KCB | Making the Difference

CONTENTS

BANK INFORMATION

PRINCIPAL PLACE OF BUSINESS: KENCOM HOUSE, MOI AVENUE, PO BOX 48400-00100, NAIROBI, KENYA. REGISTERED OFFICE: KENCOM HOUSE, MOI AVENUE, PO BOX 48400-00100, NAIROBI, KENYA. SOLICITORS: VARIOUS, A LIST IS AVAILABLE AT THE BANK. COMPANY SECRETARY: MR K D MALAKWEN, PO BOX 48400-00100, NAIROBI. AUDITORS: ERNST & YOUNG, KENYA RE TOWERS, UPPERHILL, OFF RAGATI ROAD, PO BOX 44286 - 00100, NAIROBI, KENYA.

NOTICE OF THE 35TH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE 35TH ANNUAL GENERAL MEETING OF THE KENYA COMMERCIAL BANK LIMITED will be held at the Tsavo Ball Room (formerly Plenary Hall), Kenyatta International Conference Centre, Harambee Avenue, Nairobi on Friday, 16th June, 2006 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, 2005.

b) Report and Financial Statements for the year ended 31st December, 2005

To receive and consider the Report of the Directors and Consolidated Financial Statements for the year ended 31st December, 2005 together with the Auditors' Report thereon.

c) Dividend

To declare a dividend

d) Election of Directors

i) In accordance with Article 101 of the Company's Articles of Association, the Board appointed Mr. Martin Luke Oduor-Otieno to fill a casual vacancy on the Board and as Deputy Chief Executive. Being eligible, the said Martin Luke Oduor-Otieno, offers himself for re-election.

ii) In accordance with Article 94 of the Company's Articles of Association, Mrs Catherine Kimura, Eng. Musa Ndetto and Mr Sunil Shah, retire by rotation from the Office as Directors of the Company and, being eligible, offer themselves for re-election respectively.

e) Remuneration of the Directors

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

f) Appointment of Auditors

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

g) Remuneration of the Auditors

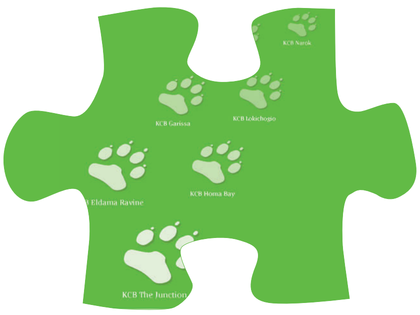
To authorize the Directors to fix the remuneration of the Auditors.

3. ANY OTHER BUSINESS

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

Dated at Nairobi this 23rd day of February, 2006
By order of the Board

K. D. Malakwen
Secretary



KCB | Making the Difference

ARIFA YA MKUTANO MKUU WA 35

Arifa inatolewa kwamba mkutano mkuu wa kila mwaka wa KENYA COMMERCIAL BANK LIMITED utafanyika katika ukumbi wa Tsavo(Hapo awali Plenary), Kenyatta International Conference center, Harambee Avenue jijini Nairobi, Ijumaa tarehe 16 mwezi Juni mwaka 2006 saa tano asubuhi kujadili yafuatayo:

AJENDA

1. KUJUMUIKA KWA MKUTANO

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

2. SHUGHULI ZA KAWAIDA

a) Ripoti ya wakaguzi wa hesabu

Kusomwa kwa ripoti ya wakaguzi wa hesabu za pesa kuhusu akaunti ya pamoja na mizania ya benki hii kwa mwaka uliomalizika tarehe 31 mwezi Desemba mwaka 2005.

b) Ripoti na akaunti kwa mwaka uliomalizika tarehe 31 mwezi Desemba mwaka 2005

Kupokea na kujadilia ripoti ya wakurugenzi na taarifa ya akaunti ya pamoja na mizania ya benki kwa mwaka uliomalizika tarehe 31 mwezi Desemba mwaka 2005.

c) Mgao wa Faida

Kutangazwa kwa mgao wa faida

d) Uchaguzi wa wakurugenzi

i) Kuambatana na kipengele nambari 101 cha sheria na masharti ya kampuni, halmashauri ya wakurungenzi ilimteua Bw. Martin Luke Oduor-Otieno kujaza nafasi kwenye halmashauri hiyo kama naibu Mkurugenzi Mkuu. Kwa vile anastahili, Bw. Martin Luke Oduor-Otieno amejitolea kuchaguliwa tena.

ii) Kuambatana na kipengele nambari 94 cha sheria na masharti ya kampuni, Bi. Catherine Kimura, Bw. Musa Ndetto na Bw. Sunil Shah, wanastaafu kwa zamu kama wakurugenzi wa benki hii na kwa vile wanastahili, wanaomba kuchaguliwa tena.

e) Malipo ya wakurugenzi

Kuidhinisha halmashauri ya wakurugenzi iweke viwango vya malipo ya wakurugenzi.

f) Uteuzi wa wakaguzi wa hesabu za pesa

Kuteua tena kampuni ya Ernst & Young kuwa wakaguzi wa hesabu za pesa wa kampuni ya KCB hadi kumalizika kwa mkutano mkuu wa mwaka ujao.

g) Malipo ya wakaguzi wa hesabu

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

3. SHUGHULI NYINGINE YOYOTE

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

Tarehe 23 mwezi Februari mwaka 2006
kwa amri ya wakurugenzi.

K.D.Malakwen
Katibu

1 Peter Muthoka, MBS Director (age 61)
Joined the Board in June 2004. Holds a Bachelor of Arts Degree in Economics and Masters of Arts Degree in Education with special reference to U.N Agencies. Currently the Managing Director of Sasini Tea and Coffee limited. Previously worked with the Central Bank of Kenya. Chairman of the Bank's Audit Committee.

2 Sunil Shah, Director (age 52)
Joined the Board in June 2004. Prominent businessman in Western Kenya. Managing Director of United Millers Limited and a member of various professional bodies among other directorships.

3 Catherine Kimura, Director (age 59)
Joined the Board June 2003. Holds a Bachelor of Arts and a Diploma in Tourism and International Relations. Advisor, State Corporations, Office of the President. Formerly Investment Secretary, Treasury. Chairman of Bank's HR committee.

4 Joseph Kinyua, Director (age 55)
Joined the Board in July 2004. Holds a Master of Arts in Economics. Currently the Permanent Secretary, Treasury. Previously the Chief Economist and Financial Secretary, Treasury and has worked with the Central Bank of Kenya.

5 Susan Mudhune, MBS Chairman (age 56)
Joined the Board in May, 2001 and became Chairman of the Board in April, 2003. Holds a Bachelor of Arts Degree in Education and an MBA. Has worked in the local banking industry for many years. A Fellow of Kenya Institute of Bankers (KIB). Chairman, Credit Commitee.

6 Susan Omanga, Director (age 45)
Joined the Board in June 2004. Holds a Degree in Business Management and Marketing. She is currently the Managing Director of Exclamation Marketing Ltd. Has worked in the local banking industry for many years. Chairman of the Bank's Corporate Affairs and Social Responsibility Committee.

7 Kiprop Malakwen, Company Secretary (age 50)
Joined KCB in 1994 as Company Secretary from Kenya Posts and Telecommunications Corporation. Holds a Bachelor of Law from the University of Nairobi and is a Certified Public Secretary.

8 Martin Oduor-Otieno, Deputy CEO (age 49)
Joined KCB in October 2005. Holds an MBA and Bachelor of Commerce degree in Accounting. He is a Fellow of the Institute of Certified Public Accountants of Kenya, Fellow of the Kenya Institute of Bankers and a Certified Public Secretary.

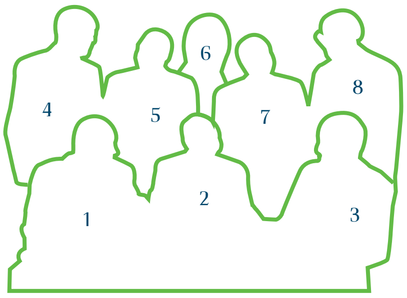
9 James N. Koome, Director (age 53)
Joined the Board in June 2005. Holds a Post Graduate Diploma in International Marketing & Trade. Currently Managing Director of Just Juice Enterprises Ltd and previously worked for the Unga Group.

10 Eng. Jeremiah Ndetto, Director (age 53)
Joined the Board in June 2003. He is a member of IEE (UK) and practices as a Consulting Electrical Engineer. Director of Kenya Electricity Generating Company Limited (KenGen). Chairman of the Bank's Human Resources Committee.

11 Joseph I. Adongo, Director (age 52)
Joined the Board in June 2005. Holds a Master of Arts Degree in Economics. Fellow of the Economic Institute of the World Bank. Currently Managing Director of Promark Promotions Ltd. Previously worked with Nation Media Group and Kenya Airways. Chairman KCB staff Pension Fund.

12 Terry Davidson, Chief Executive (age 53)
Joined KCB in January 2003. Formerly Head of Citibank in East Africa. Currently Chairman of Kenya Bankers Association and the former Chairman of American Business Association.

DIRECTORS OF SUBSIDIARIES



1 N M Arte, Director KCB (T) (age 56)

Joined the Board in 1993. Former Regional Manager ICDC in charge of North Eastern Province. Currently he is the Chairman, National Disaster Response Committee.

2 B C Mwenda, Director KCB (T) (age 65)

Joined the Board in 1999. Holds an MA in Public Administration and an MBA. Formely Commissioner of Income Tax (Tanzania) and Commissioner of Internal Revenue (Uganda).

3 Prof G K Misoi, Director S&L (age 53)

Joined the Board in 1988. Holds a PhD in Mechanical Engineering, and is currently an Associate Professor at Nairobi University, Department of Mechanical Engineering.

4 Prof. Francis Ojany, Director S&L (age 70)

Joined the Board in May 1984. Professor of Geography, University of Nairobi . Director Savings and Loan Kenya Limited and Bank of Baroda. Chairman of the Bank's Procurement Committee.

5 F K A Koske, Director KCB (T) (age 58)

Joined the Board in 1997. He is a Chartered Company Secretary. An Associate of the Institute of Chartered Secretaries and Administration.

6 B O Amollo, Director S&L (age 51)

Joined the Board in 1996. Holds a Bachelor of Arts Degree in Economics and Government. Currently in Ministry of Finance in charge of the Monetary Division of the Fiscal & Monetary Affairs Department.

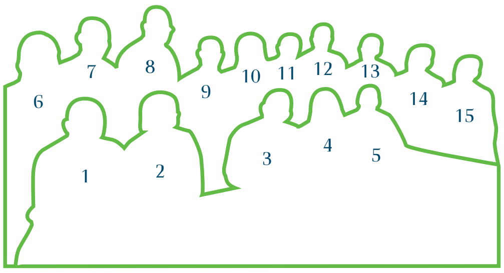
7 Prof. J K Musuva, Director KCFC (age 58)

Joined Board in 1987. Holds a PhD in Mechanical Engineering. He is a registered Engineer and a member of Institute of Engineers of Kenya. Formerly Executive Chairman of Kenya Railways Corporation.

8 Prof. N D Nzomo CPA(K), Director S&L (age 62)

Joined the Board in 1992. He is an Associate Professor, Accounting, at the University of Nairobi.

KCB EXECUTIVE COMMITTEE



1 Dr. Tony Githuku Divisonal Director: Operations and Technology, 2 Wangui Ngatia MD S&L, 3 Terry Davidson Chief Executive, 4 Catherine Njoroge Divisonal Director: Retail, 5 Philip Ilako Divisonal Director: Corporate, 6 Rose Kinuthia Divisonal Director: Risk, 7 Stanley Towett Divisonal Director: Audit, 8 Martin Oduor-Otieno Deputy CEO, 9 Kepha Bosire Head of Corporate Affairs, 10 Lyn Mengich Divisonal Director: Human Resources, 11 Fred Mutiso Divisonal Director: Strategy & Change Programme, 12 Kiprop Malakwen Company Secretary, 13 Samuel Kimani Divisonal Director: Finance, 14 Kalyan Mukherjee Treasurer, 15 Albert Odongo Acting MD, KCB(T)

Susan Mudhune, Chairman

SHAREHOLDERS,

It is indeed my pleasure to once again present to you the Annual Report and Financial Statements for the year ended 31 December 2005. The year marked a major milestone in the turnaround of the bank with an impressive performance in profitability and growth.

Your group recorded a 111% growth in profit before tax of Kshs 1.95 billion in 2005 compared to Kshs 920 million in 2004. This growth is a result of a number of initiatives implemented by Board and Management to put the bank firmly on the path to industry leadership. We can now confidently declare that the business has turned around and that necessary measures have been taken to ensure that this performance is sustainable into the future.

There is further good news for our shareholders in respect of the growth in the value of your shares. The average share price increased from Kshs 64 at the end of 2004 to Kshs 113 at the end of 2005. This represents an impressive capital gain and is an indication of the potential of the business.

OPERATING ENVIRONMENT

The economic environment continued to improve in 2005 achieving an estimated GDP growth of 5% compared to 4.3% in 2004. During the year, the general macro-economic environment remained favorable, characterised by low interest rates, a strong shilling and declining inflation. Apart from the drought experienced in last quarter of 2005, the economy enjoyed favorable weather conditions with adequate rains during the earlier part of the year. Consequently, performance of key economic sectors including agriculture, manufacturing and transport and communication remained impressive. The tourism sector grew at a much faster rate in 2005 due to increased marketing efforts. The building and construction sector remained buoyant, boosted by increased demand for mortgages as a result of low interest rates.

The economy is forecast to maintain its growth momentum in 2006 supported by increased access to wider regional markets and the planned privatization of Government business in the transport, energy and communication sectors that include the Kenya Railways Corporation and KenGen. In addition, the Government is expected to undertake a number of infrastructure upgrading initiatives in 2006 including extension of the railway line and construction of a pipeline to Mombasa for crude oil exports from Southern Sudan. The economy will benefit further from enhanced business prospects in the reconstruction of Southern Sudan. However, this would be impacted negatively by the effects of the drought that has been afflicting the country since the last quarter of 2005.

Overall annual average inflation slowed down from 11.62% in 2004 to 10.31% in 2005, mainly driven by improved food supplies in the second and third quarters of 2005. The inadequate rains in the fourth quarter of 2005, which persisted through the first quarter of 2006 have led to rising fuel and power prices which could result in higher inflation. Average annual underlying inflation however increased in the year 2005 to 5.40% from 3.46% in 2004. The increase is attributed to delayed effects of credit expansion on money supply for the previous year. The Central Bank of Kenya continues to implement a tight monetary policy programme to contain inflation within a target of 5%.

