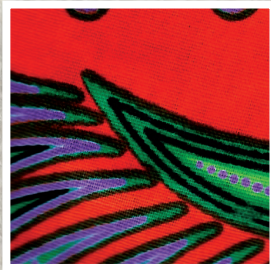


INTEGRATED REPORT AND FINANCIAL STATEMENTS 2014



KCB

Making the
Difference

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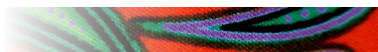
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Welcome from the Chairman and CEO



Ngeny Biwott
Chairman

Joshua Oigara
Chief Executive Officer

During the year, 2014 the KCB Group Board of Directors interrogated the Bank's operations and strategy with the intention of building on its heritage, strong balance sheet and considerable footprint.

During this process we turned to the Bank's motto of "Making the Difference" for inspiration. KCB is committed to simplifying and improving peoples' lives and collectively in all the countries and regions in which they live and work.

Being relevant to a broad range of customers is fundamental to our ability to attract and retain them in the Bank and in so doing, allows us the opportunity to change their lives.

We hope this report provides insight into how we strive to maintain and increase our relevance in the rapidly growing East Africa region – by transforming lives and creating value for shareholders and other stakeholders.

This is our first venture into integrated reporting and is designed to improve the quality of information available to providers of financial capital; promote a more cohesive and efficient approach to corporate reporting; enhance accountability and stewardship for the resources we utilise; and support integrated thinking, decision making and actions that focus on the creation of value.

We have learnt a great deal during this year's reporting cycle, but acknowledge that we have a long road ahead of us before we can truly demonstrate our understanding of the connectivity and interdependencies between the range of factors that affect the Bank's ability to create value.

We welcome all feedback and criticism that will enable us to improve our reporting in future. Comments can be sent to investorrelations@kcb.co.ke.

Directors' Statement of Responsibility

The Board of Directors acknowledges its responsibility to ensure the integrity of this integrated report. The Board has applied its collective mind in the presentation and preparation of this report. This report was prepared in accordance with the International Integrated Reporting Council's (IIRC), International Integrated Reporting Framework and the Board believes that it presents fairly the performance of the Group and its material matters. On the recommendation of the Board's Audit and Risk Committees, the Board of Directors approved the 2014 Integrated Report on 25 February, 2015.

Forward Looking Statements

Certain statements in this document are forward looking. Accordingly, actual results and outcomes may differ materially from those expressed or implied by such statements. KCB makes no representations or warranty, express or implied, that the operating, financial or other results anticipated by such forward looking statements will be achieved and such forward looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. Due to the point in time nature of this integrated report, KCB cannot undertake to continuously update the historical information or forward looking statements in this document.

2014 REVIEW

Total transactions valued at KShs 7.8T (1.5 Times Kenya's GDP)

01

Customer numbers up 65% to 4.14M



02

Branches up 2% to 242



03

Agency Outlets up 66% to 10,102



04

ATMs 962



05

280,154 loan applications



06

POS up 75% to 16,000



07

11M mobile transactions



08

Agency Transactions up 135% to 3.3M



MILESTONES IN 2014

01

KShs. 589M Mobile Loans



02

Biashara Smart Launch



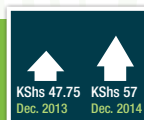
03

1.1M Inbound Customer calls



04

Share Price Growth



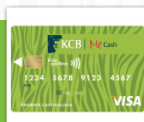
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Inua Jamii



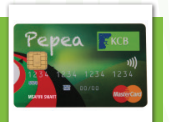
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KCB Me Cash



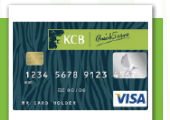
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PEPEA Card



08

EMV Migration



09

EURO Money Award (Best bank in Kenya)



10

Launched 3rd Sustainability Report



11

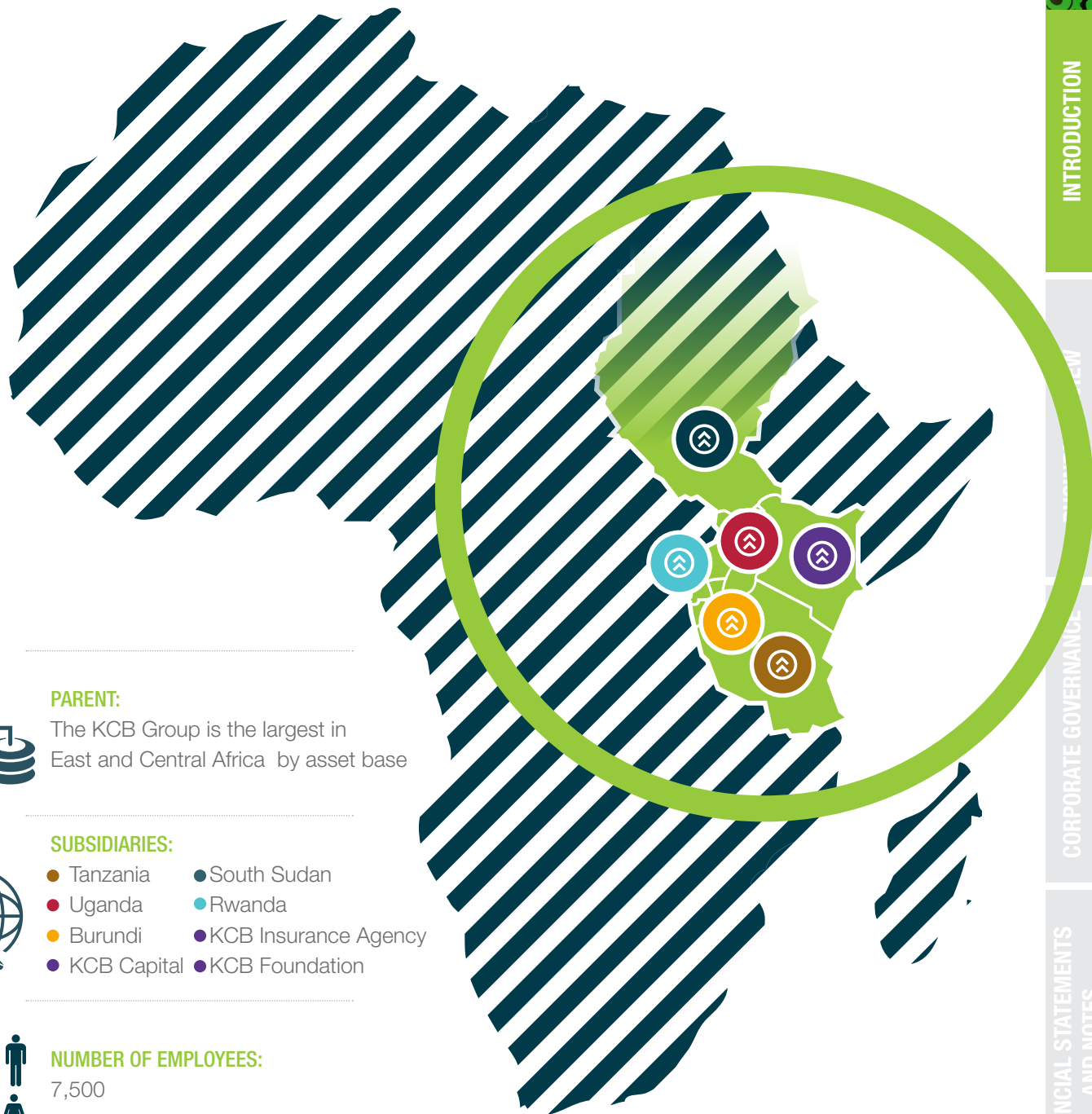
Over 300% Growth



12

KShs. 1 Billion on Foundation Programmes





PARENT:

The KCB Group is the largest in East and Central Africa by asset base



SUBSIDIARIES:

- Tanzania ● South Sudan
- Uganda ● Rwanda
- Burundi ● KCB Insurance Agency
- KCB Capital ● KCB Foundation



NUMBER OF EMPLOYEES:

7,500



CHANNELS:

242 branches, 962 ATMs, 10,102 agents



LISTINGS:

NSE, DSE, USE, RSE



TOTAL EQUITY:

KShs 75,633,557,000



GCR AFFIRMED KCB'S RATING OF AA (KE):

Outlook stable

Basis for Preparation and Presentation

Frameworks Applied

This integrated report has been prepared in accordance with the International Integrated Reporting Council's International Integrated Reporting <IR> Framework.

The Board of Directors (the Board) and management have considered the fundamental concepts, guiding principles and content elements recommended in the Framework and have endeavoured to apply these recommendations in the report.

This report is also aligned with the parameters of the Kenyan Companies Act, guidelines issued by the Capital Markets Authority, the Nairobi Securities Exchange (NSE) Listings Manual, and the Prudential Guidelines as issued by the Central Bank of Kenya.

The Group Annual Financial Statements were prepared in accordance with International Financial Reporting Standards (IFRS).

Purpose

The purpose of this report is to provide a wide range of stakeholders with a concise communication about our strategy, governance, performance and prospects, in the context of the internal and external environment, as well as our ability to create value over the short, medium and long term.

Primary Audience

In terms of the Framework, integrated reports are prepared primarily for the providers of financial capital to help inform their decision-making regarding financial capital allocations.

Matters not related to finance or governance also impact on the ability of KCB to create value over the short, medium and long term. These matters, be they social or environmental, are of interest to other stakeholders and, where considered material, are addressed herein.

Preparation and Presentation

KCB's 2014 integrated report has been prepared for the period 1 January 2014 to 31 December 2014 and covers the activities of Kenya Commercial Bank Limited (KCB, the Bank, the Company or Group), its subsidiary companies, its divisions and key strategic investments.

Material matters presented in this report represent those issues that the Board and senior management believe are of sufficient relevance and importance that they could substantively influence the assessments of the report users with regard to the Company's ability to create value over the short, medium and long term. Potential material matters were identified through a broad range of processes, from engagement with our stakeholders to our own internal processes such as risk assessments and considering international trends.

The executive directors and senior management have been instrumental in the preparation of this report.

Assurance

The Group Annual Financial Statements were audited by KPMG Kenya, barring KCB Rwanda, which was audited by Deloitte.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31-Dec-10 KShs 000 Audited	31-Dec-11 KShs 000 Audited Restated	31-Dec-12 KShs 000 Audited Restated	31-Dec-13 KShs 000 Audited	31-Dec-14 KShs 000 Audited
Assets					
Government and other securities	50,108,498	46,004,636	89,291,304	92,996,115	97,197,974
Loans and advances to customers (net)	148,113,364	198,724,919	211,664,226	227,721,781	283,732,205
Property and equipment	8,271,647	8,017,595	8,895,573	8,484,836	8,838,074
Other assets	44,862,691	77,916,809	58,167,682	61,648,847	100,570,071
Total Assets	251,356,200	330,663,959	368,018,785	390,851,579	490,338,324
Liabilities					
Customer deposits	196,974,651	259,308,849	288,037,367	305,659,189	377,271,886
Lines of credit	9,557,372	22,630,149	18,256,901	14,370,624	27,030,467
Other liabilities	5,694,406	4,238,134	7,429,458	7,466,800	10,402,413
Total Liabilities	212,226,429	286,177,132	313,723,726	327,496,613	414,704,767
Total Equity	39,129,771	44,486,827	54,295,059	63,354,966	75,633,557
TOTAL LIABILITIES AND EQUITY	251,356,200	330,663,959	368,018,785	390,851,579	490,338,324

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	31-Dec-10 KShs 000 Audited	31-Dec-11 KShs 000 Audited	31-Dec-12 KShs 000 Audited	31-Dec-13 KShs 000 Audited	31-Dec-14 KShs 000 Audited
Interest income	23,109,793	27,902,649	43,082,218	41,613,398	47,475,715
Interest expense	3,464,468	4,616,241	12,445,986	8,629,113	11,527,020
Net interest income	19,645,325	23,286,408	30,636,232	32,984,285	35,948,695
Non-interest income	11,016,062	16,022,674	15,620,886	17,125,979	22,001,159
Operating income	30,661,387	39,309,082	46,257,118	50,110,264	57,949,854
Expenses	18,719,096	22,283,626	25,292,333	27,080,530	29,104,155
Impairment on Loans and advances	2,144,320	1,896,082	3,756,642	2,905,975	5,058,270
Operating expenses	20,863,416	24,179,708	29,048,975	29,986,505	34,162,425
Profit before tax	9,797,971	15,129,374	17,208,143	20,123,759	23,787,429
Income tax expense	2,619,998	4,148,328	5,004,612	5,782,377	6,938,566
Profit for the year	7,177,973	10,981,046	12,203,531	14,341,382	16,848,863

Five Year Review

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

	31-Dec-10 KShs 000 Audited	31-Dec-11 KShs 000 Audited	31-Dec-12 KShs 000 Audited	31-Dec-13 KShs 000 Audited	31-Dec-14 KShs 000 Audited
Gains/(Losses) from translating the financial statements of foreign operations	-	-	97,273	(736,114)	904,406
Fair value changes in available-for-sale financial assets	-	-	1,898,331	(78,581)	70,678
Re-measurement of defined benefit pension fund				508,900	(177,800)
Other comprehensive income for the year net of tax	-	-	1,995,604	(305,795)	797,284
Profit attributable to equity holders of the bank	7,177,973	10,981,046	14,199,135	14,035,587	17,646,146
Earnings per share (KShs)	2.76	3.72	4.11	4.82	5.63
Dividend per share (KShs)	1.25	1.85	1.90	2.00	2.00

OTHER DISCLOSURES

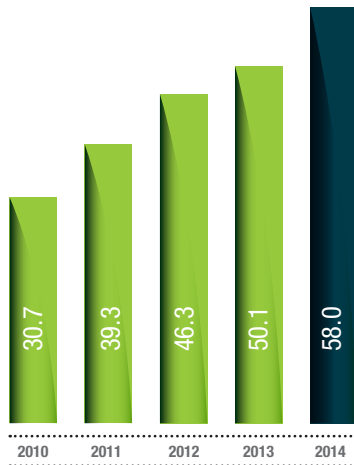
	31-Dec-10 KShs 000 Audited	31-Dec-11 KShs 000 Audited	31-Dec-12 KShs 000 Audited	31-Dec-13 KShs 000 Audited	31-Dec-14 KShs 000 Audited
NON-PERFORMING LOANS AND ADVANCES					
a) Gross Non-performing loans and advances	14,583,382	12,228,264	14,750,335	19,227,705	18,404,132
b) Less Interest in Suspense	1,796,530	1,225,595	1,816,184	2,200,117	2,588,273
c) Total Non-Performing Loans and Advances (a-b)	12,786,852	11,002,669	12,934,151	17,027,588	15,815,858
d) Less Loan Loss Provision	6,790,567	5,240,564	7,599,324	6,761,992	9,402,308
e) Net Non-Performing Loans and Advances(c-d)	5,996,285	5,762,105	5,334,827	10,265,596	6,413,551

KEY PERFORMANCE INDICATORS (%)

Return on Equity (ROE)	18.34	24.68	25.00	24.40	24.20
Non-interest income to operating income	35.93	40.76	33.77	34.18	38.00
Net non-performing loans to total loans	4.10	2.90	3.60	4.30	2.18
Return on Assets (ROA)	2.80	3.30	3.50	3.80	3.80

OPERATING INCOME

KShs Billion

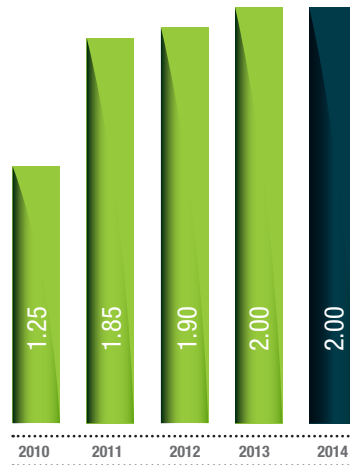


Operating income increased by KShs 7.9bn or 15.8% to KShs 58bn in 2014.

Future focus on growth of non funded income, utilization of alternative channels and customer numbers growth.

DIVIDEND PER SHARE (CAGR 12.47%)

KShs

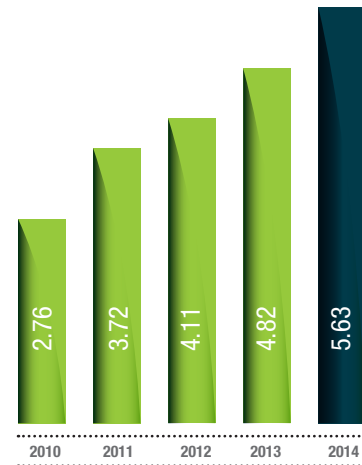


Dividend payout remained constant at KShs 2.00 per share.

Focus to consolidate retained earnings to improve capital ratios and revised prudential guidelines covering market risk, lending risk and operational risk.

EARNINGS PER SHARE (CAGR-19.51%)

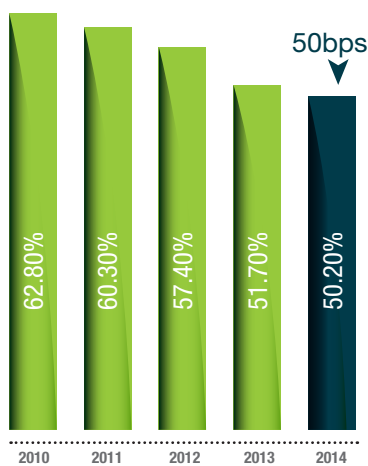
KShs



EPS grew 16.80% from KShs 4.82 in 2013 to KShs 5.63 in 2014.

Strong forecast for future EPS growth with improved performance in Kenya and consolidation in the regional businesses.

COST: INCOME RATIO (PRODUCTIVITY RATIO)

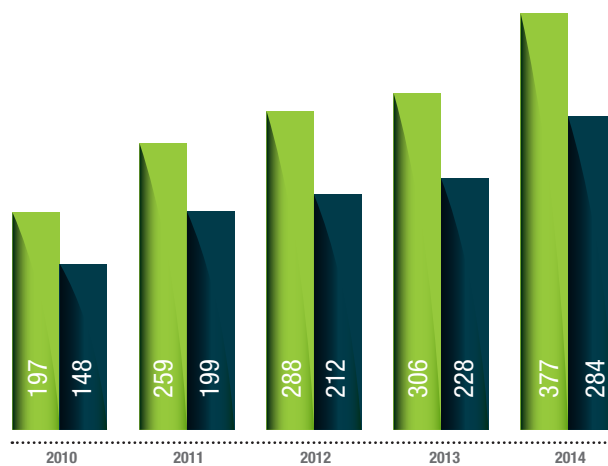


Significant reduction of cost to income ratio by 50 basis points in 2014.

Going forward key focus on cost transformation initiatives including improved operational efficiencies, better utilization of technology and roll out of innovative products and services.

NET LOANS AND CUSTOMER DEPOSITS

KShs Billion



Customer deposits Net Loans

Customer deposits grew by 23.20% from KShs 306bn in 2013 to KShs 377bn in 2014 with strategic shift to reduce high cost deposits.

KCB M-benki set to accelerate mobilization of customer deposits.

Our Business

A 118 Year Pedigree: 1896 – 2014



Grindlays founder
ROBERT MELVILLE GRINDLAY
(1786-1877)

KCB is the oldest and largest commercial bank in East Africa with 242 branches, 10,102 *Mtaani* agents and 962 ATMs throughout the region, an asset base of KShs 490Bn, a market capitalisation of KShs 180 billion and more than 4.14Mn customers. It commenced operations in Zanzibar in 1896 as a branch of the National Bank of India and in 1904 extended its operations to Nairobi. In 1957 Grindlays

Bank merged with the National Bank of India to form the National and Grindlays Bank, which was to spearhead the economic empowerment of local citizens following Kenya's independence.

In 1970, the government of Kenya acquired a 100% shareholding in the Bank and changed the name to Kenya Commercial Bank Limited. With the acquisition of a mortgage finance company, Savings and Loan (Kenya) Ltd. In 1972, the bank became the largest provider of mortgages in Kenya.

