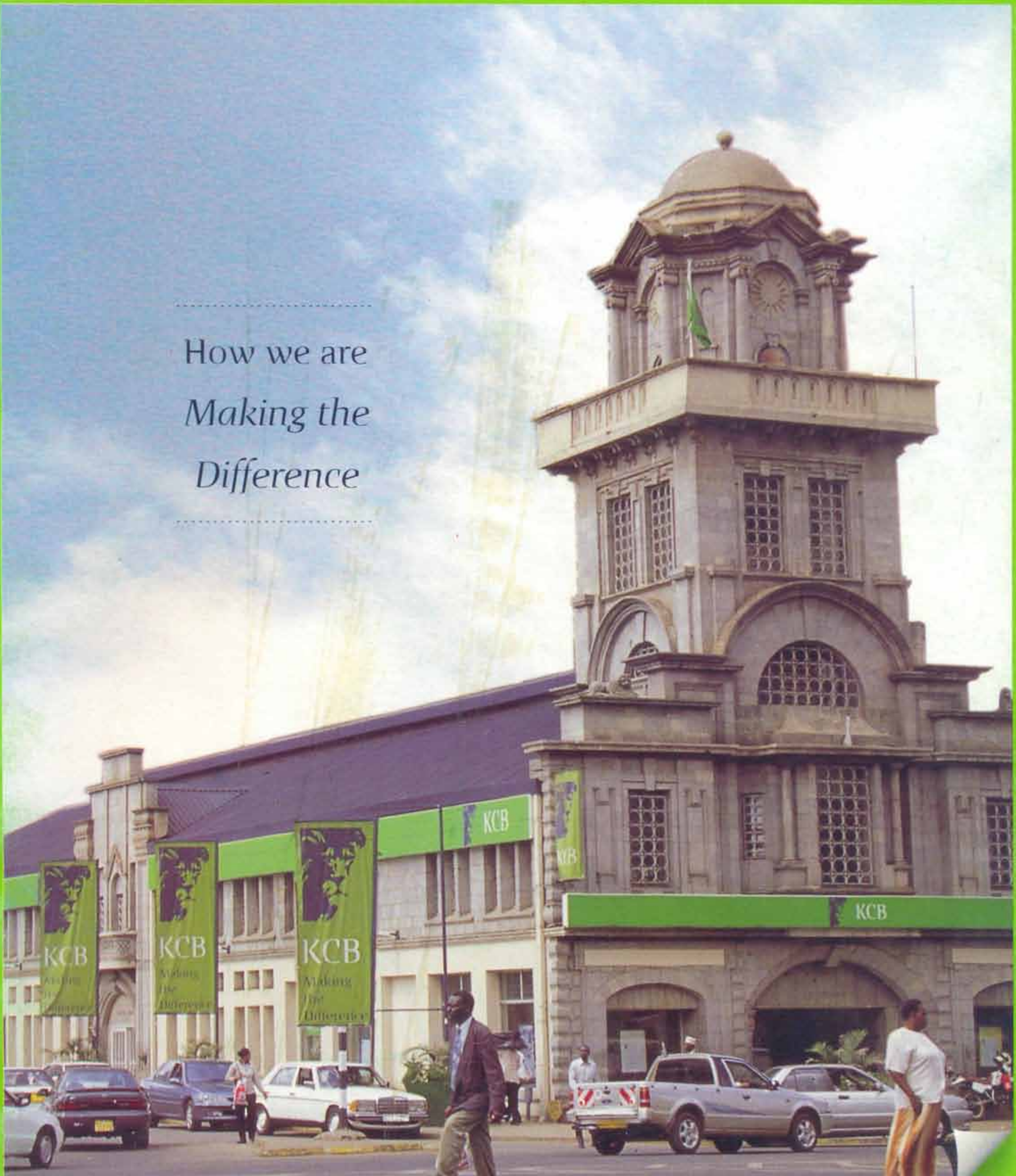
KCB | Making the Difference

ANNUAL REPORT &
Financial Statements 2003



How we are *Making the Difference*

COMMUNITY SERVICE

Chief Executive Terry Davidson presents a wheel chair to Vice President Moody Awori at the launch of last year's KCB Community week. Pupils of Joytown Primary School, Thika, benefitted from 10 wheelchairs donated by the bank.

Contents

Bank *Information:*

Principal Place of Business: Kencom House, Moi Avenue P. O. Box 48400, 00100 Nairobi GPO, *Registered Office:* Kencom House, P. O. Box 48400, 00100 Nairobi GPO, *Solicitors:* Various – A list is available at the Bank *Company Secretary:* Mr. K.D. Malakwen, P. O. Box 48400, 00100 Nairobi GPO *Company Auditors:* Ernst & Young, Kenya Re-Towers, Upperhill, Off Ragati Road, P. O. Box 44286, 00100 Nairobi GPO

Notice of the 33rd Annual General Meeting

NOTICE IS HEREBY GIVEN that the 33RD ANNUAL GENERAL MEETING OF THE KENYA COMMERCIAL BANK LIMITED will be held at the Plenary Hall, Kenyatta International Conference Centre, Harambee Avenue, Nairobi on Friday, 28th May, 2004 at 11 a.m. when the following will be transacted, namely:-

Agenda

1. Constitution of Meeting

To read the notice convening the Meeting and determine if a quorum is present.

2. Ordinary Business

(a) Report of the Auditors

To read the Auditors' Report on the Consolidated Financial Statements for the year ended 31st December, 2003.

(b) Report and Financial Statements for the year ended 31st December, 2003

To receive and consider the Report of the Directors and Consolidated Financial Statements for the year ended 31st December, 2003 together with the Auditors' Report thereon.

(c) Dividend

To declare a dividend

(d) Election of Directors

In accordance with Article 94 of the Company's Articles of Association, Ms. Sarah Wanjiru Wainaina, Mr. Charles Nyakeri Barongo and Mrs. Esther Jepkemboi Koimett, retire by rotation from the Office as Directors of the Company and, being eligible, offer themselves for re-election respectively.

(e) Remuneration of the Directors

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

(f) Appointment of Auditors

To re-appoint Messrs Ernst & Young, Certified Public Accountants, as the Auditors of the Company until the conclusion of the next Annual General Meeting.

(g) Remuneration of the Auditors

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

3. Special Business

(a) Increase of Authorised Share Capital

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

THAT the authorised share capital of the company be increased from Kenya Shillings One Billion Five Hundred Million (KShs 1,500,000,000.00) divided into One Hundred and Fifty Million (150,000,000) ordinary shares of Kenya Shillings Ten (10.00) each to Kenya Shillings Two Billion (KShs 2,000,000,000.00) by the creation of Fifty Million (50,000,000) new ordinary shares of Kenya Shillings Ten (KShs 10.00) each ranking pari passu in all respects with the existing ordinary shares in the capital of the Company.

(b) Rights Issue

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

THAT subject to the passing of Resolution 3(a) above, the Directors be and are hereby authorised and directed that Fifty Million (50,000,000.00) ordinary shares of Kenya Shillings Ten (KShs 10.00) each in the capital of the Company increased pursuant to the Resolution numbered 3 (a) above, be offered, subject to any required consent or authorization, including but not limited to the approval of the Capital Markets Authority, at a premium to be determined by the Directors, to and among the holders of the issued ordinary shares in Kenya Shillings Ten (KShs 10.00) each in the capital of the Company registered at the close of business on such date as shall be determined by the Directors, and notified to the members through the press, in proportion to their respective holdings in the issued share capital of the Company, subject to the Articles of Association of the Company, upon such terms as the Directors shall think fit, and that the Directors be, and are hereby authorized generally to do and effect all acts and things required to give effect to this Resolution, and to deal with fractions in such manner as they think fit subject to the Articles of Association of the Company.

4. Any Other Business

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

Dated at Nairobi this 24th day of February, 2004
By order of the Board

K.D. Malakwen
Secretary

Note: A member entitled to attend and vote at the above Meeting is entitled to be present in person or by proxy or attorney and, if a Corporation, is also entitled to be present by a representative appointed in accordance with Article 76 of the Articles of Association of the Company or by proxy of such representative. Such proxy or representative need not be a Member of the Company. A proxy form is attached herewith and if used, must be deposited at or mailed to the Registered Office of the Company, 8th Floor, Kencom House, Moi Avenue, Nairobi, so as to be received not later than 48 hours before the time appointed for holding the Meeting.

Ilani ya Mkutano Mkuu wa 33

Ilani inatolewa kuambatana na sheria za makampuni (cap 486) za Kenya na kanuni za ushirikishi wa kampuni kwamba mkutano mkuu wa mwaka wa wanachama wa kampuni hii utafanyika katika ukumbi wa Plenary katika Kenyatta International Conference Center katika Harambee Avenue, hapa Nairobi, Ijumaa tarehe 28 mwezi Mei 2004 saa tano kamili asubuhi kujadili yafwatayo;

Ajenda.

1. Kujumuika kwa mkutano.

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

2. Shughuli za kawaida.

(a) Ripoti ya wahasibu wakaguzi

Kusomwa kwa Ripoti ya wahasibu wakaguzi kuhusu akaunti ya pamoja na mizania ya benki hii kwa mwaka uliomalizika tarehe 31 mwezi Disemba mwaka wa 2003.

(b) Ripoti na akaunti kwa mwaka uliomalizika tarehe 31 mwezi disemba mwaka wa 2003.

Kupokea na kuzingatia ripoti ya wakurugenzi na taarifa ya akaunti ya pamoja na mizania ya benki kwa mwaka uliomalizika tarehe 31 mwezi Disemba mwaka wa 2003 pamoja na ripoti ya wakaguzi wa hesabu.

(c) Mgao wa faida.

Kubaini kwamba halmashauri ya wakurugenzi inapendekeza malipo ya mgao wa faida kwa mwaka wa 2003.

(d) Uchaguzi wa wakurugenzi.

Kuambatana na kipengele 94 cha masharti ya Benki, Bwana. C.N. Barongo, Bi S.W. Wainaina, Bi E. Koimett, wanastaafu kwa zamu kutoka afisini kama wakurugenzi wa benki hii, na kwa vile wanastahili, wamejitolea kutaka wachaguliwe tena.

(e) Malipo ya wakurugenzi.

Kuidhinisha halmashauri ya wakurugenzi iweke viwango vya malipo ya wakurugenzi.

(f) Uteuzi wa wakaguzi wa hesabu.

Kuteua tena kampuni ya Messrs Ernst & Young kuwa wakaguzi wa hesabu wa benki hii hadi kumalizika kwa mkutano mkuu wa mwaka ujao.

(g) Malipo ya wakaguzi wa hesabu.

Kuidhinisha halmashauri ya wakurugenzi kuweka viwango vya malipo kwa wakaguzi wa hesabu.

3. Shughuli maalum

   Azimio la kwanza

   Kuongeza hisa ya mtaji.

   Kuchunguza na ikiwa itaonekana kuwa sawa, kupitisha azimio lifwatalo ambalo litajulikana kama azimio la kawaida, KWAMBA kiwango cha jumla ya hisa za kampuni kilichoidhinishwa cha shilingi billioni moja na mia tano milioni (1,500,000,000.00) zilizogawanywa katika hisa milioni 150 za thamani ya shilingi kumi kila moja kiongezwe hadi hisa za kawaida za thamani ya shilingi bilioni mbili (2,000,000,000.00) kwa kuongeza hisa mpya milioni hamsini (50,000,000.00) za shilingi kumi kila moja zilizoenda sambamba na hisa nyinginezo za kampuni.

   Azimio la pili

   Haki ya toleo.

   Mbali na kuidhinishwa kwa azimio nambari 1 hapo juu, ikiwa itafikiriwa kuwa sawa, kupitisha azimio ambalo litapendekezwa kama azimio la kawaida, KWAMBA wakurugenzi wanashauriwa na wanaagizwa kuidhinisha nyongeza ya hisa za kawaida za shilingi kumi (Ksh.10) kila moja kwa shilingi milioni 50 za Kenya, kuambatana na azimio nambari 1 hapo juu, kwa ruhusa na kibali au idhinisho la Mamlaka ya Masoko ya hisa (Capital Markets Authority), kwa kiwango kitakachopendekezwa na wakurugenzi kwa wenye hisa za shilingi kumi kila moja,kwenye tarehe itakayotolewa na wakurugenzi na kujulishwa wanahisa kupitia vyombo vya habari kwa mujibu wa sheria za kampuni, kwa kiwango kitakachopendekezwa na wakurugenzi. Kwa mujibu wa azimio hilo,wakurugenzi hao wanaruhusiwa kuidhinisha na kutekeleza azimio hilo, jinsi watakavyofikiria inastahili, kwa misingi ya sheria za kampuni.

4. Shughuli nyingine yoyote.

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

Tarehe 24 mwezi Februari mwaka wa 2004
Kwa amri ya halmashauri ya wakurugenzi.

K.D. Malakwen
Katibu.

Kumbuka: Mwanachama ambaye ameruhusiwa kushiriki na kupiga kura katika mkutano uliotajwa hapo juu ameruhusiwa kudhuhuria yeye mwenyewe,kuakilishwa na mtu mwingine au wakili na kama ni shirika pia linaweza kuwakilishwa na mwakilishi aliyeteuliwa kuambatana na kipengele no.76 cha benki hii.Mwakilishi kama huyo si lazima awe mwanachama wa benki hii. Fomu ya uakilishi imeunganishwa hapa ni ikijazwa lazima ipelekwe au kuwasilishwa kwa njia ya Posta kwa afisi ya msajili wa benki hii.Orofa ya nane,Kencom House,Moi Avenue,Nairobi. Ili ipokewe masaa 48 kabla ya wakati wa kufanyika kwa mkutano.

KCB Board *of Directors*












Susan Mudhune ~ *Chairman*, Terry Davidson ~ *Chief Executive*
Joseph Magari ~ *Director*, Catherine Kimura ~ *Director*
Albert Ruturi ~ *Chief Operating Officer*, Musa Ndetto ~ *Director*, Prof. Francis Ojany ~ *Director*, Charles Barongo ~ *Director*,
William Gitobu ~ *Director*, Esther Koimett ~ *Director*, Sarah Wainaina ~ *Director*, Kiprop Malakwen ~ *Company Secretary*.

KCB Directors *of Subsidiaries*








Wangui Ngatia – *MD-S&L*, B.A Omollo – *Director-S&L*, Prof. G.K Misoi – *Director-S&L*, Prof. Nzele Nzomo –*Director-S&L*, Bazra Tabulo – *MD-KCB(T)*, B.C. Mwenda –*Director-KCB(T)*, Nassir Arte – *Director-KCB(T)*, Francis Koske – *Director-KCB(T)*, Prof. Jeremiah Musuva – *Director-KCFC*

KCB Executive *Committee*








Catherine Njoroge – *Divisional Director-Retail Banking*, Samuel Kimani – *Divisional Director-Finance*, Dr Tony Githuku – *Divisional Director-Information Technology*, Stanley Towett – *Divisional Director-Audit*, Kalyan Mukherjee – *Treasurer*, Alban Mwendar – *Divisional Director-Human Resources*, Fred Mutiso – *Divisional Director Strategy & Change Programme*, Philip Ilako – *Divisional Director-Corporate*

Kepha Bosire – *Head-Corporate Affairs*

KCB | Making the Difference

Chairman's Statement

Susan Mudhune
Chairman

Shareholders.