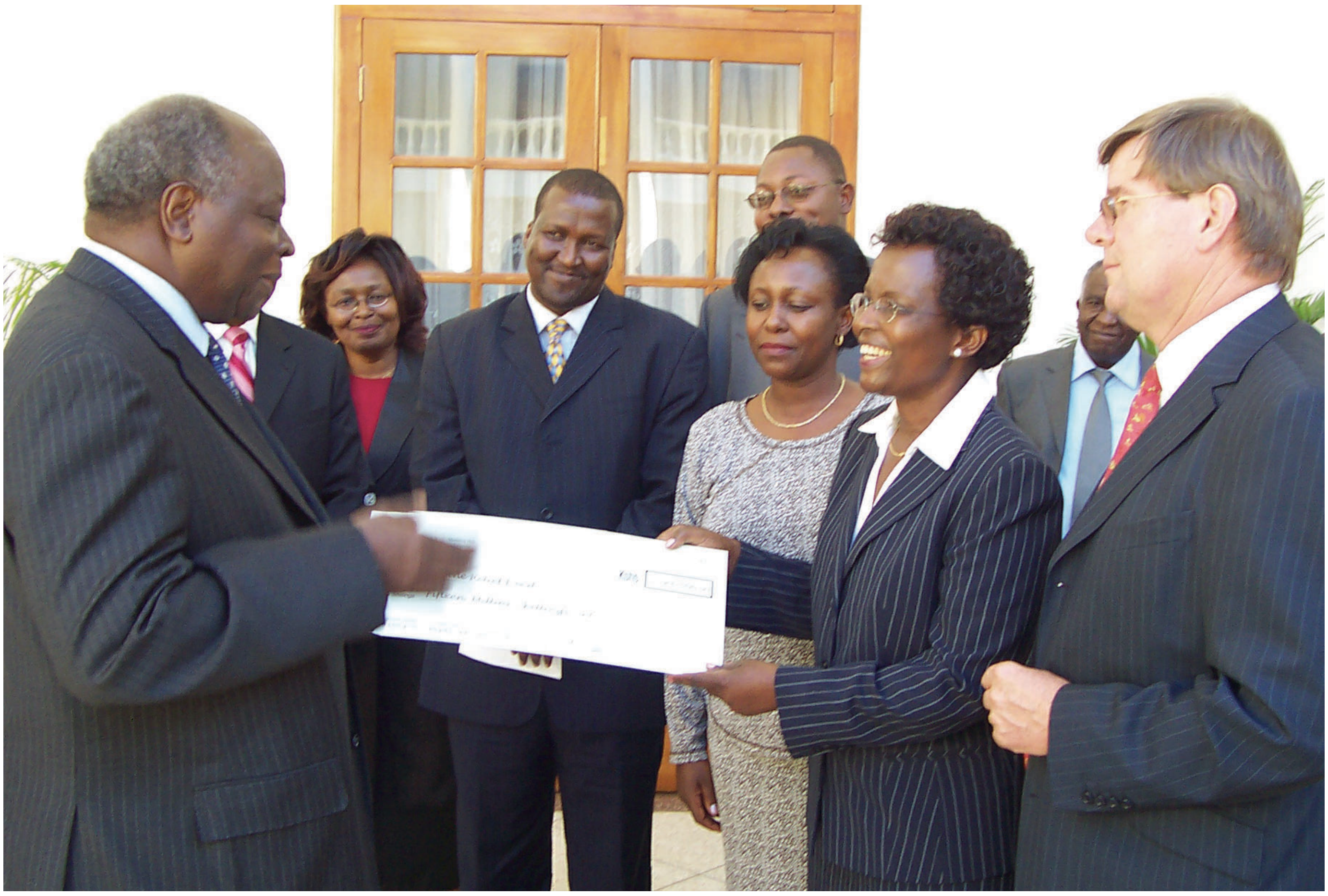
Consistent with a tight monetary policy stance in place since December 2004, short term interest rates remained stable during the year 2005. The 91-day Treasury bill rate averaged between 7.8% and 8.7%, while the 182-day Treasury bill rate traded at an average of between 8.2% and 9.1%. The Interbank rate over the same period averaged between 7.4% and 9.4%. Interest rates are expected to remain stable in 2006.

The Kenya shilling gained significantly against all major international currencies in 2005. The shilling closed at Kshs 73.11, Kshs 127.62 and Kshs 86.70 to the US Dollar, Sterling Pound and Euro respectively in December 2005 compared to Kshs 79.80, Kshs 153.90 and Kshs 106.90 in December 2004. This was due to improved foreign currency inflows in the face of subdued demand for hard currencies.

The performance of the stock market remained strong with all the indicators recording significant increases. The NSE 20 share index moved from 2,945.6 points at the end of 2004 to 3,973 points in 2005. Market capitalization increased by over Kshs 150 billion from Kshs 306 billion at the end of 2004 to Kshs 463 billion. Total turnover was up by 65% from Kshs 22.2 billion at the end of 2004 to Kshs 36.5 billion in 2005. In tandem with increased activity at the stock market, the number of shares traded increased to 874 million shares compared with 625 million shares.

Resulting from improved business environment, the KCB share price increased by 77% from Kshs 64 at the end of 2004 to Kshs 113 at the end of 2005. The bank in 2005 posted a significant 136% increase in market capitalization from Kshs 9.57 billion at the end of 2004 to Kshs 22.55 billion at the close 2005. The increase in the bank's capitalization level is attributed to improved share prices and increase of issued shares from 149.6 million at the end of 2004 to 199.6 million in 2005.

Due to the stable macro-economic environment, the banking



KCB Group Chairman, Susan Mudhune (second right) presents a cheque for Kshs. 15 million to President Mwai Kibaki, towards the famine relief. KCB Chief Executive, Terry Davidson(right), Director Susan Omanga(third right), Special Projects Minister, John Munyes, Special Projects PS, Mrs Rachael Arunga among other officials are also present.

sector achieved a favorable performance in 2005. Total assets expanded to over Kshs 650 billion in 2005 compared with Kshs 583 billion recorded in 2004. Increased bank assets continued to support further lending to the private sector enabling the banking sector to realise a significant increase in interest income.

YOUR SUBSIDIARIES

Your subsidiaries; S&L and KCB(T) continued to record improved performance in 2005. S&L showed marked growth in profitability moving from a pretax profit of Kshs 18 Million in 2004 to Kshs 77 million last year. The subsidiary has enjoyed increased business inflows due to its rebranding later in 2005 and we expect it to continue with this trend into 2006. The management is in the process of implementing a plan to provide adequate resources to the subsidiary in order to effectively take advantage of emerging business opportunities in the market.

KCB (T) reported a profit for the first time in its 8-year history moving from a Kshs 23 million loss in 2004 to a Kshs 11 million pretax profit in 2005. A strategy is now in place to improve our market share in Tanzania and exploit the untapped potential there.

REGIONAL STRATEGY

In line with our Vision to be the best bank in the Region, plans are advanced to inaugurate our new operations in Southern Sudan in the second quarter of 2006. Our premises in both Juba and Rumbek are ready and await issuing of trading licences to commence business. We believe that with time we shall consider expansion to other viable business centres such as Yei and Yambio. We are also looking at a number of strategic options on entry into Uganda and Rwanda. Our overall vision is to ensure we have a regional presence that straddles the entire Eastern African region.

CORPORATE GOVERNANCE AND ETHICS

We realise that corruption is a vice in our society that we must constantly fight. Your bank is committed to fighting this and other social vices in the workplace. As you may recall in my last statement, KCB is officially non-tolerant to corruption of any kind and has implemented an ethics policy to achieve this. The bank now has an ethics manager supported by a high level Ethics Committee to spearhead ethical business behaviour and address deviant practices.

On Governance, your Board of Directors continues to observe the Board Charter enacted in 2003 to ensure transparent and harmonious management of the business. Both the Board and Management are regularly updated on modern governance practices through relevant seminars and workshs ops to ensure they are able to effectively govern the organisation. Your bank has enjoyed immense positive corporate image over the past year due to a number of initiatives it has undertaken. In the short term we would like to conduct a climate survey to ascertain the bank's Corporate Image position with a view to setting ourselves future targets as well as bench-mark the bank against best performers in the global market.

CORPORATE SOCIAL RESPONSIBILITY

Your bank is committed to effective Corporate Social Responsibility practices as evidenced in its Social Welfare and Community activities.

In 2005, the Bank spent over Kshs 20 million in various CSR activities. Prominent among these projects were partnerships with Architectural Society of Kenya, Starehe Girls Centre and Operation Smile Kenya. Our teams countrywide were also involved in tree planting and construction of educational facilities during the KCB Community Day and KCB Community Week, respectively.

During the year, the Board of Directors approved a three-year CSR programme that would cost the bank Kshs 90 million to address community needs in the areas of Environment, Education, Health and Welfare. All employees of the bank would be involved in this programme. In early 2006, the Board presented the Bank's donation towards the current famine in the country to the tune of Kshs . 15 million.

DIVIDENDS

Over the past two years, the bank's earnings have improved tremendously leading to a consistent dividend payout for 2003 and 2004. As a result of the good performance in 2005, the Directors propose a dividend payout of Kshs 4 for every share held amounting to Kshs 798 million. This is double the amount that was paid out in 2004.

PROSPECTS FOR THE FUTURE

The prospects are good for KCB's future. The fundamental step towards sustaining good financial performance is continued growth of the business and strict control of costs. The more the business grows the less likely it would be for costs to be a matter of serious concern for us. Such growth would be achieved through our ongoing expansion programme into the region and introduction of new products that would be innovative enough to attract customers and meet their ever-changing needs.

Your bank's employees are among the best trained, most knowledgeable and academically sound in the market. KCB is slowly becoming the employer of choice for many young and aspiring Kenyans. We feel that this change of status provides us with the launch pad for a truly world-class organisation where employee passion and capability matches customer expectation.

I would like to thank the entire KCB team for such a wonderful performance and call upon them to continue with the same level of dedication for the sake of the future prosperity of the bank. I would also like to personally thank my fellow directors for the support they accorded me as their Chairman and for their forthrightness and commitment to the business. Many thanks also go to our customers who have endured the inconveniences of our change programme over the past three years and the community among whom we operate for their unwavering support. I will not forget you, our shareholders and other business partners; thank you for your confidence in KCB. I have no doubt that the business will do even better in 2006.

Thank you.

WANAHISA,

Ni furaha kuu kwangu kwa mara nyingine kuwasilisha kwenu ripoti ya mwaka na taarifa kuhusu hali yetu ya kifedha kwa mwaka uliomalizikia tarehe 31 mwezi wa Desemba 2005. Kwa hakika benki hii ilipata mafanikio makubwa katika kipindi hiki kwa kujipatia faida na ukuaji wa kuvutia mno.

Kampuni hii ilipata faida ya jumla ya shilingi bilioni 1.95 kabla ya kutozwa ushuru mnamo mwaka wa 2005, ambacho ni kiwango cha ukuaji cha asilimia 111 ikilinganishwa na faida ya shilingi milioni 920 ya mwaka wa 2004. Mafanikio haya yalitokana na mbinu ambazo zilitekelezwa na halmashauri na uongozi wa benki katika juhudi za kuimarisha ili iwe mbele ya benki nyingine. Sasa twaweza kuarifu kwa ujasiri kwamba shughuli za benki hii zimeimarika na kwamba hatua zifaazo zimechukuliwa ili kuhimili mafanikio yaliopatikana na ile ya siku za usoni.

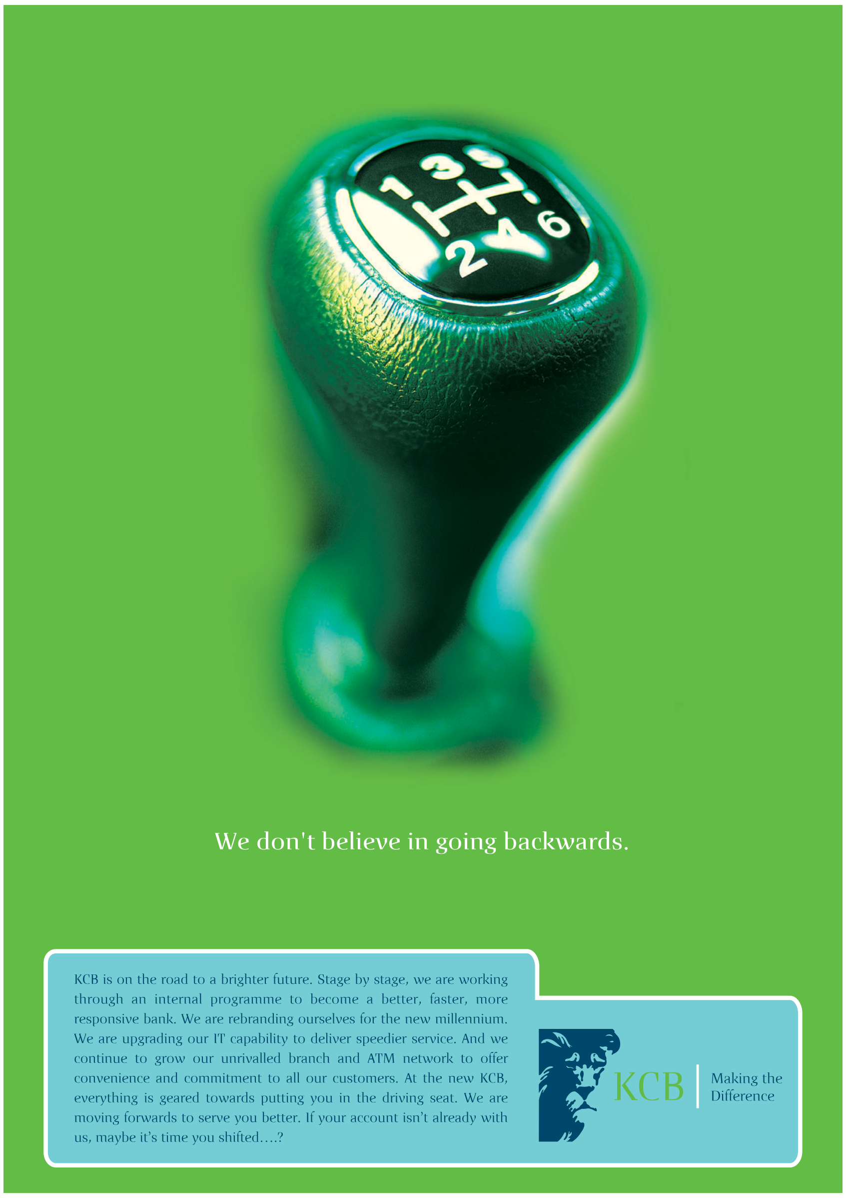
Kuna habari njema zaidi kwa wanahisa wetu kuhusiana na ukuaji wa thamani ya hisa zenu. Thamani ya hisa iliongezeka kutoka shilingi 64 mwishoni mwa mwaka wa 2004 hadi shilingi 113 kufikia mwisho wa mwaka wa 2005. Ukuaji huu unadhihirisha pato la kutia moyo na ni dalili za hali nzuri ya biashara .

MAZINGIRA YA KIKAZI.