In 1988, the Kenya government sold 20% of its shares on the Nairobi Securities Exchange through an IPO that saw 120,000 new shareholders acquire a stake in the Bank. With a view to expanding its footprint throughout the region, KCB opened its first branch in Tanzania in 1997 and today it has 12 branches in the country.

In 2003, the bank rebranded to KCB Bank Limited and in 2006 extended its reach into South Sudan, becoming the first regional entrant in the country. Today KCB has 20 branches across 10 states in South Sudan. This was followed by the opening of KCB's first branch in Uganda in 2007 and in Rwanda in 2008, which facilitated cross border banking, especially for trading partners.

In 2008, KCB recorded a significant milestone when it implemented a new core banking system across all five countries. The system, T24, enabled it to offer services on a one-branch banking network, making every branch a home branch.

In 2011 KCB posted a record KShs 15.1 billion trading profit, making it the most profitable bank in East Africa.

KCB completed its Eastern African regional presence with the opening of KCB Bank Burundi in 2012. In addition, it doubled its share price, surpassing the USD 1 billion capital ratio and recording growth of 11%. In 2014 KCB Capital and KCB Insurance were launched.



KCB Nairobi, 1970



KCB Kencom, 1976



KCB Kencom official opening in 1977

OUR VALUE CREATION PROCESS

INPUTS

Tier 1 capital – shareholder funds
KShs 57.81 billion

Tier 2 capital – borrowings
KShs 12.73 billion

Customer deposits
KShs 377.30 billion



PRODUCTS

BANKING SOLUTIONS:

Advantage and diaspora banking current, transaction and savings accounts KCB M-Benki credit, debit and prepaid cards foreign exchange and money market services

BORROWING:

Mortgages, commercial loans, special schemes, investment group loans, diaspora home loans personal, *masomo*, secured and unsecured loans, salary advances

INVESTING & SAVINGS:

Fixed and call deposits, treasury bills and bonds, dual currency deposits



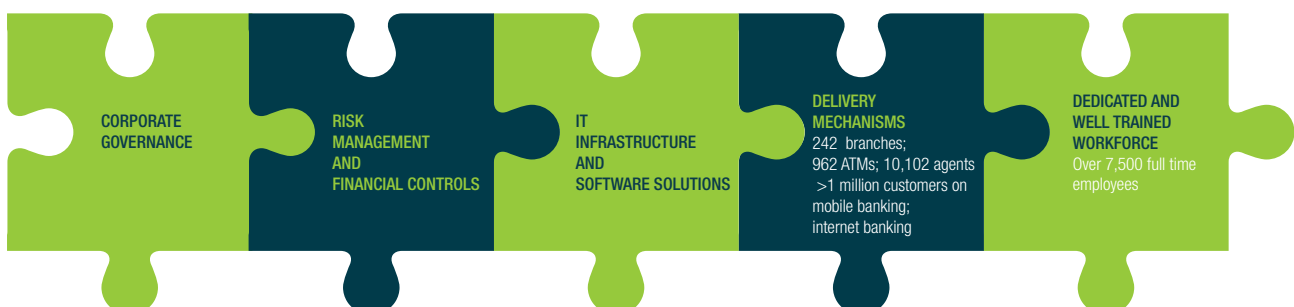
OUTPUTS

Fees and interest margin



OUTCOMES

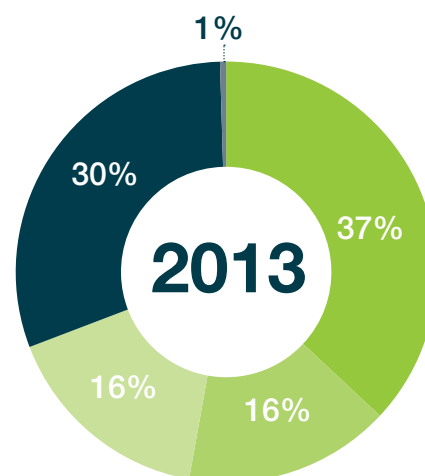
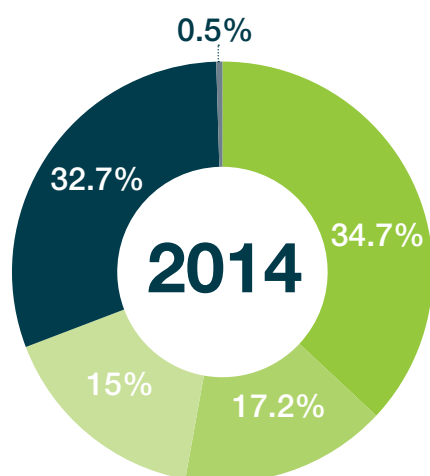
Satisfied customers
Economic growth
Returns for shareholders
Community development



Value Added Statement 2014

KCB BANK GROUP VALUE ADDED STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

	2014		2013	
	KShs '000		KShs '000	
Value Added:				
Interest Income, Fees, Commission and Other Revenues	66,710,782		56,491,591	
Interest Paid to Depositors and Cost of Other Services	(25,446,712)		(19,289,346)	
Interest paid on Borrowings	(894,015)		(757,185)	
Wealth Created	40,370,055		36,445,060	
		%		%
Distribution of Wealth:				
Employees-Salaries, Wages and Other Benefits	13,993,445	34.70%	13,469,900	37.00%
Government-Tax	6,938,568	17.20%	5,782,377	15.90%
Shareholder's-Dividends	6,050,426	15.00%	5,968,455	16.40%
Retention to Support Future Business Growth:				
- Retained Earnings	10,798,436	26.70%	8,372,927	23.00%
- Depreciation and Amortization	2,387,942	5.90%	2,679,320	7.40%
Social Capital-KCB Foundation	201,238	0.50%	172,081	0.50%
Wealth Distributed	40,370,055	100%	36,445,060	100%



In order to build long-term and sustainable value for all our stakeholders, the group has increased its retained capital for strategic expansion; (particularly in Eastern Democratic Republic of Congo, Ethiopia and Somalia), modernisation of our infrastructure and other investments to enhance our continued competitiveness. The increase in retained earnings (the Group's principle source of capital) by KShs 2.4 billion in 2013 to KShs 10.8 billion in 2014 demonstrates the commitment to funding these initiatives.

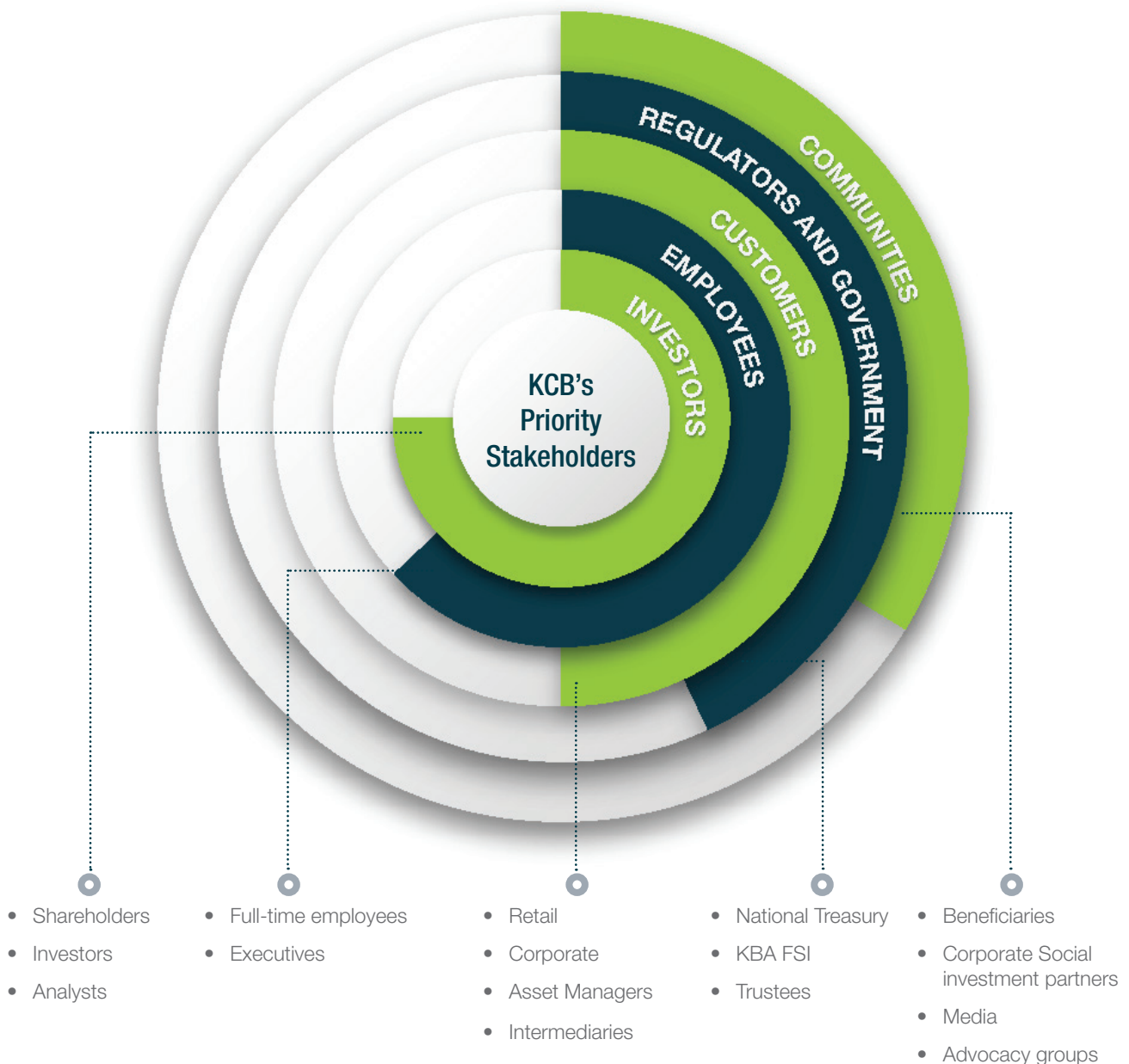
For this report, we adopted the Global Rating Index (G4) guidelines, which emphasise materiality and stakeholder engagement. This is with a view to reporting on what is relevant to our stakeholders and the organisation at large.

We rely on input and support from a variety of internal and external stakeholders for the continued success and sustainability of the business. Our broad base of stakeholders includes those we have a direct relationship with and who we communicate with on a regular basis. These priority stakeholders include investors, employees, customers, regulators and government, and communities. More widely, there are those stakeholders we engage with intermittently on specific issues, who have an indirect impact on the business and who may be impacted by our

business activities. These stakeholders include suppliers, the media and civil society.

We employ a range of channels and mechanisms to gather stakeholder feedback. The rate of engagement varies according to each stakeholder group and the particular issue at hand. We are proactive in identifying and responding to misalignments between our actions and our stakeholders' expectations.

With the evolution of KCB's business strategy, it remains critical for the organisation to continuously understand the dynamic needs and perceptions of all its stakeholders to ensure continued meaningful engagements.



Building Sustainable Societies

Our sustainability vision

To grow our existing business competitively in the market place and deliver long lasting financial benefits to society

Our sustainability agenda has been integrated into our Group Corporate Strategy and contributes towards our financial, economic, social and environmental growth and the maintenance of a stable society in line with our corporate values.



CORPORATE STRATEGY



Sustainability, Vision and Strategy

Developing the corporate and business strategy on sustainability



FINANCIAL STABILITY

- Economic development
- Financial Performance
- Sustainable banking products and services
- Embracing technology and innovation
- Regulatory compliance



ECONOMIC STABILITY

- Long-term profitability
- Risk management and mitigation
- Community investment strategy
- Market strategy and analysis



SOCIAL STABILITY

- Employee development
- Community health and well being
- Corporate social responsibility
- Enterprise development
- Employment practices



ENVIRONMENTAL STABILITY

- Energy efficiency
- Business travel
- Resource usage
- E-waste
- Water management
- Supply chain



Sustainability Capability Development

Developing the policies, processes and tools, skills and capabilities to achieve KCB's sustainability and business objectives



Stakeholder Management, Partnerships and Communications

Building trust, brand and reputation through effective stakeholder engagement and thought leadership on sustainability



Sustainability Performance Management

Providing actionable performance data, producing sustainability reports and effectively managing performance



Our Sustainability Strategy

We aim to achieve our sustainability objective and corporate ESG through our sustainability strategic plan via short, medium and long term initiatives.



Short term strategy

- Boost our capacity building proposition
- Responsible lending which forms the basis for the KCB Group lending model
- Develop employees and build a critical human capital mass to drive the business in the years to come
- Measure our environmental impact implement projects to drive down energy, transport, water and waste costs across KCB



Medium term strategy

- Enhance the external compliance process and improve transparency while adopting zero-tolerance for unethical behaviour
- Undertake analysis of community investment programmes to identify value at stake, benefits delivered and opportunities
- Manage the energy consumption through utilization of green energy and intelligent building technologies
- Build in economic, social and environmental risks into the corporate risk models
- Continuous update of IT security policy



Our Long Term Strategy

- Ensure diversity is a key determinant of our decisions
- Promote financial inclusion in our region

Our Material Issues

The following represents a summary of those issues that the Board considers significant to KCB's ability to continue to create value in the short, medium and long term. Much of the balance of this report is dedicated to communicating our response to these issues. To aid the reader, we have cross referenced information in the report relevant to the particular issue.

1. The trend towards lower interest rates

In formulating its view on the macro-economic outlook for the region, KCB relies on many sources of information, including data published by the Central Bank of Kenya, Kenya National Bureau of Statistics, World Bank and the Kenya Bankers Association, of which KCB is an active member.

Our research desks monitor the reciprocal relationship between monetary policy (i.e. the Central Bank Rate) and the resultant inflation profile and economic performance, with increased Foreign Direct Investment and stability in the exchange rate (i.e. no flight to safety). Lower interest rates are highly pegged on cost of funds and liquidity in the market which are also affected by regional security.

2. Greater transparency of lending rates and charges

In line with the financial services sector in other countries, the industry in the East Africa region is under pressure to improve the transparency of its interest rates, fees and charges. This pressure comes not from the regulator, who recently released the Kenya Banks' Reference Rate (KBRR) to promote transparency in the banking sector by allowing customers to see what interest rates local banks are charging (see page 34 for more details), but also from a more informed customer base, who, thanks to technology, has access to a multitude of alternative products, services and suppliers, including non-financial services companies.

3. Competition

The East African banking sector has experienced significant innovation over the last decade, largely due to the advent of mobile banking in the late 2000's. This innovation has also extended beyond traditional banking and has given rise to a new generation of competitors to the traditional banking model. Today's competition includes: local and regional banks, international banks, deposit taking MFIs, telecommunications companies,

and the less formal savings and loans societies. Some of KCB's competitors have a relatively narrow segment focus, concentrating on perhaps one or two niche customer groupings or products. KCB has a broader view of its market and the role it wishes to play in changing lives. This broad view and the increasing competition requires that KCB be progressive and innovative in a multitude of markets, products and disciplines.



4. Partnerships

Consumers are more integrated into the global village and have a need for faster and easier access to financial services that add value to their lives. Many of these cutting edge products and services have arisen from partnerships between financial institutions and companies in various industries such as telecommunication and retail, providing enabling technology to customers in a manner that is much more accessible and cost-effective.

5. Threats and opportunities arising from mobile technology

The East Africa region stands out as a prime example of how technology has enabled economic growth. ICT, through connectivity and mobile applications, has allowed the region to leap-frog other developing nations.

The adoption of this technology has, and will continue, to drive prosperity in the region. Not only does technology provide greater convenience to individuals, but it also supports the growth and development of SMEs in the region, the expected driving force for future economic growth and employment.

Technology and partnerships provide enormous opportunities for the Bank to meet its existing customer needs and expectations, expose its products and services to a wider audience, simplify banking, transform employees from being transaction processors to valued financial advisors, and create cost cutting opportunities.

At the same time, technology allows other players to enter the financial services market, effectively increasing competition, while refashioning the traditional banking model and providing services and products at more favourable prices.

To date, however, our alternative channels have not been performing as per our targets. With the KCB M-PESA Account and other card initiatives, we are confident that our results next year will improve.

6. Responsible banking

The global financial system is still recovering from the after-effects of the 2008 to 2009 global financial crisis. While Western markets have only recently cut back on the various fiscal responses to the recession, progress in Kenya towards reforming regulation in the banking sector continues to be slow.

7. Regional security

On average the East African region has a GDP per capita of \$727, growing by 6.9% year on year since 2005. This is a direct result of the improving political stability in each of the region's major economies, in particular, Kenya, Rwanda, Burundi, Uganda and Tanzania. Kenya is a strategic entry point into East Africa and the growth of these countries will be driven, in part, by the foundation provided by Kenya.

While this augurs well for the future success of the region, its people and the companies that operate therein, the security of individuals and assets remains a risk.



Board of Directors

STANDING (FROM LEFT): JOHN NYERERE, TOM IPOMAI, GEN (Rtd.) JOSEPH RAYMOND KIBWANA, ADIL KHAWAJA, CHARITY MUYA-NGARUIYA, JULIUS MUTUA (ALTERNATE TO HENRY ROTICH), CHARLES LANGAT, JOSEPH KANIA

SEATED (FROM LEFT): GEORGINA MALOMBE, NGENY BIWOTT, JOSHUA OIGARA, CATHERINE KOLA

Note: Full CVs of BoD on page 165

Executive Committee

STANDING (FROM LEFT): JOSEPH KANIA, APOLLO ONG'ARA, AVI MITRA, ROSE KINUTHIA
SEATED (FROM LEFT): PAUL RUSSO, JUDITH SIDI ODHIAMBO, CHARLES LANGAT, JOSHUA OIGARA, SAMUEL MAKOME



OUR PURPOSE

Simplifying your world; enabling your progress

- + Everything that concerns me now and in future
- + Work space and processes
- + Inclusion and Dignity
- + Community

Your World

Enabling

- + Building my competences and know how
- + Availing resources to me
- + Partnering (Great Partnerships)
- + Inspire, Believe and Trust me

Simplifying

- + Easy and Understandable
- + Quick and Short Processes
- + Approachable
- + Transparent

OUR PURPOSE

Your Progress

- + Freedom and independence
- + Growth/Improvement in my LIFE (money, family, business, career etc)
- + Stability
- + Positive Change

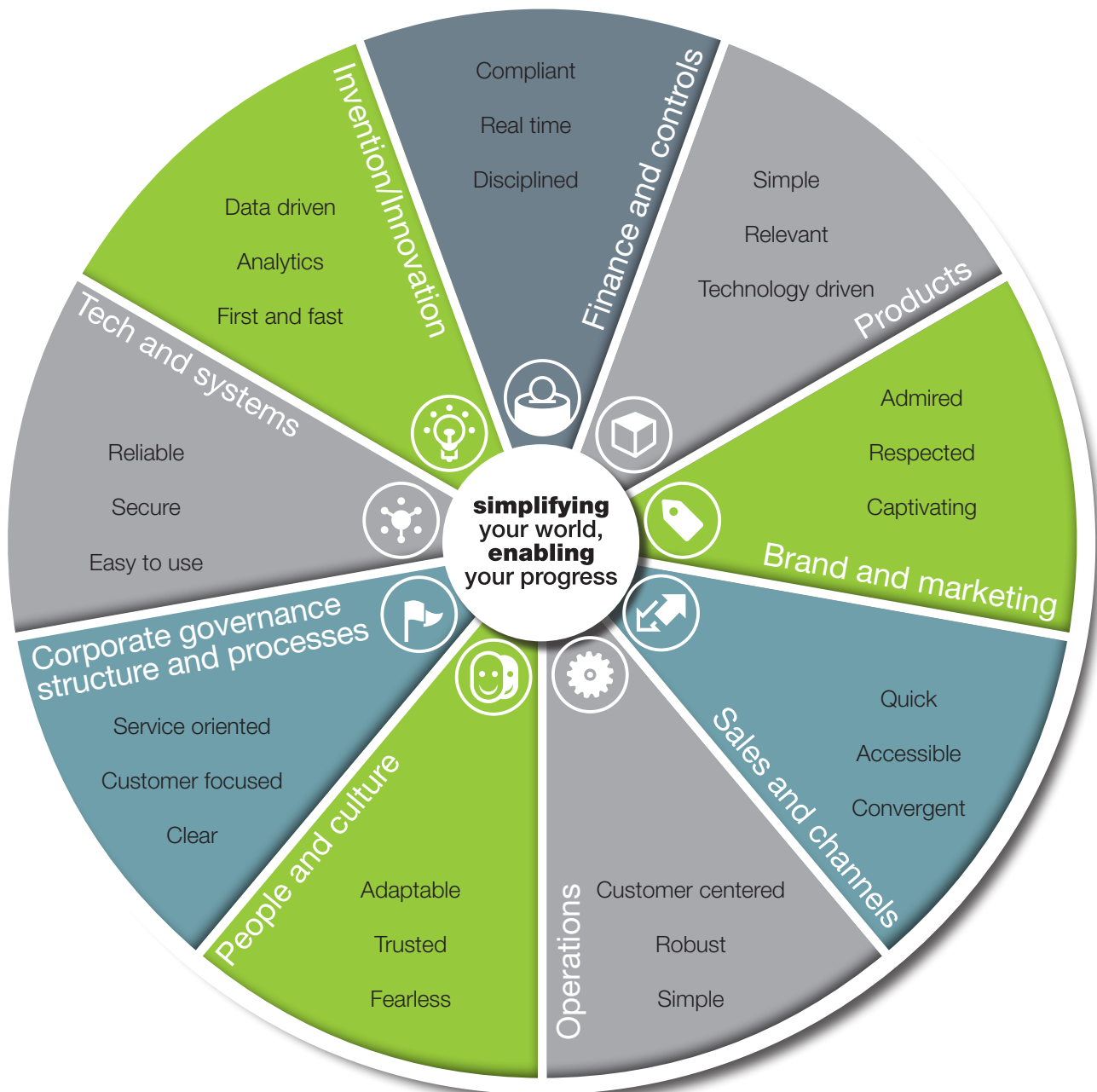
OUR VALUES

- Customer centric
- Teamwork
- Professional
- Open to change
- Caring for the community

Executing our Strategy and Responding to Material Issues

OUR MANAGEMENT APPROACH

We exist for our customers and as such we approach all aspects of our business from this perspective. This is best illustrated visually (see below). Within each management focus area we have set the minimum standards or aspirations.