2003 was a successful year for the KCB Group, registering a profit and improved performance in all business segments. I am pleased to present to you the Financial Statements for the year 2003.

Your bank posted a profit before tax of KShs 750 million in 2003 after registering a huge loss in 2002. This improved position is a result of measures taken in 2002 to increase provisions for all historical debts to pave way for profitability. The Board and Management are satisfied that those remedial steps are already bearing fruits.

Our objective is to maximize our shareholder value over time. This came through in 2003. Starting off at KShs 20 per share at the beginning of the year, and closing at about KShs 70 at year-end. Prices, however, attained significantly higher levels through the year.

Our operating environment

We begun 2003 on an optimistic note with the new Government unveiling steps to support and grow the economy. Following a successful political transition, multilateral development partners exhibited willingness to resume economic support for the country.

The Government, indeed, pledged to support key economic sectors in its bid to revamp the economy projecting resultant economic growth at 3%. The promise of availing cheap credit to farmers gave renewed hope to the agriculture-based economy, where your bank is a key player.

The manufacturing sector continued to experience a slump owing to increased importation of finished goods. The sugar sector, especially suffered massive setbacks due to importation of sugar from the COMESA and PTA markets. This development has seen the near-collapse of several local sugar millers as the squeeze bites. We note the Government's move to protect the sector from further pressure from external competition.

The terrorist bombing of the World Trade Centre on September 11, 2002 however, held back the tourism sector. The subsequent incidences in Mombasa further constrained the business and financial opportunities. However, the government has redoubled its efforts to revitalize the sector with the support of key Western allies.

During the year, the Banking sector underwent a number of reforms following the Minister of Finance's Budget Speech. Key among these reforms were the reduction of the cash ratio from 8% to 6% and a drop of minimum paid up capital for banks and non-bank financial institutions from KShs 500 million and KShs 375 million to KShs 250 million and KShs 200 million, respectively. The new cash ratio will boost the liquidity position of industry players while the adjusted capital limit will encourage new players to enter the market, thus making banking services accessible to a large number of the population.

The year also witnessed a major reduction in lending rates, with KCB's base lending rates moving from 14% to 10% during the year. The trend followed the consistent reduction in Treasury Bill rates that defied expectations and dropped to below 1%. The upshot of the development is that our customers will now find credit much more affordable but the downside is that our margins shrank even further thus undermining our overall earnings position.

Our vision

Given the operating environment, our vision remains "to be the Preferred regional provider of World Class Financial Solutions to the Satisfaction of all Stakeholders". We have put several strategic initiatives in place to enable us achieve this vision.

Our new brand

In order to revitalize the business and give KCB a new image, we launched a new corporate identity in April last year. This was coupled with staff training on culture shift and teamwork.

We have since refurbished our Kipande House, Arusha and Sarit Centre branches in the new branch décor reflecting our new corporate colours. A branch design has been adopted as we place more emphasis on customer comfort and convenience. We expect to accelerate the refurbishment to ensure customers enjoy the new KCB experience throughout our network by the end of 2006.

The striking exterior look of Kipande house branch

Our corporate governance and ethics policy

The Board of Directors of KCB regards Corporate Governance as key to the success of the business and are committed to applying the principles of good corporate governance in all its dealings. Consequently, the Board has instituted a Charter that defines the mandate and responsibilities of the Directors and also sets the limit of their authority in business decisions. This will ensure harmony with Management in jointly running the business successfully.

In line with the Board Charter, which draws the line between Board and Management responsibilities and obligations, the Board instituted a Directors' Charter that defines the Directors' individual responsibilities and obligations to the Board, shareholders and the Company. The Charter mandates the Directors to exercise professional competence, and contribute effectively to the running of the business in good faith adhering to independent ethical judgment.

The Bank has put in place an Ethics Policy that governs the conduct of employees and defines activities that are considered to be of a corrupt nature and are prohibited. KCB is a member of the Ethical Business Group, which advocates for zero tolerance of corruption at the workplace.

Our corporate social responsibility

Your bank continued to exercise exemplary principles of Corporate Social Responsibility in response to the demands of modern business best practice. In May, a successful KCB Community Day was held with 122 teams from our countrywide network taking part in activities that support needy members of the community. A similar exercise was repeated in December, involving over 110 teams countrywide in the KCB Community Week.

As Kenya's premier indigenous bank, whose business benefits a great deal from the tourist inflows that follow the Safari Rally, we sponsored the Safari Rally 2003 at the popular Kenyan Coast. These two strong brands have worked well collaboratively. Both local and international observers heralded the event as a resounding success with World Class organization and a positive contribution towards a return to Kenya of the World Rally Championship.

Your dividends

I would like to commend you, our shareholders, for the patience you have demonstrated over the last few years. Following this much improved performance, I am pleased to announce that the Board has recommended a dividend payment of KShs1 for every share held as our level of profits in 2003 cannot support a higher dividend payout for the period. Total dividend payout will amount to KShs149 million.

Our future

The future is bright. The Board recently approved a customer-focused strategy that will also maximize Kenya's regional business opportunities by taking advantage of our wide retail network. Our credit function has also been enhanced to ensure procedures are followed to the letter as the bank strives to grow the good book.

Your board has also made a decision to recapitalise the bank and reposition it for growth. This will allow the Bank to improve its balance sheet and enhance the performance leading to better Shareholder value. During our forthcoming Annual General Meeting, we shall be calling upon you to pass two resolutions aimed at increasing the Authorised Share Capital of the Bank from KShs 1.5 billion to KShs 2.0 billion and to increase the Issued and Fully Paid-up Capital from KShs 1.496 billion to up to KShs 1.9 billion.

The Issued and Fully Paid-up Share Capital will be increased through a Rights Issue subject to your approval and that of the relevant regulatory agencies. The details of the Rights Issue will be contained in the Issue Documents, which shall be sent to you shortly after the meeting.

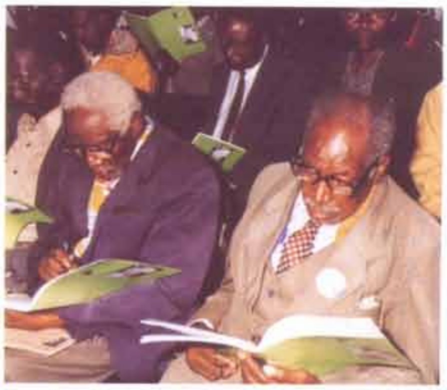
The Board is confident that the business will build on the gains achieved in 2003 to improve on the profitability and pave way for regular dividend payment.

On behalf of the Board, may I take this opportunity to thank the entire KCB Team for their dedication, determination and hard work in working towards consistently delivering quality financial products and services in the interest of all our stakeholders.

On a more personal note, I wish to express my appreciation to my fellow Board members for their support and commitment, as we collectively worked towards achievement of our goals in 2003.

Please accept our special thanks to you, our Shareholders, for the support you have accorded the business over the years. We appreciate your continued endorsement of our initiatives as KCB continues to realize its full potential.

Thank you.



Shareholders go through the Annual Report during last years AGM

2003 MAY NEW BRAND

32nd Annual General Meeting:
Over 3000 shareholders attended the 2003 meeting.

2003 JUNE NEW BRAND

KCB Race Day
The horse-racing meeting was used to showcase the new brand.

Taarifa ya *Mwenyekiti*

Staff participate in various community activities during last year's KCB Community Week.

Wanahisa.

Mwaka huu wa 2003 ulikuwa wenye mafanikio kwa kuwa kundi la KCB lilipata faida na mafanikio makubwa katika sehemu zote za kibiashara. Nina furaha kuwasilisha ripoti ya kifedha ya mwaka wa 2003.

Faida kabla ya kutozwa ushuru ilikuwa Shillingi milioni 750, ikilinganishwa na mwaka wa 2002, ambapo tulipata hasara kubwa mno.

Hali hii iliyoimarika ilitokana na hatua zilizochukuliwa mnamo mwaka 2002 za kukabiliana na madeni ya muda mrefu na kutoa nafasi ya kupata faida. Halimashauri ya wakurugenzi na wasimamizi wameridhika kuwa hatua hizo tayari zinafanikiwa.

Lengo letu kuu ni kuimarisha thamani ya wenye hisa wetu katika shughuli zetu. Jambo hili lilianza kutimia mwaka wa 2003.

Tulianzia kiwango cha hisa kikiwa Shilingi 20 kwa hisa, mwanzoni wa mwaka na kufikia mwisho wa mwaka na thamani ya Shilingi 70 kwa hisa. Viwango vya bei hata hivyo viliimarika sana mwaka huo.

Mazingira ya utendaji kazi.

Tulianza mwaka wa 2003 kwa matumaini makubwa huku, serikali mpya ikiratibu mikakati ya kuufufua uchumi.

Kufwatia mabadiliko shwari ya kisiasa hapa nchini, washirika wa maendeleo waliahidi kurejelea utoaji wa misaada ya kifedha ili kuimarisha uchumi wa taifa. Serikali iliahidi kuzifufua sekta muhimu za kiuchumi, katika juhudi za kuufufua uchumi kwa kiwango cha asilimia 3. Ahadi ya kutolewa mikopo yenye masharti nafuu kwa wakulima iliangaza nuru ya matumaini ya kuimarishwa kwa sekta ya uchumi inayotegemea shughuli za kilimo, ambako benki yetu ni mhusika mkuu.

Sekta ya utengenezaji wa bidhaa ilikumbwa na mshuko katika shughuli zake kutokana na ongezeko katika uagizaji wa bidhaa kutoka nje. Sekta ya sukari hasa ndiyo iliyoathiriwa zaidi, kufwatia uagizaji wa sukari kutoka masoko ya kikanda COMESA na PTA. Tukio hilo limeathiri sana shughuli za viwanda vya sukari humu nchini, huku vingine vikikaribia kuporomoka. Hata hivyo serikali imechukua hatua madhubuti kulinda sekta hiyo kutokana na ushindani mkali kutoka nje.

Kisa cha kigaidi cha shambulizi kwa majengo ya biashara ya kimataifa nchini Marekani mnamo tarehe 11 mwezi Septemba mwaka wa 2002 kiliathiri sana sekta ya utalii humu nchini. Isitoshe visa vya aina hiyo vilivyofwatia mjini Mombasa vilitatiza shughuli za kibiashara na kifedha hapa nchini. Serikali hata hivyo imeimarisha juhudi za kuikwamua sekta hiyo kutokana na matatizo hayo kwa usaidizi wa mataifa fadhili kutoka magharibi.

Mwaka huo sekta ya benki ilifanyiwa marekebisho kadhaa kufwatia hotuba ya bajeti ya Waziri wa fedha. Mojawapo wa marekebisho hayo ambayo ni muhimu sana ni upunguzaji wa kiwango cha pesa taslimu kinachohifadhiwa kwenye Benki Kuu kutoka asilimia 8 hadi asilimia 6 na vile vile kupunguzwa kwa mtaji unaohitajika kuanzishia benki na mashirika ya kifedha kutoka Shilingi milioni 500 na Shilingi milioni 375 hadi Shilingi milioni 250 na Shilingi milioni 200 mfwatilio. Hatua hiyo bila shaka itaimarisha hali ya kifedha katika sekta ya viwanda, mbali na kuwavutia wawekezaji zaidi. Aidha hatua hiyo itarahizisha upatikanaji wa huduma kwa idadi kubwa ya wananchi.

Katika mwaka huo pia viwango vya riba vinavyotozwa mikopo vilishuka, huku KCB ikishusha viwango vyake vya ukopeshaji kutoka asilimia 14 hadi asilimia 10 mwaka huo. Hatua hiyo ilifwatia punguzo katika viwango vya hati za dhamana hadi kiwango cha chini ya asilimia.

Matokeo yake ni kuwa wateja wetu sasa wataweza kupata mikopo yenye masharti nafuu, ingawa hatua hiyo kwa upande mwingine ilipunguza kiwango cha mapato yetu.

Maono yetu.

Katika hali iliyoko sasa, mtazamo wetu ungali ni ule ule. Yaani kujibidiisha na kuwa kundi linalotoa huduma za hali ya juu zaidi na suluhisho la kuridhisha wateja wake katika kanda hii. Ili kutekeleza lengo hili, tumeratibu mbinu kadhaa.

Nembo mpya.

Ili kuimarisha shughuli zetu za kibiashara na kulipatia kundi letu la KCB sura mpya, tulizindua nembo mpya mwezi wa Aprili mwaka jana. Hatua hii ilifwatiwa na utoaji wa mafunzo kwa wafanyakazi wetu kuhusu mabadiliko ya kikazi na utendaji kazi pamoja katika mazingira hayo. Tangu wakati huo tumelifanyia ukarabati jengo la tawi la benki yetu lililoko Kipande House, sawia na yale ya Arusha na Sarit Centre. Ukarabati huo unazingatia rangi ya nembo yetu mpya. Marekebisho ya afisi za matawi yetu yana lengo la kutoa huduma kwa mteja bila bughudha.

Tunatumaini kuimarisha juhudi zetu ili kuhakikisha wateja wetu wanafurahia huduma zetu katika matawi yetu yote ifikapo mwaka wa 2006.

Maadili na uendeshaji kazi wetu.

Halmashauri ya wakurugenzi ya KCB inatilia maanani uendeshaji kazi bora, kama nyenzo ya kuleta ufanisiwakibiasharanawamejizatitikutumiambinuzakisasazausimamizikatikashughulizakezote. Kuambatana na azma hiyo, halmashauri hiyo imebuni hati maalum ya Halmashauri inayofafanua majukumu na wajibu wa wakurugenzi mbali na kupambanua mipaka ya mamlaka yao, inapofikia swala la maamuzi ya kibiashara. Jambo hili litahakikisha uwiano katika utendaji kazi kati ya halmashauri hiyo na usimamizi wa KCB ili kufanikisha malengo yake. Sambamba na hati hiyo ambayo inapambanua na kufafanua majukumu na wajibu wa wakurugenzi na usimamizi wa KCB, Halmashauri ya wakurugenzi pia ilizindua hati ya wakurugenzi inayoorodhesha majukumu ya wakurugenzi hao, wajibu wao kwa halmashauri, wenyehisa na kwa kampuni kwa jumla.

Hati hiyo inawawajibisha wakurugenzi hao kutumia ujuzi wao kuendesha shughuli za kampuni kwa uadilifu na uzingatifu wa maadili ya kikazi. Benki hii pia imezindua sera mpya kuhusu maadili, ambayo inafafanua wajibu na majukumu ya wafanyakazi. Pia inamulika vitendo vya ufisadi ambavyo vimepigwa marufuku. KCB ni mwanachama wa kundi linalozingatia maadili bora ya kikazi na inaunga mkono kwa dhati juhudi za kukabiliana na ufisadi mahala pa kazi.

Wajibu wetu kwa jamii.

Benki yako, KCB iliendelea kutoa mfano wa kuigwa katika maswala ya wajibu kwa jamii, kuambatana na matakwa bora ya kisasa ya kikazi. Mnamo mwezi wa Mei mwaka 2003, KCB iliandaa siku maalum ya huduma kwa jamii, ambayo ilijumuisha makundi 122 kutoka matawi yote nchini. Miongoni mwa kazi zilizotekelezwa ni kuwasaidia wenye mahitaji mbali mbali katika jamii. Shughuli kama hiyo pia iliandaliwa mnamo mwezi wa Desemba na kuyajumuisha makundi 110 kutoka kote nchini. KCB, ikiwa benki

2003
SEPTEMBER
NEW BRAND

Nairobi International Trade Fair
KCB participated in this highly successful event.