Hali ya uchumi iliendelea kuimarika mnamo mwaka wa 2005 na kufikia kiwango cha ukuaji cha asilimia 5 ya pato la jumla la taifa ikilinganishwa na kiwango cha asilimia 4.3 cha mwaka wa 2004. Katika mwaka huo hali ya uchumi wa nchi ilikuwa nzuri, ambapo viwango vya riba kwa mikopo vilikuwa chini, huku thamani ya shilingi ikizidi kuimarika na kusababisha mshuko katika gharama ya maisha. Mbali na ukame uliolikumba taifa mnamo robo ya mwisho ya mwaka wa 2005, uchumi ulikuwa mzuri kutokana na hali nzuri ya hewa na mvua za kutosha mwanzoni mwa mwaka. Kutokana na hali hiyo utendaji kazi katika sekta muhimu za kiuchumi kama vile kilimo, shughuli za viwanda, na uchukuzi na mawasiliano ulikuwa wa kuridhisha. Sekta ya utalii ilikua kwa kiwango cha haraka mno mnamo mwaka wa 2005, kutokana na jitihada za kutangaza sehemu za kuvutia watalii.

Shughuli katika sekta ya mijengo na ujenzi ziliimarika, kutokana na hitaji kubwa la mikopo ya ujenzi wa nyumba, ambayo ilitokana na viwango vya chini vya riba inayotozwa mikopo.

Mtazamo wa hali ya uchumi kwa mwaka wa 2006, ni kwamba kiwango cha ukuaji kitaendelezwa, kutokana na upatikanaji wa masoko zaidi katika eneo hili na mipango ya kubinafsishwa kwa baadhi ya mashirika ya kiserikali katika sekta za uchukuzi, kawi na mawasiliano. Mashirika hayo ni pamoja na shirika la reli la Kenya na kampuni ya kusambaza umeme ya KENGEN. Serikali pia ina mipango ya kuimarisha miundomsingi mnamo mwaka huu wa 2006, ambayo ni pamoja na upanuzi wa njia ya reli na ujenzi wa bomba la kusafirisha mafuta hadi Mombasa kutoka kusini mwa Sudan.Uchumi unatazamiwa kunufaika zaidi



kutokana na matumaini ya biashara itakayotokana na shughuli za ujenzi kusini mwa Sudan. Hata hivyo huenda shughuli hizo zikaathiriwa na hali ya ukame ambayo imelikumba taifa hili tangu robo ya mwisho ya mwaka wa 2005.

Kwa jumla kulikuwa na wastani wa mshuko katika gharama ya maisha kutoka asilimia 11.62 mnamo mwaka wa 2004, ikilinganishwa na kiwango cha asilimia 10.31 cha mwaka wa 2005. Hali hiyo ilitokana na kuwepo kwa chakula cha kutosha mnamo kipindi cha kati na mwisho wa mwaka wa 2005. Hata hivyo uhaba wa mvua kuanzia kipindi cha robo ya mwisho ya mwaka wa 2005, hadi miezi ya kwanza mitatu ya mwaka wa 2006 ulisababisha ongezeko katika bei ya mafuta ya petroli na gharama ya umeme, ambayo huenda ikasababisha kupanda kwa gharama ya maisha nchini. Wastani wa ongezeko la gharama ya maisha mnamo kipindi cha mwaka wa 2005 ulifikia kiwango cha asilimia 5.40 kutoka kiwango cha asilimia 3.46 cha mwaka wa 2004. Kupanda huko kwa gharama ya maisha kulitokana na kucheleweshwa kwa mikopo kutoka mwaka uliotangulia. Benki kuu ya Kenya hata hivyo inaendelea kudhibiti kiwango hicho kwa asilimia 5 kwa kutumia sera madhubuti za kiuchumi.

Viwango vya riba kwa mikopo inayolipiwa kwa muda mfupi havikuongezeka mnamo mwaka wa 2005 kutokana na sera madhubuti za kiuchumi ambazo benki kuu imekuwa ikitumia tangu mwezi wa Desemba mwaka wa 2004. Thamani ya hawala za serikali za siku 91 ilikuwa kati ya asilimia 7.8 na asilimia 8.7, ambapo zile hawala za serikali za siku 182 zilikuwa kati ya asilimia 8.2 na 9.1. Viwango vya ubadilishanaji wa sarafu baina ya benki mnamo kipindi hicho vilikuwa kati ya asilimia 7.4 na asilimia 9.4. Viwango vya riba vinatazamiwa kubaki imara mwaka huu wa 2006.

Kufikia mwisho wa mwaka wa 2005, thamani ya shilingi ya Kenya ilizidi kuimarika dhidi ya sarafu muhimu za kimataifa mwaka huu. Mnamo kipindi hiki thamani ya shilingi ya Kenya ilikuwa 73.11 dhidi ya Dola ya Marekani, shilingi 127.62 dhidi ya Pauni ya Uingereza na shilingi 86.70 dhidi ya Euro ya mataifa ya Ulaya, ikilinganishwa na shilingi 79.80 dhidi ya Dola ya Marekani, shilingi 153.90 dhidi ya Pauni ya Uingereza na shilingi 106.90 dhidi ya sarafu ya Euro mnamo mwaka wa 2004. Jambo hilo lilitokana na upatikanaji kwa urahisi wa sarafu za kigeni nchini.
Shughuli kwenye soko la hisa la Nairobi ziliimarika mnamo kipindi hiki. Kiwango cha ubadilishaji wa hisa kwenye soko la hisa la Nairobi kiliimarika kutoka pointi 2,945.6 mwishoni mwa mwaka wa 2004 hadi pointi 3,973 mwaka wa 2005. Thamani ya shughuli kwenye soko hili iliimarika kwa zaidi ya shilingi bilioni 150 kutoka shilingi bilioni 306 mwishoni mwa mwaka 2004 hadi shilingi bilioni 463. Jumla ya mali iliozalishwa kutokana na shughuli za soko la hisa la Nairobi iliimarika kwa asilimia 65 kutoka shilingi bilioni 22.2 mwishoni mwa mwaka wa 2004 hadi shilingi bilioni 36.5 mnamo mwaka wa 2005. Aidha kutokana na ongezeko katika shughuli hizo thamani ya hisa zilizouzwa na kununuliwa ilipanda kutoka shilingi milioni 149.6 mwishoni mwa mwaka wa 2004 hadi shilingi milioni 199.6 mnamo mwaka wa 2005.

Kutokana na hali imara ya uchumi wa nchi, sekta ya benki ilipata mafanikio bora mnamo mwaka wa 2005. Jumla ya thamani ya raslimali katika sekta hiyo iliimarika hadi shilingi bilioni 650 mnamo mwaka wa 2005 ikilinganishwa na shilingi bilioni 583 iliyorekodiwa mnamo mwaka wa 2004. Raslimali zaidi ilitumika katika kuimarisha shughuli ya utoaji fedha kwa sekta ya kibinafsi. Mikopo hiyo ilitumiwa na sekta ya kibinafsi kuwahudumia wateja wao. Kwa njia hiyo sekta ya benki iliimarisha faida kutokana utozaji wa riba juu ya fedha hizo.

MASHIRIKA.

Shughuli za mashirika yetu kama vile S&L na KCB(T) ziliimarika mnamo mwaka huo wa 2005. S&L ilijipatia faida kubwa ya jumla ya shilingi milioni 77 kabla ya kutozwa ushuru ikilinganishwa na shilingi milioni 18 mwaka wa 2004. Shirika hilo lilijipatia faida kubwa kutokana na marekebisho yakiwemo yale ya jina lake baadaye mnamo mwaka wa 2005 na tunatarajia mtindo huo utaendelea mwaka huu wa 2006. Uongozi wa benki hii unatarajia kutekeleza mipango ya kutoa raslimali ya kutosha kwa shirika hili kufuatia kuongezeka kwa fursa nyingi za biashara kwenye masoko.

Shirika la KCB(T) lilipata faida kwa mara ya kwanza mnamo kipindi cha miaka minane tangu lianzishwe. Shirika hilo lilipata faida ya jumla ya shilingi milioni 11 kabla ya kutozwa ushuru, ikilinganishwa na hasara ya shilingi milioni 23 ililopata mnamo mwaka wa 2004. Mikakati maalum imewekwa kuhakikisha kwamba benki yenu inasambaza shughuli zake nchini Tanzania ili kunufaika kutokana na soko la nchi hiyo, ambalo halijatumiwa kikamilifu.

MIKAKATI YA KIMKOA:

Sawa na maono yetu ya kutaka kuwa benki bora katika eneo hili, mipango imeratibiwa ya kuanzisha shughuli mpya kusini mwa Sudan mnamo robo ya kwanza ya mwaka huu wa 2006. Mahala petu pa biashara katika sehemu za Juba na Rumbek pako tayari, ambapo yanangojea tu leseni za kuanzisha biashara.Tunaamini kwamba baada ya muda fulani, tutapanua shughuli zetu hadi vituo vingine kama Yei na Yambio.

Pia tunachunguza uwezekano wa kuwekeza katika maeneo muhimu katika nchi za Uganda na ikiwezekana Rwanda. Kwa jumla lengo letu ni kuwa na biashara katika eneo zima la Afrika mashariki na vile vile upembe wa Afrika.

MAONGOZI NA MAADILI.

Tunafahamu kwamba ufisadi ni uovu ambao tunahitaji kuupiga vita katika jamii yetu. Benki yako imejizatiti kuupiga vita uovu huo, pamoja na maovu mengine katika mahala pa kazi. Jinsi unavyokumbuka ,katika taarifa yangu ya mwisho, Benki ya Kenya Commercial inapinga ufisadi wa aina yoyote ile na imebuni sera ya kuhakikisha uzingatiaji wake. Benki hii kwa sasa ina meneja wa maadili, ambaye anasaidiwa na kamati ya ngazi ya juu ya maadili, ili kuendeleza biashara katika mazingira ya maadili bora na wakati huo huo kukabiliana na uovu wowote ule. Kuhusu maongozi, halmashauri yako ya wakurugenzi ingali inazingatia hati ya halmashauri hiyo iliyobuniwa mnamo mwaka wa 2003 yenye lengo la kuhakikisha kwamba shughuli za benki zinaendeshwa kwa upatanifu na uwazi. Halmashauri na uongozi wa benki wanafahamishwa mara kwa mara kuhusu mbinu za kisasa za usimamizi kupitia kwa warsha na

Naivasha MP, Hon. Jane Kihara (right) flags off Car No. 5 driven by Riyaz Kurji of Uganda during the KCB Simba Savings Rally that was held at Naivasha on February 4 2006. Looking on are Security Group MD, Steve Kimani (second right), and KCB Chief Executive, Terry Davidson, Riyaz Kurji and his navigator Sayeed Kadri emerged as the winners of the rally.

semina ili kuhakikisha kwamba wanaisimamia vizuri benki hii. Benki yako imekuwa na sifa nzuri mwaka jana kutokana na jitihada mbali mbali zilizotekelezwa. Kwa kipindi kifupi kijacho, tungependa kufanya uchunguzi wa kubainisha jinsi benki hii inavyoonekana kwa watu huko nje. Tukishafanya hivyo tutajiwekea malengo kwa ajili ya siku zijazo na vile vile kujiwekea alama teule ya kututambulisha dhidi ya benki nyingine.

WAJIBU WA BENKI KWA JAMII.

Benki yako ina nia ya kutekeleza wajibu wake kikamilifu kwa jamii, jinsi ambavyo imebainisha kutokana na shughuli zake kwa jamii.

Mnamo mwaka wa 2005 benki hii ilitumia zaidi ya shilingi milioni 20 katika huduma zake kwa jamii. Muhimu miongoni mwa miradi hiyo ni ushirikiano na Architectural Society of Kenya, Shule ya Starehe Girls Centre na Operation Smile Kenya. Wahuduma wetu kote nchini walihusika katika shughuli ya upandaji miche ya miti na ujenzi wa vituo mbali mbali vya elimu wakati wa maadhimisho ya Siku ya Jamii na wiki ya jamii ya Benki ya Kenya Commercial.

Mwaka huo pia halmashauri ya wakurugenzi iliidhinisha kiasi cha shilingi milioni 90 ambazo zingetumika kwa shughuli za huduma kwa jamii hasa sekta za mazingira, elimu, afya na maslahi ya kijamii mnamo kipindi cha miaka mitatu. Wafanyakazi wote wa benki hii watahusishwa katika mipango hiyo.

Mapema mwaka wa 2006, halmashauri ya wakurugenzi ilitoa msaada wa shilingi milioni 15 kwa Rais Mwai Kibaki kufaidi harakati za kupambana na njaa katika sehemu kadhaa za nchi.

MGAO WA FAIDA.

Mnamo kipindi cha miaka miwili iliyopita, mapato ya benki hii yameimarika mno, ambapo wanahisa wamekuwa wakipokea migao yao ya faida mnamo mwaka wa 2003 na 2004 mtawalia. Kutokana na utendaji kazi mzuri wa benki hii mnamo mwaka wa 2005, wakurugenzi wamependekeza mgao wa shilingi 4 kwa kila hisa hadi kufikia kiwango cha shilingi milioni 798. Kiwango hiki ni mara dufu ya kile kilicholipwa mnamo mwaka wa 2004.

MATARAJIO YA SIKU ZA USONI.

Benki ya Kenya Commercial ina matarajio mazuri ya siku zijazo. Hatua muhimu kuelekea uthabiti wa kifedha ni kuimarishwa kwa biashara na matumizi mwafaka ya pesa. Jinsi biashara itakavyozidi kushamiri, ndipo mzigo wa kuhakikisha usimamizi bora pesa utakavyotupungukia. Ukuaji kama huo utapatikana tu kupitia mipango yetu ya kutaka kupanua shughuli zetu katika eneo hili na kuongeza huduma mpya ambazo zitawavutia wateja na kukidhi mahitaji yao yanayozidi kubadilika.

Wafanyakazi wa benki yako ni miongoni mwa wale ambao wamepatiwa mafunzo ya hali ya juu na walio na elimu na maarifa yalio bora zaidi katika sekta hii. Benki ya Kenya Commercial, sasa imeanza kuwavutia vijana wengi na Wakenya walio na ari ya kujiendeleza. Tunaamini kwamba hadhi hii inatupatia fursa nzuri ya kuwa miongoni mwa kampuni bora zaidi ulimwenguni, ambako moyo wa kutaka kutenda kazi na uwezo wa mwajiriwa unakamilishana na matarajio ya mteja.

Ningependa kushukuru watendakazi wote wa benki ya Kenya Commercial kutokana na kazi nzuri ya ajabu na nawaomba waendelee kuhudumu na moyo huo wa kujitoa kwa ajili ya ufanisi wa siku zijazo wa benki hii. Ningependa mwenyewe binafsi pia kuwashukuru wakurugenzi wenzangu kwa kuniunga mkono kama mwenyekiti na kwa uwazi wao na kujitolea kwao kazini. Shukrani nyingi pia ziwaendee wateja wetu, ambao wamekuwa wavumilivu kwa kipindi cha miaka mitatu, ambapo benki hii imekuwa ikifanya mabadiliko na pia kwa jumla jamii ambako tunafanyia kazi kwa kutuunga mkono. Na hatimaye, sitawasahau nyinyi wanahisa na washirika wetu wa kibiashara. Ahsanteni kwa kuiamini Benki ya Kenya Commercial. Sina shaka kwamba shughuli zetu zitaimarika hata zaidi mwaka huu wa 2006.

