



2011 ANNUAL REPORT AND FINANCIAL STATEMENTS



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NOTICE OF THE 41ST ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 41ST ANNUAL GENERAL MEETING OF THE KENYA COMMERCIAL BANK LIMITED will be held at the Tsavo Ballroom, Kenyatta International Conference Centre, Nairobi, on Friday, 18th May, 2012 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, 2011.

b) Report and Financial Statements for the Year ended 31st December, 2011

To receive and consider the Report of the Directors and Consolidated Financial Statements for the year ended 31st December, 2011 together with the auditors' report thereon.

c) Dividend

To declare a dividend and approve the closure of the Register of Members on 22nd May, 2012.

d) Election of Directors

- i) In accordance with Article 101 of the Company's Articles of Association, the Board appointed Mr. Joshua Nyamweya Oigara to fill a casual vacancy on the Board. Being eligible, the said Joshua Nyamweya Oigara, offers himself for re-election.
- ii) In accordance with the Bank's Board Charter Peter Wanyaga Muthoka, Susan Nkirote Omanga and Sunil Narshi Shah retire from the Board having served the Board for the maximum eight years. Elections will be held in respect of the three vacancies in the Board of Directors.

e) Remuneration of Directors

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

f) Appointment of Auditors

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

g) Remuneration of the Auditors

To authorize Directors to fix the remuneration of the Auditors.

3. ANY OTHER BUSINESS

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

Dated at Nairobi this 1st Day of March, 2012

By Order of the Board



K.D. Malakwen
Secretary

ARIFA YA MKUTANO MKUU WA 41 WA MWAKA

ILANI IMETOLEWA KWAMBA MKUTANO MKUU WA MWAKA WA 41 WA BENKI YA KENYA COMMERCIAL utafanywa katika ukumbi wa Tsavo Ballroom, katika jumba la Kenyatta International Conference Centre, Nairobi, Ijumaa, tarehe 18, Mei, 2012 saa tano za asubuhi, ambapo mambo yafuatayo yatajadiliwa:-

AJENDA

1. KUJUMUIKA KWA MKUTANO

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

2. SHUGHULI ZA KAWAIDA

a) Ripoti ya Wahasibu

Kusoma ripoti ya Wahasibu na taarifa kamili za kifedha kwa mwaka uliomalizika tarehe 31, Disemba, 2011.

b) Ripoti na taarifa za uhasibu kwa mwaka uliomalizika tarehe 31, Disemba, 2011

Kupokea na kutafakari ripoti ya Wakurugenzi na taarifa kamili za kifedha kwa mwaka uliomalizika tarehe 31, Disemba, 2011 pamoja na ripoti ya Wahasibu.

c) Mgao wa faida

Kutangaza mgao wa faida na kuidhinisha kufungwa kwa Sajili ya Wanachama tarehe 22, Mei, 2012

d) Uchaguzi wa Wakurugenzi

- i) Kuambatana na kipengele 101 cha sheria na marshati ya Kampuni, Halmashauri ya Wakurugenzi ilimteua Bwana Joshua Nyamweya Oigara, kujaza nafasi kwenye Halmashauri hiyo. Hii ni kwa sababu yeye amehitimu, Bwana Joshua Nyamweya Oigara anajitolea kuchaguliwa tena.
- ii) Kwa mujibu wa Kanuni za Kampuni Peter Wanyaga Muthoka, Susan Nkrote Omanga na Sunil Narshi Shah wanastaafu kutoka Halmashauri ya Wakurugenzi baada ya kukamilisha muda wao wa kuhudumu kama Wakurugenzi. Uchaguzi utafanyika kuhusu nafasi hizo tatu kwenye Halmashauri ya Wakurugenzi.

e) Marupurupu ya Wakurugenzi

Kuruhusu Halmashauri ya Wakurugenzi kuamua marupurupu ya Wakurugenzi.

f) Uteuzi wa Wahasibu

Kuteua tena kampuni ya KPMG Kenya, Wahasibu wa Umma Walioidhinishwa, kama Wahasibu wa Kampuni, hadi kukamilishwa kwa Mkutano Mkuu wa Mwaka ujao.

g) Marupurupu ya Wahasibu

Kuidhinisha Wakurugenzi kuamua marupurupu ya Wahasibu.

3. SHUGHULI NYINGINE YOYOTE

Kuendesha shughuli nyingine yoyote ambayo inaweza kutekelezwa katika Mkutano Mkuu wa Mwaka. Nairobi, Ilani imetolewa tarehe 1, Machi, 2012

Kwa Amri ya Halmashauri ya Wakurugenzi



K.D. Malakwen

Katibu



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FINANCIAL HIGHLIGHTS

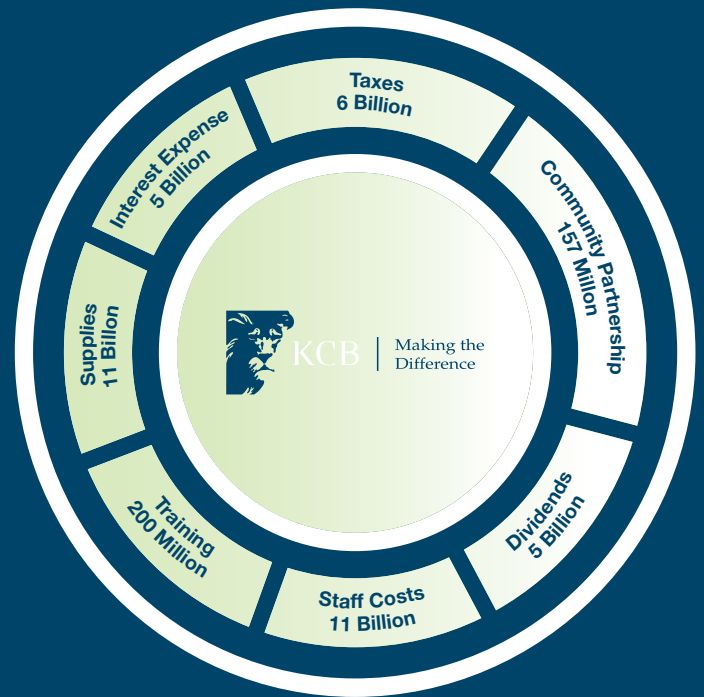
PROFIT BEFORE TAX: KShs. 15.1 Billion, up by 54% (2010: KShs. 9.8 Billions)

- » Net Interest Income grew by 19% to KShs. 23.3 billion from KShs. 19.6 billion in 2010 largely attributed to higher asset growth but offset by high interest costs on wholesale deposits
- » Fees and commission up by 35% to KShs. 9.2 billion from KShs. 6.8 billion in 2010 following increase in customer base and business volume
- » Foreign exchange income up by 30% to KShs. 3.6 billion from KShs. 2.8 billion in 2010 mainly due to increased business volume in foreign currencies
- » Other operating expenses up by 19% from KShs. 18.7 billion in 2010 to KShs. 22.3 billion in 2011 as a result of investment in information technology, consolidation of regional expansion and a one-off cost of restructuring cost

STRONG GROUP BALANCE SHEET: KShs 330.7 Billion up by 32% (2010: KShs 251.4 Billion)

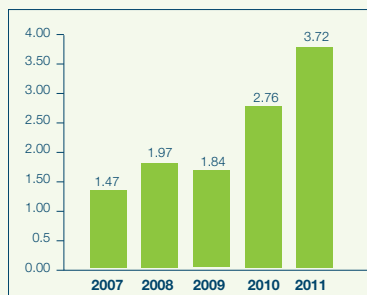
- » Customer Deposits grew by 32% to KShs 259.3 Billion from KShs 197 Billion
- » Net loans increased by 34% to KShs 198.7 Billion from KShs 148.1 Billion in 2010
- » Proposed dividend KShs 5.5 billion compared to KShs 3.7 billion paid in 2010, a 49% increase

VALUE ADDED STATEMENT

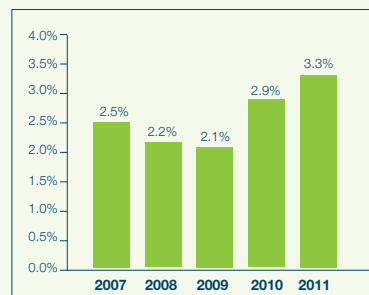


EARNINGS ON ASSETS

Earnings Per Share (KShs)

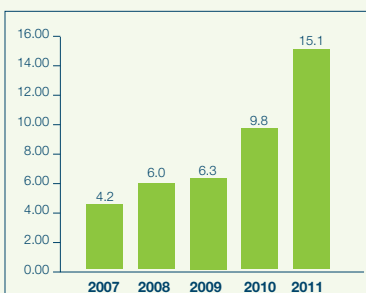


Return on Assets (Per Cent)

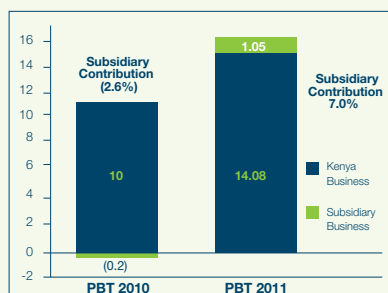


PROFIT BEFORE TAX GROWTH & CONTRIBUTION

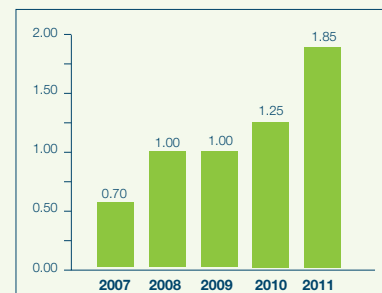
Strong profit growth (KShs Billions)



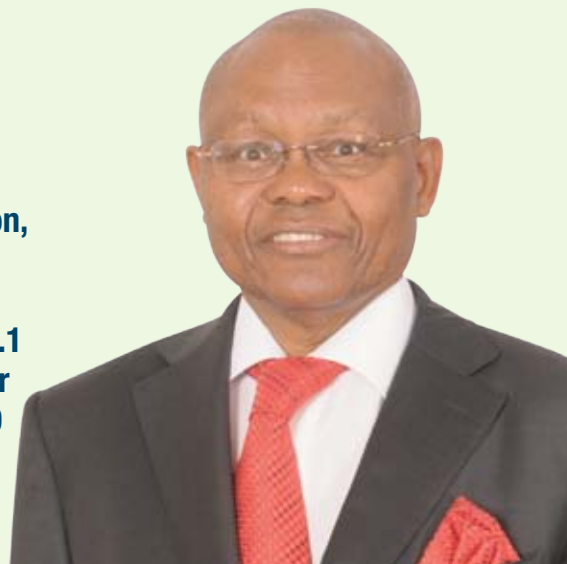
Regional Contributions of Profit before tax (KShs Billions)



Dividends Per Share (KShs)



“**The Group's Balance Sheet grew by 32% from KShs. 251.4 billion to KShs. 330.7 billion, owing to an increase in customer deposits and advances to customers. Net loans and advances increased by 34% from KShs. 148.1 billion to KShs. 198.7 billion, while Customer deposits increased by 32% from KShs 196.9 billion to KShs 259.3 billion**”



Group Chairman - Peter W Muthoka, MBS

DEAR SHAREHOLDERS,

I am pleased to present to you our Annual Report and Financial Statements for the year 2011. During the period under review, the KCB Group performed exceptionally well. In fact, this is the best performance ever in the Group's 115-year history as the bank achieved number one position in terms of profits, balance sheet size, capitalization and branch network in the East and Central Africa region.

Despite the difficult operating environment, especially during the second half of the year 2011 and increasing competition in the sector, the KCB Group was able to achieve impressive financial results reflecting positively on the Bank's on-going Transformation Programme and strong performance from all our subsidiaries in the region.

The transformation agenda initiated by the Board at the beginning of the year is yielding very good results for our business. The main focus of the programme is to increase business productivity, enhance innovation, improve customer service quality and grow the Bank's market share. During the year, we successfully completed the health check programme, the first such programme since KCB came into existence in 1896, and immediately embarked on its roll-out and implementation.

Consequently, the Bank rolled out business improvement initiatives to accelerate growth, enhance productivity and increase stakeholder value. These strategic steps were implemented through a number of charters, among them the Sales Simulation Programme, Channel Migration, Fee Automation, improving Credit Turn-around Time, defining

and implementing an IT road map, robust performance management and Culture Change Programmes across the KCB Group. The results have demonstrated the true potential of this Bank and we look forward to a better performance going forward.

The Group posted a pre-tax profit of KShs. 15.1 billion, reflecting a 54% growth compared to KShs. 9.8 billion in 2010. Net interest income rose by 19% from KShs. 19.6 billion to KShs. 23.3 billion, largely attributed to higher asset growth but offset by high interest costs on wholesale deposits.

Total operating income showed significant improvement, rising from KShs. 29.3 billion to KShs. 36.5 billion, driven by growth in the customer and product bases. Fees and Commissions rose by 35% from KShs. 6.8 billion to KShs. 9.2 billion while foreign exchange earnings edged up by 30% from KShs. 2.8 billion in 2010 to KShs. 3.6 billion.

Total operating expenses increased by 19% from KShs. 18.7 billion to KShs. 22.3 billion, to support investment in information technology, consolidation of regional expansion in the subsidiaries and a one-off restructuring cost of KShs. 1.6 billion incurred last year.

Gross provisions for bad debts decreased by 12% from KShs. 2.1 billion to KShs. 1.9 billion. These good results were anchored on increased market share, strong performance from all regional businesses and the reduction in the banks cost- to- income ratio due to improved efficiencies in our operations.

CHAIRMAN'S STATEMENT (Continued)

The Group's balance sheet grew by 32% from KShs. 251.4 billion to KShs. 330.7 billion, owing to an increase in customer deposits and advances to customers. Net loans and advances increased from KShs. 148.1 billion to KShs. 198.7 billion, a 34% growth. Similarly, customer deposits went up by 32% from KShs. 197 billion in 2010 to KShs. 259.3 billion.

The Bank's total assets stood at KShs. 330.7 billion, with capitalisation standing at KShs. 44.4 billion. Following the good performance and a strong balance sheet, KCB enjoys healthy prudential ratios with total capital to weighted assets ratio at 20.7%. Our liquidity ratio as at December 31, 2011 was 31.3% while core capital to deposits ratio stood at 18.3%. All the ratios are in compliance with the Central Bank of Kenya (CBK) requirements. All our regional subsidiaries managed to return profits during the year 2011. This is as a result of the investments we have made in these markets during the last three years.

As a result of this impressive results, the board of directors recommends a dividend payout of KShs 1.85 per ordinary share. This represents 49% increase over the previous year's payout of KShs 1.25 per ordinary share.

THE OPERATING ENVIRONMENT

KENYA

The Economy

The economy slowed down to achieve an estimated Gross Domestic Product (GDP) growth rate of 4.1 per cent in 2011, compared to a growth of 5.6 per cent in 2010 and a forecast of 5.3 per cent in 2011.

Notably, the economic slowdown which commenced in the second quarter of 2011 spilled over to a low 3.6 per cent in the third quarter of 2011, compared to a growth of 5.7 per cent recorded in the same quarter of 2010. The slowdown in activity was noted in the electricity & water, wholesale & retail trade and manufacturing sectors.

The electricity and water sectors contracted by 12.1 per cent in the third quarter of 2011 compared to a growth of 17.1 per cent in the same quarter in 2010. Reflecting the effect of sluggish trade on account of reduced domestic aggregate demand due to high inflationary pressures, activity in the Wholesale and retail trade declined by 1.3 per cent in the third quarter of 2011 compared to a growth of 4.7 per cent in the equivalent quarter in 2010.



KCB Group Chairman Peter W Muthoka, MBS (left) handing over a dividend Cheque of KShs. 654.5 Million to the Deputy Prime Minister of Kenya, Uhuru Kenyatta (right). Looking on is the KCB Group CEO Dr. Martin Oduor-Otieno (centre).



KCB Group Chairman Peter W Muthoka, MBS (right) picking a seedling in the previous Annual General Meeting as part of the Bank's conservation efforts. On his left is the KCB Mortgage Director, Joram Kiarie.

However, due to enhanced horticultural production and high international coffee and tea prices, the agricultural sector posted a growth of 4.8 per cent in the third quarter of 2011, reflecting a value added increase of KShs. 4.1 billion. The tourism sector, helped by the depreciation of the shilling and increased arrivals, expanded to achieve a 33 per cent increase in earnings to KShs. 97.9 billion in 2011.

The economic slowdown in 2011 reflected the impact of unstable macro-economic conditions exacerbated by drought and a sharp rise in global oil and food prices. Overall, growth was constrained by high inflationary pressures, rapid depreciation of the shilling and high interest rates following sustained management of a tight monetary policy stance. The widening fiscal deficit in the United States of America, uncertainties over the Euro-zone debt crisis and the political crises in the oil-rich Arab world continued to undermine domestic business confidence.

8 CHAIRMAN'S STATEMENT (Continued)



KCB Group Chairman Peter W Muthoka, MBS (right), planting a seedling at Consolata Mission Hospital in Nyeri, assisting him is the Nyeri Archbishop, His Grace Peter Kairu (left)

Despite the existing economic uncertainties, we remain upbeat that, in relative terms, growth will be higher, closer to 5.0 per cent in 2012, from an estimated 4.1 per cent in 2011.

Improving domestic macro-economic conditions, increased infrastructure spending, rising Diaspora inflows and the robustness of regional trade partners underpin this growth expectation.

In our view, the main threat to these economic growth projections could be lower than expected rainfall in early 2012, although weak European demand, the spillover effects of high inflation and tight monetary policy could also continue to present major challenges. In addition, uncertainties over the outcome of the general elections expected later in the year or early next year could impair economic growth over the course of the year and into 2013.

The KCB Group continues to be one of the largest tax payers in the region. Total regional contribution to the exchequer amounted to KShs. 5.8 billion during the period under review.

The Bank has continued over the years to receive the Top 10 Category for Distinguished Tax Payer awards in Kenya.

EAST AFRICA ECONOMIES

Subdued global economic growth in 2011 presented certain growth challenges to the East African countries. Recent disturbance in the Euro zone and a slowdown in economic activity impaired the flow of exports from the EAC region. Heightened geopolitical uncertainties among

oil-producing countries constrained global oil supplies impacting on energy prices in the EAC region. Across the region, adverse weather conditions impacted on food supply resulting in high inflation. This is in addition to high fuel prices, weak currencies and tight liquidity conditions in the regions' financial markets.

TANZANIA

Inflation

Tanzanian inflation increased on account of an upsurge in global oil prices, 18 per cent hike in electricity tariffs and increases in the prices of food stuffs. The above factors increased headline inflation to a high of 15.0 per cent at the end of 2011, from 3.5 per cent at the end of 2010.

Interest Rates

Interest rates on all money market instruments increased, reflecting the impact of tight liquidity conditions. The government however has been urging commercial banks to lower tariffs for banking services, including interest rates on lending to enhance access to financial services.

Exchange rates

The Tanzania Shilling continued to depreciate against the US dollar, recording an average loss in excess of 10 per cent in 2011. The depreciation of the Tanzania Shilling depicted a general strengthening of the US dollar against major currencies. The depreciation had a significant impact on the country's overall terms of trade and the overall cost of living.



KCB Bank (Tanzania) Chairman, Dr. Edmund Mndolwa handing over a gift to the Rwanda High Commissioner, Her Excellency Fatma Ndagiza (left), during The East African Business Forum held in Tanzania.



KCB Rwanda Managing Director, Maurice Toroitich (right) officially launches KCB Rwanda Contact Centre. Looking on from far left, is Gloria Nyambok, Head of Retail Business and Lynnet Owuor, KCB Kenya Contact Centre Manager.

UGANDA

Inflation

Uganda experienced commodity price increases attributed to elevated supply side shocks on food, exchange rate depreciation and energy. The high food prices was driven by supply side shocks on agriculture and exchange rate depreciation on imported goods, especially fuel.

As a result, headline inflation increased to an 18-year high of 28.3 per cent in 2011 from 4.8 per cent in December 2010.

Interest Rates

Interest rates maintained an upward trend, reflecting the impact of a tight monetary policy stance whose purpose was to hold down food and fuel prices. As a result, Treasury Bill rates and interbank rates sustained an upward trend slowing down credit expansion.

Exchange Rate

The Uganda Shilling depreciated consistently during 2011 on account of the global strengthening of the US dollar and high dollar demand.

As a result, the Uganda Shilling depreciated by about 25 per cent to Ushs. 2,812.54 per US dollar in September 2011, from Ushs. 2,251.3 in September 2010.

RWANDA

Inflation

Inflation in Rwanda was generally stable though trending upwards slightly due to higher energy and food prices. Notwithstanding, Rwanda has maintained the lowest inflation rate in the East African Community (EAC), with an annual inflation rate of 6.64 per cent in September 2011, up from about 1.0 per cent at the beginning of the year.

Interest Rates

Short term interest rates fluctuated between 6.5 per cent and 7.9 per cent in 2011. The upward trend reflected increased issuance of Treasury Bills to meet expanded fiscal requirements.

In 2011, the National Bank of Rwanda, maintained a stable monetary policy stance, holding the Key Repo Rate (KRR) at 6 per cent since November 2010, with the objective of regulating liquidity in the banking sector. However, in view of the inflationary pressure, the National Bank of Rwanda gradually tightened its monetary stance, by raising its KRR from 6.0 to 6.5 per cent in October 2011.

Exchange Rate

The Rwandan Franc remained stable, depreciating by 0.3 per cent to the US dollar in 2011. This marginal depreciation was on account of significant demand for hard currencies relative to the same period in 2010. The Rwandan Franc however appreciated considerably against the Kenya, Tanzania and Uganda currencies.



KCB Uganda Head of Corporate Banking, Anthony Kituuka (right), awards the winner, Marianne Bamwine (left) for her outstanding performance during the Mission Possible Campaign.

SOUTH SUDAN

Inflation

Annual inflation in South Sudan eased to 42.4 per cent in February 2012 from 47.8 per cent in January 2012 driven by the cost of food and non-alcoholic beverages. In addition, reduction in the cost of health and household equipment helped ease inflation for the second month in a row after hitting a high of 65.6 per cent in December 2011. Annual inflation had hit 78.8 per cent in November 2011.

Inflation may rise in the coming months unless South Sudan is able to secure loans to offset the loss of oil revenues after shutting down production in January 2012 to protest seizures of its oil by Sudan. The government will have to double its efforts to curb inflation growth and keep it in the single digit level.

Economic Growth

Economic growth is targeted to grow up to 7.2 per cent in 2012, from an estimated 6 per cent by the Ministry Finance and Economic Planning. Revenue collection from local sources is expected to hit a ratio of 17.2 per cent of the Gross Domestic Product (GDP) in the 2011/12 fiscal year and this would continue to grow at an average of 17.5 per cent per year in the medium term plan

The government intends to keep tight control on broad money supply and grow it by 19.0 per cent in 2011/12 and by 18.6 per cent in the 2012/13 financial year. This growth aims to balance between the economic growth and the rising costs on various goods and services. The government also focuses on maintaining hefty foreign reserves to cover imports.



All smiles from KCB Sudan Yambio Branch during their Customer focus week.

Economic growth in South Sudan to reach

7.2%

in 2012, from 6% as currently estimated by Ministry of Finance and Economic Planning

The government also targets to narrow the spread between interest rates on lending and deposits and control foreign exchange.

The key areas that would support economic growth in Sudan are: peace, protection of water sources, maintaining macro-economic stability and improving revenue collection.

Interest Rates

The South Sudan loan interest rates range between 15 per cent and 18 per cent for the banks that lend to customers. Only three banks currently lend to the market and this is expected to change with the growing economy.

Exchange Rate

Market rates for the Sudanese pound strengthened slightly in early February 2012, however, the rate remains weak, at around SDG4.2:US\$1, compared with an official commercial exchange rate of SDG2.95 to US\$1, in April 2012. The official rate has barely changed over the past year, as the Central Bank of South Sudan has been using a crawling peg exchange-rate policy and has resisted proposals to let the exchange rate float freely. In addition, the Central Bank has maintained the restrictions on the purchase of foreign currency that it imposed two years ago and tightened it further last year.

THE KENYA FINANCIAL MARKETS

Inflation Developments

During 2011, the economy suffered from high inflationary pressure resulting in overall 12-month inflation rising from 4.51 per cent in December 2010 to peak at 19.72 per cent in November 2011, before declining marginally to 18.93 per cent in December 2011. Similarly, the average annual inflation rate grew consistently from 3.96 per cent in December 2010 to 14.0 per cent in December 2011. The high inflation is attributed to high domestic food prices due to adverse weather and escalating global oil prices.

Energy prices increased and, as a result, the cost of production and transportation rose, constraining the purchasing power and reducing the aggregate demand for locally produced goods and services. The combination of these factors has significantly impacted on private consumption, exports, investments and public consumption.

Money Market Developments

To mitigate the impact of high inflation on commodity prices, the Central Bank of Kenya (CBK) maintained a tight monetary policy stance, raising the Central Bank Rate from 5.8 per cent in January 2011 to 18 per cent in December 2011.

Similarly, the 182-day Treasury Bill rate increased from 2.59 per cent in December 2010 to 18.30 per cent in December 2011.

The interbank rate increased substantially from 1.18 per cent in December 2010 to 21.75 per cent in December 2011. Commercial bank interest rates also increased, with lending rates and deposit rates rising on average from 13.87 per cent and 3.59 per cent in December 2010 to 20.04 per cent and 6.99 per cent respectively, in December 2011.

Developments in Foreign Exchange Rates

The Kenya Shilling depreciated against major international currencies, eliciting concerns that sustained depreciation could push up inflation and further undermining economic growth prospects. The depreciation of the shilling was reflective of the effects of arbitrage of hard currencies, heavy dollar demand on the back of an increased import bill and dismal hard currency inflows. On average, the Kenya Shilling traded at KShs. 86.663, KShs. 135.095 and KShs. 114.146 in December 2011, compared to KShs. 80.568, KShs. 125.652 and KShs. 106.535 to the US Dollar, the Sterling pound and the Euro in December 2010 respectively.

Stock Market Developments in the Region

Reflecting the impact of domestic and global macro-economic developments, the capital markets registered a decline in performance in 2011 relative to 2010. Notably, the capital markets were characterized by decreased activity in the secondary markets.



KCB Bank (Tanzania) Board Director, Hon. Catherine Kimura (left) chatting with KCB Group Chairman, Peter W Muthoka, MBS (right), during a dinner in honor of the East African Legislative Assembly members for the big role they play in moderating the socio-political and economic environment in the regions where the Bank operates.

As a result of tight market liquidity conditions, short term interest rates took an upward trajectory. The weighted average interest rate on 91-day Treasury Bills increased steadily from 2.28 per cent in December 2010 to 18.30 per cent in December 2011.



From left: KCB Uganda MD, Albert Odongo with KCB Uganda Board member Florence Kata, Bank of Uganda Official, Patrick Kaberege, KCB Uganda Chairman, Samwiri Njuki and David Nyende during the launch of KCB Uganda Mortgage Centre.

12 CHAIRMAN'S STATEMENT (Continued)



KCB Bank Tanzania Chairman, Dr. Edmund Mndolwa (left), hands over a delivery bed to the Assistant Chief Doctor, Hawa Lesso (right) of Buguruni Hospital in Tanzania. Looking on is the KCB Tanzania MD, Moezz Mir (second from left) and representative of District Medical Hospital, Temeke District, Frida Lucas (second from right)

The rising inflation rate, interest rates and depreciating shilling weakened household incomes significantly, dampening investor appetite for equity investments, leading to sustained downward pressure on stock prices. The stock markets suffered from a shift of investor preference away from equities to fixed income securities which are considered lower risk assets.

Consequently, the NSE 20 Share Index declined by 28 per cent to 3,205 points in December 2011 from 4,433 points in December 2010. Similarly, total shareholder wealth declined significantly, with investors losing an estimated KShs. 300 billion in market capitalization from KShs. 1,167 billion in December 2010 to KShs. 867 billion in December 2011.

KCB opened the year 2011 with a share price of KShs 21.75 and closed the year with a share price of KShs 16.85. Despite the challenges encountered in 2011, and the decline reflected on the share price, the KCB stocks outperformed the NSE All Share Index by 7.7% and the NSE 20 Share Index by 4.94%.

Kenya Banking Sector Developments

During second half of 2011, the banking sector faced sustained liquidity challenges and a subdued demand for credit due to rising interest rates. Despite these challenges, the sector recorded significant growth in assets driven by growth in deposits, injection of capital and retention of profits. Although the level of non-performing debts declined in 2011, it is expected cases of increased loan default may emerge in 2012. The sector has however adopted proactive facility restructuring strategies to avoid significant default.

