Contents

Group Information

PRINCIPAL PLACE OF BUSINESS

Kencom House
Moi Avenue
P. O. Box 48400-00100
Nairobi
Kenya

REGISTERED OFFICES

Kenya Commercial Bank Limited
Kencom House
Moi Avenue
P. O. Box 48400-00100
Nairobi
Kenya

KCB Sudan Limited
Amin Muhammed Building
Off Addis Ababa Road
P.O. Box 47
Juba
Southern Sudan

KCB (Tanzania) Limited
PPF Tower, 17th Floor
Garden Avenue/Ohio Street
P.O. Box 804
Dar es Salaam
Tanzania

KCB Bank Uganda Limited
Commercial Plaza
7 Kampala Road
P.O. Box 7399
Kampala
Uganda

KCB Rwanda SA
Avenue de la paix
P.O Box 5620
Kigali
Rwanda

SOLICITORS

Various. A list is available at the Bank

SECRETARY

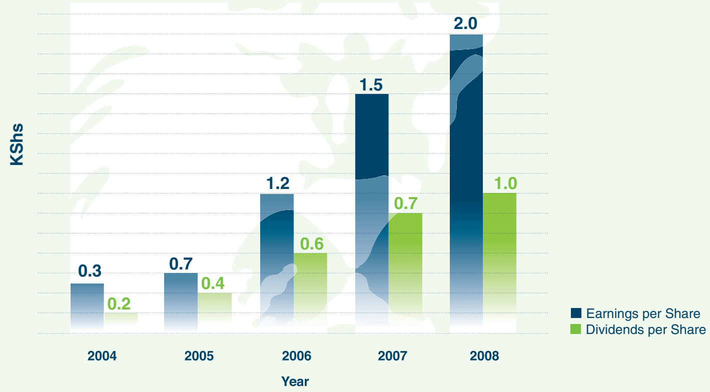
Mr. K.D. Malakwen
P. O. Box 48400-00100
Nairobi
Kenya

AUDITORS

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

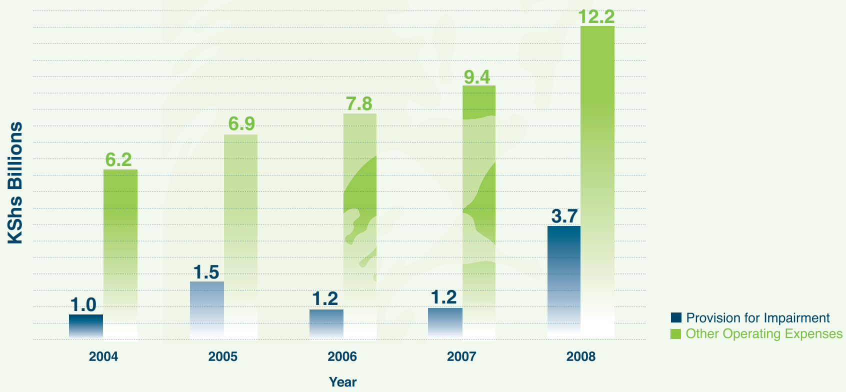
Five Year Performance Analysis

EARNINGS PER SHARE



INCOME GROWTH

EXPENSES



Performance and Statutory Ratios	2004	2005	2006	2007	2008
Cost to income ratio	76%	67%	64%	63%	62%
Return on equity	7%	13%	21%	23%	20%
Core capital to deposit	14%	16%	13%	12%	12%
Total capital to total weighted assets	17%	18%	16%	14%	16%
Liquidity ratio	39%	44%	42%	33%	32%
Net impaired advances to net advances	21%	11%	9%	3%	3%
Net impaired advances to gross impaired advances	37%	29%	33%	22%	26%

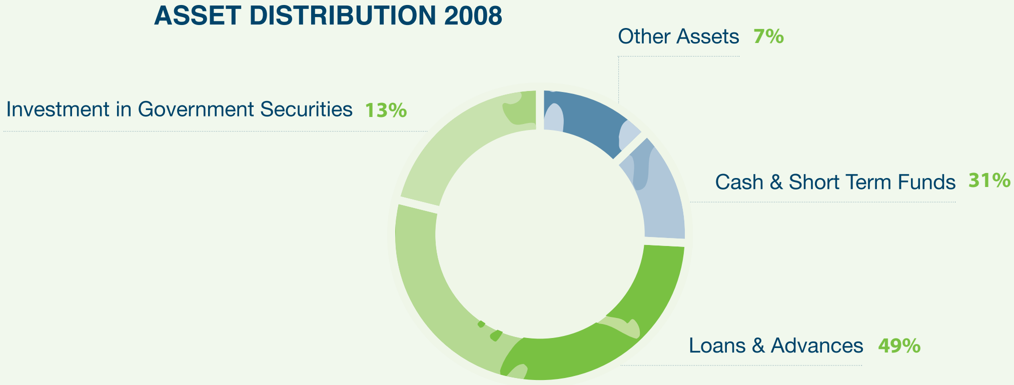
Financial Highlights

KEY PERFORMANCE INDICATORS

Profit before tax up by 42% to 6.01 billion 2007 Ksh.4.2 billion	Operating income up by 37% to 19.7 billion 2007 Kshs. 14.3 billion.
Net loans and advances up by 45% to 93.5 billion 2007 KShs. 64.3 billion	Total assets growth by 59% to 191.2 billion 2007 KShs.120.5 billion
Customer deposits up by 34% to 126.7 billion 2007 KShs.94.4 billion	Branch network 186 2007 branches 145

BALANCE SHEET

ASSET DISTRIBUTION 2008



Notice of the 38th Annual General Meeting

NOTICE IS HEREBY GIVEN that the 38th ANNUAL GENERAL MEETING OF THE KENYA COMMERCIAL BANK LIMITED will be held at the Tsavo Ballroom, Kenyatta International conference Centre, Nairobi, on Friday, 8th May 2009 at 11.00 a.m. when the following business will be transacted, namely:-

AGENDA

1. CONSTITUTION OF THE MEETING
   To read the notice convening the Meeting and determine if a quorum is present.

2. ORDINARY BUSINESS
   a) **Report of the Auditors**
      To read the Auditors' Report and the Consolidated Financial Statements for the year ended 31st December 2008

   b) **Report and Financial Statements for the year ended 31st December 2008**
      To receive and consider the Report of the Directors and Consolidated Financial Statements for the year ended 31st December, 2008 together with the auditors' report thereon.

   c) **Dividend**
      To declare a dividend and approve the closure of the Register of Members on 12th May, 2009.

   d) **Election of Directors**
      In accordance with Article 94 of the Company's Articles of Association, Mrs. Susan Outa Mudhune, retires from the Board having completed eight years of service in the Board.

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

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

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

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

3. SPECIAL BUSINESS
   a) **Cross Listing on The Rwanda Over The Counter Market**
      To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

      That, subject to the approval of the Rwanda Over The Counter Market, the Directors be and are hereby authorized and directed to initiate cross listing of the Banks' shares in the Rwanda Over The Counter Market, and that the Directors be, and are hereby authorized generally to do and effect all acts and things required to give effect to this Resolution, in such manner as they think fit subject to the requirements of the Rwanda Over The Counter Market and other provisions of the law.

   b) **Merger of Subsidiary**
      To consider and, if thought fit, pass the following resolution as an ordinary resolution

      That the operations of Savings & Loan Kenya Limited be merged into those of Kenya Commercial Bank Limited in accordance with the recommendations of the respective Directors.

   c) **Amendment of Articles of Association**
      To consider and, if thought fit, pass the following resolutions as Special Resolutions:

      (i) **Article 131 shall be deleted in its entirety and replaced with the following:**
          "Any notice or other document may be served by the Company on any Member or Director either personally or by sending it through the post (by airmail where such service is available) in a prepaid letter or by telegram, telex or facsimile addressed to such Member or Director at his registered address as appearing in the Register of Members

Notice of the 38th Annual General Meeting (Continued)

or the Company's other records, whether such address shall be within or outside Kenya, or by telex, facsimile or by telegram addressed as aforesaid or by an advertisement in at least two daily newspapers of a national circulation or by advertisement through electronic media. In the case of joint holders of a share, all notices by post telegram or facsimile shall be given to that one of the joint holders whose name stands first in the Register of Members and notice so given shall be sufficient notice to all joint holders. In the case of a notice of an annual general meeting, such notice may be given by:-

(a) publishing a notice containing a summary of both the annual financial statement and auditors' report, in at least any two local daily newspapers with national circulation for at least two consecutive days; and/or

(b) personal delivery or by sending to every member such notice through the electronic media or through the post and the notice in each case shall contain such financial and other documents and reports as may be a mandatory requirement under the law"

(ii) **Article 133 shall be deleted in its entirety and replaced with the following:**
"Save and except as in otherwise mandatory as required by law or by these Articles: where a notice or other document is sent by post it shall be deemed to have been served on the third day after the day on which it was posted if addressed within Kenya and on the fifth day after the day on which it was posted if addressed outside Kenya and in the latter case any such notice or other document shall be dispatched by airmail and in proving such service or sending, it shall be sufficient to prove that the cover containing the notice or document was properly addressed and put into the post office as a prepaid letter or prepaid airmail letter; where a notice is sent by telegram telex facsimile or electronic media it shall be deemed to have been served on the day after the day on which it was sent; where a notice is given by newspaper advertisement it shall be deemed to have been served on the first day it is published unless it is not a working day in which case notice shall be deemed to have been served on the first working day following the publication. For the purposes of this Article "day" means a working day, excluding Saturdays, Sundays and public holidays."

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

Dated at Nairobi this 26th Day of February, 2009
By Order of the Board

K.D. Malakwen
Secretary

Ilani ya Mkutano Mkuu wa 38 wa Mwaka

ILANI IMETOLEWA KWAMBA MKUTANO MKUU WA 38 WA MWAKA WA BENKI YA KENYA COMMERCIAL utafanywa katika ukumbi wa Tsavo Ballroom, Kenyatta International Conference Centre, Nairobi, siku ya Ijumaa tarehe 8 Mei 2009, saa tano asubuhi ambapo mambo yafuatayo yatajadiliwa:

AJENDA

1. JUMUIKO LA MKUTANO
   Kusoma arifa ya kuitisha mkutano na kuamua iwapo kuna idadi ya watu wa kutosha.

2. SHUGHULI ZA KAWAIDA
   a) **Ripoti ya wahasibu**
   Kusoma ripoti ya wahasibu na taarifa za jumla za kifedha kwa mwaka uliomalizika tarehe 31, Disemba 2008.

   b) **Ripoti na taarifa za kifedha kwa mwaka uliomalizika Disemba 2008**
   Kupokea na kutafakari ripoti ya Wakurugenzi na taarifa za pamoja za kifedha kwa mwaka uliomalizika tarehe 31, Disemba 2008, pamoja na ripoti ya wahasibu.

   c) **Mgao wa faida**
   Kutangaza mgao wa faida na kuidhinisha kufungwa kwa rejesta ya wanachama tarehe 12, Mei, 2009

   d) **Uchaguzi wa Wakurugenzi**

   i) Kwa mujibu wa kifungu namba 94 cha sheria za kampuni, Bi. Susan Outa Mudhune, anastaafu kutoka kwa Halmashauri baada ya kuhudumu katika Halmashauri kwa miaka minane.
   ii) Kwa mujibu wa kifungu namba 94 cha sheria za kampuni
   Bw. Sunil Narshi Shah na Bi. Catherine Ngima Kimura wanastaafu kwa zamu kama wakurugenzi wa kampuni na kwa kuwa wanahitimu, wanajitolea kuchaguliwa tena.

   e) **Malipo ya Wakurugenzi**
   Kuidhinisha Halmashauri kupanga marupurupu ya wakurugenzi wake.

   f) **Uteuzi wa wahasibu**
   Kuteua tena kampuni ya Ernst&Young, Wahasibu wa Umma walioidhinishwa, kama wahasibu wa Kampuni hadi kukamilika kwa mkutano mkuu ujao wa mwaka.

   g) **Malipo ya Wahasibu**
   Kuidhinisha Wakurugenzi kupanga malipo ya wahasibu

3. SHUGHULI MAALUM
   a) **Kuorodheshwa kwa hisa katika soko la Rwanda**
   Kutafakari, na inapoonelewa inafaa, kupitisha azimio lifuatalo kama azimio la kawaida:

   Kwamba kutegemea idhini ya hisa kuuzwa katika soko la hisa la Rwanda, Wakurugenzi wanakubaliwa kuorodhesha hisa za benki katika soko la hisa la Rwanda, na kwamba Wakurugenzi waidhinishwe kwa jumla kutekeleza azimio hili, kwa njia ambayo wanafikiri inafaa na walitekeleze kwa mujibu wa sheria za soko la hisa la Rwanda.

   b) **Kuunganishwa kwa kampuni tanzu**
   Kutafakari, na inapoonelewa inafaa, kupitisha azimio lifuatalo kama azimio la kawaida.
   Kwamba shughuli za kampuni tanzu ya Savings & Loan Kenya ziunganishwe na zile za Kenya Commericial Bank kwa mujibu wa mapendekezo ya Wakurugenzi husika.

   c) **Kurekebishwa kwa vifungu vya kampuni**
   Kutafakari na inapoonelewa inafaa, kupitisha maazimio yafuatayo kama Maazimio Maalum:-

   (i) **Kifungu nambari 131 kitafutwa kabisa na mahali pake kuchukuliwa na:**
   “Taarifa yoyote au stakabadhi inaweza kuwasilishwa na Kampuni au Mwanachama yeyote au Mkurugenzi kibinafsi au kwa kuipeleka kupitia posta (kwa barua zinazopelekwa kwa ndege mahali ambako kuna huduma kama hizi) kwa barua iliyolipiwa awali au kwa telegramu, telex au faxi iliyoandikwa kwa Mwanachama au Mkurugenzi kwa anwani yake iliyosajiliwa kama ilivyo kwa Sajili ya Wanachama au kwa rikodi nyingine za Kampuni, iwapo anwani hizi zitakuwa ndani au nje ya Kenya, au kwa telex, faxi au kwa telegramu iliyoandikwa kama ilivyoelezwa au katika tangazo kupitia vyombo vya habari. Katika hali ambapo hisa moja inamilikiwa na

Ilani ya Mkutano Mkuu wa 38 wa Mwaka

watu wawili arifa zote kwa telegramu au faxi zitapewa mmoja wa wamiliki wawili ambaye jina lake linatangulia katika sajili ya Wanachama na taarifa iliyotolewa itatosha kwa wote wenye kumiliki hisa kwa pamoja. Katika hali ya arifa ya mkutano mkuu wa mwaka, arifa kama hii itatolewa na:

(a) kuchapisha arifa yenye mukhtasari wa taarifa za kifedha za mwaka na ripoti ya wahasibu katika angalau magazeti mawili ya kila siku nchini yanayosomwa kote nchi kwa angalau siku mbili mfululizo; na/au

(b) kuwasilishwa ana kwa ana au kwa kumtumia kila mwanachama arifa kupitia vyombo vya habari au kupitia posta na arifa hiyo katika hali zote itakuwa taarifa za kifedha na stakabadhi nyingine na ripoti kama zitakavyohitajika kisheria."

(ii) **Kifungu nambari 133 kitatolewa kabisa na mahali pake kuchukuliwa na:**
"Isipokuwa tu pale inapohitajika na sheria au na Vifungu hivi:
wakati ambapo arifa au stakabadhi yoyote ile imetumwa kwa posta itachukuliwa kwamba imewasilishwa siku ya tatu baada ya kutumwa iwapo imetumwa ndani ya Kenya na siku ya tano baada ya kutumwa iwapo ni nje ya Kenya, na iwapo ni nje ya Kenya arifa yoyote kama hiyo au stakabadhi nyingine itatumwa kwa barua zinazosafirishwa kwa ndege na kwa kuonyesha ushahidi wa huduma kama hiyo au kutuma, itatosha kuthibitisha kwamba bahasha yenye kupeleka arifa hiyo iliandikwa anwani sahihi na kuwekwa posta kama barua iliyolipiwa kutumwa kwa ndege; iwapo arifa inatumwa kwa telegramu, telex au faxi au kwa njia ya elektroniki itachukuliwa kwamba imewasilishwa siku moja baada ya kutumwa; iwapo arifa itatolewa kwa njia ya tangazo la gazeti itachukuliwa kwamba imewasilishwa siku itakapochapishwa isipokuwa iwe sio siku ya kazi ambapo itachukuliwa imewasilishwa siku ya kwanza ya kazi kufuatia kuchapishwa kwa kwa gazeti hilo. Kwa minajili ya Kifungu hiki "Siku" inamaanisha siku ya kufanya kazi, isipokuwa Jumamosi, Jumapili na siku za kitaifa."

SHUGHULI NYINGINE

Kuendesha shughuli nyingine yoyote ambayo inaweza kuendeshwa kwa njia inayofaa katika Mkutano Mkuu wa Mwaka.

Nairobi, Tarehe 26 Februari, 2009
Kwa Amri ya Halmashauri

K.D. Malakwen
Katibu

Board of Directors

Back Row Left: *Samuel Kimani, Musa Ndeto, Peter Kimuyu, Sunil Shah, Joseph Adongo, Susan Mudhune, Susan Omanga, Catherine Kimura*
Front Row Left: *Martin Oduor-Otieno, Peter W. Muthoka, Joseph Kinyua*

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

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

Director
Sunil Shah
He joined the Board in June 2004. He is currently the Executive Director and Managing Director of United Millers Limited and a member of various professional bodies among other directorships.

Board of Directors (Continued)

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

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

Director
Susan Mudhune, MBS
She joined the Board in May 2001 and was a Group Chairman from 2003 to June 2008. She holds a Bachelor of Arts Degree in Education and a Masters in Business Administration. She is a Fellow of Kenya Institute of Bankers (KIB) and Kenya Institute of Management (KIM), a Director of Eveready East Africa Board and Centre for Corporate Governance Board. She is also a Director of KCB (T) and S&L and the National Chairman of Kenya Girl Guide Association.

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

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

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

Chief Executive Officer
Martin Oduor-Otieno
He joined the bank in the year 2005. He holds an MBA and a Bachelor of Commerce Degree in Accounting. He is a Fellow of the Institute of Certified Public Accountants of Kenya (ICPAK), Fellow of the Kenya Institute of Bankers (KIB) and a Certified Public Secretary (CPS). He is also the Director of all KCB Group Companies.