Using the above focus areas we now discuss our current and future plans and the strategic initiatives necessary to achieve our strategic goals.

Executing our Strategy and Responding to Material Issues



PRODUCTS

Simple, relevant and modern products for our customers

For our products to simplify our customers' worlds and enable their progress, they need to be easy to use, relevant and fresh. They need to take greater consideration of what the customer wants and needs. Today, KCB has over 100 products that are designed to ensure versatility across different platforms including technology channels. Our products have the added feature of being simple to use, making them appealing across all segments.

With the focus on promoting financial inclusion and maintaining our broad view of the market, we introduced new services such as Islamic Banking, the KCB Insurance Agency, KCB Capital, Biashar@Smart* for small and medium size enterprises (SMEs) and Mpesa* in 2014.

*Biashar@Smart and Mpesa are discussed in the innovation section.

KCB Insurance Agency

The global financial system is still recovering from the after-effects of the 2008 to 2009 global financial crisis. While Western markets have only recently cut back on the various fiscal responses to the recession, progress in Kenya towards reforming regulation in the banking sector continues to be slow.

- The successful roll-out of the implementation of a five-year Bancassurance strategic business plan.
- The recruitment of 66 experienced insurance personnel to drive the insurance business, which enabled us to operationalise the offering of insurance products and services across approximately 50 branches.
- Partnering with a number of strategically aligned underwriting partners to develop and roll-out a suite of diversified products to address diverse market needs.
- The acquisition of Turnquest IT Suite to ensure efficient Bancassurance operations and the automation of all functions in the insurance agency.
- Substantial growth in insurance sales and income, positioning us as the second most profitable Bancassurance business in the country.

Challenges experienced during 2014 included slow integration into the banking business across the Group,

difficulties in ensuring 100% compliance, limited knowledge of insurance by staff and customers, price sensitivity and strong resistance from competition based on gaps in the regulations on the Bancassurance products.

Our efforts for the next financial year shall concentrate on providing additional resources and training through existing KCB networks, improving operational efficiencies and completing the customisation of the ICT system, to facilitate the rolling out of the first tranche of individual life insurance products by the second half of 2015.

Islamic banking

Following approval from the CBK and the commissioning of the Sha'riah advisory council, KCB introduced Sha'riah compliant products and services to address specific customer needs and enhance financial inclusion. KCB received approval from the Sharia Advisory Committee, as well as the relevant government authorities, to offer Islamic banking products and services, in 2014.

KCB Capital

Introduction

A strategic review of the investment banking market in Kenya in 2013 established that the top five companies generated 67% of revenue. The fallout from the financial crisis has resulted in these companies specialising in particular market niches, with profitability closely correlated to the performance of the stock exchange.

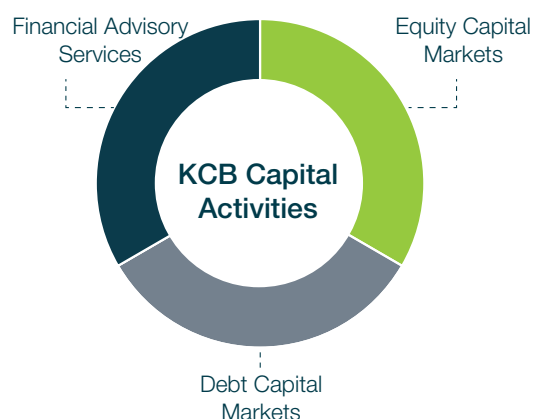
Significant projects in oil and gas and infrastructure have, according to our research, stabilised the market and provided sufficient volumes so as to allow the participation of new entrants. While these entrants are largely multinationals, thus are only beginning to establish their presence in East Africa, KCB is ideally positioned to leverage on regional penetration quickly and effectively.

As a result, KCB Capital, a subsidiary of KCB group, was launched in 2014 with working capital of KShs 250 million, to provide the following:

- Capital Raising Advisory Services to debt, equity and project finance markets
- Mergers and Acquisitions Advisory Services, and
- Capital Markets Research.

Executing our Strategy and Responding to Material Issues

Core business activities



Our proposition

Our feasibility study indicated that it was preferable for KCB to establish a Greenfield investment banking operation, i.e. to gradually and organically build an investment banking division within the bank, without being dependent on an external partner or taking on unknown liabilities through an acquisition.

While we recognise that this may take longer to achieve critical mass with a steeper learning curve for we are able to compete international entrants, we preferred having full managerial and strategic control over the operation, particularly with regards to customising the financial investment by the group into the division, and customising the service offering according to the strategic goals of the group.

We also recommended that, in time, KCB establishes a full-service investment banking operation, as opposed to a boutique or brokerage model. This was in recognition of the size of KCB's balance sheet, that KCB is the leading Kenya Shillings bank, in the region

Financial Advisory Services

KCB Capital provides tailored advisory services to:

- Advise companies on strategy, planning and execution for financing;
- Advise clients on optimal financing structures that maximise value;
- Advise clients on developing bankable large projects that require innovative funding structures; and
- Advise firms looking to merge or acquire another company, and perform valuation to determine best pricing.

Equity and Debt Capital Markets

The projects KCB Capital takes on often fall into one of several categories, including the following:-

- **Financing large projects:** Massive projects, such as building giant bridges or power plants, usually require enormous amounts of cash up front to be built. The need for upfront cash is so great, it may outstrip the lending capacity of traditional commercial banks, or it may be too risky for traditional banks. That's where KCB Capital can come in. KCB Capital can gather cash in various ways such as selling securities such as a bond to investors with excess money looking for a chance at a good return.
- **Selling companies:** Many companies or entrepreneurs looking to grow their businesses may turn to banks for loans, but those deals can be hard to get or carry high costs. The answer for many companies looking to expand is an initial public offering (IPO). In an IPO, the company sells itself to the public. KCB Capital is critical to this service, lining up investors and finding companies eager to sell securities to the public.
- **Conducting mergers and acquisitions:** There is usually a point when companies start looking over their shoulders for opportunities. A promising startup with interesting technology may fit nicely with another company's products. Instead of pouring the money into developing a similar technology, which can be costly and risky; a company can ask KCB Capital to help it buy the company outright.

Key stakeholders

KCB Capital's target client segments include:

- Small Medium Enterprises (SMEs) as well as large corporations looking to expand or restructure their businesses;
- National/County Governments – collaborate with the government and private sector in structuring Public-Private Partnership (PPP) projects;
- High Net Worth Individuals in need of Asset and Wealth Management services; and
- Developers or sponsors in need of structuring long-term projects whose financing is repaid solely out of projected cash flows.

Executing our Strategy and Responding to Material Issues

Economic highlights for 2014

DEAL TYPE	TRANSACTION DESCRIPTION
High End Mall	Raising equity for a high-end mall worth KShs 1.28 billion by way of a Joint Venture (JV) with the land owner and third party equity providers.
Debt Restructuring	Co-mandate leader in USD 110 million debt restructuring of large manufacturing company in Kenya.
Transaction Advisor	Mandate for debt restructuring of a high end complex to determine the optimal financing structure for the client



BRAND AND MARKETING

A bank that is admired, authentic and loved

We are intent on implementing initiatives that demonstrate our passion and authenticity to everyone and that make sense to people across all generations and socio-economic strata. Our large footprint in the region means we are accessible to all of our customers, wherever they are.

We show our commitment to our customers by backing them up with excellent service and targeted marketing campaigns. In addition, we sponsor several sporting events, which have the three-pronged purpose of supporting Kenya's sports achievers, promoting our brand and growing our customer base.

Sponsorship

KCB Rally

KCB hosts eight rallies throughout the year, seven of which are part of the Kenya National Rally Championships and the Safari Rally, which is part of the East African Rally Championship. Each event attracts between 1,000 and 3,000 spectators, depending on location. At last year's three-day KCB Safari Rally, which is largest rally event in Kenya and was flagged-off by the President, we set up a KCB village to create additional engagement points for our customers. 1,000 people went through the village and we were able to activate our alternative channels. We intend to set up similar villages at upcoming rally events. In addition, we set up a shop to sell coveted rally merchandise at the various events and KCB Foundation ran medical checks for the public and drivers at some of the events to raise health awareness.

KCB Golf

KCB hosted four golf events in Royal, Thika Green, Nyanza and Nyali clubs. These events are aimed at our corporate banking and high net worth customers and conducted in conjunction with Professional Golfers of Kenya (PGK). Every event is attended by about 40 professional golfers and 120 customers and potential customers.

KCB Teams

We also sponsor rugby, football and volleyball teams. Our stars for 2014, the KCB Rugby team, won the Kenya Seven series and Impala Floodlights series and were first runners-up at the Kenya cup. Our woman's volleyball team was second runner-up in the Kenya national league.



SALES AND CHANNELS

Quick, accessible and convenient at our core

We want to understand our customers and provide solutions that fit their needs wherever they are. We will continue to invest in various channels across the Group. Today we are accessible through our branches, ATMs, mobile phones, agents and the internet. The proximity and availability of these channels remain critical to our strategy, especially with the younger generation, who view what were previously alternative channels as 'the channels' to use to engage with the Bank.

The table below shows the various channels our customers use to access us. Not surprisingly, the highest number of transactions are conducted via mobile banking, POS and agency banking, followed by M-Benki, internet banking, branch tellers and ATMs. With the youth's preference for conducting transactions via mobile, agency and card platforms the Bank expects to grow transactions on these channels exponentially.

Executing our Strategy and Responding to Material Issues



KEY CHANNELS 2014

01 Agency Banking

Number of Agents	10,102
Number of Transactions	3,268,825

03 ATMs

Number of ATMs	962
Number of transactions (Millions)	12.85

05 POS

Number of merchants / POS	4,500
Number of transactions	3,644,097



New/opened Mbenki accounts	787,311
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02 Mobile Banking

Registered 'Millions'	1.087
Number of transactions	9,672,558

04 Internet banking

Number of transactions	28,870
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06 OTC (Branch Teller)

Number of transactions - 'Millions'	22.61
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08 Mobi Loan

Number of Mobi Loans	105,857
Value of Disbursements – KShs '000'	419,786



OPERATIONS

Focus on operations that are customer-centric, robust and simple

We are committed to creating a customer-centric culture and establishing ourselves as the leader in proactive customer service excellence in the region. A recent KCB customer survey revealed 80% satisfaction with our products and services. We aim to improve this to 90% over the next three years. This means putting our customers

first, listening to them more attentively and offering them more of what they want, rather than what we think they want.

Our operations facilitate the success of our internal and external interactions. These are being revised to not only focus more effectively on our customers, but to ensure that as products and technology evolve, the Bank is able to provide reliable service without exposure to additional risks.

Executing our Strategy and Responding to Material Issues

Customer Experience

As part of our commitment to this customer-centric approach, we established a Customer Experience Division in 2014, which incorporates two major arms:

SERVICE EXPERIENCE AND COMPLIANCE (BACK END MANAGEMENT)	CONTACT EXPERIENCE (FRONT END CUSTOMER CONTACT EXPERIENCE)
• Customer Communication • Service Quality Support and Recovery • Service Compliance	• Corporate Service Experience • Customer Retention • Contact Centre • Channel Experience • Retail Service Experience

Our promise to our customers is to “make every customer contact a delightful and memorable experience.” Our service experts are required to understand who their customers are and the role they themselves play in delivering the overall experience to customers at every touch point. The touch points include the Head Office, Contact Centre, Mtaani agents, branches, ATMs, Mobi Bank, i-Bank, social media and website.

We have identified five steps to creating and sustaining a customer-centric culture:



Keeping in touch with our customers

We established the KCB Contact Centre in 2010. This team has tripled in size over the past two years and is expected to double in size over the next three years. In addition, we talk to our customers via our branch hotlines and feedback kiosks, IVR and intelligent call routing, web chat, email, sms, Facebook, LinkedIn and Twitter. These platforms have allowed us to pick up numerous customer insights and better deliver on customer needs.

Training and Development

Delivering outstanding customer service requires engaged and skilled employees. To ensure this, KCB embarked on a development programme aimed at aligning employees with KCB's core purpose - Simplifying your world, enabling your progress.

Quality Assurance

Our quality assurance team measures the quality of interactions from inbound and outbound voice and email handling, to case handling, data capture and social media, with a view to resolving these to 100% client satisfaction.

New CRM System

One of the major challenges for KCB relates to system failures with an associated loss of contact with the customer and direct impact on satisfaction and reputation.

Executing our Strategy and Responding to Material Issues

To address this, KCB will roll out a new CRM system in 2015, which will assist with:

- Gathering information on customers and being able to predict their needs;
- Having a single view of the customer;
- Know Your Customer (KYC) as part of regulatory requirements;
- Real time problem resolution; and
- Proactive problem resolution rather than reactive

eQMS streamlines service in branches

An electronic queueing management system (eQMS) was piloted at the Sarit Centre Branch in March 2013 with the initial goal of reducing queueing time of our customers before they are able to speak to a teller for making deposits, withdrawals, remittances and foreign exchange transactions.

We observed so many benefits from this initial case study that the system has been formally rolled out of 51 branches at an average cost of KShs 2.25 Million per branch.

Our learnings extended far beyond what we originally anticipated: what was originally designed to reduce the waiting and service time to no more than 10 and five minutes respectively, we have also achieved the following:

- Fast tracking of selected account types
- Improved efficiency when allocating duties to branch team
- Gathering of real-time transaction data from each branch, and
- In some branches, we have extended the service to front office functions such as account opening and balance enquiries.

As a result, we understand the customer experience so much better than before, and what we can do to enhance this experience.

In 2015, eQMS will be linked to our core banking system, giving tellers more information about the customer and enabling them to anticipate customer needs and behaviour, thereby enhancing cross selling opportunities.



PEOPLE AND CULTURE

Develop our employees, enabling them to support our purpose

As with all financial services company, we require a world class human resource function to enable employees to deliver on our promise to our customers.

Over the last five years, KCB has implemented a staff transformation programme based on recommendations from McKinsey & Co.

Further, every year, KCB engages external HR consultants to deploy an online survey to all staff to collect feedback on satisfaction and engagement.

As a result, the following actions were taken during 2014 to enhance our HR function:

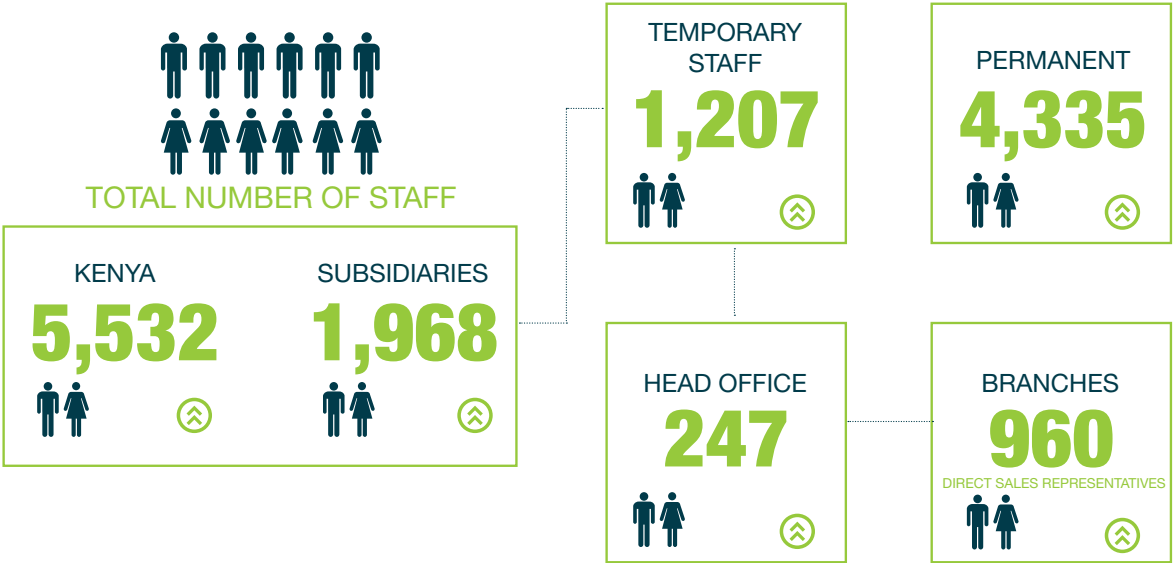
- The Group received Shareholder approval to implement a Holding Company HR structure in line with developments in the regulatory environment discussed later in this report (see page 57)
- A new central staff committee was established to improve availability of the HR function to staff.
- Completion of the significant structural changes implemented in the Kenyan operations, which has occurred over the last three years.
- A thorough review of employment including: industry benchmarking remuneration, wellness programmes, recruitment procedures, improving communication with employees, access to leadership and management programmes.
- Leadership visibility has been encouraged at all levels of the Bank.
- HR strategies for 2015 include addressing the following:
 - » Acknowledging that the Kenya HR function requires additional capacity to service the international subsidiaries. Allowing subsidiaries to have greater autonomy is a long term strategic goal and one that must be done in conjunction with local and expatriate management and the subsidiaries' financial performance.
 - » Certain of our international operations are constrained by a lack of adequate skills in-country, and are limited by national legislation in terms of the number

Executing our Strategy and Responding to Material Issues

of expatriate staff that they are allowed to employ. Furthermore, appropriate development and skills transfer programmes, while absolutely necessary, expose the Bank to potential “poaching” of employees by competitors.

» The safety of our employees, be they local or expatriate, is one of the bank’s main priorities. KCB will not operate in areas of high crime, violence and civil strife if it, or the authorities, are unable to guarantee the safety of its employees.

Staff composition



Support mechanisms

The Group HR Structure model uses centres of excellence at Group level to support the subsidiaries as well as the Kenya business. This ensures alignment and consistency in the execution and implementation of HR Policies, programmes, initiatives and interventions and the support thereof.



