Consultant at Kasuto Company Limited. He has been external director of many companies including the former state-owned National Bank of Commerce.

JOSHUA S. MUIRU
Director

He joined the Board in August 2006 after working with Central Bank of Kenya for over 23 years. He 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 on 1st July 2007.

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 in Economics from the University of Nairobi and a Bachelor of Science Degree from the University of Manchester Institute of Science & Technology. He is also an Associate of the Chartered Institute of Bankers. Prior to moving to KCB Tanzania as Managing Director, Joram worked in various Senior Management Capacities in KCB Corporate Banking Division, the last position being Head of Global Banking Unit. He has also worked in KCB's Mortgage business as Head of Business Development. Before joining the Bank he worked with Cooperative Bank of Kenya and ABN Amro Bank, gaining over 15 years experience.

EDWARD LYIMO
Company Secretary

He joined the bank in January 2011 as the Company Secretary and Head of Legal at KCB Bank Tanzania. He has a Bachelor of Laws Degree (LLB Hons) from the University of Dar es Salaam in Tanzania. He has attended various courses and workshops in legal management and International Law. He is also an advocate of the High Court. He previously worked with Barclays Bank Tanzania Limited.

KCB RWANDA SA DIRECTORS

Back Row (from left)

Prof. Peter Kimuyu | Anne Wangari Kirima | Faustin Mbundu | Gladys Biamah

Seated (from left)

Marie-Josee Kankera | Maurice Toroitich | Peter W. Muthoka, MBS, Group Chairman | Sarah Mukandutiye | Samuel Kimani

ANNE KIRIMA WANGARI
Director

She joined the bank in October 2009, she holds a Master degree (Brunnel 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 references to East Africa.

FAUSTIN KANANURA MBUNDU
Director

He joined the bank in October 2009. He holds a Bachelor of Commerce degree (Honors) from Makerere University. He has a lot of entrepreneurial experience having started and run 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.

MARIE-JOSEE KANKERA
Director

She joined the bank 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 is currently a member of parliament-Rwanda and an independent Consultant. She has been involved in different projects such as 'Projects Management, M&E Systems, Good Governance and Gender Development.

SARAH MUKANDUTIYE
Director

She joined the bank 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.

MAURICE TOROITICH
Managing Director

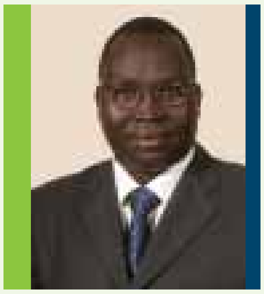
He joined the bank in October 2009. He holds a Bachelors Degree in Commerce from the University of Nairobi and is an MBA finalist at Strathmore Business School. He is a Certified Public Accountant of Kenya (CPA (K)) and an Associate of the CIB (London). He has over 17 years banking experience in Retail and Corporate Banking. He previously worked for CfCStanbic Bank.

GLADYS BIAMAH
Company Secretary

Gladys Biamah is the Company Secretary of KCB Rwanda SA. She has over 25 years working experience in KCB. She joined the bank in January 1986 and has served in various capacities. She is currently the Senior Legal Manager, KCB Group. She holds an LLB Degree (Hons) from the University of Nairobi. She is also an Advocate of the High Court and a Certified Public Secretary.

Not in the picture

Peter W. Muthoka, MBS, Group Chairman | Eng. Musa Ndeto | David Malakwen

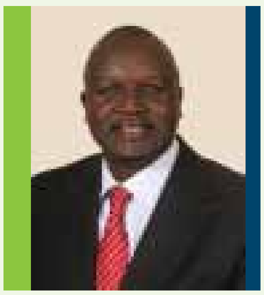


JASHINTO PAKON GENYE
Director

He joined KCB Sudan in July 2009. Jashinto holds MSc. in National Development and Project Planning from Bradford University, UK. Pg/D (Economic Development) Glasgow University, UK and BSc (Business Administration) Khartoum University, Sudan. He previously worked as a Regional Facilitator, Relief and Development Coordinator, National Director of Development Programmes and an Executive Director for SCC, Western Sudan Region. Jashinto is currently the Chairman and Executive Director of the Consultancy: Centre for Alternative Development (CEfAD), dealing with the Ministry of Investment of the Government of South Sudan. Jashinto is a member of Board of Directors in a number of Private companies.

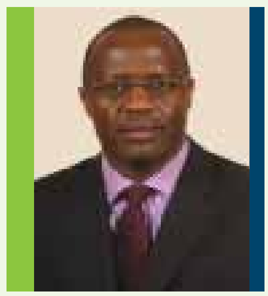
YAR MANOA MAJOK
Director.

She joined KCB Sudan in September 2008. Yar hold 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.



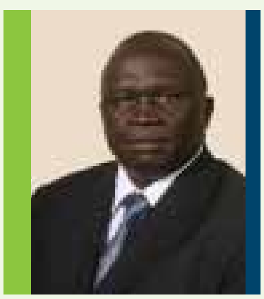
MOU AMBROSE THIIK
Director

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. Mou 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.



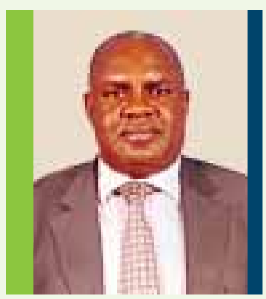
PETER MUNYIRI, HSC,
DCEO, Group Business

He joined KCB in 2007. He has vast experience in Banking and Finance having previously worked in Senior and Executive Management positions at Barclays, Standard Chartered and Co-operative Bank in Kenya. He is an alumni of the World Bank Training Institute, Washington, as well as Strathmore University, Nairobi. 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 did receive the Head of State Commendation Award in recognition of his role in deepening outreach of banking services in the region. He is a Director of KCB(S) and attends all Group Board meetings.



DR. LEONZIO A. ONEK
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 and Chairman of Audit Committee of KCB Sudan Ltd.



JOHN KIMANTHI
Managing Director

John Kimanthi is the immediate past Business Development Director of KCB Sudan. A position he has held since 2007. John is a seasoned banker with a wealth of experience having joined the KCB Group in 1986 as a Management Trainee. He rose through the organization being a Branch Manager in several branches, an Area Manager Operations, and a Hub Retail manager and finally headed the key Sarit centre branch, Nairobi before his promotion to KCB Sudan. John holds a 1st Class honours degree in Mathematics and Computer Science from the University of Nairobi and an MBA in Strategic Management from ESAMI.

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 December 2010, 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 set out in note 23 to the financial statements.

2. RESULTS

The results of the Group and the Bank are set out on pages 38 and 41, respectively.

3. DIVIDEND

The directors recommend the payment of a dividend of KShs 3,687,824,773 which represents KShs 1.25 per share in respect of the year ended 31 December 2010 (2009: KShs 2,217,777,777 representing KShs. 1.00 per share).

4. OPERATIONS OF SAVINGS AND LOAN KENYA LIMITED

On 1 January 2010, the operations of Savings and Loan Kenya Limited, a fully owned subsidiary of Kenya Commercial Bank Limited (“the Bank”) were merged with those of the Bank. The transfer of assets and liabilities was done at net book value.

5. RESERVES

The reserves of the Group and the Bank are set out on pages 44 and 45, respectively, and in note 28.

6. 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
Mr. S. Kimani	-	Deputy Chief Executive Officer
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		

All the directors are non-executive other than the Chief Executive Officer and the Deputy Chief Executive Officer.

7. AUDITORS

Ernst & Young retire as auditors of the company and a recommendation will be made to the shareholders at the forthcoming Annual General Meeting to appoint new auditors in accordance with the provisions of section 159 (1) of the Kenyan Companies Act.

By Order of the Board

Mr. K.D. Malakwen
Secretary
24 February 2011

STATEMENT 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.

Chairman

Chief Executive

Director

24 February 2011

CORPORATE GOVERNANCE STATEMENT

KCB is committed to the standards of world class corporate governance as set from time to time by the Capital Markets Authority, Central Bank of Kenya 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 other two are Senior Bank Executives. 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 of the Bank.

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 and sustainable growth and shareholder value are realized. The Board also makes recommendations to the shareholders on Board succession planning, dividend payout and annual financial statements.

BOARD MEETINGS

The Board of Directors meet bi-monthly or as required in order to monitor the implementation of the Company's planned strategy, review it in conjunction with its financial performance and approve issues of strategic nature. 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 2010 the Board Committees and Directors self evaluation was conducted with the benefit of external consultancy.

The Board held 16 meetings during the year under review. More meetings were held during the year because of cost management and transformation initiatives.

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. Business continuity issues are also discussed by this committee.

The Committee had 4 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. All the audits conducted by this committee are risk based.

The Committee held 6 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 credit 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 also reviews the Company's credit risk appetite and sectoral concentration.

The Committee held 26 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. This Committee also oversees the nomination functions and senior management performance reviews.

The Committee met 7 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 9 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 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 3 meetings during the year.

(g) New Markets Committee

This committee was constituted by the Board during the year under review to work out possibilities of entries into new markets in the Region. No entry recommendations were made during the year.

The Committee held 2 meetings during the year.

(h) Transformation Committee

This Committee was constituted by the Board during the year to re-look at the Company's processes and systems in order to ascertain their cost effectiveness and efficiency and make any changes thereto. The Committee will also look at possibilities of transforming KCB into a world class bank and in this regard, the Bank engaged the services of McKinsey & Company, a reputable and world class consultancy firm. Recommendations from this committee will be made in 2011. This Committee was initially the Cost Management Committee.

The Committee held 3 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 Bank has a shareholder communication system.

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 2010 is disclosed in Note 10 to the Financial Statements.

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

Aggregate amount of loans advanced to Directors is summarized in Note 18 to the Financial Statements.

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, 2010

	Main Board	Audit	Credit	Risk Management	Human Resource	Procurement	Cost Management	New Markets	Transformation	Kcb Foundation
No. Of Meetings Held	16	6	26	4	7	9	4	2	3	3
Meetings Attended										
Mr. P.W. Muthoka	15									1
Mrs. C.A. Kola	11		16		3			1		
Eng. Musa Ndeto	16	4		2		9	4	1	2	
Mr. J.I. Adongo	16		26				4	2	3	
Mr. J.K. Kinyua	15		26	4				1		
Mrs. C.N. Kimura	14	6			6			2		2
Mrs. S.N. Omanga	14	5		2		9	4		3	3
Mr. S.N. Shah	13			2	6	9	4		3	1
Prof. P.K. Kimuyu	13	4		2	4			2		
Dr. M. Oduor-Otieno	15		6	2	5					1
Mr. S. N. Kimani	13		12			2	1			

DIRECTOR INTERESTS AS AT 31 DECEMBER 2010

Name of Director	Number of Shares	%Shareholding
Permanent Secretary to the Treasury of Kenya	523,600,000	17.75
Peter Wanyaga Muthoka	244,994	0.01
Mrs. Catherine Ngima Kimura	86,958	0.00
Standard Chartered Nominees A/C 9688 (Mr. Sunil Narshi Shah)	72,490,723	2.46
Mrs. Susan Nkirote Omanga	3,110	0.00
Mr. Joseph Isaac Adongo	21,210	0.00
Eng. Jeremiah Musa Ndeto	45,985	0.00
Mrs. Catherine Adongo Kola	25,540	0.00