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

Directors of Subsidiaries

Back Row Left: *Samwiri Njuki, David M. Nyende, Heri Bomani, James Agin, Maurice Toroitich, Caroline Kariuki, Rupin Rajani, Leonzio Onek, Daniel Mavindu, Yar Manoa Majok Deng, Janet Zebedayo Mbene*
Front Row Left: *Joseph S. Muiru, Peter Munyiri*

Director KCB (U)
Samwiri H. K. Njuki
He joined KCB (U) in November, 2007. He holds a Bachelor of Arts Degree and an Advanced Diploma in Economics of Banking. Before he joined KCB (U), he worked as the Managing Director of Orient Bank Uganda Limited from where he retired in July 2007. He is the Chairman of Uganda Securities Exchanges and has previously served as the Chairman of Uganda Bankers Association. He has been in banking industry for over 30 years.

Director
David M. Nyende
He joined KCB (U) in August 2008. He holds a Bachelor of Commerce Degree and is a Fellow of Association of Chartered Certified Accountants (FCCA) and a member of the Uganda Institute of Certified Public Accountants (CPA). He is currently a Partner with Johnson and Nyende, Certified Public Accountants in Kampala. He has diverse international experience in Finance and related disciplines obtained in several countries including Nigeria, the U. K., Germany, Kenya, Tanzania and Uganda.

Managing Director KCB (T)
Heri Bomani
He joined KCB (T) in April 2006. He holds a Bachelor of Science Degree in Economics (Banking & Finance) from the University of Wales. He previously worked for Standard Chartered Bank Tanzania Limited as Executive Director, Consumer Banking.

Managing Director KCB (U)
James Agin Otieno
He joined the bank in January 2008. He has over 15 years in banking experience. He has a Bachelor of Science Degree from University of Nairobi and an MBA from IESE Business School, Spain. He is an associate of the Chartered Institute of Bankers, UK. He previously worked for Barclays Bank both in Kenya and Uganda.

Director
Maurice Toroitich
He joined the bank in October 2009. He holds a Bachelors Degree in Commerce from the University of Nairobi and is a final year MBA student at Strathmore Business School. He is a Certified Public Account of Kenya (CPAK) and ACIB (London) qualifications. He has over 15 years banking experience in Retail and Corporate Banking. He previously worked for CfCStanbic Bank.

Managing Director S&L
Caroline Kariuki
Caroline Kariuki, is the Managing Director of S&L, the KCB Group's Mortgage subsidiary. She has over 16 years working experience in the banking sector. She joined KCB in January 2006 as Unit Head, Corporate Banking having previously worked in Commercial Bank of Africa and ABN AMRO Bank. She holds an MBA from Warwick Business School, UK and a Bachelor of Commerce degree from the University of Nairobi.

Director KCB (T)
Rupin Rajani
He joined the Board in May 2006. He holds a Masters Degree in Business Administration from Institute of Management Development, Lausanne, Switzerland. He is the CEO of Rajani Industries.

Director KCB (S)
Leonzio Onek
He joined the Board in 2006. He holds a PHD in Biochemistry from Lancaster University.

Managing Director KCB (S)
Daniel Mavindu
He joined KCB Sudan in May 2006. He holds a Bachelor of Commerce degree in Accounting from the University of Nairobi and is a Certified Public Accountant. He previously worked for Chase Bank (K) Limited as Executive Director, Banking Operations, Finance and Administration.

Director KCB (S)
Yar Manoa Majok
She joined the the Board in August 2008. She holds a Bachelor of Degree in Business Administration from Cairo University, Faculty of Commerce. She is also the Managing Director of Sudan Business Link Ltd.

Chairman KCB (T)
Janet Zebedayo Mbene
She joined the Board in May 2006. She is a professional banker and holds a Masters Degree in Economics from University of New England, Armidale New South Wales, Australia. She has a Bachelor of Arts in Economics from University of Dar es Salaam and an Advanced Diploma in banking from Institute of Finance in Dar es Salaam. She is a Company Director and Lead Consultant SIA Limited and a member of Fair Competition Tribunal Tanzania and the Advisory Board Faculty of Business at Tumaini University in Dar es Salaam. She is also a founder member of the Association of Women Economists in Tanzania among others.

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

Director
Peter Munyiri
He joined KCB in 2007. He has vast experience in banking and finance having previously worked in senior and executive management at Barclays, Standard Chartered and Cooperative bank in Kenya. He holds a Bachelor of Arts Degree in Economics from the University of Nairobi and an MBA in Strategic Management. He is an associate of the Chartered Institute of Bankers (UK) and Fellow of the Kenya Institute of Bankers. He is a Director of S&L, KCB (T), KCB (U), KCB (R), KCB (S) and attends all Group Board meetings.

KCB Executive Committee

Back Row Standing from Left to Right

TIMOTHY KABIRU,	*Divisional Director: Treasury*
KEPHA BOSIRE,	*Divisional Director: Public Affairs & Communications*
JOHN MARK WANDOLO,	*Divisional Director: Corporate Banking*
STANLEY TOWETT,	*Divisional Director: Audit*
WILFRED SANG,	*Divisional Director: Credit*
CHARLES MARANGA,	*Divisional Director: Human Resources*
DR. TONY GITHUKU,	*Divisional Director: IT & Operations*
FRED MUTISO,	*Divisional Director: Finance & Strategy*
KIPROP MALAKWEN,	*Company Secretary*

Front Row Seated from Left to Right

MARY ANN KIRUBI,	*Divisional Director: Marketing & Research*
CATHERINE NJOROGE,	*Divisional Director: Retail Banking*
ROSE KINUTHIA,	*Chief Risk Officer*

Chairman's Commentary

"The new vision: To be the preferred provider of financial solutions in Africa with a global reach by 2013"

CHAIRMAN'S COMMENTARY

Shareholders,
I am pleased to present to you the Annual Report and Financial Statements for the KCB Group for the year 2008.

During the year, the Group reported a profit before tax of KShs6.013 billion, an increase of 42% over the previous period. This good performance demonstrates the high level of commitment among the Board, Management and Staff to strive towards meeting stakeholder expectations. It is also as a result of immense support from our shareholders, customers, suppliers and the various communities around whom we operate.

Investors have continued to exhibit significant confidence in the business by consistently buying into the bank in spite of a huge slump in the stock market. Although the price has been on a fall in the last few months of the year, KCB Shares have been a target of many investors due to their huge potential. The shares reached a high of KShs34.75 early on before beginning to trend down towards the KSh16 per share recorded in December 2008, due to diminishing investor confidence in the market and the current global financial crisis. With the bank's ongoing good performance and the anticipated reforms in financial markets we expect investor confidence to return in the near future and your shares to begin to perform well again.

The Operating Environment

KCB's performance should be viewed in the context of the country's economic performance. Kenya's real Gross Domestic Product is estimated to have expanded by 2.5% in 2008 compared to overall growth of 7.0% recorded in 2007. This reduction in growth was in part as a result of a slowdown in agriculture, tourism and manufacturing sectors. However, building and construction, wholesale and retail trade and the financial services sectors realized positive growth rates. The economy is projected to achieve a GDP growth of about 3.5% in 2009.

The outcome of overall economic activity reflected the impact of post-election violence at the beginning of 2008, a significant rise in fuel and food prices following supply constraints. In addition, the slowdown of the World economy and the ongoing global financial crisis which set in during the second half of 2008, continued to impair prospects for implementation of planned economic programmes as enshrined in Vision 2030.

Inflation

The Consumer Price Index recorded a 27.7% increase from 239.8 points in December 2007 to 306.28 points in December 2008. The overall 12-month inflation, maintained an upward trend from 12.2% in December 2007 to settle at 27.7 % in December 2008. The Overall annual average inflation rate increased from 9.8% in 2007 to 26.4% in December 2008. Increased inflationary pressure reflected the impact of increased oil prices and acute food shortages due to disruption of farming activities following post election violence during the first quarter of 2008. Inflation is expected to slowdown in view of declining international crude oil prices and measures being taken by the Government to ensure adequate food supplies.

Financial Markets

Short term interest rates remained stable; oscillating between 7.0% and 9.1% during the year 2008. The benchmark 91-day Treasury bill rate, following tight liquidity during the year, increased from 6.99% in January 2008 to 8.59% at the end of December 2008. The interest rate on the 182-day Treasury bill increased from 8.09% in January to 9.05% at the end of December 2008. The average inter-

Chairman's Commentary (Continued)

The KCB Group Chairman Peter Muthoka and the KCB Foundation Chairman Susan Omanga unveil the first KCB sustainability reoport.

KCB former Chairman Susan Mudhune hands over mantle to the new KCB Chairman Peter Muthoka.

bank rate increased progressively from 7.6% in January 2008 to 8.1% in July 2008 before declining to 6.9% at the end of December 2008. The decision by Central Bank of Kenya to lower the Central Bank Rate (CBR) from 9% to 8.5% towards end of 2008 has increased liquidity in the market, an indication that short term interest rates will continue to come down.

In the foreign exchange market the Kenya shilling suffered increased volatility against major world currencies in 2008. The shilling weakened against the US dollar, the Euro and the Japanese Yen but gained against the sterling pound during the year to December 2008. The local currency traded at an average of KShs68.1, KShs63.2, KShs134.01 and KShs100.2 to the US Dollar, Japanese yen, Sterling Pound and the Euro respectively in January 2008 compared to KShs78.2, KShs85.4, KShs117.4 and KShs104.1 in December 2008 respectively.

Trading at the Nairobi Stock Exchange registered declining trends following low investor expectations during the year 2008. The NSE 20 Share Index reduced a total of 1923.65 points, equivalent to a drop of 35.3% to close at 3,521.18 points in 2008 from a high of 5,444.83 at the close of 2007. The newly launched NSE All Share Index (NASI) closed at 73.37 points, down 26.63 percent from its base of 100 points. Market capitalization maintained an upward trend from a total of KShs851.3 billion at the end of 2007 to a peak of KShs1,230.1 billion in June 2008 before declining to KShs853.9 billion in December 2008. However the total value of shares traded at NSE increased by 16.3% from KShs89 billion at the end of 2007 to KShs103.5billion in 2008.

Increased inflation, optimistic expectations about the performance of Safaricom shares and low investor confidence following collapse of Francis Thuo & Partners and Nyaga Stockbrokers have hampered stock market performance. As a result both institutional and high net worth retail investors started moving away from equities to safer investments particularly Government debt and alternative investments such as real estate.

Corporate Governance and Social Responsibility

KCB continues to show leadership in corporate governance in this country by putting in place a clear Board Structure, incorporating Committees for Credit, Risk, Human Resources, Procurement, Audit and the KCB Foundation to ensure focus on delivery of its responsibilities. The Board also oversees the activities of the KCB Staff Pension Fund (Defined Benefit) Scheme and the KCB Staff Retirement Benefits (Defined Contribution) Scheme.

All Committees of the Board are chaired by a member of the Board and their membership includes the Group Chairman and Group Chief Executive. Group Subsidiary Boards have their own chairmen and their membership includes resident citizens (in case of regional subsidiaries).

This structure ensures the Board pays attention to the critical areas of the business and provides timely guidance in order to capitalize on available business opportunities to make returns for shareholders. The Board continues to be guided by its charters in providing leadership to the business.

Board and Management held their annual strategic retreat

Chairman's Commentary (Continued)

THE GROUP CHAIRMAN: rings the bell at Uganda Securities Exchange to signify the beginning of trading of KCB Shares.

TUSKER NA MILLI PROMOTION: The CEO presents a cheque of KShs 10 million to the winners.

in November to review plans for the next five years and get to interact and bond for better team performance. During the retreat, a new vision for the bank was approved to guide its strategic initiatives going into the future. The new vision is: To be the preferred provider of financial solutions in Africa with a global reach by 2013. We hope to make significant progress in achieving this vision over the next five years.

There were a couple of changes in the constitution of the main Group Board and the Subsidiary Boards following last year's annual general meeting. Former chairman, Susan Mudhune, handed over the leadership mantle of the business to me after the last meeting upon conclusion of her term and I would like to thank her most profoundly for her support during the transition. Eng. Musa Ndeto joined the main Board replacing James Koome who retired.

New additional directors were brought into KCB Sudan and KCB Uganda to complement existing directors and meet the governance requirements of those markets. David Nyende joined fellow countryman Samwiri Njuki as the second resident director at KCB Uganda, while Yar Manoa Majok Deng becomes the second resident director in KCB Sudan, joining fellow Sudanese Leo Onek on the Board.

A number of key members of the Executive team are incorporated into the respective Boards and Committees as attendees to add value to key Board decisions.

On Corporate Social Responsibility, KCB Foundation has found its place among the Kenyan Society as the most committed vehicle to implement community social development on behalf of the KCB Group. In 2008 the Foundation spent KSh54.6 million to meet community needs in the areas of health, education, environment, entrepreneurship and welfare. Among such uses of the funds were the relief support the Foundation gave to victims of post election violence early last year and a donation of KSh17 million to the Ministry of Education towards expansion of education facilities to meet the needs of violence victims and rehabilitate those that were destroyed in the skirmishes. The bank also implemented highly successful KCB Community Day and KCB Community Week events that were fully driven by staff.

Rights Issue 2008 and Cross-Listing

Following your approval for the second KCB Rights Issue to augment our capital base, I am happy to report that the exercise was a resounding success. The issue attracted over KSh8 billion against a target of KShs5.5 billion.

As a result of this success, the bank's prudential ratios remain strong maintaining our capacity to attract and finance big customer needs. As the business grows, the board shall periodically review its capital needs and take measures to address any gaps identified.

On cross-listing of KCB shares in Uganda and Tanzania, I am pleased to inform shareholders that we accomplished this activity before the close of 2008. The Uganda Securities Exchange was the first one to admit KCB Shares to the market in mid November followed by Dar-Es-Salaam Stock Exchange the following month. There is a gradual build up in demand for KCB shares in these markets as the stocks continue to attract investors. We are

Chairman's Commentary (Continued)

SOCCER: Environmental Soccer Challenge that took place at Gilgil.

ATHLETICS: One of the KCB/Athletics Kenya cross-country competitions.

very grateful for the support we received from the respective capital markets authorities, central banks and stock exchanges which enabled us to accomplish the assignment within the planned period.
We shall seek your authority to cross-list in Rwanda and Burundi in the near future in order to bolster our image as a regional brand.

Shareholder Equity and Dividends

From our 2008 performance, it is notable that shareholder funds increased by 60% from KShs13.2 billion in 2007 to KShs21.08 billion. This is a strong indication that the business is growing and making money for the shareholders. Earnings per share now stand at 1.97 and can only get better.

Following this excellent performance, the board recommends an increased dividend payout of KSh2.2 billion, up 59% on the amount paid out the previous year. This translates to a dividend payout of KSh1 per ordinary share held.

We believe this is a deserved reward to our shareholders for keeping faith with the business and trusting us to deliver good returns.

Future Prespects

Your bank is on a sound footing. The business profitability and growth are on an enviable trajectory and Subsidiaries are beginning to turn in good results. We are confident that this state of the business is sustainable going into the future.

The Board has asked Management to look into the prospects of branching out into the rest of Africa from 2010 in view of our new vision. However, we must first consolidate what we have in place; ensuring we have adequate reach in the East African markets, our products and services are of the right quality and appeal to our diverse markets, our procedures and processes are efficient and effective and that our IT system can handle the anticipated business volumes.Thorough feasibility studies will be conducted before we enter any new markets.

The year 2009 is going to be a difficult year for businesses across the World due to the ongoing global financial crisis. Banks may be hardest hit due to the nature of their business. The Board and Management have put in place strategies to ensure we sustain our good performance and support our customers in order to help our economy surmount the challenges brought about by the crisis.

I would like to thank our shareholders for all the support you have given your business. KCB is gradually becoming the regional giant not only in fact but also in the eyes of the public. Let me also express my sincere thanks to our customers for entrusting us with their business needs and the public for always standing behind us and promoting our brand in their own special way.

Finally I would like to thank my fellow Board members for giving me support in providing guidance and leadership to the business. The Management and Staff have done a fantastic job and I commend them generously on behalf of the Board.

Thank you.

Taarifa ya Mwenyekiti

"Ruwaza mpya: kuwa mtoaji wa suluhisho za kifedha anayependwa zaidi Afrika na kufikia kiwango cha kimataifa kufikia mwaka wa 2013"

TAARIFA YA MWENYEKITI

Wanahisa,

Nina furaha kuwasilisha ripoti ya mwaka na ripoti ya fedha ya Benki ya KCB kwa mwaka wa 2008.

Wakati wa kipindi hicho cha mwaka Kampuni ilipata faida ya shilingi bilioni 6.013 kabla ya kodi, likiwa ni ongezeko la asilimia 42, kulinganishwa na kipindi kilichopita. Matokeo haya bora yanadhihirisha kiwango cha juu cha kujitolea kwa Halmashauri ya Wakurugenzi, Manejimenti na Wafanyikazi kujitahidi kutimiza matarajio ya wanahisa. Aidha matokeo haya bora yanatokana na kuungwa mkono na wanahisa wetu, wateja, wanaotuletea bidhaa na jamii mbali mbali katika mahali tunakohudumu.

Wawekezaji wanaendelea kuonyesha imani katika biashara kwa kuendelea kununua hisa za benki licha ya kudorora kwa soko la hisa. Ijapokuwa bei za hisa ziliendelea kupungua katika kipindi cha miezi michache cha mwaka huo, hisa za KCB zimekuwa zikinunuliwa na wawekezaji wengi kwa sababu ya thamani yake katika siku zijazo. Hisa zenu zilifikia bei ya juu ya shilingi 34.75 mapema kabla ya kuanza kupungua na kufikia shilingi 16 kwa hisa mwezi Disemba 2008, kutokana na kudidimia kwa imani ya wawekezaji katika soko la hisa na msukosuko wa kifedha duniani. Kutokana na matokeo bora ambayo yanaendelea katika benki na matarajio ya marekebisho katika masoko ya fedha, tunatarajia imani ya wawekezaji itarejea katika kipindi kifupi kijacho na kuendelea kuimarika tena kwa hisa zenu.

Mazingira ya Biashara

Shughuli za uchumi za KCB zinapaswa kulinganishwa na matokeo ya jumla ya uchumi wa nchi. Jumla ya pato la taifa la Kenya, (GDP), linakadiriwa limeongezeka kwa asilimia 2.5 mwaka wa 2008 ikilinganishwa na ukuaji wa jumla wa asilimia 7.0 mwaka wa 2007. Mojawapo ya sababu za punguo hilo la ukuaji ni kudidimia kwa sekta za kilimo, utalii na utengenezaji wa bidhaa. Hata hivyo sekta za nyumba na ujenzi, biashara za jumla na zile za rejareja na huduma za kifedha zilikuwa na viwango chanya vya ukuaji. Uchumi umekadiriwa kufikia kiwango cha ukuaji cha GDP cha takribani asilimia 3.5 mwaka wa 2009.