The prospects for robust sector performance in 2012 appear challenging, given the high interest rate regime and of higher loan default risks.

Already, the sharp increase in the cost of debt has taken a heavy toll on the construction sector, leading to suspension of new projects by developers against the backdrop of the declining prices of residential properties. Credit consumption by the private sector has slowed down. We however expect this to be a short term situation that will improve as the year progresses.

In addition, the banking sector continues to face pressure from parliament to cap lending rates. Parliament is due to debate an amendment to the Finance Bill which seeks to cap lending rates at 400bps above the CBR and deposit rates at 300bps below the CBR. The growing political scrutiny of bank margins is also raising the risk of greater regulation which could harm long-term prospects not only for the sector but also for the economy as a whole.

However, the economy is currently experiencing improved business activity, heightening expectations that conditions will be more resilient as pressures dissipate in the course of the year. Notwithstanding the slow pace, inflation declined consistently for two months to January 2012, while the shilling exchange rate has stabilized against major international currencies. The implementation of a neutral monetary policy stance in January and February 2012 is an indication that business risks are easing.

In conclusion, we remain positive that business confidence in the economy is improving albeit at a slower pace and are confident that implementation of expansionary monetary policy geared towards restoration of adequate market liquidity will commence shortly. A monetary policy expansion would spur the growth of domestic money supply, putting downward pressure on interest rates and leading to the expansion of bank credit to productive business enterprises.

Our Regional Business

The KCB Group is present in five countries with the total number of branches at 222 as represented by Kenya (169); Tanzania (11); South Sudan (19); Uganda (14) and Rwanda (9). The expansive branch network is complemented by over 920 ATMs across the region that offer 24-hour access to its Quick Serve services and over 2,600 KCB Mtaani agents.

Strong investment in our regional businesses in the past five years contributed to a significant turnaround in their performance. This year, all our subsidiary businesses returned profits in line with our road map strategy. We are looking to a better performance going forward.

CHAIRMAN'S STATEMENT (Continued)

During the Year, the KCB Group injected KShs. 1.8 billion capital in its subsidiaries to enable them support and sustain growth in the markets in which they operate.

KCB Uganda received KShs. 1 billion, KCB Rwanda was granted KShs. 0.6 billion and KCB Tanzania received KShs. 0.2 billion. KCB Tanzania reported a profit before tax of KShs. 46.5 million against a loss of KShs. 111 million the previous year. KCB Uganda registered a profit before tax of KShs. 26.7 million against a loss of KShs. 409.3 million in 2010. KCB Rwanda similarly registered a profit before tax of KShs. 117.7 million against a loss of KShs. 317.5 million in 2010.

Lastly, KCB Sudan registered a profit before tax of KShs. 864 million against a profit of KShs. 581 million in 2010. The positive signs of recovery recorded in our International business and their profitable performance has positively contributed to last year's impressive results.

Over the coming years, in line with our pan African agenda, the Bank shall explore the prospects for expansion in the Greater East African Region. We believe KCB has the potential and capacity to support African businesses and boost the integration of our various common markets. In this connection KCB will open its operations in Burundi during the current year.

Governance

The Boards have been duly constituted in accordance with our governance charter. We have filled all positions taking into account the regional structure of the bank as well as the need to diversify talent and experience. Thus the subsidiary Boards were filled with talented local resources. Board committees have also been established at group and subsidiary levels as required by the local regulators.



Mbarara Primary School Girl Guides in Uganda getting ready to plant trees with KCB Mbarara branch staff during the KCB Community Day.



The KCB Tanzania Chairman, Edmund Mndolwa (second from right) hands over food donation to Don Bosco Orphanage. Looking on is the MD KCB Tanzania Moezz Mir (left), the Assistant Director of Friends of Don Bosco, Theobald Buberwa (second from left), and Head of Marketing & Corporate Affairs KCB Tanzania, Christine Manyenye (right).

As part of our Transformation Programme, the Group developed a new organization structure ushering in new senior management appointments that were approved by the Central Bank of Kenya.

The structure consists of a leaner and more business focussed Executive Committee made up of the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, the Chief Business Officer-Kenya, the Chief Business Officer-International, the Chief Risk Officer and the Company Secretary.

Transformation Programme

As you are aware, the KCB Board instituted a transformation programme and cost management initiatives to drive and grow the Bank from a GOOD to a GREAT organization.

The Transformation Programme is a health check, the first major diagnosis since KCB came into existence in 1896 and immediately embarked on its roll-out and implementation. The Board and Management also took the time to acquaint the entire KCB team with the exercise and we have started to reap its benefits.

The KCB Transformation Project is in its second year. The key deliverables of the Transformation Programme include accelerated growth in market share and business revenues, enhanced productivity and increased shareholder value. It has involved a total review of the business and is targeting a new business set where this Bank is resourced with the right number of people, the right competencies, the right

14 CHAIRMAN'S STATEMENT (Continued)

strategies, the best practices, the right processes and the right structure to deliver more value to our shareholders.

Over the last 12 months, the bank rolled out business improvement initiatives to accelerate growth, enhance productivity and increase stakeholder value. These efforts will enable KCB exploit to the full its great potential for the benefit of the shareholders and leave a legacy of excellence all round in business performance and governance.

At the end of this programme, KCB will embrace its space as a more globally competitive and first class bank.

Corporate Social Responsibility (CSR)

We have continued to utilize our financial resources to invest in the countries and communities where we operate. These investments highlight the founding philosophy of how we go about our business.

We believe that companies are only sustainable and successful over the long-term if they create value additions not just for their shareholders but also for communities in which they operate. The Bank's investments have continued to be in the following areas; Education, Enterprise Development, Environment, Health and Humanitarian Intervention.

The KCB Foundation had a successful 2011 and key achievements within this period included improved uptake of projects by all countries, increased staff participation in Foundation programmes and equitable distribution of projects across the region.

In the year-ender review, the KCB Foundation enhanced its resources from KShs. 70 million in 2010 to KShs. 157 million in 2011. The funds were invested in five thematic areas; Health (KShs. 25 million), Education (KShs. 66 million), Enterprise Development (KShs. 26 million), Environment (KShs. 19 million) and Humanitarian Intervention (KShs. 21 million). Since inception in 2007, the KCB Foundation has invested over KShs. 300 million in various community projects.

In looking beyond our core banking business, the KCB Foundation Board reviewed its five-year strategy focus to



KCB Group Chairman Peter W Muthoka, MBS, (right) handing over a Cheque of KShs. 3.5 Million to the Archbishop of Nyeri, His Grace, Peter Kairu (left) for the purchase of Dialysis machine for Consolata Mision Hospital in Nyeri.

concentrate 80% of its funding on Environment, Education and Enterprise Development as the key support areas. We regard these as paramount to empowering the communities we invest in to become more productive and self-reliant.

2012 Outlook

The KCB Group remains optimistic about the regional economic outlook on the back of our regional expansion strategy to steer the Group's growth and profitability. We believe that with a heightened focus in creating a shared value with all our stakeholders, these shareholders will continue enjoying higher and consistent dividend pay outs.

Finally, we are indebted to our shareholders, customers, media, the community and stakeholders for their contribution in making KCB such a great business and I want to thank you all for the co-operation and support you accorded me during the period under review. We are confident that with your continued support, we have the capacity, resources and resolve to make this Bank great in the years to come.

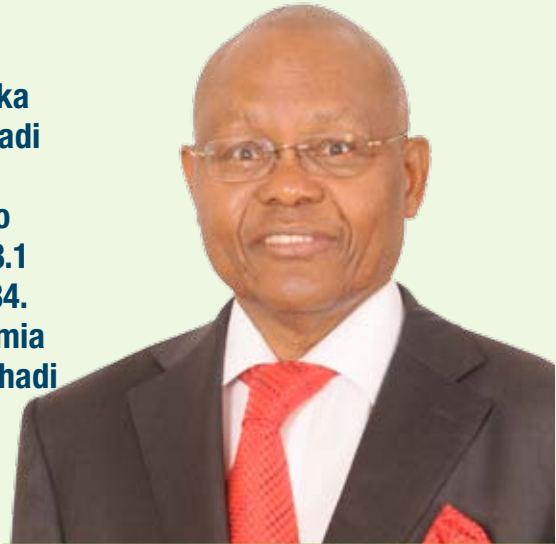
I also want to thank the members of the Board, Management and staff for their support and dedication during the year.

Thank you.

TAARIFA YA MWENYEKITI



Hesabu ya fedha na mali ya Kampuni iliongezeka kwa asili mia 32 kutoka Shilingi bilioni 251.4 hadi Shilingi bilioni 330.7 kutokana na ongezeko la akiba ya wateja na mikopo kwa wateja. Mikopo ya jumla iliongezeka kutoka Shilingi bilioni 148.1 hadi Shilingi bilioni 198.7, ukuaji wa asili mia 34. Vile vile akiba ya wateja iliongezeka kwa asili mia 32 kutoka Shilingi bilioni 197 mwaka wa 2010 hadi Shilingi bilioni 259.3.



Mwenyekiti wa KCB, Peter W Muthoka, (MBS)

WAPENDWA WANAHISA,

Nina furaha kuu kuwasilisha kwenu Ripoti ya Mwaka na Taarifa ya Kifedha kwa mwaka wa 2011. Wakati wa kipindi cha mwaka, Kampuni ya KCB ilikuwa na matokeo ya kufana. Ukweli ni kwamba matokeo hayo yalikuwa bora zaidi katika historia ya miaka 115 ya KCB, kwani Benki iliweza kwa mara ya kwanza kupata faida mara dufu.

Ingawaje uchumi uliodorora na sekta ya Biashara ilikuwa na wakati mgumu, KCB iliweza kuzalisha matokeo bora zaidi ikilinganishwa na Benki zenginezo. Matokeo hayo bora inadhirihisha kuwa Benki ya KCB iliweka mikakati ya kimsingi kupitia mpango wa marekebisho ilikuiwezesha kufanya vyema kibiashara. Vile vile, Biashara zetu za kanda pia zilichangia pakubwa katika kuleta faida ya jumla kwa benki.

Mpango huu wa Marekebisho ilidhinishwa na Halmashauri ya KCB mwaka uliopita na tunaendelea kuona matokeo bora kiuchumi na kibiashara katika kila muhula. Mpango huu wa marekebisho uliweka vigezo muhimu kama vile ukuaji wa soko na mapato ya biashara, ongezeko la uzalishaji na ongezeko la thamani kwa mwanahisa. Mpango huu aidha ulihusisha tathmini kamili ya biashara na unalenga muundo mpya wa biashara ambapo Benki hii inahudumiwa na idadi ya wafanyakazi inayofaa, ujuzi unaohitajika, mikakati sahihi, huduma inayofaa na muundo unaofaa kuwapa thamani zaidi wanahisa wetu. Mwaka uliopita, Benki ya KCB iliidhinisha mpango wa Marekebisho ya uchunguzi wa kwanza kutathmini kifaya jinsi Benki ilivyo tangu mwaka wa 1896 na tukaanza mara moja kutekeleza mpango huu.

Katika kipindi cha miezi kumi na mbili iliyopita, benki ilianzisha mikakati ya kuimarisha ukuaji wa biashara, kuimarisha uzalishaji na wanahisa kuongezewa thamani. Juhudi hizi zitawezesha KCB kutumia kikamilifu uwezo wake kwa manufaa ya wanahisa na kuacha urithi wa ubora katika utekelezaji biashara na usimamizi. Mwishoni wa mpango huu, KCB itachukua nafasi yake kama benki ya kiwango cha kwanza na yenye ushindani mkubwa duniani.

Benki ilipata faida ya Shilingi bilioni 15.1 kabla ya kodi hili likiwa ni akisi la ukuaji wa asili mia 54 ikilinganishwa na Shilingi bilioni 9.8 mwaka wa 2010. Mapato ya faida ya jumla yaliongezeka kwa asili mia 19 kutoka Shilingi bilioni 19.6 hadi Shilingi bilioni 23.3 hasa kutokana na ongezeko la mali lakini yakapunguzwa na gharama ya juu ya riba katika akiba za jumla.

Mapato ya jumla ya shughuli yaliimarika kwa kiasi kikubwa, huku yakiongezeka kwa kiasi kikubwa kutoka Shilingi bilioni 29.6 hadi Shilingi bilioni 36.9 kutokana na ongezeko la wateja na bidhaa. Ada na kamisheni viliongezeka kwa asili mia 35 kutoka Shilingi bilioni 6.8 hadi Shilingi bilioni 9.2 huku mapato ya kubadilisha fedha za kigeni yakipanda kwa asili mia 30 kutoka Shilingi bilioni 2.8 mwaka wa 2010 hadi Shilingi bilioni 3.6.

Gharama za jumla za utekelezaji ziliongezeka kwa asili mia 19 kutoka Shilingi bilioni 18.7 hadi Shilingi bilioni 22.3, kusaidia uwekezaji katika teknolojia ya habari, kuimarisha upanuzi wa matawi katika kanda na marekebisho ya wakati mmoja ya Shilingi bilioni 1.6 yaliyofanywa mwaka jana.

16 TAARIFA YA MWENYEKITI (Kuendelea)

Jumla ya madeni yasiyolipwa yalipungua kwa asili mia 12 kutoka Shilingi bilioni 2.1 hadi Shilingi bilioni 1.9. Matokeo haya bora yametokana na ongezeko la soko, mafanikio ya biashara ya kanda na punguo katika gharama za benki hadi uwiano wa mapato kutokana na utekelezaji bora wa shughuli zetu.

Hesabu ya fedha na mali ya Kampuni iliongezeka kwa asili mia 32 kutoka Shilingi bilioni 251.4 hadi Shilingi bilioni 330.7 kutokana na ongezeko la akiba ya wateja na mikopo kwa wateja. Mikopo ya jumla iliongezeka kutoka Shilingi bilioni 148.1 hadi Shilingi bilioni 198.7, ukuaji wa asili mia 34. Vile vile akiba ya wateja iliongezeka kwa asili 32 kutoka Shilingi bilioni 197 mwaka wa 2010 hadi Shilingi bilioni 259.3.



Wafanyi kazi wa KCB Rwanda wakizindua kampeni ya wateja kuweka akiba na KCB inayojulikana kama, "KCB Iwacu and Zamuka Road Shows."

Jumla ya mali ya benki ilikuwa Shilingi bilioni 330.7 huku mtaji ukiwa Shilingi bilioni 44.4. Kufuatia utendaji bora na hesabu thabiti ya fedha na mali, KCB inafurahia viwango vya fedha vilivyokuwa salama, huku jumla ya mali ikiwa asili mia 20.7. Kiwango chetu cha fedha kufikia tarehe 31 Disemba kilikuwa asili mia 31.3 huku mtaji muhimu na uwiano wa akiba ukiwa asili mia 18.3. Viwango vyote vinaafiki kanuni za Benki Kuu ya Kenya.

Biashara za kanda zilitangaza faida mwaka uliopita. Hii ilifuatia uwekezaji wa rasilimali katika maeneo ya biashara zetu. Kutokana na ufanisi huu, Halmashauri ya Wakurugenzi inapendekeza mgao wa faida wa shilingi 1.85 kwa kila hisa ya kawaida. Hii ni ongezeko la asili mia 49 ikilinganishwa na kipindi kilichotangulia.

MAZINGIRA YA KAZI

Uchumi

Uchumi ulidorora na kuafikia ukuaji wa pato la Jumla la Taifa la asili mia 4.1 mwaka wa 2011, ikilinganishwa na ukuaji wa asili mia 5.6 mwaka wa 2010 na utabiri wa asili mia 5.3 mwaka wa 2011.

Udororaji wa uchumi ulioanza robo ya pili ya mwaka wa 2011 ulididimia hadi kiwango cha chini cha asili mia 3.6 katika robo ya tatu ya mwaka wa 2011, kulinganishwa na ukuaji wa asili mia 5.7 ulioorodheshwa katika kipindi sawa na hicho mwaka wa 2010. Upungufu huo uliakisiwa katika sekta za Umeme na Maji, Biashara ya Jumla na Rejareja na Utengenezaji. Sekta za Umeme na Maji zilipungua kwa asili mia 12.1 katika robo ya tatu ya mwaka wa 2011 kulinganishwa na ukuaji wa asili mia 17.1 katika kipindi sawa na hicho mwaka wa 2010. Kwa kuakisi madhara ya kudorora kwa biashara kutokana na punguo la mahitaji ya nyumbani na kupanda kwa gharama ya maisha, shughuli katika biashara ya Jumla na Rejareja zilipungua kwa asili mia 1.3 katika robo ya tatu ya mwaka wa 2011 kulinganishwa na ukuaji wa asili mia 4.7 katika kipindi sawa na hicho mwaka wa 2010.

Hata hivyo kutokana na kuimarika kwa uzalishaji wa mboga na matunda, bei za juu za kimataifa za kahawa na majani chai, sekta ya kilimo



Ukumbi wa KCB Rwanda Contact Centre iliyozinduliwa kusaidia wateja ambao wako na malalamishi na wanahitaji usaidizi wa benki.

ilikuwa na ukuaji wa asili mia 4.8 katika robo ya tatu ya mwaka wa 2011, kuashiria ongezeko la thamani la Shilingi bilioni 4.1. Sekta ya utalii, ambayo iliimarika kutokana na kupungua thamani kwa shilingi na ongezeko la wageni, ilipanuka na kuafikia ongezeko la asili mia 33 katika mapato hadi Shilingi bilioni 97.9 mwaka wa 2011.

Punguo la ukuaji wa uchumi mwaka wa 2011, lilionyesha athari za hali tete za uchumi wa biashara ndogo ndogo, zilizosababishwa na ukame na ongezeko kubwa la bei za kimataifa za mafuta na bei za chakula. Hususani ukuaji ulilemazwa na viwango vya juu vya gharama ya maisha, kupungua kwa thamani ya shilingi kwa kiwango kikubwa na viwango vya juu vya riba kufuatia udhibiti mkali wa sera ya fedha. Ongezeko la madeni nchini Marekani, hali tete ya mzozo wa madeni katika mataifa yanayotumia sarafu ya Euro na mzozo usiokwisha wa mataifa ya Kiarabu yenye utajiri mkubwa wa mafuta kuliendelea kuathiri hali ya biashara nchini.

TAARIFA YA MWENYEKITI (Kuendelea)

Licha ya ongezeko la hali ya uchumi isiyotabirika, tunaendelea kuwa na matumaini, kuwa ukuaji utakuwa wa juu kwa takribani asili mia 5.0 mwaka wa 2012, kutoka kadiri la asili mia 4.1 mwaka wa 2011. Kuimarisha hali ya kufanya biashara ndogo ndogo nchini, ongezeko la matumizi ya fedha katika miundomsingi, ongezeko la fedha kutoka kwa Wakenya wanaoishi nje na ongezeko la biashara ya kanda, ni ishara ya matumaini ya kuimarika kwa uchumi. Hata hivyo tishio kubwa katika matarajio ya ukuaji wa uchumi litakuwa mvua duni mwaka wa 2012; ijapokuwa biashara hafifu kutoka mataifa ya Ulaya, athari za viwango vya juu vya gharama ya maisha, udhibiti mkali wa sera ya fedha huenda kukachangia changamoto hizi.

Pamoja na hayo, hali isiyoeleweka kuhusu matokeo ya uchaguzi mkuu ujao huenda ikaathiri ukuaji wa uchumi katika kipindi cha mwaka na kuelekea mwaka wa 2013.

Licha ya hali ngumu ya kufanya biashara hasa wakati wa kipindi cha pili cha mwaka wa 2011 na ongezeko la ushindani katika sekta, Kampuni ya KCB iliweza kupata matokeo bora yaliyoakisi mpango wa marekebisho ya benki na utendaji bora katika matawi yote ya kanda.

Kampuni ya KCB inaendelea kuwa moja wapo wa walipa kodi wakubwa katika kanda. Mchango wa jumla katika hazina za kanda ulikuwa Shilingi bilioni 5.8 wakati wa kipindi cha mwaka. Benki imeendelea kuwa katika kiwango cha Kumi bora cha walipa ushuru nchini Kenya.

Chumi za Kanda ya Afrika Mashariki

Ukuaji hafifu wa uchumi duniani mwaka wa 2011 ulikuwa na changamoto za ukuaji katika mataifa ya Afrika Mashariki. Vurugu za hivi majuzi katika eneo la Euro na kupungua kwa shughuli za uchumi kulitatiza uingizaji wa bidhaa za nje kwa kanda ya Afrika Mashariki. Vugugu la kisiasa katika mataifa yanayotoa mafuta, kulilemaza usafirishaji wa bidhaa hiyo, hivyo kuathiri bei za nishati katika kanda ya Afrika Mashariki. Pamoja na hayo, hali mbaya ya hewa iliathiri uzalishaji wa chakula na kusababisha kupanda kwa viwango vya gharama ya maisha, bei za juu za mafuta, sarafu dhaifu na udhibiti mkali wa kifedha katika masoko ya kanda.

TANZANIA

Gharama ya maisha

Gharama ya maisha nchini Tanzania ilipanda kutokana na ongezeko la bei za kimataifa za mafuta, asili mia 18 kwenye ushuru wa umeme na ongezeko la bei za chakula. Sababu hizo ziliongeza gharama ya maisha kufikia kiwango cha juu cha asili mia 15.0 mwishoni mwa 2011 kutoka asili mia 3.5 mwishoni mwa mwaka wa 2010.

Viwango vya riba

Viwango vya riba katika vigezo vyote vya masoko ya fedha viliongezeka, hali iliyoakisi udhibiti mkali wa masharti ya kifedha. Hata hivyo serikali ilizihimiza benki za biashara kupunguza ushuru kwa huduma za benki, ikiwa ni pamoja na viwango vya riba kwa ukopeshaji ili kuwawezesha wateja kumudu huduma za kifedha.





Mkurugenzi wa KCB Uganda, Albert Odongo (kushoto), na Mkurugenzi Mkuu Katika Idara ya Maji, Bwana William Muhairiwe (kulia), waliweka sahihi ya ushirikiano wa kuendeleza ulipaji wa maji katika benki za KCB Uganda.

Viwango vya kubadilisha fedha

Shilingi ya Tanzania iliendelea kupungua thamani dhidi ya dola ya Marekani, na kuandikisha hasara ya kiwango cha wastani kilichoziidi asili mia 10 mwaka wa 2011. Kupungua kwa thamani ya Shilingi ya Tanzania kulionyesha kuimarika kwa jumla kwa dola ya Marekani dhidi ya sarafu muhimu. Kupungua kwa thamani ya sarafu hiyo kulikuwa na athari katika biashara ya nchi hiyo na kuongeza gharama ya maisha.

UGANDA

Gharama ya maisha

Uganda ilishuhudia ongezeko la bei ya bidhaa lililohusishwa na gharama za kusambaza chakula, kupungua kwa kiwango cha kubadilisha fedha na nishati. Bei ya juu ya chakula ilisababishwa na gharama za kilimo na kupungua thamani kwa viwango vya ubadilishanaji katika bidhaa kutoka nje hasa mafuta. Kwa sababu hiyo, gharama ya maisha ilipanda kwa kiwango cha juu katika muda wa miaka 18 na kufikia asili mia 28.3 mwaka wa 2011 kutoka asili mia 4.8 mwezi Desemba mwaka wa 2010.

Viwango vya riba

Viwango vya riba vilidumisha hali ya kupanda, hali iliyoakisi udhibiti wa sera ya fedha ambayo lengo lake lilikuwa kuzuia athari za bei ya chakula na mafuta. Kwa sababu hiyo viwango vya hati za thamani na viwango vya biashara miongoni mwa benki vililendelea kuwa juu kutokana na utekelezaji wa udhibiti wa sera ya fedha, hali iliyopunguza kasi ya ukopeshaji.

Viwango vya kubadilisha fedha

Shilingi ya Uganda iliendelea kupungua thamani wakati wa kipindi cha mwaka wa 2011 kutokana na kuimarika kwa dola ya Marekani kimataifa na mahitaji ya juu ya dola. Kwa sababu hiyo, Shilingi ya Uganda ilipungua thamani kwa takribani asili mia 25 hadi Shilingi za Uganda 2,812.54 kwa dola ya Marekani mwezi Septemba 2011, kutoka Shilingi 2,251.3 mwezi Septemba 2010.

RWANDA

Gharama ya maisha

Gharama ya maisha nchini Rwanda ilikuwa thabiti huku ikipanda juu kidogo kutokana na bei ya juu ya nishati na chakula. Pamoja na hayo, Rwanda imedumisha kiwango cha chini cha kupanda kwa gharama ya maisha katika Jumuiya ya Afrika Mashariki, kwa kiwango cha gharama ya maisha cha asili mia 6.64 kwa mwaka mwezi Septemba mwaka wa 2011 kutoka kwa takribani asili mia 1.0 mwanzoni mwa mwaka huo huo.

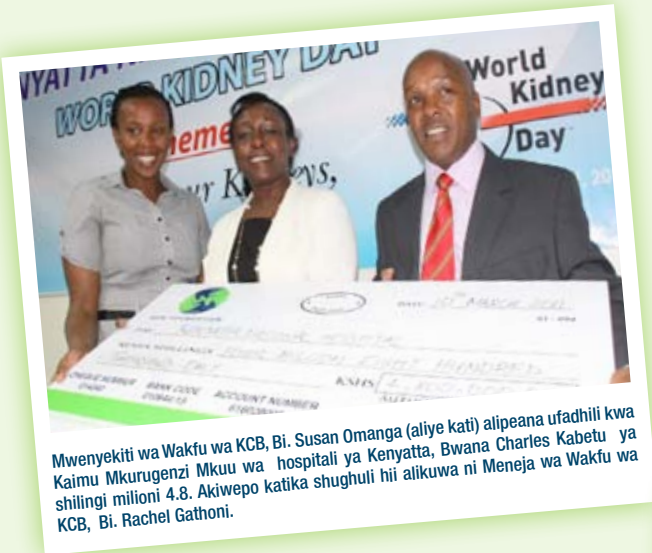
Viwango vya riba

Viwango vya riba vya muda mfupi viliyumba kwa kati ya asili mia 6.5 na asili mia 7.9 mwaka wa 2011. Kiwango hicho cha juu kiliakisi ongezeko la hati za dhamana ili kuafiki mahitaji makubwa ya kifedha.



Mkurugenzi wa KCB Rwanda, Bwana Maurice Toroitch, alitoa ufadhili kupitia Wakfu wa KCB, wa computa katika shule ya Msingi na Sekondari ya Kagogo huko Rwanda.

TAARIFA YA MWENYEKITI (Kuendelea)



Mwenyekiti wa Wakfu wa KCB, Bi. Susan Omanga (aliye kati) alipeana ufadhili kwa Kaimu Mkurugenzi Mkuu wa hospitali ya Kenyatta, Bwana Charles Kabetu ya shilingi milioni 4.8. Akiwepo katika shughuli hii alikuwa ni Meneja wa Wakfu wa KCB, Bi. Rachel Gathoni.

Benki ya Taifa ya Rwanda ilidumisha sera thabiti ya kifedha mwaka wa 2011, na kushikilia kiwango muhimu cha Key Repo Rate (KRR) kwa asili mia 6 tangu mwezi Novemba mwaka wa 2010 kwa lengo la kusawazisha kiasi cha fedha katika sekta ya benki. Hata hivyo kutokana na kuongezeka kwa shinikizo la kupanda kwa gharama ya maisha, mnamo mwezi Oktoba 2011, Benki ya Taifa ya Rwanda hatimaye ilidhibiti sera yake ya fedha, kwa kuongeza kiwango cha KRR kutoka asili mia 6.0 hadi asili mia 6.5.

Viwango vya kubadilisha fedha

Faranga ya Rwanda iliendelea kuwa thabiti, huku ikipungua thamani kwa asili mia 0.3 dhidi ya dola ya Marekani mwaka wa 2011. Kupungua huko thamani kwa kiwango kidogo kulitokana na mahitaji makubwa ya sarafu kulinganishwa na kipindi sawa na hicho mwaka wa 2010. Hata hivyo faranga ya Rwanda iliimarika kwa kiwango kikubwa dhidi ya sarafu za Kenya, Uganda na Tanzania.