KCB

SHAREHOLDER PROFILE AS AT 31 DECEMBER 2010

	Number of Shareholders	Number of Shares Held	% of Issued Share Capital
Kenyan Individual Investors	161,271	859,281,046	29.13
Kenyan Institutional Investors	5,957	1,741,795,752	59.04
East African Individual Investors	194	1,270,194	0.04
East African Institutional Investors	29	6,123,509	0.21
Foreign Individual Investors	462	8,732,996	0.30
Foreign Institutional Investors	95	333,056,321	11.28
	168,008	2,950,259,818	100.00

MAJOR SHAREHOLDERS

Name	Number of Shares Held	% Shareholding
Permanent Secretary to the Treasury of Kenya	523,600,000	17.75
National Social Security Fund	225,230,343	7.63
Standard Chartered Nominees A/C 9688	72,490,723	2.46
Stanbic Nominees Kenya Ltd A/C R48701	55,234,006	1.87
Standard Chartered Nominees A/C 9687	42,570,686	1.44
Coop Custody A/C 4003	35,536,989	1.20
Standard Chartered Nominees A/C 9230	33,986,787	1.15
Kenya Re-Insurance Corporation Ltd	26,863,121	0.91
KCB Nominees Ltd A/C 744A	24,898,371	0.84
KCB Nominees Ltd A/C 744D	20,564,998	0.70
	1,060,976,024	35.95

DISTRIBUTION OF SHAREHOLDERS

Shares Range	Number of Shareholders	Number of Shares	% of Issued Shared Capital
1 to 5,000	132,955	233,120,252	7.90
5,001 to 50,000	32,910	344,989,808	11.69
50,001 to 100,000	989	68,393,642	2.32
100,001 to 1,000,000	913	263,407,283	8.93
1,000,001 to 10,000,000	206	632,996,777	21.46
10,000,001 & above	35	1,407,352,056	47.70
	168,008	2,950,259,818	100.00

COMMUNITY SOCIAL DEVELOPMENT REPORT 2010

The KCB Foundation continued to streamline its community investment portfolio in 2010 in a bid to maximize impact and deliver value to beneficiary communities. Operating in a region with multiple development needs and armed with a budget of only Ksh100million it was essential for the Foundation to identify strategic investment areas for impact. The key focus areas were split into core areas which included Environment, Education and Enterprise Development that account for 80% of the Foundation's budget and the secondary areas that featured Health and Humanitarian Intervention taking the remaining 20%.

A summary of the community initiatives that the KCB Foundation was involved in during the year is as follows:

ENVIRONMENT

KCB is committed to reforestation in the countries we operate in. Through the KCB Community Day, KCB staff across the region planted over 188,000 seedlings in 130 sites that included gazetted forests, schools, hospitals and even prisons. In Rwanda where forest cover is adequate and within internationally acceptable levels, KCB staff led members of the public in the national clean up day Umuganda as part of their Community Day involvement. In total the KCB Foundation helped plant close to 300,000 seedlings across the region in partnership with other stakeholders.

Other notable investments in environment include conservation activities in the UNESCO heritage town of Lamu, provision of dustbins for towns including Moyale in Kenya and collaboration with the Uganda Scouts Association in a tree planting exercise. As a result we received an award in the 2010 Total Eco Challenge.

Investment in Environment: Kshs 16,949,801

EDUCATION

Education is the most prized inheritance we can give to our children and it remains a key investment area for the KCB Foundation. Our flagship event in education is the Community Week in which 202 learning institutions across the region benefited from a range of learning materials, desks and chairs, laboratory equipment and learning aids for children with special needs.

The partnership with Palmhouse Foundation supported eight needy students for the four years of their secondary education. Various schools and zones received trophies for their education and prize giving days and 2 schools in Machakos and Tanzania benefited from construction of classrooms. Of particular note is the partnership with Computers for Schools Kenya which equipped eight secondary schools from the eight provinces of Kenya, with computer laboratories. Each school received 20 fully networked computers and training was provided for the computer teachers and administrators. In doing so, the Foundation is contributing to the development of ICT within the education system in Kenya.

Investment in Education: Kshs 31,222,756

ENTERPRISE DEVELOPMENT

Enterprise Development is key to addressing the high unemployment rate in the region. Only a minority of young people graduating from the education system are absorbed into formal employment. The KCB Foundation is keen on expanding small and micro enterprises and enhancing business acumen in the region. SEED Samburu, a food sustainability initiative in Samburu was the recipient of a posho mill. The mill eased the load from the community granaries that were overwhelmed by the unprecedented bumper harvests and created employment opportunities and further enhanced food productivity. Other beneficiaries within this area were EOPA Kenya, an umbrella organization for self help groups working in Kangemi and awards presented to the cooperative movement in Marakwet.
The most notable investment for the Foundation was the engagement with Acumen Fund in the planning of a regional fellowship programme that will be implemented in 2011. This programme aims to enhance leadership skills and broaden the reach and impact of social entrepreneurs.

Investment in Entrepreneurship: Kshs 16,405,850

HEALTH

Various communities benefited from the Foundation's investment in the health sector. Jigger treatment camps were implemented in the villages of Shinyalu in Kakamega, Msabaha in Malindi and Kandara in Muranga through Ahadi Trust Kenya. Further the Foundation donated pharmaceuticals and medical provisions for medical camps in places such as Bondo, Githunguri, Kwale, Mbeere, slum areas of Nairobi and the environs of Juba in South Sudan. Medical institutions in Arua, Lira and Hoima in Uganda were also beneficiaries of various medical equipment.

Investment in Health: Kshs 9,502,843

HUMANITARIAN INTERVENTION

The Foundation supports communities during emergency situations and provides humanitarian aid to befitting cases. Beneficiaries in this area included the mudslide victims of Mt. Elgon in Uganda, the fire victims of the Ugunja fire tragedy in Kenya and AIC Manyatta Secondary School who lost property through a dormitory fire. Garsen High School received water harvesting equipment and a host of needy institutions were recipients of donations of food stuff and clothing during the Christmas season.

Investment in Humanitarian intervention: Kshs 4,567,063

The KCB Group Director and Foundation Chairman, Susan Omanga, (centre) presents a scholarship cheque for KShs 2.6 million to Starehe Girls Centre Director, Margaret Wanjohi (2nd from left). The four-year bursary will facilitate secondary education for 10 students. Looking on is the KCB Director, Sunil Shah, (left) and the Group CEO, Dr. Martin Oduor-Otieno (right).

Wakfu wa KCB uliendelea kuimarisha uwekezaji wake kwa jamii mwaka wa 2010 katika juhudi za kuongeza uwepo wake na kunufaisha jamii zilizolengwa. Ukihudumu katika eneo lenye mahitaji mengi na bajeti ya Shilingi milioni 100 pekee ilikuwa muhimu kwa Wakfu kutambua maeneo ya kuwekeza yenye umuhimu. Maeneo yaliyolengwa yaligawanywa katika mafungu muhimu ambayo yalikuwa ni pamoja na Mazingira, Elimu na Maendeleo ya Biashara ambayo yanachangia asili mia 80 ya bajeti ya Wakfu na maeneo yenye umuhimu wa pili yakiwa ni Afya na usaidizi wa Kibinadamu yakitumia asili mia 20 iliyosalia.

Maelezo mafupi ya mipango ya jamii ambayo ilifadhiliwa na Wakfu wa KCB wakati wa kipindi cha mwaka ni kama ifuatavyo:

Mazingira

KCB imepania kupanda miche kwenye misitu katika nchi tunazohudumu. Kupitia siku ya Jamii ya KCB, wafanyakazi wa KCB kote katika kanda walipanda miche 188,000 katika sehemu 130 ambayo yalijumuisha misitu iliyoorodheshwa rasmi, shule, hospitali na hata magereza. Nchini Rwanda ambapo misitu inatosha kuambatana na viwango vya kimataifa vinavyokubalika, wafanyakazi wa KCB waliwaongoza wananchi katika siku ya taifa ya usafi, Umuganda kama sehemu ya siku yao ya kujumuishwa kijamii. Kwa ujumla Wakfu wa KCB ulisaidia kupanda takribani miche 300,000 kote katika kanda kwa ushirikiano na wadau wengine.

Uwekezaji mwingine katika mazingira ulikuwa ni pamoja na mji Lamu uliotambuliwa kuwa turathi na UNESCO, utoaji wa mapipa ya taka kwa miji ikiwemo Moyale nchini Kenya na ushirikiano na chama cha Maskauti nchini Uganda katika shughuli ya upanzi wa miche. Kutokana na hayo tulipokea tunzo la Total Eco Challenge mwaka wa 2010.

Uwekezaji kwenye Mazingira: Shilingi 16,949,801

Elimu

Elimu ndio urithi bora zaidi tunaoweza kuwachia watoto wetu na unabakia kuwa eneo muhimu kwa Wakfu wa KCB kuwekeza. Kitambulisho chetu kikuu katika elimu ni Wiki ya Jamii ambapo taasisi za masomo 202 kote katika kanda zilinufaika kwa vifaa mbalimbali vya masomo, madawati na viti, vifaa vya maabara na vifaa vya mafunzo kwa watoto wenye mahitaji maalum.

Ushirikiano wetu na Wakfu wa Palmhouse ulinufaisha wanafunzi wanane wenye mahitaji kwa miaka minne ya elimu yao ya sekondari. Shule mbali mbali na maeneo zilipata vikombe kwa minajili ya kutoa wakati wa siku zao za elimu na shule 2 Machakos na Tanzania zilijengewa madarasa. Ushirikiano mwingine ulifanywa na Computers for Schools Kenya ambapo shule nane za sekondari kutoka mikoa minane nchini Kenya zilijengewa maabara ya komputa. Kila shule ilipewa komputa 20 zenye mtandao na mafunzo kutolewa kwa walimu wa komputa na wasimamizi. Kwa kufanya hivyo, Wakfu unachangia maendeleo ya Teknolojia ya Habari katika mfumo wa elimu nchini Kenya.

Uwekezaji kwenye Elimu: Shilingi 31,222,756

Maendeleo ya Biashara

Maendeleo ya Biashara ni muhimu katika kushughulikia kiwango cha juu cha ukosefu wa ajira katika kanda. Ni kiasi kidogo cha vijana wanaofuzu katika mifumo ya elimu wanaopata ajira rasmi. Wakfu wa KCB umepania kupanua biashara ndogo ndogo na zile kubwa na kuongeza uwezo wa kibiashara katika kanda. SEED Samburu, mpango endelevu wa chakula huko Samburu ulipokea mtambo wa kusaga mahindi. Mtambo huo ulisaidia kupunguza shinikizo la kuweka chakula kingi kwenye maghala na kubuni nafasi za kazi na ongezeko la uzalishaji wa chakula. Wengine walionufaika katika nyanja hii walikuwa EOPA Kenya, shirika mama la makundi ya kujisaidia yanayofanya kazi Kangemi na tuzo zikatolewa kwa vyama vya ushirika huko Marakwet.

Uwekezaji muhimu zaidi kwa Wakfu ulikuwa ushirika na Mfuko wa Hazina wa Acumen katika kutekeleza mpango wa mafunzo wa kanda ambao utatekelezwa mwaka wa 2011. Mpango huu unalenga kuimarisha ujuzi wa uongozi na kuongeza uwezo wa biashara katika nchi husika.