Shughuli za jumla za kiuchumi ziliakisi athari za ghasia baada ya uchaguzi mkuu mwanzoni mwa mwaka wa 2008 na kuongezeka kwa kiasi kikubwa kwa bei za mafuta na chakula kufuatia upatikanaji haba wa bidhaa hizo. Pamoja na hayo kudorora kwa uchumi wa dunia na msukosuko wa kifedha unaoendelea ambao ulianza kipindi cha pili cha mwaka 2008, uliendelea kutatiza utekelezaji wa mipango ya kiuchumi kama ilivyoelezwa katika ruwaza ya 2030.

Mfumuko wa bei

Kiwango cha bei ya mnunuzi kilikuwa na ongezeko la asilimia 27.7 kutoka pointi 239.8 mwezi Disemba 2007 hadi pointi 306.28 mwezi Disemba 2008. Kiwango cha jumla cha mfumuko wa bei kwa miezi 12, kilidumisha hali ya kupanda kutoka asilimia 12.2 mwezi Disemba 2007 na kufikia asilimia 27.7 mwezi Disemba 2008. Kiwango cha wastani cha mfumuko wa bei kwa mwaka kiliongezeka kutoka asilimia 9.8 mwaka wa 2007 hadi asilimia 26.4 mwezi Disemba 2008. Ongezeko la shinikizo la mfumuko bei liliakisi athari za ongezeko la bei ya mafuta na kupungua kwa kiasi kikubwa kwa chakula kutokana na kukatizwa kwa shughuli za kilimo kufuatia ghasia za baada ya uchaguzi wakati wa robo ya kwanza ya mwaka wa 2008. Mfumuko wa bei unatarajiwa kupungua kutokana na kushuka kwa bei za kimataifa za mafuta ghafi na hatua zinazochukuliwa na serikali kuhakikisha kuna chakula cha kutosha.

Masoko ya fedha

Viwango vya riba vya muda mfupi vilibakia imara; huku vikiyumba kati ya asilimia 7.0 na asilimia 9.1 wakati wa

Taarifa ya Mwenyekiti (kuendelea)

Wateja wanapata huduma katika benki ya KCB (T) Tawi la Dar-es-Salaam.

kipindi cha mwaka wa 2008. Kiwango cha hati za dhamana kwa siku 91 kiliongezeka kutoka asilimia 6.99 mwezi Januari 2008 hadi asilimia 8.59 mwishoni mwa mwezi wa Disemba 2008 kufuatia udhibiti wa fedha wakati wa kipindi cha mwaka. Kiwango cha riba kwa hati za dhamana kwa siku 182 kiliongezeka kutoka asilimia 9.09 mwezi Januari hadi asilimia 9.05 mwishoni mwa Disemba 2008. Kiwango cha wastani cha riba miongoni mwa mabenki kiliongezeka taratibu kutoka asilimia 7.6 mwezi Januari 2008 hadi asilimia 8.1 mwezi Julai 2008 kabla ya kupungua hadi asilimia 6.9 mwishoni mwa Disemba 2008. Uamuzi wa Benki Kuu ya Kenya wa kupunguza viwango vya Benki Kuu kutoka asilimia 9 hadi asilimia 8.5 kufikia mwishoni mwa 2008 umeongeza fedha katika soko, ishara kwamba viwango vya riba ya faida ya muda mfupi vitaendelea kushuka.

Katika soko la kubadilisha fedha za kigeni, shilingi ya Kenya ilikabiliwa na msukosuko zaidi dhidi ya sarafu muhimu za kimataifa mwaka wa 2008. Shilingi ilidhoofika dhidi ya dola ya Marekani, Euro na Yen ya Japan lakini ikaimarika dhidi ya Pauni ya Uingereza wakati wa kipindi cha mwaka hadi Disemba 2008. Shilingi ilibadilishwa kwa wastani wa Sh. 68.1, Sh.63.2, Sh.134 .01 na Sh. 100.2 dhidi ya Dola ya Marekani, Yen ya Japan, Pauni ya Uingereza, na Euro mtawalia mwezi Januari 2008 ikilinganishwa na Sh. 78.2, Sh.85.4, Sh.117.4 na Sh. 104.1 mwezi Disemba 2008 mtawalia.

Biashara katika soko la Hisa la Nairobi, (NSE), ilidorora kufuatia kupungua kwa matarajio ya uwekezaji wakati wa kipindi cha 2008. Kipimo cha makampuni bora 20 katika NSE kilipungua kwa jumla ya pointi 1923.18, sawa na anguko la asilimia 35.3 na kufunga kwa pointi 73.37, punguo la asilimia 26.63 kutoka shina lake la pointi 100. Mtaji wa soko ulidumisha ongezeko lake kutoka jumla ya shilingi bilioni 851.3 mwishoni mwa mwaka wa 2007 hadi kufikia kilele cha shilingi bilioni 1,230.1 mwezi Disemba 2008. Hata hivyo jumla ya thamani ya hisa zilizouzwa katika NSE iliongezeka kwa asilimia 16.3 kutoka shilingi bilioni 89 mwishoni mwa 2007 hadi shilingi bilioni 103.5 mwaka wa 2008.

Ongezeko la mfumuko wa bei, matarajio kuhusu mauzo ya hisa za Safaricom na imani ndogo ya wawekezaji kufuatia kuporomoka kwa kampuni za udalali wa hisa za Francis Thuo na Nyaga kumeathiri ufanisi wa soko la hisa. Kutokana na sababu hiyo wawekezaji wa kitaasisi na wale wa reja reja wa kiwango kikubwa walianza kukwepa hisa kuwekeza katika maeneo salama zaidi hasa katika hati za dhamana za serikali na uwekezaji mbadala kama vile mali isiyohamishika.

Maongozi ya kampuni na wajibu wa kijamii

KCB inaendelea kuonyesha muelekeo wa maongozi ya kampuni katika nchi hii kwa kuweka mikakati dhahiri ya muundo wa Halmashauri, kushirikisha kamati za Kifedha, Hatari, Rasilimali za Kibinadamu, Ununuzi, Hesabu na Wakfu wa KCB kuhakikisha utekelezaji wa majukumu yake unazingatiwa. Halmashauri pia inasimamia shughuli za KCB, Hazina ya Pensheni ya Wafanyikazi na Mpango wa Kustaafu wa Wafanyikazi wa KCB.

Kamati zote za Halmashauri zinaongozwa na mwanachama wa kamati ya Halmashauri na uanachama wao ni pamoja na Mwenyekiti wa Kampuni na Mkurugenzi Mkuu. Halmashauri za matawi ya Kampuni zina wenyeviti wao na uanachama wao unajumuisha wakaazi wa maeneo, iwapo ni matawi ya kanda.

Muundo huu unahakikisha Halmashauri inazingatia maeneo muhimu ya kibiashara na kutoa muongozo kwa wakati unaofaa ili kutumia fursa iliyoko ya biashara kwa

Taarifa ya Mwenyekiti (kuendelea)

Tawi la KCB (U) Kampala

ajili ya faida ya wanahisa. Halmashauri inaendelea kuongozwa na muongozo wake katika kutoa mueleko wa biashara.

Halmashauri na Manejimenti walifanya kikao cha kupanga mikakati mwezi Novemba kuchunguza mipango ya miaka mitano ijayo na pia kutangamana ili kuwe na utekelezaji bora zaidi wa kazi kama kundi. Wakati wa kikao hicho, ruwaza mpya ya benki iliidhinishwa kuongoza mikakati yake katika siku za usoni. Ruwaza hiyo mpya ni: Kuwa mtoaji wa suluhisho za kifedha anayependwa zaidi Afrika na kufikia kiwango cha kimataifa kufikia mwaka wa 2013. Tunatarajia kuwa na hatua thabiti katika kufikia Ruwaza hii katika kipindi cha miaka mitano ijayo.

Kulikuwa na mabadiliko kadhaa katika uanachama wa Halmashauri Kuu ya Kampuni na Halmashauri za matawi kufuatia mkutano mkuu wa mwaka jana. Mwenyekti wa zamani, Susan Mudhune, alinikabidhi hatamu za uongozi wa biashara baada ya mkutano uliopita kufuatia kukamilika kwa kipindi chake na ningependa kumshukuru kwa dhati kwa usaidizi wake wakati wa kipindi hicho cha mpwito. Mhandisi Musa Ndeto alijiunga na Halmashauri Kuu kuchukua mahali pa James Koome ambaye alistaafu.

Wakurugenzi wapya waliongezwa katika KCB Sudan na KCB Uganda kusaidiana na Wakurugenzi walioko na kuafiki mahitaji ya maongozi ya masoko hayo. David Nyende alijiunga na mwananchi mwenzake Samwiri Njuki kama Mkurugenzi mkazi wa pili katika KCB Uganda, naye Yar Manoa Majok Deng anakuwa Mkurugenzi mkazi wa pili katika KCB Sudan, ambapo amejiunga na Msudan mwenzake, Leo Onek katika Halmashauri.

Wasimamizi kadhaa wa benki Kuu wameshirikishwa katika Halmashauri na Kamati kama washirika ili kuongeza thamani maamuzi muhimu ya Halmashauri.

Kuhusu Wajibu wa Kampuni kwa Jamii, Wakfu wa KCB unatangamana kwa dhati na jamii ya Wakenya kutekeleza miradi ya maendeleo ya kijamii kwa niaba ya Kampuni ya KCB. Mnamo mwaka wa 2008, Wakfu huo ulitumia shilingi milioni 54.6 kushughulikia mahitaji ya jamii katika nyanja za afya, elimu, mazingira, biashara na maslahi ya kijamii. Miongoni mwa mambo mengine, fedha hizi zilitumiwa na Wakfu huo kutoa usaidizi kwa waathiriwa wa ghasia za baada ya uchaguzi mapema mwaka jana na mchango wa shilingi milioni 17 kwa Wizara ya Elimu kupanua vifaa vya elimu ili kuafikia mahitaji ya waathiriwa wa ghasia na kurekebisha vile vilivyoharibiwa katika ghasia hizo. Aidha benki ilitekeleza kwa ufanisi Siku ya Jamii ya KCB na Wiki ya Jamii ya KCB; matukio ambayo yaliendeshwa na wafanyikazi wenyewe.

Mauzo ya hisa na kuandikisha hisa masoko ya nje

Kufuatia idhini yenu ya kuuzwa kwa awamu ya pili ya hisa za KCB kuthibiti mtaji wetu, nina furaha kueleza kwamba shughuli hiyo ilikuwa na ufanisi mkubwa. Hisa zenye thamani ya shilingi bilioni 8 ziliagizwa dhidi ya mauzo ya shilingi bilioni 5.5 yaliyokusudiwa. Kutokana na ufanisi huu uwiano wa viwango vya fedha vya benki vimebakia imara na kudumisha uwezo wetu wa kuvutia na kufadhili mahitaji ya wateja wetu wakuu. Biashara inapoendelea kukua, Halmashauri itachunguza mara kwa mara mahitaji yake ya mtaji na kuchukua hatua za kujaza mapengo yoyote yatakayobainika.

Kuhusu kuandikisha hisa za KCB katika masoko ya Uganda na Tanzania, nina furaha kuwafahamisha wanahisa kwamba tulikamilisha shughuli hii kabla ya mwisho wa mwaka wa 2008. Soko la Hisa la Uganda lilikuwa la kwanza kukubali hisa za KCB kuuzwa katika soko hilo katikati ya mwezi Novemba likifuatiwa na Soko la Hisa la Dar-es-salaam mwezi uliofuatia. Mvuto wa hisa hizi

Taarifa ya Mwenyekiti (kuendelea)

KCB UGANDA: Hon Urban Tibamanya Minister of State for Lands and Urban Development Republic of Uganda officially inaugrates Mbarara branch

KCB RWANDA: New-look Kigali branch

unaongezeka taratibu katika masoko hayo, huku zikiendelea kuvutia wateja. Tunashukuru kwa ushirikiano tuliopatiwa na halimashauri za masoko, benki kuu na masoko ya hisa, hali iliyotuwezesha kukamilisha shughuli hiyo katika muda uliopangwa. Tutaomba idhini yenu kuandikisha mauzo ya hisa Rwanda na Burundi katika siku za karibuni ili kuimarisha sifa zetu kama benki imara katika kanda.

Wenyehisa na mgao wa faida

Kutokana na utekelezaji wa shughuli zetu mwaka wa 2008, ni wazi kwamba fedha za wanahisa ziliongezeka kwa asilimia 60 kutoka shilingi bilioni 13.2 mwaka wa 2007 hadi shilingi bilioni 21.08. Hiki ni kidokezo thabiti kwamba biashara inakua na kuleta faida kwa wanahisa. Mapato kwa hisa sasa ni shilingi 1.97 na yataendelea kuimarika.

Kufuatia matokeo haya ya kuvutia, Halmashauri inapendekeza ongezeko la mgao wa faida wa shilingi milioni 2.2, ongezeko la asilimia 59 kwa kiasi kilicholipwa mwaka uliotangulia. Hii ni sawa na malipo ya mgao wa faida wa shilingi moja kwa hisa ya kawaida.

Tunaamini kwamba hii ni zawadi muafaka kwa wanahisa wetu kwa kudumisha imani na biashara na kwa kuamini kwamba tutawaletea matokeo bora.

Matarajio ya baadaye

Benki yenu inaendelea vyema. Faida ya biashara na ukuaji viko katika mweleko thabiti na matawi yameanza kuwa na matokeo mazuri. Tuna imani kwamba hali hii ya biashara itadumishwa katika siku zijazo.

Halmashauri imeutaka Manejimenti kuchunguza uwezekano wa kuwa na matawi katika mataifa yaliyosalia ya Afrika kuanzia mwaka wa 2010 kwa mujibu wa ruwaza yetu mpya. Hata hivyo ni lazima kwanza tuimarishe kile tulicho nacho kwa sasa; kuhakikisha kwamba tunapenya barabara katika masoko ya Afrika Mashariki, masoko yetu mbali mbali, taratibu zetu na michakato inafaa na ni thabiti na kwamba mfumo wetu wa habari ya mawasiliano unaweza kumudu kiwango kikubwa cha biashara inayotarajiwa. Uchunguzi muafaka utafanywa kabla ya kuingia katika masoko mapya.

Mwaka wa 2009 utakuwa mwaka mgumu kwa biashara kote duniani kutokana na msukosuko wa kifedha duniani. Benki huenda zikaathiriwa zaidi kutokana na hali yao ya kibiashara. Halmashauri na Manejimenti wameweka mikakati kuhakikisha kwamba tunadumisha matokeo yetu bora na kuwasaidia wateja wetu ili kusaidia uchumi wetu kukabiliana na changamoto zilizosababishwa na mzozo huo.

Ningependa kuwashukuru wanahisa wetu kwa usaidizi wote mliotoa kwa biashara yenu. Taratibu KCB inabadilika kuwa mwamba katika kanda kwa vitendo katika macho ya umma. Ningependa pia kutoa shukrani zangu za dhati kwa wateja wetu kwa kutuamini na mahitaji yao ya biashara na umma kwa kuendelea kusimama kila wakati nyumba yetu na kutangaza benki yetu kwa namna yao.

Hatimaye ningependa kuwashukuru wanachama wenzangu katika Halmashauri kwa kunipa usaidizi katika kutoa mueleko na uongozi kwa biashara. Manejimenti na Wafanyikazi wametekeleza kazi nzuri na ninawashukuru kwa dhati kwa niaba ya Halmashauri.

Asanteni.

Chief Executive's Commentary

"Our profit before tax increased by 42% from KShs 4.2 billion in 2007 to KShs. 6.013"

CHIEF EXECUTIVE'S COMMENTARY

Shareholders,

As you will note from the detailed accounts, our profit before tax increased by 42% from KShs4.2 billion in 2007 to KShs6.013 billion in 2008 propped up by good performance in our lending, foreign exchange and transaction volumes.

Net interest income went up by 39% to KShs11.8 billion from KShs8.5 billion in 2007 due to a significant increase in lending both for the Corporate and Retail businesses. Foreign exchange income increased by an impressive 94% to stand at KShs1.63 billion up from KShs839 million the previous year as our Treasury Division aggressively marketed for more business while fees and commissions improved by 28% to KShs5.8 billion from KShs4.5 billion in 2007 as a result of increased business volumes.

Total Operating Expenses increased by 30% from KShs9.4 billion the previous year to KShs12.2 billion in 2008 reflecting our growing business as well as the effects of inflation. We also spent significantly in upgrading our information technology infrastructure to support delivery of quality customer service. Staff and training costs also went up as we recruited more personnel to support the growing business and delivered training to meet the required level of customer service quality.

Our total assets grew by 59% to KSh191.2 billion from KShs120.5 billion in 2007, placing KCB ahead of all banks in the region as the largest bank in that respect. Fixed assets went up by 45% to Kshs7.2Billion up from KShs 4.98 Billion in 2007 due to our ongoing branch network expansion and investment in the new core-banking system, T24.

Net loans and advances increased by 45% from KShs64.3 billion in 2007 to KShs93.5 billion in 2008 as we vigorously marketed for both Corporate and Retail loans. Net provisions for bad and doubtful debt went up 88% from KShs748 million the previous year to KShs1.4 billion in recognition of the increasing risk in our growing loan book even as we pursue recovery of our bad debts.

Shareholder equity increased by 60% to KSh21.1 billion from KSh13.2 billion in 2007 owing to additional capital from the successful rights issue conducted last year and an increase in retained earnings. The Board proposes to pay KSh2.2 billion in dividends, a 59% increase over 2007, reflecting a payout of KShs1 per ordinary share up from KShs0.70 per ordinary share paid out in 2007. We believe this high dividend payment will help our shareholders mitigate some of the effects of the current economic challenges in the financial market.

The bank's prudential ratios remained strong with core capital to total deposit liabilities at 11.5% (CBK minimum – 8%), core capital to total risk weighted assets at 15.5% (CBK minimum – 8%) and liquidity at 31.6% (CBK minimum – 20%). We will continue to sustain strong capital ratios going forward to maintain the bank's capacity to compete in the market.

Infrastructure Expansion and Customer Service

On infrastructure, we continued to expand our ATM and branch network to take our services closer to the market place. In Kenya alone we opened 28 new outlets that comprised normal retail branches, Advantage Banking centres and sales outlets. We plan to open 30 more branches this year.