Ahsanteni.

Terry Davidson, Chief Executive

SHAREHOLDERS,

We had an exciting and successful 2005 with the KCB Group recording a pretax profit of KShs 1.95 billion, up 111% on 2004. As a result of these strong results the Board has proposed the payment of a KShs 4 dividend for every share held.

This is a very strong performance by the KCB team and occurred as a result of broad based growth in the economy. Total operating income was up 18% from KShs 8 billion in 2004 to KShs 9.4 billion in 2005 largely due to incremental interest earnings as a result of a change in the mix of our loan portfolio and a build-up of government securities fuelled by a significant increase in low cost deposits.

Operating expenses increased by 10% due to continuing investment in our people and infrastructure. However we expect to see a general slowdown in expense growth in 2006 as the cost reduction measures that were introduced in 2005 start to have a positive effect.

Profit before tax was also positively impacted by a reduction in net provisions, which dropped from KShs 838 million in 2004 to KShs 591 million in 2005.

The balance sheet also reflected good growth with an overall increase of KShs 8.7 billion with increases reflecting in all the key asset and liability categories. Deposits increased by KShs 15% with most of the increase coming from low cost current, transactional and savings balances as a result of our large branch network which acts as a catchment and distribution mechanism and which is a major competitive advantage for the bank.

On the asset side there was a substantial increase in investments in government securities and placements with other institutions. Although our net loans and advances were flat it's important to note that the good book or performing loans increased by Kshs 3.7 billion or 13% and was offset by a decrease of approximately the same amount in the non-performing loan book.

We had a very successful year on the non-performing book where gross NPL's reduced by KShs 7 billion to end the year at KShs 13.4 billion. At the end of 2002 the gross NPL book peaked at KShs 25.1 billion which means that this portfolio has reduced by KShs 11.7 billion over the past 3 years through repayments, settlements and asset sales. As a result of the reduction in gross NPLs and as we continue to build-up provisions, the net NPL book reduced from KShs 7.5 billion to KShs 3.8 billion, a reduction of KShs 3.6 billion or close to 50%.

The capital base continues to strengthen with an additional KShs 1.5 billion added to reserves and as a consequence the capital ratios are well above the CBK minimum. Liquidity at 44% is also well above the CBK minimum of 20%.

The Bank is in the last phase of its three-year strategic plan that commenced in 2003 as part of the Project Mteja initiative to reposition KCB as a customer-centric organization. I am pleased to report that significant progress has been made in achieving the objectives that were set out in this plan. We have refurbished all of our major branches with the balance of 40 branches to be completed by the end of the third quarter 2006. We established 5 new branches in 2005 and increased the number of our ATMs to 109. We have implemented significant upgrades to our IT infrastructure and currently have 50 branches on one-branch banking which we expect to increase to 80 by the end of this year. We anticipate acquiring a new core banking system and a new risk management system in the next year.

Both our subsidiaries performed well in 2005. S&L was rebranded in 2005 and together with the accompanying publicity and marketing its business has grown strongly. We intend to position S&L as a broad-based mortgage provider that complements the retail and corporate products that are distributed through KCB. KCB(T) also moved from a loss making position in 2004 into a profit in 2005 and we believe that the new team in place will be able to build a successful business.

Going forward, we intend to revamp our strategic plan this year, which will include steps to achieve our vision of being the best bank in the region. We hope to be able to continue to successfully grow our business in Tanzania, establish two branches in Southern Sudan and enter Uganda and Rwanda in the next two years.

Focus over the next few years will also be on improving our control environment and containing our expense base. Improving customer service is key and is an area where we believe that there is substantial upside. We will continue to develop new products that we can distribute through our extensive regional network. We also intend to continue to partner with third-party providers such as Western Union, Visa and Mastercard so that we can increase the utilization of our branch network.

We continue to entrench our new brand through employee training and application of our corporate colours on our business premises through the ongoing refurbishment. As part of brand training we are in the process of beginning a brand engagement exercise for all employees to enhance their understanding of our brand values as a way of boosting their commitment and behavioral change.

A lot of progress has been made entrenching a performance culture in the organization. The performance management framework was rolled out to all staff in 2005 with the bank's targets clearly reflected at all levels. On the product front, we launched two partnerships last year aimed at diversifying

Housing Minister Soita Shitanda (second right) and assistant Housing Minister Betty Tett (centre) admire the model of the KCB Simba Villas during the ground breaking ceremony of the KCB staff pension fund's housing scheme at Embakasi. Looking on is Chief Executive, Terry Davidson (second left) and Chairman Susan Mudhune (third left) among other dignitaries.

further our product offering while also increasing our revenue sources. The partnerships with Western Union Money Transfer for cash transmission and Safaricom for their mobile airtime top-up product Paymate 150 using VISA branded credit cards are doing well. We reviewed our Corporate Social responsibility program and approved a three-year plan to address community needs in the areas of environment, health, welfare and education and will continue to use our teams in the branch network to deliver on our CSR objectives.

In 2005, the Bank sponsored the KCB Kenya National Rally Championship series for the first time, comprising nine events that took the rallies to various parts of the country. The rallies also provided an opportunity for us to launch some of our refurbished branches, meet our customers and promote our products and services. Research has confirmed that this sponsorship is beneficial to the bank in promoting corporate image and business growth and we plan to continue with the sponsorship for the next three years.

During the year, Martin Oduor-Otieno joined the bank in the newly created position of Deputy Chief Executive. Martin is a seasoned banker having worked for a multinational bank for many years. He is a former Permanent Secretary, Treasury. He holds an MBA from the Eastern and Southern Africa Management Institute (ESAMI) and is a Certified Public Accountant of Kenya. Martin is an Executive member of the Board and will manage our subsidiaries and spearhead our regional expansion.

Extensive training was undertaken in 2005 with an average of three days training per employee. Our goal is to continue to upskill our staff through formal training and on-the-job assignments. In addition the Board and Executive Management team attended various courses and workshops to increase their skills in line with the changing business environment and global best practice.

I would like to thank the Chairman and Board of Directors for their strategic leadership and guidance in 2005. I would also like to thank the entire KCB team for their hard work, which has resulted in this impressive performance. Our appreciation also goes to our customers for supporting us during the year.

THANK YOU.

KCB Deputy Chief Executive, Martin Oduor-Otieno (left) presents an award during the Joint Awards Gala night.

WENYEHISA,

Tulikuwa na mafanikio ya kusisimua katika kampuni ya KCB katika mwaka 2005, huku tukijipatia faida kabla ya ushuru wa shilingi bilioni 1.95, kukiwa kuimarika kwa asilimia 111 ikilinganishwa na mwaka 2004. Kutokana na matokeo haya yaliyoimarika, Halmashauri ya KCB inapendekeza malipo ya faida ya mgao wa shilingi 4 kwa kila hisa.

Haya ni matokeo mema sana kutoka kwa wafanyikazi wa KCB na kuwa yalitendeka kutokana na ukuaji bora wa uchumi kwa jumla. Mapato ya shughuli zetu kwa jumla yaliongezeka kwa asilimia 18 kutoka shilingi bilioni 8 mwaka 2004 hadi shilingi bilioni 9.4 mwaka 2005. Hii ilitokana na kuongezeka kwa faida ya mapato yaliyotokana na mabadiliko katika sera yetu ya mikopo na hati za serikali zilizochochewa na kiwango cha juu cha gaharama ya chini ya uwekaji akiba. Gharama za shughuli zetu ziliongezeka kwa asilimia 10 kufuatia ongezeko la kuegeza kwa minajili ya watu wetu na upanuzi wetu kwa jumla. Hata hivyo tunatarajia kushuhudia kupunguka kwa jumla kuongezeka kwa matumizi yetu katika mwaka 2006 kufuatia hatua za kupunguza gharama zilizoanzishwa mwaka 2005 zinapoanza kufanikiwa.

Kadhalika faida kabla ya ushuru zilianza kuonyesha fanaka kufuatia kupunguka katika gharama ya madeni yaliyozorota, ambayo ilipunguka kutoka shilingi milioni 838 mnamo mwaka 2004 hadi shilingi milioni 591 katika mwaka 2005.

Rekodi yetu ya hesabu pia ilionyesha ustawi na ukuaji wa jumla wa shilingi bilioni 8.7 kwa ongezeko lililodhihirika katika viwango vyote vya mali na madeni yetu. Uwekaji raslimali uliongezeka kwa asilimia 15 huku ongezeko hilo likitoka gharama ya chini ya shughuli zetu na jumla ya akiba kutokana na matawi yetu mengi ambayo hutumika kama kivutio na usambazaji wa huduma zetu ambazo ni viegezo bora zaidi vinavyosaidia Benki yetu katika ushindani.

Na kwa upande wa mali yetu kuna ongezeko kubwa la uwekezaji katika Hati za dhamana za serikali na mashirika mengine. Hata kama mikopo yetu kwa jumla haikuonyesha ishara yeyote, ni muhimu kutambua kuwa ulipaji wa mikopo yetu uliongezeka kwa shilingi bilioni 3.7 ama asilimia 13, kulionekana kupunguka kwa kiwango kama hicho katika hesabu ya mikopo ambayo hailipwi.

Tulikuwa na mwaka wenye fanaka kuhusiana na hesabu yetu ya mikopo ambayo hailipwi ambapo mikopo kama hiyo ilipunguka kwa kiasi cha bilioni 7 kufikia mwisho wa mwaka na kufikia shilingi bilioni 13.4. Kufikia mwisho wa mwaka 2002 jumla ya hesabu ya mikopo hiyo ilikuwa shilingi bilioni 25.1 ikiwa sasa kiasi hicho kimepunguka kwa shilingi bilioni 11.7 kwa kipindi cha miaka mitatu iliyopita kupitia kukamilisha malipo ya mikopo hali kadhalika kuuzwa kwa mali ya wadeni. Kutokana na kupunguka huko mikopo isiyolipwa na kuimarika kwa shughuli hiyo, hesabu kamili ya mikopo hiyo ilipunguka kutoka bilioni 7.5 hadi shilingi bilioni 3.8, ikiwa ni kupunguka kwa kiasi cha shilingi bilioni 3.6 ama karibu asilimia 50.

Raslimali ya fedha zetu inaendelea kuimarika ikiwa kumeongezeka kiasi cha shilingi bilioni 1.5 katika akiba yetu, kwa hiyo kiwango chetu sasa kiko juu zaidi kuliko kiwango cha chini zaidi kama ilivyo sharti la Benki Kuu ya Kenya. Kiwango chetu cha fedha sasa ni asilimia 44 juu zaidi ya kile kinachohitajika na Benki Kuu cha asilimia 20.

Benki sasa iko katika awamu ya mwisho ya mpango maalum ulioanza mwaka 2003 kama sehemu ya mradi uitwao Mteja, ambo unanuia kuifanya Benki ya KCB kuwa shirika linalozingatia zaidi maslahi ya mteja. Nina furaha kutangaza fanaka iliyopatikana kuafikia malengo katika mpango huo. Tayari tumekarabati Matawi yote makuu ya Benki yetu na sasa yamebakia matawi 40 ambayo kazi ya ukarabati itakamilika kufikia robo ya tatu mwaka 2006. Kadhalika tulianzisha matawi 5 mapya ya Benki mwaka 2005 na kuongezea Mashine za ATM hadi 109. Tumeimarisha mawasiliano yetu ya mitambo ya tarakilishi yaani Kompyuta na sasa matawi 50 yanawasiliana moja-kwa-moja katika shughuli zao na tunatarajia kuongeza idadi hiyo hadi matawi 80 kufikia mwisho wa mwaka huu. Pia mwaka ujao, tunatarajia kununua mitambo mipya ya kuimarisha utaratibu na usalama wa usimamizi wa shughuli zetu kwa jumla.

Kampuni zetu mbili kadhalika zilifanya vyema mwaka wa 2005. Kampuni yetu ya akiba na mikopo S&L ilipewa Nembo mpya mwaka wa 2005, kuandamana na kuhimiza na kutangaza biashara yake, biashara yake imeimarika vyema. Tunataka pia kuiimarisha S&L kuwa mtoaji mkuu wa mikopo kwa wateja kwa ununuzi wa nyumba, hatua itakayoenda sambamba na huduma nyingine inayotolewa kupitia matawi yetu ya KCB. Kampuni yetu ya KCB(T) kadhalika iliimarika na kuwa na faida mwaka 2005 na tunaamini kuwa kundi jipya katika kampuni hiyo litaimarisha kampuni hiyo na kuwa na biashara yenye fanaka. Tukisonga mbele, tunatarajia kuimarisha mpango wetu maalum mwaka huu, ambao utahusisha hatua ya kuafikia maono yetu ya kuwa Benki bora zaidi katika eneo hili. Tunatarajia kuendelea kuimarika katika biashara yetu nchini Tanzania, kuanzisha matawi mawili ya KCB kusini mwa Sudan na kupanuka kuingia

Uganda na Rwanda katika kipindi cha miaka miwili ijayo.

Katika kipindi cha miaka inayofuata, lengo letu litakuwa kuimarisha mazingira na kuthibiti kwa ujumla matumizi yetu. Kuimarisha huduma kwa wateja ni muhimu sana na ni eneo ambalo limeimarika mno. Tutaendelea kuanzisha huduma mpya ambazo tutauza kupitia kwa matawi yetu yaliyotapakaa katika eneo hili. Kadhalika tunatarajia kushirikiana na watoa huduma wengine kama vile Western Union, Visa na Mastercard ili tuweze kuimarisha matumizi vyema ya Matawi yetu.

Tunaendelea kuimarisha Nembo yetu mpya kupitia kuwapa mafunzo wafanyikazi wetu na kuimarisha kwa kupaka rangi za Benki yetu kwa majengo kupitia kwa mpango wa ukarabati wa Matawi yetu unaoendelea. Kama sehemu ya mpango wa mafunzo kuhusu Nembo yetu, tumeanza shughuli kuwahusisha kikamilifu wafanyikazi katika hatua ya kuwaeleza umuhimu wa Nembo yetu mpya kama njia mojawepo ya kuwahimiza wajitolee zaidi na kubadilisha tabia zao kazini. Kuna fanaka kuu iliyopatikana katika kuhimiza uzoefu wa utenda-kazi bora katika Benki yetu. Utaratibu wa usimamizi wa utenda-kazi bora ulitolewa kwa wafanyikazi wote mnamo mwaka 2005 kukizingatiwa dhahiri viwango vya matarajio ya utenda-kazi Benkini katika viwango vyote.

Kuhusu huduma zetu, mwaka jana, tulianzisha ushirikiano mara mbili wenye lengo la kupanua utoaji wa huduma zetu ilhali tukiimarisha vyanzo vya mapato yetu. Ushirikiano huo na Western Union wa huduma ya kutuma na kupokea pesa kutoka ng'ambo na huduma ya Safaricom ya kumwezesha mteja kununua rununu ya Simu (Airtime) na Paymate 150 akitumia Visa card ni ushirikiano unaoendelea vyema mno.