Uwekezaji kwenye Biashara: Shilingi 16,405,850

Afya

Jamii mbali mbali zilinufaika na uwekezaji wa Wakfu katika sekta ya afya. Kambi la kuondoa funza ziliwekwa katika vijiji vya Shinyalu huko Kakamega, Msabaha huko Malindi na Kandara huko Murang'a kupitia shirika la Ahadi Trust Kenya. Pamoja na hayo Wakfu wa KCB ulitoa mchango wa dawa kwa kambi za matibabu katika maeneo ya Bondo, Githunguri, Kwale, Mbeere, maeneo ya mabanda ya Nairobi na viunga vya Juba Kusini mwa Sudan. Taasisi za matibabu huko Arua, Lira na Hoima nchini Uganda pia zilinufaika na vifaa mbali mbali vya matibabu.

Uwekezaji kwenye Afya: Shilingi 9,502,843

Usaidizi wa kibinadamu

Wakfu unasaidia jamii wakati wa hali za dharura na hutoa msaada wa kibinadamu kwa visa vinavyostahili. Walionufaika kwa misaada katika upande huu ni pamoja na waathiriwa wa maporomoko ya ardhi huko Mlima Elgon nchini Uganda, waathiriwa wa moto huko Ugunja nchini Kenya na shule ya sekondari ya AIC Manyatta ambapo wanafunzi walipoteza mali baada ya kuchomeka kwa bweni lao. Shule ya Upili ya Garsen ilipokea vifaa vya kuvuna maji ya mvua na taasisi kadhaa zikapokea msaada wa chakula na nguo wakati wa msimu wa Krismasi.

Uwekezaji katika msaada wa Kibinadamu: Shilingi 4,567,063

Wafanyakazi wa KCB wakipanda miche katika msitu wa Ngong wakati wa siku ya Jamii ya KCB.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Kenya Commercial Bank Limited (the “Bank”) and its subsidiaries (collectively referred to as the “Group”) as set out on pages 38 to 84, which comprise the statement of financial position of the Group and the Bank as at 31 December 2010 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 flows of the Group and the Bank for the year then ended and a summary of significant accounting policies and other explanatory information.

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 in the manner required by the Kenyan Companies Act, and for such internal control as the directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS’ RESPONSIBILITY

Our responsibility is to express an 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 about 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’ judgment, 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 entity’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 financial statements present fairly, in all material respects, the financial position of the Group and the Bank as at 31 December 2010 and the financial performance and cash flows of the Group and the Bank for the year then ended in accordance with 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 it 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

30 March 2011

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2010

	Note	2010 KShs'000	2009 KShs'000
INTEREST INCOME	4	23,109,793	17,968,455
INTEREST EXPENSE	5	(3,464,468)	(3,499,734)
Net interest income		19,645,325	14,468,721
FEES AND COMMISSION INCOME		6,788,580	5,849,668
FEES AND COMMISSION EXPENSE		(306,155)	(310,135)
Net fees and commission income		6,482,425	5,539,533
Foreign exchange income	6	2,775,494	1,648,227
Dividend income	7	1,185	1,138
Other operating income	8	424,379	936,154
		9,683,483	8,125,052
Operating income		29,328,808	22,593,773
Allowance for impairment losses	9	(1,117,896)	(717,921)
Other operating expenses	10	(18,412,941)	(15,575,491)
PROFIT BEFORE TAX		9,797,971	6,300,361
INCOME TAX EXPENSE	11.2	(2,619,998)	(2,216,490)
PROFIT FOR THE YEAR		7,177,973	4,083,871
ATTRIBUTABLE TO:			
Owners of the parent		7,177,973	4,083,871
Non-controlling interest		-	-
		7,177,973	4,083,871
EARNINGS PER SHARE			
Diluted and Basic (KShs.)	12	2.76	1.84

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010

	2010 KShs'000	2009 KShs'000
PROFIT FOR THE YEAR	7,177,973	4,083,871
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	(278,084)	(154,031)
Available for sale financial assets:		
Unrealised gain arising from measurement at fair value	14,558	4,911
Cumulatively realised gain arising from disposals made during the year	(137,110)	-
Income tax effect	-	-
Other comprehensive income for the year, net of taxes	(400,636)	(149,120)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	6,777,337	3,934,751
ATTRIBUTABLE TO:		
Owners of the parent	6,777,337	3,934,751
Non-controlling interest	-	-
	6,777,337	3,934,751

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2010

	Note	2010 KShs'000	2009 KShs'000
ASSETS			
Cash and balances with Central Banks	13	26,997,823	19,870,878
Due from banks		10,211,008	9,067,840
Held for trading investments	14	847,876	2,628,843
Tax recoverable	11.1	11,009	509,370
Available for sale investments	15	5,862,488	1,921,277
Loans and advances to customers	16	148,113,364	122,659,082
Held to maturity investments	17	43,398,134	21,931,522
Other assets	19	5,002,289	6,832,688
Deferred tax asset	11.1	1,126,284	107,280
Intangible assets	20	1,368,385	1,354,478
Property and equipment	21(a)	8,271,647	7,746,619
Prepaid operating lease rentals	22	145,893	147,958
TOTAL ASSETS		251,356,200	194,777,835
LIABILITIES			
Due to banks	24	11,056,967	6,668,388
Other customer deposits	25	196,974,651	163,029,350
Other liabilities	26	2,356,968	2,387,161
Tax payable	11.1	1,837,722	110,361
Deferred tax liability	11.1	121	12,363
TOTAL LIABILITIES		212,226,429	172,207,623
EQUITY			
Share capital	27	2,950,260	2,217,778
Reserves	28	32,491,686	18,134,656
Proposed dividend	29	3,687,825	2,217,778
TOTAL EQUITY		39,129,771	22,570,212
TOTAL LIABILITIES AND EQUITY		251,356,200	194,777,835

The financial statements were approved by the Board of Directors on 24 February 2011 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**	**Director**	**Secretary**

INCOME STATEMENT OF THE BANK

for the year ended 31 December 2010

	Note	2010 KShs'000	2009 KShs'000
INTEREST INCOME	4	21,441,262	15,244,472
INTEREST EXPENSE	5	(2,942,881)	(2,876,112)
Net interest income		18,498,381	12,368,360
FEES AND COMMISSION INCOME		5,618,346	4,812,982
FEES AND COMMISSION EXPENSE		(306,155)	(310,135)
Net fees and commission income		5,312,191	4,502,847
Foreign exchange income	6	1,357,658	1,332,444
Dividend income	7	1,519,248	387,138
Other operating income	8	369,830	927,103
		8,558,927	7,149,532
Operating income		27,057,308	19,517,892
Allowance for impairment losses	9	(875,411)	(314,961)
Other operating expenses	10	(14,644,364)	(12,777,373)
PROFIT BEFORE TAX		11,537,533	6,425,558
INCOME TAX EXPENSE	11.2	(2,718,673)	(1,872,879)
PROFIT FOR THE YEAR		8,818,860	4,552,679
EARNINGS PER SHARE			
Diluted and Basic (KShs.)	12	3.40	2.05

STATEMENT OF COMPREHENSIVE INCOME OF THE BANK

for the year ended 31 December 2010

	2010 KShs'000	2009 KShs'000
PROFIT FOR THE YEAR	8,818,860	4,552,679
OTHER COMPREHENSIVE INCOME		
Available for sale financial assets:		
Unrealised gain arising from measurement at fair value	14,558	4,911
Cumulatively realised gain arising from disposals made during the year	(137,110)	-
Income tax effect	-	-
Other comprehensive income for the year, net of taxes	(122,552)	4,911
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	8,696,308	4,557,590

STATEMENT OF FINANCIAL POSITION OF THE BANK
as at 31 December 2010

	Note	2010 KShs'000	2009 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	13	13,796,511	13,511,975
Due from banks		3,959,963	5,936,128
Held for trading investments	14	847,876	2,628,843
Tax recoverable	11.1	-	494,903
Available for sale investments	15	5,862,488	1,921,277
Loans and advances to customers	16	137,344,568	98,749,618
Held to maturity investments	17	42,051,335	21,284,985
Balances due from group companies	18	-	5,209,111
Other assets	19	4,185,781	5,969,380
Deferred tax asset	11.1	855,115	-
Intangible assets	20	1,319,367	1,354,478
Property and equipment	21(b)	5,888,285	5,827,993
Prepaid operating lease rentals	22	143,644	145,674
Investment in subsidiaries and associated companies	23	6,769,623	5,188,850
TOTAL ASSETS		223,024,556	168,223,215
LIABILITIES			
Due to banks	24	10,807,301	5,148,793
Other customer deposits	25	163,188,681	138,452,731
Other liabilities	26	1,763,732	2,211,551
Tax payable	11.1	1,750,345	-
Deferred tax liabilities	11.1	-	12,225
Balances due to group companies	18	4,638,052	-
TOTAL LIABILITIES		182,148,111	145,825,300
EQUITY			
Share capital	27	2,950,260	2,217,778
Reserves	28	34,238,360	17,962,359
Proposed dividend	29	3,687,825	2,217,778
TOTAL EQUITY		40,876,445	22,397,915
TOTAL LIABILITIES AND EQUITY		223,024,556	168,223,215

The financial statements were approved by the Board of Directors on 24 February 2011 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**	**Director**	**Secretary**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

	Share capital KShs'000	Share premium KShs'000	Regulatory reserve KShs'000	Translation reserve KShs'000	Available for sale reserve KShs'000	Proposed dividend KShs'000	Retained earnings KShs'000	Total Shs'000
At 1 January 2009 (restated)	2,217,778	7,297,986	-	34,134	342,997	2,217,778	8,742,566	20,853,239
Dividend paid – 2008	-	-	-	-	-	(2,217,778)	-	(2,217,778)
Proposed dividend – 2009	-	-	-	-	-	2,217,778	(2,217,778)	-
Profit for the year	-	-	-	-	-	-	4,083,871	4,083,871
Other comprehensive income	-	-	-	(154,031)	4,911	-	-	(149,120)
Transfer from retained earnings	-	-	104,670	-	-	-	(104,670)	-
At 31 December 2009	2,217,778	7,297,986	104,670	(119,897)	347,908	2,217,778	10,503,989	22,570,212
At 1 January 2010	2,217,778	7,297,986	104,670	(119,897)	347,908	2,217,778	10,503,989	22,570,212
Rights issue	732,482	11,267,518	-	-	-	-	-	12,000,000
Dividend paid – 2009	-	-	-	-	-	(2,217,778)	-	(2,217,778)
Proposed dividend – 2010	-	-	-	-	-	3,687,825	(3,687,825)	-
Profit for the year	-	-	-	-	-	-	7,177,973	7,177,973
Other comprehensive income	-	-	-	(278,084)	(122,552)	-	-	(400,636)
Transfer from retained earnings	-	-	40,959	-	-	-	(40,959)	-
At 31 December 2010	2,950,260	18,565,504	145,629	(397,981)	225,356	3,687,825	13,953,178	39,129,771