MASOKO YA KIFEDHA

Maendeleo ya kupanda kwa gharama ya maisha

Wakati wa kipindi cha mwaka wa 2011, uchumi uliathiriwa na shinikizo la juu la kupanda kwa gharama ya maisha katika kiwango cha jumla cha miezi 12 na kuongezeka kutoka asili mia 4.51 mwezi Desemba mwaka wa 2010 na kufikia kilele cha asili mia 19.72 mwezi Novemba mwaka wa 2011, kabla ya kupungua kidogo hadi asili mia 18.93 mwezi Desemba mwaka wa 2011. Kiwango cha juu cha kupanda

kwa gharama ya maisha kinatokana na bei ya juu ya chakula nchini kutokana na hali mbaya ya hewa na kuongezeka kwa bei ya kimataifa ya mafuta. Kwa sababu hiyo bei ya nishati iliongezeka, gharama ya uzalishaji na usafiri ikaongezeka, na kupunguza uwezo wa ununuzi na mahitaji ya bidhaa na huduma humu nchini. Kutokana na sababu hizi, matumizi ya kibinafsi, upelekaji wa bidhaa nje, uwekezaji na matumizi ya umma, umeathirika kwa kiasi kikubwa.

Maendeleo ya masoko ya fedha

Kukabiliana na athari za kiwango cha juu cha gharama ya maisha dhidi ya bei za bidhaa, Benki Kuu ya Kenya ilidumisha sera thabiti ya kifedha, na kuongeza viwango vya Benki Kuu kutoka asili mia 5.8 mwezi Januari mwaka wa 2011 hadi asili mia



Mkurugenzi Mkuu wa Rwanda, Bwana Maurice Toroitich, alijumuika na wafanyi kazi wa hospitali ya Kibagabaga huko Rwanda. Alichukua hiyo fursa na wachezaji wa golf kutoa mchango wao wa usaidizi wa RWF 800,000.

18 mwezi Desemba 2011.

Kutokana na sera thabiti ya kifedha, viwango vya riba vya muda mfupi vilipanda. Viwango vya riba vya hati za dhamana zinazokomaa kwa siku 91 vilipanda kutoka asili mia 2.28 mwezi Desemba 2011. Pamoja na hayo viwango vya hati za dhamana zinazokomaa kwa siku 182 viliongezeka kutoka asili mia 2.59 mwezi Desemba 2010 hadi asili mia 18.30 mwezi Desemba 2011.

Viwango vya biashara miongoni mwa benki viliongezeka kwa kiasi kikubwa kutoka asili 1.18 mwezi Desemba 2010 hadi asili mia 21.75 mwezi Desemba 2011. Viwango vya riba vya benki za biashara pia vilipanda, huku viwango vya ukopesaji na uwekaji akiba vikiongezeka kwa wastani wa asili mia 13.87 na asili mia 3.59 mwezi Desemba 2010 hadi asili mia 20.04 na asili mia 6.99 mtawaliao mwezi Desemba 2011.



Afisa Mkuu wa Biashara ya Benki KCB Kenya, Bwana Peter Kimondo, alitoa hundi ya shilingi 250,000 kwa niaba ya KCB kudhamini dereva wa Rhino Charge, Bwana David Bromham.

Maendeleo ya viwango vya kubadilisha fedha za kigeni

Shilingi ya Kenya ilidorora dhidi ya sarafu muhimu za kimataifa, na kuzua wasiwasi kwamba kuendelea kwa hali hiyo kungeongeza kupanda kwa viwango vya gharama ya maisha na kuzuia matarajio ya ukuaji wa uchumi. Kupungua kwa thamani ya shilingi kuliakisi athari za biashara ya sarafu, mahitaji makubwa ya dola dhidi ya ongezeko la deni la kuagiza bidhaa kutoka nje na kiwango faifu cha fedha kutoka nje. Kwa wastani Shilingi ya Kenya iliuzwa kwa kiwango cha Shilingi 86.663, Shilingi 135.095 na Shilingi 114.146 dhidi ya dola ya Marekani, Pauni ya Uingereza na Euro mwezi Disemba 2011, ikilinganishwa na Shilingi 80.568, Shilingi 125.652 na Shilingi 106.535 didi ya dola, Pauni ya Uingereza na Euro mwezi Desemba 2010.

Maendeleo ya Soko la Hisa

Katika kuonyesha akisi za athari za maendeleo ya biashara ndogo nchini na kimataifa, Masoko ya Hisa yalionyesha punguo katika utendaji mwaka wa 2011 ikilinganishwa na 2010. Masoko ya Mtaji yaliainishwa na upungufu wa shughuli katika masoko makubwa.

Kuongezeka kwa viwango vya gharama ya maisha, viwango vya riba na kupungua kwa thamani ya shilingi kulididimiza mapato ya jamii kwa kiasi kikubwa, na kulemaza matumaini ya kuwekeza mtaji, hali iliyosababisha shinikizo la punguo la bei za hisa. Masoko ya hisa yaliathiriwa na mabadiliko ya chaguo kwa wawekezaji kutoka hisa hadi mitaji ya kudumu ambayo inachukuliwa kuwa mali inayokumbwa na kiwango kidogo cha hatari.

Kwa hivyo kipimo cha kampuni bora 20 katika soko la hisa kilipungua kwa asili mia 28 hadi alama 3,205 mwezi Desemba 2011 kutoka alama 4,433 mwezi Desemba 2010. Aidha jumla ya utajiri wa wanahisa ulipungua kwa kiasi kikubwa, huku wawekezaji wakipoteza wastani wa Shilingi bilioni 300 katika mtaji wa hisa kutoka Shilingi 1,167 mwezi Desemba 2010 hadi Shilingi bilioni 867 mwezi Desemba 2011.

KCB ilifungua mwaka wa 2011 huku hisa zake zikiuzwa kwa Shilingi 21.75 na kufunga mwaka kwa Shilingi 16.85. Licha ya changamoto zililoshuhudiwa mwaka wa 2011, na anguko lililoshuhudiwa katika bei ya hisa, hisa za KCB zilifanya vyema katika Soko la Hisa la Nairobi kwa asili mia 7.7 na kipimo cha kampuni bora 20 katika soko la hisa kwa asili mia 4.94.

Maendeleo ya Sekta ya Benki

Wakati wa kipindi cha mwaka wa 2012, sekta ya benki ilikumbwa na changamoto za kifedha na mahitaji hafifu ya mikopo kutokana na kupanda kwa viwango vya riba. Licha ya changamoto hizi, sekta iliandikisha ukuaji mkubwa wa mali kulikotokana na ongezeko la uwekaji akiba, uwekaji wa mtaji na kudumishwa kwa faida. Ijapokuwa kiwango cha mikopo isiyolipwa kilipungua mwaka wa 2011, inatarajiwa visa vya mikopo kukosa kulipwa vitaibuka mwaka wa 2012. Hata hivyo sekta imeweka mikakati ya kuzuia mikopo kutolipwa kwa kiwango kikubwa.

Matarajio ya ufanisi wa sekta mwaka wa 2012 yanaonekana hafifu kutokana na viwango vya juu vya riba na uwezekano wa kutolipwa kwa mikopo. Sekta hiyo inatarajiwa kukabiliana na mkondo wa pili wa athari; ikiwa ni pamoja na kupunguza wafanyakazi na kupungua kwa kasi ya kuajiri. Sekta ya kibinafsi imepungua uombaji wa mikopo kwa kiasi



Mkurugenzi Mkuu wa KCB, Daktari Martin Oduor-Otieno akipokea zawadi ya kuwa "Mkurugenzi Bora Mwakani kutoka kwa Mkurugenzi Mkuu wa Soko la Hisa la Nairobi, Bwana Peter Mwangi.

TAARIFA YA MWENYEKITI (Kuendelea)



Mkurugenzi Mkuu wa Eco-Place Pretoria, Bwana Wim Letz, akishauriana na wateja wa ujenzi wa KCB walipozuru Africa Kusini kujionelea maendeleo ya ujenzi wa nyumba nchini humo.

kikubwa, hivyo kufanya iaminike kwamba benki huenda zisiafikie viwango vikubwa vya ukuaji mwaka wa 2012. Tayari ongezeko la kasi la gharama ya madeni limeathiri sekta ya ujenzi, hali ambayo imesababisha kusitishwa kwa miradi mipya na wajenzi, huku bei za nyumba za makazi zikipungua.

Pamoja na hayo sekta ya benki inaendelea kukabiliwa na shinikizo la serikali kuweka kiwango cha riba ya mikopo. Bunge linatarajiwa kujadili marekebisho ya mswada wa fedha ambao unatafuta kuweka viwango vya riba za mikopo kufikia 400bps zaidi ya kiwango cha Benki Kuu na viwango vya kuweka akiba kufikia 300 bps chini ya kiwango cha Benki Kuu. Uchunguzi wa kisiasa wa faida za benki unaubua uwezekano wa usawazishi zaidi ambao huenda ukathiri matarajio ya muda mrefu sio tu katika sekta bali pia uchumi kwa jumla.

Hata hivyo kwa sasa (2012) uchumi unashuhudia ongezeko kuimarika kibiashara, hali inayoongeza matumaini kwamba hali ya biashara itastahimili shinikizo katika kipindi cha mwaka. Licha ya ukuaji wa taratibu, kiwango cha gharama ya maisha kilipungua mfululizo kwa miezi miwili hadi Januari 2012, huku kiwango cha kubadilisha shilingi kikibakia thabiti dhidi ya sarafu muhimu za kimataifa.

Kutekelezwa kwa sera ya kifedha kusikopendelea upande wowote mwezi Januari na Februari 2012 ni dhahirisho kuwa athari za biashara zinapungua.

Kwa kumaliza, tuna matumaini kuwa imani ya uchumi kwa biashara inaongezeka, ijapokuwa kwa kiwango cha chini na kuna matumaini kuwa kutekelezwa kwa sera pana zaidi ya kifedha inayolenga kurejesha fedha zaidi kwenye soko kutaanza hivi karibuni. Sera pana zaidi ya kifedha itasaidia kuimarisha mtiririko wa fedha nchini, na kupunguza viwango vya riba na kusaidia kuimarisha uwezo wa benki wa kutoa mikopo kwa biashara zenye faida.

Biashara zetu za Kanda

Kampuni ya KCB inatoa huduma zake katika mataifa sita, ikiwa na jumla ya matawi 224 huku Kenya ikiwa na (169); Tanzania (11); Sudan Kusini (19); Uganda (14) na Rwanda (9). Kiwango hiki kikubwa cha matawi kinasaidiwa na zaidi ya ATM 920 kote katika kanda zinazotoa huduma saa 24 katika Quick Serve na katika zaidi ya mawakala 2,600 wa KCB Mtaani.

Uwekezaji wetu thabiti katika biashara ya kanda katika kipindi cha miaka mitano kulichangia kwa kiasi kikubwa maendeleo yao. Mwaka huu, biashara zetu zote tanzu ziilikuwa na faida kulingana na mkakati wetu wa maendeleo. Tunatarajia ufanisi mkubwa zaidi katika siku za usoni.

Wakati wa kipindi cha mwaka, Kampuni ya KCB ilitoa mtaji wa Shilingi bilioni 1.8 kwa biashara tanzu kuziwezesha kujimudu na kuimarisha ukuaji wao katika soko ambako ziilikuwa zinahudumu. KCB Uganda ilipewa Shilingi bilioni moja, KCB Rwanda Shilingi bilioni 0.6 na KCB Tanzania shilingi bilioni 0.2.



Afisa Mkuu wa Biashara KCB Kenya, Bwana Peter Kimondo (kulia), anampatia Bwana Kennedy Kioko (kushoto), zawadi ya shamba na wadhifa wake huko Kitengela aliyoweza kushinda wakati wa kampeni ya Weka Weka.

22 TAARIFA YA MWENYEKITI (Kuendelea)

KCB Tanzania ilitangaza faida ya Shilingi milioni 46.5 kabla ya kodi ikilinganishwa na hasara ya Shilingi milioni 111 mwaka uliotangulia.

KCB Uganda ilitangaza faida ya Shilingi milioni 26.7 kabla ya kodi ikilinganishwa na hasara ya Shilingi milioni 409.3 mwaka wa 2010. KCB Rwanda ilitangaza faida ya Shilingi 117.7 kabla ya kodi ikilinganishwa na hasara ya Shilingi milioni 317.5 mwaka wa 2010. Hatimaye KCB Sudan ilitangaza faida ya Shilingi 864 kabla ya kodi ikilinganishwa na faida ya Shilingi milioni 581 mwaka wa 2010. Kuimarika kwa biashara yetu ya kimataifa kumechangia matokeo bora ya 2011.

Katika miaka ijayo, kulingana na mipango yetu kupanua shughuli zetu katika mataifa mengine ya Afrika, benki inaangalia mikakati ya kupanua shughuli zake katika mataifa mengine ya Afrika Mashariki. Tunaamini KCB ina uwezo wa kusaidia biashara za Afrika na kuimarisha masoko yetu mbali mbali.

Baadaye mwaka huu, KCB itafungua huduma zake nchini Burundi, katika mpango wake wa kushirikisha Afrika Mashariki.

Usimamizi

Halmashauri ya Benki iliandaliwa na kukubaliwa kulingana na masharti yaliyowekwa. Tuliweza kuweka mikakati kabambe kubuni halmashauri za kanda katika maeneo yote ya biashara ya benki. Kupitia mpango huu, kampuni iliunda mfumo mpya ya kuwaleta wafanyi kazi wapya ambao waliidhinishwa na Benki Kuu ya Kenya.

Kama sehemu ya Mpango wa Marekebisho, Kampuni ilipata mfumo mpya ambao umeleta wafanyakazi wapya wa ngazi za juu, ambao uliidhinishwa na Benki Kuu ya Kenya.

Mfumo huu uliidhinisha wadhifa mbali mbali kama ifuatavyo; Mkurugenzi Mkuu, Afisi Kuu ya Fedha, Afisi Kuu ya Utendaji, Afisi Kuu ya Kibiashara ya Kimataifa, Afisi Kuu ya Biashara Kenya, Afisi-Usimamizi ya Athari za Biashara na Katibu wa Kampuni.

Mpango wa Marekebisho

Kama mnavyofahamu Halmashauri ya KCB ilianzisha mpango wa marekebisho na mikakati ya kuthibiti gharama ili kuendesha na kuikuza benki kutoka shirika BORA hadi shirika KUJ. Mpango huo wa Marekebisho ni tathimini ya afya, uchunguzi wa kwanza mkuu wa kwanza tangu KCB ianzishwe mwaka wa 1896 na tukaanza mara moja kutekeleza mpango huo.



Wafanyi Kazi wa KCB Gilgil walichukua fursa kusafisha mji wa Gilgil. Walishirikiana na wakazi wa Gilgil katika mradi huu wa kuweka mji safi.

Halmashauri na Wasimamizi pia walitumia muda kulifahamisha kundi nzima la KCB kuhusu mpango huo, na tumeanza kuvuna matunda yake. Mpango huo wa Marekebisho uko katika mwaka wake wa pili. Vigezo muhimu vya mpango huo ni pamoja na kuongeza ukuaji wa mgao wa soko na mapato ya biashara, ongezeko la uzalishaji na ongezeko la thamani kwa mwanahisa. Mpango huo umehusisha tathmini kamili ya biashara na unalenga muundo mpya wa biashara ambapo Benki hii inahudumiwa na idadi ya wafanyakazi inayofaa, ujuzi unaohitajika, mikakati sahihi, huduma inayofaa na muundo unaofaa kuwapa thamani zaidi wanahisa wetu.

Katika kipindi cha miezi 10 iliyopita, benki ilianzisha mikakati ya kuimarisha ukuaji wa biashara, kuimarisha uzalishaji na wanahisa kuongezewa thamani.



Mwenyekiti wa Wakfu wa KCB, Bi. Susan Omanga (kushoto) na Mkurugenzi wa Acumen Fund katika kanda ya Afrika Mashariki, Bwana Biju Mohandas (kulia) walitia sahihi mkataba wa ushirikiano kuendeleza Uongozi bora hapa Afrika Mashariki.

TAARIFA YA MWENYEKITI (Kuendelea)



Wafanyi Kazi wa KCB Voi na Wakfu wa KCB, walisaidia kutoa tanki la maji huko Bungule Voi.



Katibu wa Kampuni ya KCB, Bwana David Malakwen, alizuru wilaya ya Wajir na kutoa debe za taka kusaidia usafi katika mji huu. Udhamani huu ulitolewa na Wakfu wa KCB.

Juhudi hizi zitaiwezesha KCB kutumia kikamilifu uwezo wake kwa manufaa ya wanahisa na kuacha urithi wa ubora katika utekelezaji biashara na usimamizi. Mwishoni mwa mpango huu, KCB itachukua nafasi yake kama benki ya kiwango cha kwanza na yenye ushindani mkubwa duniani.

Wakfu wa KCB – Huduma za Kampuni kwa Jamii (CSR)

Tumeendelea kutumia mapato yetu ya kifedha kuwekeza katika nchi na jamii ambapo tunatoa huduma. Uwekezaji huu unaeleza filozofia yetu ya awali ya jinsi tunavyoendesha biashara yetu. Tunaamini kuwa kampuni zinaweza kudumishwa na kufanikishwa katika kipindi cha muda mrefu iwapo zitatoa usaidizi wa ziada sio tu kwa wanahisa wao, bali pia katika jamii zinakohudumu.

Uwekezaji wa benki umedumishwa katika nyanja hizi ambazo ni pamoja na Elimu, Maendeleo ya biashara, Mazingira, Afya na Msaada wa Kibinadamu.

Wakfu wa KCB ulikuwa na ufanisi mwaka wa 2011 na miongoni mwa mwafanikio hayo ni pamoja na kuimarisha miradi katika nchi zote, kuendelea kujumuika kwa wafanyakazi katika mipango ya Wakfu na ugavi sawa wa miradi katika kanda.

Katika kipindi cha mwaka, Wakfu wa KCB uliimarisha mapato yake kutoka Shilingi milioni 70 mwaka wa 2010 hadi Shilingi milioni 157 mwaka wa 2011. Fedha hizo ziliwekezwa katika maeneo matano ambayo ni, Afya (Shilingi milioni 25), Elimu (Shilingi milioni 66), Maendeleo ya Biashara (Shilingi milioni 26), Mazingira (Shilingi milioni 18) na Msaada wa Kibinadamu (Shilingi milioni 20).

Tangu kuanzishwa mpango huo mwaka wa 2007, Wakfu wa KCB umewekeza Shilingi milioni 300 katika miradi mbali mbali ya kijamii.

Katika kuangalia mbele ya biashara yetu muhimu ya benki, Halmashauri ya Wakfu wa KCB ilichunguza upya mikakati yake ya miaka mitano ili kuweka asili mia 80 ya juhudi zake kugharamia mipango ya Mazingira, Elimu, na Maendeleo ya Biashara. Tunachukulia kuwa hizi ni muhimu katika kuzipa uwezo jamii tunamowekeza kuzalisha zaidi na kuweza kujitegemea.

Matarajio ya 2012

Kampuni ya KCB ina matarajio kuhusu uchumi bora wa kanda, kuhusiana na mikakati yetu ya upanuzi katika kanda ili kuimarisha ukuaji wa Kampuni na kuifanya kuwa na faida zaidi. Tunaamini kuwa tukiwa na maono bora zaidi katika kubuni msimamo sawia na wadau wetu, wanahisa wataendelea kufurahia mgao wa faida wa juu zaidi unaotolewa mara kwa mara.

Hatimaye, tunawashukuru wanahisa wetu, wateja, vyombo vya habari, jamii na wadau kwa mchango wao katika kuifanya KCB kuwa biashara thabiti. Tuna imani kuwa kwa usaidizi wao, tuna uwezo, rasilimali na azma ya kuifanya benki hii kuwa thabiti zaidi katika miaka inayokuja.

Ningependa pia kuwashukuru nyote kwa ushirikiano wenu na kwa kuniunga mkono wakati wa kipindi chote nilipokuwa Mwenyekiti wa Kampuni ya KCB.

Asanteni.

THANK YOU FOR APPRECIATING OUR OUTSTANDING PERFORMANCE



Best bank in
Asset Finance –
2nd Position



Best bank in
Mortgage Financing –
Winner



Best bank in
Retail Banking –
Winner



Corporate banker
of the year –
John Mark Wandolo



Best bank in
Micro-Finance –
2nd Position



Best bank in
Product Marketing –
2nd Position



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KCB warmly thanks you, our Customers, Board, Staff, Shareholders and other Stakeholders for the 2011 Banking Awards we received. They are a true reflection of our desire to keep providing you with excellent banking products, services and solutions. And we are just getting warmed up.



CHIEF EXECUTIVE'S STATEMENT

“ **Total operating income showed significant improvement, rising from KShs 29.6 billion to KShs 36.9 billion - driven by growth in customer and product base.** ”



Chief Executive Officer - Dr Martin Oduor-Otieno, CBS

DEAR SHAREHOLDERS,

2011 was the year that the region experienced major economic challenges among them high inflation, a record depreciation of the East African currencies, the sharp rise in interest rates and internationally, the European debt crisis. Yet despite these challenges, KCB recorded a 54% growth in its pre-tax profits, making the year 2011 one which will remain in our fond memories as the greatest ever in KCB Group's history.

The Group's Balance Sheet grew by 32% from KShs 251.4 billion to KShs 330.7 billion owing to an increase in customer deposits and advances to customers. Net loans and advances increased from KShs 148.1 billion to KShs. 198.7 billion, a 34% growth. Similarly, customer deposits went up by 32% from KShs 197 billion in 2010 to KShs 259.3 billion.

The Group's net interest income rose by 19% from KShs 19.6 billion to KShs 23.3 billion largely attributed to higher asset growth but offset by high interest costs on wholesale deposits. Total operating income showed significant improvement, rising from KShs 29.6 billion to KShs 36.9 billion - driven by growth in customer and product base. Fees and Commissions rose by 35% from KShs 6.8 billion to KShs 9.2 billion while foreign exchange earnings edged up by 30% from KShs 2.8 billion in 2010 to KShs 3.6 billion. Total Operating expenses increased by 19% from KShs 18.7 billion to KShs 22.3 billion, to support investment in information technology, consolidation of regional expansion in the subsidiaries and a one-off restructuring cost of KShs 1.6 billion incurred last year.

Gross provisions for bad debts decreased by 12% from KShs 2.1 billion to KShs 1.9 billion. These exceptionally good results are anchored on the Transformation Programme implemented last year which has led to increased market share, strong performance from all regional businesses and a reduction in the banks cost to income ratio due to improved efficiencies in our operations.

2011 REVIEW

Inflation developments

The economy in 2011 suffered from high inflationary pressure, resulting in overall 12-month inflation rising from 4.51 per cent in December 2010 to a peak of 19.72 per cent in November 2011, before declining marginally to 18.93 per cent in December 2011. The average annual inflation rate grew from 3.96 per cent in December 2010 to 14.0 per cent in December 2011. As earlier mentioned, the high inflation is attributed to high food prices, adverse weather conditions and high oil prices. The increase in energy prices resulted in high costs of production and transportation, limiting the purchasing power and aggregate demand for locally produced goods and services. These factors have impacted on private consumption, investments and public consumption.

Money market developments

To mitigate the impact of high inflation on commodity prices, the Central Bank of Kenya (CBK) maintained a tight monetary policy position, raising the Central Bank Rate (CBR) from 5.8 per cent in January 2011 to 18 per cent in December 2011.

As a result of tight market liquidity conditions, short term interest rates maintained an upward growth. The weighted average interest rate on 91-day Treasury bills increased steadily from 2.28 per cent in December 2010 to 18.30 per cent in December 2011. Similarly, the 182-day Treasury bill rate increased from 2.59 per cent in December 2010 to 18.30 per cent in December 2011. The interbank rate increased substantially from 1.18 per cent in December 2010 to 21.75 per cent in December 2011.

In addition, commercial banks' lending rate increased on average from 13.87 per cent to 20.04 per cent in 2011 and deposit rates increased on average from 3.59 per cent in December 2010 to 6.99 per cent in December 2011.

Stock market developments

As a result of domestic and global macro-economic developments, the Capital Markets registered a decline in performance in 2011 relative to 2010. The capital markets experienced decreased activity in the secondary markets resulting in the following:

- i) Lower turnovers in the equity market owing to high inflation in the second half of 2011,
- ii) Higher and volatile interest rates,
- iii) Depreciation (and volatility) of the shilling against major currencies. The stock market was affected by a shift of investor preference away from equities to fixed deposits, treasury bills and bonds which were considered lower risk assets.

The rising inflation rate, interest rates and depreciating shilling weakened household incomes significantly, dampening investor appetite for equity investments and led to sustained downward pressure on stock prices.

Consequently, the Nairobi Securities Exchange (NSE) 20 Share Index declined by 28 per cent from 4,433 points in December 2010 to 3,205 points in December 2011. Similarly, total shareholder wealth declined significantly, with investors losing an estimated KShs 300 Billion in market

“ The interbank rate increased substantially from **1.18 %** in December 2010 to **21.75 %** in December 2011. ”



KCB Director Mortgages, Joram Kiarie, and Crown Berger Chief Executive, Mr. Rakesh Rao, officially launching the KCB-Crown Berger partnership for S&L Developers Club members to enjoy paint discounted rates.

capitalization from KShs 1,167 Billion in December 2010 to KShs 867 Billion in December 2011.

Developments in forex rates

The Kenya Shilling depreciated against major international currencies, undermining economic growth prospects. Depreciation of the shilling is reflective of arbitrage of hard currencies. Other factors were; heavy dollar demand on the back of increased import bill and limited hard currency inflows. In 2011, the Kenya Shilling on average traded at KShs 86.663, against the US dollar compared to KShs 80.568 in 2010. The Sterling Pound on the other hand, traded at KShs 135.095 compared to KShs 125.652 in 2010 and finally, the Euro traded at KShs 114.146 compared to KShs 106.535 in 2010.

BANKING SECTOR DEVELOPMENTS

The banking sector in the third quarter of 2011 faced significant liquidity challenges and subdued demand for credit. Despite these challenges, the sector recorded impressive growth in assets driven by growth in deposits, injection of capital and retention of profits. Although the level of non-performing debts declined in 2011, we expect a major challenge in maintaining non-performing loans at the 2011 levels in 2012.

The prospect for a strong bank performance may be hampered in 2012, by high interest rate regime and expected loan defaults. The sector is expected to grapple with factors such as; political uncertainties, slowdown in new hiring and reduced credit consumption from the private sector.

CHIEF EXECUTIVE'S STATEMENT (Continued)



Launch of KCB Pesa point partnership. MD Paynet Group, Bernard Matthewman, (right) transacting on a KCB ATM during the launch as the KCB Group CEO Dr. Martin Oduor-Otieno (left) looks on.

The banking sector also continues to face pressure from government to cap lending rates. Parliament is determined to cap lending rates at 400bps above the CBR and deposit rates at 300bps below the CBR.

Despite these challenges in 2012, business activities are improving, heightening expectations that conditions will be more resilient as pressures dissipate in the course of the year. Inflation has been declining in the first months of 2012, while the shilling exchange rate appears to have stabilized against major international currencies. Implementation of a neutral monetary policy stance from January to April 2012 also provides further credence that upside business risks are easing.

In conclusion, we remain positive that business confidence in the economy is improving albeit at a slower pace. Global food and fuel prices have been declining, and there is a possibility that global commodity prices will fall further. Kenya's food harvest prospects should lower the demand for food imports and lower pressure on the shilling exchange rate. In addition, a monetary policy expansion by Central Bank of Kenya will lower interest rates and spur consumption of bank credit by business enterprises.

SERVICE DELIVERY AND PRODUCT INNOVATION

KCB Group continues to leverage innovation through technology-driven products such as mobile banking, internet banking and agent banking as value-added propositions to our customers. Today KCB Group has over 2,600 banking agents and a well-developed internet and mobile banking service.

We have also rolled out our mortgage offering outside Kenya and it has been received very well in Uganda, Tanzania and Rwanda. We will roll this out in Burundi from the outset in 2012, as well as in South Sudan. In the period under review, and on the back of these technology-driven products, we have used our expansive branch network and integrated marketing campaigns to drive customer deposits.

In the region, we are working with the various regional institutions such as the revenue collection agencies, port management authorities, academic institutions and social development organizations to foster more effective partnerships for growth and development and provide requisite financial resources to enable them execute their mandates. Through our unique regional core banking platform, we are committed to ensuring our regional customers enjoy banking without boundaries hence facilitating regional trade and financial intermediation at the convenience of our customers.

As East Africa's largest commercial bank, the implementation of the Common Market Protocol is a very timely development. We see KCB actively facilitating movement of labour, capital and services across the states in the provision of banking services. The new development and ongoing discussions on a common currency, is a positive step as it will contribute immensely to the stability of the regional economies and support commercial activities.

During the year, KCB and IFC signed a credit facility for USD 100 million to enable the Bank increase its lending support to small and medium enterprises (SMEs), micro enterprises and the mortgage market.