Across the region, we continued to consolidate our presence with new branches in the markets of Tanzania,

Chief Executive's Commentary (Continued)

KCB SUDAN: Juba Main Branch

KCB ZANZIBAR BRANCH: President Karume cuts the ribbon to officially open the Zanzibar Branch

Southern Sudan and Uganda whose total branch numbers stand at eight, three and seven respectively. We also began operations in Rwanda in December bringing us closer to completing the East African Community circuit. We plan to open a total of 20 more branches in these markets.

Our Quickserve ATM network grew significantly last year to stand at 182 outlets across the region (total of 292 including PesaPoint network). We shall revamp this key delivery channel with a further 200 units in 2009.

In our bid to improve customer service we opened Advantage Banking Centres in Nairobi, Mombasa and Kisumu to address the unique service needs of the discerning high-net-worth customers. More such centres will be rolled out going forward.

We launched a number of lending and mortgage products and rolled out a key business banking platform the KCB Biashara Club for our business banking customers. The Club has conducted two successful business trips for our customers to Dubai and China, respectively. A similar platform, the S&L Developers Club, has also been launched to cater for players in the real estate sector.

We shall continue to train and develop our people to give them the capacity to effectively serve the modern customer. Through our STELLAR SERVICE training programme we shall ensure our front office employees are empowered to delight our customers while also developing the support team at the back office. Leadership training and exposure will form a key part of our employee development programmes to ensure KCB has in place a pool of competent leaders to take the business into the future.

The Regional Agenda

We made immense progress in pursuing our regional agenda in line with our vision. After 12 years of a troubled existence, KCB Tanzania finally turned the corner reporting a profit before tax of KSh32 million following a break-even position in 2007. The business has increased its branch outlets and rolled out new products to ready itself for a tough battle for a larger market share.

KCB Sudan has confounded all by standing out as a prime investment for the Group. After only two-and-half years in operation and 3 branches, the business boasts an impressive KSh10 billion balance sheet and profit before tax of KSh530 million. New products are being lined up for this market including a special mortgage proposition to create more revenue streams.

KCB Uganda, which celebrated its first anniversary in November, has aggressively expanded its branch network from just one on establishment in 2007 to the current seven. By the end of this year the subsidiary will comprise 15 branches therefore giving itself the capacity to effectively complete for business. It has become a very strong brand in that market due to high level brand activation and market presence and is enjoying good synergies with KCB Sudan, Kenya and Rwanda.

KCB Rwanda is our newest operation with one branch in Kigali and has plans to open up to six branches this year. We shall be venturing into Burundi in 2009 and this will make KCB a truly East African brand.

Chief Executive's Commentary (Continued)

KCB TANZANIA: Dar-es-Salam Branch.

2009 and Beyond

Since the year 2000 KCB has pursued the vision: To be the Best Bank in the region. This was in recognition of the need to support our customers across East Africa in view of the fledgling economic integration of the E.A. States. As part of that agenda we have opened more branches across the region, ventured into new markets and created a one-branch banking platform. With all countries other than Burundi now covered, our sights are set on the bigger market, Africa.

The Board has approved a new vision: To be the preferred provider of financial solutions in Africa with a global reach by 2013. This is the dream of where we want to take the business as we seek to strengthen the brand further and create value for our stakeholders.

To set the stage for that vision we will focus in 2009 on consolidating the business across the E.A. markets. We need to get our customer service and delivery process right; we also need to exploit further opportunities in the existing markets to enhance our share of the business. From 2010 we shall begin to expand into various viable markets in Africa and we will embark on detailed feasibility studies to guide us in this regard. The future is indeed bright for the bank and its shareholders.

I want to thank the Board for their good counsel; timely guidance and decision-making that enabled us to deliver these impressive results. The KCB Senior Management and Staff at large deserve a pat on the back for the sacrifices they made and for their dedication and commitment to deliver on their targets for 2008. I also want to thank our customers and the public in general for their continued support.

Although the outlook for 2009 is one of a depressed economic performance we have taken appropriate measures to ensure that KCB will build on the gains made in the recent years to meet the expectations of its various stakeholders and I look forward to your continued support.

Thank you.

Taarifa ya Mkurugenzi Mkuu

> "Faida yetu kabla ya kodi iliongezeka kwa asilimia 42 kutoka Shilingi Bilioni 4.2 mwaka wa 2007 hadi Shilingi Bilioni 6.013"

TAARIFA YA MKURUGENZI MKUU

Kwa wanahisa,

Kama munavyoona katika taarifa ya hesabu ambayo imeelezwa kwa kina, faida yetu kabla ya kodi iliongezeka kwa asilimia 42 kutoka shilingi bilioni 4.2 mwaka wa 2007 hadi shilingi bilioni 6.013 mwaka wa 2008, kutokana na shughuli zetu bora za kiuchumi katika utoaji wa mikopo, kubadilisha fedha za kigeni na kiwango cha biashara.

Faida ya jumla iliongezeka kutoka asilimia 39 hadi shilingi bilioni 11.8 kutoka shilingi bilioni 8.5 mwaka wa 2007 kutokana na kuongezeka kwa kiasi kikubwa cha utoaji wa mikopo kwa Mashirika na Biashara za rejareja. Mapato ya kubadilisha fedha za kigeni yaliongezeka kwa kiasi cha kuridhisha cha asilimia 94 na kufikia shilingi bilioni 1.63 kutoka shilingi bilioni 839 mwaka uliotangulia huku kitengo chetu cha Hazina kikitafuta biashara zaidi, nayo ada na malipo ya bakshishi vikiimarika kwa asili mia 28 hadi shilingi bilioni 5.8 kutoka shilingi bilioni 4.5 mwaka wa 2007 kufuatia kuongezeka kwa viwango vya biashara.

Gharama za jumla za shughuli zetu ziliongezeka kwa asilimia 30 kutoka shilingi bilioni 9.4 mwaka uliotangulia hadi shilingi bilioni 12.2 mwaka wa 2008 hali iliyoakisi ukuaji wa biashara yetu pamoja na athari za mfumuko wa bei. Pia tuliongeza matumizi yetu ya fedha katika kuimarisha mfumo wetu wa teknolojia ya mawasiliano kusaidia utoaji wa huduma bora kwa wateja. Gharama za wafanyikazi na mafunzo pia viliongezeka kutokana na kuajiri wafanyikazi zaidi na utoaji wa mafunzo ya kuafiki kiwango cha huduma kinachotarajiwa na wateja wetu.

Jumla ya rasilimali zetu ziliongezeka kwa asilimia 59 hadi shilingi bilioni 191.2 kutoka shilingi bilioni 120.5 mwaka wa 2007, na kuifanya KCB kuwa mstari wa mbele kama benki kubwa zaidi kwenye kanda katika hali hii. Mali zisizohamishika ziliongezeka kwa asilimia 45 hadi shilingi bilioni 7.2 kutoka shilingi bilioni 4.98 mwaka wa 2007 kutokana na shughuli inayoendelea ya kupanua mtandao wa matawi yetu na uwekezaji katika mfumo muhimu wa kisasa wa T24.

Jumla ya mikopo iliyotolewa na benki iliongezeka kwa asilimia 45 kutoka shilingi bilioni 64.3 mwaka wa 2007 hadi shilingi bilioni 93.5 mwaka wa 2008 kutokana na himizo letu la kutoa mikopo kwa Mashirika na mikopo ya reja reja. Kiasi cha kukabiliana na mikopo isiyolipwa kiliongezeka kwa asilimia 88 kutoka shilingi milioni 748 mwaka uliotangulia hadi shilingi bilioni 1.4 kwa kutambua ongezeko la hatari ya mikopo tunayodai huku tukitafuta kulipwa mikopo hiyo.

Hisa zisizokuwa na riba ya kudumu ziliongezeka kwa asilimia 60 hadi shilingi bilioni 21.1 kutoka shilingi bilioni 13.2 mwaka wa 2007 kutokana na mtaji wa ziada kufuatia kufaulu kwa mauzo ya hisa yaliyofanywa mwaka jana na ongezeko fedha la zilizosalia. Halmashauri inapendekeza kulipa mgao wa faida wa shilingi bilioni 2.2, ongezeko la asilimia 59 kwa mwaka wa 2007, hali inayoakisi malipo ya shilingi moja kwa hisa ya kawaida kutoka shilingi 0.70 kwa hisa ya kawaida iliyolipwa mwaka wa 2007. Tunaamini kiasi hiki kikubwa cha malipo ya mgao wa faida kitasaidia wanahisa wetu kukabiliana na baadhi ya athari zinazotokana na changamoto za sasa za kiuchumi.

Kiwango cha fedha cha benki kilibakia kuwa thabiti huku mtaji mkuu wa fedha zilizowekwa kwa minajili ya madeni zikiwa asili mia 11.5(Kiwango cha chini cha Benki Kuu ni asilimia 8), na fedha za matumizi zikiwa asilimia 31.6 (Kiwango cha chini cha Benki Kuu ni asilimia 20). Tutaendelea kudumisha uwiano thabiti wa mtaji sasa na kuendelea kuwezesha benki kushindana katika soko.

Taarifa ya Mkurugenzi Mkuu (kuendelea)

LEADERSHIP AWARD: KCB Group Chairman congratulates Emmy Kiptugen for demonstrating the best leadership qualities

Picha hii ilipigwa wakati Halmashauri ya wakurugenzi ilimtembelea Rais wa Sudan Kusini Mheshimiwa Salva Kiir Mayardit.

Upanuzi wa miuundomsingi na huduma kwa wateja

Kuhusu miuundomsingi, tuliendelea kupanua mitandao ya ATM na matawi ya benki ili kupeleka huduma zetu karibu zaidi na soko. Nchini Kenya pekee tulifungua matawi mapya 28 ambayo yalishirikisha matawi ya kutoa huduma za kawaida za rejareja, vituo vya huduma za Advantage Banking na vituo vya mauzo. Tunapanga kufungua matawi 30 zaidi mwaka huu.

Katika kanda tuliendelea kuimarisha uwepo wetu kwa matawi mapya katika masoko ya Tanzania, Sudan Kusini na Uganda idadi yake ikiwa ni manane, matatu na saba mtawalia. Aidha tulianza huduma Rwanda mwezi Disemba hali iliyotuleta karibu zaidi na mduara wa Jumuiya ya Afrika Mashariki. Tunapanga kufungua matawi 20 zaidi katika masoko hayo.

Mtandao wetu wa Quickserve ATM ulikua kwa kiasi kikubwa mwaka jana na kuwa na vituo 182 katika kanda(jumla ya vituo 292 ikiwa ni pamoja na mtandao wa PesaPoint). Tutaongeza vituo hivi muhimu vya kutoa huduma na kuvifikisha 200 mwaka wa 2009.

Katika juhudi zetu za kuimarisha huduma kwa wateja tulifungua vituo vya Advantage Banking katika miji ya Nairobi, Mombasa na Kisumu ili kukidhi mahitaji ya huduma maalum za wateja wa kiwango kikubwa. Vituo vingine kama hivi vitaanzishwa sasa na kuendelea.

Tulianzisha huduma kadhaa za mikopo na mikopo ya nyumba na kuanzisha mkakati muhimu wa biashara ya benki, KCB Biashara Club, kwa wateja wetu wanaofanya biashara. KCB Biashara Club kiliandaa ziara za kibiashara kwa wateja wetu kwenda Dubai na China mtawalia. Mkakati mwingine kama huo, S&L Developers Club pia umeanzishwa kuhudumia wale wanao-shuhgulika na sekta ya mali isiyohamishika.

Tutaendelea kutoa mafunzo kwa wafanyakazi wetu ili kuwapa uwezo wa kutoa huduma thabiti kwa mteja wa kisasa. Kupitia mpango wetu wa kutoa mafunzo ya STELLAR SERVICE tutahakikisha wafanyakazi wetu wanaohuduma maeneo ya mbele ya benki wanapewa mafunzo ya kuwaridhisha wateja wetu huku pia wakiimarisha kundi linalofanya upande wa ofisi. Mafunzo ya uongozi na kutoa ufahamu vitakuwa kiungo muhimu katika mipango ya kuendeleza wafanyakazi wetu kuhakikisha KCB ina viongozi wenye uwezo wa kuendeleza biashara katika siku za usoni.

Ajenda ya Kanda

Tulipiga hatua kubwa katika kuendeleza ajenda ya kanda kwa mujibu wa ruwaza yetu. KCB Tanzania hatimaye iliimarika na kuwa na faida ya shilingi milioni 32 kabla ya kodi mwaka wa 2007. Benki imeongeza matawi yake na kuanzisha huduma mpya ili kujiweka tayari kung'ang'ania soko kubwa zaidi.

KCB Sudan imeshangaza wengi kwa kujitokeza kuwa kiwekezo muhimu cha Kampuni. Baada ya kuhudumu kwa miaka miwili na nusu ikiwa na matawi matatu, biashara hiyo inajivunia hesabu ya shilingi bilioni 10 na faida ya shilingi milioni 530 kabla ya kodi. Huduma mpya zinatayarishwa kwa soko hili ikiwa ni pamoja na mpango maalum wa mikopo ya nyumba ili kuongeza vianzo zaidi vya faida.
KCB Uganda ambayo ilisherehekea mwaka wake wa kwanza mwezi Novemba, imepanua kwa haraka matawi

Taarifa ya Mkurugenzi Mkuu (kuendelea)

MASHINDANO YA BAISKELI: Meneja wa mauzi Ronald Okumu aanzisha rasmi mashindano ya baiskeli kuadhimisha kufunguliwa rasmi tawi la Hoima, Uganda.

MAKAMU WA RAIS: Mheshimiwa Kalonzo Musyoka aanzisha rasmi mashindano ya mbio za magari.

yake kutoka moja lililoanzishwa mwaka wa 2007 kufikia saba kwa wakati huu. Kufikia mwishoni mwa mwaka huu, benki hiyo itakuwa na matawi 15 kabla ya kupata uwezo wa kushindana kikamilifu kibiashara. Imekuwa benki ya kuvutia katika soko hilo kutokana na utambulishi wa hali ya juu na ushirika mzuri na KCB Sudan, Kenya na Rwanda.

KCB Rwanda ni biashara yetu mpya zaidi ikiwa na tawi moja huko Kigali na ina mipango ya kufungua matawi sita zaidi mwaka huu. Tutaingia Burundi mwaka wa 2009 na hii itafanya KCB kuwa benki halisi ya Afrika Mashariki.

2009 na Kuendelea

Tangu mwaka wa 2000 KCB imekuwa ikilenga ruwaza ya: Kuwa benki bora zaidi katika kanda. Hii ilitokana na haja ya kuhudumia wateja wetu kote Afrika Mashariki kutokana na kudorora kwa muungano wa uchumi wa Afrika Mashariki. Kama sehemu ya ajenda hiyo, tumefungua matawi zaidi kote katika kanda, kuingia kwenye masoko mapya na kubuni jukwaa moja la benki. Huku nchi zote, mbali na Burundi zikiwa zimeshirikishwa, sasa tunalenga masoko makubwa ya Afrika.

Halmashauri imeidhinisha ruwaza mpya: Kuwa mtoaji wa huduma za kifedha anayependwa zaidi Afrika na maeneo mengine ya dunia kufikia 2013. Haya ndio matarajio ya mwelekeo wa biashara tunapolenga kuimarisha benki zaidi na kubuni thamani kwa wateja wetu.

Ili kujiandaa kwa ruwaza hiyo, tutalenga mwaka wa 2009 kuimarisha biashara kote katika masoko ya Afrika Mashariki. Tunahitaji kuweka sahihi huduma kwa wateja wetu; aidha tunahitaji kuendelea kutumia fursa katika masoko yaliyoko kuendeleza sehemu yetu ya biashara. Kutoka mwaka wa 2010 tutaanza kuingia katika masoko kadhaa ya Afrika na tutaanzisha uchunguzi wa kina wa kutuongoza kwa hili. Kwa kweli hali ya baadaye ina matarajio mema kwa benki na wateja wake.

Ningependa kuishukuru Halmashauri kwa ushauri wake na maamuzi ambayo yalipelekea tupate matokeo ya kufurahisha. Manejimenti Kuu ya KCB na Wafanyikazi pia wanastahili pongezi kwa jinsi walivyojitolea na dhamira yao ya kufikia malengo ya 2008. Ningependa kuwashukuru wateja wetu na umma kwa jumla kwa kuendelea kutuunga mkono.

Ijapokuwa mtazamo wa 2009 unaonekana kuwa wa shughuli dhaifu za kiuchumi tumechukua hatua muafaka kuhakikisha KCB itatumia ufanisi iliyopata katika miaka ya hivi karibuni kutosheleza matarajio ya wateja wake mbali mbali na natarajia mtaendelea kuniunga mkono.

Asanteni

Report of the Directors

The directors submit their report and the audited financial statements for the year ended 31 December 2008, 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 15 (a) to the financial statements.

2. RESULTS
   The results of the Group and the Bank are set out on pages 35 and 37, respectively.

3. DIVIDEND
   The directors recommend the payment of a dividend of KShs 2,217,777,777 which represent KShs 1.00 per share in respect of the year ended 31 December 2008 (2007:- KShs 1,397,200,000 representing KShs. 0.70 per share).

4. RESERVES
   The reserves of the Group and the Bank are set out on pages 39 and 40, respectively, and on note 26.

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

Mr. P.W. Muthoka	–	Chairman, appointed on 1 June 2008
Mrs. S.O. Mudhune	–	Retired as Chairman on 1 June 2008
Mr. M.L. Oduor-Otieno	–	Chief Executive Officer
Mr. S. Kimani		
Mr. J.N. Koome	–	Retired on 9 May 2008
Mr. J. I. Adongo		
Mr. J.K. Kinyua		
Mrs. C.N. Kimura		
Mr. J.M. Ndeto	–	Appointed on 9 May 2008
Mrs. S.N. Omanga		
Mr. S.N. Shah		
Prof. P.K. Kimuyu		

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

By Order of the Board

Mr. K.D. Malakwen
Secretary

26th February 2009

Statement of Directors' Responsibilities

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

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

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

Director

Director

Director

26th February 2009

Corporate Governance Statement

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

THE BOARD OF DIRECTORS

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

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

BOARD MEETINGS

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

The Board held 10 Meetings during the year under review.