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Reward and recognition

KCB has instituted a number of policies to manage the rewarding and recognition of our staff. These include:

- Group Staff Remuneration Policy
- Group Staff Performance Bonus Policy
- Group Recognition Policy

KCB Simba Awards Programme

The KCB Simba Awards Programme measures and recognises employees or teams for exceptional contributions made in addressing challenges or issues in the workplace, in line with KCB's corporate values. The annual programme evaluates employees who display one or more of the five KCB values in the course of business execution according to the Situation, Task, Action and Result (STAR) analysis approach. Awards are presented in the following categories: Service, Controls and Governance, Business Growth, Community Initiative, Innovation, Leadership, Behavioral, Best Employee of the Year, Unsung Heroes/Heroines, Team Behavioural and Team Service.

Skills transfer

A Group Development Exchange Programme allows select employees to take part in short term training programmes of up to six months in a country outside their own where they gain exposure to a different and challenging working environment and enhance their competencies. In 2014, 15 employees participated in the programme.

Future initiatives

Looking ahead, KCB intends to implement the "KCB purpose"; drive employee productivity and engagement; engage in multi-level leadership development across the Bank; align and sustain employee value propositions that are relevant to the Bank's operating environment; and develop and attract talent and enhance talent cover across the Bank

Challenges we are cognisant of include the need to: optimise resources on an ongoing basis; improve cost management; embed commercial awareness amongst staff at all levels; and encourage employee participation in decision making at all levels.



CORPORATE GOVERNANCE STRUCTURE AND PROCESSES

Service oriented, customer focused and clear

Board and management structures must be aligned with the strategy of the bank. It is through governance from these offices that the rest of the institution can drive the strategy. With clarity of purpose and harmony of the goals, the bank is now in a strong position to deliver on the strategy with the board giving oversight and direction and management execution with accuracy and speed.

The Board continuously reviews its corporate governance focus in light of international best practice, and local guidelines and legislation. During 2014 the Group Board:

- Updated its Memorandum and Articles of Association, in line with applicable laws;
- Performed ongoing research into local and international corporate governance best practices ;
- Monitored and where appropriate adopted regulatory developments such as those in the Finance Act, 2014;
- Appointed two new non-executive directors with strategy development and audit quality assurance experience, in line with the Board 's succession plans;
- Introduced a secure online portal to enable directors to access Board papers electronically;
- Performed a corporate governance review across the Group to assess the adequacy of its governance (policies, structures, processes and information) and regulatory compliance mechanisms.

KCB remains committed to transparency and continuous improvement in reporting as we continue on our governance journey.

The Group's governance programme for 2015 includes:

- Continuing to implement the Board's succession plans with regard to, among others, diversity and the need to ensure gender balance;
- Rolling out director education on relevant topics including Basel III and its implications on operations, recovery and resolution plans and an in-depth analysis of IT strategy
- Further embedding the Group's corporate governance structure

Executing our Strategy and Responding to Material Issues



TECHNOLOGY AND SYSTEMS

Ensure we are consistently reliable, secure and agile

A large part of our future depends on how we deploy various technological enhancements. We are committed to ensuring that existing and future applications of technology will allow our employees to do their jobs to the best of their ability and our customers to get the best service possible, irrespective of what channel they choose to engage with us. Importantly, security of data will be enhanced and the technology needs to be adaptive, allowing it to accommodate new developments.

Cash-lite economy

Our cash-lite focus allows the Bank to offer its financial services to the over KShs 200 billion-turnover public service vehicle (PSV) industry in a way it was not able to do before. On 1 December, the Bank introduced the Pepea Transit Card, which enables customers to pay for transport using cards instead of cash, offering them a secure and convenient way of paying their fares.

Ultimately, success in the PSV industry is expected to lead a drive towards cashless payments in other sectors of the economy that are mostly cash-based such as business to consumer (B2C) and business to business (B2B).



INVENTION AND INNOVATION

First and fast, disruptive and endless

We embrace invention and innovation and want to be known as the bank that adopts and introduces new services, technologies, products and processes. As the largest bank by assets and profitability, we have an opportunity to reach as many people as possible using a wide range of resources and relationships to improve the access to finance across the region. Our invention and innovation initiatives are geared to creating opportunities for the Bank and its customers in whichever field, segment, age group or geography they may operate within. In 2014 we introduced the KCB Insurance Agency, Biashar@Smart and the Pepea electronic commuter cards – all aimed at making our customers' lives easier.

ENSURING SUSTAINABLE INNOVATION

Management is acutely aware of the fact that 2014 has been a particularly innovative year for the bank. Never before in the bank's extensive history have so many products and services been introduced, at the same time as so many structural changes.

While we recognise that we need to involve to remain competitive, we remain cognisant of the fact that our skill sets and systems need to be able to cope with this level of innovation so as to ensure the stability and risk management upon which KCB has built its reputation.

We wish to assure our stakeholders that this balance has been discussed thoroughly. We are fully aware of our responsibility to ensure that our growth is matched by our development of capacity.

In this regard, three overarching approaches have been adopted:

1. To on-board customers on a targeted approach, thereby limiting the amount of above the line communication and information which requires to be managed,
2. To invest in upgrading our systems to handle larger volumes of transactions, and in a more secure yet connected business environment, and
3. To invest in up skilling our staff to support all these new initiatives.

The details of these approaches are explained in the following pages.

Executing our Strategy and Responding to Material Issues

KCB Distribution SME's Across Sectors

SECTORS	INDUSTRY NUMBERS		KCB NUMBERS	
Agriculture	16%	108,515	23%	24,958
Manufacturing	8%	54,257	19%	10,309
Building and Construction	7%	47,475	21%	9,970
Mining and Quarrying	1%	6,782	-	-
Electricity, Energy, Water	4%	27,129	9%	2,442
Trade	16%	108,515	26%	28,214
Tourism, Restaurant and Hotels	9%	61,040	30%	18,312
Transport, Shipping and Storage	9%	61,040	12%	7,325
Real Estate	8%	54,257	30%	16,277
Education	8%	54,257	14%	7,596
Professional Services	10%	67,822	32%	21,703
Pharmaceuticals	4%	27,129	30%	8,139
Total	100%	678,218.00	100%	155,245



Biashar@Smart

SMEs comprise at least 75% of businesses in the East African region and have enormous potential to generate additional revenue, create more jobs and drive economic growth in the region. Some of the challenges they encounter include limited access to finance, lack of know-how on internal capacity building, lack of effective

communication skills and tools as well as inability to scale up operations for future growth.

With the knowledge that security, reliability, proximity, speed of service and low charges influence an SME's choice of a commercial partner, KCB introduced Biashar@Smart in mid-2014 in partnership with Safaricom to provide SMEs with access to bundled financial and

Executing our Strategy and Responding to Material Issues

communication tools aimed at helping them increase efficiencies in their businesses, scale up their operations and position themselves for future growth. By registering at KCB branches or dialing *484#, SMEs are able to get fast and easy access to finance through quick collateral-free loans, fast letters of credit, finance on local purchase orders, favourable forex rates, and secure banking.

Biashar@Smart helps build capacity through business tools such as business advisory, insurance products, accounting and payroll packages, mobile and online payment platforms, and internet and connectivity modules. In addition, SMEs are given access to networking events and forums, exposure to new markets, new supply sources and trade partners, which allow them to grow their businesses sustainably.

Pepea electronic commuter cards

In 2014 KCB launched the Pepea Card, an electronic commuter card in partnership with over a dozen bus companies. The card, which is also a MasterCard debit card, allows travellers to pay for their transport fares as well as make purchases at retailers and petrol stations and conduct online payments.

The Point Of Sale system used to read Pepea is a standard digital device that can read any EMV card. This means customers can also use other cards to pay for their fares. This makes the KCB proposition unique as most other systems are card specific.

The multi- functional transit debit card uses emerging Near Field Communication (NFC) technology, allowing commuters to pay for their travels through a cashlite payment.

M-Benki

KCB's technology-driven mobile banking product, M-Benki, which was launched in 2013, was the first in Kenya and the region of its kind and aimed at banking the unbanked in the country. KCB M-Benki allows users to open a KCB account via their mobile phones and to access banking services through KCB Mobi Bank.

Notably, M-Benki was made possible through a strategic partnership with Safaricom, which facilitates the opening of bank accounts and other transactions via its M-PESA menu. In 2014, over 750,000 customers accessed KCB services via M-Benki.



FINANCE AND CONTROLS

Informative, real time and smart investments

Information and the application of information is critical for our industry especially operating in different countries. The speed and accuracy of this must be improved to deliver not only the best decisions for the business, but to generate the best possible return for the shareholder. The importance of finance and controls becomes ever more critical as this determines the rate at which the business will pick up and succeed.

Our internal processes of continuous improvement, and internal and external audits, include a detailed review of all our IT systems in line with best international practice. Recommendations are made and acted upon, and are subject to testing by our information security team.

All Group information is provided in a timely manner and as is necessary for its effective use. Further, different forms of information are provided to the various stakeholders within the organisation. Strategic information is usually availed to management for long-term planning. Such information includes market availability and penetration figures, projected costs, product developments, staff changes and new technologies to be deployed.

Tactical information is extensively utilized for short-term planning. This includes forecasts on top and bottom lines, cash-flow projections and annual financial statements. The KCB Group Finance teams are adequately resourced to ensure that historical reports for trend analysis and aggregate reports for comparisons are available to provide this tactical information.

In addition, various types of operational information is availed to departmental heads to effectively assist them in running their departments. For example, management is able to obtain daily performance reports per department, branch and subsidiary. This assists in quickly identifying daily variances and towards addressing the root causes. Such exceptional reports alert operational managers who, in turn, take the necessary actions to guarantee the smooth flow of operations.

The above would not be possible had the bank not leveraged the relevant technology. The primary source of data is the core banking system, which is the main customer transactional platform. Integrated to the core banking system are specific peripheral systems that

Executing our Strategy and Responding to Material Issues

accurately capture a units transactions. To this end and for financial information, the bank has heavily invested in Oracle Financials, which is a specialised financial processing and reporting software. The software ensures that data is integrated in-country and from the various subsidiaries. In essence, consolidation of the group financials is undertaken on one platform, which allows for the leveraging of promptly processed financial results. This means that despite being the largest bank with the largest branch network, we are able to release financial results to the market more promptly.

In addition to our stock spreadsheet, forecasting and statistical software, we have Query Language and report writing software tools for poking through data to find useful information that answers ad hoc questions about financial information.

For audit purposes, the bank has invested in computerised audit software packages to assist auditors when evaluating or monitoring the computerised accounting systems defined above. These provide access to computer files that allow the auditors to extract data and analyse it statistically i.e. sorting, sampling and generating reports.

Overall, financial controls are key to ensuring the bank moves to the next level. Frequent audits and follow up on management corrective action is in place to ensure risks are significantly mitigated against. To this end, systems audits are done to ensure only appropriate levels of controls are granted to users in the system, systems are protected against unauthorised access and supported software versions are in use. The results include timely decision making and enhanced control environments. To this end, the Institute of Certified Public Accountants of Kenya (ICPAK) recognised the Group as the second runner-up in financial reporting. This was a show of confidence in our reporting systems and in relation to our peers in the banking industry.

Executing our Strategy and Responding to Material Issues

OTHER MATERIAL ISSUES

KBRR

The recent release of the Kenya Banks' Reference Rate (KBRR) by the Central Bank of Kenya is set to promote transparency in the banking sector as it will help customers see what rates local banks are offering for loans especially in terms of interest. This reference rate was developed in order to enhance the supply of private sector credit and mortgage finance in Kenya by facilitating a transparent credit pricing framework. It will be the base rate for all commercial banks' lending.

Data from 22 commercial banks and six micro-finance banks indicated that new and existing loans amounting to KShs 43 billion and covering 182,731 loan accounts had benefited from the KBRR framework by end of August 2014. The average premium charged by commercial banks above the KBRR on commercial mortgages was 3.05% while that on corporate loans (1- 5 years) was 4.09%.

Overall it is expected that the introduction of the KBRR will increase the uptake of loans across the industry and will enhance development in the country. However, average lending interest rates will continue to decline while deposit rates are expected to remain firm resulting in a narrowing of the net interest margin.

The Kenya Bankers Association introduced the Annual Percentage Rate (APR). This is another mechanism through which customers will be able to compare the total cost of borrowing apart from interest rates. Banks will be required to provide credit applicants with a breakdown of the total cost of credit in line with the Central Bank Prudential Guidelines.

Computation of KBRR

KBRR is computed as an average of (a) the Central Bank Rate (CBR) and (b) the 2-month weighted moving average of the 91-day Treasury bill rate. The 91-day Treasury bills reflects the floor of risk free assets while CBR reflects the stance of monetary policy. A customer should therefore expect to be charged a lending rate of KBRR + 'K'. The KBRR should be seen as the minimum price for banks to participate in the credit market. The charges may relate to the individual customer's risk profile, the type of loan or the risks associated with the investment. These factors may vary from customer to customer depending on the individual ratings reports from Credit Reference Bureaus (CRBs). It also means that any charges above KBRR must be explained to the customer. Source CBK

Risk Management

The management of risk is a primary responsibility of the governance structures at the Bank. During 2014, the bank expanded its risk management capabilities in the following ways:

- The introduction of risk modelling, using collected data to anticipate customers' needs or concerns, and provide feedback on customer behaviour. This allows greater mitigation of the fraud risk, and facilitates the credit application process while providing useful business information. The information is also used to target specific markets with particular products through focus channels.
- KCB has built its own proprietary, customised risk model for its specific business needs.
- Greater reliance has been placed on technology to promote a pro-active approach by the Bank. Such an approach delights customers while controlling risks.
- Internal ratings for SMEs and bench-marking against global ratings which allows the use of risk adjusted pricing.
- A credit scorecard has been developed for first-time applicants. Once captured, the applicants' details remain available on the system and can be referenced for future engagements with the customer or applicant. Loans are approved faster and risk is mitigated.

Specific risk management focus areas for 2015 include:

- Change management and controls surrounding the development and implementation of new products and services.
- Improving IT controls, in particular access controls.
- Risks arising from industry developments – both regulatory and technological.
- Regulatory and international best practice compliance in a dynamic sector.

More details regarding the management of the Group appears in "The management of our business section".

How do you view your role at KCB?

As detailed in the governance report, my principal function is to ensure the leadership and effective performance of the Boards. I am also responsible for creating an enabling environment by way of organisation and delegated authority in which the partnership between the Board and management can thrive and deliver more than the sum of the parts for effectiveness.

KCB has a big agenda. Can you expound on it?

While the amounts and the geographical area may be larger, our purpose is no different from what the Bank has done for the past 118 years. I am aware that KCB is often viewed as the sluggish, former government bank that is slow to change. This is a history we are proud to be associated with. It is part of our heritage. Beneath it are some positive attributes. Without this history we would not be where we are today, the largest bank in Kenya and strong enough to drive change. We are truly making progress in making the bank to be system based, simplified and dominant in the region for the next 25 years.

While we are no longer wholly owned by the government, we still maintain a close business partnership with them. We are proud that in the case of Kenya and South Sudan, we are the government's largest banker as it allows us to contribute to national and regional development.

I will not be cynical and suggest that KCB feels the need to "repay society" but we want to be a true agent of change. Empowering individuals, one at a time, through our products and services, will ultimately drive the Eastern Africa region to greater things! In this sense, KCB aims to be dominant across the financial services sector.

KCB has undergone several years of restructuring. How has this benefitted the bank over the years?

The KCB Transformation journey started in 2011, when the Bank consulted McKinsey to review the Bank's corporate and governance structures, business model as well as review job roles and people placement within the roles across the business.

The implementation of the transformation agenda is now complete. Much has been achieved. Continuous improvement will be employed as and when needed. Refining and improving on performance ratios is now a standard practice. The pillars of growth that the Bank has continued to focus on in the last two years are to grow profitability of the Kenyan business, optimisation of subsidiary businesses, implementation of best in class enabling tools, processes and leveraging on our staff talent which is now part of the Bank's day to day DNA.

"We are driven to become a truly regional bank, one that supports the development of the Eastern African communities and beyond"



Chairman's Message

KCB has evolved to a regional Bank. What is your view on its regional role?

We are driven to become a truly regional bank, one that supports the development of the Eastern African communities and beyond. Our operations in Tanzania, South Sudan, Uganda, Rwanda and Burundi are currently viewed as individual autonomous banks. We want the country boards and management to retain and strengthen their expert knowledge of country business so that they are better able to serve their markets. However, we also see KCB Group as facilitating innovation and technology in these operations, again to simplify peoples' lives, by adding value through banking and financial participation.

Performance by the subsidiaries has been erratic and this is obviously disappointing to me and my board. But, we believe in the region and its growth prospects. We have re-examined the business models deployed earlier and are now effecting adjustment to correct the erratic performance. The operations must be seen as beachheads on which we can build. We are certainly not about to give up opportunities in a region and return to being a Kenya only bank.

So you see a lot of potential in the region?

I certainly do. The high rates of economic growth in the Eastern Africa region have fundamentally changed the nature of the underlying economies. While Kenya for now remains the largest economy in the region, neighbouring countries have seen their economies diversify and slowly wean themselves off international aid. Their GDP growth rates are the envy of most countries. I am happy with what I see in the region. Besides, the region excluding Kenya has a population of more than 120 million. In addition Ethiopia has over 95 million. This is a rich region to serve and do business.

Do not get me wrong, there is still a lot to do in developing infrastructure, legal systems, promoting democracy and driving economic reforms to further diversify the economies away from a reliance on exports and create jobs in the manufacturing and service sectors. Also, improving agricultural productivity is important. KCB wants to be an enabler for all these developments. The planned rail project between Kenya, Uganda, Rwanda, Ethiopia and South Sudan will drive regional integration, supporting the development of a powerful EAC. The Kenyan economy is the catalyst for this integration. The reserves of oil and gas recently discovered in many of the EAC countries will

spur infrastructure development and job creation. It is for the countries' leaders to ensure that such wealth is fairly distributed and benefits all citizens to raise the human development index of its nationals.

The recent drop in oil prices presents mixed fortunes. On the one hand, economies such as Kenya, Tanzania, Uganda, Burundi and Rwanda benefit from the associated reduction of inflation and the drop in the cost of manufacturing and transportation. On the other hand income prospects for countries such as South Sudan and those countries where exploration is on-going, such as Kenya and Uganda, will be reduced and exploration stepped down. There is, however, money in oil and the reduced prices will not be a major hindrance to the performance of the countries KCB operates in.

Partnerships are clearly important to KCB. How has this benefitted the bank?

When you stop to think about it, almost every business or human relationship can be seen as a partnership. There always needs to be a give and take for the benefit of both parties. This is how we manage so much of what we do at KCB. In fact, in the banking and financial services sector, no business takes place without some form of partnership. Whether we are partnering with entities that are internal or external such as governments, large corporates such as Safaricom or the smallest SME, we value the relationship just the same.

Our most important partnerships are with our customers, stakeholders and our employees. In fact, our employees partner with our customers to enable us all to progress. KCB exists to enable the progress of people, businesses, countries and regions.

The Kenyan Banking Sector has seen a lot of change in 2014. How has KCB responded?

While not specifically related to the banking sector, we have seen Kenya's GDP rebased this year.

The changes introduced by the Central Bank and Kenya Bankers Association regarding interest rates and transparency are welcomed by KCB. Good governance of the sector and transparent dealings with our customers can only benefit everybody by encouraging further foreign investment and restoring faith in bankers. We must acknowledge that economies no longer operate in isolation and that we are all part of a global village. Developments in communications and media mean that all institutions

need to adopt international best practices – it is what our regulators and customers demand. Change stimulates improvement. We in KCB love to adopt change. Our 118 years of continuous existence is a heritage we vow to keep.

How do you see KCB responding to future needs?

We are fully aware of the needs of our customer of today and tomorrow. We have done a lot of work on strategy this year and have settled on a clear purpose – “Simplifying your world; enabling your progress.”

Deconstructing this sentence you will see that we are committed to the customer. We understand that banking has changed, will change, that each customer is an individual and that the services we offer must meet a multitude of different needs. We also recognise that we need to move with the times. Introducing products and services (but especially services) that are quick, functional and simple for our customers to use, whether that is accessing an account balance, obtaining credit or using online or mobile banking. So much of what has changed is driven by and requires technology and we are lucky that Kenya is currently ranked number one in the world in mobile money. The customer base is already there, we just need the partnerships, simplified products and services. With our M-benki, online banking and other e-banking solutions we are well on our journey to the desired future.