KCB Group CEO, Dr. Martin Oduor-Otieno, (left) and Jean-Philippe Prosper, Director, International Finance Corporation for Eastern and Southern Africa (right) during the signing of a credit facility for USD 100 million which will enable the bank to increase its lending support to small and medium enterprises (SMEs), micro enterprises and the mortgage market.



It is all smiles for KCB Director Mortgages, Joram Kiarie, after signing an MOU partnership with Basco paints Managing Director, Kamlesh Shah. This initiative will see members of S&L developer's club access preferential rates in purchasing paint.

In line with this agreement, the Bank has increased its lending portfolio in Kenya as well as its subsidiaries in Tanzania, South Sudan, Uganda and Rwanda. This has led to accelerated property development and improvement of housing for our people in Kenya and the markets in which we operate.

KCB BRAND IN THE REGION

The KCB Brand remains very strong in the East African region. The strength of the brand is partly due to the visibility created by sponsorship investments including the KCB East African Rally Challenge, the KCB East African Golf Tour and the KCB/ Athletics Kenya Cross Country Championships as well as activities conducted under the KCB Foundation in the areas of Education, Health, Enterprise Development, Environment and Humanitarian Intervention.

It is our intention to continue growing these sponsorships and enter into new partnerships in other countries where we operate hence promoting KCB Group in line with our vision, "To Be The Most Preferred Financial Solutions Provider in Africa with Global Reach."

EMPLOYEE PRODUCTIVITY & DEVELOPMENT

KCB Group is an employer of choice with over 5,000 employees in Kenya, Uganda, Tanzania, Rwanda and South Sudan.

During the period, the bank continued to provide training and development opportunities for employees at the ultra-modern KCB Leadership Centre in Karen.

Last year, the Bank invested over KShs 3million to put up an ultra modern e-learning centre at Kencom House that is accessed by all our employees from their work stations at their convenience. This model was adopted after we looked at our business geographical spread and work schedules to allow staff training and learning regardless of their work location. This new facility is accessed by members of staff in Kenya, Tanzania, South Sudan, Uganda and Rwanda at their convenience.

SUSTAINABILITY AND ENVIRONMENT

We have so far produced two KCB Sustainability Reports which detail our sustainability performance in the pillars of Economy, Environment and Society.

KCB Group seeks long term business sustainability by contributing towards economic, social and environmental issues that add value to our stakeholders. Our financial results demonstrate our contribution in the economy.

Through the KCB Foundation we invested over KShs 157 Million in communities across East Africa to address social needs. In this period, we scaled up the implementation of the 'KCB Green Agenda' an internal programme that targets reduction in wastage of paper, water, electricity and fuel in our daily activities. In addition the Bank begun the integration of a social and environment management system into our lending processes that will ensure projects financed by the bank do not harm communities and the environment.



From left; Insaf Mahmoud, Sahla Mahmoud, Mahmoud, and Tahany Mahmoud all siblings display a tree seedling moments before they planted it. This was during the regional KCB Community Day where staff and other stakeholders planted over 10,000 seedlings along a two-kilometer stretch of the Nairobi Green line at the Nairobi National Park.



Multi Media University students pose for a photo with tree seedlings at the Nairobi National Park. This was during the regional KCB Community Day where staff and other stakeholders planted over 10,000 seedlings along a two-kilometer stretch of the Nairobi Green line at the National Park.



KCB Group Company Secretary, David Malakwen, with a student from Chemase Primary School in Nandi where the KCB Foundation donated books, desks, learning materials and water tank.

The KCB Foundation has continued to lead in introducing best practices in the efforts to support needy communities. Our network of community champions across the region and the KCB Green Agenda are examples of how we can differentiate ourselves from the rest by doing things according to best global standards in an effective and inclusive manner. We believe that by doing things the right way, banks can be a powerful force for good in society. Our aim is to promote sustainable growth in the real economy, through our core business of banking.

Millions of people across our footprint are either unbanked or severely under-served by financial institutions, restricting their economic activity. Widening the access to finance is a core part of our strategy to have a positive impact on communities. We focus on offering relevant products and services that we understand fully to clients and customers with whom we have deep relationships.

We continue to support small and medium-sized enterprises (SMEs), which are key drivers of growth and employment across our markets. Again this year we increased our SME lending substantially.

We also launched new products and services, tailored specifically to meet the needs of these vital companies. Microfinance remains important in our aim of extending basic banking services to more people. In 2011 we provided KShs 6.6 billion to microfinance institutions reflecting a 6% loan exposure by sector.

GOING FORWARD

Our 2011 performance was driven by value innovation, technology-savvy products and the Transformation Programme.

Looking at 2012, we expect strong top-line growth, greater operational efficiency and robust credit management to deliver respectable performance across the group and to give you, our valued SHAREHOLDERS better returns on your investment.

Thank you.

“Mapato ya jumla ya kutekeleza shughuli yaliimarika kwa kiwango kikubwa kutoka Shilingi bilioni 29.6 hadi Shilingi bilioni 36.9 - kutokana na ongezeko la wateja na bidhaa.”



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

WAPENDWA WANAHISA,

Mwaka wa 2011 benki ilikabiliwa na changamoto nyingi zikiwemo mfumuko wa bei, kupungua kwa kiwango kikubwa kwa thamani ya sarafu za Afrika Mashariki, kuongezeka kwa kima cha juu cha viwango vya usawazashaji na kimataifa na mzozo wa kifedha wa Ulaya. Licha ya hayo, Benki ilitangaza ongezeko la faida ya asili mia 54 kabla ya kodi. Mwaka wa 2011 utabakia kwenye kumbukumbu njema kama mwaka wa fanaka zaidi katika historia ya Kampuni ya KCB.

Rasilimali na faida ya Kampuni ilikuwa kwa asili mia 32 kutoka Shilingi bilioni 251.4 hadi Shilingi bilioni 330.7 kutokana na ongezeko la akiba ya wateja na mikopo kwa wateja. Mikopo iliongezeka kutoka Shilingi bilioni 148.1 hadi Shilingi bilioni 198.7, ongezeko la asili mia 34. Aidha akiba iliyowekwa na wateja iliongezeka kwa asili mia 32 kutoka Shilingi bilioni 197 mwaka wa 2010 hadi Shilingi bilioni 259.3 .

Mapato ya jumla ya Kampuni yaliongezeka kwa asili mia 19 kutoka Shilingi bilioni 19.6 hadi Shilingi bilioni 23.3 hasa kutokana na kuimarika kwa rasilimali lakini ikalemezwa na viwango vya juu vya riba vilivyotozwa akiba za jumla. Mapato ya jumla ya kutekeleza shughuli yaliimarika kwa kiwango kikubwa kutoka Shilingi bilioni 29.6 hadi Shilingi bilioni 36.9 – kutokana na ongezeko la wateja na bidhaa.

Ada na kamisheni ziliongezeka kwa asili mia 35 kutoka Shilingi bilioni 6.8 hadi Shilingi bilioni 9.2 huku mapato kutokana na kubadilisha fedha za kigeni yakiongezeka kwa asili mia 30 kutoka Shilingi bilioni 2.8 mwaka wa 2010 hadi Shilingi bilioni 3.6 .

Gharama za jumla za shughuli ziliongezeka kwa asili mia 19 kutoka Shilingi bilioni 18.7 hadi Shilingi bilioni 22.3, kusaidia uwekezaji katika teknolojia ya habari, kuimarisha upanuzi wa biashara tanzu katika kanda na marekebisho ya wakati mmoja yaliyogharimu Shilingi bilioni 1.6 mwaka jana. Madeni yasiyolipwa yalipungua kwa asili mia 12 kutoka Shilingi bilioni 2.1 hadi Shilingi bilioni 1.9 .

Matokeo haya ya kufana yametokana na Mpango wa Marekebisho yaliyotekelezwa mwaka jana ambayo yamesababisha ongezeko la mgao wa soko, ufanisi bora wa biashara zote za kanda na punguo kwa gharama za benki katika uwiano wa mapato kutokana na kuimarika kwa shughuli zetu.

TATHMINI YA 2011

Maendeleo ya viwango vya gharama ya Maisha

Mnamo mwaka wa 2011 uchumi ulikabiliwa na shinikizo za viwango vya juu vya gharama ya maisha, vilivyosababisha viwango vya gharama ya maisha kwa kipindi cha miezi 12 kupanda kutoka asili mia 4.51 mwezi Desemba 2010 na kufikia kilele cha asili mia 19.72 mwezi Novemba 2011, kabla ya kupungua kidogo hadi asili mia 18.93 mwezi Desemba 2011. Kiwango cha wastani cha gharama ya maisha kiliongezeka kutoka asili mia 3.96 mwezi Desemba 2010 hadi asili mia 14.0 mwezi Desemba 2011. Kama ilivyoelezwa mwanzo, viwango vya juu vya gharama ya maisha vilitokana na bei ya juu ya chakula, hali mbaya ya hewa na bei za mafuta.

TAARIFA YA MKURUGENZI MKUU (Kuendelea)



Mkurugenzi wa KCB Sudan, Bwana John Kimanthy (pili kutoka kulia), anatoa ufadhili wa matibabu SDG 15,000 kwa Daktari Jeff Theso (pili kutoka kushoto).

Ongezeko la bei ya kawi lilisababisha gharama za juu za uzalishaji na usafirishaji, kupunguza uwezo wa kununua na kupungua kwa mahitaji ya bidhaa na huduma zilizozalishwa humu nchini. Sababu hizi zimeathiri matumizi ya kibinafsi, uwekezaji na matumizi ya umma.

Maendeleo ya Soko la Fedha

Ili kukabiliana na athari za viwango vya juu vya gharama ya maisha dhidi ya bei za bidhaa, Benki Kuu ya Kenya ilidumisha sera thabiti ya kifedha, na kupandisha viwango vya riba vya Benki Kuu kutoka asili mia 5.8 mwezi Januari 2011 hadi asili mia 18 mwezi Desemba 2011. Kutokana na sera thabiti za kifedha, viwango vya riba vya muda mfupi viliondelea kupanda. Wastani wa viwango vya riba kwa hati za dhamana za Hazina Kuu za siku 91 ziliondelea kupanda kutoka asili mia 2.28 mwezi Desemba 2010 hadi asili mia 18.30 mwezi Desemba 2011. Aidha viwango vya hati za dhamana za Hazina Kuu za siku 182 viliongezeka kutoka asili mia 2.59 mwezi Desemba 2010 hadi asili mia 18.30 mwezi Disemba 2011.

Viwango vya riba miongoni mwa benki vikliongezeka kwa kiasi kikubwa kutoka asili mia 1.18 mwezi Desemba hadi asili mia 21.75 mwezi Desemba 2011. Pamoja na hayo viwango vya kukopesha kwa benki za kibiashara viliongezeka kwa wastani kutoka asili mia 13.87 hadi asili mia 20.04 mwezi Desemba 2010 hadi asili mia 6.99 mwezi Desemba 2011.

Maendeleo ya Soko la Hisa

Kutokana na maendeleo ya biashara ndogo ndogo humu nchini na kimataifa, Masoko ya Hisa yalikuwa na punguo katika utendaji wake mwaka wa 2011 kulinganishwa na 2010.

Masoko ya Hisa yalishuhudia upungufu wa shughuli katika masoko pevu yaliyosababisha mambo yafuatayo:

- i) Mauzo machache katika soko la mtaji kutokana na viwango vya juu vya gharama ya maisha katika kipindi cha pili cha 2011,
- ii) Viwango vya juu vya riba visivyotabirika,
- iii) Kupungua thamani kwa shilingi dhidi ya sarafu muhimu

Soko la hisa liliathiriwa na mabadiliko katika uwekezaji uliopendelea akiba za muda mrefu na hati za dhamana zilizochukuliwa kuwa salama zaidi badala ya hisa. Kupanda kwa viwango vya gharama ya maisha, viwango vya riba na kupungua thamani kwa shilingi kulipunguza mapato ya jamii kwa kiasi kikubwa, hivyo kupunguza hamu ya kuwekeza katika soko la hisa na kusababisha bei za hisa kuendelea kuwa chini. Kwa sababu hiyo, kipimo cha Soko la Hisa la Nairobi kwa kampuni bora 20, kilipungua kwa asili mia 28 kutoka alama 4,433 mwezi Desemba 2010 hadi alama 3,205 mwezi Desemba 2011. Aidha utajiri wa jumla wa wanahisa ulipungua kwa kiasi kikubwa, ambapo wawekezaji walipoteza takribani Shilingi bilioni 300 katika soko la hisa kutoka Shilingi bilioni 1,167 mwezi Desemba 2010 hadi Shilingi bilioni 867 mwezi Desemba 2011.

Maendeleo ya kubadilisha fedha za Kigeni

Shilingi ya Kenya ilipungua thamani dhidi ya sarafu muhimu za kimataifa, hivyo kuathiri maendeleo ya kiuchumi. Kupungua thamani kwa shilingi ya Kenya kunaakisi biashara ya sarafu. Sababu nyingine zilikuwa ni pamoja na mahitaji makubwa ya dola kulikotokana na gharama kubwa ya uagizaji bidhaa na kiwango kidogo cha fedha zilizokuwa zikiingia nchini.



Mkurugenzi wa KCB Rwanda, Bwana Maurice Toroitich (pili kutoka kulia), akipanda miche na wabunge wa East African Legislative Assembly walipokuwa wakisherehekea wiki ya kupanda miche.



Mkurugenzi Mkuu wa KCB, Daktari Martin Oduor-Otieno, akitumia simu ya mkononi akitumia huduma za benki kutoa pesa kwa ajenti wa KCB Mtaani huko Ruai.

Mnamo mwaka wa 2011, Shilingi ya Kenya kwa wastani iliuzwa kwa Shilingi 86.663 dhidi ya dola ya Marekani kulinganishwa na Shilingi 80.568 mwaka wa 2010. Pauni ya Uingereza kwa upande mwingine iliuzwa kwa Shilingi 135.095 kulinganishwa na Shilingi 125.652 mwaka wa 2010 na hatimaye Euro ikauzwa kwa Shilingi 114.146 ikilinganishwa na Shilingi 106.535 mwaka wa 2010.

Maendeleo ya Sekta ya Benki

Katika kipindi cha robo ya tatu ya 2011 sekta ya benki ilikabiliwa na changamoto za ukosefu wa fedha na mahitaji hafifu ya mikopo. Licha ya changamoto hizi, sekta iliripoti ukuaji wa kuridhisha wa rasilimali uliosababishwa na ongezeko la akiba, ongezeko la mtaji na kubakishwa kwa faida. Ijapokuwa kiwango cha mikopo isiyolipwa kilipungua mwaka wa 2011, tunatarajia changamoto kuu katika kudumisha mikopo isiyolipwa kwenye viwango vya 2011 katika mwaka wa 2012.

Matarajio ya maendeleo thabiti ya benki huenda yakaathiriwa mwaka wa 2012, na viwango vya juu vya riba na uwezekano wa kutolipwa kwa mikopo. Sekta inatarajiwa kukabiliana na athari kama vile; hali isiyoeleweka ya kisiasa, kupungua kwa kasi ya kuajiri na kupungua kwa maombi ya mikopo kutoka sekta ya kibinafsi.

Sekta ya benki pia inaendelea kukabiliwa na shinikizo kutoka kwa serikali kuthibiti kima cha viwango vya riba. Bunge limepania kuthibiti viwango vya benki kuu na viwango vya kuweka akiba katika bps 300 chini ya viwango vya benki kuu. Shughuli za kibiashara zinaimarika mwaka wa 2012, hali inayopandisha matumaini kwamba hali itakuwa thabiti zaidi huku shinikizo linapungua katika kipindi cha mwaka. Viwango vya gharama ya maisha vimekuwa vikipungua katika miezi ya kwanza ya 2012, huku ubadilishaji wa Shilingi

ukionekana kuimarika dhidi ya sarafu muhimu za kimataifa. Kutekelezwa kwa sera isiyopendelea upande wowote mwezi Januari na Februari 2012 pia ni hakikisho zaidi kwamba hatari za kibiashara zinapungua. Kwa kumaliza, tunaendelea kuwa na matumaini kuwa imani katika uchumi inaimarika licha ya mwendo wa polepole.

Bei za vyakula na mafuta zimekuwa zikipungua kimataifa, na kuna uwezekano bei za bidhaa kimataifa zitaendelea kupungua. Matarajio ya mavuno ya chakula nchini Kenya yanapaswa kupunguza mahitaji ya kuagiza chakula na hivyo kupunguza shinikizo dhidi ya viwango vya kubadilisha shilingi. Pamoja na hayo, upanuzi wa sera ya fedha ya Benki Kuu ya Kenya kutapunguza viwango vya riba na kuimarisha maombi ya mikopo ya wafanyabiashara.

Utoaji wa Huduma na Ubunifu wa Bidhaa

Kampuni ya KCB inaendelea kusaidia ubunifu kupitia kwa bidhaa zinazoendeshwa kiteknolojia kama vile huduma za benki kupitia magari, huduma za benki kupitia mtandao na huduma za benki kupitia kwa wakala, kama njia moja ya benki kwa magari. Pia tumeanzisha huduma zetu za kutoa mikopo ya nyumba nje ya Kenya na imepokelewa vyema nchini Uganda, Tanzania na Rwanda.

Wakati wa kipindi cha mwaka, na kwa kutumia bidhaa hizi zinazoendeshwa kiteknolojia, tumetumia mtandao wetu mpana na ushirikishi wa kampeni za masoko kuimarisha uwekaji akiba wa wateja.

Katika kanda, tunashirikiana na taasisi mbalimbali kama vile maajenti wa kukusanya ushuru, mamlaka za kusimamia bandari, taasisi za elimu na taasisi za maendeleo ya kijamii ili kuimarisha ushirikiano zaidi kwa ukuaji na maendeleo na kutoa rasilimali zinazohitajika za kifedha kuziwezesha kutekeleza majukumu yao.



Wananchi wanapanga laini kutumia huduma ya KCB Mtaani huko Ruai wakati wa kuzinduliwa kwa huduma hii inayotumia mtandao wa simu.

TAARIFA YA MKURUGENZI MKUU (Kuendelea)



Mwenyekiti wa KCB, Bwana Peter W Muthoka, MBS (wapili kutoka kushoto), Mwenyikiti wa Wakfu wa KCB, Bi. Susan Omanga (wapili kutoka kulia), walitembelea hospitali kuu ya Umma huko Nyeri na kutoa msaada wa kusaidia chumba cha watoto wachanga. Waliambatana na Afisa Mkuu wa Biashara ya Benki, Kenya Bwana Peter Kimondo (kushoto), Mkurugenzi wa Mipango, Bwana Asiko Owiro (mwenye kofia), na Katibu wa Kampuni, Bwana David Malakwen (watu kutoka kushoto).

Kupitia mfumo wetu wa kipekee wa benki, tumepania kuhakikisha wateja wetu wa kanda wanafurahia huduma za benki bila mipaka, hivyo kusaidia biashara ya kanda na usaidizi wa kifedha kwa manufaa ya wateja wetu.

Tukiwa benki kubwa zaidi ya biashara ya Afrika Mashariki, utekelezaji wa Soko la Pamoja ni maendeleo yaliyokuja kwa wakati ufaao. KCB itashiriki kikamilifu katika huduma za vuguvugu la wafanyakazi, mtaji na huduma nyingine miongoni mwa mataifa katika utoaji wa huduma za benki. Maendeleo haya mapya na majadiliano yanayoendelea kuhusu sarafu ya pamoja, ni hatua chanya kwa vile itachangia kwa kiasi kikubwa uthabiti wa chumi za kanda na kusaidia shughuli za kibiashara.

Wakati wa kipindi cha mwaka, KCB na IFC zilitia saini msaada wa dola milioni 100 za Marekani kuiwezesha benki kuongeza uwezo wake wa kukopesha biashara ndogo ndogo na za kadri(SME's) na soko la ujenzi wa nyumba. Sambamba na makubaliano haya, benki imeongeza uwezo wake wa kutoa mikopo nchini Kenya pamoja na biashara tanzu nchini Tanzania, Sudan Kusini, Uganda na Rwanda. Hii imesababisha kuongezeka kwa kasi ya maendeleo ya ujenzi wa nyumba na kuimarisha nyumba kwa watu wa Kenya na masoko ambapo tunatekeleza shughuli zetu.

Nembo ya KCB katika kanda

Nembo ya KCB inaendelea kuwa thabiti katika eneo la Afrika Mashariki. Uthabiti wa nembo yetu unatokana na uwepo unaotokana na uwekezaji wa misaada ikiwa ni pamoja na mashindano ya KCB East Africa Safari Rally Challenge, KCB

African Golf Tour na KCB/Athletics Kenya Cross Country Championships. Ni lengo letu kuendelea kuimarisha misaada hii na kufanya ushirikiano mpya katika nchi nyingine ambapo tunahudumu, hivyo kuitangaza Kampuni ya KCB sambamba na ruwaza yetu," Kuwa Suluhisho la Kifedha linalopendwa zaidi Afrika na linalofika Duniani kote."

Uzalishaji wa Wafanyakazi na Maendeleo

Kampuni ya KCB ni mwajiri anayependwa ikiwa na wafanyakazi 5,000 nchini Kenya, Uganda, Tanzania, Rwanda na Sudan Kusini. Wakati wa kipindi hicho, benki iliendelea kutoa nafasi za mafunzo na maendeleo katika kituo cha kisasa cha mafunzo ya viongozi kilichoko Karen.

Mwaka jana, KCB iliwekeza zaidi ya Shilingi milioni 3 kuweka kituo cha kisasa cha mafunzo katika jumba la Kencom ambacho kinafikwa na wafanyakazi wetu wote kutoka mahali pao pa kazi kwa urahisi. Muundo huu ulianza kutumika baada ya kuangalia uwanda wa biashara yetu kimaeneo na ratiba ya kazi kuwawezesha wafanyakazi kupata mafunzo bila kujali mahali pao pa kazi. Kituo hiki kipya kiko wazi kwa wafanyakazi nchini Kenya, Tanzania, Sudan Kusini, Uganda na Rwanda wanapokihitaji.

Uendelevu na Mazingira

Kufikia sasa tumetoa ripoti mbili za Uendelevu za KCB ambazo zinaeleza kwa kina juhudi zetu katika mihimili ya Uchumi, Mazingira na jamii.



Mkuu wa Biashara katika kanda ya Bonde la Ufa, Bwana Kenneth Toroitich (kushoto), anakabidhiwa kombe la ushindi la kufanya vyema katika mwaka wa 2011 (Best Region in 2011) na Afisa Msimamizi, Athari za Biashara, Bi Rose Kinuthia (kulia).

Kampuni ya KCB inatafuta uendelevu wa biashara ya muda mrefu kwa kuchangia maswala ya uchumi, kijamii na mazingira ambayo yanawaongezea thamani wadau wetu. Matokeo yetu ya kifedha yanadhihirisha mchango wetu kwa uchumi. Kupitia kwa Wakfu wa KCB tumewekeza zaidi ya Shilingi milioni 157 katika jamii kote katika Afrika Mashariki ili kushughulikia mahitaji ya kijamii. Wakati wa kipindi hiki, tuliimarisha utekelezaji wa 'KCB Green Agenda' mpango wa ndani ambao unalenga kupunguza uharibifu wa karatasi, maji, umeme na mafuta katika maisha yetu ya kila siku. Aidha Benki ilianzisha ushirikishi wa mfumo wa usimamizi wa kijamii na mazingira katika utaratibu wetu wa ukopeshaji ambao utahakikisha miradi iliyofadhiliwa na benki haina madhara kwa jamii na mazingira.

Wakfu wa KCB umeendelea kuongoza katika kuwasilisha utekelezaji bora katika juhudi za kusaidia wanaohitaji katika jamii. Mtandao wetu wa mabingwa wa jamii kote katika kanda na 'KCB Green Agenda' ni mifano ya jinsi ambavyo tunaweza kujitofautisha na wengine kwa kutekeleza mambo kulingana na kanuni bora duniani kwa njia inayofaa yenye ushirikishi. Tunaamini kwamba kwa kufanya mambo kwa njia inayofaa, benki zinaweza kuwa mhimizo unaofaa kwa ubora wa jamii. Lengo letu ni kuhimiza ukuaji endelevu katika uchumi halisi, kupitia biashara yetu muhimu ya benki.

Mamilioni ya watu bado hawapati huduma za benki au wanapewa huduma zisizowatosheleza na taasisi nyingine za kifedha, hivyo kuzuia shughuli zao za kiuchumi. Kupanua upatikanaji huduma za kifedha ni sehemu muhimu ya mikakati yetu ya kuwa na athari chanya kwa jamii. Tunalenga kutoa bidhaa na huduma zinazofaa ambazo tunazielewa kikamilifu kwa wateja wetu ambao tuna uhusiano wa kina.

Tunaendelea kusaidia biashara ndogo ndogo na zile za kadri(SME's), ambazo ni muhimu katika ukuaji na ajira kote katika masoko yetu. Kwa mara nyingine mwaka huu tuliongeza mikopo yetu kwa biashara hizo kwa kiasi kikubwa. Pia tulianzisha bidhaa mpya na huduma, ambazo hasa zililengwa kuafiki mahitaji ya biashara hizi muhimu. Utoaji mikopo kwa biashara ndogo ndogo unaendelea kuwa muhimu katika lengo letu la kupanua huduma za kimsingi za benki kwa watu zaidi. Mnamo mwaka wa 2011 tulitoa Shilingi bilioni 6.6 kwa taasisi za kifedha ndogo ndogo, hali iliyoakisi uwakilishi wa asili mia 29 katika sekta hiyo.



Wanafunzi wa shule ya Msingi ya Martin Luther wanapaka rangi madarasa yao katika shughuli ya wiki ya KCB kufadhili elimu.

Siku za Usoni

Matokeo ya mwaka wa 2011, yalikuwa na ufanisi uliotokana na vihimizo vya ubunifu, bidhaa zilizoendeshwa kiteknolojia na mpango wa marekebisho.

Katika mwaka wa 2012, tunatarajia ukuaji wa mapato, kutokana na utendaji kazi mwema ambao utatuwezesha sote kuwapa nyinyi WANAHISA faida bora zaidi kwa uwekezaji wenu.

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PETER W MUTHOKA, MBS

GROUP CHAIRMAN

He joined the Board in June, 2004 and became Chairman of the Board in May, 2008. He holds BA (Hons) Degree from University of East Africa (Nairobi Campus), MA Degree from University of California, Los Angeles (USA) and Bank of England/IMF/WTO/UNESCO Course Certificates. He has served in senior positions with Government of Kenya, United Nations related bodies and Central Bank of Kenya. He was Founder and Chief Executive of College of Banking and Finance of Kenya, Founder and Chief Executive of Export Promotion Council of Kenya, Kenya Commissioner-General at Expo 2000 in Hannover Germany and Managing Director of Sasini Limited. He is Director of KCB Bank Sudan, KCB Bank Uganda, KCB Bank Rwanda, Sasini Limited and KCB Foundation. He is Fellow of Kenya Institute of Bankers (FKIB), Fellow of Kenya Institute of Management (FKIM) and Member of Institute of Directors. Has been awarded the medal of Moran of the Burning Spear (MBS) by The President of Kenya for his exemplary service to the Nation.

JOSEPH K KINYUA, CBS

DIRECTOR AND PS TREASURY

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

SUNIL SHAH

DIRECTOR

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

PROF. PETER KIMUYU

DIRECTOR

He joined the Board in June 2006. He holds a PhD in Economics from University of Nairobi. He is a member of the

New York Academy of Sciences, a Professor of Economics, Founder Director of School of Economics at Nairobi University and current Chairman, Privatization Commission of Kenya. He is the Chairman of the Risk Management Committee, New Markets Committee and Chairman of the Board of KCB Rwanda.

SUSAN NKIROTE OMANGA

DIRECTOR

She joined the KCB Group Board in June 2004. She is the Chairman of KCB Foundation and a Director of KCB Bank Uganda. She holds a Degree in Business Management and Marketing from Rocky Mt College in Billings Montana, USA. She is the founder and Managing Director of Exclamation Marketing Limited and a Director of Afrique Infinity. She has vast marketing experience having headed the Marketing functions in Barclays Bank Kenya and Standard Chartered in the East African region. She also sits on the Boards of Longhorn Publishers, Coffee Board of Kenya and Greenhorn Mentorship Program. She chairs the Board of KCB Foundation and is a Director of KCB Bank Uganda Limited.