BOARD COMMITTEES

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

(a) Risk Management Committee

This Committee was set up in the year to oversee the Group's mitigation and appreciation of all risks in the business. It meets quarterly to advise the business on all matters pertaining to credit, market, operations, legal, environmental and other risks. The Committee had 4 meetings during the year.

(b) Audit Committee

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

The Committee deals with all matters relating to the financial statements and internal control systems of the Company including dealing with independent auditors and Central Bank of Kenya inspectors. It also provides the assurance that the Bank complies with legal and regulatory provisions in its operations and business conduct.

The Committee held 4 Meetings during the year under review.

(c) Credit Committee

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

The Committee held 18 Meetings during the year under review.

(d) Human Resources Committee

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

The Committee met 9 times during the year under review.

(e) Procurement and Information Technology Committee

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

The Committee met 8 times during the year under review.

(f) KCB Foundation

In recognition of the importance of Corporate Social

Corporate Governance Statement (Continued)

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

The Foundation held 3 Meetings during the year.

(g) New Markets Committee

As the Bank expands its market and products range, the Board found it prudent to set up this Committee to analyze propositions for new market entries and products. The Committee is expected to be operational in 2009.

COMMUNICATION WITH SHAREHOLDERS

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

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

DIRECTORS' EMOLUMENTS AND LOANS

The aggregate amount of emoluments paid to Directors for services tendered during the Year 2007 is disclosed in Note 25 to the Financial Statements.

Neither at the end of the financial year, now at any time during the year did there exist any arrangement to which the Company is a party, under which Directors acquired benefits by means of acquisition of the Company's shares.

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

Board/Board Committees Attendance

The following tale gives the record of attendance of the KCB Board and its Committee Meetings for the year ended 31 December, 2008

Directors interest in the shares of the Company, the distribution of the Company's shareholding and analysis of the ten largest shareholders as at 31st December, 2008 were as follows: -

	Main Board	Audit	Credit	Risk Management	Human Resources	Procurement & Information Technology	KCB Foundation
NO. MEETINGS HELD	10	4	18	4	9	8	3
MEETINGS ATTENDED							
MR. P.W. MUTHOKA	10	2	0	2	6	0	2
MRS. S.O. MUDHUNE	9	0	7	2	3	0	1
ENG. J.M. NDETO	6	2	0	0	6	8	0
MR. J.I. ADONGO	10	0	17	2	0	0	1
MR. J.K. KINYUA	8	0	10	1	0	0	0
MRS. C.N. KIMURA	6	0	4	0	9	4	0
MRS. S.N. OMANGA	10	0	11	3	0	3	3
MR. S.N. SHAH	10	0	0	2	3	8	1
PROF. P.K. KIMUYU	10	4	0	4	8	0	0
MR. M. ODUOR-OTIENO	10	0	6	3	7	0	3
MR. S.N. KIMANI	8	0	12	0	0	6	0

Corporate Governance Statement (Continued)

Directors Interests as at 31st December 2008

Name of Director	Number of Shares	% Shareholding
Permanent Secretary to the Treasury of Kenya	523,600,000	23.61
Peter Wanyaga Muthoka	170,933	0.01
Susan Mudhune	28,348	0.00
Catherine Ngima Kimura	140,620	0.01
Sunil Narshi Shah	51,779,088	2.33
Susan Nkirote Omanga	22,222	0.00
Joseph Isaac Adongo	12,222	0.00
Eng. Jeremiah Musa Ndetto	25,704	0.00

Shareholders' Profile as at 31st December 2008	Number of Shareholders	Number of Shares Held	% of Issued Share Capital
Kenyan Individual Investors	162,850	764,664,501	34.48
Kenyan Institutional Investors	6,071	1,402,463,213	63.24
East African Individual Investors	131	711,784	0.03
East African Institutional Investors	17	2,695,695	0.12
Foreign Individual Investors	421	6,958,204	0.31
Foreign Institutional Investors	47	40,284,380	1.82
	169,537	2,217,777,777	100.00

Major Shareholders	Number of Shares Held	% Shareholdings
Permanent Secretary to the Treasury of Kenya	523,600,000	23.61
National Social Security Fund	115,933,812	5.23
Stanbic Nominees Kenya Ltd A/C ICDCI	76,058,307	3.43
Mr. Sunil Narshi Shah	51,779,088	2.33
Stanbic Nominees Kenya Ltd A/C R48701	44,022,433	1.98
United Millers Ltd	30,407,633	1.37
KCB Nominees Ltd A/C 744A	28,438,260	1.28
Nomura Nominees Ltd A/C NSSF	22,490,333	1.01
Barclays (K) Nominees Ltd A/C 9230	21,171,277	0.95
Kenya Re-Insurance Corporation Ltd	19,187,944	0.87
	933,089,087	42.06

Summary of Totals Shares Range	Shareholders	Number of Shares	% Shareholdings
1 to 5,000	138,515	238,089,261	10.73
5,001 to 50,000	29,302	297,983,541	13.44
50,001 to 100,000	759	52,327,315	2.36
100,001 to 1,000,000	799	217,124,323	9.79
1,000,001 to 10,000,000	149	406,369,258	18.32
10,000,001 & above	13	1,005,884,079	45.36
	169,537	2,217,777,777	100.00

Community Social Development Report

KCB's commitment to the community continued in earnest in 2008. The year began with Kenya facing huge socio-economic challenges following the eruption of post-election violence. The KCB Foundation was an active partner in the reconstruction of Kenya; contributing to meeting welfare needs of violence victims and boosting the reconstruction of the educational facilities in addition to other ongoing programmes.

During the year, there was increased focus on the regional markets with our work expanding significantly in support of our growing businesses there. The KCB Foundation made contributions to various community social development activities in Tanzania, Uganda and Southern Sudan. The following are highlights of our activities in the course of the year.

Health

Increasing access to healthcare for needy communities remained a key focus area for the Foundation in 2008. Through our continuing partnership with Avenue Healthcare, KCB provided direct medical care to over 6000 patients in Kawangware, Thika, Machakos, Naivasha and Nairobi's Eastlands.

KCB also provided financial and material support that enabled medical camps to take place in Lamu, Kiriaini, Karatina, Siaya and Mathare; and funded clinics with much needed equipment and drugs in Ukunda, Kalita (Tanzania), Deep Sea and Githogoro slums in Nairobi.

Our partnership with Operation Smile Mission in Kenya that provides free cleft palette and cleft lip surgery for adults and children in need is in its second year of a three year arrangement. Through these partnerships and other initiatives a total of 69,274 people received direct medical support from the bank.

Investment in Health: **Ksh 4,703,251**

Education

Education remains our largest single social investment area reflecting our commitment to supporting delivery of quality education to the needy of this region. In view of the post election violence experienced in early 2008, KCB provided emergency school facilities in the form of desks, tents and learning materials for over 3000 children who had relocated to Nakuru, Molo and Subukia areas.

Through a partnership with Save the Children, 21 schools in the Rift Valley and the Koibatek District Education Office benefited from this programme, thereby enabling children to access education during this difficult time. During our annual Community week in October a total of over 114 branches in our regional network provided assistance to schools through the donation of learning materials and essential educational items to mainstream, informal and special schools, benefiting over 40,000 children in Kenya, Uganda, Tanzania and Southern Sudan.

Investment in Education: **Ksh 23,940,400**

Environment

Our annual Community Day in May once again focussed on tree planting with over 50,000 seedlings being planted in over 40 forests and schools in Kenya. Similar tree planting activities took place in Mwanza in Tanzania. KCB also supported the following groups in their commitment to reforestation: Environmental and Poverty Organisation (Siaya), Uzalendo Youth Group (Mtwapa) and the Makindu Youth Environmental Initiative (Kibwezi).

During the year, the bank launched its first Sustainability Report embodying our commitment to sustainable business management practices. The bank has also adopted the KCB Green Agenda a 24 point plan for KCB to demonstrate concern for the environment, society and the economy. It will also entail the bank's effort to cut carbon emissions arising out of its operations.

Investment in the Environment: 3,263,734

Entrepreneurship

KCB supported AIESEC's Young Entrepreneurs Programme, Yes! 2008, which saw the training of over 70 young entrepreneurs with the top four business plans being awarded with start up capital for their ideas. The Women Mean Business programme was launched in Uganda in July in conjunction with Technoserve Uganda. The initiative provides mentoring and training opportunities for small scale businesswomen to enhance their business management skills. KCB also supported the Shanzu Women's Centre – a project of the Kenya Girl Guides Association that assists women with disabilities in setting up their own tailoring businesses.

Investment in Entrepreneurship: **2,604,085**

Water and Sanitation

A number of institutions received support to increase access to water and promote safe hygiene. In 2008 we supported both educational institutions and communities to obtain much needed water facilities among them Baragoi Girls Secondary school (Marsabit), Kariobangi

Community Social Development Report (Continued)

North Primary, Umoja Primary (Nakuru), Ulanda Girls Secondary (Migori), Kaaga School for the Deaf (Meru) and Ngei PAG School (Huruma). In addition the Bank supported the rehabilitation of several wells in Lamu East.

Investment in Water and Sanitation: **1,607,785**

Welfare and Sports

The start of 2008 saw the launch of Help Save Kenya, a joint initiative involving several Corporates to respond to the post election violence in Kenya. KCB was a principal partner in this initiative which raised over KSh16 million from corporates and individuals alike. The funds were channelled to internally displaced families across Kenya through the Kenya Red Cross.

Through our branches KCB provided material and volunteer support to over 800 internally displaced people living in camps in Rift Valley, Nairobi, Central, Nyanza and Western provinces. The commitment of KCB's staff was again exemplified at the close of the year during our Christmas Giving programme which targeted over 15,000 orphans and vulnerable children in Kenya and Uganda, whereby staff raised over Ksh1 million and amount that was matched by the Foundation.

In 2008 we also provided support to the following institutions: Alhanaan Orphans Home (Mombasa), Mama Fatuma Goodwill Home, Kenya Society for the Mentally Handicapped, Mazizini Orphanage (Zanzibar), Marsabit Children's Home, Mama Hani Children's Home (Garissa), Wema Centre (Mombasa), Nyakome Deaf Unit (Kisii), the Laikipia Rescue and Rehabilitation Centre (Nanyuki) and the Tegla Loroupe Peace Foundation (Uganda) amongst others.

Investment in Welfare and Sports: **24,932,500**

Report of the Independent Auditors
to the Members of Kenya Commercial Bank Limited

We have audited the accompanying financial statements of Kenya Commercial Bank Limited and its subsidiaries as set out on pages 35 to 80, which comprise the balance sheet of the Group and the Bank as at 31 December 2008 and the income statement of the Group and the Bank, statement of changes in equity of the Group and the Bank, cash flow statement of the Group and Bank for the year then ended and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the Group and the Bank as at 31 December 2008 and of the profit and cash flows of the Group and the Bank for the year in accordance with the requirements of International Financial Reporting Standards and the Kenyan Companies Act.

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

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

iii. The Group and the Bank balance sheets and income statements are in agreement with the books of account.

Ernst & Young

Nairobi

26th February 2009

Consolidated Income Statement
for the year ended 31st December 2008

	Note	2008 KShs'000	2007 KShs'000
INTEREST INCOME	4	14,745,585	9,373,389
INTEREST EXPENSE	5	(2,970,468)	(921,822)
Net interest income		11,775,117	8,451,567
FEES AND COMMISSION INCOME		5,778,501	4,524,178
FEES AND COMMISSION EXPENSE		(229,346)	(243,877)
Net fees and commission income		5,549,155	4,280,301
Dividend income	6	6,721	23,961
Foreign exchange income		1,628,566	838,890
Other operating income	7	467,983	540,036
		7,652,425	5,683,188
Operating income		19,427,542	14,134,755
Bad and doubtful debts expense	8	(1,408,510)	(748,152)
Other operating expenses	9	(12,006,170)	(9,160,621)
PROFIT BEFORE TAX		6,012,862	4,225,982
TAX	10.2	(1,822,172)	(1,251,410)
PROFIT FOR THE YEAR		4,190,690	2,974,572
EARNINGS PER SHARE			
Basic and diluted earnings per share (KShs.)	11	1.97	1.47

Consolidated Balance Sheet
as at 31st December 2008

ASSETS	Note	2008 KShs'000	2007 KShs'000
Cash and balances with Central Banks	12	17,239,280	11,400,788
Cheques and items for clearing		1,373,496	829,312
Held to maturity investments	13	20,940,910	21,279,799
Held for trading investments	14	3,765,417	4,399,098
Placements and balances with other banking institutions		42,175,191	3,772,082
Available for sale investments	15(b)	457,066	859,640
Tax recoverable	10.1	123,966	124,122
Loans and advances to customers	16.1	93,522,105	64,278,123
Other assets	18	3,741,097	8,020,632
Intangible assets	19	1,237,733	228,718
Property and equipment	20(a)	5,787,978	4,565,832
Prepaid operating lease rentals	20(c)	185,862	187,659
Deferred tax	10.1	661,485	533,748
TOTAL ASSETS		191,211,586	120,479,553
LIABILITIES			
Deposits and balances from other banking institutions	21	38,506,010	5,828,635
Other customer deposits	22	126,691,068	94,392,361
Other liabilities	23	4,185,801	6,130,354
Tax payable	10.1	741,755	855,848
Lines of credit	24	-	67,695
TOTAL LIABILITIES		170,124,634	107,274,893
CAPITAL EMPLOYED			
Share capital	25	2,217,778	1,996,000
Reserves	26	16,651,396	9,811,460
Proposed dividend	27	2,217,778	1,397,200
SHAREHOLDERS' FUNDS		21,086,952	13,204,660
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		191,211,586	120,479,553

The financial statements were approved by the Board of Directors on 26th February 2009 and were signed on its behalf by:-

P.W. MUTHOKA CHAIRMAN	M.L. ODUOR-OTIENO CHIEF EXECUTIVE	J.M. NDETO DIRECTOR	K.D. MALAKWEN SECRETARY

Income Statement of the Bank
for the year ended 31st December 2008

	Note	2008 KShs'000	2007 KShs'000
INTEREST INCOME	4	13,154,921	8,527,122
INTEREST EXPENSE	5	(2,608,754)	(789,826)
Net interest income		10,546,167	7,737,296
FEES AND COMMISSION INCOME		5,020,605	4,189,752
FEES AND COMMISSION EXPENSE		(229,346)	(243,877)
Net fees and commission income		4,791,259	3,945,875
Dividend income	6	206,721	23,961
Foreign exchange income		1,223,743	686,142
Other operating income	7	355,391	423,818
		6,577,114	5,079,796
Operating income		17,123,281	12,817,092
Bad and doubtful debts expense	8	(1,289,427)	(699,576)
Other operating expenses	9	(10,440,004)	(8,254,607)
PROFIT BEFORE TAX		5,393,850	3,862,909
TAX	10.2	(1,582,365)	(1,156,333)
PROFIT FOR THE YEAR		3,811,485	2,706,576
EARNINGS PER SHARE			
Basic and diluted earnings per share (KShs)	11	1.80	1.33

Balance Sheet of the Bank
as at 31st December 2008

ASSETS	Note	2008 KShs'000	2007 KShs'000
Cash and balances with Central Bank of Kenya	12	13,284,166	8,401,278
Cheques and items for clearing		1,314,138	793,340
Held to maturity investments	13	18,360,658	20,144,267
Held for trading investments	14	3,765,417	4,399,098
Placements and balances with other banking institutions		38,591,215	2,528,774
Investment in subsidiaries and associated companies	15(a)	4,427,072	2,953,876
Available for sale investments	15(b)	457,066	859,640
Loans and advances to customers	16.1	79,343,099	56,477,448
Balances due from group companies	17	5,307,849	4,121,160
Other assets	18	3,108,531	7,704,220
Intangible assets	19	1,237,733	228,451
Property and equipment	20(b)	4,828,556	3,056,096
Prepaid operating lease rentals	20(c)	183,543	146,933
Deferred tax	10.1	502,521	396,079
TOTAL ASSETS		174,711,564	112,210,660
LIABILITIES			
Deposits and balances from other banking institutions	21	40,800,470	7,047,115
Other customer deposits	22	109,844,869	85,638,139
Other liabilities	23	3,413,476	5,801,575
Tax payable	10.1	594,646	809,744
Lines of credit	24	-	67,695
TOTAL LIABILITIES		154,653,461	99,364,268
CAPITAL EMPLOYED			
Share capital	25	2,217,778	1,996,000
Reserves	26	15,622,547	9,453,192
Proposed dividend	27	2,217,778	1,397,200
SHAREHOLDERS' FUNDS		20,058,103	12,846,392
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		174,711,564	112,210,660

The financial statements were approved by the Board of Directors on 26th February 2009 and were signed on its behalf by:-

P.W. MUTHOKA CHAIRMAN	M.L. ODUOR-OTIENO CHIEF EXECUTIVE	J.M. NDETO DIRECTOR	K.D. MALAKWEN SECRETARY

Consolidated Satement of Changes in Equity
for the year ended 31st December 2008

	Share capital KShs'000	Revaluation reserve KShs'000	Retained Earnings KShs'000	Share premium KShs'000	Proposed dividend KShs'000	Translation reserve KShs'000	Available for sale reserve KShs'000	Total KShs'000
At 1 January 2007	1,996,000	275,422	5,150,573	2,319,764	1,197,600	(207,844)	888,791	11,620,306
Change in value of available for sale investments	-	-	-	-	-	-	(143,220)	(143,220)
Dividend paid – 2006	-	-	-	-	(1,197,600)	-	-	(1,197,600)
Proposed dividend – 2007	-	-	(1,397,200)	-	1,397,200	-	-	-
Translation differences	-	-	-	-	-	(49,398)	-	(49,398)
Profit for the year	-	-	2,974,572	-	-	-	-	2,974,572
At 31 December 2007	1,996,000	275,422	6,727,945	2,319,764	1,397,200	(257,242)	745,571	13,204,660
At 1 January 2008	1,996,000	275,422	6,727,945	2,319,764	1,397,200	(257,242)	745,571	13,204,660
Change in value of available for sale investments	-	-	-	-	-	-	(402,574)	(402,574)
Rights issue	221,778	-	-	4,978,222	-	-	-	5,200,000
Dividend paid – 2007	-	-	-	-	(1,397,200)	-	-	(1,397,200)
Proposed dividend – 2008	-	-	(2,217,778)	-	2,217,778	-	-	-
Translation differences	-	-	-	-	-	291,376	-	291,376
Profit for the year	-	-	4,190,690	-	-	-	-	4,190,690
At 31 December 2008	2,217,778	275,422	8,700,857	7,297,986	2,217,778	34,134	342,997	21,086,952