Finally, our purpose commits us to facilitate timely change, growth and prosperity. If we cannot do this for our customers then we will be failing at our jobs. In our strategy we have built in key elements on assurance for sustainability as a bank.

This is the first year that KCB has produced an integrated report. Why are you doing this?

KCB has been at the forefront of communicating with our stakeholders. In 2007, we read the sign of time. The world of total transparency in corporate world was inevitable. We started sustainability reporting initiative that year. In 2013 we prepared a sustainability report in line with the GRI's G4 guidelines. Adopting integrated reporting is simply the next step. Recently we have seen tremendous increase in foreign ownership at the Nairobi Securities Exchange and

we need to respond to the needs of these investors by communicating material issues to them that go beyond the simple financial performance of the Group. We need to explain the strategy and provide them with our view of the future of the bank.

Even more important, it is our belief that reporting modifies behaviour. Adopting integrated reporting will push us to take a more holistic view of our company and how we do business, ultimately with the intention to benefit all.

But this report must be viewed as our first step in a dynamic and ever changing field of expertise. Financial reporting has developed for more than 100 years. Our advisors have provided us with a three year strategy to fully implement the current international guidelines and we look forward to walking this path with them.

Looking back on 2014, how do you feel?

I can sum it up as a great year! It has been incredibly busy for the Bank and exciting for the business. The arrival of Joshua Oigara as the CEO at the start of the year 2013 represented a remarkable break from the past. The implementation of our new Group Governance Policy and crafting an improved Group Strategy were two significant developments that will provide assurances for growth and sustainability of the bank into the future. KCB fundamentally changed its outlook and ambitions over the past two years that has seen us increase our momentum of change. As a team, the Board of Directors and management have embraced change, cooperation and acknowledge that achieving our strategy will be an ongoing journey.

I would like to extend my thanks to KCB's Non-Executive Directors, the management team and employees for their dedication and hard work. In 2014, the staff have really worked smart and hard. I urge them to tackle the years ahead with the same enthusiasm and effort with a view to positioning ourselves as a leader in the Pan African banking environment and ensuring we provide services and products that simplify our customers' lives and enable their progress.

Ngemy Biwott

Chairman

Taarifa ya Mwenyekiti

Unachukulia vipi wajibu wako katika shirika la KCB?

Kama inavyoelezewa kikamilifu katika taarifa ya uongozi, kazi yangu muhimunikuhakikisha Halmashauri ya wakurugenzi inadumisha uongozi na utendakazi wa kufaa. Ni kazi yangu pia kuhakikisha kuwa kuna mazingira ya kazi yanayoruhusu kuwe nautaratibu wa kugawa majukumu na ushirikiano baina ya Halmashauri na uongozi. Jambo hili litasaidia kustawisha usimamizi bora. Vile vile, kuweko kwa uhusiano mwema, kutachangia pakubwa katika ufikiwaji wa matokeo mazuri tunayotarajia.

KCB iko na ajenda kubwa. Je, unaweza kufafanua zaidi jambo hili?

Licha ya kiasi kilichoko na eneo husika kuonekana kuwa kubwa zaidi, makusudio yetu siyo tofauti na yale ya Benki katika miaka 118 iliyopita. Nafahamu kuwa mara nyingi KCB huchukuliwa kuwabenki iliyokuwa inamilikiwa na serikali hapo mbeleni na isiyo rahisi kubadilika. Hii ni historia tunayojivunia kuhusishwa nayo, nani sehemu ya urithi wetu katika miaka ya baadaye. Ndani yake kuna mambo fulani yaliyo mazuri. Bila ya historia, hii hatungeweza kufikia mahala tulipo hivi leo; kuwa benki kubwa zaidi hapa Kenya na yenye uwezo wa kutosha kuweza kuchochea mabadiliko. Tunajitahidi ili msingi wa benki hii uwe na mfumo uliyo sawa na uliyorahisishwa. Kufanikiwa kwetu kwa jambo hili, kutafanya benki iwe ndiyo inayoongoza katika eneo hili kwa muda wa miaka 25 ijayo. Huku tukiwa hatumilikiwi tena kabisa na serikali, bado tungali tunadumisha uhusiano wa karibu wa kibiashara na wao. Tunajivunia kuwa katika Kenya na Sudan Kusini, sisi ndiyo benki kubwa teule kwa serikali kwa vile haadhi hii inatupatia fursa ya kuchangia ustawi wa mataifa na eneo hili lote kwa jumla. Natumai sitakosea ninapopendekeza kuwa KCB inahisi haja ya “kurudishia jumuiya fadhila” lakini hakika tunataka kuwa wakala wa kweli wa mabadiliko. Kuwawezesha watu binafsi, mmoja baada ya mwingine, kupitia bidhaa na huduma zetu, hatimaye tuweze kuchochea maendeleo ya eneo hili la Afrika ya Mashariki hadi kileleni chake! Kwa maana hii, KCB inanuia kuwa kiongozi katika sekta nzima ya huduma za kifedha.

KCB imepitia miaka mingi ya urekebishaji wamuundo wa kazi. Je jambo hili limenufaisha vipi benki hii katika miaka hiyo iliyopita?

Safari ya mabadiliko ya KCB ilianza katika mwaka wa 2011, pale benki hii ilipotaka ushauri wa shirika la McKinsey

kuangalia upya muundo-msingi wa shirika na uongozi wa benki. Aidha ilipendelea kujua mfano wa mfumo wa biashara pamoja na kutazama upya majukumu ya kazi na uteuzi wa wadhifa wa wafanyikazi kwenye majukumu yalioko kote katika biashara hii yetu.

Shughuli hiyo ya utekelezaji wa mabadilikosasa imekamiliwa. Malengo mengi tayari yametimizwa. Marekebisho yataendelea kutekelezwa kila inapohitajika kufanya hivyo. Tumefanya urekebishaji nauboreshaji wa viwango vyetu vya utendaji kazina sasa imekuwa kama desturi yetu ya kila siku. Tegemeo la ustawi wa Benki hii ambalo tumekuwa tukitilia mkazo kwa muda wa miaka miwili iliyopita ni kuongeza uwezo wa kupata faida katika biashara yake hapa Kenya. Kuhakikisha kampuni zetu tanzu zinafanya vizuri zaidi, kutumia vifaa vya kuwezesha vilivyo bora katika vitengo vyake, mifumo pamoja na kutumia vipaji vya wafanyikazi wetu jambo ambalo sasa limekuwa muhimu sana katika shughuli zetu za kila siku.

KCB imegeuka kuwa Benki ya eneo. Nini maoni yako kuhusu jukumu lake katika eneo hili?

Tuko na motisha na lengo la kuwa benki ya hakika ya eneo hili na pia benki ambayo inasaidia maendeleo ya wanajumuiya wa Afrika Mashariki katikasiku za baadaye. Shughuli zetu za biashara katika mataifa ya Tanzania, Sudan Kusini, Uganda, Rwanda na Burundi sasa zinachukuliwa kama benki binafsi zinazojitawala zenyewe. Tungependa bodi za ukuregenzi na za uongozi za nchi husika kushikilia na kuimarisha ustadi wao wa biashara katika nchi zao ili waweze kuhudumia vyema masoko hayo. Hata hivyo, pia Kundi hili la KCB linajitahidikutumia njia bunifu na za kiteknolojia katika uendeshaji shughuli hizi zake. Lengo kuu likiwa nikurahisisha na kuongezea thamani maisha ya jamii kwa kuwahimiza kujiunga zaidi na huduma za kifedha za benki hii.

Utendaji wa kampuni zetu tanzu umekuwa wa hali isioweza kutabirika na jambo hili bila shaka haliniridhishi mimi wala wanabodi wenzangu. Lakini, tuna imanina eneo hili na matarajio ya maendeleo yake. Tumekariri tena miundo ya biashara yetu iliyotumika hapo mbeleni na sasa tunatekeleza marekebisho hayo ili kusahihisha utendaji huo wenye makosa. Shughuli hizi sharti tuzitazame kamasehemu maalum ya kuanzia harakati za kujijenga. Bila shaka hatuna nia ya kuwachilia fursa zilizopo katika eneo lote hili na kurudi kuendelea kuwa benki ya hapa Kenya pekee.

Kwa hivyo unaona kuna uwezekano mkubwa wa kunufaika katika eneo hili?

Bila shaka naona hivyo. Viwango vikubwa vya ukuaji wa uchumi katika eneo la Afrika ya Mashariki imebadilishakimsingi hali ya nadharia ya uchumi. Huku Kenya ikiendelea kuwa na uchumi mkubwa zaidi katika eneo hili, nchi jirani zimeshuhudia kupanuka kwa chumi zao na taratibu kupunguza uombaji wa misaada ya kimataifa. Viwango vyao vya ukuaji wa Zao Ghafi la Ndani (GDP) ni kutamaniwa na mataifa mengi jirani. Ninafurahia maendeleo ninayoona yakiendelea katika eneo hili. Kando na hayo, eneo hili, bila ya kuzingatia Kenya, liko na idadi ya watu zaidi ya milioni 120. Zaidi ya hayo Uhabeshi (Ethiopia) iko na idadi ya watu zaidi ya milioni 95. Hili ni eneo lenye utajiri mkubwa linalohitaji kuhudumiwa na kufanyia biashara humo.

Usinieleme vibaya, bado kuna mambo mengi ya kutekeleza ili kustawisha muundo-msingi, mifumo ya kisheria, kudumisha demokrasia na kupatia msukumo mageuzi ya kiuchumi ili kuendelea kupanua uchumi kwa ujumla. Hili litatuwezesha kuepukana nakutegemea kuuza bidhaa nje na kuongeza nafasi zaidi za kazi katika sekta za uzalishaji na za utoaji huduma. Vile vile, kuboresha uzalishaji katika kilimo ni nukta muhimu. KCB ingependa kuwa kama mwezeshaji wa maendeleo hayo yote. Mpangowa mradi wa reli baina ya Kenya, Uganda, Rwanda, Uhabeshi (Ethiopia) na Sudan Kusini utatilia nguvu katika kuunganisha eneo, kusaidia katika kustawika kwa Jumuiya ya Afrika Mashariki na kuwa imara. Uchumi wa Kenyandiyo kichocheo cha muungano huu. Kugunduliwakwa petroli na gesi hivi karibuni kwenye mataifa mengi yaliyo katika Jumuiya ya Afrika Mashariki kutasukuma mbele maendeleo ya muundo-mbinu na kuongeza nafasi za kazi. Ni jukumu la viongozi wa mataifa haya kuhakikisha kuwa utajiri huu unagawanywa kwa usawa ili kuwanufaisha wananchi wao wote ili kuinua hali ya maisha ya raia wa mataifa yao.

Kupungua kwa bei ya mafuta hivi karibuni, kumeleta matokeo mchanganyiko. Kwa upande mmoja, uchumi wa nchi kama vile Kenya, Tanzania, Uganda, Burundi na Rwanda umenufaika kwa sababu yakupungua kwa gharama za maisha na kuanguka kwa gharama za uzalishaji na usafirishaji. Kwa upande mwingine, matarajio ya mapato kwa nchi kama vile Sudan Kusini na nchi zingine ambazo uchunguzi wa kuwoko kwa mafuta ungali unaendelea, kama vile Kenya na Uganda, yatapungua na uchunguzi kupunguzwa. Licha ya hayo, kuna fedha

katika mafuta na kupungua huku kwa bei hakutakuwa pingamizi kubwa katika kupata matokeo mazuri kwenye nchi ambazo KCB inaendesha shughuli zake.

Ni wazi kuwa ushirikiano ni jambo muhimu kwa KCB. Je hii imenufaisha vipi benki?

Unaposita na kufikiria jambo hili, karibu kila uhusiano uwe wa kibiashara au kibinadamu sharti uwe na ushirikiano. Wakati wote lazima kuwe na maafikiano ya kutoa na kupokea kwa pande zote mbili husika. Hivi ndivyo tunavyosimamia shughuli tunazotekeleza hapa katika KCB. Ukweli ni kuwa, katika sekta ya shughuli za benki huduma za kifedha, hakuna biashara inayoweza kutekelezwa bila ya kuwa na moja au nyingine ya ushirikiano. Iwe tunafanya ushirikiano na mashirika ambayo ni ya humu ndani au ya nje kama vile ya serikali, mashirika makubwa kama vile Safaricom au madogo madogo ya wawekezaji wadogo (MSME), sisi tunathamini uhusianowote kwa usawa.

Ushirikiano uliyo muhimu zaidi ni baina yetu na wateja wetu, washikadau na wafanyikazi wetu. Kwa hakika, wafanyikazi wetu hufanya ushirika na wateja wetu ili kutuwezesha sote kustawi. KCB iko hapa ili kuwezesha na kudumisha maendeleo ya watu kupitia biashara, nchi na eneo la Afrika Mashariki kwa jumla.

Sekta ya Benki hapa Kenya imeshuhudia mabadiliko makubwa katika mwaka wa 2014. Je, KCB imeathirika kiviipi?

Huku ikiwa haina uhusiano na sekta ya benki, tumeshuhudia Zao Ghafi la Ndani (GDP) la Kenya likiimarika mwakani. Mageuzo yaliyotangazwa na Benki Kuu na Muungano wa Wamiliki Benki wa Kenya kuhusiana na viwango vya riba na uwazi yalipokelewa vyema na KCB. Usimamizi mzuri wa sekta hii na uwazi katika shughuli zake na wateja wake bila shaka utafaidi kila mmoja kwa kuwatia moyo wawekezaji kutoka nje na kurudisha matumaini kwa wamiliki wa benki. Ni lazima tukubali ya kuwa hakuna chumi zinazoendesha shughuli zake pweke, ukweli ni kuwa sote tunaishi katika ulimwengu uliyo kama kijiji kimoja. Maendeleo katika mawasiliano na njia za kusambaza habari kunamaanisha kuwa kuna haja ya kukubali maadili bora ya kimataifa ya kuendesha shughuli – hivi ndivyo wadhibiti kanuni na wateja wetu wanavyotaka. Mabadiliko huzalisha maendeleo mengine. Sisi hapa katika KCB tunapenda kukubali mabadiliko. Miaka yetu 118 ya kudumu katika biashara hii ni urithi tunaoahidi kuendeleza.

Je nini maono yako kuhusu jinsi KCB itakavyokabiliana na mahitaji ya siku zijazo?

Tunatambua kabisa mahitaji ya wateja wetu wa sasa na ya siku zijazo. Tumefanya juhudi kubwa katika mikakati yetu mwaka huuna tumeamua kuwa na kusudio moja lililo bayana - "Kukurahisishia ulimwengu wako; ili uwezekustawi".

Ukichambua msemu huu kwa undani utaona ya kwamba tumejitolea kuwahudumia wateja wote. Tunaelewa kuwa biashara hii ya benki imebadilika, naitaendelea kubadilika, leo kila mteja anajiona kuwa ni mtu binafsi aliyena mahitaji yake, na huduma tutakazompa sharti ziwe zitakimu mahitaji yake yote. Pia tunatambua haja ya kuishi kulingana na wakati. Kuanzisha bidhaa na huduma mpya za haraka, zinazofaa na zilizo rahisi kwa wateja wetu kutumia, iwe ni njia za kufikia salio la akaunti ya benki, kupata mkopo au kutumia huduma za benki kupitia mtandao wa internet au kupitia simu ya mkono. Mengi miongoni mwa yaliyobadilika yanaendeshwa na yanahitaji teknolojia na tuko na bahati kuwa Kenya hivi sasa imewekwa katika daraja la kwanza ulimwenguni kwa kupeana huduma za benki pesa kupitia simu. Shina la wateja tayari lipo, tunalohitaji ni ushirikiano, bidhaa na huduma zilizorahishwa. Tukiwa na huduma zetu za M-benki, huduma za kibenki kupitia internet pamoja na suluhisho nyingine za kupitia mtandaoni tayari tuko njiani katika safari yetu ya kufikia mstakabala tunaopendelea.

Mwishowe, makusudio yetu yanatufanya tujitolee kufikia katika muda ufao, mabadiliko, ukuaji na ufanisi. Ikiwa hatutaweza kutekeleza hayo kwa wateja wetu basi tutakuwa tumeshindwa katika majukumu yetu. Humo katika mikakati yetu tumeunda misingi muhimu ya kuhakikisha tunapata ufanisi thabiti kamabenki.

Hii ni mara ya kwanza KCB imetoa taarifa inayojumuisha kila kitu. Ni kwa nini mliamua kufanya hivyo?

KCB imekuwa katika mstari wa mbele katika kuwasiliana na washikadau wetu. Katika mwaka wa 2007, tuliona ishara ya mambo yanakoelekea. Ulimwengu wa uwazi kamili katika uongozi wa shirika ulikuwa ni lazima. Tulianzisha ripoti yenye ufululizo wa maendeleo mwaka huo. Katika mwaka wa 2013 tuliandaa ripoti yenye ufululizo wa maendeleokwa mujibu wa muongozo wa GRI's G4. Kuwa na ripoti inayojumuisha kila kitu ni hatua ya pekee ya kufuata. Hivi karibuni tumeshuhudia ongezeko kubwa la umiliki wa kigeni katika Soko la Ubadilishanaji wa Hisa la Nairobi na kuna haja ya kukidhi mahitaji ya wawekezaji

hawa kwa kuwasiliana nao kuhusu maswala muhimu yaliyo zaidi ya yale ya matokeo ya kifedha ya Kundi hili. Tunahitaji kuwaeleza mkakati kwa ujumla na kuwafafanulia maono ya mstakabala wa benki hii. Hata la muhimu zaidi, ni kuamini kwetu kuwa kuwasilisha taarifa kunarekebisha mazoea. Kuchukua mfumo wa kuwasilisha taarifa inayojumuisha kila kitu kutatuchoea sisi kuchukua msimamo kamili wa shirika hili letu na kuathiri jinsi tunavyoendesha biashara, hatimaye kukiwa na nia ya kunufaisha wote.

Lakini taarifa hii sharti itazamwekama hatua yetu ya kwanza kwenye uwanja wa ubingwa wenye nguvu na unaobadilika kila kukicha. Utoaji taarifa za kifedha umeendelea sasa muda wa miaka 100. Washauri wetu wametuwekea mkakati wa miaka mitatu kuutekeleza kikamilifu muongozo wa sasa wa kimataifa na tuko tayari kufauatana nao katika safari hiyo.

Unapotazama mwaka uliyopita wa 2014, unahisi vipi?

Kwa ujumla ninaweza kusema ni mwaka uliyokuwa mzuri mno! Umekuwa mwaka wa shughuli nyingi sana kwa benki na wa kisisimua kwa biashara hii. Kuwasili kwa Bwana Joshua Oigara, kama Afisa Mkuu Mtendaji, mwanzoni mwa mwaka wa 2013 kunawakilisha mabadiliko makubwa kutoka ilivyokuwa mbeleni. Kutekelezwa kwa sera mpya ya Uongozi Shirika wa Kundi na kubuniwa kwa mkakati iliyoboreshwa wa Kundi, maendeleo haya mawili muhimu yalitoa hakikisho la ukuaji na udumishaji ustawi wa benki hii hadi katika siku zijazo. KCB kimsingi ilibadilisha mtazamo wake nadhamira yake katika kipindi cha miaka miwili iliyopita iliyotufanya kuongeza msukumo wetu wa mabadiliko. Kama timu moja, Bodi ya Wakurugenzi na Uongozi wamekubali mabadiliko, ushirikiano na kutambua kuwa utimizaji wa mipango yetu ni safari inayoendelea.

Ningependa kutoa shukrani zangu za dhati kwa Wakurugenzi wa KCB wasio-watendaji, timu ya wasimamizi na wafanyikazi kwa kujitolea kwao kufanya kazi kwa bidii. Katika mwaka wa 2014, wafanyikazi wote wamefanya kazi yao kwa ustadi na bidii mno. Ningependa kuwashauri waendeleo na moyo huo huo katika miaka inayokuja wakiwa na matumaini ya kutuwezesha kufikia nafasi ya kuongoza katika mazingira haya ya biashara ya benki kote Afrika na kuhakikisha tunatoa bidhaa na huduma zinazowarahisishia maisha wateja wetu na kuwawezesha kustawi.