KCB's Director and Chairman of the Board's committee for Corporate Affairs and Social Responsibility, Susan Omanga (second left) presents a donation of sewing machines and assorted stationery to Disability Resource and Information Centre (DRIC) of Naivasha during the KCB Simba Savings Rally in February 2006. Looking on are members of the KCB team and officials of DRIC and Kenya Motor Sport Foundation.

Tulichunguza upya mpango wa Kampuni yetu wa huduma kwa jamii- CSR na kuidhinisha mpango wa miaka mitatu wa kushughulikia mahitaji ya jamii kama vile, mazingira, afya, elimu na maslahi yake. Tutaendelea kuyatumia makundi ya wafanyikazi katika matawi yetu kutekeleza majukumu yetu ya huduma kwa jamii.

Katika mwaka 2005, Benki yetu ilithamini mashindano ya kitaifa ya ubingwa wa mbio za magari nchini ya KCB kwa mara ya kwanza. Mashindano hayo yaliyogawanywa katika mashindano ya viwango tisa yaliandaliwa katika sehemu mbali mbali humu nchini. Mashindano hayo kadhalika yalitupa fursa ya kuanzisha upya matawi yetu yaliyokarabatiwa, kukutana na wateja wetu na kutangaza bidhaa na huduma zetu. Utafiti umedhibitisha kuwa uthamini huo umeifaidi Benki yetu kwa kuimarisha sura na uhusiano wake na umma na kuimarisha bishara yetu, kwa hiyo tuna mipango ya kuendelea kuyathamini mashindano hayo kwa kipindi cha miaka mitatu ijayo.

Mwaka huu, Bwana Martin Oduor-Otieno alijiunga na Benki hii katika wadhifa mpya uliondwa wa Naibu Mkurugenzi Mkuu. Martin ana ujuzi mwingi katika maswala ya benki na amewahi kufanya kazi kwa miaka mingi na benki mojawapo ya kimataifa. Alihudumu kwa wakati mmoja kama katibu wa kudumu katika wizara ya fedha. Ana shahada ya Digrii ya MBA kutoka Taasisi ya Usimamizi ya kusini mashariki mwa Afrika- ESAMI na yeye pia ni Mhasibu aliyehitimu na Cheti cha CPA. Martin ni mkurugenzi msimamizi katika halmashauri ya Benki hii na atasimamia Kampuni zetu nyingine na kadhalika kuongoza shughuli za upanuzi wa eneo.

Kuliandaliwa mafunzo ya kina mwaka 2005 na kwa kadri kila mfanyikazi alipata mafunzo ya siku tatu. Lengo letu ni kuendelea kuwapa mafunzo wafanyikazi wetu kupitia kwa mpango wa mafunzo ya nje na yale ya shughuli za kazi ndani ya Benki. Na zaidi ya hayo, Halmashauri na wasimamizi wakuu wa Benki walihudhuria kosi na warsha mbali mbali ili kuongezea maarifa yao kuambatana na mazingira ya biashara yanayobadilika kuambatana na matarajio na viwango vya kimataifa.

Ningelipenda kuwashukuru Mwenyekiti na halmashauri ya wakurugenzi kwa uongozi muafaka mwaka 2005. Kadhalika ningelipenda kuwapongeza wafanyikazi wote wa KCB kwa bidii yao kazini ambayo imewezesha kupatikana fanaka hii. Shukrani zetu pia zawaendea wateja wetu kwa kutuunga mkono mwaka uliopita.

AHSANTENI.

KCB Making the Difference

The directors submit their report and the audited financial statements for the year ended 31 December 2005 which show the state of affairs of the Bank and its subsidiary companies.

1. PRINCIPAL ACTIVITIES

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

2. GROUP RESULTS

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

3. BANK RESULTS

The Bank's results are set out on page 31.

4. DIVIDEND

The directors recommend the payment of a dividend of KShs.798,400,000 which represents KShs. 4 per share in respect of the year ended 31 December 2005 (2004:- KShs 399,200,000, representing KShs.2 per share).

5. RESERVES

The reserves of the Group and the Bank are set out on pages 32 and 33 respectively, and note 18.

6. DIRECTORS

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

Mrs. S.O. Mudhune	- Chairman
Mr. T.M. Davidson	- Chief Executive
Mr. M.L. Oduor-Otieno	- Deputy CEO
	- Appointed on 01 October 2005
Mr. J.N. Koome	- Appointed on 17 June 2005
Mr. J. I. Adongo	- Appointed on 17 June 2005
Mr. J.K. Kinyua	
Mrs. C.N. Kimura	
Mr. J.M. Ndetto	
Mrs. S.N. Omanga	
Mr. S.N. Shah	
Mr. P.W. Muthoka	
Mr. W.R. Gitobu	- Retired on 17 June 2005
Prof. F.F. Ojany	- Retired on 17 June 2005
Mr. A.J.K. Ruturi	- Retired on 31 May 2005

7. AUDIT AND COMPLIANCE COMMITTEE

The Group's Audits and Compliance Committee consists of:

Mr. P.W. Muthoka	-	Chairman
Prof. N.D. Nzomo		
Mr. B.C. Mwenda		
Mr. N.M. Arte		
Mrs. C.N. Kimura		
Mr. J. Murugu		
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
23 February 2006

KCB | Making the Difference

Wakurugenzi wanawasilisha ripoti na taarifa ya fedha iliyokaguliwa ya mwaka uliomalizika tarehe 31 Desemba 2005 ambayo inaonyesha hali ilivyo ya Benki na Kampuni zake nyingine.

1. MAJUKUMU MUHIMU:

Benki inaendelea kutoa huduma kwa wateja wadogo-wadogo na makampuni. Shughuli za makampuni washirika wa KCB zimechapishwa katika kipengee cha 5(a) cha taarifa ya fedha.

2. MATOKEO YA KUNDI:

Matokeo ya kundi yamechapishwa katika ukurasa wa 29.

3. MATOKEO YA BENKI:

Matokeo ya Benki yamechapishwa katika ukurasa wa 31.

4. MAGAO YA FAIDA:

Wakurugenzi walipendekeza kutolewa kwa mgao wa faida wa Shilingi 798,400,000 hii ikiwa shilingi nne (4) kwa kila hisa katika kipindi cha mwaka uliomalizika terehe 31 Desemba 2005. (Katika kipindi cha mwaka 2004 mgao huo ulikuwa shilingi 399,200,000 hii ikiwa ni shilingi mbili kwa kila hisa).

5. AKIBA

Akiba za kundi na Benki zimechapishwa katika ukurasa wa 32 na 33 mtawalia na kipengele cha 18.

6. WAKURUGEZI

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

Bi. S. O. Mudhune	- Mwenyekiti
Bw. T.M. Davidson	- Mkurugenzi Mkuu
Bw. M.L. Oduor-Otieno	- Naibu Mkurugenzi Mkuu - Aliteuliwa tarehe 01, Oktoba 2005
Bw. J.N. Koome	- Aliteuliwa tarehe 17, Juni 2005
Bw. J.I. Adongo	- Aliteuliwa tarehe 17, Juni 2005
Bw. J.K. Kinyua	
Bi. C.N. Kimura	
Bw. J.M. Ndetto	
Bi. S.N. Omanga	
Bw. S.N. Shah	
Bw. P.W. Muthoka	
Bw. W.R. Gitobu	- Alistaafu tarehe 17, Juni 2005
Prof. F.F. Ojany	- Alistaafu tarehe 17, Juni 2005
Bw. A.J.K. Ruturi	- Alistaafu tarehe 31, Mei 2005

7. KAMATI YA UKAGUZI WA HESABU

Kamati ya ukaguzi wa hesabu ya kundi inajumuisha:

Bw. P.W. Muthoka	-	Mwenyekiti
Prof. N.D. Nzomo		
Bw. B.C. Mwenda		
Bw. N.M. Arte		
Bi. C.N. Kimura		
Bw. J. Murugu		
Bi. G. Biamah	-	Katibu

8. WAKAGUZI WA HESABU

Kampuni ya ukaguzi wa hesabu ya Ernst & Young inapendekeza kuwa ingelipenda kuendelea kuihudumia Benki kuambatana na masharti ya kifungu Nambari 159 (2) cha sheria za makampuni na kulingana na kifungu nambari 24 (1) cha sheria za Benki.

Kwa amri ya Halmashauri ya wakurugenzi.

BW. K.D. MALAKWEN
KATIBU.
23 Februari 2006

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

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

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

S O MUDHUNE 23 FEBRUARY 2006

T M DAVIDSON 23 FEBRUARY 2006

P W MUTHOKA 23 FEBRUARY 2006

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

The Board of Directors

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

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

Board Meetings

The Board of Directors meets every month in order to monitor the Company's Strategic Plan and review it in conjunction with its financial performance. Specific reviews of Management performance, operational issues and future planning are also undertaken.

Board Committees

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

1. Audit and Compliance Committee

The Board has constituted the Audit and Compliance Committee, which meets bi-monthly, or as required. Its responsibilities include the review of interim and full year Financial Statements so as to ensure compliance with accounting standards and other disclosure requirements; the maintenance of the Company's system of accounting and internal controls; liaison with External Auditors of the Company and putting into effect their recommendations and ensuring that the Risk Management Framework that is in place is effective and addresses all key Business Risks. The External Auditors, Internal Auditors and the Company's Management may, on invitation, attend any meeting of the Committee.

2. Credit Committee

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

3. Human Resources Committee

The Human Resources Committee meets bi-monthly and is mandated to review human resource policies and make suitable recommendations to the main Board on Senior Management appointments.

4. Procurement and Information Technology Committee

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

5. Corporate Affairs and Social Responsibility Committee

In recognition of the importance of Corporate Social Responsibility (CSR) to the business, the board has constituted a committee for Corporate Affairs and Social Responsibility. This committee meets twice a year and sets guidelines for the bank's CSR involvement. The Company is committed to the principle of responsible corporate citizenship and makes CSR an integral part of its annual business plans. The Bank is implementing a three year CSR programme and conducts community support activities every year during the KCB Community Day and KCB Community week, which involve all staff across the country. The Bank sponsors local, regional and national activities and regularly donates towards charitable causes of all kinds.

The Board appoints other Committees as and when required.

Communication with Shareholders

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

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

Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services rendered during the financial year 2005 is disclosed in note 24 to the Financial Statements.

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

Directors Interests as 31st December, 2005

Name of Director	Number of shares
Permanent Secretary to the Treasury of Kenya	52,360,000
Mrs. Susan Mudhune	5,020
Mr. Terence Davidson	324,034
Mr. Sunil Shah	4,660,118
Mrs. Catherine Kimura	19,926
Mr. Peter Muthoka	10,000
Eng. Jeremiah Ndetto	2,268
Mrs. Susan Omanga	2,000

The shareholder profile as at 31st December 2004	Number of Shareholders	Number of Shares Held	% of issued Share Capital
Kenyan Individual Investors	114,958	67,331,424	33.73
Kenyan Institutional Investors	2,473	131,422,983	65.84
East African Individual Investors	3	16,706	0.01
East African Institutional Investors	1	3,000	0.00
Foreign Individual Investors	59	674,388	0.34
Foreign Institutional Investors	3	151,499	0.08
	117,497	199,600,000	100.00

Major Shareholders	Number of Shares	% of issued Shares Held
Permanent Secretary to the Treasury of Kenya	52,360,000	26.23
ICDC Investment Company Limited	10,025,450	5.02
National Social Security Fund	9,170,067	4.59
KCB Staff Pension Fund Registered Trustees	7,672,711	3.84
Nomura Nominees Limited A/C JMM	6,309,414	3.16
Mr. Sunil Narshi Shah	4,660,118	2.33
Stanbic Nominees Kenya Limited A/C R48701	3,063,519	1.53
Barclays (Kenya) Nominees Limited A/C 9230	1,974,745	0.99
Steel Son Limited	1,650,000	0.83
Barclays (Kenya) Nominees Limited A/C 1853	1,523,466	0.76
	98,409,490	49.30

Summary of Totals

Shares Range	Shareholders	No. of Shares	% Holding
1 to 500	86,452	20,404,211	10.22
501 to 5000	29,565	28,631,945	14.35
5001 to 10000	715	5,002,427	2.51
10001 to 100000	655	17,407,545	8.72
100001 to 1000000	88	24,854,974	12.45
100000 & above	22	103,298,898	51.75
	117,497	199,600,000	100.00

TO THE MEMBERS OF KENYA COMMERCIAL BANK LIMITED

We have audited the financial statements on pages 28 to 58 for the year ended 31 December 2005, and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit. The financial statements are in agreement with the books of account.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE INDEPENDENT AUDITORS

As stated on page 22, the directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs and of the operating results of the Group and the Bank. Our responsibility is to express an independent opinion on the financial statements based on our audit and to report our opinion to you.

BASIS OF OPINION

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

OPINION

In our opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the Group and of the Bank at 31 December 2005, 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

4 APRIL 2006

KWA WANACHAMA WA BENKI YA KENYA COMMERCIAL

Tumefanya ukaguzi wa taarifa za kifedha katika kurasa za 28 hadi 58 za mwaka uliomalizika terehe 31 Desemba 2005, na tulipata taarifa na maelezo ambayo tuliyachukulia kuwa muhimu kwa shughuli za uhisabu. Taarifa za kifedha zinaambatana na vitabu vya hesabu.

MAJUKUMU MAALUM YA WAKURUGENZI NA WAKAGUZI HURU WA HESABU:

Kama ilivyoelezwa katika ukurasa wa 22, 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 wa hesabu na kuwaelezea maoni yetu.

MISINGI YA MAONI:

Tulifanya ukaguzi wa hesabu kuambatana na viwango vya hesabu. 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 kifedha katika kundi hili na benki kufikia Desemba 31, 2005 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.