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

STATEMENT OF CHANGES IN EQUITY OF THE BANK

for the year ended 31 December 2010

	Share capital KShs'000	Share premium KShs'000	Regulatory reserve KShs'000	Available for sale reserve KShs'000	Proposed dividend KShs'000	Retained earnings KShs'000	Total KShs'000
At 1 January 2009	2,217,778	7,297,986	-	342,997	2,217,778	7,981,564	20,058,103
Dividend paid – 2008	-	-	-	-	(2,217,778)	-	(2,217,778)
Proposed dividend – 2009	-	-	-	-	2,217,778	(2,217,778)	-
Profit for the year	-	-	-	-	-	4,552,679	4,552,679
Other comprehensive income	-	-	-	4,911	-	-	4,911
Transfer from retained earnings	-	-	86,215	-	-	(86,215)	-
At 31 December 2009	2,217,778	7,297,986	86,215	347,908	2,217,778	10,230,250	22,397,915
At 1 January 2010	2,217,778	7,297,986	86,215	347,908	2,217,778	10,230,250	22,397,915
Rights issue	732,482	11,267,518	-	-	-	-	12,000,000
Dividend paid – 2009	-	-	-	-	(2,217,778)	-	(2,217,778)
Proposed dividend – 2010	-	-	-	-	3,687,825	(3,687,825)	-
Profit for the year	-	-	-	-	-	8,818,860	8,818,860
Other comprehensive income	-	-	-	(122,552)	-	-	(122,552)
Transfer to retained earnings	-	-	(26,787)	-	-	26,787	-
At 31 December 2010	2,950,260	18,565,504	59,428	225,356	3,687,825	15,388,072	40,876,445

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

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2010

	Note	2010 KShs'000	2009 KShs'000
NET CASH FLOWS (USED IN)/ FROM OPERATING ACTIVITIES	30(a)	(2,067,962)	9,048,426
Tax recovered	11.1	-	198,260
Tax paid	11.1	(1,425,520)	(2,866,449)
		(1,425,520)	(2,668,189)
INVESTING ACTIVITIES			
Proceeds from disposal of property and equipment		20,128	77,304
Purchase of intangible assets		(389,156)	(420,711)
Purchase of property and equipment		(1,903,559)	(3,296,120)
Net cash flows used in investing activities		(2,272,587)	(3,639,527)
FINANCING ACTIVITIES			
Net proceeds from rights issue		12,000,000	-
Dividends paid		(2,217,778)	(2,217,778)
Net cash flows from/(used in) financing activities		9,782,222	(2,217,778)
INCREASE IN CASH AND CASH EQUIVALENTS		4,016,153	522,932
EFFECTS OF EXCHANGE RATE CHANGES ON OPENING NET INVESTMENT IN FOREIGN ENTITIES		(278,084)	(154,031)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		21,392,673	21,023,772
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	30(b)	25,130,742	21,392,673

STATEMENT OF CASH FLOWS OF THE BANK
for the year ended 31 December 2010

	Note	2010 KShs'000	2009 KShs'000
NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES	30(a)	(12,812,076)	11,311,279
Tax recovered	11.1	-	85,961
Tax paid	11.1	(1,315,529)	(2,533,643)
		(1,315,529)	(2,447,682)
INVESTING ACTIVITIES			
Proceeds from disposal of property and equipment		8,130	45,589
Purchase of intangible assets		(336,108)	(420,711)
Purchase of property and equipment		(1,089,930)	(1,866,619)
Investment in subsidiary companies		(1,580,773)	(761,778)
Net cash outflows from investing activities		(2,998,681)	(3,003,519)
FINANCING ACTIVITIES			
Proceeds from rights issue		12,000,000	-
Dividends paid		(2,217,778)	(2,217,778)
Net cash flows from/(used in) financing activities		9,782,222	(2,217,778)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(7,344,064)	3,642,300
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		14,098,794	10,456,494
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	30(b)	6,754,730	14,098,794

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 2010 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 Bank 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, Dar-es-Salaam Stock Exchange and Rwanda Stock Exchange.

The consolidated financial statements for the year ended 31 December 2010 were authorised for issue by the directors on 24 February 2011.

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 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 company 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.

(c) Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group 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 Group'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

SIGNIFICANT ACCOUNTING POLICIES Continued

the statement of financial position 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. 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 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, 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 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 operating income' in the income statement.

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

SIGNIFICANT ACCOUNTING POLICIES Continued

Leasehold improvements	Rates based on the shorter of the lease term and 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.

iii) Subsequent costs

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 de-recognised. 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 reporting date is recognised as an expense accrual.

(h) Financial instruments

The classification of financial instruments at intial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

i) Loans and advances to customers

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

ii) Investments held for trading

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

iii) Held to maturity investments

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

iv) Available for sale investments

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity, or changes in interest rates, exchange rates or equity prices are classified as available for sale. Available for sale investments are 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 and accumulated equity in the "Available for sale reserve" until the asset is de-recognised, at which time the cumulative gains or losses previously recognised in equity shall be recognized through other comprehensive income into the income statement.

v) Cash and cash equivalents

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

vi) 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 foreign exchange income as they arise.

vii) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

(i) Impairment of financial assets

The Group assesses, at each reporting 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.

SIGNIFICANT ACCOUNTING POLICIES Continued

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 re-negotiated 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.

iv) Available for sale investments

For available for sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost.

Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value less any impairment loss on that investment previously recognised in the income statement, is removed from equity and recognised in the income statement. Increases in their fair value after impairment are recognised directly in equity.

(j) Foreign currencies

The consolidated financial statements are presented in Kenya Shillings, which is the Bank's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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

As at the reporting date, the assets and liabilities of foreign subsidiaries are translated into Kenya Shillings at the rate of exchange ruling at the reporting date, and their income statements are translated at the weighted average exchange rates for the period. Exchange differences arising on translation are recognized in other comprehensive income and accumulated in equity in the translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised through other comprehensive income into the income statement.

(k) Taxes

Current corporate tax

Current corporate tax is provided on the basis of the results for the year as shown in the income statement, adjusted in accordance with the Income Tax Act and at the tax rate, enacted or substantively enacted at the reporting date. Corporate tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on all temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit, it is not accounted for.

Deferred tax assets are recognised only to the extent that it is probable that

SIGNIFICANT ACCOUNTING POLICIES Continued

future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities is determined using tax rates that have been enacted or substantively enacted at the reporting 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.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement.

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 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 statement of financial position.

(l) Employee benefit cost

i) Retirement benefit plans

The Group contributes to a defined benefit and defined contribution pension schemes. The defined benefit pension scheme is funded by the Bank and its subsidiaries. In determining the contributions to be made, the recommendations of independent qualified actuaries are taken into account.

The pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pension is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who value the pension plan at least once in every three years. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability.

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

The Group's contributions to the above schemes are charged to the income statement in the year to which they relate.

ii) 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.

(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-statement of financial position 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 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.

SIGNIFICANT ACCOUNTING POLICIES Continued

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.

(p) 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.

(q) Dividends

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

(r) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(s) 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.

(t) 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. The carrying amount is reduced to recognise any impairment in the value of individual investments. The impairment loss is taken to the income statement.

(u) 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.

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 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 standards, amendments and interpretations which are mandatory for accounting periods beginning on or after 1 January 2010.

- IAS 7 Statement of Cash Flows. Amendments to IAS 7 Statement of Cash Flows (as part of Improvements to IFRSs issued in 2009); The amendments to IAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. The adoption of this standard had no material impact on the financial position or the performance of the Group.

- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended). IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring

NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS Continued

after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results. IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. 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. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010. The adoption of this standard did not have any impact on the Group as there were no acquisitions or loss of control of a subsidiary.

- IAS 27 (revised). The standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The adoption of this standard did not have any impact on the Group.

- IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation was published in November 2008. 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. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The adoption of this standard did not have any impact on the Group.

- IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both). The adoption of this standard did not have any impact on the Group.

- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should 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. The adoption of this standard did not have any impact on the Group.

- IFRIC 16, 'Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the bank as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the Bank should clearly document its hedging strategy because of the possibility of different designations at different levels of the Bank. The adoption of this standard did not have any impact on the Group.

- IAS 38 (amendment), 'Intangible assets', effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The adoption of this standard did not have any impact on the Group.

- IAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The adoption of this standard did not have any impact on the Group.

- IAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics). The adoption of this standard did not have any impact on the Group.

- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective from 1 January 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The adoption of this standard did not have any impact on the Group.

- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The adoption of this standard did not have any impact on the Group.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

- IFRS 9 Financial Instruments: Classification and Measurement. IFRS 9, 'Financial instruments' was issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and

NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS Continued

measuring financial assets and is likely to affect the Bank's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption.

- IAS 24 Related Party Disclosures (Amendment). Revised IAS 24 (revised), 'Related party disclosures' was issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Bank will apply the revised standard from 1 January 2011. The Bank is currently putting systems in place to capture the necessary information but does not expect any impact on its financial position or performance on initial adoption.

- IAS 32 Financial Instruments: Presentation – Classification of Rights Issue. 'Classification of rights issues' (amendment to IAS 32) was issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The Bank will apply the amended standard from 1 January 2011. This amendment will have no impact on the bank after initial application.

- IFRIC 14 Prepayments of a minimum funding requirement (Amendment). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented.

- IFRIC 19 Extinguishing financial liabilities with equity instruments. IFRIC 19, 'Extinguishing financial liabilities with equity instruments' is effective from 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished.

Improvements to IFRSs (issued in May 2010)
The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments are listed below;

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Bank, however, expects no impact from the adoption of the amendments on its financial position or performance.

4. INTEREST INCOME

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Interest on loans and advances	17,663,904	14,483,274	16,162,740	11,823,622
Interest on held to maturity and trading investments	5,259,702	3,122,695	5,178,712	2,952,520
Interest on placements and bank balances	186,187	362,486	99,810	468,330
	23,109,793	17,968,455	21,441,262	15,244,472

5. INTEREST EXPENSE

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Interest on deposits	3,307,581	3,136,547	2,802,736	2,553,410
Interest on borrowed funds	156,887	363,187	140,145	322,702
	3,464,468	3,499,734	2,942,881	2,876,112

6. FOREIGN EXCHANGE INCOME

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Foreign currency dealings	2,322,141	751,491	1,150,880	607,513
Translation gains	453,353	896,736	206,778	724,931
	2,775,494	1,648,227	1,357,658	1,332,444

7. DIVIDEND INCOME

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Dividend from subsidiary company	-	-	1,518,063	386,000
Available for sale investments	1,185	1,138	1,185	1,138
	1,185	1,138	1,519,248	387,138

8. OTHER OPERATING INCOME

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Rent income	88,583	109,223	84,082	105,585
Profit on disposal of property and equipment	24,139	14,242	7,928	13,956
Miscellaneous income	311,657	812,689	277,820	807,562
	424,379	936,154	369,830	927,103

9. ALLOWANCE FOR IMPAIRMENT LOSSES

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Additional specific provisions (note 16.2)	1,648,351	1,457,030	1,425,944	1,203,928
Additional collective provisions (note 16.3)	495,969	117,171	472,286	(47,227)
Bad debts recovered during the year (note16.2)	(1,026,424)	(856,280)	(1,022,819)	(841,740)
	1,117,896	717,921	875,411	314,961

10. OTHER OPERATING EXPENSES

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Administrative expenses	7,152,733	6,926,723	5,115,911	5,400,967
Personnel costs (note 31)	9,383,643	7,144,078	8,024,266	6,099,659
Directors' emoluments:				
-As directors	37,255	36,484	28,376	22,746
-As executives	63,146	67,663	63,146	67,663
Depreciation of property and equipment	1,382,540	1,078,012	1,029,436	871,392
Amortisation of intangible assets	375,249	303,966	371,219	303,966
Amortisation of prepaid operating lease rentals	2,065	2,065	2,030	2,030
Auditors' remuneration	16,310	16,500	9,980	8,950
	18,412,941	15,575,491	14,644,364	12,777,373