Ngeny Biwott

Mwenyikiti wa Kundi

“We are good in building relationships with our clients and giving them relevant solutions”

Joshua joined KCB in November 2011 as the Chief Financial Officer, and was appointed to serve as CEO from 1 January 2013.

His expertise in driving transformational initiatives in regional businesses, strategy, business growth and change management were key attributes when determining his appointment.

Joshua is a Choiseul Laureate and was named among the top 100 youngest and most influential economic leaders in Africa by an independent French research center. He was ranked at position 25 and leads six other under 40-year old Kenyans in the top 100 list in the annual research conducted by Paris-based Institut Choiseul.

This interview with him demonstrates why he is so highly regarded.

What excites you about KCB?

Underpinning everything we do at KCB is our desire to make our customers' lives easier and enable their progress. Simply put, we exist to create change and promote transformation, not just for our business, but for our customers, our stakeholders, our shareholders and the East Africa region as a whole.

We understand we cannot do this alone and that partnerships play a vital role in enhancing wealth



Chief Executive Officer's Message

creation and the development of businesses throughout East Africa. Notably, we aim to build strategic partnerships that address societal challenges such as collaborating with General Electric (GE) on health care, Safaricom on small business and National Government on infrastructure.

The long-term survival of our business depends on achieving sustainability and we are looking to deliver medium to long term gains on our shareholders' investments as well as bring our communities together over the next 20 years.

Key to achieving this is our ability to operate responsibly and ethically. It is heartening to note that issues such as corruption, unethical business practices, harming the environment and injuring communities are being articulated across the Group.

Of course, no business can remain viable without keeping abreast of global change. Ongoing innovation is critical to enabling access to financial services for our customers across multiple platforms and enhancing financial inclusion.

There is a perception that there are too many banks chasing too few customers. How do you view this?

I see it differently. We [the banks] are serving less than 40% of the adult population in Kenya for example and our loan portfolio is less than 30% of the country's GDP. It is nowhere compared to South Africa's 100% or Nigeria's 80%. Other than fighting for the same old solutions and customers, we need to expand the breadth of people accessing financial services. That is the big challenge for our market.

How is KCB addressing this?

Firstly, we want to be number one in customer experience, not just in banking, but across all sectors. Our target is to move from 80% to 90% in customer satisfaction in three years. We need to be less prescriptive, which will require listening closely to our customers and responding appropriately. We need to be more adaptive and offer solutions that suit our customers rather than what we think they want. Our customer experience centre has tripled in size over the past two years and we are able to tap into our customers' insights better than ever before. We believe it is possible for us – KCB and our customers – to have the same vision and create it together: Your world, your possibility, enabled by us.

The second priority for us it to make sure our nearly 7,500 employees are able to deliver their best. Without our people being engaged, we will never be able to deliver outstanding levels of experience for customers. We need to empower our people, offer them opportunities to grow and celebrate the heroes. As CEO I have made it my mission to personally champion customer service and over the past two years I have visited close to 300 of our top customers.

Thirdly, we intend to achieve a high level of sustainability by delivering innovation through adaptive investment and technology (ICT). This will offer efficiency for our customers and make it easier for our staff to collaborate and deliver better customer solutions. To support this, we hired a Chief Information Technology officer (CITO) in May 2014. In addition, we are looking to consolidate our core banking system and reduce our 40 systems in the Bank to one common platform by reorganising our service oriented architecture.

Why do you maintain a regional position yet five countries contribute only 5% to your PAT?

It is about believing in the future. Africa's greatest challenge today is to build financially capable solutions and bring more customers on board. At KCB, we are looking at profits for tomorrow. We cannot change the way the continent grows, but to invest 10 years ahead, we need to make a seed investment. All Kenyan banks are investing in the region – it is about patience and persistence and belief in the regional growth story.

There is a view that KCB is an old, unchanging and unsexy bank relative to its peers.

We are 118 years old, with a long and rich heritage in the region. Our knowledge of the market, ability to take greater risks and capacity to invest in the long term are some of our key strengths as an organisation. The outcome of our businesses and our impact on communities are what determine whether we are successful or not. We may have been around for a long time, but we were the first bank to partner with Safaricom on mobile banking, GE on health care solutions among other partnerships.

We are a dynamic organisation with 152,000 shareholders, an independent Board of Directors and a clear and young management team, which represents the entire East Africa. We need to change the narrative and improve strategic communications about the achievements of the bank over next three years.

TRANSFORMATIVE PARTNERSHIPS

Boosting the economy and empowering people through partnerships is critical to KCB. In 2014, we partnered with several public and private sector organisations in a variety of sectors, from education and agriculture, to transport and energy. Major transformative deals included:

- KShs 2.55 billion was loaned to an institution in the education sector allowing it to acquire three properties to facilitate the expansion of its campus, particularly in the field of agro-based research.
- KShs 1 billion Letter of Credit was given to an intermediary in the agricultural sector to facilitate the importation of CAN fertilizer.
- KShs 1 billion working capital facility extended to a Motor dealer to facilitate payment of suppliers for vehicle units imported mainly for the Counties.
- KShs 1.8 billion Letter of Credit/working capital line (part of the KShs 8 billion) was extended to the power sector to facilitate the importation and installation of well-heads. This envisages the reduction in the cost of power by between 20% and 30%
- USD 25 million Standby Letters of Credit were given to the aviation sector to facilitate the importation of new equipment.

Public impression is that KCB is a government banker and a big corporate banker, but from your language you are focused on the small business owner and families. Are you consciously trying to shift away from the corporate?

45% of our business is corporate. Much of this is public sector business such as energy, infrastructure, oil and gas, road works and airports. As we realign our business, we expect our corporate business proportion to reduce as we become more aggressive in growing the small business element of our operation. Today SMEs make up less than 10% of our business. We want to grow this to 20% in the next two years.

In addition, the Kenyan government has a 17% shareholding in KCB. This is down from 100% over 20 years ago. Also, we do not see anything wrong with being called a government bank. Globally, governments are the largest investors in the economy. In Kenya, the government is the largest employer, biggest spender and greatest change agent. The private sector by itself is not in a position to affect far-reaching change. It is time to rethink afresh the philosophy of private public partnerships. Citizens need to shift their lens to a "can do" partnership and collaboration with the public sector. I want to see KCB lead in changing the narratives from "or" to "and" to accelerate transformation and achieve inclusive growth.

Your international shareholding has more than doubled. Is your focus currently on the international shareholder wanting to participate in the Africa growth story or the local shareholder wanting to benefit from the Africa growth story?

We have two sets of international investor: those looking for short-term gains and those looking for long-term gains. However, we are more focused on those investors with a longer term vision of change and transformation on the African continent.

Over the past two years, the banking sector has enjoyed the largest inflow of international investors on the Nairobi Securities Exchange (NSE). Investors love the KCB story of balance, our long term focus and our broad based governance structure.

Chief Executive Officer's Message

There is a sense that KCB is all pervasive, but does not excel at one thing. What does KCB do best?

KCB is good in trade finance, asset based financing and corporate banking. We are the largest mortgage solution provider. We are good in building relationships with our clients and giving them relevant solutions. We are good at training and development. We have the best corporate bankers in the market. We have an intimate understanding of our customers and the East African market.

We do not buy into the notion of being one thing and not another. Our view is that it is possible to build multiple futures for the same business. If we were to become number one in retail banking, but were unable help millions of Kenyans grow their businesses and get out of poverty, we will not have achieved our mandate as an organisation.

We do not fight too much to be number one in this or that. We fight to become change agents, to transform, to build a bigger vision for the nation, to build the country, to build the region. We must continue to inspire the future generations about doing sustainable businesses and still remain a strong organisation.

Looking ahead, what is on the cards for KCB?

We want to be a catalyst that changes the narrative in the market from the short term to building long term sustainability. We believe this is good for our business,

good for profit and good for the region. We will continue to develop our people, get closer to our customers and triple the effort we invest in communication. We will collaborate with a view to harnessing opportunities and growing robust businesses in the region. We can never be a lone ranger business and create real impact in society.

If we can inspire ordinary people to dream to do the extraordinary, we will have made a mark in the region. We cannot create the vision for everyone. Our job is to inspire them to believe they can run the race of excellence. When a million entrepreneurs achieve their dreams, we will have created a real masterpiece, an epicentre for change in the region.

Our achievements in 2014 would not have been possible without the dedication and expertise of our employees, to whom I extend my sincere thanks. I would also like to show my appreciation to the Board of Directors who have provided wise counsel to my colleagues and myself during the year.

Joshua Oigara
Chief Executive Officer

Joshua alijiunga na KCB mwezi wa Novemba mwaka wa 2011 akihudumu kama Afisa Mkuu Msimamizi wa Fedha na aliteuliwa katika wadhifa wa Afisa Mkuu Mtendaji kuanzia tarehe 1 Januari mwaka wa 2013.

Umahiri wake katika kushinikiza mipango ya mabadiliko kwenye biashara za eneo hili, mikakati, ukuaji wa biashara pamoja na mageuzi katika usimamizi, ndiyo sifa muhimu zilizotumika kumteua.

Joshua alitajwa miongoni mwa vijana 100 bora zaidi wanaongoza na walio na ushawishi mkubwa katika maswala ya kifedha hapa Afrika na kituo huru cha utafiti cha Ufaransa. Alipatiwa kiwango na kuwa katika nafasi ya 25 bora na yeye ndiye anayeongoza Wakenya wengine sita walio chini ya umri wa miaka 40 katika orodha ya watu 100 walio bora kwenye utafiti wa kila mwaka unaofanywa na shirika mjini Paris iliitwalo Institut Choiseul.

Mahojiano haya tuliyoifanya naye yanadhihirisha wazi kuwa anaheshimika sana.

Ni nini kinachokusisimua kuhusu KCB?

Kinachoimarisha shughuli zote tunazotekeleza katika KCB ni hamu yetu ya kufanya maisha ya wateja wetu kuwa rahisi na kuwawezesha kustawi. Kwa kifupi, kuweko kwetu ni kwa ajili ya kubuni mageuzi na kukuza mabadiliko, sio tu kwenye biashara yetu pekee, bali kwa wateja wetu, washikadau wetu, wamiliki hisa wetu na eneo lote la Afrika ya Mashariki kwa ujumla.

Tunatambua kuwa hatuwezi kutekeleza hayo peke yetu na kuwa ushirikiano uko na jukumu muhimu katika kuboresha njia za upataji mali na uimarishaji wa biashara kote katika Afrika Mashariki. La msingi, tunaazimia kuunda mkakati wa ushirikiano ambao utaangazia changamoto zilizoko katika jumuiya kama vile kushirikiana na General Electric katika huduma za afya, Safaricom katika uinuuji wa biashara ndogo ndogo na Serikali Kuu katika miundo-mbinu.

Kudumu kwa muda mrefu katika hii biashara yetu kunategemea kufanikiwa kwa uendeleu. Tuko na matumaini ya kuwasilisha faida kwa siku za baadaye kwa uwekezaji wa wamiliki hisa wetu na vile vile kuleta pamoja jamii zetu katika kipindi cha miaka 15 hadi 30 ijayo.

Msingi muhimu wa kutekeleza haya ni ule uwezo wetu wa kuendesha shughuli kwa kuwajibika na kwa maadili mema. Ni jambo la kutia moyo kuona kwamba masuala kama vile utoaji rushwa, ufanyaji biashara kwa njia zisizo na maadili, kuharibu mazingira na madhara kwa jamii ni mambo yanayozungumziwa wazi wazi kila mahali kwenye

Kundi hili.

Bila shaka, hakuna biashara yoyote inayoweza kuendelea kupata faida bila ya kuwa sambamba na mabadiliko yanayoendelea ulimwenguni. Ubunifu unaoendelea ni muhimu sana katika kuwezesha ufikiwaji wa huduma za kifedha na wateja wetu kote kwenye maeneo yetu mengi ya utoaji huduma.

Kuna mtazamo kuwa kuna benki nyingi lakini wateja wanaotafutwa ni wachache. Nini mtazamo wako kuhusu jambo hili?

Mimi mtazamo wangu ni tofauti. Sisi (yaani benki zote) tunahudumia wateja chini ya asilimia 40 ya idadi ya watu wazima hapa Kenya. Kwa mfano orodhafedha ya mikopo yetu ni chini ya asilimia 30 ya Zao Ghafi la Ndani la taifa hili. Kiwango hiki hakikaribii hata kidogo unapolinganisha na kile cha Afrika Kusini cha asilimia 100 au cha Nigeria cha asilimia 80. Aidha tunaendelea kutoa huduma za kizamani kwa wateja wale wale. Hivyo basi, iko haja ya kupanua zaidi idadi ya watu wanaohitaji huduma zetu za kifedha. Hii ndiyo changamoto kubwa katika soko letu la kifedha na KCB inakabaliana nalo.

Je KCB inashughulikia vipi jambo hili?

Kwanza kabisa, tungependa kuwa nambari moja katika kutosheleza mahitaji ya wateja, sio tu kwenye biashara ya mabanki, bali katika sekta zote kwa ujumla. Lengo letu ni kujiondoa kutoka asili mia 80 hadi asili mia 90 kwenye utoshelezaji wa wateja katika muda wa miaka mitatu ijayo

Tunahitaji kupunguza utoaji masharti, jambo ambalo litatulazimu kuwasikiliza kwa makini wateja wetu na kujibu mahitaji yao ipaswavyo. Iko haja ya sisi kujirekebisha kwa urahisi zaidi na kutoa huduma zinazolingana na mahitaji ya wateja wetu badala ya kukaa na kufikiria wanachohitaji. Kituo chetu cha huduma kwa wateja kimeongezeka kwa ukubwa zaidi ya mara tatu katika muda wa miaka miwili iliyopita na tumeweza kupata ufahamu wa wateja wetu kwa njia bora zaidi kuliko ilivyokuwa mbeleni. Tunaamini kuwa inawezekana KCB na wateja wetu – kuwa na maono sawa na kuweza kubuni pamoja: Ulimwengu wako, uwezo wako, ukiwezesha na sisi.

La pili, muhimu kwetu ni kuhakikisha kuwa wafanyikazi wetu ambao ni takriban 7,500 wana uwezo wa kufanya kazi zao kwa njia bora zaidi. Bila ya ushirikiano wa wafanyikazi wetu, hatuwezi kamwe kuwasilisha viwango bora vya utoshelevu kwa wateja wetu. Tunahitaji kuwapa uwezo wafanyikazi wetu, kuwatolea fursa za kukua na

Ushirikiano wa kuleta mabadiliko

Kuongezea nguvu uchumi na kuwapa uwezo watu kupitia ushirikiano ni jambo muhimu sana kwa KCB. Katika mwaka wa 2014, tulifanya ushirikiano na mashirika ya umma na ya kibinafsi katika sekta mbali mbali, kuanzia elimu na kilimo, hadi ya usafirishaji na kawi. Makubaliano muhimu ya kuleta mabadiliko yakijumuishwa:

- KShs bilioni 2.55 zilitolewa kama mkopo kwa taasisi ya sekta ya elimu na kuiwezesha taasisi hiyo kumiliki ardhi tatu ili kufanikisha upanuzi wa chuo chake, zaidi hasa kuendeleza utafiti katika nyanja ya kilimo.
- KShs bilioni 1 kupitia Barua ya Muamana zilitolewa kwa wakala mwangalizi katika sekta ya kilimo ili kuwezesha uagizaji kutoka nje ya mbolea aina ya CAN.
- KShs bilioni 1 za mkopo wa mtaji wa biashara zilitolewa kwa shirika la kuuza magari ili kuliwezesha kufidia malipo kwa muuzaji wake wa magari yaliyoagizwa kutoka nje hususan kwa serikali za kaunti.
- KShs bilioni 1.8 za Barua ya Muamana / mkopo wa mtaji wa biashara (sehemu ya KShs bilioni 8) zilitolewa kwa sekta ya kawi kufidia gharama za uagizaji na usakinishaji wa vyanzo vya maji. Hii inatarajiwa kuleta upungufu wa gharama za upatikanaji kawi wa kati ya asilimia 20 na asilimia 30
- Dola Milioni 25 za Marekani kama Barua za Muamana za kusubirishwa zilipeanwa kwa sekta ya usafiri wa ndege ili kuwezesha uagizaji wa vifaa vipya kutoka nje.

kuwatunuku wale wanaofanikisha zaidi kazi zao. Mimi kama Afisa Mkuu Mtendaji nimefanya iwe dhamira yangu binafsi kuwa mtetezi wa huduma bora kwa wateja na kwa muda wa miaka miwili iliyopita nimewahi kutembelea wateja wetu takriban 300 wa upeo wa juu.

Tatu, tunakusudia kufanikiwa kufikia viwango vya juu vya kuwasilisha ubunifu wa kudumu kupitia uwekezaji unaoweza kubadilishwa na teknolojia (ICT). Hii itatoa utendaji kazi bora kwa wateja wetu na kufanya iwe rahisi kwa wafanyikazi wetu kushirikiana na kutoa huduma bora zaidi kwa wateja. Ili kuunga mkono juhudi hizi, tuliajiri Afisa Mkuu Msimamizi wa Teknolojia (CIO) mnamo mwezi wa Mei mwaka wa 2014. Isitoshe, tunatafuta mbinu za kuunganisha mitambo ya undani ya benki na kuweza kupunguza mitambo yetu 40 kutoka Benki hadi mitambo 10.

Ni kwa nini unaendelea kusesitiza kuwa benki hii ni ya eneo na ilhali ni nchi tano pekee ambazo huchangia asilimia 5 pekee kwa faida yenu?

Ni kuhusu kuwa na matumaini katika siku zijazo. Changamoto kubwa zaidi kwa Afrika hivi sasa ni kubuni huduma za kifedha zinazoweza kutunufaisha katika siku za baadaye na kuongeza idadi ya wateja. Katika KCB, tunatafuta faida za siku zijazo. Hatuwezi kubadilisha jinsi bara hili linavyokua, lakini katika miaka 10 ijayo, tunahitaji uwekezaji wa kimbele. Benki zote za Kenya zimewekeza katika eneo hili – na tofauti yetu ni kuwa tuna ustahimilivu, msimamo na uaminifu kuwa simulizi ya ustawi wa eneo hili la Afrika Mashariki litafanyika.

Kuna dhana kuwa KCB ni benki ya zamani, isiyokubali mageuzi na isiyo ya kuvutia inapolinganishwa na benki wenzake.

Tumetimiza umri wa miaka 118, tukiwa na urithi mrefu wa utajiri katika eneo hili. Utambuzi wetu wa soko hili, uwezo wa kuhimili dhima kubwa na uwezo wa kuwekeza kwa muhula mrefu ndiyo baadhi ya nguvu zetu muhimu kama kampuni. Matokeo ya biashara zetu na athari yetu nzuri kwenye jumuiya ndiyo mambo yatakayoamua iwapo tumefaulu au la. Tunaweza kuwa tumedumu hapa kwa miaka mingi, lakini sisi ndiyo benki ya kwanza kufanya ushirikiano na Safaricom katika shughuli za benki kupitia simu za rununu na GE katika utoaji huduma za afya.

Sisi ni shirika lenye nguvu lililo na wamiliki hisa 152,000, Bodi huru ya Wakurugenzi na timu ya Usimamizi ya vijana wenye mwelekeo wazi, na inayowakilisha Afrika yote ya

Mashariki. Tunahitaji kubadilisha historia na kuimarisha mkakati wa mawasiliano kuhusu mafanikio ya benki hii katika kipindi cha miaka mitatu ijayo.

Hisia za wananchi ni kuwa KCB ni benki ya serikalikali na benki kubwa ya mashirika, lakini kulingana na mazungumzo yako inaonekana walengwa wenu sasa ni wamiliki biashara ndogo ndogo na familia. Je ni makusudio yenu kujaribu kuhama kutoka kwa mashirika?