2003
OCTOBER
NEW BRAND

KCB Corporate Golf Day
The Bank sponsored a day for customers at Muthaiga Golf Club.

mojawapo inayonufaika kutokana na sekta ya utalii, ilidhamini mashindano ya Safari Rally kwa mwaka wa 2003 yaliofanyika mkoani pwani.

Mashabiki na wachunguzi wa humu nchini na wa kimataifa walisema mashindano hayo yalifana sana na huenda yakachangia juhudi za Kenya kutaka kurejeshwa kwenye orodha ya nchi ambako mashindano ya kimataifa hufanyika kila mwaka.

Mgao wetu.

Ningependa kuwapongeza nyote wenyehisa wetu ,kwa kuwa wavumilivu kwa kipindi cha miaka kadhaa ya nyuma. Kwa vile tumepata mafanikio makubwa mwaka huu, nina furaha kutangaza mgao wa Ksh.1 kwa kila hisa kwa kuwa faida yetu ya mwaka wa 2003 haiwezi kuruhusu utoaji wa mgao mkubwa kuliko huo kwa wakati huu. Jumla ya pesa zitakazotolewa kama mgao kwa wenyehisa ni Ksh. 149 milioni.

Mtazamo wa siku zijazo.

Tuna matumaini makubwa kwa siku zijazo. Hivi karibuni halmashauri ya benki ya KCB iliidhinisha matumizi ya mbinu za kuwathamini zaidi wateja zilizodhaminiwa kuwanufaisha wafanyabiashara wa kanda hii,ndipo waweze kunufaika kutokana na soko kubwa la wateja lililoko sasa.Utaratibu wetu wa kutoa mikopo pia umerahisishwa na unazingatiwa vilivyo, huku benki ikiendelea kuimarisha huduma zake. Halmashauri ya KCB imefanya uamuzi wa kuongeza mtaji wake na kupanua huduma zake kwa wanahisa.

Wakati wa mkutano mkuu wetu ujao, tutawauliza ninyi wenyehisa kupitisha maazimio mawili kwa lengo la kuongeza hisa za benki ya KCB kutoka Shilingi bilioni 1.5 hadi Shilingi bilioni 2 na vile vile kuongeza hisa zilzolipiwa kutoka thamani ya Shilingi bilioni 1.496 hadi Shilingi bilioni 1.9. Hata hivyo hatua hizo zitachukuliwa tu, ikiwa zitaidhinishwa na mashirika husika. Maelezo kamili kuhusu jambo hili yatawekwa kwenye nyaraka rasmi ambazo kila mwanachama atatumiwa, siku chache baada ya mkutano mkuu. Halmashauri hii inaamini kwamba biashara ya kundi la KCB itaimarika na itatumia mafanikio ya mwaka wa 2003 kuimarisha utoaji wa mara kwa mara wa mgao na malipo mengine.

Kwa niaba ya halmashauri, nachukua fursa hii kushukuru wafanyikazi wote kundi zima la KCB kutokana na kujitolea kwao, kwa ustahimilivu na utendaji kazi kwa bidii, hasa kuwezesha utoaji wa huduma nzuri ya kifedha kwa ajili ya wahusika wetu wote.

Ama kwa upande wangu, natoa shukrani za dhati kwa wakurugenzi wenzangu kwa kuniunga mkono na kujitolea kwenu, tulipokuwa tukitenda kazi pamoja ili kuafikia malengo ya mwaka wa 2003.

Kwa wanahisa wote natoa shukrani kwa kutuunga mkono kwa miaka hiyo ya nyuma. Tunafurahia uungaji mkono wa juhudi za KCB, inapojizatiti kutekeleza majukumu yake.

Ahsanteni.

Chief Executive's *Commentary*

Terry Davidson
Chief Executive

2003 was a successful year for the KCB Group as it marked a significant turning point in its recent history. The pre-tax profit of KShs 750 million made in 2003 was a sharp contrast to the large loss made the previous year and was a result of good growth in core earnings and strong expense control. As a result the Board approved the payment of a dividend of KShs 1 per share, the first to have been paid since 1998.

The financial results were strong across the board. Net interest income increased by 16% from KShs 2.97 billion in 2002 to KShs 3.45 billion in 2003 primarily as a result of the low interest rate regime and change in the deposit mix. The bank was able to successfully shed off expensive call and fixed deposits substituting them by cheaper current and savings account balances buoyed by the rebranding of the bank and a successful savings campaign. In addition there was a significant build-up of Government Securities as we took advantage of the relatively high yields that were being offered at the beginning of 2003.

Fees and commissions income showed a marginal reduction as a result of a rationalization of our fee structure and certain reductions in line with our overall effort to be more competitive.

Operating expenses dropped by over 6% to KShs 5.2 billion as part of the Bank's ongoing efforts to more tightly manage its expenses.

One of the highlights of 2003 was the significant improvement recorded on the non performing loan (NPL) portfolio. Gross NPLs reduced from KShs 25.1 billion to KShs 20.8 billion, a reduction of KShs 4.3 billion or 17%. Net NPLs after provisions also reduced drastically by 35% from KShs 12.2 billion to KShs 7.9 billion as a result of improved collections, recoveries and incremental provisions of over KShs 1.3 billion taken in 2003. The decision that we made early last year to segregate the NPL portfolio into a separate unit bore remarkable results, which were complemented by a healthier economic environment and the on-going judicial reforms. The residual NPL portfolio is now well provided for and the bank expects to see a further reduction in gross NPLs in 2004.

The launch of the new KCB brand in early April 2003 brought a new sense of optimism to the business and invigorated our staff to live up to the expectations of the new image. The rebranding involved workshops to create a more customer friendly and focused staff attitude, which was suitably complemented by the new corporate colours and logo. The positive reaction from our customers and the general public has helped create a new profile for the bank and has been instrumental in new business coming into the bank.

Towards the end of 2003, the Board approved a 3-year strategic plan that will see over KShs 3 billion invested in the business through Project Mteja. This project will involve refurbishing all the branches by the end of 2006, increasing the ATM network from 56

The interior view of Kipande house after refurbishment.

2003
NOVEMBER
NEW BRAND

KCB Community Week
Over 100 teams from the bank's countrywide network participated.

2003
DECEMBER
NEW BRAND

Customer Service Awards
The Bank inaugurated service excellence awards for staff

Top: Hon Amanya Mushega Secretary General of EAC officially opens Arusha Branch. Chairman Susan Mudhune and Chief Executive, Terry Davidson look on.

Bottom: A customer gets service from QuickServe. The ATM outlets can now accept Visa credit and Visa Electron cards.

units at the moment to 115 by the end of 2005, upgrading the IT infrastructure and reorganizing the structure and staffing of our branches by centralising the operations and ensuring more staff are dedicated to customer service. Once implemented, the project will enable us to significantly enhance product delivery and customer service.

In 2003 we established a new branch in Arusha, which increases our network in Tanzania to three branches. The broad network that KCB has in Kenya is a significant competitive advantage and we intend to leverage this strength by opening seven new branches in 2004.

On the product front we continue to expand our product and service offering to meet ever-changing customer needs. Last year we introduced a highly successful personal loan package for a section of civil servants, which will be rolled over to other employees of the civil service and State Corporations. We were recently licensed to acquire MasterCard credit cards, a development that gives us an opportunity to grow our credit card business as it complements the Visa card, which we both issue and acquire.

Community is an important part of KCB's business and both the KCB Community Day and KCB Community Week elicited strong support from all parts of the bank. KCB contributed in excess of KShs10 million to various Community projects in 2003.

Finally we recognize that a service organization such as KCB is totally dependent on the commitment and loyalty of its employees. We provided significant training to our staff in 2003 and will continue to invest in upgrading and upskilling staff in 2004 and beyond. We introduced a much-enhanced medical scheme for all staff and embarked on a comprehensive HIV/Aids awareness campaign.

I would like to recognize the immense contribution from our staff and would like to personally thank them for their efforts, which have culminated in this impressive set of financial results. I would also like to recognize the role of the Board of Directors who have guided KCB along this successful path of recovery and turnaround.

Thank you.

Taarifa ya Mkurugenzi Mkuu

Mwaka wa 2003 ulikuwa wenye mafanikio kwa benki ya Kenya Commercial (KCB) kwani ulifungua ukurasa mpya katika historia ya hivi punde. Faida ya shilingi milioni 750 kabla ya kutozwa ushuru ilifanya mwaka 2003 kuwa tofauti kabisa na mwaka uliotangulia ambapo hasara kubwa ilipatikana. Hatua hii ilitokana na ukuaji mzuri katika idara muhimu na pia kudhibitiwa vyema kwa matumizi. Kutokana na hayo halmashauri iliidhinisha malipo ya mgao wa faida wa shilingi moja kwa kila hisa, haya yakiwa malipo ya kwanza ya mgao wa faida tangu mwaka 1998.

Matokeo ya shughuli za kifedha yalionyesha dalili njema katika kila idara. Mapato baada ya gharama zote yaliongezeka kwa asilimia 16 kutoka shilingi bilioni 2.97 mwaka wa 2002 hadi bilioni 3.45 mwaka 2003 hasa kutokana na kupunguzwa kwa viwango vya riba na mabadiliko katika viwango vya hifadhi ya fedha za wateja. Benki hii ilifanikiwa kupunguza hifadhi ya fedha ghali na kuongeza hifadhi ya gharama ya chini shughuli iliyofanikishwa kutokana na kubadilishwa sura ya Benki na kampeni iliyofana kuhusu uwekaji akiba. Isitoshe kulikuwepo ongezeko kubwa la hati za thamana za serikali baada ya benki kufurahia faida kubwa iliyotokana na hati hizo mwanzoni mwa mwaka 2003.

Malipo na ada nyinginezo yalipungua kwa kiwango kidogo kufuatia marekebisho yetu ya viwango vya ushuru na ada na pia hatua zilizochukuliwa kwa lengo la kukabiliana na mashindano.

Gharama ya shughuli zetu ilipungua kwa asilimia 7 hadi kufikia shilingi bilioni 5.2 katika juhudi zinazofanywa na Benki kudhibiti gharama za matumizi.

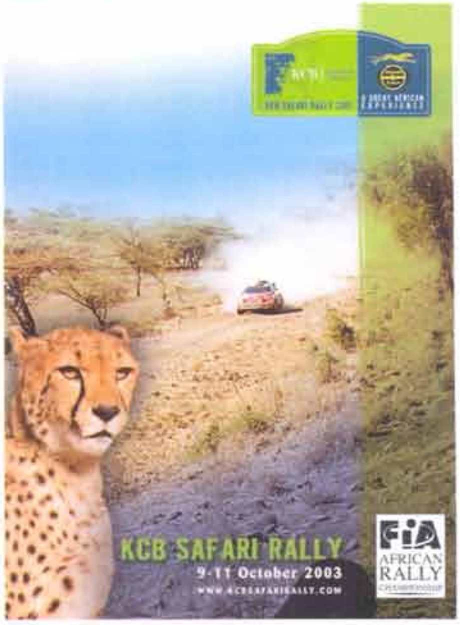
Mojawapo ya mafanikio makuu ya mwaka 2003 ni kupungua kwa wadeni ambao hawalipi mikopo yao. Jumla ya mikopo isiyolipwa ilipungua kutoka shilingi bilioni 25.1 mwaka wa 2002 hadi bilioni 20.8, sawa na kupungua kwa shilingi bilioni 4.3 au asilimia 17. Kima cha mikopo isiyolipwa kwa kutilia maanani gharama zilizotokana na mikopo hiyo kilipungua kwa asilimia 35 kutoka shilingi bilioni 12.2 mwaka wa 2002 hadi bilioni 7.9 baada ya Benki kuimarisha juhudi za ukusanyaji madeni, kulipwa kwa baadhi ya mikopo na nyongeza ya zaidi ya shilingi bilioni 1.3 iliyotekelezwa mwaka wa 2003. Uamuzi wetu mapema mwaka huu wa kutenga idara maalum ya shughulikia mikopo isiyolipwa umeleta mafanikio makubwa ambayo yaliongezewa ufanisi na mazingira bora ya kiuchumi na pia marekebisho yanayoendelea katika idara ya sheria. Kiwango kilichosalia cha mikopo isiyolipwa sasa kinashughulikiwa vyema na benki hii na kinatarajiwa kupungua hata zaidi mnamo mwaka 2004.

Kuzinduliwa kwa nembo mpya ya KCB mapema mwezi Aprili mwaka 2003 kulileta matumaini mapya katika biashara na hata kuwapa wafanyikazi wetu changamoto ya kudumisha sura hiyo mpya. Mabadiliko hayo yalihusisha warsha mbali mbali zenye lengo la kuwapa wafanyikazi motisha ili wawahudumie wateja vyema zaidi kuambatana na sura mpya ya Benki.

Imani mpya ya wateja na umma kwa jumla imesaidia kuleta sifa kwa Benki hii na pia kuleta mafanikio mapya katika biashara ya Benki.

Mwishoni mwa mwaka 2003 halmashauri ya wakurugenzi iliidhinisha mpango wa miaka mitatu ambao utawezesha uwekaji rasilimali ya thamani ya shilingi bilioni 3 katika shughuli mbali mbali kupitia mradi mpya wa MTEJA.

Sports Minister Najib Balala, (second left) receives the bank's sponsorship cheque for the KCB Safari Rally 2003.



Chief Executive, Terry Davidson, leads attendants in cheering the winning coupon during the Save and Win promotion.

Taarifa ya Mkurugenzi Mkuu

Mradi huu unahusisha ukarabati wa matawi yote ifikapo mwisho wa mwaka 2006, kuongeza mitambo ya huduma za ATM kutoka 56 hadi 115 itimiapo mwisho wa mwaka 2005, kuimarishwa kwa mtandao wa teknolojia ya mawasiliano na pia kuboresha mtandao huo pamoja na wafanyikazi katika matawi yetu kwa kuanzisha kituo kimoja kikuu cha huduma hizo na kuhakikisha kwamba wafanyikazi zaidi wanahusishwa katika huduma kwa wateja. Mradi huo ukishatekelezwa utatupa nafasi ya kuboresha uwezo wetu wa kuhudumia wateja.

Mnamo mwaka 2003 tulianzisha tawi jipya mjini Arusha lililoongeza jumla ya matawi yetu kuwa matatu nchini Tanzania. Mtandao huu mkubwa wa huduma za Benki ya KCB hapa nchini umetupa uwezo wa kuhimili mashindano huku tukidhamiria kuboresha uwezo huo kwa kufungua matawi saba mapya mwaka wa 2004.