11. INCOME TAX
11.1 STATEMENT OF FINANCIAL POSITION

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
At 1 January	399,009	(617,789)	494,903	(594,646)
Tax paid during the year	1,425,520	2,866,449	1,315,529	2,533,643
Tax charge for the year	(3,647,924)	(1,652,425)	(3,560,777)	(1,358,133)
Translation difference	2	6,052	-	-
(Under)/over provision in the previous years	(3,320)	2,503	-	-
Write off during the year	-	(7,521)	-	-
Offset against other taxes	-	(198,260)	-	(85,961)
At 31 December	(1,826,713)	399,009	(1,750,345)	494,903
Comprising:				
Tax recoverable	11,009	509,370	-	494,903
Tax payable	(1,837,722)	(110,361)	(1,750,345)	-
	(1,826,713)	399,009	(1,750,345)	494,903
DEFERRED TAX				
At 1 January	94,917	661,485	(12,225)	502,521
Transfer from Savings & Loan	-	-	25,236	-
Credit/(charge) for the year	1,031,246	(566,568)	842,104	(514,746)
At 31 December	1,126,163	94,917	855,115	(12,225)
The net deferred tax asset is attributable to the following items:				
Depreciation over tax allowances	(209,617)	(150,943)	(181,791)	(151,286)
Provisions	1,249,464	164,467	1,036,906	139,061
Tax losses carried forward	86,316	81,393	-	-
	1,126,163	94,917	855,115	(12,225)
Comprising:				
Deferred tax asset	1,126,284	107,280	855,115	-
Deferred tax liability	(121)	(12,363)	-	(12,225)
	1,126,163	94,917	855,115	(12,225)

11.2 INCOME STATEMENT

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Current tax	3,647,924	1,652,425	3,560,777	1,358,133
Deferred tax(credit)/charge	(1,031,246)	566,568	(842,104)	514,746
(Under)/over provision in the previous years	3,320	(2,503)	-	-
	2,619,998	2,216,490	2,718,673	1,872,879

11. INCOME TAX Continued

11.2 INCOME STATEMENT

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

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Accounting profit before tax	9,797,971	6,300,361	11,537,533	6,425,558
Tax calculated at basic tax rate	2,939,391	1,890,108	3,461,260	1,927,667
Tax effects on non-taxable/non-deductible items:				
Depreciation on non qualifying assets	(89,339)	(45,460)	(90,655)	(58,103)
Provisions	(503,060)	(283,685)	(353,525)	(239,163)
Unrealised exchange gains	(412,175)	384,364	(472,177)	217,479
Under/(over) provisions in previous years	3,320	(2,503)	-	-
Other non deductible items	681,861	273,666	173,770	24,999
	2,619,998	2,216,490	2,718,673	1,872,879

12. EARNINGS PER SHARE

Earnings per share is calculated on the profit attributable to ordinary shareholders of KShs 7,178 million and KShs 8,819 million for the Group and Bank, respectively (2009: KShs 4,084 million and KShs 4,553 million for the Group and Bank, respectively) and on the weighted average number of ordinary shares during the year of 2,597 million after adjusting for the effect of the rights issue (2009: 2,218 million shares).

13. CASH AND BALANCES WITH CENTRAL BANKS

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Cash on hand	10,009,715	7,066,591	5,777,976	4,760,954
Balances with Central Banks:				
Cash reserve ratio	8,596,748	6,659,317	7,276,616	5,982,176
Other current accounts	8,391,360	6,144,970	741,919	2,768,845
	26,997,823	19,870,878	13,796,511	13,511,975

Cash held with Central Banks represent cash ratio and other non-interest earning current accounts and is based on the value of deposits 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

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Treasury bills	-	272,100	-	272,100
Treasury bonds	847,876	2,356,743	847,876	2,356,743
	847,876	2,628,843	847,876	2,628,843

Treasury bills and treasury bonds are debt securities issued by the Government of the Republic of Kenya and acquired by the bank 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 2010 was 9.61% and 2.85%, respectively (31 December 2009 - 12.20 % and 11.29%, respectively).

15. AVAILABLE FOR SALE INVESTMENTS

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Quoted investments	292,700	357,212	292,700	357,212
Unquoted equity investments	4,765	4,765	4,765	4,765
Corporate bonds	2,139,300	1,559,300	2,139,300	1,559,300
Treasury bonds	3,425,723	-	3,425,723	-
	5,862,488	1,921,277	5,862,488	1,921,277

Investment in corporate bonds matures between a period of five and ten years.

16. LOANS AND ADVANCES TO CUSTOMERS

16.1 Loans and advances to customers

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Gross loans and advances to customers	158,765,290	132,417,455	147,426,418	107,608,435
Specific provisions for impairment (Note 16.2)	(8,587,097)	(8,189,513)	(8,178,514)	(7,593,959)
Collective provisions for impairment (Note 16.3)	(2,064,829)	(1,568,860)	(1,903,336)	(1,264,858)
Loans and advances to customers (net)	148,113,364	122,659,082	137,344,568	98,749,618

16.2 Specific provisions for impairment

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
At 1 January	8,189,513	7,682,480	7,593,959	7,262,481
Transfer from Savings and Loans Kenya Limited	-	-	493,834	-
Provisions made during the year	1,648,351	1,457,030	1,425,944	1,203,928
Interest suspended during the year	713,052	597,153	618,397	588,815
Bad debts recovered during the year	(1,026,424)	(856,280)	(1,022,819)	(841,740)
Write downs/write offs during the year	(937,395)	(690,870)	(930,801)	(619,525)
At 31 December	8,587,097	8,189,513	8,178,514	7,593,959

16.3 Collective provisions for impairment

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
At 1 January	1,568,860	1,451,689	1,264,858	1,312,085
Transfer from Savings and Loans Kenya Limited	-	-	166,192	-
Provisions made during the year	495,969	117,171	472,286	(47,227)
At 31 December	2,064,829	1,568,860	1,903,336	1,264,858

16.4 Maturity analysis of gross loans and advances to customers

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Maturing within 1 month	15,178,819	13,200,897	14,054,677	10,980,892
Maturing after 1 month, but before 3 months	6,350,676	4,021,631	5,314,618	3,494,000
Maturing after 3 months, but within 1 year	13,582,203	11,964,241	11,793,253	9,681,638
Maturing after 1 year, but within 5 years	66,756,226	55,096,544	60,586,837	51,659,333
Maturing after 5 years	56,897,366	48,134,142	55,677,033	31,792,572
	158,765,290	132,417,455	147,426,418	107,608,435

16.5 Sectoral analysis of gross loans and advances to customers

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Private sector and individuals	152,706,564	124,583,615	141,395,778	99,906,116
Government and parastatals	6,058,726	7,833,840	6,030,640	7,702,319
	158,765,290	132,417,455	147,426,418	107,608,435

16. LOANS AND ADVANCES TO CUSTOMERS Continued

The weighted average effective interest rates on loans and advances as at 31 December 2010 was 12.52% (31 December 2009 - 13.20%).

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

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Less than 60 days	9,421,165	15,995,000	8,887,363	15,995,000
Between 60 – 120 days	700,998	1,179,878	524,522	1,151,000
Greater than 120 days	89,951	-	-	-
	10,212,114	17,174,878	9,411,885	17,146,000

Non–Performing Loans

Non-performing loans and advances on which interest has been suspended amount to KShs 5,996 million and KShs 4,875 million for the Group and the Bank, respectively, net of specific provisions (2009: KShs 6,450 million and KShs 4,579 million for the Group and the Bank, respectively). Interest on these accounts is not being recognised as these advances are classified as doubtful. Discounted value of securities held in respect to those loans and advances are valued at KShs 5,996 million and KShs 4,875 million for the Group and the Bank, respectively (2009: KShs 6,450 million and KShs 4,579 million for the Group and the Bank, respectively) and are considered adequate.

17. HELD TO MATURITY INVESTMENTS

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Treasury bills				
Maturing within 1 month	2,138,342	829,426	1,999,241	829,426
Maturing between 1-3 months	4,589,408	2,323,391	4,235,056	2,323,391
Maturing between 3-6 months	2,772,617	2,693,620	2,422,388	2,165,650
	9,500,367	5,846,437	8,656,685	5,318,467
Treasury bonds				
Maturing between 3-12 months	2,858,938	3,896,587	2,667,285	3,778,020
Maturing between 1-5 years	12,078,802	4,967,498	11,767,338	4,967,498
Maturing after 5 years	18,960,027	7,221,000	18,960,027	7,221,000
	33,897,767	16,085,085	33,394,650	15,966,518
TOTAL GOVERNMENT SECURITIES	43,398,134	21,931,522	42,051,335	21,284,985
Maturing as follows:-				
Maturing within 1 month	2,138,342	829,426	1,999,241	829,426
Maturing between 1-3 months	4,589,408	2,323,391	4,235,056	2,323,391
Total maturing within 3 months (Note 30)	6,727,750	3,152,817	6,234,297	3,152,817
Maturing between 3-12 months	5,631,555	6,590,207	5,089,673	5,943,670
Maturing between 1-5 years	12,078,802	4,967,498	11,767,338	4,967,498
Maturing after 5 years	18,960,027	7,221,000	18,960,027	7,221,000
	43,398,134	21,931,522	42,051,335	21,284,985

Treasury bills and bonds are debt securities issued by the Government of the Republic of Kenya, Republic of Uganda 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 2010, was 9.61 % and 2.85 %, respectively (31 December 2009 – 12.20 % and 11.29 %, respectively).

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 during the year and the outstanding balances at the end of the year were as follows:

Balances due from Group Companies	2010 KShs'000	2009 KShs'000
Savings and Loan Kenya Limited	-	7,563,613
KCB Bank Uganda Limited	-	27,777
KCB (Tanzania) Limited	993,964	-
	993,964	7,591,390
Balances due to Group Companies		
Savings and Loan Kenya Limited	499,900	-
Kencom House Limited	482,672	504,589
Kenya Commercial Finance Company Limited	112,160	115,550
KCB Bank Uganda Limited	66,243	-
KCB Foundation	79,834	42,633
KCB Rwanda SA	1,941,904	629
KCB Sudan Limited	2,449,303	1,683,644
KCB (Tanzania) Limited	-	35,234
	5,632,016	2,382,279
TOTAL BALANCES DUE (TO)/ FROM GROUP COMPANIES	(4,638,052)	5,209,111

Balances due from and due to group companies are non interest bearing, are current and are generally on 30-90 day term. The balances relate to transactions entered into with the subsidiary companies at arm's length in the ordinary course of business.