Statement of Changes in Equity of the Bank
for the year ended 31st December 2008

	Share capital KShs'000	Retained Earnings KShs'000	Available for sale reserve KShs'000	Share premium KShs'000	Proposed dividend KShs'000	Total KShs'000
At 1 January 2007	1,996,000	5,078,481	888,791	2,319,764	1,197,600	11,480,636
Dividend paid – 2006	-	-	-	-	(1,197,600)	(1,197,600)
Proposed dividend – 2007	-	(1,397,200)	-	-	1,397,200	-
Changes in value of available for sale investments	-	-	(143,220)	-	-	(143,220)
Profit for the year	-	2,706,576	-	-	-	2,706,576
At 31 December 2007	1,996,000	6,387,857	745,571	2,319,764	1,397,200	12,846,392
At 1 January 2008	1,996,000	6,387,857	745,571	2,319,764	1,397,200	12,846,392
Change in value of available for sale investments	-	-	(402,574)	-	-	(402,574)
Rights issue	221,778	-	-	4,978,222	-	5,200,000
Dividend paid – 2007	-	-	-	-	(1,397,200)	(1,397,200)
Proposed dividend – 2008	-	(2,217,778)	-	-	2,217,778	-
Profit for the year	-	3,811,485	-	-	-	3,811,485
At 31 December 2008	2,217,778	7,981,564	342,997	7,297,986	2,217,778	20,058,103

Consolidated Cash Flow Statement
for the year ended 31st December 2008

	Note	2008 KShs'000	2007 KShs'000
NET CASH FLOWS FROM OPERATING ACTIVITIES	28(a)	10,446,240	2,395,523
Tax recovered		7,073	231,708
Tax paid		(2,070,918)	(92,764)
		(2,063,845)	138,944
INVESTING ACTIVITIES			
Proceeds from disposal of property and equipment		66,121	162,876
Purchase of intangible assets		(1,106,567)	(176,987)
Purchase of property and equipment		(2,017,645)	(1,139,830)
Purchase of a corporate bond		-	(100,000)
Net cash flows used in investing activities		(3,058,091)	(1,253,941)
FINANCING ACTIVITIES			
Proceeds from rights issue		5,200,000	-
Lines of credit		(67,695)	(14,475)
Dividends paid		(1,397,200)	(1,197,600)
Net cash flows from / (used in) financing activities		3,735,105	(1,212,075)
INCREASE IN CASH AND CASH EQUIVALENTS		9,059,409	68,451
EFFECTS OF EXCHANGE RATE CHANGES ON OPENING NET INVESTMENT IN FOREIGN ENTITIES		291,376	(49,398)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		18,812,905	18,793,852
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	28(b)	28,163,690	18,812,905

Notes to the Financial Statements
for the year ended 31st December 2008

1. GENERAL INFORMATION

Kenya Commercial Bank Limited, a financial institution licensed under the Kenyan Banking Act (Chapter 488), provides corporate and retail banking services in various parts of the country.

The Bank is incorporated in Kenya under the Kenyan Companies Act and has subsidiaries in Kenya, Sudan, Tanzania, Uganda and Rwanda.

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

2. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS

In 2008, several new and revised standards, amendments and interpretations to published standards became effective and have been adopted by the Group, where relevant to its operations.

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008, but they are not relevant to the Group's operations:

- IFRIC 11, 'IFRS 2 – 'Group and treasury share transactions'.
- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'; and
- IFRIC 12, 'Service concession arrangements'.
  The Bank has chosen not to early adopt the following standards, amendments and interpretations to existing standards that were issued, but not yet effective, for accounting periods beginning on 1 January 2008. The Group expects that adoption of these standards, amendments and interpretation will have no impact on the Groups financial statements in the period of initial application but additional disclosures will be required.
- IFRS 2 amendments - Share based payment - vesting conditions and Cancellations (effective from 1 January 2009);
- IFRS 3 revised, Business combinations (effective from 1 July 2009);
- IFRS 8 - Operating segments (effective from 1 January 2009);
- IAS 27 – Consolidated and separate financial statements (effective from 1 July 2009);
- IAS 1 revised - Presentation of financial statements (effective from 1 January 2009);
- IAS 23 revised - Borrowing costs (effective from 1 January 2009);
- Improvements to International Financial Reporting Standards (effective from 1 January 2009, unless stated otherwise);
- IAS 27 amendment – Consolidated and separate financial statements - Cost of an investment in a subsidiary, jointly controlled entity or associate (effective from 1 January 2009);
- IAS 32 amendments - Presentation and IAS 1 presentation of financial statements - Puttable financial instruments and obligations arising on liquidation (effective from 1 January 2009);
- IFRIC 13 - Customer loyalty programmes (effective from 1 July 2008);
- IAS 39 amendment – Financial instruments: Recognition and measurement – eligible hedged items (effective from 1 July 2009);
- IFRIC 15 – Agreements for the construction of real estate (effective from 1 January 2009); and
- IFRIC 16 – Hedges of a net investment in a foreign operation (effective from 1 October 2008)

3 ACCOUNTING POLICIES

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

(a) Basis of preparation

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

The financial statements have been prepared on the historical cost basis, except for certain financial assets and financial liabilities that have been measured at fair value as disclosed in the accounting policies hereafter. The financial statements are presented in Kenya Shillings (KShs.) and all values are rounded to the nearest thousands (KShs'000) except when otherwise indicated.

Notes to the Financial Statements
for the year ended 31st December 2008

(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.

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

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

(c) Significant accounting judgements and estimates

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

i) Impairment losses on loans and advances

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

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

ii) Fair value of financial instruments

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

iii) Deferred tax assets

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

iv) Pensions

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

v) Property and equipment

Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives,

Notes to the Financial Statements (Continued)
for the year ended 31st December 2008

factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. The rates used are set out on accounting policy (e) below.

(d) Recognition of income and expenses

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

i) Interest and similar income and expense

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

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

ii) Dividend income

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

iii) Fees and commission income

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

iv) Rental income

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

(e) Property, equipment and depreciation

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

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

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

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

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

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

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

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

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

(f) Provisions

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

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

(g) Financial instruments

i) Loans and advances to customers

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

ii) Investments held for trading

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

iii) Held to maturity investments

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

iv) Available for sale investments

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

(h) Impairment of financial assets

The Group assesses, at each balance sheet date,

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

i) Loans and advances to customers

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

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

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

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

ii) Re-negotiated loans and advances

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

iii) Held to maturity investments

For held to maturity investments, the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss

Notes to the Financial Statements (Continued)
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has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

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

iv) Available for sale investments

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

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

(i) Foreign currencies

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

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

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

(j) Tax

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 tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of the assets and liabilities and their carrying amounts, 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 except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax asset is reassessed at each balance sheet date and is recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liability is recognised for all taxable temporary differences, except:

i) where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

ii) in respect of taxable temporary differences associated with investments in subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(k) Employee Benefit cost

i) Retirement benefit costs

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

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

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

ii) Short-term benefits

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

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

(l) Leases

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

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

Where:-

i) A group company is the lessee
The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

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

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

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

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

The useful lives of intangible assets are assessed to be either finite or indefinite. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. However, expenditure that enhances or extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over a period of five years. In the Group there are no intangible assets with indefinite useful lives.

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

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

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

(r) Dividends
Dividends are charged to equity in the year in

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

which they are declared. Proposed dividends are shown as a separate component of equity until declared.

(s) Borrowing costs
Borrowing costs are recognised as an expense when incurred.

(t) Impairment of non-financial assets
The Group assesses, at each reporting date or more frequently, whether there is an indication that an asset may be impaired. If such indication exists, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement.

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

(v) Segmental reporting
The Group presents segmental information using business segments as its primary reporting format and geographical segments as its secondary reporting format. This is based on the internal management and financial reporting systems and reflects the risks and earnings structure of the Group.

The Group is composed of four business segments namely corporate banking, retail banking, treasury and other. The Bank operations are carried out in Kenya, Tanzania, Southern Sudan, Uganda and Rwanda.

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

(x) Subsequent events
There have been no subsequent events that would have an impact on the financial statements for the year ended 31 December 2008.

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for the year ended 31 December 2008

		GROUP		BANK	
		2008 KShs'000	2007 KShs'000	2008 KShs'000	2007 KShs'000
4.	INTEREST INCOME				
	Interest on loans and advances	10,222,805	6,558,239	8,777,453	5,783,100
	Interest on held to maturity and trading investments	2,872,421	2,425,303	2,738,909	2,327,038
	Interest on placements and bank balances	1,650,359	389,847	1,638,559	416,984
		14,745,585	9,373,389	13,154,921	8,527,122
5.	INTEREST EXPENSE				
	Interest on deposits	2,514,178	838,302	2,152,464	706,306
	Interest on borrowed funds	456,290	83,520	456,290	83,520
		2,970,468	921,822	2,608,754	789,826
6.	DIVIDEND INCOME				
	Dividend from subsidiary company	-	-	200,000	-
	Available for sale investments	6,721	23,961	6,721	23,961
		6,721	23,961	206,721	23,961
7.	OTHER OPERATING INCOME				
	Rent income	89,691	89,356	44,867	17,621
	Profit on disposal of property and equipment	65,107	75,028	65,085	33,007
	Miscellaneous income	313,185	375,652	245,439	373,190
		467,983	540,036	355,391	423,818
8.	BAD AND DOUBTFUL DEBT EXPENSE				
	Additional specific provisions	2,967,425	997,653	2,836,050	932,009
	Additional collective provisions	733,136	216,000	660,085	200,000
	Bad debts recovered during the year	(2,292,051)	(465,501)	(2,206,708)	(432,433)
		1,408,510	748,152	1,289,427	699,576
9.	OTHER OPERATING EXPENSES				
	Administrative expenses	5,015,950	3,230,027	4,217,657	2,769,255
	Staff costs (note 29)	5,973,000	5,185,939	5,307,420	4,813,449
	Directors' emoluments:				
	-As directors	29,545	30,845	24,113	24,941
	-As executives	78,682	82,924	78,682	82,924
	Depreciation of property and equipment	794,484	557,512	704,617	495,361
	Amortisation of intangible assets	97,552	58,345	97,285	58,008
	Amortisation of prepaid operating lease rentals	1,797	3,010	1,430	2,369
	Auditors' remuneration	15,160	12,019	8,800	8,300
		12,006,170	9,160,621	10,440,004	8,254,607

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10. TAX	GROUP		BANK	
10.1 BALANCE SHEET	2008 KShs'000	2007 KShs'000	2008 KShs'000	2007 KShs'000
At 1 January	(731,726)	428,245	(809,744)	330,336
Tax paid during the year	2,070,918	92,764	1,915,423	1,421
Tax charge for the year	(1,941,245)	(1,018,742)	(1,685,269)	(909,921)
Translation difference	1	(2,130)	-	-
Over/(under) provision in the previous	(8,664)	(155)	(3,538)	128
Offset against other taxes	(7,073)	(231,708)	(11,518)	(231,708)
Balance carried forward	(617,789)	(731,726)	(594,646)	(809,744)
Comprising:				
Tax recoverable	123,966	124,122	-	-
Tax payable	(741,755)	(855,848)	(594,646)	(809,744)
	(617,789)	(731,726)	(594,646)	(809,744)
DEFERRED TAX				
The net deferred tax asset is attributable to the following items:				
Depreciation over tax allowances	(94,730)	(6,702)	(93,184)	(27,690)
Provisions held	665,631	464,762	595,705	423,769
Tax losses carried forward	90,584	75,688	-	-
	661,485	533,748	502,521	396,079
10.2 INCOME STATEMENT				
Current tax	1,941,245	1,018,742	1,685,269	909,921
Deferred tax (credit)/charge	(127,737)	232,513	(106,442)	246,540
Under/(over) provision in the previous year	8,664	155	3,538	(128)
	1,822,172	1,251,410	1,582,365	1,156,333

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

	GROUP		BANK	
	2008 KShs'000	2007 KShs'000	2008 KShs'000	2007 KShs'000
Accounting profit before tax	6,012,862	4,225,982	5,393,850	3,862,909
Tax calculated at tax rate of 30%	1,803,859	1,267,795	1,618,155	1,158,873
Tax effects on items not deductible for tax purposes	(25,944)	232,323	(52,555)	374,233
Originating and reversing temporary differences	44,257	(248,708)	16,765	(376,773)
	1,822,172	1,251,410	1,582,365	1,156,333

Notes to the Financial Statements (Continued)
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11. EARNINGS PER SHARE

Earnings per share is calculated on the profit attributable to ordinary shareholders of KShs 4,191 million and KShs 3,811 million for the Group and Bank, respectively (2007: KShs. 2,975 million and KShs. 2,707 million for the Group and Bank, respectively) and on the weighted average number of ordinary shares during the year, after adjusting for the effect of the rights issue, of 2,123 million (2007: 2,029 million) shares.

12. CASH & BALANCES WITH CENTRAL BANK

	GROUP		BANK	
	2008 KShs'000	2007 KShs'000	2008 KShs'000	2007 KShs'000
Cash on hand	4,909,178	3,217,132	4,400,074	3,080,403
Balances with Central Banks	12,330,102	8,183,656	8,884,092	5,320,875
	17,239,280	11,400,788	13,284,166	8,401,278

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

13. HELD TO MATURITY INVESTMENTS

	GROUP		BANK	
	2008 KShs'000	2007 KShs'000	2008 KShs'000	2007 KShs'000
(a) Treasurt bills				
Maturing within 1 month	810,700	1,444,695	810,700	1,444,695
Maturing between 1-3 months	1,796,681	1,079,478	501,134	1,079,478
Maturing between 3-6 months	1,617,035	273,268	500,000	273,268
	4,224,416	2,797,441	1,811,834	2,797,441
(b) Treasury bonds				
Maturing within 1 month	-	352,770	-	-
Maturing between 1-3 months	-	1,560,366	-	1,066,604
Maturing between 3-12 months	2,708,562	2,034,374	2,540,892	1,745,374
Maturing between 1-5 years	8,657,932	13,744,476	8,657,932	13,744,476
Maturing after 5 years	5,350,000	790,372	5,350,000	790,372
	16,716,494	18,482,358	16,548,824	17,346,826
TOTAL GOVERNMENT SECURITIES	20,940,910	21,279,799	18,360,658	20,144,267
Maturing as follows:-				
Maturing within 1 month	810,700	1,797,465	810,700	1,444,695
Maturing between 1-3 months	1,796,681	2,639,844	501,134	2,146,082
Maturing between 3-12 months	4,325,597	2,307,642	3,040,892	2,018,642
Maturing between 1-5 years	8,657,932	13,744,476	8,657,932	13,744,476
Maturing after 5 years	5,350,000	790,372	5,350,000	790,372
	20,940,910	21,279,799	18,360,658	20,144,267

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

The weighted average effective interest rates on treasury bonds and bills as at 31 December 2008, was 11.28 % and 8.79 %, respectively (31 December 2007 - 10.54 % and 7.32 %, respectively).

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14. 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 revenue from short term fluctuations in interest rates. The weighted average effective interest rates on treasury bonds as at 31 December 2008 was 11.28% (31 December 2007 : 10.54%)

15. INVESTMENTS
(a) INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Company	Activity	Beneficial ownership %	2008 KShs'000	2007 KShs'000
Kenya Commercial Finance Co. Ltd	Investment	100	150,000	150,000
Savings & Loan Kenya Ltd	Mortgage Finance	100	167,402	167,402
KCB Foundation	Corporate social responsibility	-	-	-
Kenya Commercial Bank Nominees Ltd	Nominee Shareholders	100	-	-
Kencom House Ltd	Property ownership & management	100	748,645	748,645
KCB (Tanzania) Ltd	Commercial Banking	100	878,385	878,385
KCB Sudan Ltd	Conventional Banking	100	1,025,363	710,503
United Finance Ltd	Dormant	45	125	125
KCB Rwanda SA	Commercial Banking	100	757,032	-
KCB Bank Uganda Ltd	Commercial banking	100	700,120	298,816
			4,427,072	2,953,876

(b) AVAILABLE FOR SALE INVESTMENTS

	2008 KShs'000	2007 KShs'000
Quoted investments	352,301	754,875
Unquoted investments	104,765	104,765
	457,066	859,640

Available for sale financial assets consist of investments in ordinary shares and a corporate bond. The corporate bond is a 7 year floating bond of KShs.100 million purchased in 2007.

16. LOANS AND ADVANCES TO CUSTOMERS

	GROUP		BANK	
	2008 KShs'000	2007 KShs'000	2008 KShs'000	2007 KShs'000
16.1 Loans and advances to customers				
Loans and advances to customers (gross)	102,656,274	72,897,589	87,917,665	64,618,163
Specific provisions for impairment (Note 16.2)	(7,682,480)	(7,900,913)	(7,262,481)	(7,488,715)
Collective provisions for impairment (Note 16.3)	(1,451,689)	(718,553)	(1,312,085)	(652,000)
Loans and advances to customers (net)	93,522,105	64,278,123	79,343,099	56,477,448

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

16. LOANS AND ADVANCES TO CUSTOMERS (Continued)

	GROUP		BANK	
	2008 KShs'000	2007 KShs'000	2008 KShs'000	2007 KShs'000
16.2 Specific provisions for impairment				
At 1 January	7,900,913	8,106,321	7,488,715	7,690,932
Provisions made during the year	2,967,425	997,653	2,836,050	932,009
Interest suspended during the year	475,144	784,617	450,566	764,206
Bad debts recovered during the year	(2,292,051)	(465,501)	(2,206,708)	(432,433)
Write downs/write offs during the year	(1,368,951)	(1,522,177)	(1,306,142)	(1,465,999)
At 31 December	7,682,480	7,900,913	7,262,481	7,488,715
16.3 Collective provisions for impairment				
At 1 January	718,553	502,553	652,000	452,000
Provisions made during the year	733,136	216,000	660,085	200,000
At 31 December	1,451,689	718,553	1,312,085	652,000
16.4 Maturity analysis of gross loans and advances to customers				
Maturing within 1 month	8,572,112	8,775,879	6,708,638	7,986,658
Maturing after 1 month, but before 3 months	3,146,131	320,900	2,921,440	235,312
Maturing after 3 months, but within 1 year	9,031,280	2,673,289	8,095,115	2,224,021
Maturing after 1 year, but within 5 years	40,818,797	51,730,432	37,806,200	51,681,143
Maturing after 5 years	41,087,954	9,397,089	32,386,272	2,491,029
	102,656,274	72,897,589	87,917,665	64,618,163
16.5 Sectoral analysis of gross loans and advances to customers				
Private sector and individuals	97,165,895	66,955,347	82,427,286	58,675,921
Government and parastatals	5,490,379	5,942,242	5,490,379	5,942,242
	102,656,274	72,897,589	87,917,665	64,618,163

The weighted average effective interest rates on loans and advances as at 31 December 2008 was 12.93% (31 December 2007 - 12.12%).