Kuhusu huduma zetu, tumeendelea kuzipanua pamoja na mbinu za utoaji wake kuambatana na mahitaji ya wateja yanayozidi kubadilika. Mwaka uliopita tulianzisha mkopo wa kibinafsi ambao umeonyesha mafanikio makubwa miongoni mwa watumishi wa umma na ambao utaendelezwa kwa wafanyikazi wengine wa mashirika ya serikali. Pia tulipata leseni hivi majuzi ya kumiliki kadi za thamana za MasterCard, hatua ambayo inatupa fursa ya kuimarisha biashara yetu ya Kadi za thamana. Hatua hii itaimarisha bishara yetu ya Kadi za thamana mbali na Kadi za Visa ambazo tunaendelea kutoa na kumiliki.

Jamii ni sehemu muhimu sana katika biashara ya Benki hii na siku au juma la utoaji huduma kwa jamii ni shughuli inayoungwa mkono kikamilifu na idara zote za Benki. Benki hii ilitoa kiasi cha zaidi ya shilingi milioni 10 kwa miradi mbali mbali ya kijamii mwaka 2003.

La mwisho tunatambua kwamba shirika lenye kutoa huduma kama vile Benki hii ya KCB linategemea kujitolea na uaminifu wa wafanyikazi wake kwa kila njia. Tulitoa mafunzo kwa idadi kubwa ya wafanyikazi wetu mwaka wa 2003 na tutaendelea kuweka rasilimali katika uimarishaji maarifa na ujuzi wa wafanyikazi mwaka huu wa 2004 na hata katika miaka ijayo. Pia tulianzisha mpango kabambe wa huduma za matibabu kwa wafanyikazi wetu mbali na kuendeleza kampeini muhimu ya kuhamasisha wafanyikazi wetu kuhusu ugonjwa hatari wa Ukimwi.

Ningependa kutambua mchango mkubwa unaotolewa na wafanyikazi wetu na ni furaha yangu kutoa shukrani zangu binafsi kwa wafanyikazi wetu wa benki hii kutokana na juhudi zao ambazo zimetuwezesha kupata mafanikio niliyotaja.

Ningependa pia kutambua wajibu wa halmashauri ya wakurugenzi ambao wameongoza Benki ya KCB katika nyendo zake za mafanikio na juhudi za ufufuzi.

Ahsanteni

KCB | Making the Difference

Report of the Directors

The directors submit their report and the audited financial statements for the year ended 31 December 2003 which show the state of affairs of the Bank and its subsidiary companies.

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

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

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

4. **Dividend**
   The directors recommend the payment of a dividend of KShs 149,600,000 which represents Kshs 1 per ordinary shares in respect of the year ended 31 December 2003 (2002 – Nil).

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

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

Mrs. S.O. Mudhune	- Chairman, Appointed on 25 April 2003
Mr. B.K. Kipkulei	- Chairman , Retired on 25 April 2003
Mr. T.M. Davidson	- Appointed on 17 January 2003
Mr. G.A. George	- Retired on 17 January 2003
Ms. S.W. Wainaina	
Mr. F.R. Gitobu	
Prof. F.F. Ojany	
Mr. A.J.K. Ruturi	
Mr. C.A. Mwakwere	- Retired on 25 April 2003
Mr C.N. Barongo	
Mrs. E.J. Koimett	
Mr. J.M. Magari	- Appointed on 3 January 2003
Mr. J.K. Kinyua	- Retired on 3 January 2003
Mrs. C.N. Kimura	- Appointed on 13 June 2003
Mr. J.M. Ndetto	- Appointed on 13 June 2003

7. Audit committee

The Group's audit committee consists of:-

Mr. C.N. Barongo	- Chairman
Prof. G.K.Misoi	
Mr. B.C. Mwenda	
Mr. N.M. Arte	
Mrs. C.N. Kimura	
Mrs. G. Biamah	- Secretary

8. Auditors

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

By Order of the Board

MR. K.D. Malakwen
Secretary

24th February 2004

Ripoti ya Wakurugenzi

Wakurugenzi wanawasilisha ripoti yao na taarifa za kifedha zilizokaguliwa za kipindi cha mwaka kilichomalizika tarehe 31 mwezi Desemba mwaka wa 2003 ambazo zinazonyesha hali ya shughuli za benki na makampuni washirika wake.

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

2. Matokeo ya kundi.
   Matokeo ya kundi yametangazwa katika ukurasa wa 30.

3. Matokeo ya benki.
   Matokeo ya benki yametangazwa katika ukurasa wa 32.

4. Mgao wa faida.
   Wakurugenzi wanapendekeza kutolewa kwa mgao wa faida wa shillingi moja kwa kila hisa katika kipindi cha mwaka kilichomalizika tarehe 31 mwezi Desemba mwaka wa 2003.

5. Akiba.
   Akiba za kundi na benki zimetangazwa katika ukurasa wa 33 na 34 na kipengele cha 18.

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

Bi. S.O. Mudhune	- Mwenyekiti, Aliteuliwa 25 Aprili 2003
Bw. B.K. Kipkulei	- Mwenyekiti, Alistaafu 25 Aprili 2003
Bw. T.M. Davidson	- Aliteuliwa 17 Januari 2003
Bw. G.A. George	- Alistaafu 17 Januari 2003
Bi. S.W. Wainaina	
Bw. F.R. Gitobu	
Prof. F.F. Ojany	
Bw. A.J.K. Ruturi	
Bw. C.A. Mwakwere	- Alistaafu 25 Aprili 2003
Bw. C.N. Barongo	
Bi. E.J. Koimett	
Bw. J.M. Magari	- Aliteuliwa 3 Januari 2003
Bw. J.K. Kinyua	- Alistaafu 3 Januari 2003
Bi. C.N. Kimura	- Aliteuliwa 13 Juni 2003
Bw. J.M. Ndetto	- Aliteuliwa 13 Juni 2003

7. Kamati ya wakaguzi wa hesabu.
Kamati ya wakaguzi wa hesabu ya kundi inajumuisha.

Bw. C.N. Barongo	Mwenyekiti.
Prof. G.K. Misoi	
Bw. B.C. Mwenda	
Bw. N.M. Arte	
Bi. C.N. Kimura	
Bi. G. Biamah	Katibu.

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

Kwa Amri ya Halmashauri ya Wakurugenzi.
Bw. K.D. Malakwen
Katibu.

24 Februari 2004.

Statement of the Directors' Responsibilities

On the financial statements for the year ended 31 December 2003

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

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

Nothing has come to the attention of the directors to indicate that the Bank and its subsidiaries will not remain going concerns for at least the next twelve months from the date of this statement.

S.O. Mudhune 24th February 2004

T.M. Davidson 24th February 2004

C.N. Barongo 24th February 2004

Taarifa ya Majukumu ya Wakurugenzi

Kulingana na sheria za makampuni, wakurugenzi wanahitajika kutayarisha taarifa za kifedha kwa kila mwaka wa kifedha, ambazo zitaonyesha hali halisi ya kundi na benki kila mwisho wa mwaka wa kifedha na jinsi kampuni imekuwa ikiendesha shughuli zake mwaka huo. Sheria hizo pia zinawahitaji wakurugenzi kuhakikisha kwamba kundi na benki zinaweka hesabu sawa za uhasibu ambazo zinaonyesha kwa uhakika wakati wowote ule hali ya kifedha ya kampuni na kundi nzima. Wakurugenzi pia wanahitajika kulinda mali ya kundi hili.

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

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

Bi. S.O. Mudhune	24 Februari 2004
Bw. T.M. Davidson	24 Februari 2004
Bw. C.N. Barongo	24 Februari 2004

Corporate Governance Statement

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

The Board of Directors

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

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

Board Meetings

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

Board Committees

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

1. **Audit Committee**

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

2. **Credit Committee**

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

3. **Human Resources Committee**

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

4. **Information Technology Committee**

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

Corporate Governance Statement

5. **Procurement commitee**

   The Procurement Committee meets bi-monthly to review procurement needs for the Bank and make recommendations to the Main Board.

   The Board appoints other committees as and when required.

Corporate social responsibility

The bank is committed to the principles of responsible corporate citizenship. Corporate Social Responsibility (CSR) is an integral part of our annual business plans and we put aside funds to finance related activities. Every year we conduct community support activities during the KCB Community Day and the KCB Community Week involving all our staff in KCB branches across the country. We also sponsor local, regional and national activities and donate towards meriting charitable causes of all kinds.

Communication with shareholders

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

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

Directors' emoluments and loans

The aggregate amount of emoluments paid to Directors for services rendered during the financial year 2003 is disclosed in note 23 to the financial statements.

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

Directors interests as at 31st December 2003

Name of Director	Number of Shares
Permanent Secretary to the Treasury of Kenya	52,360,000
Mrs. Susan Mudhune	1,000
Mr. Terence Davidson	73,811
Mr. Albert Ruturi	10,000
Prof. Francis Ojany	10,000
Mrs. Catherine Kimura	7,620
Mrs. Esther Koimett	3,999
Ms. Sarah Wainaina	1,066
Mr. William Gitobu	320
Eng. Jeremiah Ndeto	201

The shareholder profile as at 31 December 2003

	Number of shareholders	Number of shares held	% of issued share capital
Kenyan Individual Investors	118,743	60,771,861	40.62
Kenyan Institutional Investors	1,969	88,612,854	59.23
East African Individual Investors	1	6,729	0.01
East African Institutional Investors	0	0	0.00
Foreign Individual Investors	25	57,057	0.04
Foreign Institutional Investors	3	151,499	0.10
	120,741	149,600,000	100.00

Corporate Governance Statement (continued)

Major Shareholders

Name	*Number of share capital*	*% of issued shares held*
Permanent Secretary to the Treasury	52,360,000	35.00
Nomura Nominees Ltd a/c JMM	7,896,986	5.28
KCB Staff Pension Fund	7,115,704	4.76
ICDC Investment Company Limited	5,808,385	3.88
Sunil Narshi Shah	3,222,280	2.15
National Social Security Fund	1,333,333	0.89
Kenya Reinsurance Corporation Limited	1,100,143	0.74
Barclays (Kenya) Nominees Limited a/c 9230	809,304	0.54
Karim Jamal	778,900	0.52
Freight Forwarders (K) Limited	738,155	0.49

Summary of Totals

Shares Range	*Shareholders*	*Number of shares*	*% Holding*
1 to 500	90,803	20,593,423	13.77
501 to 5,000	28,987	25,046,261	16.74
5,001 to 10,000	497	3,543,105	2.37
10,001 to 100,000	398	10,041,275	6.71
100,001 to 1,000,000	49	11,539,105	7.71
1,000,001 & above	7	78,836,831	52.70
	120,741	149,600,000	100.00

Taarifa ya Uongozi wa Kampuni

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

Halmashauri ya Wakurugenzi.

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

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

Mikutano ya Halmashauri ya Wakurugenzi.

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

Kamati za Halmashauri ya Wakurugenzi.

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

1. **Kamati ya Ukaguzi wa Hesabu.**

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

2. **Kamati ya Mikopo.**

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

3. **Kamati ya Maswala ya Wafanyikazi.**

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

KCB | Making the Difference

Taarifa ya Uongozi wa Kampuni

4. **Kamati ya Tekinolojia ya Habari.**

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

5. **Kamati ya ununuzi**

Kamati ya ununuzi hukutana mara mbili kwa mwezi kuchunguza upya mahitaji ya benki kuhusiana na ununuzi na kutoa mapendekezo kwa halmashauri kuu. Halmashauri ya Wakurugenzi hubuni kamati nyingine panapo haja.

Huduma kwa Jamii

Benki hii imejitolea kuzingatia kanuni za wajibu wake kwa jamii.

Jukumu letu kama Benki kwa jamii ni sehemu muhimu ya mipango ya shughuli zetu za kila mwaka na daima hutenga fedha za kugharamia shughuli hizo.

Kila mwaka sisi hujihusisha na shughuli za kuisaidia jamii wakati wa siku na juma maalumu la huduma kwa jamii la KCB ambapo wafanyikazi wote wa matawi ya Benki hii kote nchini hushiriki.

Hali kadhalika, tunadhamini shughuli za humu nchini, maeneo na mithani za kitaifa kwa kuchangia miradi ya kuisaidia jamii inayostahili.

Mawasiliano na Wenyehisa.

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

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

Marupurupu kwa Wakurugenzi na Mikopo.

Kiwango cha kadri cha marupurupu ya wakurugenzi kwa huduma zao katika kipindi cha mwaka wa 2003 kimetangazwa katika taarifa za kifedha.

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

Report of the Independent Auditors

To the members of Kenya Commercial Bank Limited

We have audited the financial statements on pages 29 to 61, for the year ended 31 December 2003, and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. The balance sheet of the company is in agreement with its books of account.

Respective responsibilities of the directors and the independent auditors

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

Basis of opinion

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

Opinion

In our opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the Group and of the Bank as of 31 December 2003 and of the profit of the Group and the Bank and cash flows of the Group for the year then ended, and comply with International Financial Reporting Standards and the Kenyan Companies Act.

ERNST & YOUNG

Nairobi

24th February 2004

Ripoti ya Wakaguzi-wahasibu

Kwa Wanachama wa Benki ya Kenya Commercial

Tumefanya ukaguzi wa taarifa za kifedha katika kurasa 21 hadi 61 za mwaka uliomalizika 31 Dicemba 2003. Tulipata taarifa na maelezo ambayo tuliyachukulia kuwa muhimu kwa shughuli za uhasibu.

Majukumu Maalum ya Wakurugenzi na Wakaguzi Huru wa Hesabu

Kama ilivyoelezwa katika ukarasa 21 wakurugenzi ndio wanaowajibika kutayarisha taarifa za kifedha ambazo zinaonyesha hali halisi ya shughuli za kundi na benki. Wajibu wetu ni kutoa maoni huru kuhusu taarifa hizo za kifedha kuambatana na ukaguzi wetu wa hesabu na kuwaeleza maoni yetu.

Misingi ya Maoni

Tulifanya ukaguzi wa hesabu kuambatana na viwango vya kimataifa vya uhasibu. Viwango hivyo vinahitaji kwamba tupange na kufanya ukaguzi wa hesabu ili kuhakikisha kwamba taarifa hizo za kifedha hazina kasoro. Uhasibu unajumuisha kuchunguza, kwa makadirio ushahidi unaounga mkono taarifa za kifedha zilizotayarishwa. Na pia kukadiria sera za uhasibu zilizotumiwa na makadirio yaliyofanywa na wakurugenzi pamoja na kukadiria utaratibu wa jumla wa kuwasilisha taarifa za kifedha. Tunaamini kwamba ukaguzi wetu wa hesabu unatoa msingi halisi wa maoni yetu.

Maoni

Kwa maoni yetu vitabu vya hesabu vimewekwa kama inavyotakikana na taarifa za kifedha zinazolingana sawa sawa na hali ya kifedhat katika kundi hili na benki kufikia Desemba 31, 2003 na ile ya faida kwa kundi hilo na matumizi au mapato ya pesa kwa kundi hilo kwa mwaka uliomalizika na vinaambatana na viwango vya kimataifa vya uhasibu na sheria zinazosimamia makampuni.