JOSEPH I. ADONGO

DIRECTOR

He joined the Board in June 2005. He holds a BA and MA degrees in Economics. He is a fellow of the Economic Institute of the World Bank. Has held various positions in different companies including; Managing Director Nation Newspapers, Marketing Director, Strategic Planning Manager, Area Manager UK, Budgets Officer all in Kenya Airways. He has been President of Lions Club several times and BOG Chairman.

ENG. MUSA NDETO

DIRECTOR

He joined the Board in June 2003 but interrupted the service in 2006 and 2007. He holds Bachelor of Science (Hons) in Electrical Engineering, Masters in Business Administration (MBA, Finance) and Masters in Business Administration (MBA, Strategic Management). 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 Group Audit Committee and also serves as a Chairman of Board of Directors of KCB Sudan Limited.

CATHERINE KOLA**DIRECTOR**

She joined the Board in May 2009. She has over 30 years experience covering legal practice, development banking, company secretarial and administration in the Financial and Energy sectors, and has also served as Chief Executive Officer of a Constitutional Commission. She is an advocate of the High Court of Kenya, Certified Public Secretary of Kenya (CPSK) and an associate member of the Chartered Institute of Arbitrators. She holds a Bachelor of Laws (LL.B) Honours Degree from the University of Nairobi and is Chairperson of the Staff Retirement Benefits (Defined Contribution) Scheme 2006 and Group Human Resource Committee.

NGENY BIWOTT**DIRECTOR**

Ngeny Biwott aged 59, was appointed to the Board of KCB in June 2011. He holds Master of Science degree in Civil Emergency, Risk and Crisis Management from University of Hertfordshire. He holds specialized certification risk and strategy from Cranfield University, University of Southern California and Larkley NASA Research Centre College. He has over 37 years work experience in the aviation industry in risk, safety, systems audits, and strategic management in manufacturing and construction industries. He is a Director KCB (Tanzania) Limited.

DR. MARTIN ODUOR-OTIENO, CBS**CHIEF EXECUTIVE OFFICER**

Martin was appointed to the Board of KCB in 2005, and became Chief Executive Officer in 2007. He holds an honorary Doctor of Business Leadership degree from the KCA University, a Master of Business Administration Degree from ESAMI/Maastricht Business School and a Bachelor of Commerce Degree in Accounting from Nairobi University. He is an Alumnus of Harvard Business School's Advanced Management Program. He is also a Fellow of the Institute of Certified Public Accountants of Kenya (ICPAK), Fellow of the Kenya Institute of Bankers (KIB) and a Member of the Institute of Certified Public Secretaries of Kenya (ICPSK). He has been awarded the Honour of the Chief of the Order of the Burning Spear (CBS 1st Class) by His Excellency, The President of the Republic of Kenya for his distinguished service to the Nation. He is also a Director of KCB (Tanzania) Limited

DAVID MALAKWEN**COMPANY SECRETARY**

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

KCB FOUNDATION BOARD



PETER W MUTHOKA, MBS
GROUP CHAIRMAN



SUSAN OMANGA
CHAIRMAN



SUNIL SHAH
DIRECTOR



DR. M ODUOR-OTIENO, CBS
GROUP CEO



GRACE A. AKUMU

DIRECTOR

She joined the Board in June, 2009. She has a Bachelor of Arts Degree in International Relations and a diploma in French from Switzerland. She is the Patron of Climate Network Africa, a climate change NGO registered in Kenya. She is actively involved in sustainable development issues at the national and international levels. She was nominated twice as a Lead Author of the Intergovernmental Panel on Climate Change. She is a Technical Advisor to Kenya Government on Climate Change and a Board Member of the National Environment Council. She has served in various capacities in the public sector and non-governmental organizations. She has previously served as the National Chairman, Governing Council, NEPAD-African Peer Review Mechanism Kenya, World Bank Consultant on Carbon Fund and Project Manager for Kenya Women Literature Group.

HON. CATHERINE N KIMURA

DIRECTOR

She joined the Board in June 2003 (Representing Permanent Secretary Treasury). She holds a Bachelor of Arts Degree (Hon) from University of East Africa (Nairobi), a Diploma in Tourism and International Relations, a Certificate in Public Finance (University of Connecticut) and a Certificate in Budgeting (Harvard). She has served in senior positions in Government rising to the position of Investment Secretary, Ministry of Finance. She has also served in the KCB Main Board and KCB Bank Uganda Limited.



IRENE METTO

COMPANY SECRETARY

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

SUBSIDIARY DIRECTORS

KCB (TANZANIA) LIMITED BOARD



NGENY BIWOTT
DIRECTOR



DR MARTIN ODUOR-OTIENO
GROUP CEO



DR. EDMUND B MNDOLWA
CHAIRMAN

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



HON. CATHERINE N KIMURA
DIRECTOR

She joined the Board in June 2003 (Representing Permanent Secretary Treasury). She holds a Bachelor of Arts Degree (Hon) from University of East Africa (Nairobi), a Diploma in Tourism and International Relations, a Certificate in Public Finance (University of Connecticut) and a Certificate in Budgeting (Harvard). She has served in senior positions in Government rising to the position of Investment Secretary, Ministry of Finance. She has also served in the KCB Main Board and KCB Bank Uganda Limited.



JOSHUA S MUIRU
DIRECTOR

He joined the Board in August 2006 after working with Central Bank of Kenya for over 23 years. Holds a Masters Degree in Economics from the University Nairobi. He is an examiner with Kenya Institute of Bankers and Consultant with Ukweli Consult.



PHILEMON N SHIMWELA
DIRECTOR

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

SUBSIDIARY DIRECTORS (Continued)

KCB (TANZANIA) LIMITED BOARD (Continued)



ZUHURA S MURO

DIRECTOR

Mrs. Zuhura Sinare Muro was appointed to the KCBT Board in July 2011. Mrs. Muro holds a Bachelor of Arts & Social Sciences from the University of Dar-es-Salaam, Tanzania and a Postgraduate Diplomas in Management and Entrepreneurship Development. She is currently the Managing Director of Kazi Services Limited which provides HR solutions, management consultancy, and executive selection services in Tanzania. She has rich experience in Organizational Development, HR management, training and motivational speaking. Before founding her own business, she was the Head of Human Resources for Celtel Tanzania Limited (now trading as Airtel) from 2001 until May 2007. Mrs. Muro is one of the founding trustees of Africa Leadership Initiative East Africa Foundation and is currently serving as its Executive Secretary. The Foundation is engaged in developing value-based leadership in East Africa. She is a fellow of Aspen Global Leadership Network. Mrs. Muro serves as the Board Chairperson of Mwananchi Communication Limited in Tanzania, member of Nation Media Group in Kenya, and Board Secretary of Arusha Modern Schools Limited.



NEHEMIAH K MCHECHU

DIRECTOR

Nehemia Kyando Mchechu joined the Board in July 2011. He holds Bachelor Degree in Commerce and Management from the University of Dar-es-Salaam. He further qualified for ACI-Financial Market Association. He is currently the Director General of National Housing Corporation. Before joining National Housing, he worked as the Managing Director and CEO of Commercial Bank of Africa Tanzania Limited. He has also worked with Barclays Tanzania and Standard Chartered rising to the senior management roles. He is the Director and founding member of CEO roundtable of Tanzania. He is also a director of the Presidential Trust Fund and Chairman of Rightways Schools. He is a fellow member of the ASPEN Fellowship of USA as well as African Leadership Initiatives; East African Chapter. He also serves as the Chairman of Audit Committee.



MOEZZ MIR

MANAGING DIIRECTOR

He joined the Bank in April 2007 and holds a Bachelors Degree in Economics from Kingston University in England. He was appointed to the Board in July 2011, and previously held the position of Director of Corporate Banking for Tanzania. He has over 10 years' experience in Corporate Finance and Banking. He previously worked for Imperial Bank Limited as the Head of Corporate Banking in Kenya.



EDWARD LYIMO

COMPANY SECRETARY

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

SUBSIDIARY DIRECTORS (Continued)

KCB BANK UGANDA LIMITED BOARD



PETER W MUTHOKA, MBS
GROUP CHAIRMAN



SUSAN OMANGA
DIRECTOR



DAVID MALAKWEN
COMPANY SECRETARY



SAMWIRI H K NJUKI
CHAIRMAN

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



FLORENCE KATA
DIRECTOR

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



DAVID M NYENDE
DIRECTOR

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



JAMES AGIN
DIRECTOR

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



SUBSIDIARY DIRECTORS (Continued)

KCB BANK UGANDA LIMITED BOARD (Continued)



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**DR. JEFF SEBUYIRA -
MUKASA**
DIRECTOR

Jeff was appointed to the Board of KCB Bank Uganda in 2011. He holds a Doctorate in Business Leadership, an MBA and a Bachelor of Commerce Degree. He is also a Fellow of Chartered Institute of Certified Accountants of UK (FCCA). He has held several senior roles in multinational organisations, and this has exposed him to a range of strategic leadership dynamics.



MARTIN OWINY
DIRECTOR

He joined the Board in May 2011. He holds a Bachelor of Arts (BA) Degree in Social Sciences specializing in Economics and Agricultural Economics from Makerere University as well as a Masters in Business Administration (MBA) in Financial Management from the University of Hull (UK). He is the founding General Manager of Stanbic Investments in Uganda where he served for nine years before joining KCB Bank Uganda Limited. He has also worked in various Corporate and Trade Services roles at Standard Chartered Bank Uganda between 1998 and 2002. He has been awarded various investor awards under the Uganda Kikoyongo Capital Markets Awards for his exemplary contribution towards the growth of the Uganda capital.



**ALBERT ODHIAMBO
ODONGO**
MANAGING DIRECTOR

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

SUBSIDIARY DIRECTORS (Continued)

KCB SUDAN LIMITED BOARD



PETER W MUTHOKA, MBS
GROUP CHAIRMAN



ENG. MUSA NDETO
CHAIRMAN



JAMES AGIN
DIRECTOR



DAVID MALAKWEN
COMPANY SECRETARY



YAR MANOA MAJOK
DIRECTOR

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



JASHINTO PAKON
GENYE
DIRECTOR

He joined KCB Sudan in July 2009. Jashinto holds M.Sc. in National Development and Project Planning from Bradford University, UK, Pg./Dip. (Economic Development) Glasgow University, UK and B.Sc (Business Administration) Khartoum University, Sudan. He previously worked as a Regional Facilitator, Relief and Development Coordinator and an Executive Director for the Sudan Council of Churches (SCC), Western Sudan region.

Mr. Jashinto is currently the Chairman and Executive Director of the Consultancy: Centre for Alternative Development (CEfAD), a position that engages him heavily in strategy drafting and analysis for public and private institutions. He is a member of Board of Directors in a number of private companies. In the Board of KCB Sudan limited, Mr. Jashinto is the Chairman of both the Audit and the Adhoc Committees. Recently, Mr. Jashinto has been appointed as a member of the Provisional Executive Committee of South Sudan Economic Association (SSEA).



MOU AMBROSE THIIK
DIRECTOR

Mou joined KCB Sudan in July 2009. He holds a Bachelor of Science degree in Economics from Christian Albrechts University, Germany and a Bachelor of Arts degree in Comparative Literature (Arabic and English) at Ain Shams University in Cairo, Egypt. Mou served as the Honorary Consul General for the Republic of Turkey and currently he is a Programme Manager for Friedrich-Ebert-Foundation. He is also an independent business development consultant with affiliation to the IFC – World Bank Business Edge project and owns a training facility at the Nyakuron cultural centre.

SUBSIDIARY DIRECTORS (Continued)

KCB SUDAN LIMITED BOARD (Continued)



**FESTUS ABDULEZIZ
JAMES**
DIRECTOR

He joined the Board in September 2011. He has Over 15 years experience in International Academic Health Planning, Health System Research, Management and Policy as well as Business Administration with various international agencies in different countries at different levels.

He divides his time between teaching, consulting, researching, writing and strategy. He is currently Assistant Professor of Epidemiology in the Faculty of Medicine at University of Juba, South Sudan and also an Advisor to Juba City Municipality on development issues.



JOHN KIMANTHI
MANAGING DIRECTOR

John Kimanthi was appointed the Managing Director of KCB Bank South Sudan in September 2010. John has served in various management roles in KCB since joining the Bank as a Management Trainee more than 25 years ago. Prior to his appointment, he served as the Director Business Development, KCB Sudan Limited. John Holds a Bachelor of Science 1st Class Honors Degree (Mathematics) from the University of Nairobi and a Master of Business Administration from ESAMI.

SUBSIDIARY DIRECTORS (Continued)

KCB RWANDA SA BOARD



PETER W MUTHOKA, MBS
GROUP CHAIRMAN



PROF PETER KIMUYU
CHAIRMAN



JAMES AGIN
DIRECTOR



ANNE KIRIMA WANGARI
DIRECTOR

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



DANIEL ZITUNGA
DIRECTOR

Daniel joined KCB (R) in December 2011 as a non-Executive Board Member. He holds a Master of Business Administration (MBA) with distinction awarded by University of Leicester, UK, a Bachelor of Commerce degree (B.Com) with honours from Makerere University, Uganda, and qualified as a Certified Public Accountant in 1991 in Kenya. He is member of the Institutes of Certified Public Accountants in Uganda and Rwanda. Daniel is the Lead Partner of ZIMpartners; a firm of Certified Public Accountants & Management Consultants established in Kigali, and brings on board 25 years professional experience including 5 years as a Chief Financial Officer within a multinational Group and 14 years in consulting and auditing spanning a broad spectrum of business sectors including commercial banks, telecommunications, international hotels, manufacturing, agriculture, general trading and public sector projects. He has worked in Rwanda, Uganda, and Kenya.



FAUSTIN K MBUNDU
DIRECTOR

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

SUBSIDIARY DIRECTORS (Continued)

KCB BANK RWANDA SA BOARD (Continued)



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SARAH MUKANDUTIYE
DIRECTOR

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



MAURICE TOROITICH
MANAGING DIRECTOR

He joined the Bank in October, 2008. He holds a Bachelors Degree in Commerce (Accounting option) from the University of Nairobi and an MBA from Strathmore Business School. He is a Certified Public Accountant of Kenya (CPAK) and an associate of the Chartered Institute of Bankers – ACIB (London). He has a wide range of experience in Retail and Corporate Banking. He previously worked for CFCStanbic Bank.



GLADYS BIAMAH
COMPANY SECRETARY

She is the Company Secretary of KCB Rwanda, SA. She has over 25 years working experience in KCB having joined the bank in 1986. She is currently the senior Legal Manager KCB Group. She holds LLB (Hons) from the University of Nairobi. She is also an advocate of the High Court and a certified public secretary.

EXECUTIVE COMMITTEE

FROM LEFT TO RIGHT: Rose Kinuthia - Chief Risk Officer, Joshua N Oigara - Chief Finance Officer, Dr. Martin Oduor-Otieno, CBS - Group CEO, James Agin - Chief Business Officer, International
Peter Kimondo - Chief Business Officer, Kenya, Paul Tikani - Chief Operating Officer, Kiprop David Malakwen - Company Secretary



CORPORATE GOVERNANCE STATEMENT

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

THE BOARD OF DIRECTORS

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

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

BOARD MEETINGS

The Board of Directors meet bi-monthly or as required in order to monitor the implementation of the Company's planned strategy, review it in conjunction with its financial performance and approve issues of strategic nature. Specific reviews are also undertaken on operational issues and future planning. At the end of each financial year, the Board reviews itself, Board Committees, Senior Management and CEO against targets agreed to at the beginning of the year. In 2011 the Board Committees and Directors' self evaluation was conducted with the benefit of external consultancy.

The Board held 20 Meetings during the year under review. The Board Membership is disclosed on pages 36 and 59 of this Annual Report.

BOARD COMMITTEES

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

(a) Risk Management Committee

This Committee was set up to oversee the Group's mitigation and appreciation of all risks in the business. It meets quarterly to advise the business on all matters pertaining to credit, market, operations, legal, environmental and other risks. Business continuity issues are also discussed by this committee. The Committee had 3 Meetings during the year. The members of this Committee during the year under review were: -

1. Prof. Peter Kimuyu (Chairman)
2. Mr. Joseph Adongo
3. Mr. Ngeny Biwott
4. Dr. Martin Oduor-Otieno

(b) Audit Committee

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

The Committee deals with all matters relating to the financial statements and internal control systems of the Company including dealing with independent auditors and Central Bank of Kenya inspectors. All the audits conducted by this committee are risk based.

The Committee held 4 meetings during the year under review. The Members of this Committee in the year under review were:-

1. Eng. Musa Ndeto (Chairman)
2. Mrs. Susan Omanga
3. Prof. Peter Kimuyu
4. Mr. Ngeny Biwott

(c) Credit Committee

This Committee meets once a month to review the credit risk profile of the Company and recommend for Board approval policies and standards for credit risk governance and management. The frequency of the meetings has ensured that the needs of the Company's customers are given timely attention. The committee also reviews the Company's risk appetite and sectoral concentration.

The Committee held 14 meetings during the year under review. The Members of this Committee in the year under review were:-

1. Mr. Joseph Adongo (Chairman)
2. Mrs. Catherine Kola
3. Mr. Protus Sigei (Representative of Joseph Kinyua)
4. Dr. Martin Oduor-Otieno

(d) Human Resources Committee

This Committee meets quarterly to review human resource policies and make suitable recommendations to the Board on Senior Management appointments. This committee also oversees the nomination functions and senior management performance reviews.

The Committee held 7 Meetings during the year under review. The Members of this Committee in the year under review were:-

1. Mrs. Catherine Kola (Chairman)
2. Mr. Joseph Adongo
3. Mr. Protus Sigei (Representative of Joseph Kinyua)
4. Mr. Ngeny Biwott
5. Dr. Martin Oduor-Otieno

(e) Procurement

The Committee meets bi-monthly to review the procurement needs of the Company deemed necessary for efficient service delivery.

The Committee held 7 meetings during the year under review. The Membership of this Committee in the year under review was:-

1. Mr. Sunil Shah (Chairman)
2. Eng. Musa Ndeto
3. Mrs. Susan Omanga
4. Mr. Paul Tikani

(f) KCB Foundation

In recognition of the importance of Corporate Social Responsibility (CSR), the Board constituted this Foundation which meets twice a year to set guidelines for the Company's CSR involvement.

The Foundation is registered as a Company limited by guarantee and managed by its own Board of Directors. The Company is committed to the principle of responsible corporate citizenship and makes CSR an integral part of its annual business plans. Under its CSR programmes, the Company conducts community support activities every year during KCB Community Day and KCB Community Week, with the involvement of all staff across the business. The Company sponsors local, regional and national activities and regularly donates towards needy and charitable causes of all kinds. Foundation activities are clustered under the thematic areas of Health, Education, Environment, Enterprise Development and Humanitarian Intervention.

The Foundation held 3 meetings during the year. The Members of this Committee in the year under review were:-

1. Mrs. Susan Omanga (Chairman)
2. Mr. Sunil Shah
3. Mrs. Grace Akumu
4. Mrs. Catherine Kimura
5. Dr. Martin Oduor-Otieno

(g) New Markets Committee

This Committee was constituted by the Board during the year under review to work out possibilities of entries into new markets in the Region. During the year, the Committee recommended KCB entry into Burundi in Q.1 2012.

The committee held 3 Meetings during the year. The Membership of this Committee in the year under review were:-

1. Prof. Peter Kimuyu (Chairman)
2. Mrs. Catherine Kola
3. Mr. Protus Sigei (Representative of Joseph Kinyua)
4. Mr. Ngeny Biwott
5. Dr. Martin Oduor-Otieno

(h) Transformation Committee

This Committee was constituted to roll out and oversee implementation of all Transformation Initiatives agreed to in early 2011 aimed at achieving efficiency and growth of the Bank into world-class status.

The Committee held 15 Meetings during the year. The Members of this Committee in the year under review were:-

1. Mr. Sunil Shah (Chairman)
2. Mrs. Susan Omanga
3. Mr. Joseph Adongo
4. Eng. Musa Ndeto
5. Mr. Ngeny Biwott

COMMUNICATION WITH SHAREHOLDERS

The Company is committed to ensuring that shareholders and the financial markets are provided with full and timely information about its performance. This is usually done through the release of notices in the media of its quarterly, half-yearly and full year results electronically. The Bank has a shareholder communication system and Investor Relations Strategy.

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

DIRECTORS' EMOLUMENTS AND LOANS

The aggregate amount of emoluments paid to Directors for services rendered during the year 2011 is disclosed in note 13 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.

Aggregate amount of Loans advanced to Directors is summarized in note 32 to the Financial Statements.

Board/Board Committees Attendance

The following table gives the record of attendance of the KCB Board and its Committee Meetings for the year ended 31st December, 2011.

	MAIN BOARD	AUDIT	CREDIT	RISK MANAGEMENT	HUMAN RESOURCES	PROCUREMENT	NEW MARKETS	TRANSFORMATION	KCB FOUNDATION
NO. OF MEETINGS HELD	20	4	14	3	7	7	3	15	3
Meeting Attended									
Mr. P.W. Muthoka	20								
Mrs. C.A. Kola	12		9	2	3		2		
Eng. J.M. Ndeto	19	4				7		13	
Mr. J.I. Adongo	20		14	3	7			15	
Mr. J.K. Kinyua	18		12				3		
Mr. N. Biwott**	6	2		2			1		
Mrs. S.N. Omanga	19	4				5		13	3
Mr. S.N. Shah	16				5	7		15	3
Prof. P.K. Kimuyu	17	4		3			3		
Dr. M. Oduor-Otieno	20		7	3	6				2

** Mr. Ngeny Biwott joined the Board in May, 2011

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, 2011 were as follows: -

Directors Interests as at 31st December, 2011

Name of Director	Number of Shares	% Shareholding
Permanent Secretary to the Treasury of Kenya	523,600,000	17.64
Mr. Peter Wanyaga Muthoka	244,994	0.01
Dr. Martin Oduor-Otieno	509,180	0.02
Standard Chartered Nominees A/C 9688 (Mr. Sunil Narshi Shah)	72,490,723	2.44
Mrs. Susan Nkirote Omanga	3,110	0.00
Mr. Joseph Isaac Adongo	21,210	0.00
Eng. Jeremiah Musa Ndeto	45,985	0.00
Mrs. Catherine Adongo Kola	25,540	0.00
Mr. Ngeny Biwott	1,500	0.00
Prof. Peter K Kimuyu	-	-

Shareholders' Profile as at 31st December, 2011

	Number of Shareholders	Number of Shares Held	% of Issued Share Capital
Kenyan Individual Investors	158,942	861,289,454	29.01
Kenyan Institutional Investors	5,733	1,674,633,275	56.40
East African Individual Investors	162	1,721,355	0.06
East African Institutional Investors	35	6,698,722	0.23
Foreign Individual Investors	462	8,270,685	0.28
Foreign Institutional Investors	114	416,132,665	14.02
	165,448	2,968,746,156	100.00

Top Ten Shareholders as at 31 December 2011

Major Shareholders	Number of Shares Held	% Shareholding
Permanent Secretary to the Treasury of Kenya	523,600,000	17.64
National Social Security Fund	225,230,355	7.59
Standard Chartered Nominees A/C 9688	72,490,723	2.44
Standard Chartered Nominees Non Resident A/C 9318	57,640,058	1.94
Standard Chartered Nominees Non Resident A/C 9011	54,875,100	1.85
CFC Stanbic Nominees Ltd A/C R48701	53,775,626	1.81
Standard Chartered Nominees A/C 9687	42,570,686	1.43
Standard Chartered Nominees A/C 9230	31,986,787	1.08
Kanaksinh Karsandas & Sandip Kanaksinh Babla	28,991,920	0.98
Old Mutual Life Assurance Company Limited	23,182,044	0.78
	1,114,343,299	37.54

Distribution of Shareholders

Shares Range	Shareholders	Number of Shares	% of Issued Share Capital
1 to 5,000	131,721	227,252,630	7.65
5,001 to 50,000	31,611	337,981,787	11.38
50,001 to 100,000	964	66,171,093	2.23
100,001 to 1,000,000	914	258,368,480	8.71
1,000,001 to 10,000,000	206	644,947,903	21.72
10,000,001 & above	32	1,434,024,263	48.31
	165,448	2,968,746,156	100.00



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- Machakos GPO
- Nakuru GPO

For more information, contact the KCB Contact Centre on:



0732 187000 / 0711 087000



sms: 5222



contactcentre@kcb.co.ke



KCB | Making the Difference



“ The KCB Foundation Board last year strategically took the CSR programmes a notch higher by engaging in partnerships through the Friends of the KCB Foundation. This partnership programme was launched two years ago to leverage the synergies with organizations that are providing support to needy communities for effective delivery of our CSR programmes. ”

KCB Group Director and Foundation Chairman, Susan Omanga

In 2011, The KCB Group Board allocated KShs.157 million to the KCB Foundation to invest in community development projects within the region in the areas of: Education, Enterprise Development, Environment, Health and humanitarian Intervention. The entire year's allocation was utilized in projects across the region. In Kenya the share of funds across the provinces improved compared to previous years where majority of the projects were in Nairobi. The subsidiaries increased uptake of projects with Uganda, Rwanda and Tanzania exhausting their entire allocation for the first time.

In the year 2011, The Board of the KCB Foundation continued to proactively play its oversight role in the formulation and implementation of the Foundation's strategies. They have been involved in various corporate social responsibility and sustainability initiatives while also discharging their mandate of driving accountability and good governance in the organization.

The KCB Foundation Board last year strategically took the CSR programmes a notch higher by engaging in partnerships through the Friends of the KCB Foundation. This partnership programme was launched two years ago to leverage the synergies with organizations that are providing support to needy communities for effective delivery of our CSR programmes. Last year, the KCB Foundation enlisted 21 partners under this framework in the various areas of focus: Environment, Education, Enterprise Development, Health and Humanitarian Intervention and joint initiatives have been rolled out.

Subsequently the KCB Foundation not only focuses on the key needs of society but also helps create role models among our employees. The involvement of KCB staff across East Africa in our various community support initiatives motivates them to work for the organisation because it cares for the disadvantaged and inspires them to also want to give of themselves for the good of society. This is underpinned in our KCB Corporate Value of Caring for the Community. A summary of the community initiatives undertaken during the year are as follows;



KCB Sudan Yambio Branch at Nakponguo Primary during their community day where they donated some uniforms, desks and learning materials.



KCB Director Sunil Shah, is joined by pupils of Kabondo Primary school during the commissioning of two water tanks and roofing of the school funded by KCB Foundation and United Millers.

Education Projects (KShs 66m):

- 44 scholarships were awarded to needy students through the following institutions: Starehe Boys Centre, Starehe Girls Centre and the Palm House Foundation
- 18 schools benefitted from fully equipped and networked computer laboratories through the Computer for Schools Project
- 220 schools across the region benefitted from learning materials including text books, desks, and other learning materials during the KCB Community week activities held in October. All KCB Branches in the region and all head office teams participated in the programme
- Construction of classrooms, school roofing and renovations were undertaken in 17 schools

Enterprise Development projects (KShs 26m):

- 20 social entrepreneurs identified from the East Africa Region underwent training through the East Africa Fellowship programme implemented jointly with Acumen Fund. This is a one year intensive training programme targeted at improving the entrepreneurial and business management skills of social enterprises.
- Radio programme for micro entrepreneurs implemented in partnership with the Kenya Institute of Management through the following radio stations: Kass, Namlowe, Milele, Kameme and Mlembe FM stations
- 400 youth entrepreneurs benefitted from the Junior Achievement training and enterprise management program.
- 600 youth in higher learning institutions were reached with financial literacy and money management skills through Nurture Smart
- Support of the Africa Leadership and Governance Convention in partnership with Kenya Institute of Management that brought African leaders to discuss the development agenda of the continent.
- Girinka community cow project in Rwanda, that provides dairy cows to poor families as a source of income and food
- Training of entrepreneurs with Rwanda Development Board
- Career fair for university students in partnership with Aiesec Uganda

Environment projects (KShs 19m):

- Tree planting activities during Community Day. Over 800,000 trees were planted by the end of the year. In addition, we supported the Nairobi National Park fencing project (Nairobi Greenline).
- Planting of woodlots in partnership with the Uganda scouts association over 10,000 hectares of forest grounds were reforested
- Support of the Gorilla Conservation project in Virunga National Park in Rwanda which is one of the remaining habitats for the silverback Gorilla
- Town clean ups and waste receptacles placement in Wajir, Mandera and Mombasa. All projects were implemented in partnership with the local government authorities.