Shareholders, directors and key management personnel	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Loans				
Government of Kenya	241,910	44,001	241,910	44,001
Directors	3,971,283	3,563,655	3,956,958	3,549,243
Senior management	245,766	160,000	244,459	158,693
Other employees	4,744,183	4,074,473	4,711,595	4,041,885
	9,203,142	7,842,129	9,154,922	7,793,822
Movement in loans to directors and senior management				
At 1 January	3,723,655	1,803,524	3,707,936	1,761,456
Loans issued during the year	1,203,161	2,748,894	1,126,836	2,714,961
Loans repayments during the year	(709,767)	(828,763)	(633,355)	(768,481)
At 31 December	4,217,049	3,723,655	4,201,417	3,707,936
Interest income earned	773,407	767,794	770,543	658,454

18. RELATED PARTY TRANSACTIONS Continued

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Deposits				
Government of Kenya	34,754,485	21,851,853	34,754,485	21,851,853
Directors	1,242,652	1,111,840	1,224,321	1,066,162
Senior management	483,106	395,472	483,106	382,794
Other employees	109,108	93,708	88,135	78,308
	36,589,351	23,452,873	36,550,047	23,379,117
Movement in deposits from directors and senior management				
At 1 January	1,507,312	1,189,282	1,448,956	1,133,439
Deposits received during the year	2,459,079	2,237,613	2,427,641	2,136,220
Deposits withdrawn during the year	(2,240,633)	(1,919,583)	(2,169,170)	(1,820,703)
At 31 December	1,725,758	1,507,312	1,707,427	1,448,956
Interest expense	97,392	66,845	95,999	61,713
Senior management compensation ((Included under personnel costs - note 31)				
Short term employee benefits	479,949	324,429	242,586	240,436
Post employment pension and medical benefits	9,462	7,908	6,401	5,861
	489,411	332,337	248,987	246,297

19. OTHER ASSETS

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Other receivables	4,260,518	5,842,736	3,817,705	5,314,471
Prepayments	741,771	989,952	368,076	654,909
	5,002,289	6,832,688	4,185,781	5,969,380

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

20. INTANGIBLE ASSETS

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
COST				
At 1 January	2,090,206	1,669,495	2,072,445	1,651,734
Transfer from Savings and Loan Kenya Limited	-	-	17,555	-
Additions	389,156	420,711	336,108	420,711
At 31 December	2,479,362	2,090,206	2,426,108	2,072,445
AMORTISATION				
At 1 January	735,728	431,762	717,967	414,001
Transfer from Savings and Loan Kenya Limited	-	-	17,555	-
Amortisation for the year	375,249	303,966	371,219	303,966
At 31 December	1,110,977	735,728	1,106,741	717,967
NET BOOK VALUE				
At 31 December	1,368,385	1,354,478	1,319,367	1,354,478

The intangible assets are in respect of computer software costs.

21. PROPERTY AND EQUIPMENT (GROUP)

As at 31 December 2010:	Freehold and leasehold premises KShs'000	Leasehold improvements KShs'000	Motor vehicles, furniture and equipment KShs'000	Total KShs'000
COST				
At 1 January 2010	2,066,203	502,212	9,932,697	12,501,112
Additions	105,328	551,454	1,246,777	1,903,559
Disposals	(40,212)	-	(85,250)	(125,462)
Translation differences	8,588	61	7,433	16,082
At 31 December 2010	2,139,907	1,053,727	11,101,657	14,295,291
DEPRECIATION				
At 1 January 2010	298,935	118,064	4,337,494	4,754,493
Charge for the year	54,720	124,286	1,203,534	1,382,540
Disposals	(40,212)	-	(67,970)	(108,182)
Translation differences	431	(5,705)	67	(5,207)
At 31 December 2010	313,874	236,645	5,473,125	6,023,644
NET BOOK VALUE				
At 31 December 2010	1,826,033	817,082	5,628,532	8,271,647
As at 31 December 2009:				
COST				
At 1 January 2009 (restated)	1,722,128	311,670	7,416,902	9,450,700
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	2,066,203	502,212	9,932,697	12,501,112
DEPRECIATION				
At 1 January 2009 (restated)	256,641	89,149	3,550,645	3,896,435
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	298,935	118,064	4,337,494	4,754,493
NET BOOK VALUE				
At 31 December 2009	1,767,268	384,148	5,595,203	7,746,619

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

21. PROPERTY AND EQUIPMENT (BANK)

As at 31 December 2010:	Freehold and leasehold premises KShs'000	Leasehold improvements KShs'000	Motor vehicles, furniture and equipment KShs'000	Total KShs'000
COST				
At 1 January 2010	1,613,769	77,308	8,478,218	10,169,295
Transfer from Savings and Loan Kenya Limited	-	-	157,566	157,566
Additions	12,688	-	1,024,084	1,036,772
Disposals	-	-	(67,871)	(67,871)
At 31 December 2010	1,626,457	77,308	9,591,997	11,295,762
DEPRECIATION				
At 1 January 2010	256,249	71,789	4,013,264	4,341,302
Transfer from Savings and Loan Kenya Limited	-	-	104,408	104,408
Charge for the year	15,305	1,702	1,012,429	1,029,436
Disposals	-	-	(67,669)	(67,669)
At 31 December 2010	271,554	73,491	5,062,432	5,407,477
NET BOOK VALUE				
At 31 December 2010	1,354,903	3,817	4,529,565	5,888,285
As at 31 December 2009:				
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
NET BOOK VALUE				
At 31 December 2009	1,357,520	5,519	4,464,954	5,827,993

22. PREPAID OPERATING LEASE RENTALS

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
COST				
At 1 January	223,031	285,348	219,574	281,891
Reclassification to property and equipment (note 21)	-	(62,317)	-	(62,317)
At 31 December	223,031	223,031	219,574	219,574
AMORTISATION				
At 1 January	75,073	99,486	73,900	98,348
Reclassification to property and equipment (note 21)	-	(26,478)	-	(26,478)
Amortisation for the year	2,065	2,065	2,030	2,030
At 31 December	77,138	75,073	75,930	73,900
NET BOOK VALUE				
At 31 December	145,893	147,958	143,644	145,674

23.INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in Subsidiaries Incorporated in Kenya:

Company	Activity	Beneficial ownership %	2010 KShs'000	2009 KShs'000
Kenya Commercial Finance Co. Ltd	Dormant	100	150,000	150,000
Savings & Loan Kenya Ltd	Dormant	100	500,000	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
Incorporated outside Kenya:				
KCB (Tanzania) Ltd	Commercial Banking	100	1,570,446	1,163,371
KCB Sudan Ltd	Conventional Banking	100	1,025,363	1,025,363
KCB Rwanda SA	Commercial Banking	100	1,163,174	883,924
KCB Bank Uganda Ltd	Commercial banking	100	1,611,870	1,050,020
			6,769,623	5,188,850

24. DUE TO BANKS

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Deposits and balances from other banks	11,056,967	6,668,388	10,807,301	5,148,793
Maturing as follows:				
Payable within 1 month	11,056,967	6,668,388	10,807,301	5,148,793

The weighted average effective interest rates on deposits and balances from other banks as at 31 December 2010 was 1.20 % (31 December 2009 - 4.3 %).

25. OTHER CUSTOMER DEPOSITS

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
From Government and parastatals				
Payable within 1 month	43,903,496	31,583,714	42,425,481	30,115,743
Payable after 1 month, but within 3 months	923,819	5,158,629	923,819	5,148,585
Payable after 3 months, but within 1 year	4,202,150	11,117,773	4,202,150	11,117,773
Payable after 1 year, but within 5 years	899,073	393,054	899,073	393,054
	49,928,538	48,253,170	48,450,523	46,775,155
From private sector and individuals				
Payable within 1 month	121,761,351	86,299,178	95,559,214	72,848,711
Payable after 1 month, but within 3 months	4,867,084	7,335,708	2,717,304	2,956,714
Payable after 3 months, but within 1 year	15,358,085	18,237,120	11,402,115	14,243,114
Payable after 1 year, but within 5 years	5,059,593	2,904,174	5,059,525	1,629,037
	147,046,113	114,776,180	114,738,158	91,677,576
TOTAL OTHER CUSTOMER DEPOSITS	196,974,651	163,029,350	163,188,681	138,452,731
Maturing as follows:-				
Payable within 1 month	165,664,847	117,882,892	137,984,695	102,964,454
Payable after 1 month, but within 3 months	5,790,903	12,494,337	3,641,123	8,105,299
Payable after 3 months, but within 1 year	19,560,235	29,354,893	15,604,265	25,360,887
Payable after 1 year, but within 5 years	5,958,666	3,297,228	5,958,598	2,022,091
	196,974,651	163,029,350	163,188,681	138,452,731

The weighted average effective interest rates on interest bearing customer deposits as at 31 December 2010 was 1.1 % (31 December 2009 - 2.2%).

26. OTHER LIABILITIES

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Bills payable	706,405	726,022	691,405	720,205
Accrued expenses	329,046	209,069	153,942	98,517
Other payables	1,321,517	1,452,070	918,385	1,392,829
	2,356,968	2,387,161	1,763,732	2,211,551

27. SHARE CAPITAL

	2010 KShs'000	2009 KShs'000
Authorised:- 3,500,000,000 (2009: 2,400,000,000) ordinary shares of KShs.1 each	3,500,000	2,400,000
Issued and fully paid:- 2,950,259,818 (2009: 2,217,777,777) ordinary shares of KShs.1 each	2,950,260	2,217,778

During the Annual General Meeting held on 7 May 2010, the shareholders approved the increase in authorised share capital of the Bank from KShs. 2.4 billion to KShs. 3.5 billion by the creation of 1.1 billion ordinary shares of KShs. 1 each. At the same meeting, the shareholders approved the increase in the issued share capital of the Bank through a Rights Issue.

27. SHARE CAPITAL Continued

The top ten largest shareholders as at 31 December 2010 were:

Shareholder	No. of Shares	%
Permanent Secretary to the Treasury of Kenya	523,600,000	17.75
National Social Security Fund	225,230,343	7.63
Standard Chartered Nominees A/C 9688	72,490,723	2.46
Stanbic Nominees Kenya Limited A/C R48701	55,234,006	1.87
Standard Chartered Nominees A/C 9687	42,570,686	1.44
Coop Custody A/C 4003	35,536,989	1.20
Standard Chartered Nominees A/C 9230	33,986,787	1.15
Kenya Re-Insurance Corporation Ltd	26,863,121	0.91
KCB Nominees Limited A/C 744A	24,898,371	0.84
KCB Nominees Limited A/C 744D	20,564,998	0.70
Total shares	1,060,976,024	35.95

The distribution of shareholders as at 31 December 2010 was as follows:

Share range	No. of shareholders	Shares held	%
1 to 5,000	132,955	233,120,252	7.90
5,001-50,000	32,910	344,989,808	11.69
50,001-100,000	989	68,393,642	2.32
100,001-1,000,000	913	263,407,283	8.93
1,000,001-10,000,000	206	632,996,777	21.46
10,000,001 and above	35	1,407,352,056	47.70
	168,008	2,950,259,818	100.00

28. RESERVES

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Retained earnings	13,953,178	10,503,989	15,388,072	10,230,250
Share premium	18,565,504	7,297,986	18,565,504	7,297,986
Available for sale reserve	225,356	347,908	225,356	347,908
Regulatory reserve	145,629	104,670	59,428	86,215
Translation reserve	(397,981)	(119,897)	-	-
	32,491,686	18,134,656	34,238,360	17,962,359

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 2010 KShs'000	2009 KShs'000
Final proposed	3,687,825	2,217,778
Dividend per share (KShs)	1.25	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 reporting dates.