Consolidated *balance sheet*

As at 31 December 2003

	Note	2003 KShs'000	2002 KShs'000
Assets			
Cash and balances with Central Banks	3	4,955,206	5,646,602
Cheques and items for clearing		46,025	45,835
Held to maturity investments	4	15,818,599	8,141,329
Placements and balances with other banking institutions		2,887,963	6,381,251
Investments in associated companies	5(a)	-	9,059
Available for sale investments	5(b)	156,208	120,765
Tax recoverable	9	471,600	473,459
Loans and advances to customers	6	27,114,888	29,907,214
Other assets	10	4,009,088	3,659,313
Intangible assets	11	49,844	2,533
Prepaid leases on land	12(c)	224,515	227,799
Property and equipment	12(a)	2,351,587	2,511,343
Deferred tax	9	2,299,734	2,562,030
Total *assets*		60,385,257	59,688,532
Liabilities			
Balances due to Central Bank of Kenya		-	1,550,000
Deposits and balances from other banking institutions	13	706,211	3,446,737
Other customer deposits	14	50,613,268	46,157,629
Other liabilities	15	3,136,025	3,032,047
Lines of credit	16	315,900	336,322
Total *liabilities*		54,771,404	54,522,735
Capital *employed*			
Share capital	17	1,496,000	1,496,000
Reserves	18	3,968,253	3,669,797
Proposed dividends	19	149,600	-
Shareholders' funds		5,613,853	5,165,797
Total liabilities and *shareholders' funds*		60,385,257	59,688,532

The financial statements were approved by the Board of Directors on 24th February 2004 and were signed on its behalf by:-

S.O. Mudhune	Chairman
T.M. Davidson	Chief Executive
C.N. Barongo	Director
K.D. Malakwen	Secretary

Consolidated *profit and loss account*

For the year ended 31 December 2003

	Note	2003 KShs'000	2002 KShs'000
Interest income	20	4,394,635	4,735,345
Interest expense	21	(944,043)	(1,767,455)
Net interest income		3,450,592	2,967,890
Fees and commission income		2,946,253	3,049,704
Dividend income	25	4,850	18,414
Gain on foreign exchange		351,762	456,125
Other income	22	652,583	704,557
		7,406,040	7,196,690
Bad and doubtful debts expense		(1,378,474)	(4,877,062)
Other operating expenses	23	(5,223,940)	(5,609,549)
Profit/(loss) before exceptional items, share of loss of associated companies and taxation		803,626	(3,289,921)
Exceptional items	24	(44,916)	(883,899)
Share of loss of associated companies		(8,559)	(4,737)
Profit/(loss) before taxation		750,151	(4,178,557)
Taxation	9	(264,631)	1,177,918
Profit/(loss) after taxation		485,520	(3,000,639)
Earnings per share			
Basic and diluted earnings/(loss) per share (KShs)	26	3.25	(20.06)
Dividends			
Final dividends proposed (KShs'000)	19	149,600	-

Balance *sheet of the bank*
As at 31 December 2003

	Note	2003 KShs'000	2002 KShs'000
Assets			
Cash and balances with Central Bank of Kenya	3	4,748,586	5,544,351
Cheques and items for clearing		-	17,404
Held to maturity investments	4	15,076,751	7,016,783
Placements and balances with other banking institutions		2,887,963	5,868,031
Investment in subsidiaries and associated companies	5(a)	1,599,971	1,106,653
Available for sale investments	5(b)	156,208	120,765
Tax recoverable	9	329,887	329,887
Loans and advances to customers	6	24,949,459	27,650,978
Balances due from group companies	8(a)	1,021,505	1,550,944
Other assets	10	3,471,223	3,114,558
Intangible assets	11	48,231	2,140
Property and equipment	12(b)	1,131,327	2,297,561
Prepaid leases on land	12(c)	157,834	127,424
Deferred tax	9	2,171,069	2,445,862
Total *assets*		57,750,014	57,193,341
Liabilities			
Balances due to Central Bank of Kenya		-	1,550,000
Deposits and balances from other banking institutions	13	2,013,031	4,108,772
Other customer deposits	14	48,019,646	43,095,879
Other liabilities	15	2,565,365	2,567,322
Lines of credit	16	315,900	336,322
Balances due to group companies	8(b)	5,600	1,285,358
Total *liabilities*		52,919,542	52,943,653
Capital *employed*			
Share capital	17	1,496,000	1,496,000
Reserves	18	3,184,872	2,753,688
Proposed dividends	19	149,600	-
Shareholders' *funds*		4,830,472	4,249,688
Total liabilities and *shareholders' funds*		57,750,014	57,193,341

The financial statements were approved by the Board of Directors on 24 February 2004 and were signed on its behalf by:-

S.O. Mudhune	Chairman
T.M. Davidson	Chief Executive
C.N. Barongo	Director
K.D. Malakwen	Secretary

KCB Making the Difference

Profit and loss *account of the bank*
For the year ended 31 December 2003

	Note	2003 KShs'000	2002 KShs'000
Interest income	20	4,049,045	4,273,082
Interest expense	21	(823,151)	(1,628,781)
Net interest income		3,225,894	2,644,301
Fees and commission income		2,877,022	3,000,571
Dividend income	25	69,850	938,414
Gain on foreign exchange		348,883	448,103
Other income	22	605,082	661,009
		7,126,731	7,692,398
Bad and doubtful debts expense		(1,331,324)	(4,684,057)
Other operating expenses	23	(4,898,914)	(5,320,870)
Profit/(loss) before exceptional items and taxation		896,493	(2,312,529)
Exceptional items	24	(40,916)	(886,898)
Profit /(loss) before taxation		855,577	(3,199,427)
Taxation	9	(274,793)	1,160,447
Profit / (loss) after taxation		580,784	(2,038,980)
Earnings per share			
Basic and diluted earnings/(loss) per share (KShs)	26	3.88	(13.63)
Dividends			
Final dividends proposed (KShs'000)	19	149,600	-

Consolidated statement of changes in equity
For the year ended 31 December 2003

	Share capital KShs'000	Capital reserves KShs'000	Revenue reserves KShs'000	Share premium KShs'000	Proposed dividends KShs'000	Translation reserves KShs'000	Total KShs'000
Balance at 1 January 2002	1,496,000	192,424	6,254,305	473,800	-	(36,725)	8,379,804
Prior year adjustments (note 27)	-	(51,085)	(272,702)	-	-	-	(323,787)
As restated	1,496,000	141,339	5,981,603	473,800	-	(36,725)	8,056,017
Transfer to revenue reserve	-	(130,886)	130,886	-	-	-	-
Appreciation in value of quoted shares on first adoption of IAS 39	-	-	135,266	-	-	-	135,266
Translation differences	-	-	-	-	-	(24,847)	(24,847)
Profit and loss account	-	-	(3,000,639)	-	-	-	(3,000,639)
Balance at 31 December 2002	1,496,000	10,453	3,247,116	473,800	-	(61,572)	5,165,797
Balance at 1 January 2003	1,496,000	10,453	3,348,774	473,800	-	(61,572)	5,267,455
Prior year adjustments (note 27)	-	-	(101,658)	-	-	-	(101,658)
As restated	1,496,000	10,453	3,247,116	473,800	-	(61,572)	5,165,797
Translation differences	-	-	-	-	-	(37,464)	(37,464)
Proposed dividends	-	-	(149,600)	-	149,600	-	-
Profit and loss account	-	-	485,520	-	-	-	485,520
Balance at 31 December 2003	1,496,000	10,453	3,583,036	473,800	149,600	(99,036)	5,613,853

Statement of changes in equity of the bank
For the year ended 31 December 2003

	Share capital KShs'000	Revenue reserves KShs'000	Share premium KShs'000	Proposed dividends KShs'000	Total KShs'000
As at 1 January 2002	1,496,000	4,436,275	473,800	-	6,406,075
Prior year adjustments (note 27)	-	(252,673)	-	-	(252,673)
As restated	1,496,000	4,183,602	473,800	-	6,153,402
Appreciation in value of quoted shares on first adoption of IAS 39	-	135,266	-	-	135,266
Profit and loss account	-	(2,038,980)	-	-	(2,038,980)
As at 31 December 2002	1,496,000	2,279,888	473,800	-	4,249,688
As at 1 January 2003	1,496,000	2,346,225	473,800	-	4,316,025
Prior year adjustments (note 27)	-	(66,337)	-	-	(66,337)
As restated	1,496,000	2,279,888	473,800	-	4,249,688
Proposed dividends	-	(149,600)	-	149,600	-
Profit and loss account	-	580,784	-	-	580,784
As at 31 December 2003	1,496,000	2,711,072	473,800	149,600	4,830,472

Consolidated *cash flow statement*

For the year ended 31 December 2003

	Note	2003 KShs'000	2002 KShs'000
Net cash flows from *operating activities*	28(a)	3,449,344	(801,196)
Taxation paid		(476)	(6,053)
Financing *activities*			
Lines of credit		(20,422)	(183,277)
Net cash flows *to financing Activities*		(20,422)	(183,277)
Investing *activities*			
Purchase of equity investments		-	(1,150)
Proceeds from sale of property and equipment		21,374	277,382
Proceeds from disposal of associated company		5,600	-
Purchase of intangible assets		(52,737)	-
Purchase of property and equipment		(121,200)	(353,578)
Net cash flows to *investing activities*		(146,963)	(77,346)
Increase/(decrease) in cash and cash equivalents		3,281,483	(1,067,872)
Effects of exchange rate changes on opening net investment in foreign entity		(37,464)	(24,847)
Cash and cash equivalents at the beginning of the year		2,500,355	3,593,074
Cash and cash equivalents *at the end of the year*	28(b)	5,744,374	2,500,355

Notes to the *financial statements*

For the year ended 31 December 2003

1. Accounting *policies*

a. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards and Standing Interpretations Committee's interpretations approved by the International Accounting Standards Committee (IASC) that remain in effect.

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

b. Basis of Consolidation

The consolidated financial statements of the Group comprise the financial statements of the Bank and its subsidiaries made up to 31 December and the results and net assets of its associated companies based on financial statements made up to dates not earlier than three months prior to 31 December. Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. The accounting policies for the subsidiaries are consistent with the policies adopted by the bank.

c. Income recognition

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

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

iii) Fees and commissions income
Fees and commissions income are generally recognised on an accrual basis.

d. Property, equipment and depreciation

Property and equipment are stated at cost or valuation, less accumulated depreciation.

Depreciation is calculated on the straight-line basis at annual rates estimated to write off the carrying values of the assets over their expected useful lives. The annual depreciation rates in use are:-

Freehold land	Nil
Leasehold improvements	Rates based on the shorter of the lease term or estimated useful lives
Motor vehicles	20% - 25%

Notes to the *financial statements* (continued)

For the year ended 31 December 2003

1. *Accounting policies (continued)*

d. Property, equipment and depreciation (continued)

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

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

e. Originating loans and provisions for loan impairment

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

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

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

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

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

f. Provisions

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

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

Notes to the *financial statements* (continued)
For the year ended 31 December 2003

1. Accounting policies (continued)

g. Investments

i) Trading securities

Trading securities are securities which were either acquired for generating a profit from shorterm fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at cost (which includes transaction costs) and subsequently remeasured at fair value based on quoted bid prices. All related realised and unrealised gains and losses are included in net trading income. Interest earned whilst holding trading securities is reported as interest income.
At the end of the financial year, the group had no trading securities.

ii) Investment securities

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

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

h. Foreign currencies

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

(ii) Exchange differences arising from translation of opening net investments in foreign entities are accounted for in reserves.

i. Taxation

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted in accordance with the tax legislation. Deferred taxation is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and the unused tax credits can be utilised.

Notes to the *financial statements (continued)*
For the year ended 31 December 2003

1. *Accounting policies (continued)*

j. Retirement benefit costs

The Group contributes to a defined benefit pension scheme which is funded by the Bank and subsidiaries. In determining the contributions to be made, the recommendations of independent qualified actuaries are taken into account. The pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who value the pension plan at least once in every three years. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability.

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

The Group's contributions to the above schemes are charged to the profit and loss account in the year to which they relate.

k. Leases

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

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

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

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

l. Guarantees, acceptances and letters of credit

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

m. Computer software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. However, expenditure that enhances or extends the benefits o f 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.

Notes to the *financial statements* (continued)

For the year ended 31 December 2003

1. Accounting policies (continued)

n. Foreign exchange forward contracts

Foreign exchange forward contracts are marked to market and are carried at their fair value. Fair values are obtained from discounted cash flow models which are used in the determination of the foreign exchange forward contract rates. Gains and losses on foreign exchange forward contracts are included in net trading income as they arise.

o. Cash and cash equivalents

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

p. Fiduciary assets

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

q. Dividends

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

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

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

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

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

The directors, based on legal advice from the bank's lawyers and guidance from the KBA, have interpreted the Court decision to mean that the Act is not operational for 2003 and will therefore not have any adjusting implications on the financial statements for the year. The financial statements have been prepared based on this interpretation.

Notes to the *financial statements* (continued)

For the year ended 31 December 2003

3. Cash and balances with Central banks	Group 2003 KShs'000	Group 2002 KShs'000	Bank 2003 KShs'000	Bank 2002 KShs'000
Cash on hand	1,901,414	2,055,475	1,788,438	2,007,405
Balances with Central Banks	3,053,792	3,591,127	2,960,148	3,536,946
	4,955,206	5,646,602	4,748,586	5,544,351

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

4. Held to maturity investments

	Group 2003 KShs'000	Group 2002 KShs'000	Bank 2003 KShs'000	Bank 2002 KShs'000
a) Treasury bills				
Maturing within 1 month	499,943	-	399,953	-
Maturing between 1-3 months	2,508,299	394,106	2,073,811	-
Maturing between 3-12 months	99,595	609,242	-	-
	3,107,837	1,003,348	2,473,764	-
b) Treasury bonds				
Maturing within 1 month	29,313	55,380	29,313	55,380
Maturing between 1-3 months	410,396	52,183	410,396	52,183
Maturing between 3-12 months	1,285,404	439,459	1,177,629	439,457
Maturing between 1-5 years	7,404,870	6,590,959	7,404,870	6,469,763
Maturing over 5 years	3,580,779	-	3,580,779	-
	12,710,762	7,137,981	12,602,987	7,016,783
Total held to maturity Investments	15,818,599	8,141,329	15,076,751	7,016,783
Maturing as follows:-				
Maturing within 1 month	529,256	55,380	429,266	55,380
Maturing between 1-3 months	2,918,695	446,289	2,484,207	52,183
Maturing between 3-12 months	1,384,999	1,048,701	1,177,629	439,457
Maturing between 1-5 years	7,404,870	6,590,959	7,404,870	6,469,763
Maturing over 5 years	3,580,779	-	3,580,779	-
	15,818,599	8,141,329	15,076,751	7,016,783

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

The weighted effective interest rates on treasury bonds and bills as at 31 December 2003, was 7.39% and 1.74% respectively (2002 10.26% and 8.58% respectively).