KCB Making the Difference

CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER 2005

	Note	2005 Kshs '000	2004 Kshs '000
ASSETS			
Cash and balances with Central Banks	2	6,322,971	5,798,081
Cheques and items for clearing		168,933	93,414
Held to maturity investments	3	17,035,034	15,320,329
Held for trading investments	4	4,013,193	1,684,066
Placements and balances with other banking institutions		4,023,708	1,681,365
Available for sale investments	5(b)	949,995	302,227
Tax recoverable	6	454,418	472,349
Loans and advances to customers	7	36,311,636	36,225,440
Other assets	10	3,854,708	3,029,980
Intangible assets	11	146,995	57,165
Leasehold land	12(c)	196,383	199,223
Property and equipment	12(a)	3,414,975	2,722,011
Deferred tax	6	1,422,103	2,014,517
TOTAL ASSETS		78,315,052	69,600,167
LIABILITIES			
Deposits and balances from other banking institutions	13	295,685	1,628,715
Other customer deposits	14	64,216,629	55,893,730
Other liabilities	15	3,582,512	3,263,882
Tax payable	6	11,667	-
Lines of credit	16	126,568	233,681
TOTAL LIABILITIES		68,233,061	61,020,008
CAPITAL EMPLOYED			
Share capital	17	1,996,000	1,996,000
Reserves	18	7,287,591	6,184,959
Proposed dividend	19	798,400	399,200
SHAREHOLDERS' FUNDS		10,081,991	8,580,159
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		78,315,052	69,600,167

The financial statements were approved by the Board of Directors on 23rd February 2006 and were signed on its behalf by:

S O MUDHUNE - Chairman
T M DAVIDSON - Chief Executive
P W MUTHOKA - Director
K D MALAKWEN - Secretary

KCB | Making the Difference

CONSOLIDATED PROFIT & LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER 2005

	Note	2005	2004
		Kshs '000	Kshs '000
Interest income	20	5,725,090	4,219,575
Interest expense	21	(597,280)	(432,795)
Net interest income		5,127,810	3,786,780
Fees and commission income		3,385,279	3,202,453
Dividend income	22	50,872	14,147
Gain on foreign exchange		483,384	420,757
Other operating income	23	379,088	547,776
		9,426,433	7,971,913
Bad and doubtful debts expense	8.2	(591,074)	(837,836)
Other operating expenses	24	(6,887,751)	(6,213,879)
Profit before taxation		1,947,608	920,198
Taxation	6	(621,581)	(286,416)
Profit after taxation		1,326,027	633,782

EARNINGS PER SHARE

	Note	2005	2004
Basic and diluted earnings per share (KShs)	25	6.64	3.18

KCB Making the Difference

BALANCE SHEET OF THE BANK

AS AT 31ST DECEMBER 2005

	Note	2005	2004
		Kshs '000	Kshs '000
ASSETS			
Cash and balances with Central Bank of Kenya	2	6,031,779	5,507,578
Cheques and items for clearing		161,904	82,384
Held to maturity investments	3	15,981,937	14,156,966
Held for trading investments	4	4,013,193	1,684,066
Placements and balances with other banking institutions		3,551,061	1,475,692
Investment in subsidiaries and associated companies	5(a)	1,596,308	1,599,971
Available for sale investments	5(b)	949,995	302,227
Tax recoverable	6	329,887	329,887
Loans and advances to customers	7	32,849,035	33,644,314
Balances due from group companies	9(a)	1,446,470	1,173,706
Other assets	10	3,685,322	2,894,324
Intangible assets	11	145,846	55,639
Property and equipment	12(b)	2,119,628	1,399,425
Leasehold land	12(c)	153,065	155,449
Deferred tax	6	1,322,849	1,887,827
TOTAL ASSETS		74,338,279	66,349,455
LIABILITIES			
Deposits and balances from other banking institutions	13	900,154	2,406,369
Other customer deposits	14	59,954,425	52,419,418
Other liabilities	15	3,387,991	2,907,573
Lines of credit	16	126,568	233,681
Balances due to group company	9(b)	-	5,447
TOTAL LIABILITIES		64,369,138	57,972,488
CAPITAL EMPLOYED			
Share capital	17	1,996,000	1,996,000
Reserves	18	7,174,741	5,981,767
Proposed dividend	19	798,400	399,200
SHAREHOLDERS' FUNDS		9,969,141	8,376,967
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		74,338,279	66,349,455

The financial statements were approved by the Board of Directors on 23rd February 2006 and were signed on its behalf by:

S O MUDHUNE - Chairman
T M DAVIDSON - Chief Executive
P W MUTHOKA - Director
K D MALAKWEN - Secretary

KCB | Making the Difference

PROFIT & LOSS ACCOUNT FOR THE BANK

FOR THE YEAR ENDED 31ST DECEMBER 2005

	Note	2005	2004
		Kshs '000	Kshs '000
Interest income	20	5,284,718	3,921,685
Interest expense	21	(518,426)	(341,751)
Net interest income		4,766,292	3,579,934
Fees and commission income		3,279,815	3,099,455
Dividend income	22	54,925	14,147
Gain on foreign exchange		457,936	391,273
Other operating income	23	285,888	476,686
		8,844,856	7,561,495
Bad and doubtful debts expense	8.2	(565,912)	(877,955)
Other operating expenses	24	(6,370,360)	(5,760,462)
Profit before taxation		1,908,584	923,078
Taxation	6	(564,978)	(283,242)
Profit after taxation		1,343,606	639,836
EARNINGS PER SHARE			
Basic and diluted earnings per share (KShs)	25	6.73	3.21

KCB | Making the Difference

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER 2005

	SHARE CAPITAL Kshs '000	CAPITAL RESERVE Kshs '000	REVENUE RESERVE Kshs '000	SHARE PREMIUM Kshs '000	PROPOSED DIVIDEND Kshs '000	TRANSLATION RESERVE Kshs '000	REVALUATION RESERVE Kshs '000	TOTAL
At 1 January 2004	1,496,000	10,453	3,583,036	473,800	149,600	(99,036)	-	5,613,853
Transfer from revenue reserve	-	411,410	(543,948)	-	-	-	132,538	-
Prior year adjustments (note 26)	-	(145,280)	113,837	-	-	-	-	(31,443)
Restated balance	1,496,000	276,583	3,152,925	473,800	149,600	(99,036)	132,538	5,582,410
Rights issue	500,000	-	-	1,845,964	-	-	-	2,345,964
Dividend paid - 2003	-	-	-	-	(149,600)	-	-	(149,600)
Proposed dividend - 2004	-	-	(399,200)	-	399,200	-	-	-
Change in value of quoted investments	-	-	-	-	-	-	153,269	153,269
Transfer from capital reserves	-	(1,161)	1,161	-	-	-	-	-
Translation differences	-	-	-	-	-	14,334	-	14,334
Profit and loss account	-	-	633,782	-	-	-	-	633,782
At 31 December 2004	1,996,000	275,422	3,388,668	2,319,764	399,200	(84,702)	285,807	8,580,159
At 1 January 2005	1,996,000	275,422	3,674,475	2,319,764	399,200	(84,702)	-	8,580,159
Transfer from revenue reserves	-	-	(285,807)	-	-	-	285,807	-
Restated balance	1,996,000	275,422	3,388,668	2,319,764	399,200	(84,702)	285,807	8,580,159
Change in value of quoted investments	-	-	-	-	-	-	647,768	647,768
Dividend paid - 2004	-	-	-	-	(399,200)	-	-	(399,200)
Proposed dividend - 2005	-	-	(798,400)	-	798,400	-	-	-
Translation differences	-	-	-	-	-	(72,763)	-	(72,763)
Profit and loss account	-	-	1,326,027	-	-	-	-	1,326,027
At 31 December 2005	1,996,000	275,422	3,916,295	2,319,764	798,400	(157,465)	933,575	10,081,991

Transfer from revenue reserve relates to re-instatement of capital reserve on Kencom house property which reverted to the group in the previous year and accumulated gains on available for sale investments which are reflected as a separate component of equity in line with IAS 39.

KCB Making the Difference

STATEMENT OF CHANGES IN EQUITY OF THE BANK

FOR THE YEAR ENDED 31ST DECEMBER 2005

	SHARE CAPITAL Kshs '000	REVENUE RESERVE Kshs '000	REVALUATION RESERVE Kshs '000	SHARE PREMIUM Kshs '000	PROPOSED DIVIDEND Kshs '000	TOTAL Kshs '000
At 1 January 2004	1,496,000	2,711,072	-	473,800	149,600	4,830,472
Transfer from revenue reserve	-	(132,538)	132,538	-	-	-
Prior year adjustments (note 26)	-	557,026	-	-	-	557,026
Restated balance	1,496,000	3,135,560	132,538	473,800	149,600	5,387,498
Rights issue	500,000	-	-	1,845,964	-	2,345,964
Dividend paid - 2003	-	-	-	-	(149,600)	(149,600)
Change in value of quoted investments	-	-	153,269	-	-	153,269
Proposed dividend - 2004	-	(399,200)	-	-	399,200	-
Profit and loss account	-	639,836	-	-	-	639,836
At 31 December 2004	1,996,000	3,376,196	285,807	2,319,764	399,200	8,376,967
At 1 January 2005	1,996,000	3,662,003	-	2,319,764	399,200	8,376,967
Transfer from revenue reserves	-	(285,807)	285,807	-	-	-
As restated	1,996,000	3,376,196	285,807	2,319,764	399,200	8,376,967
Dividend paid - 2004	-	-	-	-	(399,200)	(399,200)
Proposed dividend - 2005	-	(798,400)	-	-	798,400	-
Change in value of quoted investments	-	-	647,768	-	-	647,768
Profit and loss account	-	1,343,606	-	-	-	1,343,606
At 31 December 2005	1,996,000	3,921,402	933,575	2,319,764	798,400	9,961,141

Transfer from revenue reserve relates to accumulated gains on available for sale investments, which are reflected as a separate component of equity in line with IAS 39.

KCB | Making the Difference

CONSOLIDATED CASHFLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2005

	Note	2005 Kshs '000	2004 Kshs '000
NET CASH FLOWS FROM OPERATING ACTIVITIES	27(a)	6,624,428	2,702,581
Taxation paid		-	(1,948)
INVESTING ACTIVITIES			
Proceeds from sale of property and equipment		89,948	38,155
Proceeds from sale of shares		-	25,000
Purchase of intangible assets		(51,765)	(19,534)
Purchase of property and equipment		(1,132,241)	(750,986)
NET CASH FLOWS FROM INVESTING ACTIVITIES		(1,094,058)	(707,365)
FINANCING ACTIVITIES			
Lines of credit		(107,113)	(82,219)
Proceeds from rights issue		-	2,345,964
Dividends paid		(399,200)	(149,600)
NET CASH FLOWS FROM FINANCING ACTIVITIES		(506,313)	2,114,145
Increase in cash and cash equivalents		5,024,057	4,107,413
Effects of exchange rate changes on opening net investment in foreign entity		(72,763)	14,334
Cash and cash equivalents at the beginning of the year		9,866,121	5,744,374
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	27(b)	14,817,415	9,866,121

1.ACCOUNTING POLICIES

a. Basis of preparation

The consolidated financial statements of the Bank and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have been prepared on the historical cost basis of accounting as modified by the revaluation of certain property and equipment, and financial instruments.

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

b. Basis of consolidation

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

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted the revised standards mandatory for financial years beginning on or after 1 January 2005.

d. Income recognition

i) Interest income

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

ii) Dividend income

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

iii) Fees and commission income

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

e. Property, equipment & 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	25%
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.

f. 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.

f. Originating loans and provisions for loan impairment (Cont)

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 cash flows including amounts recoverable from guarantees and collateral, discounted at the effective interest rate of loans.

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

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

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

g. Provisions

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

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

h. Investments

i) Trading securities

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

ii) Held to maturity investments

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

iii) Available for sale investments

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity, or changes in interest rates, exchange rates or equity prices are classified as available for sale and are initially recognised at cost. Available for sale investments are subsequently re-measured at fair value, based on quoted bid prices or amount derived from cash flow models. Unrealised gains and losses arising from changes in the fair value of securities classified as available for sale are recognised directly in equity until the asset is derecognised, at which time the cumulative gains or losses previously recognised in equity shall be recognised in the profit and loss account.

i. Foreign currencies

(i) Assets and liabilities in foreign currencies have been translated at rates approximating the mean

Foreign currencies (Cont)

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.

j. Taxation

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

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

k. Retirement benefit costs

The Group contributes to a defined benefit pension scheme which is funded by the Bank and its subsidiaries. In determining the contributions to be made, the recommendations of independent qualified actuaries are taken into account. The pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who value the pension plan at least once in every three years. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability.
The Group also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to KShs.200 per employee per month.

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

l. Leases

i) A group company is the lessee
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.

m. Guarantees, acceptances & letters of credit

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

n. Computer software development costs

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

o. Foreign exchange forward 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.

p. Cash and cash equivalents

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

q. Fiduciary assets

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

r. Dividends

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

s. Borrowing costs

Borrowing costs are recognised as an expense when incurred.

t. Impairment of assets

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

u. Offsetting

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

2. CASH AND BALANCES WITH CENTRAL BANKS

	GROUP		BANK	
	2005	2004	2005	2004
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Cash on hand	2,455,883	2,396,203	2,300,845	2,132,953
Balances with Central Banks	3,867,088	3,401,878	3,730,934	3,374,625
	6,322,971	5,798,081	6,031,779	5,507,578

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. The amount is determined as 6% (2004: 6%) of the average outstanding customer deposits over a cash reserve cycle of one month.

3. HELD TO MATURITY INVESTMENTS

	GROUP		BANK	
	2005	2004	2005	2004
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
a) Treasury bills				
Maturing within 1 month	854,168	2,994,271	754,866	2,494,759
Maturing between 1-3 months	1,826,337	1,755,299	1,161,703	1,238,360
Maturing between 3-12 months	289,161	146,912	-	-
	2,969,666	4,896,482	1,916,569	3,733,119
b) Treasury bonds				
Maturing within 1 month	610,794	-	610,794	-
Maturing between 1-3 months	1,160,084	890,218	1,160,084	890,218
Maturing between 3-12 months	833,575	1,359,384	833,575	1,359,384
Maturing between 1-5 years	10,026,903	5,308,860	10,026,903	5,308,860
Maturing over 5 years	1,434,012	2,865,385	1,434,012	2,865,385
	14,065,368	10,423,847	14,065,368	10,423,847
TOTAL GOVERNMENT SECURITIES	17,035,034	15,320,329	15,981,937	14,156,966
Maturing as follows:				
Maturing within 1 month	1,464,962	2,994,271	1,365,660	2,494,759
Maturing between 1-3 months	2,986,421	2,645,517	2,321,787	2,128,578
Maturing between 3-12 months	1,122,736	1,506,296	833,575	1,359,384
Maturing between 1-5 years	10,026,903	5,308,860	10,026,903	5,308,860
Maturing over 5 years	1,434,012	2,865,385	1,434,012	2,865,385
	17,035,034	15,320,329	15,981,937	14,156,966

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 2005, was 9.585% p.a and 8.136% p.a, respectively (2004- 9.589% p.a and 4.385% p.a, respectively).