Health projects (KShs 25m):

- Three dialysis Machines were donated to Kenyatta National Hospital and one machine to Consolata Mission Hospital in Nyeri
- 20 heart surgeries were performed to children from poor backgrounds through the Mater Cardiac Programme, in addition over 1000 children were screened for rheumatic heart

disease and treatment administered for the cases that did not require surgery

- 8,000 mothers and children received free treatment during the 4 medical camps implemented by the Gertrudes Children's Hospital in Kisumu, Mombasa, Nairobi and in Rift Valley
- Purchase of medical equipment including X-Ray machines, Ultra sound machines, assorted theatre equipment, hospital beds, and maternity delivery beds in 6 hospitals.
- 1200 children and adults received jigger treatment in the anti Jigger medical camps in Murangá, Coast, Western Kenya and in Karatina implemented by Ahadi Trust Kenya.

Humanitarian intervention (KShs 21m)

- Kenyans for Kenya Famine Relief programme done in partnership with the Kenya Redcross
- Food relief for Gongo La Mboto bomb blast victims in Tanzania
- Food relief for victims of the Abyei conflict in Rumbek South Sudan
- Food sustainability programme with Kenya Community Development Foundation.

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The following services are accessible to you from any branch...

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- Cash deposit
- Stop cheque payment
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DIRECTORS AND STATUTORY INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2011

DIRECTORS

Mr. P.W. Muthoka	Chairman
Dr. M.L. Oduor-Otieno	Chief Executive Officer
Mr. S. Kimani	Retired on 31st May 2011
Mr. J. I. Adongo	
Mr. J.K. Kinyua	
Mrs. C.N. Kimura	Retired on 6th May 2011
Eng. J.M. Ndetto	
Mrs. S.N. Omanga	
Mr. S.N. Shah	
Prof. P.K. Kimuyu	
Mrs. C. Kola	
Mr. Ngeny Biwott	Appointed on 6th May 2011
Mr. J. N. Oigara	Appointed on 12th January 2012

SECRETARY

Mr K.D. Malakwen
PO Box 48400 - 00100
Nairobi, Kenya

AUDITORS

KPMG Kenya, 16th Floor, Lonrho House
Standard Street
PO Box 40612- 00100
Nairobi, Kenya

REGISTERED OFFICES AND PRINCIPAL PLACES OF BUSINESS

Kenya Commercial Bank Limited

Kencom House
Moi Avenue
PO Box 48400- 00100
Nairobi, Kenya

KCB (Tanzania) Limited

Harambee Plaza
Ali Hassan Mwinyi Road/
Kaunda Road Junction
PO Box 804
Dar es Salaam, Tanzania

KCB Sudan Limited

KCB Plaza
Ministry Road
PO Box 47
Juba, Southern Sudan

KCB Bank Uganda Limited

Commercial Plaza
7 Kampala Road
PO 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

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2011

The directors submit their report together with the audited financial statements for the year ended 31 December 2011, in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan Companies Act which disclose the state of affairs of Kenya Commercial Bank Limited (the "Bank") and its subsidiaries (collectively referred to as the "Group").

1. Principal activities

The Bank continues to offer corporate and retail banking services. The activities of the subsidiary companies are those set out in note 28 to the financial statements.

2. Results

The results of the Group and the Bank are set out on pages 63 and 65, respectively.

3. Dividend

The directors recommend the payment of a dividend of KShs. 5,492,180,389 which represents KShs. 1.85 per share in respect of the year ended 31 December 2011 (2010: KShs 3,687,824,773 representing KShs. 1.25 per share).

4. Directors

The directors who served during the year and up to the date of this report are set out on page 59.

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

5. Reserves

The reserves of the Group and Bank are set out on page 69 and page 70 respectively and note 35 on page 117.

6. Auditors

The auditors, KPMG Kenya, were appointed during the year in place of Ernst & Young and have indicated their willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act and subject to Section 24(1) of the Banking Act.

BY ORDER OF THE BOARD



Mr. K.D. Malakwen

SECRETARY

Date: 1st March 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 DECEMBER 2011

The directors are responsible for the preparation and presentation of the financial statements of Kenya Commercial Bank Limited and its subsidiaries set out on pages 63 to 121 which comprise the statements of financial position of the Group and the Bank at 31 December 2011, and the Group and Bank statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Directors' responsibilities include: determining that the basis of accounting described in note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by 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 of the Group and the Bank and of the Group operating results.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the Group and the Bank's ability to continue as a going concern and have no reason to believe the Group and the Bank will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on 1st March 2012 and were signed on its behalf by:



Chairman



Chief Executive



Director



Secretary

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF KENYA COMMERCIAL BANK LIMITED

Report on the financial statements

We have audited the consolidated financial statements of Kenya Commercial Bank Limited set out on pages 63 to 121. These financial statements comprise Group's and the Bank's statements of financial position at 31 December 2011 and the statements of comprehensive income, the Group's statements of changes in equity and statements of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

As stated on page 61, the Bank's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of Kenya, and for such internal control as the Directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant 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 our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Bank at 31 December 2011, and the Group and the Bank's financial performance and the Group and the Bank's cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

The Kenyan Companies Act requires us to expressly report to you, based on our audit, that:

1. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
2. In our opinion, proper books of account have been kept by the Bank, so far as appears from our examination of those books; and
3. The Bank's statement of financial position, income statement and statement of comprehensive income are in agreement with the books of account.

KPMG Kenya

Date: 1st March 2012

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 KShs'000	2010 KShs'000
Interest income	8	27,902,652	23,109,793
Interest expense	8	(4,616,241)	(3,464,468)
Net interest income		23,286,411	19,645,325
Fees and commission income		9,184,839	6,788,580
Fees and commission expense		(455,392)	(306,155)
Net fees and commission income		8,729,447	6,482,425
Foreign exchange income	9	3,607,836	2,775,494
Dividend income	10	26,157	1,185
Other operating income	11	854,794	424,379
Operating income		36,504,645	29,328,808
Net impairment on financial assets	12	452,957	(1,117,896)
Other operating expenses	13	(21,828,228)	(18,412,941)
Profit before tax		15,129,374	9,797,971
Income tax expense	14(a)	(4,148,328)	(2,619,998)
Profit for the year		10,981,046	7,177,973
Attributable to:			
Owners of the parent		10,981,046	7,177,973
Non controlling interest		-	-
		10,981,046	7,177,973
Diluted earnings per share (KShs.)	15	3.72	2.76
Dividends per share (KShs.)	16	1.85	1.25

The notes set out on pages 73 to 121 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 KShs'000	2010 KShs'000
Profit for the year	10,981,046	7,177,973
Other comprehensive income		
Exchange differences on translation of foreign operations	(193,666)	(278,084)
Available for sale financial assets:		
-Unrealized gain arising from measurement at fair value	(2,208,502)	14,558
-Cumulative realized gain arising from disposal made during the year	-	(137,110)
Other comprehensive income for the year, net of taxes	(2,402,168)	(400,636)
Total comprehensive income for the year	8,578,878	6,777,337
Attributable to:		
Owners of parent	8,578,878	6,777,337
Non-controlling interest	-	-
	8,578,878	6,777,337

The notes set out on pages 73 to 121 form an integral part of these financial statements.

INCOME STATEMENT OF THE BANK

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 KShs'000	2010 KShs'000
Interest income	8	25,181,308	21,441,262
Interest expense	8	(3,904,546)	(2,942,881)
Net interest income		21,276,762	18,498,381
Fees and commission income		6,975,620	5,618,346
Fees and commission expense		(438,443)	(306,155)
Net fees and commission income		6,537,177	5,312,191
Foreign exchange income	9	1,940,587	1,357,658
Dividend income	10	26,157	1,519,248
Other operating income	11	803,636	369,830
Operating income		30,584,319	27,057,308
Net impairment on financial assets	12	876,629	(875,411)
Other operating expenses	13	(17,379,082)	(14,644,364)
Profit before tax		14,081,866	11,537,533
Income tax expense	14(a)	(4,243,529)	(2,718,673)
Profit for the year		9,838,337	8,818,860
Diluted earnings per share (KShs.)	15	3.33	3.40
Dividends per share (KShs.)	16	1.85	1.25

The notes set out on pages 73 to 121 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME OF THE BANK

FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 KShs'000	2010 KShs'000
Profit for the year	9,838,337	8,818,860
Other comprehensive income		
Available for sale financial assets		
- Unrealized gain arising from measurement at fair value	(2,208,502)	14,558
- Cumulative realized gain arising from disposal made during the year	-	(137,110)
Other comprehensive income for the year, net of taxes	(2,208,502)	(122,552)
Total comprehensive income for the year	7,629,835	8,696,308

The notes set out on pages 73 to 121 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

	Note	2011 KShs'000	2010 KShs'000
ASSETS			
Cash and balances with Central Banks	17	42,708,016	26,997,823
Due from banks	18	25,812,084	10,211,008
Held for trading investments	19	367,938	847,876
Available-for-sale investments	20	9,204,501	5,862,488
Loans and advances to customers	21	198,724,919	148,113,364
Held to maturity investments	22	36,432,197	43,398,134
Other assets	23	6,708,391	5,002,289
Tax recoverable	14(b)	20,557	11,009
Deferred tax asset	24	1,055,476	1,126,284
Intangible assets	25	1,516,684	1,368,385
Property and equipment	26(a)	8,017,595	8,271,647
Prepaid operating lease rentals	27	147,801	145,893
TOTAL ASSETS		330,716,159	251,356,200
LIABILITIES			
Due to banks	29	14,105,149	11,056,967
Customer deposits	30	259,308,849	196,974,651
Other liabilities	31	4,292,762	2,356,968
Tax payable	14(b)	119,372	1,837,722
Deferred tax liability	24	-	121
Long term debt	33	8,525,000	-
TOTAL LIABILITIES		286,351,132	212,226,429
EQUITY			
Share capital	34	2,968,746	2,950,260
Reserves	35	35,904,101	32,491,686
Proposed dividend		5,492,180	3,687,825
TOTAL EQUITY		44,365,027	39,129,771
TOTAL LIABILITIES AND EQUITY		330,716,159	251,356,200

The financial statements were approved by the Board of Directors on 1st March 2012 and were signed on its behalf by:



P. W. MUTHOKA
Chairman



DR. M. L. ODUOR-OTIENO
Chief Executive



ENG. J. M. NDETO
Director



K. D. MALAKWEN
Secretary

The notes set out on pages 73 to 121 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION OF THE BANK

AS AT 31 DECEMBER 2011

	Note	2011 KShs'000	2010 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	17	20,138,633	13,796,511
Due from banks	18	17,648,880	3,959,963
Held for trading investments	19	367,938	847,876
Available for sale investments	20	9,204,501	5,862,488
Loans and advances to customers	21	179,843,987	137,344,568
Held to maturity investments	22	34,023,362	42,051,335
Other assets	23	4,781,799	4,185,781
Tax recoverable	14(b)	9,418	-
Deferred tax asset	24	606,328	855,115
Intangible assets	25	1,476,594	1,319,367
Property and equipment	26(b)	5,624,766	5,888,285
Prepaid operating lease rentals	27	142,818	143,644
Investment in subsidiaries and associated companies	28	8,624,529	6,769,623
TOTAL ASSETS		282,493,553	223,024,556
LIABILITIES			
Due to banks	29	11,502,571	10,807,301
Customer deposits	30	210,173,514	163,188,681
Other liabilities	31	1,610,203	1,763,732
Tax payable	14(b)	-	1,750,345
Balances due to group companies	32	5,519,607	4,638,052
Long term debt	33	8,525,000	-
TOTAL LIABILITIES		237,330,895	182,148,111
EQUITY			
Share capital	34	2,968,746	2,950,260
Reserves	35	36,701,732	34,238,360
Proposed dividend		5,492,180	3,687,825
TOTAL EQUITY		45,162,658	40,876,445
TOTAL LIABILITIES AND EQUITY		282,493,553	223,024,556

The financial statements were approved by the Board of Directors on 1st March 2012 and were signed on its behalf by:

P. W. MUTHOKA
Chairman

DR. M. L. ODUOR-OTIENO
Chief Executive

ENG. J. M. NDETO
Director

K. D. MALAKWEN
Secretary

The notes set out on pages 73 to 121 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

	Share capital KShs'000	Share premium KShs'000	Statutory credit risk reserve KShs'000	Translation reserve KShs'000	Available-for sale reserve KShs'000	Proposed dividend KShs'000	Retained earnings KShs'000	Total KShs'000
At 1 January 2010	2,217,778	7,297,986	104,670	(119,897)	347,908	2,217,778	10,503,989	22,570,212
Profit for the year	-	-	-	-	-	-	7,177,973	7,177,973
Other comprehensive income	-	-	-	(278,084)	(122,552)	-	-	(400,636)
Transfer to statutory credit risk reserve	-	-	40,959	-	-	-	(40,959)	-
	2,217,778	7,297,986	145,629	(397,981)	225,356	2,217,778	17,641,003	29,347,549
Transactions with owners								
recorded directly in equity								
Dividend paid - 2009	-	-	-	-	-	(2,217,778)	-	(2,217,778)
Proposed dividend - 2010	-	-	-	-	-	3,687,825	(3,687,825)	-
Rights issued, net of issue costs	732,482	11,267,518	-	-	-	-	-	12,000,000
	732,482	11,267,518	-	-	-	1,470,047	(3,687,825)	9,782,222
	2,950,260	18,565,504	145,629	(397,981)	225,356	3,687,825	13,953,178	39,129,771
At 1 January 2011	2,950,260	18,565,504	145,629	(397,981)	225,356	3,687,825	13,953,178	39,129,771
Profit for the year	-	-	-	-	-	-	10,981,046	10,981,046
Other comprehensive income	-	-	-	(193,666)	(2,208,502)	-	-	(2,402,168)
Transfer to statutory credit risk reserve	-	-	1,720,464	-	-	-	(1,720,464)	-
	2,950,260	18,565,504	1,866,093	(591,647)	(1,983,146)	3,687,825	23,213,760	47,708,649
Transactions with owners								
recorded directly in equity								
Dividend paid - 2010	-	-	-	-	-	(3,687,825)	-	(3,687,825)
Proposed dividend - 2011	-	-	-	-	-	5,492,180	(5,492,180)	-
Employee shares option exercised	18,486	325,717	-	-	-	-	-	344,203
	18,486	325,717	-	-	-	1,804,355	(5,492,180)	(3,343,622)
	2,968,746	18,891,221	1,866,093	(591,647)	(1,983,146)	5,492,180	17,721,580	44,365,027

The notes set out on pages 73 to 121 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY OF THE BANK

FOR THE YEAR ENDED 31 DECEMBER 2011

	Share capital KShs'000	Share premium KShs'000	Statutory credit risk reserve KShs'000	Available-for sale reserve KShs'000	Proposed dividend KShs'000	Retained earnings KShs'000	Total KShs'000
At 1 January 2010	2,217,778	7,297,986	86,215	347,908	2,217,778	10,230,250	22,397,915
Profit for the year	-	-	-	-	-	8,818,860	8,818,860
Other comprehensive income	-	-	-	(122,552)	-	-	(122,552)
Transfer to statutory credit risk reserve	-	-	(26,787)	-	-	26,787	-
	2,217,778	7,297,986	59,428	225,356	2,217,778	19,075,897	31,094,223
Transactions with owners recorded directly in equity							
Rights issue, net of issue costs	732,482	11,267,518	-	-	-	-	12,000,000
Dividend paid - 2009	-	-	-	-	(2,217,778)	-	(2,217,778)
Proposed dividend - 2010	-	-	-	-	3,687,825	(3,687,825)	-
	732,482	11,267,518	-	-	1,470,047	(3,687,825)	9,782,222
At 31 December 2010	2,950,260	18,565,504	59,428	225,356	3,687,825	15,388,072	40,876,445
At 1 January 2011	2,950,260	18,565,504	59,428	225,356	3,687,825	15,388,072	40,876,445
Profit for the year	-	-	-	-	-	9,838,337	9,838,337
Other comprehensive income	-	-	-	(2,208,502)	-	-	(2,208,502)
Transfer to statutory credit risk reserve	-	-	1,457,708	-	-	(1,457,708)	-
	2,950,260	18,565,504	1,517,136	(1,983,146)	3,687,825	23,768,701	48,506,280
Transactions with owners recorded, directly in equity							
Employee shares option exercised	18,486	325,717	-	-	-	-	344,203
Dividend paid - 2010	-	-	-	-	(3,687,825)	-	(3,687,825)
Proposed dividend - 2011	-	-	-	-	5,492,180	(5,492,180)	-
	18,486	325,717	-	-	1,804,355	(5,492,180)	(3,343,622)
At 31 December 2011	2,968,746	18,891,221	1,517,136	(1,983,146)	5,492,180	18,276,521	45,162,658

The notes set out on pages 73 to 121 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 KShs'000	2010 KShs'000
Net cash flows from/(used in) operating activities	36(a)	19,447,305	(2,067,962)
Tax paid	14(b)	(5,793,529)	(1,425,520)
Investing activities			
Proceeds from disposal of property and equipment		359,151	20,128
Purchase of intangible assets	25	(581,782)	(389,156)
Purchase of operating lease rentals	27	(2,769)	-
Purchase of property and equipment	26(a)	(1,732,186)	(1,903,559)
Net cash flows used in investing activities		(1,957,586)	(2,272,587)
Financing activities			
Net proceeds from additional shares floated		344,203	12,000,000
Borrowing	33	8,525,000	-
Dividends paid	16	(3,687,825)	(2,217,778)
Net cash flows from financing activities		5,181,378	9,782,222
Increase in cash and cash equivalents		16,877,568	4,016,153
Effects of exchange rate changes on translation of foreign operation		(76,894)	(278,084)
Cash and cash equivalents at the beginning of the year		25,130,742	21,392,673
Cash and cash equivalents at the end of the year	36(b)	41,931,416	25,130,742

The notes set out on pages 73 to 121 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS OF THE BANK

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 KShs'000	2010 KShs'000
Net cash flows from/(used in) operating activities	36(a)	12,082,725	(12,812,076)
Tax paid	14(b)	(5,754,505)	(1,315,529)
Investing activities			
Proceeds from disposal of property and equipment		343,790	8,130
Purchase of intangible assets	25	(581,123)	(336,108)
Purchase of property and equipment	26(b)	(1,075,049)	(1,089,930)
Investment in subsidiaries	28	(1,854,906)	(1,580,773)
Net cash flows used in investing activities		(3,167,288)	(2,998,681)
Financing activities			
Net proceeds from additional shares floated		344,203	12,000,000
Borrowing	33	8,525,000	-
Dividends paid	16	(3,687,825)	(2,217,778)
Net cash flows from financing activities		5,181,378	9,782,222
Increase/(decrease) in cash and cash equivalents		8,342,310	(7,344,064)
Cash and cash equivalents at the beginning of the year		6,754,730	14,098,794
Cash and cash equivalents at the end of the year	36(b)	15,097,040	6,754,730

The notes set out on pages 73 to 121 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

1. REPORTING ENTITY

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

The Bank is incorporated in Kenya under the Kenyan Companies Act and has subsidiaries in Kenya, Southern Sudan, Tanzania, Uganda and Rwanda. The consolidated financial statements of the Bank as at and for the year ended 31 December 2011 comprise the Bank and its subsidiaries (together referred to as the "Group" and individually referred to as the "Bank") and the Group interest in associates. The address of its registered office is as follows:

Kencom House

Moi Avenue
PO Box 48400 - 00100
Nairobi, Kenya

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

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

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements of the Bank and its subsidiaries as well as the separate financial statements of the Bank, together referred to as "the financial statements", have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and the Kenyan Companies Act.

The financial statements for the year ended 31 December 2011 were authorized for issue by the directors on 1st March 2012.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- Financial instruments are measured at fair value through profit or loss;

- Available-for-sale financial assets are measured at fair value;
- Liabilities for cash-settled share-based payment arrangements are measured at fair value;
- Recognized financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged; and
- The liability for defined benefit obligations is recognized as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognized actuarial gains less unrecognized past service cost and unrecognized actuarial losses.

(c) Functional and presentation currency

The financial statements are presented in Kenya Shillings (KShs), which is the Bank's functional currency. Except as otherwise indicated, financial information presentation in Kenya shillings has been rounded to the nearest thousand (KShs'000).

(d) Going concern

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

(e) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and assumptions are based on the Directors' best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

2. BASIS OF PREPARATION (Continued)

(e) Use of estimates and judgments (Continued)

Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in note 5.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements have been applied consistently across the Group entities and to all periods presented in these financial statements.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries and associates for the year ended 31 December 2011. The subsidiaries and associates are shown in note 28.

(i) Subsidiaries

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

(ii) Associates

Associates are entities in which the Group has significant influence, but not control over the financial and operational policies.

Significant influence is presumed to exist when the Group holds between 20 and 50 per cent of the voting power of another entity. The Group's investment in its associate is accounted for using the equity method and is recognized initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of profit or loss and other comprehensive income of the equity accounted investee, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of the investment including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iii) Transactions eliminated on consolidation

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

(b) Foreign currencies

The 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. Transactions in foreign currencies during the year are converted into the respective functional currencies at rates prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rates ruling at the reporting date. The resulting differences from conversion are recognised in the profit and loss account in the year in which they arise.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Foreign currencies (Continued)

Non-monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the transaction date.

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

(c) Recognition of income and expense

Revenue is recognized 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 recognized:

(i) Interest income and expense

For all financial instruments measured at amortized cost and interest bearing financial instruments classified as available-for-sale financial instruments, interest income or expense is recognized 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 recognized as interest income or expense.

(ii) Dividend income

Dividend income is recognized when the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(iii) Fees and commission income

Fees and commissions are generally recognized 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 recognized 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 recognized on completion of the underlying transaction.

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

(iv) Rental income

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

(v) Foreign exchange income

Foreign exchange income comprises gains less losses related to trading assets and liabilities and includes all realized and unrealized fair value changes, interest and foreign exchange differences.

(d) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case it is recognized in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes,

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income tax expense (Continued)

except differences relating to the initial recognition of assets or liabilities in a transaction that is not a business combination and which affects neither accounting nor taxable profit.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realized simultaneously.

(e) Financial instruments

(i) Recognition

The Group initially recognises cash, amounts due from/to due to group companies, loans and advances, deposits, debt securities and subordinated liabilities on the date they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the group becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

(ii) Derecognising

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expires, or it transfers

the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions. If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the Group obtaining a new financial asset or assuming a new financial liability, the Group recognises the new financial asset or financial liability at fair value.

Where a financial asset is derecognised in its entirety, the difference between the carrying amount and the sum of the consideration received together with any gain or loss previously recognised in other comprehensive income, are recognised in profit or loss. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iii) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (Continued)

(iv) Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable willing parties in an arm's length transaction on the measurement date.

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. The Group uses widely recognised valuation models for determining the fair value of common and simpler financial instruments like options, interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

For more complex instruments, the Group uses proprietary models, which are usually developed from recognised valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions.

When entering into a transaction, the financial instrument is recognised initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price.

This initial difference, usually an increase, in fair value indicated by valuation techniques is recognised in profit or loss depending on the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation techniques is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately

reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the statement of financial position.

(v) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(vi) Identification and measurement of impairment of financial assets

At each reporting date the Group assesses whether there is objective evidence that financial assets carried at amortised cost are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the Group.

The Group considers evidence of impairment for loans and advances and investment securities measured at amortised costs at both a specific asset and collective level.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (Continued)

(vi) Identification and measurement of impairment of financial assets (Continued)

All individually significant loans and advances and investment securities measured at amortised cost are assessed for specific impairment. All individually significant loans and advances and investment securities measured at amortised cost found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Loans and advances and investment securities measured at amortised cost that are not individually significant are collectively assessed for impairment by grouping together loans and advances and investment securities measured at amortised cost with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The Group writes off loans and advances and investment securities when they are determined to be uncollectible.

(vii) Investments held for trading

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

(viii) Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including: notes and coins on hand, unrestricted balances deposited with the Central Bank of Kenya and highly liquid assets, subject to insignificant risk of changes in their fair value. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(ix) Foreign exchange forward and spot contracts

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

(f) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Property and equipment (Continued)

(i) Recognition and measurement (Continued)

Property and equipment is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses arising on disposal of an item of property and equipment are determined by comparing the net proceeds from disposal with the carrying amount of the item and are recognized net within 'other operating income' in profit or loss.

(ii) Depreciation

Depreciation is recognized in profit or loss on a straight line basis over the estimated useful lives of each part of property and equipment. The annual depreciation rates in use are:

Freehold land	Nil
Leasehold improvements	Rates based on the 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 reporting date. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

(iii) Subsequent costs

The costs of replacing part of a component of an item of property and equipment is recognized in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Group and its costs can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(g) 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 amortization and any accumulated impairment losses.

Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognized in profit or loss in the year in which the expenditure is incurred. Intangible assets with finite lives are amortized on a straight-line basis in profit or loss over their estimated useful economic lives, from the date that they are available for use.

The amortization method, useful life and the residual value are reviewed at each financial year-end and adjusted if appropriate. 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 amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss 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 recognized as a capital improvement and added to the original cost of the software. Computer software development costs recognized as assets are amortised using the straight-line method over a period of five years. There are no intangible assets with indefinite useful lives.

(h) 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 fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leases (Continued)

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease. Leases where substantially all the risks and rewards of ownership of an asset are transferred to the Lessee are classified as finance leases. Upon recognition the leased asset is measured at an amount equal to or lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset as follows:

(i) Operating lease

The total payments made under operating leases are charged to profit or loss 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) Finance lease

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.

(i) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell.

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. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit or loss account. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

(j) Investment in subsidiaries

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

(k) Investment in associates

The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. Consolidation adjustments are also made to ensure consistency with the Group's accounting policies. Associates are accounted for using the equity method and are initially recognised at cost.

(l) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Provisions (Continued)

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to that liability.

(m) Employee benefit cost

The Group operates both a defined contribution plan and defined benefit plan.

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the reporting period in which the employees rendered the service are discounted to their present value at the reporting date.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

To determine the net amount in the statement of financial position, any actuarial gains and losses that have not been recognised because of application of the 'corridor' approach described below are added or deducted as appropriate and unrecognised past service costs are deducted.

The Group recognises a portion of actuarial gains and losses that arise in calculating the Group's obligation in respect of a plan in profit or loss over the expected average remaining working lives of the employees participating in the plan. The portion is determined as the extent to which any cumulative unrecognised actuarial gain or loss at the end of the previous reporting period exceeds 10 per cent of the greater of the present value of the defined benefit obligation and the fair value of plan assets (the corridor). Otherwise, the actuarial gains and losses are not recognised.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

When the calculations above result in a benefit to the Group, the recognised asset is limited to the net total of any cumulative unrecognised actuarial losses and past service costs and the present value of any economic benefits available in the form of any refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan or on settlement of the plan liabilities.

(iii) Short-term benefits

Short-term benefits consist of salaries, bonuses and any non-monetary benefits such as medical aid contributions and free services. They exclude equity based benefits and termination benefits.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(iii) *Short-term benefits (Continued)*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) *Termination benefits*

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(v) *Share-based payment transactions*

The grant date fair value of equity-settled share-based payment awards (i.e. stock options) granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of share awards that do meet the related service and non-market performance conditions at the vesting date.

The fair value of the amount payable to employees in respect of share appreciation rights that are settled in cash is recognized as an expense with a corresponding increase in liabilities over the period in which the employees unconditionally become entitled to payment.

The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expense in profit or loss.

(n) **Fiduciary assets**

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

(o) **Contingent liabilities**

Letters of credit, acceptances, guarantees and performance bonds are disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date that the financial statements are approved for issue by the directors.

(p) **Borrowing costs**

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

Borrowing costs are recognised as an expense when incurred.

(q) **Earnings per share**

Basic and diluted earnings per share (EPS) data for ordinary shares are presented in the financial statements. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Dividends

Dividends are recognised as a liability in the period in which they are declared. Proposed dividends are disclosed as a separate component of equity.

(s) Sale and repurchase agreements

Securities sold under sale and repurchase agreements (Repos) are retained in the financial statements with the counterparty liability included in amounts due to banking institutions.

Securities purchased from the Central Bank of Kenya under agreement to resell (reverse Repos), are disclosed as treasury bills as they are held to maturity after which they are repurchased and are not negotiable or discounted during the tenure. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

(t) Related parties

In the normal course of business, the Bank has entered into transactions with related parties. The related party transactions are at arm's length.