Notes to the *financial statements* (continued)

For the year ended 31 December 2003

5. Investments

a) Investment in subsidiaries *and associated companies*

Company	Activity	Beneficial Ownership %	Group 2003 KShs'000	Group 2002 KShs'000	Bank 2003 KShs'000	Bank 2002 KShs'000
Kenya Commercial Finance Co. Ltd	Investment	100	-	-	150,000	150,000
Savings & Loan Kenya Ltd	Mortgage finance	100	-	-	167,402	167,402
Enterprise Consultants Ltd	Dormant	100	-	-	-	-
Kenya Commercial Bank Nominees Ltd	Nominee shareholders	100	-	-	-	-
Kencom House Ltd	Property ownership & management	100	-	-	748,645	363,025
Kenya Commercial Bank (Tanzania) Ltd	Commercial banking	100	-	-	530,136	422,438
Notcutt Longaroni & Co (K) Ltd	Investments	100	-	-	3,663	3,663
United Finance Ltd	Hire purchase & lease finance	45	-	-	125	125
Clarkson Notcutt (Insurance Broker) Ltd	Insurance broking	50	-	9,059	-	-
			-	9,059	1,599,971	1,106,653

b) Available for sale *investments*

	Group 2003 KShs'000	Group 2002 KShs'000	Bank 2003 KShs'000	Bank 2002 KShs'000
Quoted *investments*	144,193	108,750	144,193	108,750
Unquoted *investments*	12,015	12,015	12,015	12,015
	156,208	120,765	156,208	120,765

Notes to the *financial statements* (continued)

For the year ended 31 December 2003

6. Loans and advances to Customers	Group 2003 KShs'000	Group 2002 KShs'000	Bank 2003 KShs'000	Bank 2002 KShs'000
6.1 Loans and advances to customers				
Loans and advances to customers (gross)	40,298,902	43,017,271	37,602,993	40,193,861
Specific provisions for impairment (Note 7.1(a))	(12,976,248)	(12,902,291)	(12,463,534)	(12,352,883)
General provisions for impairment (Note 7.1(b))	(207,766)	(207,766)	(190,000)	(190,000)
Loans and advances to customers (net)	27,114,888	29,907,214	24,949,459	27,650,978
6.2 Maturity analysis of gross loans and advances to customers				
Maturing within 30 days	6,046,435	8,313,792	5,672,383	8,239,550
Maturing within 30 days but before 3 months	1,861,974	1,865,576	1,842,136	1,806,115
Maturing after 3 months but within 1 year	7,001,098	3,691,556	6,943,973	3,324,184
Maturing after 1 year	23,567,195	27,562,977	23,144,501	26,792,558
Maturing after 5 years	1,822,200	1,583,370	-	31,454
	40,298,902	43,017,271	37,602,993	40,193,861
6.3 Sectorial analysis of gross loans and advances to customers				
Private sector and individuals	37,077,395	37,717,314	34,381,486	34,893,904
Government departments and Parastatals	3,221,507	5,299,957	3,221,507	5,299,957
	40,298,902	43,017,271	37,602,993	40,193,861

The weighted average effective interest rates on loans and advances as at 31 December 2003 was 9.25% (2002 -13.25%).

Notes to the *financial statements* (continued)

For the year ended 31 December 2003

7. Provisions *for impairment*	*Group* 2003 KShs'000	2002 KShs'000	2003 KShs'000	*Bank* 2002 KShs'000
7.1(a) Specific provisions for impairment (Note 6.1)				
Balance held as at 1 January	12,902,291	10,608,375	12,352,883	10,066,383
Bad and doubtful debt expense	1,378,474	4,877,062	1,331,324	4,684,057
Interest suspended	1,009,406	1,609,999	973,709	1,554,399
Write downs/write offs during the year	(1,599,207)	(3,412,164)	(1,509,608)	(3,197,766)
Recoveries/provisions written back during the year	(714,716)	(780,981)	(684,774)	(754,190)
Balance as at 31 December	12,976,248	12,902,291	12,463,534	12,352,883
7.1(b) General provisions (Note 6.1)				
Balance held as at 1 January	207,766	289,118	190,000	271,352
Provisions written back	-	(81,352)	-	(81,352)
Balance as at 31 December	207,766	207,766	190,000	190,000

7.2 Non performing loans and advances

The Group uses a grading system that classifies advances into grades 1 to 5 and recognises grades 3, 4 and 5 as non-performing, in compliance with the Central Bank of Kenya guidelines.

Non-performing loans and advances of the Group amounted to KShs 7,898,525,000 (2002 –KShs 12,238,183,000) net of specific provisions for impairment. For the Bank, this amounted to KShs 7,340,714,000 (2002 – KShs 11,780,321,000).

8. (a) Balances due from *group companies*

	Bank 2003 KShs'000	2002 KShs'000
Kencom House Limited	502,049	532,049
Savings and Loan Kenya Limited	229,858	268,895
Kenya Commercial Finance Company Limited	289,598	750,000
	1,021,505	1,550,944

(b) Balances due to *group companies*

Notcutt Longaroni	5,600	-
Kencom House Limited	-	785,896
Kenya Commercial Finance Company Limited	-	460,462
Savings and Loan Kenya Limited	-	39,000
	5,600	1,285,358

Notes to the *financial statements* (continued)
For the year ended 31 December 2003

9. Taxation

9.1 Balance *sheet*	Group 2003 KShs'000	Group 2002 KShs'000	Bank 2003 KShs'000	Bank 2002 KShs'000
Tax *recoverable*				
The movement in the tax recoverable account is as follows:				
Balance as at 1 January	496,342	495,547	352,770	352,770
Adjustment	(22,883)	(22,883)	(22,883)	(22,883)
Restated balance	473,459	472,664	329,887	329,887
Tax paid during the year	476	6,053	-	-
Tax charge during the year	(2,939)	(5,258)	-	-
Overprovisions in the previous years	604	-	-	-
	471,600	473,459	329,887	329,887
Deferred *tax*				
Deferred tax asset	2,299,734	2,562,677	2,171,069	2,445,862
Deferred tax liability	-	(647)	-	-
Net deferred tax asset	2,299,734	2,562,030	2,171,069	2,445,862
The net deferred tax asset is attributable to the following items:				
Excess of depreciation over tax allowances	27,935	22,889	33,141	28,056
Provisions held	97,799	101,653	71,725	95,936
Tax loss carried forward	2,174,000	2,437,488	2,066,203	2,321,870
	2,299,734	2,562,030	2,171,069	2,445,862

9.2 Profit and loss *account*

	Group 2003 KShs'000	Group 2002 KShs'000	Bank 2003 KShs'000	Bank 2002 KShs'000
Current tax	2,939	5,258	-	-
Deferred tax charge/(credit)	262,296	(1,183,038)	274,793	(1,160,447)
Overprovisions in the previous years	(604)	-	-	-
Share of tax of associated companies	-	(138)	-	-
	264,631	(1,177,918)	274,793	(1,160,447)
Deferred tax charge/(credit) in the profit and loss account comprises of the following temporary differences:				
Excess of depreciation over tax allowances	(5,046)	27,053	(5,085)	29,984
Provisions held	3,854	(4,349)	24,211	(3,962)
Tax loss carried forward	263,488	(1,205,742)	255,667	(1,186,469)
	262,296	(1,183,038)	274,793	(1,160,447)

KCB Making the Difference

Notes to the *financial statements (continued)*
For the year ended 31 December 2003

9. Taxation *(continued)*

	Group 2003 KShs'000	Group 2002 KShs'000	Bank 2003 KShs'000	Bank 2002 KShs'000
The tax charge differs from the theoretical amount that would arise using basic tax rates as follows:				
Accounting profit/(loss) before taxation	750,151	(4,178,557)	855,577	(3,199,427)
Tax calculated at tax rate of 30%	225,045	(1,253,567)	256,673	(959,828)
Tax effects on items not deductible for tax purposes	91,306	200,887	90,204	196,462
Originating and reversing temporary differences	(51,720)	(125,238)	(72,084)	(397,081)
	264,631	(1,177,918)	274,793	(1,160,447)

10. Other *assets*

	Group 2003 KShs'000	Group 2002 KShs'000	Bank 2003 KShs'000	Bank 2002 KShs'000
Items in transit	1,366,588	-	1,366,588	-
Prepayments	247,566	218,694	219,527	185,440
Other receivables	2,394,934	3,440,619	1,885,108	2,929,118
	4,009,088	3,659,313	3,471,223	3,114,558

11. Intangible *assets*

	Group 2003 KShs'000	Group 2002 KShs'000	Bank 2003 KShs'000	Bank 2002 KShs'000
Cost				
Balance at 1 January	28,994	28,994	13,124	13,124
Additions	52,737	-	51,054	-
At 31 December	81,731	28,994	64,178	13,124
Amortization				
At 1 January	26,461	22,088	10,984	8,359
Amortization for the year	5,426	4,373	4,963	2,625
At 31 December	31,887	26,461	15,947	10,984
Net Book Value				
At 31 December	49,844	2,533	48,231	2,140

The intangible assets are in respect of computer software costs.

Intangible assets for the group with an original cost of KShs 28,995,660 (2002 - KShs 14,762,583) are fully amortized. The theoretical amortization charge on cost at the notional rates (Note 1(m)) for the current year, would be KShs 5,799,132 (2002 - KShs 2,952,517)

Notes to the *financial statements* (continued)

For the year ended 31 December 2003

12. a) property and *equipment (Group)*

	Freehold and leasehold premises KShs'000'	Leasehold improvements KShs'000'	Motor vehicles, furniture and equipment KShs'000	Capital work in progress KShs'000'	Total KShs'000'
Cost/valuation					
At 1 January 2003	1,678,524	259,332	2,517,452	318,288	4,773,596
Additions	5,185	187	109,489	6,339	121,200
Transfers	-	-	8,770	(8,770)	-
Translation difference	(4,490)	-	(3,950)	(2,208)	(10,648)
Adjustment	14,686	-	-	-	14,686
Disposals	(16,300)	(894)	(34,860)	-	(52,054)
At 31 December 2003	1,677,605	258,625	2,596,901	313,649	4,846,780
Depreciation					
At 1 January 2003	195,598	119,520	1,947,135	-	2,262,253
Charge for the year	36,973	14,490	215,442	-	266,905
Translation difference	(1,448)	-	(2,373)	-	(3,821)
Adjustment	4,719	-	-	-	4,719
Disposals	(698)	(894)	(33,271)	-	(34,863)
At 31 December 2003	235,144	133,116	2,126,933	-	2,495,193
Net *book value*					
At 31 December 2003	1,442,461	125,509	469,968	313,649	2,351,587
At 31 December 2002	1,482,926	139,812	570,317	318,288	2,511,343

i) Property and equipment in use with an original cost/valuation of KShs 1,407,762,605 (2002 - KShs 1,393,486,122) are fully depreciated. The theoretical depreciation charge on cost/valuation at the normal rates (Note 1(d)) for the current year, would be KShs 275,111,520 (2002 - KShs 262,829,770).

ii) A revaluation of certain freehold and leasehold properties held by the Group was carried out by Professional Valuers, in previous years, on the basis of open market value. The revaluation surplus was transferred to capital reserve (note 18).

iii) The translation difference arises from retranslation of the opening balances in Kenya Commercial Bank (Tanzania) Limited using the current year's closing exchange rate.

iv) Adjustment is in respect of sale of properties in previous years, which were subsequently cancelled.

Notes to the *financial statements* (continued)

For the year ended 31 December 2003

12. b)Property and *equipment (bank)*

	Freehold and leasehold premises KShs'000	Leasehold improvements KShs'000	Motor vehicles, furniture and equipment KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost					
At 1 January 2003	1,501,595	214,313	2,401,933	307,310	4,425,151
Adjustment	14,686	-	-	-	14,686
Additions	-	-	99,482	6,339	105,821
Disposals	(1,300)	-	(31,690)	-	(32,990)
Transfers	(1,104,214)	-	-	-	(1,104,214)
At 31December 2003	410,767	214,313	2,469,725	313,649	3,408,454
Depreciation					
At 1 January 2003	182,009	92,418	1,853,163	-	2,127,590
Adjustment	4,718	-	-	-	4,718
Charge for the year	30,495	11,137	206,407	-	248,039
Disposals	(698)	-	(30,046)	-	(30,744)
Transfers	(72,476)	-	-	-	(72,476)
At 31 December 2003	144,048	103,555	2,029,524	-	2,277,127
Net book value					
At 31 December 2003	266,719	110,758	440,201	313,649	1,131,327
At 31 December 2002	1,319,586	121,895	548,770	307,310	2,297,561

(i) Property and equipment in use with an original cost of KShs 1,345,020,461 (2002- KShs 1,329,938,773) are fully depreciated. The theoretical depreciation charge, on cost at the normal rates (Note 1(d)) for the current year, would be KShs 263,060,592 (2002 - KShs 250,861,613).

(ii) At the end of the year, some properties with a net book value of KShs 1,031,738,000 were transferred to Kencom House Limited, a wholly owned subsidiary of the Bank.

(iii) Adjustment is in respect of sale of properties in previous years, which were subsequently cancelled.

Notes to the *financial statements* (continued)
For the year ended 31 December 2003

12(c)Prepaid leases *on land*

	Group		Bank	
	2003 KShs '000	2002 KShs '000	2003 KShs '000	2002 KShs '000
Cost				
At 1 January	309,480	313,359	186,679	190,558
Transfer from Savings and Loan Ltd.	-	-	119,200	-
Transfer to Kencom House Ltd.	-	-	(77,391)	-
Disposals	-	(3,879)	-	(3,879)
At 31 December	309,480	309,480	228,488	186,679
Amortisation				
At 1 January	81,681	82,891	59,255	61,717
Transfer from Savings and Loan Ltd.	-	-	22,918	-
Transfer to Kencom House Ltd.	-	-	(13,511)	-
Disposals	-	(4,453)	-	(4,453)
Charge for the year	3,284	3,243	1,992	1,991
At 31 December	84,965	81,681	70,654	59,255
Net *book value*				
At 31 December	224,515	227,799	157,834	127,424

At the end of the year, a leasehold property with a net book value of KShs 96,282,000 was transferred from Savings and Loan Kenya Limited to the bank. In addition, some leasehold properties with a net book value of KShs 63,880,000 were transferred by the bank to Kencom House Limited. The transfers were at net book values. Both Savings and Loan Kenya Limited and Kencom House Limited are wholly owned subsidiaries of the Bank.

13. Deposits and balances *from other banking institutions*

	Group		Bank	
	2003 KShs '000	2002 KShs '000	2003 KShs '000	2002 KShs '000
Deposits and balances from other banks	622,668	1,497,466	1,929,488	2,159,501
Overnight borrowings	-	1,924,000	-	1,924,000
Borrowed funds	83,543	25,271	83,543	25,271
	706,211	3,446,737	2,013,031	4,108,772
Maturing as follows:				
Payable within 30 days	538,979	2,933,875	1,845,799	3,595,910
Payable after 3 months but within 1 year	167,232	512,862	167,232	512,862
	706,211	3,446,737	2,013,031	4,108,772

The weighted average effective interest rates on deposits from other banking institutions as at 31 December 2003 was 0.75% (2002 - 10.05%).