4. HELD FOR TRADING INVESTMENTS

These are treasury bonds issued by the Government of the Republic of Kenya and acquired by the Group for the generation of profit from short term fluctuations in interest rates. The weighted effective interest rates on treasury bonds as at 31 December 2005 was 9.585% p.a (2004: 9.589% p.a)

5. INVESTMENTS

a) INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Company	Activity	Beneficial ownership %	BANK 2005 Kshs'000	BANK 2004 Kshs'000
Kenya Commercial Finance Co. Ltd	Investment	100	150,000	150,000
Savings & Loan Kenya Ltd	Mortgage Finance	100	167,402	167,402
Enterprise Consultants Ltd	Dormant	100	-	-
Kenya Commercial Bank Nominees Ltd	Nominee shareholders	100	-	-
Kencom House Ltd	Property ownership & management	100	748,645	748,645
Kenya Commercial Bank (Tanzania) Ltd	Commercial banking	100	530,136	530,136
Notcutt Longaroni & Co (K) Ltd	Dormant	100	-	3,663
United Finance Ltd	Dormant	45	125	125
			1,596,308	1,599,971

b) AVAILABLE FOR SALE INVESTMENTS

	GROUP 2005 Kshs'000	GROUP 2004 Kshs'000	BANK 2005 Kshs'000	BANK 2004 Kshs'000
Quoted investments	945,230	297,462	945,230	297,462
Unquoted investments	4,765	4,765	4,765	4,765
	949,995	302,227	949,995	302,227

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

6. TAXTION

	GROUP		BANK	
	2005	2004	2005	2004
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
6.1 BALANCE SHEET				
TAX RECOVERABLE				
At 1 January	472,349	471,600	329,887	329,887
Tax paid during the year	-	1,948	-	-
Tax charge during the year	(29,167)	(489)	-	-
Translation difference	(431)	-	-	-
Underprovision in the previous years	-	(710)	-	-
At 31 December	442,751	472,349	329,887	329,887
Comprising of:				
Tax recoverable	454,418	472,349	329,887	329,887
Tax payable	(11,667)	-	-	-
	442,751	472,349	329,887	329,887
DEFERRED TAX				
The net deferred tax asset is attributable to the following items:				
Excess of depreciation over tax allowances	3,496	5,391	6,146	1,603
Provisions held	240,788	194,149	226,733	168,115
Tax losses carried forward	1,177,819	1,814,977	1,089,970	1,718,109
	1,422,103	2,014,517	1,322,849	1,887,827
6.2 PROFIT AND LOSS ACCOUNT				
Current tax	29,167	489	-	-
Deferred tax charge	592,414	285,217	564,978	283,242
Overprovision in the previous years	-	710	-	-
	621,581	286,416	564,978	283,242
The tax charge differs from the theoretical amount that would arise using basic tax rates as follows:				
Accounting profit before taxation	1,947,608	920,198	1,908,584	923,078
Tax calculated at tax rate of 30%	584,282	276,059	572,575	276,923
Tax effects on items not deductible for tax purposes	237,348	133,633	220,624	130,300
Originating and reversing temporary differences	(200,049)	(123,276)	(228,221)	(123,981)
	621,581	286,416	564,978	283,242

7.LOANS AND ADVANCES TO CUSTOMERS

	GROUP		BANK	
	2005	2004	2005	2004
	Kshs'000	Kshs'000	KShs'000	KShs'000
7.1 Loans and advances to customers				
Loans and advances to customers (gross)	46,200,207	49,402,570	42,262,250	46,342,861
Specific provisions for impairment (Note 8.1(a))	(9,520,018)	(12,888,577)	(9,071,215)	(12,428,547)
General provisions for impairment (Note 8.1(b))	(368,553)	(288,553)	(342,000)	(270,000)
Loans and advances to customers (net)	36,311,636	36,225,440	32,849,035	33,644,314
7.2 Maturity analysis of gross loans and advances to customers				
Maturing within 30 days	3,907,449	5,998,004	3,367,709	5,364,761
Maturing within 30 days but before 3 months	773,260	884,479	735,674	819,246
Maturing after 3 months but within 1 year	4,243,208	2,869,040	4,086,379	2,741,958
Maturing after 1 year	32,308,059	36,114,389	31,770,517	35,848,649
Maturing after 5 years	4,968,231	3,536,658	2,301,971	1,568,247
	46,200,207	49,402,570	42,262,250	46,342,861
7.3 Sectorial analysis of gross loans and advances to customers				
Private sector and individuals	41,721,374	43,863,168	37,783,417	40,803,459
Government departments and Parastatals	4,478,833	5,539,402	4,478,833	5,539,402
	46,200,207	49,402,570	42,262,250	46,342,861

The weighted average effective interest rates on loans and advances as at 31 December 2005 was 10.27% p.a (2004 - 11.81% p.a).

8. PROVISIONS FOR IMPAIRMENT

	GROUP		BANK	
	2005	2004	2005	2004
	Kshs'000	Kshs'000	KShs'000	Kshs'000
8.1(a)Specific provisions for impairment (Note 7.1)				
At 1 January	12,888,577	12,976,248	12,428,547	12,463,534
Provisions made during the year	1,426,485	966,297	1,380,082	958,471
Interest suspended	548,560	520,635	531,232	505,114
Write downs/write offs during the year	(4,428,193)	(1,365,355)	(4,382,476)	(1,338,056)
Recoveries during the year	(915,411)	(209,248)	(886,170)	(160,516)
At 31 December	9,520,018	12,888,577	9,071,215	12,428,547
8.1(b)General provisions (Note 7.1)				
At 1 January	288,553	207,766	270,000	190,000
Provisions made during the year	80,000	80,787	72,000	80,000
At 31 December	368,553	288,553	342,000	270,000
8.2 Bad and doubtful debt expense				
Additional specific provisions made	1,426,485	966,297	1,380,082	958,471
Additional general provisions made	80,000	80,787	72,000	80,000
Recoveries made during the year	(915,411)	(209,248)	(886,170)	(160,516)
	591,074	837,836	565,912	877,955

8.3 Non performing loans and advances

The Group uses a grading system that classifies advances into grades 1 to 5 and recognises grades 3, 4 and 5 as non-performing, in compliance with the Central Bank of Kenya guidelines. Non-performing loans and advances of the Group amounted to KShs 3,853,616,000 (2004 –KShs. 7,489,887,000) net of specific provisions for impairment. For the Bank, this amounted to KShs 3,602,732,000 (2004 – KShs. 7,343,754,000).

9. GROUP COMPANIES BALANCES

	BANK	
	2005	2004
9 (a) Amount due from:	KShs'000	Kshs'000
Kencom House Limited	660,741	664,668
Savings and Loan Kenya Limited	517,591	215,700
Kenya Commercial Finance Company Limited	85	289,683
Kenya Commercial Bank (Tanzania) Limited	268,053	3,655
	1,446,470	1,173,706
9 (b) Amount due to:		
Notcutt Longaroni and Company Limited	-	5,447

10. OTHER ASSETS

	GROUP		BANK	
	2005	2004	2005	2004
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Items in transit	-	533,703	-	533,703
Prepayments	89,468	141,301	57,837	85,117
Other receivables	3,765,240	2,354,976	3,627,485	2,275,504
	3,854,708	3,029,980	3,685,322	2,894,324

11. INTANGIBLE ASSETS

COST				
At 1 January	101,265	81,731	83,463	64,178
Additions	51,765	19,534	51,765	19,285
Reclassification from property and equipment (Note 12(a) and 12(b)	194,335	-	194,335	-
Translation Differences	(41)	-	-	-
At 31 December	347,324	101,265	329,563	83,463
AMORTISATION				
At 1 January	44,100	31,887	27,824	15,947
Amortisation for the year	49,713	12,213	49,377	11,877
Reclassification from property and equipment (Note 12(a) and 12(b)	106,516	-	106,516	-
At 31 December	200,329	44,100	183,717	27,824
NET BOOK VALUE				
At 31 December	146,995	57,165	145,846	55,639

The intangible assets are in respect of computer software costs.

Intangible assets for the Group with an original cost of KShs 78,383,358 (2004-KShs 28,995,660) are fully amortised. The theoretical amortisation charge on cost at the normal rates (Note 1(n)) for the current year would be KShs 15,676,671 (2004-KShs 5,799,132).

12 (a) PROPERTY AND EQUIPMENT (GROUP)

	Freehold and leasehold premises Kshs'000	Leasehold improvements Kshs'000	Motor vehicles, furniture and equipment Kshs'000	Total Kshs'000
COST/VALUATION				
At 1 January 2005	1,803,679	258,506	3,378,677	5,440,862
Additions	3,300	-	1,128,941	1,132,241
Disposals	(20,610)	-	(246,484)	(267,094)
Adjustment	(5,900)	29,773	(191,943)	(168,070)
Reclassification to intangible asset (Note 11)	-	-	(194,335)	(194,335)
Translation differences	(7,564)	-	(9,629)	(17,193)
At 31 December 2005	1,772,905	288,279	3,865,227	5,926,411
DEPRECIATION				
At 1 January 2005	274,543	147,654	2,296,654	2,718,851
Charge for the year	27,278	14,422	263,801	305,501
Disposals	(4,327)	-	(234,509)	(238,836)
Reclassification to intangible asset (Note 11)	-	-	(106,516)	(106,516)
Translation differences	(3,593)	-	(5,347)	(8,940)
Adjustment	-	(16,515)	(142,109)	(158,624)
At 31 December 2005	293,901	145,561	2,071,974	2,511,436
NET BOOK VALUE				
At 31 December 2005	1,479,004	142,718	1,793,253	3,414,975
At 31 December 2004	1,529,136	110,852	1,082,023	2,722,011

i) Property and equipment in use with an original cost/valuation of KShs 1,771,190,259 (2004 - KShs. 1,582,290,981) are fully depreciated. The theoretical depreciation charge on cost/valuation at the normal rates (Note 1(e)) for the current year, would be KShs 348,570,294 (2004 - KShs. 310,746,521).

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

12 (b) PROPERTY AND EQUIPMENT (BANK)

	Freehold and leasehold premises Kshs'000	Leasehold improvements Kshs'000	Motor vehicles, furniture and equipment Kshs'000	Total Kshs'000
COST				
At 1 January 2005	409,166	214,314	3,237,644	3,861,124
Additions	2,493	-	1,112,837	1,115,330
Reclassification to intangible asset (Note 11)	-	-	(194,335)	(194,335)
Adjustments	-	29,773	(191,943)	(162,170)
Disposals	(20,610)	-	(240,985)	(261,595)
At 31 December 2005	391,049	244,087	3,723,218	4,358,354
DEPRECIATION				
At 1 January 2005	158,833	114,693	2,188,173	2,461,699
Charge for the year	10,805	11,137	253,297	275,239
Disposals	(4,327)	-	(228,745)	(233,072)
Adjustments	-	(16,515)	(142,109)	(158,624)
Reclassification to intangible asset (Note 11)	-	-	(106,516)	(106,516)
At 31 December 2005	165,311	109,315	1,964,100	2,238,726
NET BOOK VALUE				
At 31 December 2005	225,738	134,722	1,759,118	2,119,628
At 31 December 2004	250,333	99,621	1,049,471	1,399,425

i) Property and equipment in use with an original cost of KShs 1,702,397,866 (2004 - KShs. 1,511,800,218) are fully depreciated. The theoretical depreciation charge, on cost at the normal rates (Note 1(e)) for the current year, would be KShs 336,550,941 (2004 – KShs. 298,359,494).

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

12 (c) LEASEHOLD LAND

	GROUP		BANK	
	2005	2004	2005	2004
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
COST				
At 1 January	290,119	291,790	228,488	228,488
Disposals	-	(1,671)	-	-
At 31 December	290,119	290,119	228,488	228,488
AMORTISATION				
At 1 January	90,896	88,117	73,039	70,654
Disposals	-	(272)	-	-
Amortisation for the year	2,840	3,051	2,384	2,385
At 31 December	93,736	90,896	75,423	73,039
NET BOOK VALUE				
At 31 December	196,383	199,223	153,065	155,449

Prepaid leases with an original cost of KShs 66,709,255 are fully depreciated. The theoretical amortisation charge on cost/valuation at the normal rates (Note 1(e)) for the current year, would be KShs 2,187,470

13. DEPOSITS AND BALANCES FROM OTHER BANKING INSTITUTIONS

	GROUP		BANK	
	2005	2004	2005	2004
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Deposits and balances from other banks	295,685	856,389	900,154	1,684,043
Borrowed funds	-	772,326	-	722,326
	295,685	1,628,715	900,154	2,406,369
Maturing as follows:				
Payable within 30 days	295,685	1,628,715	900,154	2,406,369

The weighted average effective interest rates on deposits and balances from other banking institutions as at 31 December 2005 was 7.50% p.a (2004- 5.28% p.a).

14. OTHER CUSTOMER DEPOSITS

	GROUP		BANK	
	2005	2004	2005	2004
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
a) From government departments and parastatals				
Payable within 30 days	13,195,908	11,158,896	11,760,579	9,615,550
Payable after 30 days but within 3 months	1,144,085	2,108,821	1,131,408	2,094,390
Payable after 3 months but within 1 year	40,953	20,354	40,953	20,354
	14,380,946	13,288,071	12,932,940	11,730,294

14.OTHER CUSTOMER DEPOSITS (Cont)

	GROUP		BANK	
	2005	2004	2005	2004
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
b) From private sector and individuals				
Payable within 30 days	43,126,896	38,557,244	41,478,802	37,211,709
Payable after 30 days but within 3 months	5,548,692	3,130,919	4,920,227	2,847,680
Payable after 3 months but within 1 year	1,136,465	889,950	622,456	605,821
Payable after 1 year but within 5 years	23,630	27,546	-	23,914
	49,835,683	42,605,659	47,021,485	40,689,124
TOTAL OTHER CUSTOMER DEPOSITS	64,216,629	55,893,730	59,954,425	52,419,418
Maturing as follows:				
Payable within 30 days	56,322,804	49,716,140	53,239,381	46,827,259
Payable after 30 days but within 3 months	6,692,777	5,239,740	6,051,635	4,942,070
Payable after 3 months but within 1 year	1,177,418	910,304	663,409	626,175
Payable after 1 year but within 5 years	23,630	27,546	-	23,914
	64,216,629	55,893,730	59,954,425	52,419,418

The weighted average effective interest rates on customer deposits as at 31 December 2005 was 1.95% p.a (2004- 1.6% p.a).

15. OTHER LIABILITIES

	GROUP		BANK	
	2005	2004	2005	2004
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Items in transit	611,499	-	611,499	-
Bills payable	739,260	876,882	736,225	872,225
Accrued expenses	812,971	299,486	806,937	289,754
Other payables	1,418,782	2,087,514	1,233,330	1,745,594
	3,582,512	3,263,882	3,387,991	2,907,573

16. LINES OF CREDIT

	GROUP		BANK	
	2005	2004	2005	2004
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
OPEC Line III				
Payable after 3 months but within 1 year	-	15,493	-	15,493
EIB KENYA SHILLINGS LOANS				
Payable after 3 months but within 1 year	9,435	8,872	9,435	8,872
Payable after 1 year but within 5 years	14,029	29,299	14,029	29,299
	23,464	38,171	23,464	38,171
EIB FOREIGN CURRENCY LOANS				
Payable after 3 months but within 1 year	29,968	12,679	29,968	12,679
Payable after 1 year but within 5 years	73,136	167,338	73,136	167,338
	103,104	180,017	103,104	180,017
TOTAL LINES OF CREDIT	126,568	233,681	126,568	233,681
Maturing as follows:				
Payable after 3 months but within 1 year	39,403	37,044	39,403	37,044
Payable after 1 year but within 5 years	87,165	196,637	87,165	196,637
	126,568	233,681	126,568	233,681

a) OPEC Line III

This represented funds lent to the Group by the Government of Kenya in accordance with loan agreements for lines of credit from the OPEC Fund for International Development. The funds were fully repaid during the year.