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

17. BALANCES DUE FROM GROUP COMPANIES

	2008 KShs'000	2007 KShs'000
Kencom House Limited	-	630,517
Savings and Loan Kenya Limited	5,655,444	3,344,159
KCB Bank Uganda Limited	47,171	26,573
KCB Rwanda SA	457	-
KCB (Tanzania) Limited	3,187	-
KCB Sudan Limited	132,700	119,911
	5,838,959	4,121,160
BALANCES DUE TO GROUP COMPANIES		
Kencom House Limited	507,171	-
KCB Foundation	23,939	-
	531,110	-
TOTAL BALANCES DUE FROM GROUP COMPANIES	5,307,849	4,121,160

The net amount due from Savings and Loan Kenya Limited, as at 31 December 2008, includes a loan of KShs.5.9 billion. The loan attracts interest at an average rate of 3 % p.a.

18. OTHER ASSETS

	GROUP		BANK	
	2008 KShs'000	2007 KShs'000	2008 KShs'000	2007 KShs'000
Other receivables	3,191,626	7,073,399	2,719,503	6,817,179
Prepayments	549,471	947,233	389,028	887,041
	3,741,097	8,020,632	3,108,531	7,704,220

19. INTANGIBLE ASSETS

	2008	2007	2008	2007
COST				
At 1 January	562,928	385,941	545,167	368,180
Additions	1,106,567	176,987	1,106,567	176,987
At 31 December	1,669,495	562,928	1,651,734	545,167
AMORTISATION				
At 1 January	334,210	275,865	316,716	258,708
Amortisation for the year	97,552	58,345	97,285	58,008
At 31 December	431,762	334,210	414,001	316,716
NET BOOK VALUE				
At 31 December	1,237,733	228,718	1,237,733	228,451

The intangible assets are in respect of computer software costs.

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

20(a) PROPERTY AND EQUIPMENT (GROUP)

	Freehold and leasehold premises	Leasehold improvements	Motor vehicles furniture and equipment	Total
As at 31 December 2008:	KShs'000	KShs'000	KShs'000	KShs'000
COST/VALUATION				
At 1 January 2008	1,830,717	135,964	5,824,673	7,791,354
Additions	235,811	172,876	1,608,958	2,017,645
Disposals	(57,981)	-	(26,746)	(84,727)
Translation differences	8,485	2,358	16,404	27,247
Adjustments	-	472	(6,387)	(5,915)
At 31 December 2008	2,017,032	311,670	7,416,902	9,745,604
DEPRECIATION				
At 1 January 2008	324,943	70,556	2,830,023	3,225,522
Charge for the year	32,977	20,151	741,356	794,484
Disposals	(42,538)	-	(26,459)	(68,997)
Reclassification	-	(1,656)	1,656	-
Translation differences	2,450	98	4,069	6,617
At 31 December 2008	317,832	89,149	3,550,645	3,957,626
NET BOOK VALUE				
At 31 December 2008	1,699,200	222,521	3,866,257	5,787,978
As at 31 December 2007:				
COST/VALUATION				
At 1 January 2007	1,823,115	187,341	4,866,717	6,877,173
Additions	38,458	30,904	1,070,468	1,139,830
Disposals	(32,460)	(36,120)	(158,759)	(227,339)
Reclassification	-	(46,161)	46,161	-
Translation differences	1,604	-	86	1,690
At 31 December 2007	1,830,717	135,964	5,824,673	7,791,354
DEPRECIATION				
At 1 January 2007	310,984	69,346	2,429,055	2,809,385
Charge for the year	24,363	14,401	518,748	557,512
Disposals	(10,845)	(2,512)	(129,043)	(142,400)
Reclassification	-	(10,679)	10,679	-
Translation differences	441	-	584	1,025
At 31 December 2007	324,943	70,556	2,830,023	3,225,522
NET BOOK VALUE				
At 31 December 2007	1,505,774	65,408	2,994,650	4,565,832

i) A revaluation of certain freehold and leasehold properties held by the Group was carried out by Professional Valuers, in previous years, on the basis of open market value.

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

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

20(b) PROPERTY AND EQUIPMENT (BANK)

	Freehold and leasehold premises	Leasehold improvements	Motor vehicles, furniture and equipment	Total
As at 31 December 2008:	KShs'000	KShs'000	KShs'000	KShs'000
COST				
At 1 January 2008	391,049	61,956	5,480,539	5,933,544
Additions	-	49	1,379,172	1,379,221
Transfers	1,233,687	-	-	1,233,687
Disposals	(57,981)	-	(26,181)	(84,162)
At 31 December 2008	1,566,755	62,005	6,833,530	8,462,290
DEPRECIATION				
At 1 January 2008	165,311	26,003	2,686,134	2,877,448
Charge for the year	5,387	8,568	690,662	704,617
Transfers	120,100	-	-	120,100
Disposals	(42,538)	-	(25,893)	(68,431)
At 31 December 2008	248,260	34,571	3,350,903	3,633,734
NET BOOK VALUE				
At 31 December 2008	1,318,495	27,434	3,482,627	4,828,556
As at 31 December 2007:				
COST				
At 1 January 2007	391,049	117,308	4,676,007	5,184,364
Additions	-	1,088	934,162	935,250
Reclassification	-	(36,120)	(149,950)	(186,070)
Disposals	-	(20,320)	20,320	-
At 31 December 2007	391,049	61,956	5,480,539	5,933,544
DEPRECIATION				
At 1 January 2007	165,311	29,607	2,311,321	2,506,239
Charge for the year	-	9,587	485,774	495,361
Disposals	-	(2,512)	(121,640)	(124,152)
Reclassification	-	(10,679)	10,679	-
At 31 December 2007	165,311	26,003	2,686,134	2,877,448
NET BOOK VALUE				
At 31 December 2007	225,738	35,953	2,794,405	3,056,096

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

20(c) PREPAID OPERATING LEASE RENTALS

	GROUP		BANK	
	2008 KShs'000	2007 KShs'000	2008 KShs'000	2007 KShs'000
COST				
At 1 January	285,348	287,657	225,647	227,035
Transfers	-	-	56,244	-
Disposals	-	(2,309)	-	(1,388)
At 31 December	285,348	285,348	281,891	225,647
AMORTISATION				
At 1 January	97,689	95,544	78,714	76,789
Transfers	-	-	18,204	-
Disposals	-	(865)	-	(444)
Amortisation for the year	1,797	3,010	1,430	2,369
At 31 December	99,486	97,689	98,348	78,714
NET BOOK VALUE				
At 31 December	185,862	187,659	183,543	146,933

21. DEPOSITS AND BALANCES FROM OTHER BANKING INSTITUTIONS

	GROUP		BANK	
	2008 KShs'000	2007 KShs'000	2008 KShs'000	2007 KShs'000
Deposits and balances from other banks	38,506,010	5,828,635	40,800,470	7,047,115
Maturing as follows:				
Payable within 1 month	38,506,010	5,828,635	40,800,470	7,047,115

The weighted average effective interest rates on deposits and balances from other banking institutions as at 31 December 2008 was 6.58% (31 December 2007- 7.5%).

22. OTHER CUSTOMER DEPOSITS

	GROUP		BANK	
	2008 KShs'000	2007 KShs'000	2008 KShs'000	2007 KShs'000
(a) From government and parastatals:				
Payable within 1 month	30,983,111	19,286,740	29,228,746	17,592,232
Payable after 1 month, but within 3 months	642,523	1,099,826	630,000	1,086,417
Payable after 3 months, but within 1 year	5,664	147,707	5,664	95,327
	31,631,298	20,534,273	29,864,410	18,773,976

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

22. OTHER CUSTOMER DEPOSITS (Continued)

	GROUP		BANK	
(b) From private sector and individuals:	2008 KShs'000	2007 KShs'000	2008 KShs'000	2007 KShs'000
Payable within 1 month	77,270,938	66,164,343	65,327,229	61,073,618
Payable after 1 month, but within 3 months	6,871,547	5,384,374	4,923,797	4,478,562
Payable after 3 months, but within 1 year	10,910,430	2,305,229	9,729,433	1,311,983
Payable after 1 year, but within 5 years	6,855	4,142	-	-
	95,059,770	73,858,088	79,980,459	66,864,163
TOTAL OTHER CUSTOMER DEPOSITS	126,691,068	94,392,361	109,844,869	85,638,139
Maturing as follows:-				
Payable within 1 month	108,254,049	85,451,083	94,555,975	78,665,850
Payable after 1 month but within 3 months	7,514,070	6,484,200	5,553,797	5,564,979
Payable after 3 months but within 1 year	10,916,094	2,452,936	9,735,097	1,407,310
Payable after 1 year but within 5 years	6,855	4,142	-	-
	126,691,068	94,392,361	109,844,869	85,638,139

The weighted average effective interest rates on interest bearing customer deposits as at 31 December 2008 was 2.5 % (31 December 2007- 2.3 %).

23. OTHER LIABILITIES	GROUP		BANK	
	2008 KShs'000	2007 KShs'000	2008 KShs'000	2007 KShs'000
Bills payable	1,529,813	1,593,520	1,516,313	1,590,745
Accrued expenses	1,638,017	1,343,402	1,551,905	1,259,088
Other payables	1,017,971	3,193,432	345,258	2,951,742
	4,185,801	6,130,354	3,413,476	5,801,575
24. LINES OF CREDIT				
Payable after 3 months, but within 1 year	-	30,300	-	30,300
Payable after 1 year, but within 5 years	-	37,395	-	37,395
	-	67,695	-	67,695

The lines of credit related to European Investment Bank (EIB) foreign currency loans and represented amounts which the Group had on-lent to private enterprises under the Global Private Enterprise Scheme introduced by EIB and channeled through the Approved Financial Institutions. The loans were advanced in Euros. The loans were fully repaid during the year.

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

25. SHARE CAPITAL

	2008 KShs'000	2007 KShs'000
Authorised:- 2,400,000,000 (2007: 2,000,000,000) ordinary shares of KShs.1 each	2,400,000	2,000,000
Issued and fully paid:- 2,217,777,777 (2007: 1,996,000,000) ordinary shares of KShs.1 each	2,217,778	1,996,000

During the Annual General Meeting held on 09 May 2008, the shareholders approved the increase in the authorized share capital of the company from KShs.2 billion to KShs 2.4 billion by creation of 400 million ordinary shares of KShs 1 each. At the same meeting, the shareholders approved the increase in the issued share capital of the company, from 1,996,000,000 ordinary shares of KShs.1 each to 2,217,777,777 ordinary shares of KShs.1 each, through a rights issue of 221,777,777 ordinary shares.

The top ten largest shareholders as at 31 December 2008 were:

Shareholder	**No. of Shares**	**%**
Permanent Secretary to the Treasury of Kenya	523,600,000	23.61
National Social Security Fund	115,933,812	5.23
Stanbic Nominees Kenya Limited A/C ICDCI	76,058,307	3.43
Mr Sunil Narshi Shah	51,779,088	2.33
Stanbic Nominees Kenya Limited A/C R48701	44,022,433	1.98
United Millers Limited	30,407,633	1.37
KCB Nominees Limited A/C 744A	28,438,260	1.28
Nomura Nominees Limited A/C NSSF	22,490,333	1.01
Kenya Re-Insurance Corporation Ltd	19,187,944	0.87
Barclays (K) Nominees Limited A/C 9230	21,171,277	0.95
Total shares	933,089,087	42.06

The distribution of shareholders as at 31 December 2008 was as follows:

Share range	**No. of shareholders**	**Shares held**	**%**
1 to 5000	138,515	238,089,261	10.73
5001-50,000	29,302	297,983,541	13.44
50,001-100,000	759	52,327,315	2.36
100,001-1,000,000	799	217,124,323	9.79
1,000,001-10,000,000	149	406,369,258	18.32
10,000,001 and above	13	1,005,884,079	45.36
	169,537	2,217,777,777	100.00

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

26. RESERVES

	GROUP		BANK	
	2008 KShs'000	2007 KShs'000	2008 KShs'000	2007 KShs'000
Revaluation reserve	275,422	275,422	-	-
Retained earnings	8,700,857	6,727,945	7,981,564	6,387,857
Share premium	7,297,986	2,319,764	7,297,986	2,319,764
Available for sale reserve	342,997	745,571	342,997	745,571
Translation reserve	34,134	(257,242)	-	-
	16,651,396	9,811,460	15,622,547	9,453,192

The revaluation reserve arose on the revaluation of certain freehold and leasehold properties.

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

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

27. DIVIDEND

	2008 KShs'000	2007 KShs'000
Final proposed	2,217,778	1,397,200
Dividend per share (KShs)	1.00	0.70

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.

28. NOTES TO THE CASH FLOW STATEMENT

(a) CASH FLOWS FROM OPERATING ACTIVITIES

This has been derived as follows:-

	2008 KShs'000	2007 KShs'000
Profit before tax	6,012,862	4,225,982
Adjustments for:		
Depreciation of property and equipment	794,484	557,512
Amortisation of prepaid operating lease rentals	1,797	3,010
Amortisation of intangible assets	97,552	58,345
Profit on disposal of property and equipment	(65,107)	(75,028)
Cash reserve ratio	(294,016)	(56,973)
Held to maturity investments	(1,491,039)	(57,555)
Loans and advances	(29,243,982)	(19,008,397)
Other assets	4,279,535	(3,583,887)
Other customer deposits	32,298,707	17,199,472
Other liabilities	(1,944,553)	3,133,042
	10,446,240	2,395,523

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

28. NOTES TO THE CASH FLOW STATEMENT (Continued)

(b) ANALYSIS OF CASH AND CASH EQUIVALENTS

	2008 KShs'000	2007 KShs'000
Balances with Central Banks	11,839,037	7,986,607
Cash on hand	4,909,178	3,217,132
Cheques and items for clearing	1,373,496	829,312
Held to maturity investments	2,607,381	4,437,309
Held for trading investments	3,765,417	4,399,098
Placements and balances with other banking institutions	42,175,191	3,772,082
Deposits and balances from other banking institutions	(38,506,010)	(5,828,635)
	28,163,690	18,812,905

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

29. STAFF COSTS

	GROUP		BANK	
	2008 KShs'000	2007 KShs'000	2008 KShs'000	2007 KShs'000
Salaries and wages	5,366,517	4,683,125	4,802,189	4,349,540
Medical	238,177	215,450	182,552	197,849
Pension scheme contributions	350,154	274,794	314,665	260,681
Other	18,152	12,570	8,014	5,379
	5,973,000	5,185,939	5,307,420	4,813,449

The number of employees of the Group as at 31 December 2008 was 4,083 (31 December 2007 – 2,921)

30. RELATED PARTY TRANSACTIONS

(a) Inter-company transactions

The financial statements include the following closing balances arising from transactions entered into with subsidiary companies.

	BANK	
	2008 KShs'000	2007 KShs'000
Net due from subsidiary companies (Note 17)	5,307,849	4,121,160
Deposits and balances from other banking institutions	5,453,646	1,518,994

The above balances relate to transactions entered into with the subsidiary companies at arm's length in the ordinary course of business. Except as disclosed on note 17 to the financial statements, these transactions are carried out on normal commercial terms and at prevailing market rates.

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

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

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

30. RELATED PARTY TRANSACTIONS (Continued)

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

	GROUP		BANK	
	2008 KShs'000	2007 KShs'000	2008 KShs'000	2007 KShs'000
Government of Kenya	402,217	657,623	402,217	657,623
Directors	1,673,725	1,812,070	1,648,093	1,812,070
Senior management	129,799	117,249	113,363	103,776
Other employees	3,042,668	2,485,203	2,826,230	2,387,253
	5,248,409	5,072,145	4,989,903	4,960,722

(c) Senior management compensation:

Salaries and allowances (Included under staff costs - note 29)	318,829	238,519	208,783	195,383

31. SEGMENT REPORTING

Business segments

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

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

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

Other Group's operations comprise of trade finance and forex business. The Group also participates in the investment of Treasury Bills from the Central Banks.

Transactions between the business segments are on normal commercial terms and conditions. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet.