30. NOTES TO THE STATEMENT OF CASH FLOWS

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
(a) CASH FLOWS FROM OPERATING ACTIVITIES				
This has been derived as follows:-				
Profit before tax	9,797,971	6,300,361	11,537,533	6,425,558
Adjustments for:				
Depreciation of property and equipment	1,382,540	1,078,012	1,029,436	871,392
Amortisation of prepaid operating lease rentals	2,065	2,065	2,030	2,030
Amortisation of intangible assets	375,249	303,966	371,219	303,966
Profit on disposal of available for sale investments	(137,110)	-	(137,110)	-
Profit on disposal of property and equipment	(24,139)	(14,242)	(7,928)	(13,956)
Operating profit before movements in operating assets and liabilities	11,396,576	7,670,162	12,795,180	7,588,990
Cash reserve ratio	(1,937,431)	(401,830)	(1,294,440)	(286,508)
Available for sale investments	(3,926,653)	(1,459,300)	(3,926,653)	(1,459,300)
Held to maturity investments	(17,891,679)	2,208	(17,684,870)	(635,962)
Loans and advances	(25,454,282)	(26,944,946)	(38,594,950)	(17,214,489)
Balances due from group companies	-	-	9,821,927	98,738
Other assets	1,830,399	(4,357,510)	1,783,599	(4,186,127)
Other customer deposits	33,945,301	35,853,471	24,735,950	28,123,051
Other liabilities	(30,193)	(1,313,829)	(447,819)	(717,114)
	(2,067,962)	9,048,426	(12,812,076)	11,311,279
(b) ANALYSIS OF CASH AND CASH EQUIVALENTS				
Balances with Central Banks (note13)	8,391,360	6,144,970	741,919	2,768,845
Cash on hand (note 13)	10,009,715	7,066,591	5,777,976	4,760,954
Held to maturity investments (note 17)	6,727,750	3,152,817	6,234,297	3,152,817
Held for trading investments	847,876	2,628,843	847,876	2,628,843
Due from banks	10,211,008	9,067,840	3,959,963	5,936,128
Due to banks	(11,056,967)	(6,668,388)	(10,807,301)	(5,148,793)
	25,130,742	21,392,673	6,754,730	14,098,794

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months maturity from the reporting date. Cash and cash equivalents excludes the cash reserve requirement held with the Central Banks.

31. PERSONNEL COSTS

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Salaries and wages	7,172,777	6,219,850	6,039,143	5,318,185
Medical expenses	375,212	448,221	252,294	342,281
Pension scheme contributions	455,676	355,305	400,622	329,031
Other	1,379,978	120,702	1,332,207	110,162
	9,383,643	7,144,078	8,024,266	6,099,659

The number of employees of the Group as at 31 December 2010 was 5,639 (31 December 2009 – 5,492).

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.

Mortgages – incorporating the provision of mortgage finance.

Other Group's operations comprise of trade finance and forex business. The Group also participates in investments 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 mainly comprise operating assets and liabilities.

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

INCOME STATEMENT

For the Year Ended 31 December 2010	Corporate banking KShs'000	Retail banking KShs'000	Treasury KShs'000	Mortgages KShs'000	Other KShs'000	Total KShs'000
Net interest income	6,103,223	6,243,635	5,134,455	2,164,012	-	19,645,325
Net fees and commission income	1,426,457	4,918,493	17,142	120,333	-	6,482,425
Other income	250,520	156,556	2,775,494	-	18,488	3,201,058
Operating expenses	(1,680,638)	(6,829,001)	(1,023,871)	(685,867)	(9,311,460)	(19,530,837)
Profit before tax	6,099,562	4,489,683	6,903,220	1,598,478	(9,292,972)	9,797,971
For the Year Ended 31 December 2009						
Net interest income	4,522,871	5,291,518	3,310,556	1,343,776	-	14,468,721
Net fees and commission income	1,004,287	4,290,453	124,650	120,143	-	5,539,533
Other income	597,137	315,599	1,648,227	4,066	20,490	2,585,519
Operating expenses	(1,374,219)	(5,570,555)	(1,247,415)	(452,183)	(7,649,040)	(16,293,412)
Profit before tax	4,750,076	4,327,015	3,836,018	1,015,802	(7,628,550)	6,300,361

STATEMENT OF FINANCIAL POSITION

	Corporate banking KShs'000	Retail banking KShs'000	Treasury KShs'000	Mortgages KShs'000	Other KShs'000	Total KShs'000
As at 31 December 2010						
Total Assets	78,818,388	79,077,461	56,145,638	21,107,514	16,207,199	251,356,200
Total Liabilities	83,309,194	71,419,022	46,916,876	6,386,526	4,194,811	212,226,429
Shareholders' funds	-	-	-	-	39,129,771	39,129,771
	83,309,194	71,419,022	46,916,876	6,386,526	43,324,582	251,356,200
As at 31 December 2009						
Total Assets	56,452,015	42,187,213	60,663,568	19,281,251	16,193,788	194,777,835
Total Liabilities	75,804,251	77,399,861	10,036,074	6,457,552	2,509,885	172,207,623
Shareholders' funds	-	-	-	-	22,570,212	22,570,212
	75,804,251	77,399,861	10,036,074	6,457,552	25,080,097	194,777,835

32. SEGMENT REPORTING Continued

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.

INCOME STATEMENT

For the Year Ended 31 December 2010	Kenya	Tanzania	Southern Sudan	Uganda	Rwanda	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Net interest income	18,498,381	533,070	247,788	195,343	170,743	19,645,325
Net fees and commission income	5,312,191	221,045	661,237	147,675	140,277	6,482,425
Other income	1,733,182	128,609	1,171,261	106,769	61,237	3,201,058
Operating expenses	(15,489,223)	(993,400)	(1,499,339)	(859,108)	(689,767)	(19,530,837)
Profit before tax	10,054,531	(110,676)	580,947	(409,321)	(317,510)	9,797,971
For the Year Ended 31 December 2009						
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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010	Kenya	Tanzania	Southern Sudan	Uganda	Rwanda	Total
Total Assets	210,821,644	11,030,840	15,893,930	6,272,343	7,337,443	251,356,200
Total liabilities	175,644,997	9,937,915	14,343,810	5,802,920	6,496,787	212,226,429
Total equity	35,176,647	1,092,925	1,550,120	469,423	840,656	39,129,771
	210,821,644	11,030,840	15,893,930	6,272,343	7,337,443	251,356,200
As at 31 December 2009						
Total Assets	168,945,417	8,037,166	11,009,887	4,652,683	2,132,682	194,777,835
Total Liabilities	149,351,014	7,253,427	9,827,485	4,344,085	1,431,612	172,207,623
Total equity	19,594,403	783,739	1,182,402	308,598	701,070	22,570,212
	168,945,417	8,037,166	11,009,887	4,652,683	2,132,682	194,777,835

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 Continued

As at 31 December 2010

GROUP	Level 1	Level 2	Level 3	Total
Financial assets				
Due from Banks	-	10,211,008	-	10,211,008
Held for trading investments	847,876	-	-	847,876
Available for sale investments	3,718,423	2,144,065	-	5,862,488
Held to maturity investments	43,398,134	-	-	43,398,134
Loans and advances	-	148,113,364	-	148,113,364
	47,964,433	160,468,437	-	208,432,870
Financial liabilities				
Due to banks	-	11,056,967	-	11,056,967
Other customer deposits	-	196,974,651	-	196,974,651
	-	208,031,618	-	208,031,618

BANK				
Financial assets:				
Due from Banks	-	3,959,963	-	3,959,963
Held for trading investments	847,876	-	-	847,876
Available for sale investments	3,718,423	2,144,065	-	5,862,488
Held to maturity investments	42,051,335	-	-	42,051,335
Loans and advances	-	137,344,568	-	137,344,568
	46,617,634	143,448,596	-	190,066,230
Financial liabilities:				
Due to Banks	-	10,807,301	-	10,807,301
Other customer deposits	-	163,188,681	-	163,188,681
	-	173,995,982	-	173,995,982

As at 31 December 2009

GROUP	Level 1	Level 2	Level 3	Total
Financial Assets:				
Due from Banks	-	9,067,840	-	9,067,840
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	21,931,522	-	-	21,931,522
Loans and advances	-	122,659,082	-	122,659,082
	24,917,577	133,290,987	-	158,208,564
Financial liabilities:				
Due to Banks	-	6,668,388	-	6,668,388
Other customer deposits	-	163,029,350	-	163,029,350
	-	169,697,738	-	169,697,738

33. FAIR VALUE OF FINANCIAL INSTRUMENTS Continued

BANK	Level 1	Level 2	Level 3	Total
Financial assets:				
Due from banks	-	5,936,128	-	5,936,128
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	21,284,985	-	-	21,284,985
Loans and advances	-	98,749,618	-	98,749,618
	24,271,040	106,249,811	-	130,520,851
Financial liabilities:				
Due to banks	-	5,148,793	-	5,148,793
Other customer deposits	-	138,452,731	-	138,452,731
	-	143,601,524	-	143,601,524

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 statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Capital commitments contracted for at year end	176,569	981,347	130,073	485,264
Loans committed but not disbursed at year end	32,447,570	19,840,492	31,750,911	13,798,145
Foreign currency commitments	(44,169)	(28,787)	(44,169)	(28,787)

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

	GROUP 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Letters of credit, acceptances, guarantees, indemnities and other engagements entered into on behalf of customers at year end	72,429,394	32,909,317	69,532,289	32,865,196

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 and tax claims. However, the Group believes, based on the information currently available, that the ultimate resolution of these legal proceedings and claims 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 various Board 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 Group's risk management policies are established to identify and analyse the risks faced by the Group, set appropriate risk limits and controls and 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 Division. Internal Audit personnel undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

36.1 Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counter party 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 counter parties and investment securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

Management of Credit Risk

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee. A separate credit division, 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 division 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 counter parties, 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 attention on the 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.

36. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT Continued

- Each business unit is required to implement the Group's credit policies and procedures and has a credit manager who reports on all credit related matters to the 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 as shown below reflecting the range of default probabilities.

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.

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 are not identifiable with particular exposures.

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

	GROUP 2010 KShs '000	2009 KShs '000	BANK 2010 KShs '000	2009 KShs '000
Individually impaired				
Grade 3	3,101,867	4,218,587	2,226,705	2,307,517
Grade 4	6,311,868	7,259,747	5,994,003	7,007,462
Grade 5	5,169,647	3,161,247	4,833,019	2,857,896
Gross amount	14,583,382	14,639,581	13,053,727	12,172,875
Allowance for impairment	(8,587,097)	(8,189,513)	(8,178,514)	(7,593,959)
Carrying amount	5,996,285	6,450,068	4,875,213	4,578,916
Collectively impaired				
Grade 1	132,804,585	99,941,564	124,423,554	78,945,515
Grade 2	11,377,323	17,836,310	9,949,137	16,490,045
Gross amount	144,181,908	117,777,874	134,372,691	95,435,560
Allowance for impairment	(2,064,829)	(1,568,860)	(1,903,336)	(1,264,858)
Carrying amount	142,117,079	116,209,014	132,469,355	94,170,702
Total Carrying amount	148,113,364	122,659,082	137,344,568	98,749,618

36. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT Continued

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.

Impairment allowances on individually assessed accounts are determined by an evaluation of the impairment at reporting 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 to make 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 as 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 charges 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.

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 2010 KShs'000	2009 KShs'000	BANK 2010 KShs'000	2009 KShs'000
Construction	22,655,575	21,107,867	21,800,273	4,926,255
Micro credit	45,092,890	40,684,338	45,065,735	38,155,378
Agriculture	9,174,951	8,733,742	8,590,671	8,594,095
Small and Medium Enterprises (SME)	19,969,823	7,406,103	16,232,352	4,692,362
Corporate	61,872,051	54,485,405	55,737,387	51,240,345
	158,765,290	132,417,455	147,426,418	107,608,435

36. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT Continued

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 intra-day 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 reporting 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 .