Asilimia 50 ya biashara yetu ni kwa mashirika. Nyingi ya hizi ikiwa ni sekta ya biashara katika mashirika ya umma kama vile kawi, muundo-msingi, mafuta na gesi, ujenzi wa barabara na viwanja vya ndege. Wakati tunapofanyia biashara yetu marekebisho, tunatarajia uwiano wa biashara yetu na mashirika kupungua kwa vile tutaendelea kuweka hima zaidi kwenye kukuza kipengee cha biashara ndogo katika utekeezaji shughuli zetu. Hivi leo Wajasiria mali katika biashara ndogo ndogo (SMEs) wanachangia chini ya asilimia 10 ya biashara yetu. Tungependa kukuza kiwango hiki hadi asilimia 20 katika muda wa miaka miwili ijayo.

Kuongezea, serikali ya Kenya inamiliki hisa asilimia 17 katika KCB. Hii ikiwa imepungua kutoka kiwango cha asilimia 100. Zaidi ya miaka 20 iliyopita. Pia, hatuoni kuna makosa yoyote kwa sisi kuitwa benki ya serikalikali. Ulimwenguni kote, serikalikali ndizo huwa wawekezaji wakubwa kuliko wote katika uchumi wa nchi. Hapa Kenya, serikalikali ndiyo muajiri mkubwa kuliko wote, mtumiaji fedha mkubwa kuliko wote na wakala mkubwa zaidi wa mabadiliko. Sekta ya kibinafsi ikiwa pekee yake haina uwezo wa kuanzisha mabadiliko yanayoleta athari kubwa.

Umiliki hisa wa kimataifa kwenye shirika lenu imeongezeka zaidi ya maradufu. Je ni malengo yenu kwa sasa kuhimiza wamiliki hisa wa kimataifa ili waweze kushiriki katika ukuaji huu wa Afrika au wamiliki hisa wa humu nchini wapate manufaa kutokana na ukuaji huu wa Afrika?

Tuko na sampuli mbili za wawekezaji wa kigeni: wale wanoataka faida katika muhula mfupi na wale wanaotarajia faida baada ya muhula mrefu. Hata hivyo, lengo letu zaidi ni kushinikiza kushirikiana na wawekezaji waliyo na mtazamo wa kupata faida baada ya muhula mrefu wa mageuzi na mabadiliko katika bara hili la Afrika.

Katika muda wa miaka miwili iliyopita, sekta nzima ya benki imekuwa ikifurahia mmiminiko mkubwa zaidi wa

wawekezaji wa kigeni katika Soko Kuu la Uuzaji la Nairobi (NSE). Wawekezaji wanapendezwa na ufanisi wa KCB, maono yetu ya muhula mrefu pamoja na msingi mpana wa muundo wetu wa usimamizi shirika.

Kuna hisia ya kwamba KCB imeenea kila mahali, lakini pengine haina jambo lake moja inayotia fora nalo. Je ni kitu gani ambacho KCB hufanya kwa njia bora zaidi?

KCB hufanya vizuri katika utoaji fedha za biashara na huduma za benki kwa mashirika. Sisi ndiyo shirika kubwa zaidi la utoaji mikopo ya nyumba. Aidha KCB ingekuwa katika kujenga uhusiano mwema na wateja wetu na huwatolea huduma muafaka za kukidhi mahitaji yao. Sisi ni wazuri kwa kutoa mafunzo na maendeleo kwa wafanyakazi wetu. Tuko na watoaji huduma za benki kwa mashirika waliyo bora Zaidi katika soko hili. Tuko na uhusiano wa karibu na utambuzi wa kina na wateja wetu na soko lote la Afrika ya Mashariki.

Hatukubaliani na ile fikira ya kuwa sisi tuko na ujuzi wa jambo moja na wala sio lingine. Mtazamo wetu ni kuwa inawezekana kufuatilia mipango mbali mbali ya siku zijazo kwa shirika hili moja. Iwapo tutakuwa nambari moja katika biashara ya rejareja za benki lakini wakati huo huo tushindwe kuwasaidia mamilioni ya wakenya kukuza biashara zao na kutoka kwenye umaskini, basi tutakuwa hatujatimiza jukumu letu kama shirika.

Sisi hatupambani ili tuwe nambari moja kwenye jambo hili au lile. Tunapambana ili tuwe mawakala wa mabadiliko kwa watu wetu, tubadilishe maisha ya watu wote, tubuni maono makubwa kwa taifa hili, tujenge nchi hii, tujenge eneo hili.

Tukitazama mbele katika siku zijazo, KCB inabashiria mambo gani?

KCB ingependa kuwa kichocheo kinacholeta mabadiliko kwenye hali ya soko kutoka azma ya ufanisi kwa muda mfupi hadi ule unaodumu kwa muda mrefu. Tunaamini kuwa jambo hili ndiyo bora kwa biashara yetu, bora kwa upataji faida na bora kwa eneo hili. Tutazidi kustawisha watu wetu, kujisongeza karibu zaidi na wateja wetu na kuongeza mara tatu zaidi juhudi zetu za kuwekeza katika mawasiliano. Tutashirikiana tukiwa na nia ya kusimamia vyema fursa na kukuza biashara zilizo imara katika eneo hili. Hatuwezi kuwa biashara inayojifanyia mambo yake kipweke na tudhani itabadilisha maisha ya watu.

Taarifa ya Afisa Mkuu Mtendaji

Ikiwa tunaweza kuhamasisha watu wa kawaida kuwa na ndoto za kutimiza malengo yao, basi tutakuwa tunawacha mwangaza wetu katika eneo hili. Hatuwezi kumuwekea maono kila mtu. Lakini jukumu letu ni kuwahamasisha waweze kuwa na imani ya kwamba wanaweza kushiriki katika mbio hizi za kutafuta ufanisi. Ikiwa wanarasilimali milioni moja watatimiza ndoto zao, basi kazi yetu ya kubuni kitovu cha mabadiliko kwa ajili ya eneo hili itakuwa imefaulu.

Mafanikio yetu ya mwaka wa 2014 hayangeweza kufikiwa kama sio kujitolea kwa wafanyikazi wetu na ujuzi wao na kwa hilo nawatolea shukrani zangu za dhati. Vile vile ningependa kutoa shukrani zangu kwa Bodi ya Wakurugenzi ambao walikuwa wanatoa ushauri wa busara kwa wafanyikazi wenzangu na kwangu mimi binafsi katika mwaka huo tunaoukariria.

Joshua Oigara

Afisa Mkuu Mtendaji

Chief Financial Officer's report on the Group Financial Performance

Key highlights of 2014

2014 was a good year for KCB in terms of delivery of its strategic objectives. Some of the key highlights include; a 65% growth in customer numbers, 66% increase in agency outlets and 135% increase in agency transactions. Other achievements include a 75% growth in point of sale (POS) transactions and over a 268% growth in KCB Bancassurance in the year

Economic overview

Kenya's GDP grew at an estimated 5.3% in 2014, compared to a revised growth of 5.7% in 2013. Regional currencies experienced pressure against the US dollar with the Kenya shilling depreciating the least after trading at an average of KShs 90.4 in December 2014, compared to an average of KShs 86.3 in December 2013. Inflation declined from 7.15% in December 2013 to 6.02% in December 2014. The KBRR rate was set at 9.13% effective 8 July 2014 and revised to 8.54% effective 14 January 2015. The average lending rate for the banking sector has been on a downward trend, declining from 16.9% in July 2014 to 15.9% in December 2014. New Prudential Ratios came into effect – core capital at 10.5% and total capital at 14.5%.

GDP growth in Tanzania was impressive, averaging 6.7% between 2009 and 2013. Real GDP is projected to grow by 7.0% in 2014. In South Sudan, civil strife cast a shadow over the prospects for economic recovery and development. In addition, declining global oil prices affected South Sudan's oil-dependent economy.

Uganda's economy registered a Real GDP growth of 5.5% in 2014 compared to a growth of 4.5% in 2013. Rwanda's economy continues to recover from the 2013 economic slowdown, registering real GDP growth of 7.8% in 2014 Q3 compared to 2.9% recorded in 2013 Q3. In Burundi, the economy is estimated to have recorded a GDP growth of 5.3% in 2014, compared with a growth of 4.6% in 2013.

Business performance

KCB's performance was good and the Bank reported profit before tax of KShs 23.7 billion, 18% higher than 2013. This was supported by a 9.7% increase in net interest income to KShs 53.9 billion, a 12% growth in foreign exchange income to KShs 4.1 billion and a 21% increase in fees and commissions to KShs 12.7 billion.

The balance sheet grew by a notable 25% from KShs 390.8 billion in 2013 to KShs 490.3 billion in 2014. In addition, customer deposits grew from by 23% from KShs 306.6 billion in 2013 to KShs 377.3 billion in 2014.

Net loans and advances grew by 25% from KShs 227.7 billion in 2013 to KShs 283.7 billion in 2014, giving KCB the largest balance sheet in the region and positioning it for unmatched growth into the future. The non-performing loan (NPL) ratio has reduced significantly year on year from 8.1% in 2013 to 6.3% in 2014.

Total operating expenses grew by 5% from KShs 27 billion in 2013 to KShs 28.5 billion in 2014. Our cost to income ratio dropped from 51.7% in 2013 to 50.2% in 2014.

Consolidation of regional businesses in the six countries continues to be an important business driver. In 2014, Kenya accounted for 81.2% of KCB's total revenue contribution, compared to 80% in 2013.

Lower interest rates

Increased political stability in the East Africa region has resulted in lower inflation and interest rates.



Chief Financial Officer's report on the Group Financial Performance

Greater transparency of lending rates and charges

The East Africa region is under increasing pressure from regulators and a more sophisticated customer base to improve the transparency of its interest rates, fees and charges.

Competition and the rise of mobile technology

KCB's competition includes local and regional banks, international banks, deposit taking MFIs, telecommunications companies and the less formal savings and loans societies. While some of them have a relatively narrow segment focus, KCB has taken a broader view of its market and the role it intends to play in changing lives. This broad view and the increasing competition requires that KCB be progressive and innovative in a multitude of markets, products and disciplines. In line with this, KCB is building partnerships in the telecommunication, transport and energy sectors and with governments across the region.

Tapping into the SME market

With SME's accounting for about 75% of business and being one of the largest employers in the East African market, we have focused our attention on growing the SME contribution to 20% of the loan book over two years.

In addition, the bank introduced its innovative Biashar@Smart initiative in mid-2014 in partnership with Safaricom to provide SMEs with access to bundled financial and communication tools aimed at helping them increase efficiencies in their businesses, scale up their operations and position themselves for future growth.

Prospects for 2015

In 2015, we look to enhance financial inclusion in the region by increasing our customer base to 10 million. In addition, we are intent on increasing our micro lending offering to three million loans as well as growing our affordable mortgage proposition to one million homes.

Cognisant of the opportunities afforded by the ever-growing mobile market, we intend to triple our mobile transactions and agency footprint to enhance our digital payments. This expansion will require a robust and reliable IT infrastructure and the year ahead will see us refresh our T24 platform to increase its reliability and capacity to service our more than 25 million customers.

Outlook ratios for 2015

ROA	4%
ROE	26%
CTI	48%
NPL	5.5%
NFI/TI	40%
CoF	3.5 – 3.6%
NIMs	9.5 – 10%
CoR	1.5%
Loan Growth	18%
Deposit Growth	20%

Charles Langat

Ag. Chief Financial Officer

The operating environment

The economy registered an estimated real GDP of 4.5%, 5.7% and 5.5% respectively in the first quarter, second quarter and third quarter of 2014 compared with growth of 6.3%, 7.3% and 6.2% in comparable quarters of 2013. The growth was buoyed by large infrastructure projects, with momentum picking up in sectors such as agriculture, real estate and financial services. Growth prospects in 2015 are encouraging, with a revised GDP growth projection of 6.9%, up from an initial growth forecast of 6.5%. Underpinning the growth is the sustained implementation of large infrastructure projects and good performance of various sectors. However, emerging challenges including periodic droughts, global credit constraints, insecurity and its impact on the tourism sector are likely to hold back the envisaged growth momentum.

Indicative short term interest rates declined in 2014, due to improved market liquidity. The weighted average 91-day Treasury bill rate, which largely reflects the government's borrowing profile, declined to 8.6% in December 2014 compared with 9.5% in December 2013. The average interest rates on the 182-day Treasury bill rate increased to 9.6% from 10.4% in December 2013.

The Kenya Bank's Reference Rate (KBRR) was introduced in July 2014 to enhance transparency in pricing of credit and improve transmission of Monetary policy signals into changes in lending rates. The average lending rate for the banking sector has been on a downward trend; declining from 16.9% in July 2014 to 15.9% in December 2014. The Central Bank of Kenya reduced the KBRR further in January 2015 from

9.13% to 8.54%. Although the reduction in KBRR would have a bearing on commercial bank profitability in Kenya, we expect lower interest rates to enhance the demand for private sector credit, implying that any negative effect of the reduction in KBRR would be offset by increased volumes of loan portfolios.

The Kenya shilling weakened against the US dollar, trading at an average of KShs 90.4 in December 2014, compared with an average of KShs 86.3 per US dollar in December 2013. This 4.8% depreciation of the shilling was largely on account of the strengthening of the US Dollar, high dollar demand from local importers and manufacturers and declining revenue from tourism and tea sectors.

Our performance

	2014 KShs '000	2013 KShs '000
Total income	44,833,597	38,207,904
Impairments	1,256,039	247,237
PAT	15,878,978	12,426,673

Total assets	376,969,401	321,471,700
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RATIOS	2014	2013
NPL	5.22%	7.40%
CIR	51.5%	46.4%
RoA	4.54%	3.96%
RoE	23.71%	21.42%

Our leadership



Ngeny Biwott (Chairman)



Gen. (Ret) Joseph Raymond Kibwana, EGH, CBS



John Nyerere



Adli Khawaja



Julius Mutua
(Sitting for Henry Rotich)



Charity Muya-Ngaruiya



Georgina Malombe



Catherine Kola



Tom Ipomai



Joshua Oigara (CEO)



Charles Langat



Joseph Kania



The operating environment

Although South Sudan has vast and largely untapped natural resources, beyond a few oil enclaves, it remains relatively undeveloped. Oil accounts for the majority of exports, and for around 80% of gross domestic product (GDP). Prior to the oil shutdown, 98% of fiscal revenue came from oil. The country's GDP per capita in 2013 was USD 1,085. The resumption of oil production was projected to improve the economic outlook of the country with GDP rising as much as 40% but political instability is casting a shadow over the prospects for economic recovery and development. The declining global oil prices have also affected South Sudan's economy.

In early 2015, the opposing parties signed a peace deal that could pave the way to power-sharing, edging closer to an end to the 15-month conflict that has ravaged the country. This will likely see the country rebound to positive growth levels with a potential GDP growth of between 7% and 8%.

Such growth will be driven by greater government expenditure, international investment and an increase in contributions from other sectors.

The achievement of internal political stability and peaceful coexistence with Sudan are fundamental to the country's future development.

Our performance

	2014 KShs '000	2013 KShs '000
Total income	5,692,359	4,902,469
Operating Expenses	(4,264,116)	(2,958,852)
PAT	1,102,599	1,521,392
Total assets	71,783,041	43,558,100

Our leadership



Mrs. Charity Muya-Ngaruiya
(Chairman)



Mou Ambrose Thiik



Prof. Festus Abduleziz James



Georgina Malombe



Rose Obede Bara



Yar Manoa Majok



Harun Kibogong (MD)



Bonnie Okumu



The operating environment

Tanzania's GDP growth has been impressive averaging 6.7% between 2009 and 2013. Real GDP is projected to grow by 7.0% in 2014. The main drivers of Tanzania's growth are a small number of fast growing, capital intensive sectors: communications, financial services, construction, manufacturing and retail trade sectors.

Foreign investor interest in the economy is likely to rise further following discoveries of natural gas reserves.

Inflation declined to 4.8% in December 2014 compared to 5.6% in December 2013. Annually, we expect a steady marginal decline as a result of the implementation of stricter monetary policy. The major driver for falling inflation is the slow rate in growth of food prices, as the nation recorded bumper harvest.

Tanzania plans to ease controls on foreign ownership of its stocks and bonds by 2015 as the country seeks to

attract investment to finance infrastructure projects. Yields on Tanzanian Treasury bills are among the highest in East Africa, with the 91 Day paper at 13.2% as at end of 2014.

The shilling gained at the beginning of Q3 14 attributed to tight liquidity, a lessening in corporate demand for US dollars, and conversion of agricultural export earnings.

Our performance

	2014 KShs '000	2013 KShs '000
Total income	1,650,105	1,387,589
Operating Expenses	(1,398,798)	(1,288,923)
PAT	203,807	98,666
Total assets	17,564,730	14,051,595

Our leadership



Dr. Edmund B. Mndolwa
(Chairman)



Nikubuka P. Shimwela



Catherine M. Kimura



Zuhura S. Muro



Adil Khawaja



John Nyerere



Moezz Mir (MD)



Edward Lyimo



The operating environment

Uganda's economy is estimated to have registered a Real GDP growth of 5.5% in 2014 compared to a growth of 4.5% in 2013. The economy was supported by higher public and private investment and a recovery of domestic demand.

The outlook remains positive, with growth forecast to increase from 6% in 2015 to 7% by 2017. The anticipated economic expansion is expected to be driven by public investment in infrastructure, private domestic consumption and investment demand, on account of recovery in private sector credit growth, FDI, and a rebound in agricultural production.

Inflation remained low and within target with headline inflation at an average of 1.8% in December 2014 compared to 6.7% in December 2013. The sustained deceleration of inflation was attributed to decline in food prices, due to a good domestic harvest, lower global food prices and a decline in oil prices.

Weighted average interest rates on both the 91 and 182 day Treasury Bills maintained a general upward trend mainly due to increased offer amounts in the auctions. The 91-

day and 182 day Treasury bill rates respectively increased to 11.3% and 12.3 in December 2014 compared to 9.3% and 11.6% in December 2013.

Uganda shilling depreciated 10.2% against the US Dollar from an average of US\$ 2,512.9 in December 2013 to US\$ 2,768.8 in December 2014. The depreciation of the shilling was attributed to net outflows of portfolio investments associated with adjustments in market expectations regarding the economic outlook, elevated corporate demand from the telecom and energy sectors and global strengthening of the US Dollar.

Our performance

	2014 KShs '000	2013 KShs '000
Total income	1,691,919	1,537,532
Operating Expenses	(1,573,058)	(1,270,755)
PAT	123,023	225,301
Total assets	15,954,815	13,350,389

Our leadership



Samwiri H.K. Njuki (Chairman)



Protus Sigei



Paul Tikani



Dr. Jeff Sebuyira Mukasa



Apollo Obbo



Paul Russo



Joram Kiarie (MD)



Mathias Muhimbisa



Patrick Anok



The operating environment

The Rwandan economy has continued to recover from the 2013 economic slowdown, registering real GDP growth of 7.8% in 2014 compared to 2.9% in 2013. The economy is expected to continue to recover in 2014 given the upward trend in agriculture performance and leading indicators of economic activity such as the Composite Indicator of Economic Activities (CIEA) and credit to the private sector.

Headline inflation decelerated sustainably from 3.7% in December 2013 to 2.1% in December 2014. The decline in inflation was attributed to the lower food prices. During the year, the effect of imported inflation was moderate due to low global inflation and declining international commodities prices. Other deflationary pressure arose from the fall in transport inflation. Core inflation picked up slightly due to continued improvement in aggregate demand driven by the supportive monetary policy stance. Due to this stance and comfortable banking system liquidity levels, Rwanda was able to achieve low and relatively stable market interest rates in 2014. The average 91 day and 182 day Treasury bills rates declined slightly respectively to 4.1% and 4.9% in December 2014 from 5.3% and 5.9% in December 2013.

On the foreign exchange markets, the National Bank of Rwanda (BNR) maintained a stable local currency through currency market interventions. Despite high demand for forex in 2014, the RWF depreciated by 4.0% against the USD, trading at an average of RWF 692.5 per dollar in December 2014 against RWF 667.7 per dollar end December 2013, which is lower compared with total depreciation of 6.1% in 2013.