KCB Making the Difference

Notes to the *financial statements* (continued)

For the year ended 31 December 2003

14. Other *customer deposits*	Group		Bank	
	2003	2002	2003	2002
	KShs'000	KShs'000	KShs'000	KShs'000
a) From government departments and parastatals				
Payable within 30 days	9,665,462	6,781,210	8,201,213	5,584,668
Payable after 30 days but within 3 months	4,326,243	2,351,028	4,323,726	2,314,707
Payable after 3 months but within 1 year	28,168	18,723	28,168	18,723
	14,019,873	9,150,961	12,553,107	7,918,098
b) From private sector and individuals				
Payable within 30 days	33,280,107	28,529,574	33,061,554	27,733,840
Payable after 30 days but within 3 months	2,153,472	7,244,158	1,481,558	6,927,731
Payable after 3 months but within 1 year	1,130,301	1,232,629	893,912	516,210
Payable after 1 year but within 5 years	29,515	307	29,515	-
	36,593,395	37,006,668	35,466,539	35,177,781
Total other *customer deposits*	50,613,268	46,157,629	48,019,646	43,095,879
Maturing as follows:-				
Payable within 30 days	42,945,569	35,310,784	41,262,767	33,318,508
Payable after 30 days but within 3 months	6,479,715	9,595,186	5,805,284	9,242,438
Payable after 3 months but within 1 year	1,158,469	1,251,352	922,080	534,933
Payable after 1 year but within 5 years	29,515	307	29,515	-
	50,613,268	46,157,629	48,019,646	43,095,879

The weighted average effective interest rates on customer deposits as at 31 December 2003 was 1.6% (2002 4.85%).

15. Other *liabilities*

	Group		Bank	
	2003	2002	2003	2002
	KShs'000	KShs'000	KShs'000	KShs'000
Items in transit	-	259,604	-	269,534
Bills payable	1,113,506	771,520	1,097,057	750,719
Accrued expenses	131,419	273,498	124,724	263,786
Other payables	1,891,100	1,727,425	1,343,584	1,283,283
	3,136,025	3,032,047	2,565,365	2,567,322

Notes to the *financial statements* (continued)

For the year ended 31 December 2003

16. Lines *of credit*

	Group		Bank	
	2003 KShs'000	2002 KShs'000	2003 KShs'000	2002 KShs'000
OPEC line III				
Payable after 3 months but within 1 year	34,682	33,474	34,682	33,474
Payable after 1 year but within 5 years	15,233	48,927	15,233	48,927
	49,915	82,401	49,915	82,401
EIB Kenya Shillings Loans				
Payable after 3 months but within 1 year	9,588	31,596	9,588	31,596
Payable after 1 year but within 5 years	37,741	42,473	37,741	42,473
	47,329	74,069	47,329	74,069
EIB Foreign Currency Loans				
Payable after 3 months but within 1 year	62,113	90,885	62,113	90,885
Payable after 1 year but within 5 years	156,543	88,967	156,543	88,967
	218,656	179,852	218,656	179,852
Total *lines of credit*	315,900	336,322	315,900	336,322
Maturing as follows:-				
Payable after 3 months but within 1 year	106,383	155,955	106,383	155,955
Payable after 1 year but within 5 years	209,517	180,367	209,517	180,367
	315,900	336,322	315,900	336,322

a) OPEC

These amounts represent the funds lent to the Bank by the Government of Kenya in accordance with loan agreements for lines of credit from the OPEC Fund for International Development. The funds are disbursed in accordance with the terms of the loan agreement. The average interest rate for the year was 2%.

b) EIB Kenya *Shillings Loans*

This represents amounts which the Group has on-lent to private enterprises under the Global Private Enterprise Scheme, introduced in 1993 by the European Investment Bank and channeled through the Central Bank of Kenya. The loans are advanced in Kenya Shillings. The average interest rate for the year was 13.63%.

c) EIB foreign *currency loans*

This represents amounts which the Group has on-lent to private enterprises under the Global Private Enterprise Scheme introduced by European Investment Bank and channeled through the Approved Financial Institutions. The loans are advanced in US dollars and Euro Currency. The average interest rate for the year was 5.75%.

Notes to the *financial statements* (continued)

For the year ended 31 December 2003

17. Share *capital*

	2003 KShs'000	2002 KShs'000
Authorised:-		
150,000,000 ordinary shares of KShs 10 each	1,500,000	1,500,000
Issued and fully paid:-		
149,600,000 ordinary shares of KShs 10 each	1,496,000	1,496,000

18. Reserves

	Group		Bank	
	2003 KShs '000	2002 KShs '000	2003 KShs '000	2002 KShs '000
Capital reserve	10,453	10,453	-	-
Revenue reserve	3,583,036	3,247,116	2,711,072	2,279,888
Share premium	473,800	473,800	473,800	473,800
Translation reserve	(99,036)	(61,572)	-	-
	3,968,253	3,669,797	3,184,872	2,753,688

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

19. Dividends

	Group		Bank	
	2003 KShs'000	2002 KShs'000	2003 KShs'000	2002 KShs'000
Final proposed	149,600	-	149,600	-
Dividends per share (KShs)	1.00	-	1.00	-

A final dividend of KShs 1 per ordinary share has been proposed and the amount has been shown as a separate component of equity as at 31 December 2003. The dividend will be submitted for formal approval at the Annual General Meeting.

20. Interest *income*

	Group		Bank	
	2003 KShs'000	2002 KShs'000	2003 KShs'000	2002 KShs'000
Interest on loans and advances	2,437,761	3,289,955	2,183,659	2,950,114
Interest on held to maturity investments	1,577,197	1,265,236	1,535,780	1,182,479
Interest on placements and bank balances	379,677	180,154	329,606	140,489
	4,394,635	4,735,345	4,049,045	4,273,082

21. Interest *expense*

Interest on deposits	826,323	1,595,838	705,431	1,457,164
Interest on borrowed funds	117,720	171,617	117,720	171,617
	944,043	1,767,455	823,151	1,628,781

Notes to the *financial statements* (continued)

For the year ended 31 December 2003

22. Other *income*

	Group		Bank	
	2003 KShs'000	2002 KShs'000	2003 KShs'000	2002 KShs'000
Rent income	70,415	50,769	58,932	39,747
Profit on sale of equipment	8,183	36,327	7,779	32,443
Overprovision recredited (recoveries)	384,055	363,061	354,113	336,939
Appreciation in value of quoted shares	35,443	-	35,443	-
Gain on disposal of associated company	5,100	-	-	-
Other miscellaneous income	149,387	254,400	148,815	251,880
	652,583	704,557	605,082	661,009

23. Other operating *expenses*

	Group 2003	Group 2002	Bank 2003	Bank 2002
Administrative expenses	4,880,525	5,160,671	4,581,749	4,906,183
Directors' emoluments				
As directors	18,604	24,007	15,601	17,448
As executives	39,970	54,668	39,970	54,668
Dimunition in value of quoted shares	-	36,732	-	36,732
Depreciation of property and equipment	266,905	316,706	248,039	294,923
Amortisation of intangible assets	5,426	4,373	4,963	2,625
Amortisation of leasehold land	3,284	3,243	1,992	1,991
Auditors' remuneration	9,226	9,149	6,600	6,300
	5,223,940	5,609,549	4,898,914	5,320,870

24. Exceptional *items*

	Group 2003	Group 2002	Bank 2003	Bank 2002
Income				
Profit on sale of non-core assets	-	147,750	-	152,250
Absorption of dormant accounts	-	79,213	-	65,000
Writeback of long outstanding credit balances	-	89,000	-	89,000
	-	315,963	-	306,250
Expenses				
Voluntary early retirement costs	-	232,732	-	226,018
Staff costs on the information systems project	-	152,000	-	152,000
Pension fund deficit contribution	-	117,000	-	117,000
Items written off	-	163,121	-	163,121
Union Award	-	54,000	-	54,000
Interest earned not collected written off	-	397,009	-	397,009
Loss on sale of property	4,000	-	-	-
Rebranding expenses	40,916	-	40,916	-
Fidelity insurance claims	-	84,000	-	84,000
	44,916	1,199,862	40,916	1,193,148
Net amount	(44,916)	(883,899)	(40,916)	(886,898)

Notes to the *financial statements* (continued)

For the year ended 31 December 2003

25. Dividend *income*	Group		Bank	
	2003 KShs'000	2002 KShs'000	2003 KShs'000	2002 KShs'000
Receivable from subisidiaries:				
Kenya Commercial Finance Company Limited	-	-	-	750,000
Savings and Loan Kenya Limited	-	-	65,000	100,000
Kencom House Limited	-	-	-	70,000
	-	-	65,000	920,000
Available for sale investments	4,850	18,414	4,850	18,414
	4,850	18,414	69,850	938,414

26. Earnings/ (loss) *per share*

Earnings/(loss) per share is calculated on the profit/(loss) after tax and on the number of ordinary shares in issue at the end of the balance sheet dates of 149,600,000 shares.

27. Prior year *adjustments*

	Group		Bank	
	2003 KShs'000	2002 KShs'000	2003 KShs'000	2002 KShs'000
Profit on sale of property-(a)	-	(186,336)	-	(186,336)
Leasehold land adjustments-(b)	-	(35,793)	-	-
Other adjustments - (c)	(101,658)	(101,658)	(66,337)	(66,337)
	(101,658)	(323,787)	(66,337)	(252,673)

The prior year adjustments relate to:

a) Reversal of profit recognised in year 2001 on a sale of property, which was subsequently cancelled.

b) Effects of full compliance with International Accounting Standards No. 17 on leases.

c) Effect of correction for understatement of interest payable in previous years of KShs 35,321,000, and resolution of the treatment of certain items for tax with the Kenya Revenue Authority of KShs 66,337,000, relating to previous years. The amounts have been adjusted against the opening reserves of year 2002.

Notes to the *financial statements* (continued)

For the year ended 31 December 2003

28. Notes to the consolidated *cash flow statement*

	2003 KShs'000	2002 KShs'000
a) Net cash flows from *operating activities*		
This has been derived as follows:-		
Profit/(loss) before taxation	750,151	(4,178,557)
Adjustments for:		
Depreciation	266,905	316,706
Amortisation of leasehold land	3,284	3,243
Amortisation of intangible asset	5,426	4,373
Profit on sale of property and equipment	(4,183)	(184,077)
Gain on disposal of associated company	(5,100)	-
(Appreciation)/diminution in value of investments	(35,443)	36,732
Share of loss of associated companies	8,559	4,737
Cash reserve ratio	537,335	1,338,772
Held to maturity investments	(4,730,988)	1,638,394
Placement and balances with other banking institutions	-	(2,000,000)
Loans and advances	2,792,326	5,080,068
Other assets	(349,775)	1,486,315
Deposits and balances from other banking institutions	(345,630)	(3,404,655)
Other customer deposits	4,455,639	(718,544)
Other liabilities	103,978	(284,275)
Corporate bonds	-	(1,000)
Property and equipment adjustment	(3,140)	60,572
	3,449,344	(801,196)

b) Analysis of cash *and cash equivalents*

	2003 KShs'000	2002 KShs'000
Cash on hand	1,901,414	2,055,475
Cheques and items for clearing	46,025	45,835
Held to maturity investments	3,447,951	501,669
Placements and balances with other banking institutions	887,963	4,381,251
Deposits and balances from other banking institutions	(538,979)	(2,933,875)
Balances due to Central Bank of Kenya	-	(1,550,000)
	5,744,374	2,500,355

Notes to the *financial statements* (continued)

For the year ended 31 December 2003

29. Related *party transactions*

a) Amounts lent to associated companies

The following amounts have been lent to associated companies in the ordinary course of business.

	Group		*Bank*	
	2003	2002	2003	2002
	KShs'000	KShs'000	KShs'000	KShs'000
At 31 December	11,413	11,413	11,413	11,413

b) Inter-company transactions

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

	Bank	
	2003	2002
	KShs'000	KShs '000
Due from subsidiary companies (Note 8(a))	1,021,505	1,550,944
Amount due to subsidiary companies (Note 8(b))	5,600	1,285,358

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

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

	Group		*Bank*	
	2003	2002	2003	2002
	KShs'000	KShs'000	KShs'000	KShs'000
Government of Kenya (Treasury)	1,329,036	3,932,719	1,329,036	3,932,719
Directors	26,892	91,909	26,892	91,909
Employees	1,928,382	1,832,517	1,872,336	1,790,615
	3,284,310	5,857,145	3,228,264	5,815,243

30. Segment *information*

a) Business segments

The Group's main business is banking/finance which accounts for more than 90% of the total income. There are therefore no material distinct business segments to necessitate detailed disclosures.

b) Geographical segments

One of the Group companies, Kenya Commercial Bank (Tanzania) Limited, operates in Tanzania, that is, outside the domestic financial market. The income derived from the company is less than 10% of the Group's total income and thus, no detailed geographical segments have been disclosed.

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

For the year ended 31 December 2003

31. Sale of Kencom House to Kenya Commercial Bank *staff pension fund*

In the year 2000, Kencom House Limited, a fully owned subsidiary of the bank sold the Kencom House property to the staff pension fund, at a profit of KShs 447,808,000. The transfer of title has taken place and it is duly registered in the Lands Office. However, there is a civil case pending in court on this matter. In addition to the foregoing, efforts are also underway between the concerned parties to have this matter resolved out of court. Accrued rent payable to the staff pension fund from the date of the transfer of the property, amounts to KShs 438,978,131 as at 31 December 2003. The rent has not been paid in view of the above dispute.

32. Commitments

	Group		Bank	
	2003	2002	2003	2002
	KShs'000	KShs'000	KShs'000	KShs'000
a) Capital commitments contracted for at year end	251,876	286,800	251,876	255,514
b) Loans committed but not disbursed at year end	3,394,087	1,230,972	3,236,051	1,101,513
c) Foreign currency commitments	1,560,041	1,504,399	1,560,041	1,504,399

33. Contingent *liabilities*

Letters of credit, acceptances, guarantees, indemnities and other engagements entered into on behalf of customers at 31 December	10,371,469	14,070,883	10,371,469	14,038,198
Dormant accounts	690,028	690,028	640,797	640,797
Litigation	92,115	92,115	56,000	56,000

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

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

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

34. Foreign *currency exposure*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The board has set limits on foreign currency positions. The foreign currency positions are monitored on a daily basis and hedging strategies used to ensure that positions are maintained within the established limits. The table below summarises the foreign currency exposure as at 31 December 2003.

Notes to the *financial statements* (continued)

For the year ended 31 December 2003

34. Foreign currency *exposure (continued)*

	Group		*Bank*	
	2003 KShs'000	2002 KShs'000	2003 KShs'000	2002 KShs'000
Assets in foreign currencies	6,571,992	10,903,269	6,558,558	10,735,105
Liabilities in foreign currencies	(5,384,916)	(7,620,485)	(5,330,103)	(7,385,040)
Net foreign currency exposure at 31 December	1,187,076	3,282,784	1,228,455	3,350,065

35. Retirement *benefit obligations*

a) KCB Pension Fund Scheme

The scheme is independently managed and is funded by the Bank and the subsidiary companies. The pension plan assets are valued at least every three years by independent actuaries. The assets were last valued as at 1 January 2003 and a surplus of KShs 147.1 million was reported, if the current status of including Kencom House in the Pension Fund (note 31) remains. However, if 'Kencom House Transaction' is reversed, there will be a deficit of KShs 191.6 million. The information below summarises the make up of the scheme surplus/(deficit), amount recognised in the profit and loss account for the year and acturial assumptions made.