(u) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group's Management Executive Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

(v) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2011, and have not been applied in preparing these consolidated financial statements. These are summarised below and are not expected to have a significant impact on the consolidated financial statements of the Group:

- *IFRS 9 Financial Instruments. IFRS 9 will become mandatory for the Group's 2015 consolidated financial statements.*
- *IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013).*
- *IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2013).*
- *IFRS 12 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2013).*
- *IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013).*
- *IAS 19 Employee Benefits (Amended) (effective for annual periods beginning on or after 1 January 2013).*
- *IAS 27 (2011) Separate Financial Statements. (Effective 1 January 2013)*
- *IAS 28 (2011) Investments in Associates and Joint Ventures. (Effective 1 January 2013)*
- *Amendments to IAS 1 presentation of items of other comprehensive income (effective 1 January 2012)*
- *Amendments to IAS 12 Deferred tax: Recovery of undelying assets statements (effective 1 January 2012)*
- *Amendments to IFRS 7 Disclosures: - Transfer of financial assets (effective for annual period beginning 1 July 2011).*

4. FINANCIAL RISK MANAGEMENT

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors of the Group has established the Credit, Audit and Compliance, Risk Management, New Markets, Human Resources and Procurement Committees, which are responsible for developing and monitoring the Group risk management policies in their specified areas.

4. FINANCIAL RISK MANAGEMENT (Continued)

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 Risk 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 Committee is assisted in these functions by a Risk and Compliance department which undertake reviews of risk management controls and procedures, the results of which are reported to the Risk Committee.

(a) 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.

(i) 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 attention on the risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation;
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries and product types. Regular reports are provided to the Credit Committee on the credit quality of local portfolios and appropriate corrective action is taken;
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk;
- 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; and

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(i) Management of credit risk (Continued)

- Regular audits of business units and the Group's credit processes are undertaken by Internal Audit Department.

(ii) Credit risk measurement

The Group assesses the probability of default of customer or counterparty using internal rating scale tailored to the various categories of counterparty. 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 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

(iii) 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 recognised in the statement of financial position at year-end is derived from each of the five internal rating grades.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

The Group exposure to credit risk is analysed as follows:

	GROUP		BANK	
	2011 KShs '000	2010 KShs '000	2011 KShs '000	2010 KShs '000
Individually impaired				
Grade 3	2,897,970	3,101,867	2,442,667	2,226,705
Grade 4	5,057,418	6,311,868	4,453,564	5,994,003
Grade 5	4,272,876	5,169,647	3,518,717	4,833,019
Gross amount	12,228,264	14,583,382	10,414,948	13,053,727
Allowance for impairment	(6,466,159)	(8,587,097)	(5,724,058)	(8,178,514)
Carrying amount	5,762,105	5,996,285	4,690,890	4,875,213
Collectively impaired				
Grade 1	181,797,780	132,804,585	165,376,432	124,423,554
Grade 2	12,690,583	11,377,323	11,042,282	9,949,137
Gross amount	194,488,363	144,181,908	176,418,714	134,372,691
Allowance for impairment	(1,525,549)	(2,064,829)	(1,265,617)	(1,903,336)
	192,962,814	142,117,079	175,153,097	132,469,355
Total Carrying amount	198,724,919	148,113,364	179,843,987	137,344,568

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Impairment and provisioning policies (Continued)

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

Loans and advances graded 1 and 2 are not individually impaired. Allowances for impairment losses for these loans and advances are assessed collectively.

The Group also complies with Central Banks' prudential guidelines on general and specific provisioning. Additional provisions for loan losses required to comply with the requirements of Central Banks' prudential guidelines are transferred to statutory credit risk reserve.

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

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

The Group's policy requires the review of individual financial assets regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the impairment at reporting date on a case-by-case basis, and are applied to all individually significant accounts.

The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

(iv) Credit - related commitment risk

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

(v) 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.

(vi) 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.

(vii) Concentration of credit risk

The Group's financial instruments do not represent a concentration of credit risk because the Group deals with a variety of customers and its loans and advances are structured and spread among a number of customers. The Group monitors concentrations of credit risk by sector.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(vii) Concentration of credit risk (Continued)

An analysis of concentrations of credit risk at the reporting date is shown below:

	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Construction	33,722,489	22,655,575	31,618,634	21,800,273
Micro credit	60,271,341	45,092,890	55,327,106	45,065,735
Agriculture	10,677,484	9,174,953	9,584,416	8,590,672
Small and medium enterprises	22,505,749	19,969,822	21,361,975	16,232,352
Corporate	79,539,564	61,872,050	68,941,531	55,737,386
	206,716,627	158,765,290	186,833,662	147,426,418

(viii) Fair value of collateral held

The Group holds collateral against loans and advances to customers in the form of cash, residential, commercial and industrial property. The Group also enters into collateralised reverse purchase agreements. Risk mitigation policies control the approval of collateral types. Collateral is valued in accordance with the Group's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral.

Collateral held against impaired loans is maintained at fair value. The valuation of collateral is monitored regularly and is back tested at least annually.

Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse purchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held as at 31 December 2011 and 2010.

An estimate of fair values of collaterals held against loans and advances to customers at the end of the year was as follows:

	GROUP		BANK	
	2011 KShs '000	2010 KShs '000	2011 KShs '000	2010 KShs '000
Impaired loans	5,762,000	5,996,000	4,691,000	4,875,000
Performing loans	152,000,000	101,000,000	135,000,000	94,000,000
	157,762,000	106,996,000	139,691,000	98,875,000



NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk

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

The Group'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 Group's reputation.

The Group'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 Group 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 Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers.

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

	2011	2010
At close of the year	31.3%	30.74%
Average for the year	28.2%	35.49%
Maximum for the year	35.0%	39.32%
Minimum for the year	20.7%	30.20%

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

The table below summarizes the Group's liquidity risk as at 31 December 2011 and 31 December 2010:

As at 31 December 2011	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	39,073,197	1,680,362	1,580,849	373,608	-	42,708,016
Due from banks	25,812,084	-	-	-	-	25,812,084
Held for trading investments	367,938	-	-	-	-	367,938
Available for sale investments	-	-	-	8,529,031	675,470	9,204,501
Held to maturity investments	60,038	323,328	4,170,474	15,460,537	16,417,820	36,432,197
Loans and advances to customers	20,859,253	10,149,645	16,513,547	70,841,071	80,361,403	198,724,919
Other assets-Uncleared effect	-	-	866,225	-	-	866,225
Total financial assets	86,172,510	12,153,335	23,131,095	95,204,247	97,454,693	314,115,880
Due to banks	14,105,149	-	-	-	-	14,105,149
Other customer deposits	188,092,210	32,923,178	30,973,414	7,320,047	-	259,308,849
Other liabilities-Bills payable	-	-	731,796	-	-	731,796
Long term debt	-	-	-	6,200,000	2,325,000	8,525,000
Total financial liabilities	202,197,359	32,923,178	31,705,210	13,520,047	2,325,000	282,670,794
Net liquidity gap	(116,024,849)	(20,769,843)	(8,574,115)	81,684,200	95,129,693	31,445,086

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

As at 31 December 2010

	Up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Cash and balances with Central Banks	14,437,833	2,752,068	9,208,199	599,723	-	26,997,823
Due from banks	3,959,957	6,251,051	-	-	-	10,211,008
Held for trading investments	847,876	-	-	-	-	847,876
Available for sale investments	-	-	-	4,903,188	959,300	5,862,488
Held to maturity investments	2,138,342	4,589,408	5,631,555	12,078,802	18,960,027	43,398,134
Loans and advances to customers	12,582,423	5,979,303	12,567,391	65,441,213	51,543,034	148,113,364
Other assets-Uncleared effects	-	-	1,273,624	-	-	1,273,624
Total financial assets	33,966,431	19,571,830	28,680,769	83,022,926	71,462,361	236,704,317
Due to banks	11,056,967	-	-	-	-	11,056,967
Other customer deposits	165,664,847	5,790,903	19,560,235	5,958,666	-	196,974,651
Other liabilities-Bills payable	-	-	706,405	-	-	706,405
Total liabilities and shareholders' funds	176,721,814	5,790,903	20,266,640	5,958,666	-	208,738,023
Net liquidity gap	(142,755,383)	13,780,927	8,414,129	77,064,260	71,462,361	27,966,294

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Currency risk

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

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

The table below summarizes the foreign currency exposure as at 31 December 2011 and 31 December 2010:

	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Assets in foreign currencies	160,310,219	99,366,461	138,975,983	91,848,193
Liabilities in foreign currencies	(160,243,499)	(99,411,684)	(140,111,426)	(92,095,348)
Net foreign currency exposure at the end of the year	66,720	(45,223)	(1,135,443)	(247,155)

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	
		2011 KShs' 000	2010 KShs' 000
USD	10%	78,624	13,002
GBP	10%	11,634	7,011
EUR	10%	6,378	3,170

(d) 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 statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Interest rate risk (Continued)

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

As at 31 December 2011	Weighted interest rates	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	-	-	-	-	-	-	42,708,016	42,708,016
Due from banks	27.0%	25,812,084	-	-	-	-	-	25,812,084
Held for trading investments	7.8%	367,938	-	-	-	-	-	367,938
Available for sale investments	8.7%	-	-	-	8,529,031	200,962	474,508	9,204,501
Loans and advances to customers	12.7%	20,859,253	10,149,645	16,513,547	70,841,071	80,361,403	-	198,724,919
Held to maturity investments	7.8%	60,038	323,328	4,170,474	15,460,537	16,417,820	-	36,432,197
Other assets - Uncleared effects	-	-	-	-	-	-	866,225	866,225
Total financial assets		47,099,313	10,472,973	20,684,021	94,830,639	96,980,185	44,048,749	314,115,880
Due to banks	1.0%	14,105,149	-	-	-	-	-	14,105,149
Other customer deposits	1.6%	188,092,210	32,923,178	30,973,414	7,320,047	-	-	259,308,849
Other liabilities - Bills payable	-	-	-	-	-	-	731,796	731,796
Long term debt	2.3%	-	-	-	6,200,000	2,325,000	-	8,525,000
Total financial liabilities		202,197,359	32,923,178	30,973,414	13,520,047	2,325,000	731,796	282,670,794
Interest rate sensitivity gap		(155,098,046)	(22,450,205)	(10,289,393)	81,310,592	94,655,185	43,316,953	31,445,086

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Interest rate risk (Continued)

As at 31 December 2010	Weighted interest rates	Up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
Cash and balances with Central Banks	-	-	-	-	-	-	26,997,823	26,997,823
Due from banks	3.0%	3,959,957	6,251,051	-	-	-	-	10,211,008
Held for trading investments	9.6%	847,876	-	-	-	-	-	847,876
Available for sale investments	10.4%	-	-	-	4,903,188	661,835	297,465	5,862,488
Held to maturity investments	8.1%	12,582,423	5,979,303	12,567,391	65,441,213	51,543,034	-	148,113,364
Loans and advances to customers	12.5%	2,138,342	4,589,408	5,631,555	12,078,802	18,960,027	-	43,398,134
Other assets - Uncleared effects	-	-	-	-	-	-	1,273,624	1,273,624
Total financial assets		19,528,598	16,819,762	18,198,946	82,423,203	71,164,896	28,568,912	236,704,317
Due to banks	1.2%	11,056,967	-	-	-	-	-	11,056,967
Other customer deposits	1.1%	165,664,847	5,790,903	19,560,235	5,958,666	-	-	196,974,651
Other liabilities - Bills payable	-	-	-	-	-	-	706,405	706,405
Total financial liabilities		176,721,814	5,790,903	19,560,235	5,958,666	-	706,405	208,738,023
Interest rate sensitivity gap		(157,193,216)	11,028,859	(1,361,289)	76,464,537	71,164,896	27,862,507	27,966,294

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Interest rate risk (Continued)

At 31st December 2011, if there was a 1% interest rate variation, the Group's profit before tax would decrease/increase by KShs. 247.9 million (2010: KShs. 177 million)

(e) 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.

(f) Capital management

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

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

In implementing current capital requirements, the Central Bank of Kenya requires 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:

- Core Capital (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; and
- Supplementary Capital (Tier 2) which includes the regulatory reserve.

Various limits are applied to elements of the capital base.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

4. FINANCIAL RISK MANAGEMENT (Continued)

(f) Capital management (Continued)

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 considered and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

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

	2011 KShs'000	2010 KShs'000
Core Capital (Tier 1):		
Ordinary share capital	2,968,746	2,950,260
Retained earnings	23,768,701	19,075,897
Share premium	18,891,221	18,565,504
Less: Investments in financial institutions	(7,225,759)	(5,370,853)
Total Core Capital	38,402,909	35,220,808
Supplementary Capital (Tier 2):		
Regulatory reserve	1,517,136	59,428
Total regulatory capital	39,920,045	35,280,236
Risk weighted assets	192,939,432	152,310,594

Capital ratios:

Total regulatory capital expressed as a per cent age of total risk-weighted assets	20.7%	23.2%
Core capital expressed as a per cent age of total risk-weighted assets	19.9%	23.1%

The minimum capital ratios, as per the Central Bank of Kenya regulations, are as follows:

Total regulatory capital expressed as a per cent age of total risk-weighted assets	12.0%	12.0%
Core capital expressed as a per cent age of total risk-weighted assets	8.0%	8.0%

As at end of the year, the minimum core capital requirement by Central Bank of Kenya was KShs. 700 million (2010: KShs. 500 million). The Bank was in compliance with all statutory capital requirements as at end of the year.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

5. USE OF ESTIMATES AND JUDGMENTS

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the reporting date. The Group's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. This disclosure excludes uncertainty over future events and judgments in respect of measuring financial instruments. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty are set out in the notes.

(a) Impairment losses on loans and advances

The Group loan loss provisions are established to recognize incurred impairment losses either on individual significant loans or within a portfolio of 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 profit or loss. In particular, judgment 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 and past loss experience and defaults based on portfolio trends.

(b) Deferred tax assets

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

(c) 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.

(d) Property and equipment

Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. The rates used are set out on accounting policy 3(f) (ii).

6. FINANCIAL ASSETS AND LIABILITIES

Accounting classification and fair values

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

All financial instruments are initially recognised at fair value, which is normally the transaction price. In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market inputs.

Subsequent to initial recognition, some of the Group's financial instruments are carried at fair value, with changes in fair value either reported within profit or loss or within other comprehensive income until the instrument is sold or becomes impaired.

The fair values of quoted financial instruments in active markets are based on current prices. If the market for a financial instrument is not active including market for unlisted securities, the Group establishes fair value by using valuation techniques.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

6. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting classification and fair values (Continued)

These techniques include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data. The fair value for the majority of the Group's financial instruments is based on observable market prices or derived from observable market parameters.

Equity investments that do not have observable market prices are fair valued by applying various valuation techniques, such as earnings multiples, net assets multiples, discounted cash flows, and industry valuation benchmarks. These techniques are generally applied prior to any initial public offering after which an observable market price becomes available. Disposal of such investments are generally by market trades or private sales.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have significant effect on the recorded fair value that are not based on observable market data.

The table below shows the classification of financial assets and liabilities at their fair values based on the hierarchy described above.

	Level 1 KShs.000	Level 2 KShs.000	Level 3 KShs.000	Total KShs.000
2011 Group and Bank				
Financial assets:				
Held for trading investments	-	367,938	-	367,938
Available for sale investments	469,743	8,734,758	-	9,204,501
Total financial assets fair valued	469,743	9,102,696	-	9,572,439
2010 Group and Bank				
Financial assets:				
Held for trading investments	-	847,876	-	847,876
Available for sale investments	292,700	5,569,788	-	5,862,488
Total financial assets fair valued	292,700	6,417,664	-	6,710,364

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

6. FINANCIAL ASSETS AND LIABILITIES (Continued)

The table below sets out the carrying amounts of each class of financial assets and liabilities, and their fair values.

	Held for trading KShs. 000	Held to maturity KShs. 000	Loans and receivables KShs. 000	Available for sale KShs. 000	Other amortized cost KShs. 000	Total carrying amount KShs. 000	Fair value KShs. 000
2011-Group							
Assets							
Cash and balances with Central Banks	-	-	42,708,016	-	-	42,708,016	42,708,016
Due from other banks	-	-	25,812,084	-	-	25,812,084	25,812,084
Government and other securities	367,938	36,432,197	-	6,790,693	-	43,590,828	43,590,828
Investment securities	-	-	-	2,413,808	-	2,413,808	2,413,808
Loans and advances to customers	-	-	198,724,919	-	-	198,724,919	198,724,919
Other assets – uncleared effects	-	-	866,225	-	-	866,225	866,225
Total financial assets	367,938	36,432,197	268,111,244	9,204,501	-	314,115,880	314,115,880
Liabilities							
Due to other banks	-	-	-	-	14,105,149	14,105,149	14,105,149
Deposits from customers	-	-	-	-	259,308,849	259,308,849	259,308,849
Other liabilities – bills payable	-	-	-	-	731,796	731,796	731,796
Long term debt	-	-	-	-	8,525,000	8,525,000	8,525,000
Total financial liabilities	-	-	-	-	282,670,794	282,670,794	282,670,794
2010-Group							
Assets							
Cash and balances with Central Banks	-	-	26,997,823	-	-	26,997,823	26,997,823
Due from other banks	-	-	10,211,008	-	-	10,211,008	10,211,008
Government and other securities	847,876	43,398,134	-	3,425,723	-	47,671,733	47,671,733
Investment securities	-	-	-	2,436,765	-	2,436,765	2,436,765
Loans and advances to customers	-	-	148,113,364	-	-	148,113,364	148,113,364
Other assets – uncleared effects	-	-	1,273,624	-	-	1,273,624	1,273,624
Total financial assets	847,876	43,398,134	186,595,819	5,862,488	-	236,704,317	236,704,317
Liabilities							
Due to other banks	-	-	-	-	11,056,967	11,056,967	11,056,967
Deposits from customers	-	-	-	-	196,974,651	196,974,651	196,974,651
Other liabilities – bills payable	-	-	-	-	706,405	706,405	706,405
Total financial liabilities	-	-	-	-	208,738,023	208,738,023	208,738,023

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

7. SEGMENT REPORTING

Reportable segments

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

- Retail banking – incorporating banking services such as customer current accounts, savings and fixed deposits to individuals. Retail lending are mainly consumer loans.
- Corporate banking – incorporating banking services such as current accounts, fixed deposits, overdrafts, loans and other credit facilities both in local and foreign currencies.
- Mortgages – incorporating the provision of mortgage finance.
- Treasury – operates the Group's funds management and forex business activities
- Other Group's operations comprise business support activities

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

Income statement

	Corporate banking KShs'000	Retail banking KShs'000	Treasury KShs'000	Mortgages KShs'000	Other KShs'000	Total KShs'000
For the year ended 31 December 2011						
Net interest income	7,739,891	9,162,907	3,361,616	3,021,997	-	23,286,411
Net fees and commission income	2,537,184	5,928,360	126,297	137,606	-	8,729,447
Other income	2,369	689,447	3,335,200	48,686	413,085	4,488,787
Operating expenses	(1,132,856)	(9,350,295)	(367,537)	(125,168)	(10,399,415)	(21,375,271)
Profit before tax	9,146,588	6,430,419	6,455,576	3,083,121	(9,986,330)	15,129,374
For the year ended 31 December 2010						
Net interest income	6,103,223	6,243,635	5,134,455	2,164,012	-	19,645,325
Net fees and commission income	1,426,457	4,918,493	17,142	120,333	-	6,482,425
Other income	250,520	156,556	2,775,494	-	18,488	3,201,058
Operating expenses	(1,680,638)	(6,829,001)	(1,023,871)	(685,867)	(9,311,460)	(19,530,837)
Profit before tax	6,099,562	4,489,683	6,903,220	1,598,478	(9,292,972)	9,797,971

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

7. SEGMENT REPORTING (Continued)

Statement of financial position	Corporate banking KShs'000	Retail banking KShs'000	Treasury KShs'000	Mortgages KShs'000	Other KShs'000	Total KShs'000
As at 31 December 2011						
Total Assets	110,361,709	91,784,304	87,813,615	27,444,090	13,312,441	330,716,159
Total Liabilities	123,119,771	115,724,525	27,997,935	9,428,891	10,080,010	286,351,132
Equity	-	-	-	-	44,365,027	44,365,027
	123,119,771	115,724,525	27,997,935	9,428,891	54,445,037	330,716,159
As at 31 December 2010						
Total Assets	78,818,388	79,077,461	56,145,638	21,107,514	16,207,199	251,356,200
Total Liabilities	83,309,194	71,419,022	46,916,876	6,386,526	4,194,811	212,226,429
Equity	-	-	-	-	39,129,771	39,129,771
	83,309,194	71,419,022	46,916,876	6,386,526	43,324,582	251,356,200

Geographical segments

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

Income statement	Kenya KShs'000	Tanzania KShs'000	South Sudan KShs'000	Uganda KShs'000	Rwanda KShs'000	Total KShs'000
As at 31 December 2011						
Net interest income	21,276,762	660,581	348,096	462,067	538,905	23,286,411
Net fees and commission income	6,537,178	373,171	1,275,840	272,201	271,057	8,729,447
Other income	2,775,068	126,226	1,161,205	259,286	167,002	4,488,787
Operating expenses	(16,514,724)	(1,113,398)	(1,921,127)	(966,832)	(859,190)	(21,375,271)
Profit before tax	14,074,284	46,580	864,014	26,722	117,774	15,129,374
As at 31 December 2010						
Net interest income	18,498,381	533,070	247,788	195,343	170,743	19,645,325
Net fees and commission income	5,312,191	221,045	661,237	147,675	140,277	6,482,425
Other income	1,733,182	128,609	1,171,261	106,769	61,237	3,201,058
Operating expenses	(15,489,223)	(993,400)	(1,499,339)	(859,108)	(689,767)	(19,530,837)
Profit before tax	10,054,531	(110,676)	580,947	(409,321)	(317,510)	9,797,971

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

7. SEGMENT REPORTING (Continued)

Geographical Segments (Continued)

Statement of financial position	Kenya KShs'000	Tanzania KShs'000	South Sudan KShs'000	Uganda KShs'000	Rwanda KShs'000	Group Elimination KShs' 000	Total KShs'000
31 December 2011							
Total Assets	283,841,340	11,003,064	31,818,136	10,040,474	9,026,178	(15,013,033)	330,716,159
Total Liabilities	237,332,165	9,699,715	29,753,306	8,268,147	7,571,350	(6,273,551)	286,351,132
Total equity	46,509,175	1,303,349	2,064,830	1,772,327	1,454,828	(8,739,482)	44,365,027
	283,841,340	11,003,064	31,818,136	10,040,474	9,026,178	(15,013,033)	330,716,159
31 December 2010							
Total Assets	224,400,875	11,030,840	15,893,930	6,272,464	7,337,442	(13,579,351)	251,356,200
Total Liabilities	182,149,016	9,937,915	14,343,810	5,803,041	6,496,786	(6,504,139)	212,226,429
Total equity	42,251,859	1,092,925	1,550,120	469,423	840,656	(7,075,212)	39,129,771
	224,400,875	11,030,840	15,893,930	6,272,464	7,337,442	(13,579,351)	251,356,200

8. INTEREST INCOME AND EXPENSE

	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Interest income				
Interest on loans and advances	23,612,698	17,663,904	21,293,264	16,162,740
Interest on held to maturity and trading investments	3,742,965	5,259,702	3,516,523	5,178,712
Interest on placements and bank balances	546,989	186,187	371,521	99,810
	27,902,652	23,109,793	25,181,308	21,441,262
Interest expense				
Interest on deposits	3,821,853	3,307,581	3,308,614	2,802,736
Interest on borrowed funds	794,388	156,887	595,932	140,145
	4,616,241	3,464,468	3,904,546	2,942,881
Net interest income	23,286,411	19,645,325	21,276,762	18,498,381
9. FOREIGN EXCHANGE INCOME				
Foreign currency dealings	3,283,453	2,322,141	1,678,296	1,150,880
Translation gains	324,383	453,353	262,291	206,778
	3,607,836	2,775,494	1,940,587	1,357,658
10. DIVIDEND INCOME				
Dividend received from subsidiary company	-	-	-	1,518,063
Available for sale investments	26,157	1,185	26,157	1,185
	26,157	1,185	26,157	1,519,248

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
11. OTHER OPERATING INCOME				
Rent income	95,245	88,583	90,564	84,082
Profit on disposal of property and equipment	238,748	24,139	235,772	7,928
Miscellaneous income	520,801	311,657	477,300	277,820
	854,794	424,379	803,636	369,830
12. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS				
Additional specific provisions (Note 21b)	2,435,362	1,648,351	2,109,587	1,425,944
Additional collective provisions (Note 21c)	(539,280)	495,969	(637,719)	472,286
Bad debts recovered (Note 21b)	(2,349,039)	(1,026,424)	(2,348,497)	(1,022,819)
	(452,957)	1,117,896	(876,629)	875,411
13. OTHER OPERATING EXPENSES				
Administrative expenses	8,608,561	7,152,733	6,383,417	5,115,911
Personnel costs	10,883,679	9,383,643	9,222,469	8,024,266
Directors' emoluments - As directors	74,900	37,255	35,532	28,376
- As executives	70,692	63,146	70,692	63,146
Depreciation of property and equipment	1,672,850	1,382,540	1,166,348	1,029,436
Amortisation of intangible assets	497,685	375,249	488,098	371,219
Amortisation of prepaid operating lease rentals	861	2,065	826	2,030
Auditors' remuneration	19,000	16,310	11,700	9,980
	21,828,228	18,412,941	17,379,082	14,644,364
Personnel costs:				
Salaries and wages	7,527,919	7,172,777	6,239,924	6,039,143
Medical expenses	376,014	375,212	318,129	252,294
Pension scheme contributions	859,434	455,676	774,859	400,622
Other	2,120,312	1,379,978	1,889,557	1,332,207
	10,883,679	9,383,643	9,222,469	8,024,266

The number of employees of the Group as at 31 December 2011 was 5,571 (31 December 2010 - 5,639).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

14. INCOME TAX

	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
(a) Income statement				
Current tax	3,998,076	3,647,924	3,908,839	3,560,777
Defferred tax charge/(credit)	64,349	(1,031,246)	248,787	(842,104)
Under provision in the previous years	85,903	3,320	85,903	-
	4,148,328	2,619,998	4,243,529	2,718,673
Accounting profit before tax	15,129,374	9,797,971	14,081,866	11,537,533
Tax calculated at tax rate of 30%	4,538,812	2,939,391	4,224,560	3,461,260
Tax effects on non-taxable/non-deductible items:				
Depreciation on non qualifying assets	101,735	(89,339)	100,900	(90,655)
Provisions	(200,965)	(503,060)	(200,965)	(353,525)
Unrealised exchange gains	(78,687)	(412,175)	(78,687)	(472,177)
Under provisions in previous years	85,903	3,320	85,903	-
Other non deductible items	(298,470)	681,861	111,818	173,770
	4,148,328	2,619,998	4,243,529	2,718,673
(b) Statement of financial position				
At 1 January	(1,826,713)	399,009	(1,750,345)	494,903
Tax paid during the year	5,793,529	1,425,520	5,754,505	1,315,529
Tax charge for the year	(3,998,076)	(3,647,924)	(3,908,839)	(3,560,777)
Translation difference	18,348	2	-	-
Under provision in the previous years	(85,903)	(3,320)	(85,903)	-
At 31 December	(98,815)	(1,826,713)	9,418	(1,750,345)
Comprising:				
Tax recoverable	20,557	11,009	9,418	(1,750,345)
Tax payable	(119,372)	(1,837,722)	-	-
	(98,815)	(1,826,713)	9,418	(1,750,345)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

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15. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated on the profit attributable to ordinary shareholders of KShs 10,981 million and KShs. 9,838 million for the Group and Bank, respectively (2010: KShs 7,178 million and KShs 8,819 million for the Group and Bank, respectively) and on the weighted average number of ordinary shares during the year of 2,952 Million (2010: 2,597 million shares).

	GROUP		BANK	
	2011 KShs	2010 KShs	2011 KShs	2010 KShs
Diluted earnings per share (KShs.)	3.72	2.76	3.33	3.40

16. DIVIDEND PER SHARE

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an Annual General Meeting. At the Annual General Meeting to be held on 18th May 2012, a final dividend in respect of the year ended 31 December 2011 of KShs. 5,492,180,389 (2010 – KShs.3,687,824,773) is to be proposed. Payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non-resident shareholders.