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

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

31. SEGMENT REPORTING (Continued)

INCOME STATEMENT

For the year ended 31 December 2008:	Corporate banking KShs'000	Retail banking KShs'000	Treasury KShs'000	Other KShs'000	Total KShs'000
Net interest income	2,835,268	4,944,502	3,995,347	-	11,775,117
Net fees and commission income	635,311	3,654,776	501,172	757,896	5,549,155
Other income	325,049	530,342	723,743	524,136	2,103,270
Operating expenses	(2,925,689)	(4,916,375)	(214,108)	(5,358,508)	(13,414,680)
Profit before taxation	869,939	4,213,245	5,006,154	(4,076,476)	6,012,862
For the year ended 31 December 2007:					
Net interest income	2,017,669	3,565,127	2,868,771	-	8,451,567
Net fees and commission income	463,256	3,387,417	95,202	334,426	4,280,301
Other income	170,156	277,623	686,142	268,966	1,402,887
Operating expenses	(1,559,462)	(3,350,299)	(144,422)	(4,854,590)	(9,908,773)
Profit before taxation	1,091,619	3,879,868	3,505,693	(4,251,198)	4,225,982
BALANCE SHEET					
As at 31 December 2008:					
Total assets	39,991,742	47,219,067	73,752,019	30,248,758	191,211,586
Total liabilities	74,159,497	50,045,530	38,026,628	7,892,979	170,124,634
Shareholders' funds	-	-	-	21,086,952	21,086,952
	74,159,497	50,045,530	38,026,628	28,979,931	191,211,586
As at 31 December 2007:					
Total assets	25,882,067	29,538,485	46,136,508	18,922,493	120,479,553
Total liabilities	41,813,075	27,875,383	21,180,849	16,405,586	107,274,893
Shareholders' funds	-	-	-	13,204,660	13,204,660
	41,813,075	27,875,383	21,180,849	29,610,246	120,479,553

Geographical segments

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

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

31. SEGMENT REPORTING (Continued)

INCOME STATEMENT

For the year ended 31 December 2008:	Kenya KShs'000	Tanzania KShs'000	Southern Sudan KShs'000	Uganda KShs'000	Rwanda KShs'000	Total KShs'000
Net interest income	11,354,491	295,798	100,216	24,359	253	11,775,117
Net fees and commission income	4,872,599	179,185	458,625	38,681	65	5,549,155
Other income	1,677,893	88,670	280,415	56,207	85	2,103,270
Operating expenses	(12,241,479)	(531,343)	(308,992)	(307,934)	(24,932)	(13,414,680)
Profit before tax	5,663,504	32,310	530,264	(188,687)	(24,529)	6,012,862
For the year ended 31 December 2007:						
Net interest income	8,256,923	175,338	19,306	-	-	8,451,567
Net fees and commission income	4,013,572	111,615	154,483	631	-	4,280,301
Other income	1,241,656	65,843	95,388	-	-	1,402,887
Operating expenses	(9,336,502)	(352,618)	(169,751)	(49,902)	-	(9,908,773)
Profit before tax	4,175,649	178	99,426	(49,271)	-	4,225,982

BALANCE SHEET

As at 31 December 2008:	Kenya KShs'000	Tanzania KShs'000	Southern Sudan KShs'000	Uganda KShs'000	Rwanda KShs'000	Total KShs'000
Total assets	171,454,200	6,406,743	10,124,353	2,373,522	852,768	191,211,586
Total liabilities	153,961,031	5,727,725	8,515,066	1,903,246	17,566	170,124,634
Shareholders' funds	17,493,169	679,018	1,609,287	470,276	835,202	21,086,952
	171,454,200	6,406,743	10,124,353	2,373,522	852,768	191,211,586
As at 31 December 2007:						
Total assets	112,989,733	3,712,770	3,409,141	367,909	-	120,479,553
Total liabilities	101,355,150	3,093,634	2,694,838	131,271	-	107,274,893
Shareholders' funds	11,634,583	619,136	714,303	236,638	-	13,204,660
	112,989,733	3,712,770	3,409,141	367,909	-	120,479,553

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

32. COMMITMENTS

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

	GROUP		BANK	
	2008 KShs'000	2007 KShs'000	2008 KShs'000	2007 KShs'000
(a) Capital commitments contracted for at year end	740,244	440,368	564,047	407,937
(b) Loans committed but not disbursed at year end	13,601,111	8,962,512	9,538,585	6,846,196
(c) Foreign currency commitments	(95,564)	519,164	(95,564)	519,164

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

33. CONTINGENT LIABILITIES

	GROUP		BANK	
	2008 KShs'000	2007 KShs'000	2008 KShs'000	2007 KShs'000
Letters of credit, acceptances, guarantees, indemnities and other engagements entered into on behalf of customers at year end	28,681,175	25,719,367	26,624,731	25,016,222
Litigation	-	92,115	-	56,000

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

The amounts included above as litigation as at the end of the previous year, were in respect of court rulings against the Bank and its subsidiary companies. In all cases, the Bank and its subsidiary companies appealed against judgments and succeeded against the appeals.

In addition to this, litigation is a common occurrence in the banking industry due to the nature of the business. The Bank and its subsidiary companies have established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claim may have on its financial standing. At year end, the Group had several unresolved legal claims. However, the Group believes, based on the information currently available, that the ultimate resolution of these legal proceedings would not likely have a material effect on its operations.

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, market risks, operational risks and interest rates risks. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

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

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

34.1 CREDIT RISK

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

Management of Credit Risk

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

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

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

34.1 CREDIT RISK (Continued)

- Each business unit is required to implement the Group's credit policies and procedures. Each business unit has a credit manager who reports on all credit related matters to local management and the Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.
- Regular audits of business units and the Group's credit processes are undertaken by Internal Audit Department

Credit Risk Measurement

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

The Group's internal ratings scale is as follows:
Grade 1 - Normal risk
Grade 2 - Watch risk
Grade 3 - Sub standard risk
Grade 4 - Doubtful risk
Grade 5 - Loss

Impairment and Provisioning Policies

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

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

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

34.1 CREDIT RISK (Continued)

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

	2008		2007	
GROUP	Loans and advances balance KShs'000	Provisions held KShs'000	Loans and advances balance KShs'000	Provisions held KShs'000
Grade 1	64,184,430	610,930	58,208,053	589,462
Grade 2	28,116,630	840,759	4,547,688	129,091
Grade 3	2,801,828	1,290,703	3,381,478	1,628,549
Grade 4	6,781,595	5,675,720	5,871,500	5,166,690
Grade 5	771,791	716,057	888,870	1,105,674
	102,656,274	9,134,169	72,897,589	8,619,466
BANK				
Grade 1	51,967,187	522,715	50,912,359	526,409
Grade 2	26,312,359	789,370	4,186,369	125,591
Grade 3	2,499,046	1,221,960	3,259,050	1,578,131
Grade 4	6,659,835	5,561,283	5,788,135	5,121,005
Grade 5	479,238	479,238	472,250	789,579
	87,917,665	8,574,566	64,618,163	8,140,715

Loans and advances graded 3, 4 and 5 in the Group's internal credit risk grading system are impaired. These are advances for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. Specific impairment losses are made on these grades.

Mortgage advances graded 1 and 2 are not impaired. According to the Central Bank of Kenya guidelines, a minimum collective impairment provision of 1% and 3% on gross advances on grade 1 and grade 2, respectively, should be held to cater for any unidentified credit risk.

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

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

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

34.1 CREDIT RISK (Continued)

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

Write-off Policy

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

Collateral on Loans and Advances

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

Concentration of Credit Risk

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

	GROUP		BANK	
	2008 KShs'000	2007 KShs'000	2008 KShs'000	2007 KShs'000
Construction	17,466,635	6,264,323	6,633,447	-
Micro credit	32,809,733	24,407,902	31,870,748	24,407,902
Agriculture	6,615,909	5,168,890	6,510,852	5,168,890
SME	5,581,070	5,523,157	4,479,665	3,508,052
Corporate	40,182,927	31,533,317	38,422,953	31,533,319
	102,656,274	72,897,589	87,917,665	64,618,163

34.2 CURRENCY RISK

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

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

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

34.2 CURRENCY RISK (Continued)

Note 37 summarises the foreign currency exposure as at year end.

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

Increase/decrease in exchange rate		Effect on profit before tax	
		2008 KShs'000	2007 KShs'000
USD	10%	190,877	40,620
GBP	10%	22,326	6,008
EUR	10%	49,045	9,114

34.3 OPERATIONAL RISK

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

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

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

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

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

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

34.4 LIQUIDITY RISK

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

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

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

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

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

	2008	2007
At close of the year	31.60%	33.3%
Average for the year	33.47%	42.5%
Maximum for the year	36.70%	43.5%
Minimum for the year	28.20%	33.3%

Note 40 summarises the Group's liquidity risk as at 31 December 2008 and 31 December 2007.

34.5 INTEREST RATE RISK

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

Note 39 summarises the interest rate risk of the Group as at 31 December 2008 and 31 December 2007.

35. CAPITAL MANAGEMENT

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

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Kenya. The Central Bank of Kenya sets and monitors capital requirements for the banking industry as a whole.

In implementing current capital requirements, the Central Bank of Kenya requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

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

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for investments in financial institutions, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

35. CAPITAL MANAGEMENT (Continued)

- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances, revaluation reserve, irredeemable preference shares and convertible notes on similar capital investments.

Various limits are applied to elements of the capital base.

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

The Group has complied with capital requirements in Kenya, Tanzania, Sudan, Uganda and Rwanda throughout the year.

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

	2008 KShs'000	2007 KShs'000
Tier 1 capital		
Ordinary share capital	2,217,778	1,996,000
Retained earnings	10,199,342	7,785,057
Share premium	7,297,986	2,319,764
Less: investments in financial institutions	(3,528,302)	(2,055,107)
Total	16,186,804	10,045,714
Tier 2 capital	-	-
Total regulatory capital	16,186,804	10,045,714
Risk weighted assets	104,751,865	73,813,317
Capital ratios:		
Total regulatory capital expressed as a percentage of total risk-weighted assets	15.5%	13.6%
Total tier 1 capital expressed as a percentage of risk-weighted assets	15.5%	13.6%
The minimum capital ratios, as per the Central Bank of Kenya regulations, is as follows:		
Total regulatory capital expressed as a percentage of total risk-weighted assets	12%	12%
Tier 1 capital expressed as a percentage of risk-weighted assets	8%	8%

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value is the amount at which an instrument could be exchanged in a current transaction between willing parties other than enforced or liquidation sale. The fair value of on-balance sheet financial instruments approximate to their carrying amounts as they bear variable interest rates determined under market conditions. The fair values of off-balance sheet financial instruments are the same figures appearing as contingent liabilities and commitments.

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

37. FOREIGN CURRENCY EXPOSURE

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

	GROUP		BANK	
	2008 KShs'000	2007 KShs'000	2008 KShs'000	2007 KShs'000
Assets in foreign currencies	102,078,454	14,411,191	94,793,892	14,407,478
Liabilities in foreign currencies	(98,407,883)	(14,739,272)	(92,940,016)	(14,736,178)
Net foreign currency exposure at the end of the year	3,670,571	(328,081)	1,853,876	(328,700)

38. RETIREMENT BENEFIT OBLIGATIONS

a) KCB Pension Fund and Staff Retirement Benefit Scheme
The pension fund was split with effect from 1 June 2006 with the introduction of a Defined Contribution Scheme alongside the Defined Benefit Scheme. The assets of the fund were valued as at 31 May 2006 and a surplus of KShs.463.9 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	8,925,000
Fair value of scheme assets	(8,461,100)
Past service pension surplus	463,900

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

Current contribution costs (note 29)	350,154

The principal actuarial assumptions used are as follows:

Expected rate of return on scheme assets	20% p.a
Future salary increases	8% p.a
Rate of contribution on members' pensionable salaries	10.8% p.a

b) National Social Security Fund (NSSF)
This is a statutory defined contribution pension scheme in which both the employer and employees contribute equal amounts. The contributions are charged to the income statement.

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

39. INTEREST RATE RISK

The tables below shows interest rate sensitivity position of the Group at 31 December 2008 and 31 December 2007 based on the earlier of maturity or re-pricing dates. Off balance sheet items do not pose any significant interest rate risk to the Group.

As at 31 December 2008:	Up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
Cash and balances with Central Banks	-	-	-	-	-	17,239,280	17,239,280
Cheques and items for clearing						1,373,496	1,373,496
Held to maturity investments	810,700	1,796,681	4,325,597	8,657,932	5,350,000	-	20,940,910
Held for trading investments	3,765,417	-	-	-	-	-	3,765,417
Placements and balances with other banking institutions	42,175,191	-	-	-	-	-	42,175,191
Available for sale investments	-	-	-	-	-	457,066	457,066
Tax recoverable	-	-	-	-	-	123,966	123,966
Loans and advances to customers	8,572,112	3,146,131	9,031,280	36,297,338	36,475,244	-	93,522,105
Other assets	-	-	-	-	-	3,741,097	3,741,097
Intangible assets	-	-	-	-	-	1,237,733	1,237,733
Prepaid operating lease rentals	-	-	-	-	-	185,862	185,862
Property and equipment	-	-	-	-	-	5,787,978	5,787,978
Deferred tax	-	-	-	-	-	661,485	661,485
Total assets	55,323,420	4,942,812	13,356,877	44,955,270	41,825,244	30,807,963	191,211,586
Deposits and balances from other banking institutions	38,506,010	-	-	-	-	-	38,506,010
Other customer deposits	108,254,049	7,514,070	10,916,094	6,855	-	-	126,691,068
Other liabilities	-	-	-	-	-	4,185,801	4,185,801
Tax payable	-	-	-	-	-	741,755	741,755
Shareholders' funds	-	-	-	-	-	21,086,952	21,086,952
Total liabilities and shareholders' funds	146,760,059	7,514,070	10,916,094	6,855	-	26,014,508	191,211,586
Interest rate sensitivity gap	(91,436,639)	(2,571,258)	2,440,783	44,948,415	41,825,244	4,793,455	-

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

39. INTEREST RATE RISK (Continued)

As at 31 December 2007:	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	-	-	-	-	-	11,400,788	11,400,788
Cheques and items for clearing	-	-	-	-	-	829,312	829,312
Held to maturity investments	1,797,465	2,639,844	2,307,642	13,744,476	790,372	-	21,279,799
Held for trading investments	4,399,098	-	-	-	-	-	4,399,098
Placements and balances with other banking institutions	3,772,082	-	-	-	-	-	3,772,082
Available for sale investments	-	-	-	-	-	859,640	859,640
Tax recoverable	-	-	-	-	-	124,122	124,122
Loans and advances to customers	7,738,215	282,957	2,357,197	45,613,786	8,285,968	-	64,278,123
Other assets	-	-	-	-	-	8,020,632	8,020,632
Intangible assets	-	-	-	-	-	228,718	228,718
Property and equipment	-	-	-	-	-	4,565,832	4,565,832
Prepaid operating lease rentals	-	-	-	-	-	187,659	187,659
Deferred tax	-	-	-	-	-	533,748	533,748
Total assets	17,706,860	2,922,801	4,664,839	59,358,262	9,076,340	26,750,451	120,479,553
Deposits and balances from other banking institutions	5,828,635	-	-	-	-	-	5,828,635
Other customer deposits	85,451,083	6,484,200	2,452,936	4,142	-	-	94,392,361
Other liabilities	-	-	-	-	-	6,130,354	6,130,354
Tax payable	-	-	-	-	-	855,848	855,848
Lines of credit	-	-	30,300	37,395	-	-	67,695
Shareholders' funds	-	-	-	-	-	13,204,660	13,204,660
Total liabilities and shareholders' funds	91,279,718	6,484,200	2,483,236	41,537	-	20,190,862	120,479,553
Interest rate sensitivity gap	(73,572,858)	(3,561,399)	2,181,603	59,316,725	9,076,340	6,559,589	-

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

40. LIQUIDITY RISK MANAGEMENT

As at 31 December 2008:	Up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Cash and balances with Central Banks	16,410,404	337,811	490,756	309	-	17,239,280
Cheques and items for clearing	1,373,496	-	-	-	-	1,373,496
Held to maturity investments	810,700	1,796,681	4,325,597	8,657,932	5,350,000	20,940,910
Held for trading investments	3,765,417	-	-	-	-	3,765,417
Placements and balances with other banking institutions	42,175,191	-	-	-	-	42,175,191
Available for sale investments	-	-	-	-	457,066	457,066
Tax recoverable	-	-	123,966	-	-	123,966
Loans and advances to customers	8,572,112	3,146,131	9,031,280	36,297,338	36,475,244	93,522,105
Other assets	-	-	3,741,097	-	-	3,741,097
Intangible assets	-	-	-	1,237,733	-	1,237,733
Property and equipment	-	-	-	-	5,787,978	5,787,978
Prepaid operating lease rentals	-	-	-	-	185,862	185,862
Deferred tax	-	-	-	661,485	-	661,485
Total assets	73,107,320	5,280,623	17,712,696	46,854,797	48,256,150	191,211,586
Deposits and balances from other banking institutions	38,506,010	-	-	-	-	38,506,010
Other customer deposits	108,254,049	7,514,070	10,916,094	6,855	-	126,691,068
Other liabilities	-	-	4,185,801	-	-	4,185,801
Tax payable	-	-	741,755	-	-	741,755
Shareholders' funds	-	-	-	-	21,086,952	21,086,952
Total liabilities and shareholders' funds	146,760,059	7,514,070	15,843,650	6,855	21,086,952	191,211,586
Net liquidity gap	(73,652,739)	(2,233,447)	1,869,046	46,847,942	27,169,198	-

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

40. LIQUIDITY RISK MANAGEMENT (Continued)

As at 31 December 2007:	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	10,753,380	450,359	196,703	346	-	11,400,788
Cheques and items for clearing	829,312	-	-	-	-	829,312
Held to maturity investments	1,797,465	2,639,844	2,307,642	13,744,476	790,372	21,279,799
Held for trading investments	4,399,098	-	-	-	-	4,399,098
Placements and balances with other banking institutions	3,772,082	-	-	-	-	3,772,082
Available for sale investments	-	-	-	-	859,640	859,640
Tax recoverable	-	-	124,122	-	-	124,122
Loans and advances to customers	7,738,215	282,957	2,357,197	45,613,786	8,285,968	64,278,123
Other assets	-	-	8,020,632	-	-	8,020,632
Intangible assets	-	-	-	228,718	-	228,718
Property and equipment	-	-	-	-	4,565,832	4,565,832
Prepaid operating lease rentals	-	-	-	-	187,659	187,659
Deferred tax	-	-	-	533,748	-	533,748
Total assets	29,289,552	3,373,160	13,006,296	60,121,074	14,689,471	120,479,553
Deposits and balances from other banking institutions	5,828,635	-	-	-	-	5,828,635
Other customer deposits	85,451,083	6,484,200	2,452,936	4,142	-	94,392,361
Other liabilities	-	-	6,130,354	-	-	6,130,354
Tax payable	-	-	855,848	-	-	855,848
Lines of credit	-	-	30,300	37,395	-	67,695
Shareholders' funds	-	-	-	-	13,204,660	13,204,660
Total liabilities and shareholders' funds	91,279,718	6,484,200	9,469,438	41,537	13,204,660	120,479,553
Net liquidity gap	(61,990,166)	(3,111,040)	3,536,858	60,079,537	1,484,811	-

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

41. OPERATING LEASE RENTALS

Non-cancellable operating lease rentals are payable as follows:

	2008 KShs'000	2007 KShs'000
Up to five years	682,714	48,898
More than five years	144,654	188,834
	827,368	237,732

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

42. COMPARATIVES

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

Proxy Form

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

I/We____

Shares A/C No ____

of P O Box____

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

____

of P O Box____

or failing him the Chairman of the meeting as my/our proxy vote for me/us and on my/our behalf a the 38th Annual

General Meeting to be held on 8th May 2009 and at any adjournment thereof.

Signed this_______________________________day of _________________________2009

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.

Fomu ya Uwakilishi

KATIBU
BENKI YA KENYA COMMERCIAL
GHOROFA YA 8, KENCOM HOUSE, MOI AVENUE
SANDUKU LA POSTA 48400 - 00100 NAIROBI KENYA

Mimi/Sisi ____

Nambari ya Akaunti ya Mwenyehisa ____

Sanduku la Posta ____

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 38 wa Mwaka wa Kampuni utakaofanyika tarehe 8 Mei 2009 au pale utakapoairishwa.

Imewekwa sahihi tarehe ____________________ Mwezi wa ____________________ 2009

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.