		Group	
	2003 KShs'000 *	2003 KShs'000 **	2002 KShs'000
Past service pension benefits	(6,053,300)	(6,053,300)	(5,376,300)
Fair value of scheme assets	6,200,400	5,861,700	5,022,500
Past service pension surplus/(deficit)	147,100	(191,600)	(353,800)
The amount recognised in the profit and loss account for the year is as follows:			
Current contribution costs	276,377	276,377	268,217
Amortisation of past service pension deficit	-	-	117,000
	276,377	276,377	385,217
The principal acturial assumptions used are as follows:			
Expected rate of return on scheme assets	10.0%	10.0%	10.0%
Future salary increases	5.0%	5.0%	8.0%
Rate of contribution on members' pensionable salaries	14.9%	14.9%	14.9%
Future pension increases	0.0%	0.0%	0.0%

* *If current status continues i.e Kencom House property is included in the Pension Fund assets*

** *If the "Kencom House Transaction" is reversed i.e Kencom House property is excluded from the Fund's asset*

b) National Social Security Fund (NSSF)

This is a statutory defined contribution pension scheme in which both the employer and employees contribute equal amounts. The contributions are charged to the profit and loss account.

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

For the year ended 31 December 2003

36. Interest *rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The group is exposed to interest rate risk as a result of mismatches of interest rates re-pricing of assets and liabilities. The board of directors has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits. The table below shows interest rate sensitivity position of the Group at 31 December 2003 based on the earlier of maturity or re-pricing dates. Off balance sheet items do not pose any significant interest rate risk to the Group.

	Up to 1 month KShs'000	1-3 months KShs'000	3–12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Non-interst bearing KShs'000	Total KShs'000
Cash and balances with Central Banks	-	-	-	-	-	4,955,206	4,955,206
Cheques and items for clearing	-	-	-	-	-	46,025	46,025
Held to maturity investments	529,256	2,918,695	1,384,999	7,404,870	3,580,779	-	15,818,599
Placements and balances with other banking institutions	887,963	-	2,000,000	-	-	-	2,887,963
Available for sale investments	-	-	-	-	-	156,208	156,208
Tax recoverable	-	-	-	-	-	471,600	471,600
Loans and advances to customers (net)	6,046,435	1,861,974	6,793,332	10,590,947	1,822,200	-	27,114,888
Other assets	-	-	-	-	-	4,009,088	4,009,088
Intangible assets	-	-	-	-		49,844	49,844
Prepaid leases on land	-	-	-	-		224,515	224,515
Property and equipment	-	-	-	-	-	2,351,587	2,351,587
Deferred tax	-	-	-	-	-	2,299,734	2,299,734
Total Assets	7,463,654	4,780,669	10,178,331	17,995,817	5,402,979	14,563,807	60,385,257
Deposits and balances from other banking institutions	538,979	-	167,232	-	-	-	706,211
Other customer deposits	42,945,569	6,479,715	1,158,469	29,515	-	-	50,613,268
Other liabilities	-	-	-	-	-	3,136,025	3,136,025
Lines of credit	-	-	106,383	209,517	-	-	315,900
Shareholders' funds	-	-	-	-	-	5,613,853	5,613,853
Total liabilities and shareholders' funds	43,484,548	6,479,715	1,432,084	239,032	-	8,749,878	60,385,257
Interest rate sensitivity gap	(36,020,894)	(1,699,046)	8,746,247	17,756,785	5,402,979	5,813,929	-
At 31 December 2002							
Total assets	12,476,320	2,311,865	4,740,257	23,251,645	1,583,370	15,325,075	59,688,532
Total liabilities and shareholders' funds	(23,626,166)	(9,715,820)	(1,944,581)	(307)	-	(24,401,658)	(59,688,532)
Interest rate sensitivity gap	(11,149,846)	(7,403,955)	2,795,676	23,251,338	1,583,370	(9,076,583)	-

Notes to the *financial statements* (continued)

For the year ended 31 December 2003

37. Liquidity *risk management*

Liquidity risk is the risk that the group will be unable to meet its liabilities when they fall due. The group manages the liquidity structure of assets, liabilities and commitments so that cash flows are appropriately matched to ensure that all funding obligations are met when due. Management has arranged diversified funding sources which monitors liquidity on daily basis. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date. The table below summaries the maturity profiles of the group assets and liabilities based on remaining period from 31 December 2003 to the contractual date.

	Up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Cash and balances with Central Banks	4,488,984	385,579	78,887	1,756	-	4,955,206
Cheques and items for clearing	46,025	-	-	-	-	46,025
Held to maturity investments	529,256	2,918,695	1,384,999	7,404,870	3,580,779	15,818,599
Placements and balances with other banking institutions	887,963	-	2,000,000	-	-	2,887,963
Available for sale investments	-	-	-	-	156,208	156,208
Tax recoverable	-	-	-	-	471,600	471,600
Loans and advances to customers (net)	6,046,435	1,861,974	6,793,332	10,590,947	1,822,200	27,114,888
Other assets	-	-	4,009,088	-	-	4,009,088
Intangible assets	-	-	-	-	49,844	49,844
Prepaid leases on land	-	-	-	-	224,515	224,515
Property and equipment	-	-	-	-	2,351,587	2,351,587
Deferred tax	-	-	-	2,299,734	-	2,299,734
Total Assets	11,998,663	5,166,248	14,266,306	20,297,307	8,656,733	60,385,257
Deposits and balances from other banking institutions	538,979	-	167,232	-	-	706,211
Other customer deposits	42,945,569	6,479,715	1,158,469	29,515	-	50,613,268
Other liabilities	-	-	3,136,025	-	-	3,136,025
Lines of credit	-	-	106,383	209,517	-	315,900
Shareholders' funds					5,613,853	5,613,853
Total liabilities and shareholders' funds	43,484,548	6,479,715	4,568,109	239,032	5,613,853	60,385,257
Net liquidity gap	(31,485,885)	(1,313,467)	9,698,197	20,058,275	3,042,880	-
At 31 December 2002						
Total assets	17,466,947	3,056,205	8,423,353	25,857,153	4,884,874	59,688,532
Total liabilities and shareholders' funds	(40,861,104)	(9,715,820)	(3,945,504)	(307)	(5,165,797)	(59,688,532)
Net liquidity gap	(23,394,157)	(6,659,615)	4,477,849	25,856,846	(280,923)	-

Notes to the *financial statements* (continued)

For the year ended 31 December 2003

38. Credit *risk*

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

39. Employees

The number of employees of the Group as at the end of the year was 2,741 (2002 - 2,808).

40. Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, the comparative figures have been adjusted to take into account the effect of the prior year adjustments.

41. Incorporation

The Bank is incorporated in Kenya under the Companies Act.

42. Currency

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

Proxy *form*

The Secretary
Kenya Commercial Bank Ltd.
8th. Floor, Kencom House, Moi Avenue
P. O. Box 48400 00100 Nairobi, Kenya

I/We ____

Shares A/c No. ____

of P. O. Box ____

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

____

____

of P. O. Box ____

____

or failing him the Chairman of the meeting as my/our proxy to vote for me/us and on my/our behalf at the 33rd Annual General Meeting to be held on the 28th May 2004 and at any adjournment thereof.

Signed this ____________ day of _________ 2004

Signature(s) ____

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

Fomu ya Uwakilishi

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

Mimi/Sisi ____

Nambari ya Akaunti ya Mwenyehisa ____

Sanduku la Posta ____

nikuwa/tukiwa Mwanachama/Wanachama wa Kampuni hii ninamteua/tunamteua ____________________

____

wa Sanduku la Posta ____

au akishindwa, Mwenyekiti wa Mkutano, kama mwakilishi wangu/wetu kupiga kura kwa niaba yangu/yetu katika Mkutano Mkuu wa 33 wa Mwaka wa Kampuni utakaofanyika tarehe 28 Mei 2004 au pale utakapoahirishwa.

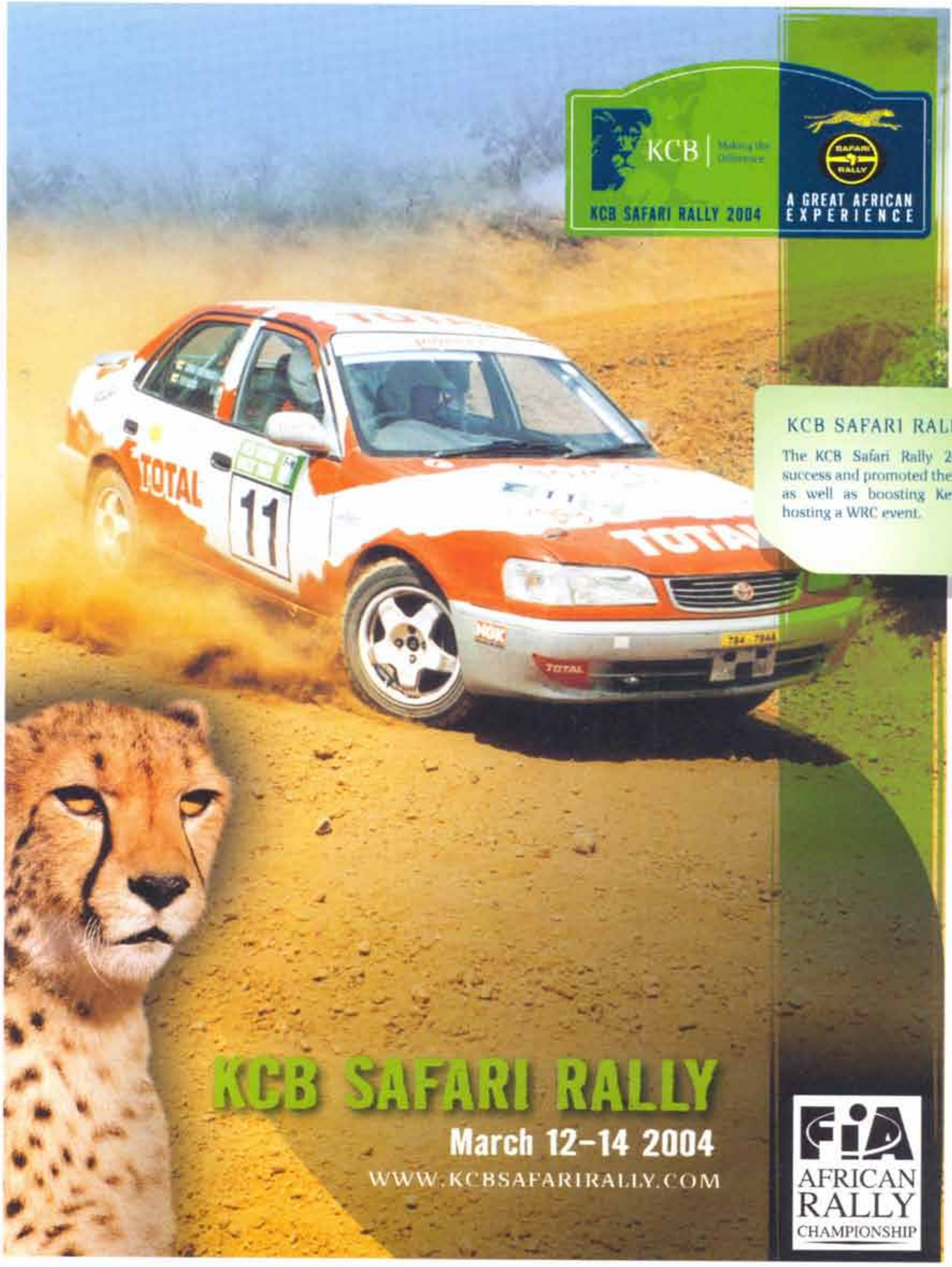
imewekwa sahihi tarehe ______________ Mwezi wa ____________ 2004

Sahihi____

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

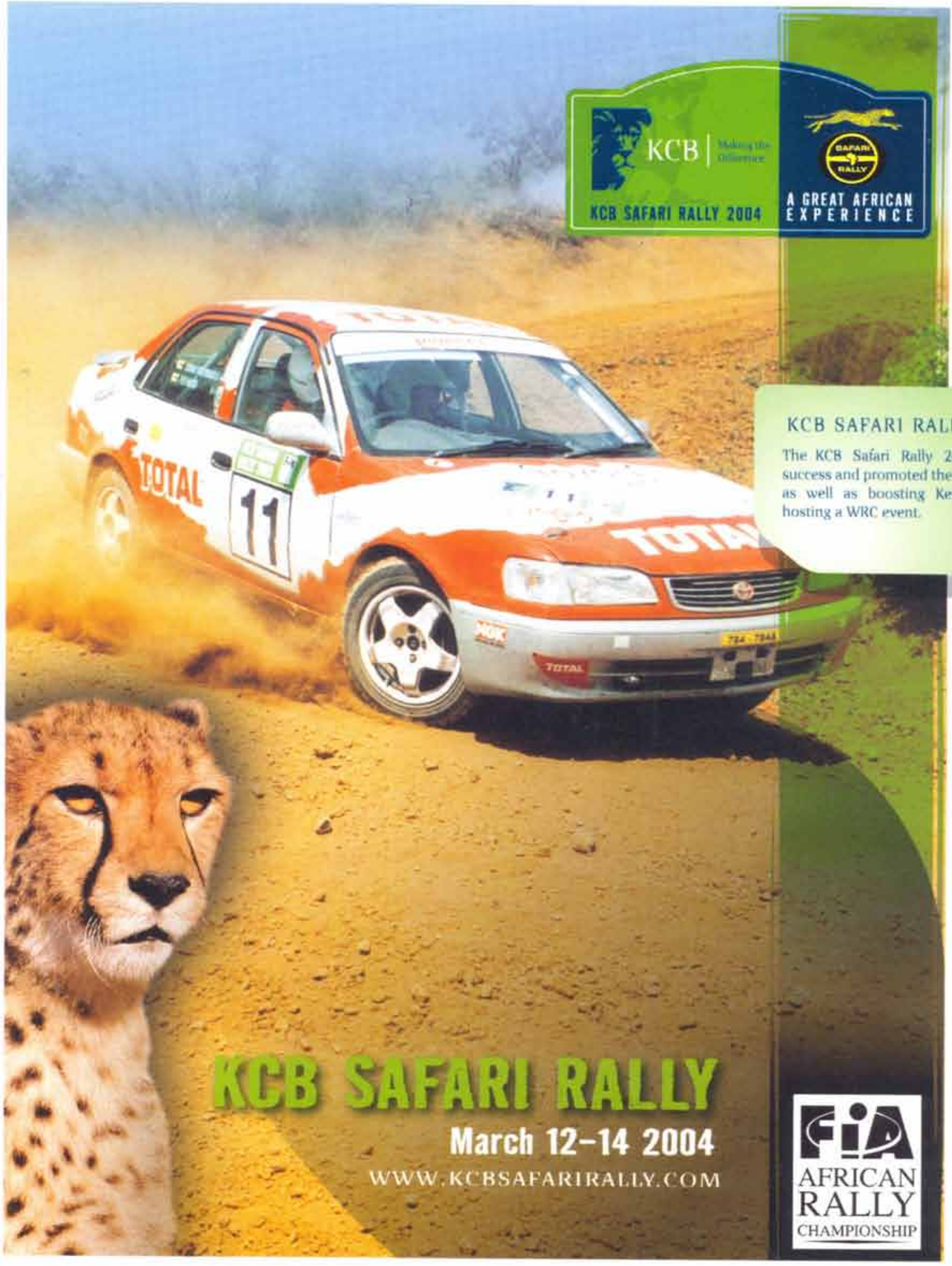
KCB | Making the Difference

Notes



KCB SAFARI RALLY

The KCB Safari Rally 2004 was a huge success and promoted the bank's new brand as well as boosting Kenya's chances of hosting a WRC event.



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