	Increase/decrease in exchange rate	Effect on profit before tax	
		2010 KShs' 000	**2009 KShs' 000**
USD	10%	13,002	266,876
GBP	10%	7,011	13,965
EUR	10%	3,170	26,386

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 Division. 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. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT Continued

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 and short-term loans to other banks to ensure that sufficient liquidity is maintained within the Bank as a whole. The daily liquidity position is monitored and regular liquidity stress testing 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. 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:

	2010	2009
At close of the year	30.74%	28.13%
Average for the year	35.49%	29.44%
Maximum for the year	39.32%	36.04%
Minimum for the year	30.20%	22.03%

Note 41 summarises the Group's liquidity risk as at year end.

36.5 Interest Rate Risk

Interest rate risk is the risk that the future cash flows of financial instruments will fluctuate because of changes in the market interest rates. 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 statement of financial position. If there was a 2% increase/decrease in interest rates, the Group's profit before tax would decrease /increase by KShs.353 million (2009: KShs. 280 million)

Note 40 summarises the interest rate risk of the Group as at year end.

37. CAPITAL MANAGEMENT

The primary objective of the Bank's capital management is 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 banks 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.

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.

37. CAPITAL MANAGEMENT Continued

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

	31 December 2010 KShs'000	31 December 2009 KShs'000
Tier 1 capital		
Ordinary share capital	2,950,260	2,217,778
Retained earnings	19,075,897	12,448,028
Share premium	18,565,504	7,297,986
Less: Investments in financial institutions	(5,370,853)	(4,290,080)
Total	35,220,808	17,673,712
Tier 2 capital		
Regulatory reserve	59,428	86,215
Total regulatory capital	35,280,236	17,759,927
Risk weighted assets	152,310,594	119,237,891
Capital ratios:		
Total regulatory capital expressed as a percentage of total risk-weighted assets	23.2%	14.9%
Tier 1 capital expressed as a percentage of total risk-weighted assets	23.1%	14.8%
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:

	GROUP 2010 KShs '000	2009 KShs '000	BANK 2010 KShs '000	2009 KShs '000
Assets in foreign currencies	99,366,461	98,139,796	91,848,193	79,463,659
Liabilities in foreign currencies	(99,411,684)	(99,063,338)	(92,095,348)	(80,712,546)
Net foreign currency exposure at the end of the year	(45,223)	(923,542)	(247,155)	(1,248,887)

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 Defined Benefit Scheme was done by the actuary as at 31 December 2009 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. 265 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 10.8% to 16.7% of the total pensionable salaries of the members in service. The accelerated contribution at 18% commenced on 1 January 2011.

The information below summarises the make-up of the scheme deficit amount and actuarial assumptions made.

	KShs'000
Defined benefit obligation	6,520,900
Fair value of scheme assets	(6,255,400)
Pension deficit	265,500

The amount recognized in the income statement for the year is as follows:

Current contribution costs (note 31)	455,676

The principal actuarial assumptions used are as follows:

Rate of interest	10% p.a
Rate of salary escalation	8% p.a
Rate of pension increases	Nil

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are not recognized unless the net cumulative unrecognized gains or losses at the end of the previous reporting year exceed the greater of either 10% of the fair value of fund assets or the present value of the defined benefit obligation. In these circumstances, the excess is charged or credited to the income statement.

(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 RATE RISK

The tables below shows interest rate sensitivity position of the Group at 31 December based on the earlier of maturity or re-pricing dates. Items not recognized on the statement of financial position do not pose any significant interest rate risk to the Group.

As at 31 December 2010	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	-	-	-	-	-	26,997,823	26,997,823
Due from banks	3,959,957	6,251,051	-	-	-	-	10,211,008
Held for trading investments	847,876	-	-	-	-	-	847,876
Tax recoverable	-	-	-	-	-	11,009	11,009
Available for sale investments	-	-	-	4,903,188	661,835	297,465	5,862,488
Loans and advances to customers	12,582,423	5,979,303	12,567,391	65,441,213	51,543,034	-	148,113,364
Held to maturity investments	2,138,342	4,589,408	5,631,555	12,078,802	18,960,027	-	43,398,134
Other assets	-	-	-	-	-	5,002,289	5,002,289
Deferred tax	-	-	-	-	-	1,126,284	1,126,284
Intangible assets	-	-	-	-	-	1,368,385	1,368,385
Prepaid lease	-	-	-	-	-	145,893	145,893
Property and equipment	-	-	-	-	-	8,271,647	8,271,647
Total assets	19,528,598	16,819,762	18,198,946	82,423,203	71,164,896	43,220,795	251,356,200
Due to banks	11,056,967	-	-	-	-	-	11,056,967
Other customer deposits	165,664,847	5,790,903	19,560,235	5,958,666	-	-	196,974,651
Other liabilities	-	-	-	-	-	2,356,968	2,356,968
Tax payable	-	-	-	-	-	1,837,722	1,837,722
Deferred tax	-	-	-	-	-	121	121
Equity	-	-	-	-	-	39,129,771	39,129,771
Total liabilities and equity	176,721,814	5,790,903	19,560,235	5,958,666	-	43,324,582	251,356,200
Interest rate sensitivity gap	(157,193,216)	11,028,859	(1,361,289)	76,464,537	71,164,896	(103,787)	-

40. INTEREST RATE RISK (Continued

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	Total 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	829,426	2,323,391	6,590,207	4,967,498	7,221,000	-	21,931,522
Loans and advances to customers	12,223,402	3,430,266	11,122,386	53,378,188	42,504,840	-	122,659,082
Other assets	-	-	-	-	-	6,832,688	6,832,688
Deferred tax	-	-	-	-	-	107,280	107,280
Intangible assets	-	-	-	-	-	1,354,478	1,354,478
Leasehold land	-	-	-	-	-	147,958	147,958
Property and equipment	-	-	-	-	-	7,746,619	7,746,619
Total assets	22,250,220	8,252,948	17,712,593	59,445,686	50,185,140	36,931,248	194,777,835
Due to banks	6,668,388	-	-	-	-	-	6,668,388
Other customer deposits	117,882,892	12,494,337	29,354,893	3,297,228	-	-	163,029,350
Other liabilities	-	-	-	-	-	2,387,161	2,387,161
Tax payable	-	-	-	-	-	110,361	110,361
Deferred tax	-	-	-	-	-	12,363	12,363
Equity	-	-	-	-	-	22,570,212	22,570,212
Total liabilities and equity	124,551,280	12,494,337	29,354,893	3,297,228	-	25,080,097	194,777,835
Interest rate sensitivity gap	(102,301,060)	(4,241,389)	(11,642,300)	56,148,458	50,185,140	11,851,151	-

41. LIQUIDITY RISK MANAGEMENT

As at 31 December 2010	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	14,437,833	2,752,068	9,208,199	599,723	-	26,997,823
Due from banks	3,959,957	6,251,051	-	-	-	10,211,008
Held for trading investments	847,876	-	-	-	-	847,876
Tax recoverable	-	-	11,009	-	-	11,009
Available for sale investments	-	-	-	4,903,188	959,300	5,862,488
Held to maturity investments	2,138,342	4,589,408	5,631,555	12,078,802	18,960,027	43,398,134
Loans and advances to customers	12,582,423	5,979,303	12,567,391	65,441,213	51,543,034	148,113,364
Other assets	-	-	5,002,289	-	-	5,002,289
Deferred tax	-	-	-	1,126,284	-	1,126,284
Intangible assets	-	-	-	1,368,385	-	1,368,385
Property and equipment	-	-	-	-	8,271,647	8,271,647
Prepaid operating lease rentals	-	-	-	-	145,893	145,893
Total assets	33,966,431	19,571,830	32,420,443	85,517,595	79,879,901	251,356,200
Due to banks	11,056,967	-	-	-	-	11,056,967
Other customer deposits	165,664,847	5,790,903	19,560,235	5,958,666	-	196,974,651
Other liabilities	-	-	2,356,968	-	-	2,356,968
Tax payable	-	-	1,837,722	-	-	1,837,722
Deferred tax	-	-	-	121	-	121
Equity	-	-	-	-	39,129,771	39,129,771
Total liabilities and shareholders' funds	176,721,814	5,790,903	23,754,925	5,958,787	39,129,771	251,356,200
Net liquidity gap	(142,755,383)	13,780,927	8,665,518	79,558,808	40,750,130	-

41. LIQUIDITY RISK MANAGEMENT (Continued)

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	Total KShs'000
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	-	-	-	1,100,000	821,277	1,921,277
Held to maturity investments	829,426	2,323,391	6,590,207	4,967,498	7,221,000	21,931,522
Loans and advances to customers	12,223,402	3,430,266	11,122,386	53,378,188	42,504,840	122,659,082
Other assets	-	-	6,832,688	-	-	6,832,688
Intangible assets	-	-	-	1,354,478	-	1,354,478
Property and equipment	-	-	-	-	7,746,619	7,746,619
Deferred tax	-	-	-	107,280	-	107,280
Prepaid operating lease rentals	-	-	-	-	147,958	147,958
Total assets	37,169,751	9,682,935	28,199,700	61,283,755	58,441,694	194,777,835
Due from banks	6,668,388	-	-	-	-	6,668,388
Other customer deposits	117,882,892	12,494,337	29,354,893	3,297,228	-	163,029,350
Other liabilities	-	-	2,387,161	-	-	2,387,161
Tax payable	-	-	110,361	-	-	110,361
Deferred tax	-	-	-	12,363	-	12,363
Equity	-	-	-	-	22,570,212	22,570,212
Total liabilities and equity	124,551,280	12,494,337	31,852,415	3,309,591	22,570,212	194,777,835
Net liquidity gap	(87,381,529)	(2,811,402)	(3,652,715)	57,974,164	35,871,482	-

42. OPERATING LEASE COMMITMENTS

Operating lease commitments – Group as lessee

Non-cancellable operating lease rentals are payable as follows:

	2010 KShs'000	2009 KShs'000
Up to five years	726,341	702,897
More than five years	105,888	81,110
	832,229	784,007
Operating leases – Group as lessor		
Up to five years	60,233	59,122
More than five years	5,246	4,355
	65,479	63,477

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

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
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

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

YOUR NOTES

PROXY FORM

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

I/We ____

ID/Passport No ____

Shares A/C No/CDS A/C No ____

of P.O. Box ____

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

ID/Passport No ____

of P.O. Box ____

or failing him the duly appointed Chairman of the meeting to be my/our proxy, to vote on my/our behalf at the 40th Annual General Meeting of the Company to be held on 6th May 2011 at 11:00 a.m or at any adjournment thereof.

Signed this ______________________ day of ______________________ 2011

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 authorized 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.

KCB

FOMU YA UWAKILISHI

KATIBU
BENKI YA KENYA COMMERCIAL LTD
GOROFA YA NANE,
JUMBA LA KENCOM, MOI AVENUE
S.L.P. 48400-00100 NAIROBI KENYA

Mimi/Sisi ____

Wa kitambulisho/Pasipoti Nambari ____

Hisa A/C No/CDS A/C No ____

wa S.L.P. ____

Nikiwa mwanachama/Wanachama wa kampuni iliyotajwa hapo juu namteua ____

wa kitambulisho/pasipoti nambari ____

wa S.L.P. ____

na akikosa yeye, namteua/tunamteu Mwenyekiti wa mkutano kama mwakilishi wangu/wetu, kupiga kura kwa niaba yangu/yetu kwenye Mkutano Mkuu wa 40 wa Kampuni utakaofanyika tarehe 6, Mei 2011 saa tano za asubuhi ama siku yoyote ile endapo mkutano huo utaahirishwa.

Imetiwa saini ____________________ siku ya ____________________ 2011

Saini

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 ni lazima ifike kwa Msajili masaa 48 kabla ya mkutano.