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 10.64 % p.a (2004 - 15.42 % p.a).

c) EIB Foreign Currency Loans

This represents amounts which the Group has on-lent to private enterprises under the Global Private Enterprise Scheme introduced by European Investment Bank and channeled through the Approved Financial Institutions. The loans are advanced in US dollars and Euro Currency. The average interest rate for the year was 4.76% p.a (2004 - 5.3 % p.a).

17. SHARE CAPITAL

	2005 Kshs'000	2004 Kshs'000
Authorised:		
200,000,000 ordinary shares of KShs.10 each	2,000,000	2,000,000
Issued and fully paid:		
199,600,000 ordinary shares of KShs.10 each	1,996,000	1,996,000

18. RESERVES

	GROUP		BANK	
	2005 Kshs'000	2004 Kshs'000	2005 Kshs'000	2004 Kshs'000
Capital reserve	275,422	275,422	-	-
Revenue reserve	3,916.295	3,388,668	3,921,402	3,376,196
Share premium	2,319,764	2,319,764	2,319,764	2,319,764
Revaluation reserve	933,575	285,807	933,575	285,807
Translation reserve	(157,465)	(84,702)	-	-
	7,287,591	6,184,959	7,174,741	5,981,767

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

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

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

19. DIVIDEND

	2005 Kshs'000	2004 Kshs'000
Final proposed	798,400	399,200
Dividend per share (Kshs)	4.00	2.00

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

20. INTEREST INCOME

	GROUP		BANK	
	2005	2004	2005	2004
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Interest on loans and advances	3,949,126	2,751,544	3,647,171	2,517,631
Interest on government securities	1,576,963	1,121,283	1,488,394	1,089,250
Interest on placements and bank balances	199,001	346,748	149,153	314,804
	5,725,090	4,219,575	5,284,718	3,921,685

21. INTEREST EXPENSE

Interest on deposits	568,502	375,517	489,648	284,473
Interest on borrowed funds	28,778	57,278	28,778	57,278
	597,280	432,795	518,426	341,751

22. DIVIDEND INCOME

Available for sale investments	50,872	14,147	50,872	14,147
Subsidiary company	-	-	4,053	-
	50,872	14,147	54,925	14,147

23 OTHER OPERATING INCOME

Rent income	110,421	86,451	22,421	27,674
Profit on sale of property and equipment	52,965	12,733	48,812	5,998
Miscellaneous income	215,702	448,592	214,655	443,014
	379,088	547,776	285,888	476,686

24. OTHER OPERATING EXPENSES

Administrative expenses	6,445,029	5,891,715	5,965,559	5,475,849
Directors' emoluments				
As directors	24,239	15,092	20,208	12,371
As executives	50,843	42,437	50,843	42,437
Depreciation of property and equipment	305,501	239,793	275,239	208,793
Amortisation of intangible assets	49,713	12,213	49,377	11,877
Amortisation of leasehold land	2,840	3,051	2,384	2,385
Auditors' remuneration	9,586	9,578	6,750	6,750
	6,887,751	6,213,879	6,370,360	5,760,462

25. EARNINGS PER SHARE

Earnings per share is calculated on the profit attributable to shareholders of KShs. 1,326,027,000 and Kshs 1,343,606,000 for the Group and Bank, respectively (2004: KShs. 633,782,000 and KShs. 639,836,000 for the Group and Bank, respectively) and on the number of ordinary shares in issue at the respective balance sheet date of 199.6 million shares. There were no potentially dilutive shares outstanding at the respective balance sheet dates. Diluted earnings per share is therefore the same as basic earnings per share.

26. PRIOR YEAR ADJUSTMENTS

	GROUP		BANK	
	2005	2004	2005	2004
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Effect of reversal of				
Kencom House transaction - (a)	-	113,837	-	557,026
Reversal of revaluation surplus - (b)	-	(145,280)	-	-
	-	(31,443)	-	557,026

The prior year adjustments relate to:

a) The net effect of the reversal of Kencom House sale transaction.

b) Reversal of revaluation surplus on Kencom House leasehold land in compliance with International Accounting Standard No. 17, on leases.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	2005	2004
	Kshs'000	Kshs'000
a) CASH FLOWS FROM OPERATING ACTIVITIES		
This has been derived as follows:-		
Profit before taxation	1,947,608	920,198
Adjustments for:		
Depreciation of property and equipment	305,501	239,793
Amortisation of leasehold land	2,840	3,051
Amortisation of intangible assets	49,713	12,213
Profit on sale of property and equipment	(52,965)	(12,733)
Gain on disposal of unquoted investments	-	(17,750)
Cash reserve ratio	(465,210)	(348,086)
Held to maturity investments	(2,903,110)	2,690,107
Placement and balances with other banking institutions	-	2,000,000
Loans and advances	(86,196)	(9,110,552)
Other assets	(824,728)	979,108
Deposits and balances from other banking institutions	-	(167,232)
Other customer deposits	8,322,899	5,280,462
Other liabilities	318,630	(6,484)
Property and equipment adjustment	9,446	240,486
	6,624,428	2,702,581

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

b) ANALYSIS OF CASH AND CASH EQUIVALENTS

	2005 Kshs'000	2004 Kshs'000
Cash on hand	2,455,883	2,396,203
Cheques and items for clearing	168,933	93,414
Held to maturity investments	4,451,383	5,639,788
Held for trading investments	4,013,193	1,684,066
Placements and balances with other banking institutions	4,023,708	1,681,365
Deposits and balances from other banking institutions	(295,685)	(1,628,715)
	14,817,415	9,866,121

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

28. RELATED PARTY TRANSACTIONS

a) Inter-company transactions

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

	BANK	
	2005 Kshs'000	2004 Kshs'000
Due from subsidiary companies (Note 9(a))	1,446,470	1,173,706
Amount due to subsidiary companies (Note 9(b))	-	5,447

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

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

	GROUP		BANK	
	2005 Kshs'000	2004 Kshs'000	2005 Kshs'000	2004 Kshs'000
Government of Kenya	2,114,752	-	2,114,752	-
Directors	757,457	572,373	757,457	572,373
Employees	2,374,667	2,147,325	2,301,971	2,082,755
	5,246,876	2,719,698	5,174,180	2,655,128

29. 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.

29. SEGMENT INFORMATION (Continued)

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.

30. COMMITMENTS

	GROUP		BANK	
	2005	2004	2005	2004
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
a) Capital commitments contracted for at year end	212,850	171,792	195,749	171,792
b) Loans committed but not disbursed at year end	1,093,713	2,636,112	215,958	2,185,092
c) Foreign currency commitments	2,992,122	422,799	2,992,164	429,818

31. CONTINGENT LIABILITIES

Letters of credit, acceptances, guarantees, indemnities and other engagements entered into on behalf of customers at 31 December	11,676,556	12,985,457	11,585,717	12,907,893
Dormant accounts	-	690,028	-	640,797
Litigation	92,115	92,115	56,000	56,000

i) Dormant accounts

These related to balances on dormant accounts transferred to income between the year 2000 and 2002. There was a potential liability due to possible claims by customers. The claims by customers are settled from balances not transferred to income and in the opinion of the directors, therefore, there is no potential liability.

ii) Litigation

The amounts included above as contingent liabilities are in respect of court rulings against the bank and its subsidiaries. In all cases, the Bank appealed against judgements. 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.

32. FOREIGN CURRENCY EXPOSURE

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The board has set limits on foreign currency positions. The foreign currency positions are monitored on daily basis and hedging strategies used to ensure that positions are maintained within the established limits. The table below summarises the foreign currency exposure as at 31 December 2005.

	GROUP		BANK	
	2005	2004	2005	2004
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Assets in foreign currencies	11,429,548	11,507,285	10,791,101	10,943,291
Liabilities in foreign currencies	(11,530,379)	(11,611,332)	(10,594,230)	(11,039,097)
Net foreign currency exposure at 31 December	(100,831)	(104,047)	196,871	(95,806)

33. RETIREMENT BENEFIT OBLIGATIONS

a) KCB Pension Fund Scheme

The scheme is independently managed and is funded by the Bank and the subsidiary companies. The pension plan assets are valued at least every three years by independent actuaries. The assets were last valued as at 1 July 2005 and a surplus of KShs.925.2 million was reported.

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

	Kshs'000
Past service pension benefits	(7,225,100)
Fair value of scheme assets	8,150,300
Past service pension surplus	925,200

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

Current contribution costs	311,187

The principal actuarial assumptions used are as follows:

Expected rate of return on scheme assets	9.2%
Future salary increases	8.0%
Rate of contribution on members' pensionable salaries	14.9%

b) National Social Security Fund (NSSF)

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

34. 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 2005 based on the earlier of maturity or re-pricing dates. Off balance sheet items do not pose any significant interest rate risk to the Group.

	Up to 1 month Kshs'000	1-3 months Kshs'000	3– 12 months Kshs'000	1-5 years Kshs'000	Over 5 years Kshs'000	Non-interest bearing Kshs'000	Total Kshs'000
Cash and balances with Central Banks	-	-	-	-	-	6,322,971	6,322,971
Cheques and items for clearing	-	-	-	-	-	168,933	168,933
Held to maturity investments	1,464,962	2,986,421	1,122,736	10,026,903	1,434,012	-	17,035,034
Held for trading investments	4,013,193	-	-	-	-	-	4,013,193
Placements and balances with other banking institutions	4,023,708	-	-	-	-	-	4,023,708
Available for sale investments	-	-	-	-	-	949,995	949,995
Tax recoverable	-	-	-	-	-	454,418	454,418
Loans and advances to customers (net)	3,062,651	606,080	3,325,819	25,422,996	3,894,090	-	36,311,636
Other assets	-	-	-	-	-	3,854,708	3,854,708
Intangible assets	-	-	-	-	-	146,995	146,995
Leasehold land	-	-	-	-	-	196,383	196,383
Property and equipment	-	-	-	-	-	3,414,975	3,414,975
Deferred tax	-	-	-	-	-	1,422,103	1,422,103
Total Assets	12,564,514	3,592,501	4,448,555	35,449,899	5,328,102	16,931,481	78,315,052
Deposits and balances from other banking institutions	295,685	-	-	-	-	-	295,685
Other customer deposits	56,322,804	6,692,777	1,177,418	23,630	-	-	64,216,629
Other liabilities	-	-	-	-	-	3,582,512	3,582,512
Tax payable	-	-	-	-	-	11,667	11,667
Lines of credit	-	-	39,403	87,165	-	-	126,568
Shareholders' funds	-	-	-	-	-	10,081,991	10,081,991
Total liabilities and shareholders' funds	56,618,489	6,692,777	1,216,821	110,795	-	13,676,170	78,315,052
Interest rate sensitivity gap	(44,053,975)	(3,100,276)	3,231,734	35,339,104	5,328,102	3,255,311	-
At 31 Dececember 2004 Total assets	12,106,235	3,492,914	3,505,680	30,476,350	5,330,021	14,688,967	69,600,167
Total liabilities and shareholders' funds	(51,344,855)	(5,239,740)	(947,348)	(224,183)	-	(11,844,041)	(69,600,167)
Interest rate sensitivity gap	(39,238,620)	(1,746,826)	2,558,332	30,252,167	5,330,021	2,844,926	-

35. 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 summarises the maturity profiles of the group's assets and liabilities based on remaining period from 31 December 2005 to the contractual date.

	Up to 1 month Kshs'000	1-3 months Kshs'000	3– 12 months Kshs'000	1-5 years Kshs'000	Over 5 years Kshs'000	Total Kshs'000
Cash and balances with Central Banks	5,847,609	403,035	70,903	1,424	-	6,322,971
Cheques and items for clearing	168,933	-	-	-	-	168,933
Held to maturity investments	1,464,962	2,986,421	1,122,736	10,026,903	1,434,012	17,035,034
Held for trading investments	4,013,193	-	-	-	-	4,013,193
Placements and balances with other banking institutions	4,023,708	-	-	-	-	4,023,708
Available for sale investments	-	-	-	-	949,995	949,995
Tax recoverable	-	-	-	-	454,418	454,418
Loans and advances to customers (net)	3,062,651	606,080	3,325,819	25,422,996	3,894,090	36,311,636
Other assets	-	-	3,854,708	-	-	3,854,708
Intangible assets	-	-	-	-	146,995	146,995
Leasehold land	-	-	-	-	196,383	196,383
Property and equipment	-	-	-	-	3,414,975	3,414,975
Deferred tax	-	-	-	1,422,103	-	1,422,103
Total Assets	18,581,056	3,995,536	8,374,166	36,873,426	10,490,868	78,315,052
Deposits and balances from other banking institutions	295,685	-	-	-	-	295,685
Other customer deposits	56,322,804	6,692,777	1,177,418	23,630	-	64,216,629
Other liabilities	-	-	3,582,512	-	-	3,582,512
Tax payable	-	-	11,667	-	-	11,667
Lines of credit	-	-	39,403	87,165	-	126,568
Shareholders' funds	-	-	-	-	10,081,991	10,081,991
Total liabilities and shareholders' funds	56,618,489	6,692,777	4,811,000	110,795	10,081,991	78,315,052
Net liquidity gap	(38,037,433)	(2,697,241)	3,563,166	36,762,631	408,877	-
At 31 December 2004						
Total assets	17,621,741	3,811,822	6,591,065	32,492,543	9,082,996	69,600,167
Total liabilities and shareholders' funds	(51,344,855)	(5,239,740)	(4,211,230)	(224,183)	(8,580,159)	(69,600,167)
Net liquidity gap	(33,723,114)	(1,427,918)	2,379,835	32,268,360	502,837	-

36. 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.

37. EMPLOYEES

The number of employees of the Group as at the end of the year was 2,715 (2004 – 2,679).

38. COMPARATIVES

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

39. INCORPORATION

The Bank is incorporated in Kenya under the Companies Act.

40. CURRENCY

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

KCB | Making the Difference

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 PO Box ______________________________

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

____

____

of PO Box ______________________________

or failing him the Chairman of the meeting as my/our proxy vote for me/us and on my/our behalf at the 35th Annual General Meeting to be held on 16th June 2006 and at any ajournment thereof.

Signed this ______________ day of ______________ 2006

Signature(s)______________________________

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

CUT ALONG THE LINE

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

Mimi/Sisi ______________________________

Nambari ya Akaunti ya Mwenyehisa ______________________________

Sanduku la Posta ______________________________

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

____

____

wa Sanduku la Posta ______________________________

au akishindwa, Mwenyekiti wa Mkutano, kama mwakilishi wangu/wetu kupiga kura kwa niaba yangu/yetu katika Mkutano Mkuu wa 35 wa Mwaka wa Kampuni utakaofanyika tarehe 16 Juni 2006 au pale utakapoarishwa.

Imewekwa sahihi tarehe ______________ Mwezi wa ______________ 2006

Sahihi ______________________________

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