	GROUP AND BANK	
	2011 KShs	2010 KShs
Dividends per share (KShs.)	1.85	1.25

17. CASH AND BALANCES WITH CENTRAL BANKS

	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Cash on hand	15,697,286	10,009,715	8,582,793	5,777,976
Balances with Central Banks:				
Cash reserve ratio	13,234,839	8,596,748	11,555,840	7,276,616
Other current accounts	13,775,891	8,391,360	-	741,919
	42,708,016	26,997,823	20,138,633	13,796,511

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

18. DUE FROM BANKS

	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Balances in nostro accounts	11,022,721	2,229,932	9,774,005	1,013,199
Placements with other banks	14,789,363	7,981,076	7,874,875	2,946,764
	25,812,084	10,211,008	17,648,880	3,959,963

The weighted average effective interest rate on balances due from other banks at 31 December 2011 was 27% (2010- 3 %)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

19. HELD FOR TRADING INVESTMENTS	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Treasury bonds	367,938	847,876	367,938	847,876

Treasury bonds are debt securities issued by the Government of the Republic of Kenya and acquired by the bank for the generation of revenue from short term fluctuations in interest rates. The weighted average effective interest rates on treasury bonds as at 31 December 2011 was 7.8% (31 December 2010 – 9.6 %.)

20. AVAILABLE FOR SALE INVESTMENTS	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Quoted investments	469,743	292,700	469,743	292,700
Unquoted equity investments	4,765	4,765	4,765	4,765
Corporate bonds	1,939,300	2,139,300	1,939,300	2,139,300
Treasury bonds	6,790,693	3,425,723	6,790,693	3,425,723
	9,204,501	5,862,488	9,204,501	5,862,488

21. LOANS AND ADVANCES TO CUSTOMERS

	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
(a) Loans and advances to customers				
Gross loans and advances to customers	206,716,627	158,765,290	186,833,662	147,426,418
Specific provisions for impairment	(6,466,159)	(8,587,097)	(5,724,058)	(8,178,514)
Collective provisions for impairment	(1,525,549)	(2,064,829)	(1,265,617)	(1,903,336)
Loans and advances to customers (net)	198,724,919	148,113,364	179,843,987	137,344,568
(b) Specific provisions for impairment				
At 1 January	8,587,097	8,189,513	8,178,514	7,593,959
Transfer from Savings & Loan	-	-	-	493,834
Provisions made during the year	2,435,362	1,648,351	2,109,587	1,425,944
Interest suspended during the year	598,735	713,052	450,258	618,397
Provisions recovered/no longer required	(2,349,039)	(1,026,424)	(2,348,497)	(1,022,819)
Write downs/write offs during the year	(2,805,996)	(937,395)	(2,665,804)	(930,801)
At 31 December	6,466,159	8,587,097	5,724,058	8,178,514
(c) Collective provisions for impairment				
At 1 January	2,064,829	1,568,860	1,903,336	1,264,858
Transfer from Savings & Loan	-	-	-	166,192
Provisions made during the year	(539,280)	495,969	(637,719)	472,286
At 31 December	1,525,549	2,064,829	1,265,617	1,903,336

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
(d) Maturity analysis of gross loans and advances to customers:				
Maturing within 1 month	24,315,451	15,178,819	21,127,485	14,054,677
Maturing after 1 month, but before 3 months	10,742,513	6,350,676	10,275,864	5,314,618
Maturing after 3 months, but within 1 year	17,160,163	13,582,203	14,707,637	11,793,253
Maturing after 1 year, but within 5 years	73,617,715	66,756,226	64,055,939	60,586,837
Maturing after 5 years	80,880,785	56,897,366	76,666,737	55,677,033
	206,716,627	158,765,290	186,833,662	147,426,418
(e) Sectoral analysis of gross loans and advances to customers:				
Private sector and individuals	200,792,505	152,734,650	180,901,865	141,395,778
Government and parastatals	5,924,122	6,030,640	5,931,797	6,030,640
	206,716,627	158,765,290	186,833,662	147,426,418

The weighted average effective interest rates on loans and advances as at 31 December 2011 was 12.7% (2010: 12.5%).

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

	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Less than 60 days	11,697,074	9,421,165	10,711,013	8,887,363
Between 60 – 120 days	1,372,589	700,998	1,047,623	524,522
Greater than 120 days	922,798	89,951	-	-
	13,992,461	10,212,114	11,758,636	9,411,885

22. HELD TO MATURITY INVESTMENTS

	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
(a) Treasury bills				
Maturing within 1 month	60,038	2,138,342	-	1,999,241
Maturing between 1-3 months	323,328	4,589,408	-	4,235,056
Maturing between 3-6 months	979,550	2,772,617	-	2,422,388
	1,362,916	9,500,367	-	8,656,685

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

22. HELD TO MATURITY

INVESTMENTS (Continued)

	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
(b) Treasury bonds				
Maturing between 3-12 months	3,190,924	2,858,938	3,180,722	2,667,285
Maturing between 1-5 years	15,460,537	12,078,802	14,808,217	11,767,338
Maturing after 5 years	16,417,820	18,960,027	16,034,423	18,960,027
	35,069,281	33,897,767	34,023,362	33,394,650
TOTAL GOVERNMENT SECURITIES	36,432,197	43,398,134	34,023,362	42,051,335
Maturing as follows:-				
Maturing within 1 month	60,038	2,138,342	-	1,999,241
Maturing between 1-3 months	323,328	4,589,408	-	4,235,056
Total (maturing within 3 months)	383,366	6,727,750	-	6,234,297
Maturing between 3-12 months	4,170,474	5,631,555	3,180,722	5,089,673
Maturing between 1-5 years	15,460,537	12,078,802	14,808,217	11,767,338
Maturing after 5 years	16,417,820	18,960,027	16,034,423	18,960,027
	36,432,197	43,398,134	34,023,362	42,051,335

Treasury bills and bonds are debt securities issued by the Government of the Republic of Kenya, Government of Uganda, Government of the Republic of Rwanda, and United Republic of Tanzania. The bills and bonds are categorized as amounts held to maturity and carried at amortized cost. The weighted average effective interest rates on treasury bonds and bills as at 31 December 2011, was 7.81 % and 8.6% respectively (31 December 2010 - 9.6 % and 2.8% respectively).

23. OTHER ASSETS

	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Other receivables	5,524,621	4,260,518	3,878,533	3,817,705
Prepayments	1,183,770	741,771	903,266	368,076
	6,708,391	5,002,289	4,781,799	4,185,781

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

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24. DEFERRED TAX

	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
At 1 January	1,126,163	94,917	855,115	(12,225)
Transfer from Savings & Loan	-	-	-	25,236
(Charge)/Credit for the year	(64,349)	1,031,246	(248,787)	842,104
Translation difference	(6,338)	-	-	-
At 31 December	1,055,476	1,126,163	606,328	855,115
The net deferred tax asset is attributable to the following items:				
Depreciation over tax allowances	(246,875)	(209,617)	(102,311)	(181,791)
Provisions	762,436	1,249,464	708,639	1,036,906
Tax losses carried forward	539,915	86,316	-	-
	1,055,476	1,126,163	606,328	855,115
Comprising:				
Deferred tax asset	1,055,476	1,126,284	606,328	855,115
Deferred tax liability	-	(121)	-	-
	1,055,476	1,126,163	606,328	855,115

25. INTANGIBLE ASSETS

	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
COST				
At 1 January	2,479,362	2,090,206	2,426,108	2,072,445
Transfer from Savings & Loan	-	-	-	17,555
Reclassifications	66,834	-	66,834	-
Additions	581,782	389,156	581,123	336,108
At 31 December	3,127,978	2,479,362	3,074,065	2,426,108
AMORTISATION				
At 1 January	1,110,977	735,728	1,106,741	717,967
Transfer from Savings & Loan	-	-	-	17,555
Reclassifications	2,632	-	2,632	-
Amortisation for the year	497,685	375,249	488,098	371,219
At 31 December	1,611,294	1,110,977	1,597,471	1,106,741
CARRYING AMOUNT				
At 31 December	1,516,684	1,368,385	1,476,594	1,319,367

The intangible assets are in respect of computer software costs.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

26. PROPERTY AND EQUIPMENT

(a) GROUP	Freehold and leasehold premises	Leasehold improvements	Motor vehicles, furniture and equipment	Total
As at 31 December 2011:	KShs'000	KShs'000	KShs'000	KShs'000
COST:				
At 1 January 2011	2,139,907	1,053,727	11,101,657	14,295,291
Additions	15,666	500,512	1,216,008	1,732,186
Reclassification	34,721	-	(101,555)	(66,834)
Disposals	(119,200)	(4,151)	(164,063)	(287,414)
Translation differences	(12,021)	(64,879)	(59,224)	(136,124)
At 31 December 2011	2,059,073	1,485,209	11,992,823	15,537,105
DEPRECIATION				
At 1 January 2011	313,874	236,645	5,473,125	6,023,644
Charge for the year	39,313	292,644	1,340,893	1,672,850
Reclassification	6,041	-	(8,673)	(2,632)
Disposals	(32,550)	(399)	(134,062)	(167,011)
Translation differences	(1,507)	(4,892)	(942)	(7,341)
At 31 December 2011	325,171	523,998	6,670,341	7,519,510
NET BOOK VALUE				
At 31 December 2011	1,733,902	961,211	5,322,482	8,017,595
As at 31 December 2010:				
COST				
At 1 January 2010	2,066,203	502,212	9,932,697	12,501,112
Additions	105,328	551,454	1,246,777	1,903,559
Disposals	(40,212)	-	(85,250)	(125,462)
Translation differences	8,588	61	7,433	16,082
At 31 December 2010	2,139,907	1,053,727	11,101,657	14,295,291
DEPRECIATION				
At 1 January 2010	298,935	118,064	4,337,494	4,754,493
Charge for the year	54,720	124,286	1,203,534	1,382,540
Disposals	(40,212)	-	(67,970)	(108,182)
Translation differences	431	(5,705)	67	(5,207)
At 31 December 2010	313,874	236,645	5,473,125	6,023,644
NET BOOK VALUE				
At 31 December 2010	1,826,033	817,082	5,628,532	8,271,647

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

26. PROPERTY AND EQUIPMENT (Continued)

(b) BANK

As at 31 December 2011

COST

At 1 January 2011

	Freehold and leasehold premises KShs'000	Leasehold improvements KShs'000	Motor vehicles, furniture and equipment KShs'000	Total KShs'000
At 1 January 2011	1,626,457	77,308	9,591,997	11,295,762
Additions	2,000	-	1,073,049	1,075,049
Reclassification	34,721	-	(101,555)	(66,834)
Disposals	(119,200)	-	(140,788)	(259,988)

At 31 December 2011

DEPRECIATION

At 1 January 2011

At 31 December 2011	1,543,978	77,308	10,422,703	12,043,989
At 1 January 2011	271,554	73,491	5,062,432	5,407,477
Charge for the year	15,090	2,330	1,148,928	1,166,348
Reclassification	6,041	-	(8,673)	(2,632)
Disposals	(32,551)	-	(119,419)	(151,970)

At 31 December 2011

NET BOOK VALUE

At 31 December 2011

As at 31 December 2010

COST:

At 1 January 2010

At 31 December 2010	1,626,457	77,308	9,591,997	11,295,762
At 1 January 2010	1,613,769	77,308	8,478,218	10,169,295
Transfer from S&L	-	-	157,566	157,566
Additions	12,688	-	1,024,084	1,036,772
Disposals	-	-	(67,871)	(67,871)

At 31 December 2010

DEPRECIATION

At 1 January 2010

At 31 December 2010	271,554	73,491	5,062,432	5,407,477
At 1 January 2010	256,249	71,789	4,013,264	4,341,302
Transfer from S&L	-	-	104,408	104,408
Charge for the year	15,305	1,702	1,012,429	1,029,436
Disposals	-	-	(67,669)	(67,669)

At 31 December 2010

NET BOOK VALUE

At 31 December 2010

At 31 December 2010	1,354,903	3,817	4,529,565	5,888,285
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

27. PREPAID OPERATING LEASE RENTALS

	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
COST				
At 1 January	223,031	223,031	219,574	219,574
Additions	2,769	-	-	-
At 31 December	225,800	223,031	219,574	219,574
AMORTISATION				
At 1 January	77,138	75,073	75,930	73,900
Charge for the year	861	2,065	826	2,030
At 31 December	77,999	77,138	76,756	75,930
NET BOOK VALUE				
At 31 December	147,801	145,893	142,818	143,644

28. INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES

		Beneficial ownership	2011 KShs'000	2010 KShs'000
Investments insubsidiaries:				
Incorporated in Kenya:				
Company	Activity	%		
Kenya Commercial Finance Co. Ltd	Dormant	100	150,000	150,000
Savings & Loan Kenya Ltd	Dormant	100	500,000	500,000
KCB Foundation	Corporate social responsibility	-	-	-
Kenya Commercial Bank Nominees Ltd	Nominee	-	-	-
Bank Nominees Ltd	Shareholders	100	-	-
Kencom House Ltd	Property ownership & management	100	748,645	748,645
Investment in associates:				
United Finance Ltd	Dormant	45	125	125
Incorporated outside Kenya:				
KCB (Tanzania) Ltd	Commercial banking	100	1,795,446	1,570,446
KCB Sudan Ltd	Conventional banking	100	1,025,648	1,025,363
KCB Rwanda SA	Commercial banking	100	1,720,681	1,163,174
KCB Bank Uganda Ltd	Commercial banking	100	2,683,984	1,611,870
			8,624,529	6,769,623

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

29. DUE TO BANKS

	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Deposits and balances from other banks	14,105,149	11,056,967	11,502,571	10,807,301
Maturing as follows:				
Payable within 1 month	14,105,149	11,056,967	11,502,571	10,807,301

The weighted average effective interest rates on deposits and balances from other banks as at 31 December 2011 was 1.0 % (31 December 2010 - 1.2 %).

30. CUSTOMER DEPOSITS

	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
(a) From government and parastatals:				
Payable within 1 month	43,117,241	43,903,496	42,733,273	42,425,481
Payable after 1 month, but within 3 months	12,139,631	923,819	12,139,329	923,819
Payable after 3 months, but within 1 year	9,552,594	4,202,150	9,552,594	4,202,150
Payable after 1 year, but within 5 years	1,217,376	899,073	962,192	899,073
	66,026,842	49,928,538	65,387,388	48,450,523
(b) From private sector and individuals:				
Payable within 1 month	144,974,969	121,761,351	103,571,209	95,559,214
Payable after 1 month, but within 3 months	20,783,547	4,867,084	17,507,259	2,717,304
Payable after 3 months, but within 1 year	21,420,820	15,358,085	18,102,455	11,402,115
Payable after 1 year, but within 5 years	6,102,671	5,059,593	5,605,203	5,059,525
	193,282,007	147,046,113	144,786,126	114,738,158
Total other customer deposits	259,308,849	196,974,651	210,173,514	163,188,681
Maturing as follows:				
Payable within 1 month	188,092,210	165,664,847	146,304,482	137,984,695
Payable after 1 month but within 3 months	32,923,178	5,790,903	29,646,588	3,641,123
Payable after 3 months but within 1 year	30,973,414	19,560,235	27,655,049	15,604,265
Payable after 1 year but within 5 years	7,320,047	5,958,666	6,567,395	5,958,598
	259,308,849	196,974,651	210,173,514	163,188,681

The weighted average effective interest rates on interest bearing customer deposits as at 31 December 2011 was 1.6% (31 December 2010 – 1.1%).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

31. OTHER LIABILITIES

	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Bills payable	731,796	706,405	671,829	691,405
Accrued expenses	403,972	329,046	221,180	153,942
Defined pension benefit obligation	266,000	-	266,000	-
Other payables	2,890,994	1,321,517	451,194	918,385
	4,292,762	2,356,968	1,610,203	1,763,732

32. RELATED PARTY TRANSACTIONS

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

(a) Balances due from group companies

	2011 KShs'000	2010 KShs'000
KCB (Tanzania) Limited	408,730	993,964
	408,730	993,964

(b) Balances due to group companies

	2011 KShs'000	2010 KShs'000
Savings and Loan Kenya Limited	499,900	499,900
Kencom House Limited	472,696	482,672
Kenya Commercial Finance Company Limited	112,160	112,160
KCB Bank Uganda Limited	120,190	66,243
KCB Foundation	77,920	79,834
KCB Rwanda SA	611,036	1,941,904
KCB Sudan Limited	4,034,435	2,449,303
Total balances due to group companies	5,928,337	5,632,016
	5,519,607	4,638,052

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

32. RELATED PARTY

TRANSACTIONS (Continued)

	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
(c) Shareholders, directors and key management personnel				
(i) Loans				
Government of Kenya	824,151	241,910	824,151	241,910
Directors	3,736,431	3,971,283	3,719,141	3,956,958
Senior management	859,511	245,766	737,738	244,459
Other employees	5,730,895	4,744,183	5,155,987	4,711,595
	11,150,988	9,203,142	10,437,017	9,154,922
Movement in loans to directors and senior management				
At 1 January	4,217,049	3,723,655	4,201,417	3,707,936
Loans issued during the year	1,249,091	1,203,161	896,871	1,126,836
Loans repayments during the year	(870,198)	(709,767)	(641,409)	(633,355)
At 31 December	4,595,942	4,217,049	4,456,879	4,201,417
Interest income earned	676,923	773,407	640,003	770,543
(ii) Deposits				
Government of Kenya	36,850,507	34,754,485	36,314,209	34,754,485
Directors	1,607,262	1,242,652	1,601,587	1,224,321
Senior management	449,362	483,106	440,743	483,106
Other employees	253,154	109,108	110,186	88,135
	39,160,285	36,589,351	38,466,725	36,550,047
Movement in deposits by directors and senior management:				
At 1 January	1,725,758	1,507,312	1,707,427	1,448,956
Deposits received during the year	1,872,858	2,459,079	1,704,173	2,427,641
Deposits withdrawn during the year	(1,541,992)	(2,240,633)	(1,369,270)	(2,169,170)
At 31 December	2,056,624	1,725,758	2,042,330	1,707,427
Interest expense	145,644	97,392	143,961	95,999
(iii) Senior management personnel compensation (Included under personnel costs - Note 13)				
Short term employee benefits	516,744	479,949	374,147	242,586
Post employment pension and medical benefits	28,795	9,462	19,530	6,401
	545,539	489,411	393,677	248,987

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

33. LONG TERM DEBT

	GROUP AND BANK	
	2011	2010
	KShs'000	KShs'000
Long term debt	8,525,000	-

During the year the bank obtained a 7 year term loan from International Finance Corporation (IFC) of USD 100 Million. The effective interest rate as at 31 December 2011 was 2.3%.

34. SHARE CAPITAL

	2011	2010
	KShs'000	KShs'000
Authorised:-		
3,500,000,000 (2010: 3,500,000,000) ordinary shares of KShs.1 each	3,500,000	3,500,000
Issued and fully paid:-		
2,968,746,156 (2010: 2,950,259,818) ordinary shares of KShs.1 each	2,968,746	2,950,260

During the year the bank offered 18,486,338 shares through Employee Shares Options (ESOP) at KShs. 18.62 per share. The movement in share capital during the year was as follows:

	2011	2010
	KShs'000	KShs'000
At January		
Rights issue	-	732,482
Employee share option exercised	18,486	-
As at 31 December	2,968,746	2,950,260

The top ten largest shareholders as at 31 December 2011 were:

Shareholder	No. of Shares	%
Permanent Secretary to the Treasury of Kenya	523,600,000	17.64
National Social Security Fund	225,230,355	7.59
Standard Chartered Nominees A/C 9688	72,490,723	2.44
Standard Chartered Nominees Non Resident A/C 9318	57,640,058	1.94
Standard Chartered Nominees Non Resident A/C 9011	54,875,100	1.85
CFC Stanbic Nominees LTD A/C R48701	53,775,626	1.81
Standard Chartered Nominees A/C 9687	42,570,686	1.43
Standard Chartered Nominees A/C 9230	31,986,787	1.08
Kanaksinh Karsandas & Sandip Kanaksinh Babla	28,991,920	0.98
Old Mutual Life Assurance Company Limited	23,182,044	0.78
Total shares	1,114,343,299	37.54

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

34. SHARE CAPITAL (Continued)

The distribution of shareholders as at 31 December 2011 was as follows:

Share range	No. of shareholders	Shares held	%
1 to 5000	131,721	227,252,630	7.65
5,001-50,000	31,611	337,981,787	11.38
50,001-100,000	964	66,171,093	2.23
100,001-1,000,000	914	258,368,480	8.71
1,000,001-10,000,000	206	644,947,903	21.72
10,000,001 and above	32	1,434,024,263	48.31
	165,448	2,968,746,156	100.00

35. RESERVES

	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Retained earnings	17,721,580	13,953,178	18,276,521	15,388,072
Share premium	18,891,221	18,565,504	18,891,221	18,565,504
Available-for-sale reserve	(1,983,146)	225,356	(1,983,146)	225,356
Statutory credit risk reserve	1,866,093	145,629	1,517,136	59,428
Translation reserve	(591,647)	(397,981)	-	-
	35,904,101	32,491,686	36,701,732	34,238,360

Share premium arises from issue of shares at a price higher than the par value of the shares

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

36. NOTES TO THE STATEMENT OF CASH FLOWS

	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
(a) Cash flows from operating activities				
This has been derived as follows:-				
Profit before tax	15,129,374	9,797,971	14,081,866	11,537,533
Adjustments for:				
Depreciation of property and equipment	1,672,850	1,382,540	1,166,348	1,029,436
Amortisation of prepaid operating lease rentals	861	2,065	826	2,030
Amortisation of intangible assets	497,685	375,249	488,098	371,219
Profit on disposal of available for sale investments	-	(137,110)	-	(137,110)
Profit/loss on disposal of property and equipment	(238,748)	(24,139)	(235,772)	(7,928)
Operating profit before movements in operating assets and liabilities	17,062,022	11,396,576	15,501,366	12,795,180
Cash reserve ratio	(4,638,090)	(1,937,431)	(4,279,224)	(1,294,440)
Available for sale investments	(5,550,515)	(3,926,653)	(5,550,515)	(3,926,653)
Held to maturity investments	621,553	(17,891,679)	1,793,676	(17,684,870)
Loans and advances	(50,611,555)	(25,454,282)	(42,499,419)	(38,594,950)
Balances due from group companies	-	-	881,555	9,821,927
Other assets	(1,706,102)	1,830,399	(596,018)	1,783,599
Other customer deposits	62,334,198	33,945,301	46,984,833	24,735,950
Other liabilities	1,935,794	(30,193)	(153,529)	(447,819)
	19,447,305	(2,067,962)	12,082,725	(12,812,076)
(b) Analysis of cash and cash equivalents				
Balances with Central Banks	13,775,891	8,391,360	-	741,919
Cash on hand	15,697,286	10,009,715	8,582,793	5,777,976
Held to maturity investments	383,366	6,727,750	-	6,234,297
Held for trading investments	367,938	847,876	367,938	847,876
Due from banks	25,812,084	10,211,008	17,648,880	3,959,963
Due to banks	(14,105,149)	(11,056,967)	(11,502,571)	(10,807,301)
	41,931,416	25,130,742	15,097,040	6,754,730

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

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

	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Capital commitments contracted for at year end	170,164	176,569	132,777	130,073
Loans committed but not disbursed at year end	44,586,173	32,447,570	43,639,631	31,750,911
Foreign currency commitments	184,536	(44,169)	97,759	(44,169)

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

	GROUP		BANK	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
38. CONTINGENT LIABILITIES Letters of credit, acceptances, guarantees, indemnities and other engagements entered into on behalf of customers at year end	87,424,335	72,429,394	84,557,085	69,532,289

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

In addition to this, litigation is a common occurrence in the banking industry due to the nature of the business. The Bank and its subsidiary companies have established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claim may have on its financial standing.

At year end, the Group had several unresolved legal and tax claims. However, the Group believes, based on the information currently available, that the ultimate resolution of these legal proceedings and tax claims would not likely have a material effect on its operations.

39. RETIREMENT BENEFIT OBLIGATIONS

(a) KCB Pension Fund and Staff Retirement Benefit Scheme

The Group operates both defined contribution scheme and defined benefit scheme for all full time permanent employees.

The benefits provided by the defined benefit scheme are based on a formula taking into account years of service and remuneration levels, whilst the benefits provided by the defined contribution scheme are determined by accumulated contributions and returns on investments.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

39. RETIREMENT BENEFIT OBLIGATIONS (Continued)

Both schemes are governed by the Retirement Benefits Act, 1997. This requires that an actuarial valuation be carried out at least every 3 years for the defined benefit scheme. An actuarial valuation of the Defined Benefit Scheme was done by the actuary as at 31 December 2009 and confirmed that the assets held by the scheme were not sufficient to cover the relevant liabilities accrued at that date. The results of the valuation showed that there is a past service actuarial deficit of KShs. 266 million. In the opinion of the actuary, the assets of the scheme together with the future contributions payable by members in accordance with the regulations should be sufficient to provide the future benefits payable under the scheme provided that the sponsor increases the contribution rate from the current 10.8% to 16.7% of the total pensionable salaries of the members in service. The accelerated contribution at 18% commenced on 1 January 2011.

The amount included in the statement of financial position arising from the Group's obligation in respect of the defined benefit scheme is as follows:

Scheme assets and liabilities

	2011 KShs. 000
Fair value of plan assets	6,872,000
Present value of fund obligations	6,964,000
Deficit	92,000
Unrecognized actuarial gain	174,000
Net retirement benefit liability	266,000
Movement in plan assets	
At 1st January	7,671,000
Expected return on assets	738,000
Employer contributions	127,000
Actuarial gains	(964,000)
Benefits paid	(700,000)
At 31st December	6,872,000
Movement in present value of the retirement benefit obligations	
At 1st January	7,023,000
Current service cost (net of employer contributions)	129,000
Interest cost	674,000
Actuarial gains/(losses)	(287,000)
Benefits paid	(700,000)
Past service cost	125,000
At 31st December	6,964,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

39. RETIREMENT BENEFIT OBLIGATIONS (Continued)

Historical information

	2011 KShs. 000	2010 KShs. 000	2009 KShs. 000	2008 KShs. 000	2007 KShs. 000
Fair value of plan assets	6,872,000	7,671,000	6,769,000	8,461,100	8,461,100
Present value of benefits	6,964,000	7,023,000	6,780,000	8,925,000	8,925,000
Fund deficit/(surplus)	92,000	(648,000)	11,000	463,900	463,900

The deficit has been accrued in the 2011 financial statements.

The principal actuarial assumptions used are as follows;

Rate of interest	13.5%
Rate of salary escalation	10.0%
Rate of pension increase	Nil

40. OPERATING LEASE COMMITMENTS

Operating lease commitments - Group as lessee

Non-cancellable operating lease rentals are payable as follows:

	2011 KShs'000	2010 KShs'000
Within 1 year	303,704	-
After 1 year but less than 5 years	1,109,068	726,341
After 5 years	422,645	105,888
	1,835,417	832,229

Operating leases – Group as lessor

	2011 KShs. 000	2010 KShs. 000
Within 1 year	52,336	-
After 1 year but less than 5 years	122,454	60,233
After 5 years	17,146	5,246
	191,936	65,479

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

PROXY FORM

THE SECRETARY

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

I/We _____

ID/Passport No _____

Shares A/C No/CDS A/C No _____

of P.O. Box _____

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

ID/Passport No _____

of P.O. Box _____

or failing him the duly appointed Chairman of the meeting to be my/our proxy, to vote on my/our behalf at the 41st Annual General Meeting of the Company to be held on 18th May 2012 at 11:00 a.m or at any adjournment thereof.

Signed _____ this day of _____ 2012

Signature (s)

Note:

1. If a member is unable to attend personally this Form of Proxy should be completed and returned to reach the Company's Registered Office not later than 11.00 a.m. on Wednesday, 16th May 2012 i.e. 48 hours before the time for holding the meeting.
2. A person appointed to act as a proxy need not be a member of the Company.
3. In case of a member being a corporate body, the Proxy Form must be under its Common Seal or under the hand of the officer or attorney duly authorized in writing.



FOMU YA UWAKILISHI

KATIBU

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

Mimi/Sisi _____

Wa kitambulisho/Pasipoti Nambari _____

Hisa A/C No/CDS A/C No _____

wa S.L.P. _____

Nikiwa mwanachama/Wanachama wa kampuni iliyotajwa hapo juu namteua _____

wa kitambulisho/pasipoti nambari _____

wa S.L.P. _____

na akikosa yeye, namteua/tunamteu Mwenyekiti wa mkutano kama mwakilishi wangu/wetu, kupiga kura kwa niaba yangu/ yetu kwenye Mkutano Mkuu wa 41 wa Kampuni utakaofanyika tarehe 18, Mei 2012 saa tano za asubuhi ama siku yoyote ile endapo mkutano huo utaahirishwa.

Imetiwa saini _____ siku ya _____ 2012

Saini

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

Fomu ya uwakilishi ni lazima ifike kwa Msajili tarehe 16 Mei 2012 saa tano za asubuhi, yaani masaa 48 kabla ya mkutano.