In 2015, the operating environment remains positive. Indications are that the earlier projected growth rate of 7.4% in 2014 will be exceeded judging by the performance in the second half of 2014. The service sector continues to be the leading contributor in GDP growth. Rwanda is increasingly becoming a key player in the East Africa Region. Key business partnerships in the region create opportunities to interact within and outside Rwanda especially with the East Africa Payment System now implemented.

Inflation is expected to remain at a single digit, reflecting easing commodity prices. Political stability and security have been key factors in attracting foreign investors in Rwanda. This is expected to continue as the government ambitiously markets the country to FDIs and conferences.

Our performance

	2014 KShs '000	2013 KShs '000
Total income	1,370,622	1,302,158
Operating Expenses	(1,215,516)	(1,288,406)
PAT	109,378	9,369
Total assets	15,749,541	10,361,410

Our leadership



Tom Ipomai (Chairman)



Joshua Muiru



Molly Rwigamba



Spéciose Ayinkamiye



Sarah Mukandutiye



Daniel Zitunga



Anne Wangari Kirima



Faustin Kananura Mbundu



Maurice Toroitich (MD)



Mary Oganga



The operating environment

The Burundi economy is estimated to have recorded a GDP growth of 4.6% in 2014, compared with a growth of 4.2% in 2013. Although the tertiary sectors decelerated, growth in 2014 was underpinned by increased production of both primary and secondary sectors. The Aid-dependent country seeks to increase its budget by 6.4% in 2015, with priority funding expected to go towards agriculture, energy and infrastructure projects. The economy is projected to grow by 5.4% in 2015 against an estimated 4.6% in 2014, driven by large infrastructure projects.

The average inflation rate eased sharply to 4.4% in 2014 from 7.9% in 2013, partly due to lower international fuel and food import prices. Similarly, this drop in prices led to a decline in month-on-month inflation to 3.8% in December 2014 from 9.0% in December 2013.

The Central Bank of Burundi continued to manage a loose monetary policy, leading a notable decline in interest rates. The average 91 day and 182 day Treasury bills rates declined significantly respectively to 5.7% and 8.2% in December 2014 from 9.4% and 10.5% in December 2013.

The Burundi Franc (BIF) depreciated against the US Dollar from an average of BIF 1,540.94 in December 2013 to BIF 1,553.05 in December 2014. This was attributed to increased demand for hard currencies to support elevated import bill.

Our performance

	2014 KShs '000	2013 KShs '000
Total income	353,848	257,885
Operating Expenses	(333,946)	(252,008)
PAT	22,929	26,031
Total assets	3,456,279	2,381,476

Our leadership



Catherine Kola
(Chairman)



Gen. (Ret) Joseph Raymond
Kibwana, EGH, CBS



Adrien Sibomana



Consolata Ndayishimiye



Gloria Nyambok (MD)



Naomi Kiuna

Statement on corporate governance

The KCB Board of Directors is committed to the highest level of effective corporate governance and strives for the highest standards of integrity and ethics in all the Group's undertakings. The Board has adopted a comprehensive framework of Corporate Governance Guidelines, designed to balance performance and compliance. This enables the Group to undertake, in an effective manner, the prudent risk-taking activities which are the basis of its business.

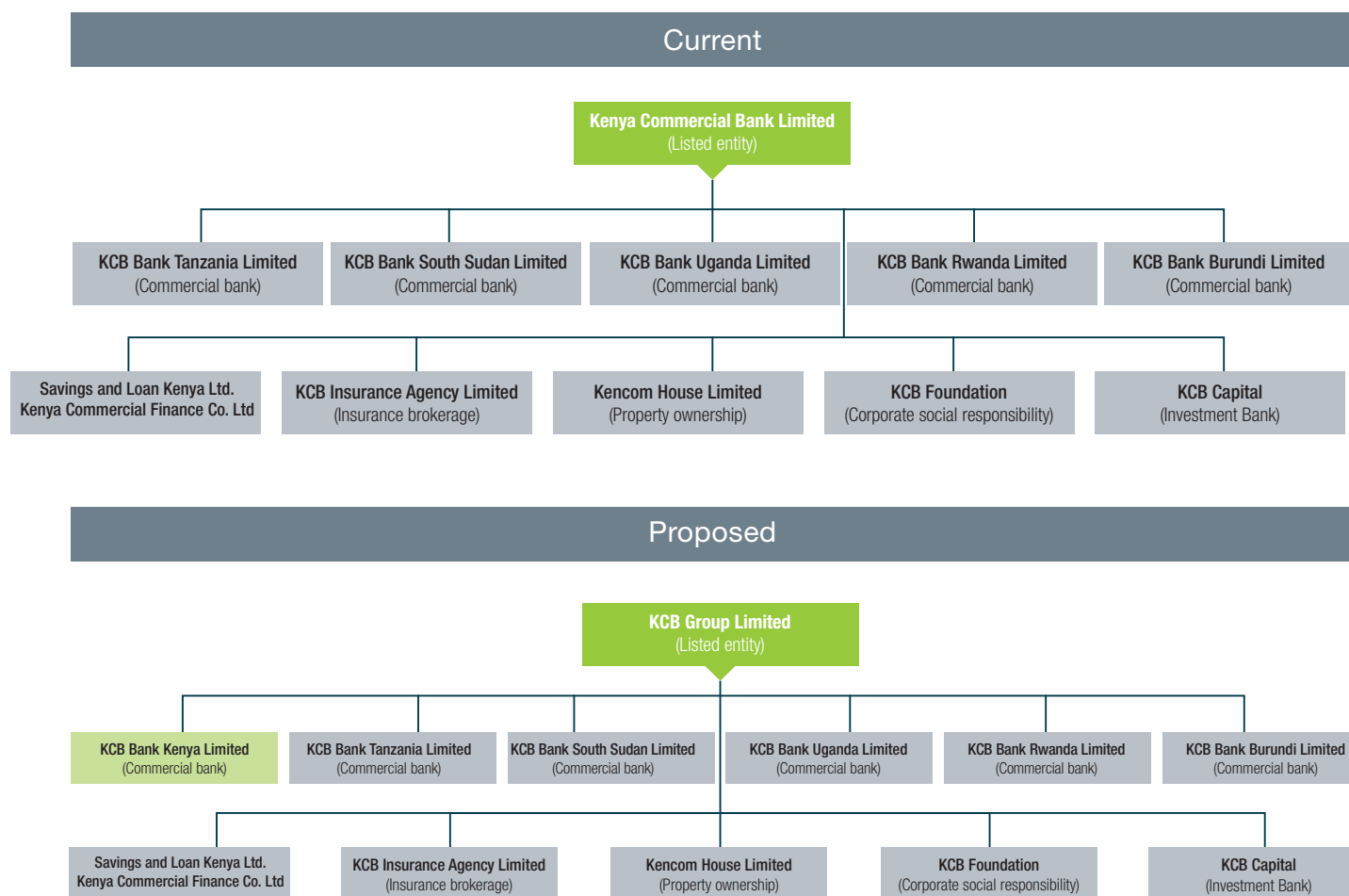
Throughout the 2014 financial year, the Group's governance arrangements were consistent with the regulations and requirements of the Companies Act, Banking Act, Capital Markets Authority, Central Bank of Kenya and the regulations and requirements of the countries in which its subsidiaries operate..

The following summarises KCB's key governance principles and practices adopted by the Board. These principles and practices are reviewed regularly and revised when appropriate to reflect changes in the law and developments in corporate governance.

Group Structure

Historic restrictions against non-operating holding companies holding banking subsidiaries were removed in 2012 by the Central Bank of Kenya and KCB is now moving ahead with plans to introduce a listed non operating holding company, allowing it the freedom to isolate other services such as bancassurance and investment banking from its traditional banking operations.

The current and proposed structures are reflected in the simplified graphics below:



Key Governance Processes

Delegation of Authority

The Board has delegated to the Group CEO, and through the Group CEO to other senior executives, responsibility for the day-to-day management of KCB. The scope of, and limitations to, these delegations are clearly documented and cover areas such as operating expenditure, capital expenditure and investments. These delegations balance effective oversight with appropriate empowerment and accountability of senior executives.

Appointment of New Directors, Tenure, Retirement and Election/Re-election

Directors are appointed through a formal process that includes background checks. The Board as a whole, only after obtaining recommendations from the nominations committee, considers all appointments and re-elections and recommends the persons nominated to the shareholders at the Annual General Meeting (AGM). In terms of the KCB's Articles of Association, the Board is permitted to remove any Director without Shareholder approval. At every AGM, at least one-third of the Non-Executive Directors retire from the Board. Directors appointed to fill vacancies are also expected to stand down for election by shareholders at the first AGM following their appointment.

The policy of the Board is that Non-Executive Directors are expected to serve a term of two years from the date of first appointment to the Board and hold office for no more than a total of eight years, subject to re-election by Shareholders as required under the KCB's Articles of Association, the Board Charter and applicable law. The Group Chairman would normally be expected to serve a maximum term of five years in that capacity.

Directors Induction and Education

Directors participate in an induction programme on appointment and in ongoing education sessions on a regular basis. This programme of continuing education ensures that the Board is kept up to date with developments in the industry both locally and globally. It also includes sessions with local and overseas experts in the particular fields relevant to the Group's operations.

Board Performance Evaluation

At the end of each financial year, the Board reviews itself, Board committees, the individual Directors and senior management against targets agreed at the beginning of the year and have produced improvements in Board processes and overall efficiency. Every two years, this process is facilitated by an external consultant. Every other year, the assessment is carried out internally.

In March 2014, the Board completed the 2013 annual evaluation that covered self-evaluation of the Board as a whole, its committees and the contribution of each and every Director, including the Group Chairman. The process was led by the Group Chairman and supported by the Group Company Secretary.

The conclusion of the evaluation was that the Board operated effectively. The results of the evaluation were submitted to the Central Bank of Kenya in the first quarter in line with regulatory requirements.

Board Meetings

The Board generally meets six times a year, and additionally when necessary, to consider all matters relating to the overall oversight control, business performance and strategy of the company and in succession planning.

The Group Chairman, in conjunction with the Group CEO and Group Company Secretary, sets the agenda for each meeting. Typically, the Board works according to an annual agenda encompassing periodic reviews of KCB's operating business units and site visits; approval of strategy, business plans, budgets and financial statements; and review of statutory obligations and other responsibilities identified in the Board Charter.

The notice, agenda and detailed board papers are circulated in advance of the meetings. Directors are entitled to request additional information where they consider further information is necessary to support informed decision-making.

During the year ended 31 December 2014, the Board held seven scheduled Board meetings and two special meetings. In addition, a strategic planning session was held in conjunction with the November meeting. A number

Board of directors

Committees	RISK	AUDIT	CREDIT	HR AND NOMINATIONS	PROCUREMENT	FINANCE AND STRATEGY	IT AND INNOVATION
	Oversees the enterprise-wide view of risks and controls and brings together the overall risk appetite and risk profile of the business. It meets quarterly to advise the business on all matters pertaining to credit, market, operations, legal, environmental, compliance and other risks. Business continuity issues are also discussed by this committee.	In accordance with regulatory requirements, the committee comprises only non-executive members of the board who are independent of the day-to-day management of the company's operations. It takes a largely backward-looking view, focused on financial reporting and control issues, including overseeing any control issue remediation plans.	This committee meets twice a month to review the credit risk profile of the company and recommends: customer facilities; policies; and standards for credit risk governance and management. The committee also reviews the company's risk appetite and sectorial concentration.	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. During the year, the committee reviewed group human resources policies to ensure compliance with changing international human resources practices according to business needs.	The committee meets bi-monthly to review the procurement needs of the company deemed necessary for efficient service delivery.	The committee was constituted by the board to oversee and provide direction, on the board's behalf, on five areas that is strategy direction including its implementation and monitoring process, new markets expansion, significant investment and divestment decisions, annual business and financial plans and budgets and sustainability. The 2014 strategic plan and budget for the group were prepared with substantial input from this committee.	The Committee was constituted by the board to review the scope and the effectiveness of IT operations and provide direction on enhancing the utility of IT resources through clearly laid down processes, procedures and time frames.
	1. Adil Khawaja Chairman 2. Charity Muya-Ngaruiya 3. Georgina Malombe 4. John Nyerere 5. Joshua Oigara In attendance 6. Rose Kinuthia CRO	1. Charity Muya-Ngaruiya Chairman 2. Joseph Kibwana Chairman 3. Georgina Malombe In attendance 4. Charles Langat Ag. CFO 5. Paul Russo Director, HR	1. Protus Sigei* 2. Julius Mutua Chairman 3. Catherine Kola Chairman 4. Tom Ipomai Chairman 5. John Nyerere 6. Joshua Oigara In attendance 7. Apollo Ongara Director, Credit	1. Tom Ipomai Chairman 2. Charity Muya-Ngaruiya 3. Protus Sigei* 4. Adil Khawaja 5. Joshua Oigara 6. Joseph Kibwana In attendance 7. Paul Russo Director, HR	1. Adil Khawaja Chairman 2. Joseph Kibwana 3. John Nyerere 4. Tom Ipomai In attendance 5. Joshua Oigara 6. Samuel Makome CBO/MD, Kenya 7. Asiko Owiro Director, Logistics	1. Joseph Kibwana Chairman 2. Protus Sigei* 3. Adil Khawaja 4. Charity Muya-Ngaruiya 5. Georgina Malombe 6. John Nyerere 7. Joshua Oigara 8. Julius Mutua	1. Tom Ipomai Chairman 2. Catherine Kola 3. Protus Sigei* 4. Georgina Malombe 5. Julius Mutua 6. Joshua Oigara In attendance 7. Avi Mitra CITO

*Resigned September, 2014

**Appointed September, 2014

Key Governance Processes

of directors also made site visits during the year. Details of Directors' attendance at Board meetings are set out on page 62.

The Board appreciates the importance of acting in the best interest of the company and considering the interest and expectations of its stakeholders. Directors are required to declare their interests in accordance with the provisions of the Board Charter and Companies Act.

Board Access to Information, Independent Advice and Confidentiality

Procedures are in place, through the Group Chairman and Group Company Secretary, enabling Directors to have access, at reasonable times, to all relevant company information and to Senior Management to assist them in the discharge of their duties and responsibilities and to enable them to take informed decisions.

Directors are also entitled to obtain independent legal, accounting or other professional advice at the Company's expense. Directors are expected to strictly observe the provisions of the statutes applicable to the use and confidentiality of information.

The Group Company Secretary

All members of the Board have direct access to the Group Company Secretary, who is responsible for ensuring that Board procedures, rules and regulations are followed.

The Group Company Secretary is also the chief legal officer reporting independently and directly to the Board and provides professional advice on any matters affecting the Company and its subsidiaries.

Audit

Whereas the Directors are responsible for preparing the accounts and for presenting a balanced and fair view of the financial position of the Company, the auditors examine and give their opinion on the reasonableness of the financial statements. The auditors' report independently and directly to the Board at the half year and end year Board meetings.

Communication with Shareholders

The Company believes it is highly important for its Shareholders to make informed decisions about their investment in the Company. In order for the market to have an understanding of the business operations and performance, the Company maintains regular contact with its larger institutional shareholders through its investor relations team, through meetings with the Executive Directors and the Group Chairman and through annual institutional investor events. The presentations from these events are also available to private Shareholders through the Company's investor relations website.

These forums ensure that shareholders, other stakeholders and the market are provided with full and timely information about the Company's activities in compliance with continuous disclosure requirements.

Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services rendered during the year 2014 is disclosed in note 17 to the annual financial statements.

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

The aggregate amount of loans advanced to Directors is summarised in note 38 to the annual financial statements.

The Board

The Board is accountable to the shareholders for KCB's performance and governance.

The Board has a Charter that establishes its authority, responsibilities and membership, and the arrangements by which it operates. The Charter also clearly establishes the relationship between the Board and Management. The Charter is reviewed, and amended when necessary by the Board annually, ensuring it remains relevant, incorporates best practices and aims to achieve high levels of good governance.

The primary roles of the Board are to provide overall strategic guidance for KCB and effective oversight of management. To this end, the Board has reserved to itself the specific responsibilities relating to risk assessment, resource management, strategic planning and financial and operational management to ensure that obligations to Shareholders and other stakeholders are understood and met. To assist it in discharging these responsibilities, the Board has established committees to give detailed consideration to key issues.

The Group Chairman is responsible for leadership and effective performance of the Board and for the maintenance of relations between Directors and Management that are open, cordial and conducive to productive cooperation.

Board Committees

Subject to those matters reserved for its decision, the Board delegates certain responsibilities to committees of the Board. This allows the Directors to spend additional and more focused time on specific issues.

The role of committees is to advise and make recommendations to the Board. The committees do not have decision making authority except as expressly stated in the relevant terms of reference or as authorised by the Board. The Board periodically reviews the appropriateness of the existing committee structure, as well as the membership and the terms of reference of each committee. After the Annual General Meeting in May 2014, the Board committee composition was reconstituted to indicate the new Non-Executive Directors.

The Board has seven standing committees to assist in the discharge of its responsibilities.

NEW DIRECTORS

The Board was pleased to announce the election of two new non-executive directors during the year.

- John Nyerere and Georgina Malombe joined the board on 9 May 2014. They both bring a wealth of skills and experience to the Board, which are detailed in their biographies in this report and in the Bank's website.
- Professor Peter Kiko Kimuyu and Engineer, Musa Jeremiah Ndeti, retired from the Board in accordance with the KCB's Board Articles of Association and Charter having served for the maximum eight years.
- Julius Mutua joined the board as alternate to the Cabinet Secretary, National Treasury in place of Protus Sigei in September, 2014
- Collins Otiwu, Group CFO, stepped down from the Board as an Executive Director in 25 July 2014.
- We do not anticipate substantial changes to the size of the Board in the foreseeable future.

Governance Structure and Responsibilities

Board and Committee Meeting Attendance

The following table reflects the attendance of the directors at both Board and committee meetings for the year ended 31 December 2014.

	MAIN BOARD	AUDIT	CREDIT	RISK MANAGEMENT	HR AND NOMINATIONS	PROCUREMENT	FINANCE AND STRATEGY	IT AND INNOVATION
No. of Meetings	9	6	24	5	11	5	5	5
Mr. Ngeny Biwott	9							
Mr. Henry Rotich*	7		18		9		4	3
Mrs. Charity M. Ngaruiya	9	6		5	11		2	
Mr. Adil Khawaja	7			5	5	5	2	
Mr. Joseph Kibwana	9	6				5	5	
Mrs. Catherine Kola	7		22	2				3
Mr. Tom Ipomai	9		24		11	5		5
Ms. Georgina Malombe**	4	4		3			2	2
Mr. John Nyerere**	5		9	3		2	2	
Eng. Musa Ndeto***	4	2					3	
Prof. Peter Kimuyu***	1		7			2	1	
Mr. Joshua Oigara	9		20			1	3	
Mr. Collins Otiwu****	4							

Note:

* Represented by Mr. Protus Sigei (upto Sept. 2014) and Mr. Julius Mutua (from Sept. 2014)

** Ms. Georgina Malombe and Mr. John Nyerere joined the Board on 9 May, 2014

*** Eng. Musa Ndeto, Prof. Peter Kimuyu retired on 9 May, 2014

**** Mr. Collins Otiwu resigned on 25 July, 2014

Shareholding

The company files monthly investors' returns to meet the continuing obligations as prescribed by the Capital Markets Authority and the Nairobi Securities Exchange.

Governance Structure and Responsibilities

DIRECTORS INTERESTS AS AT 31 DECEMBER 2014

NAME OF DIRECTOR	NUMBER OF SHARES	% SHAREHOLDING
Permanent Secretary to the Treasury of Kenya	523,600,000	17.31
Mr. Joshua N. Oigara	34,300	-
Mrs. Catherine A. Kola	25,540	-
Gen. (Rtd) Joseph R. Kibwana	87,764	-
Mr. Ngeny Biwott	1,500	-
Mr. John O.A. Nyerere	-	-
Mr. Adil A. Khawaja	-	-
Mrs. Charity M. Muya-Ngaruiya	-	-
Mr. Tom Ipomai	-	-
Ms. Georgina M. Malombe	-	-
Mr. Joseph Kania	-	-

SHAREHOLDERS' PROFILE AS AT 31 DECEMBER, 2014

	Shareholders	Number of Shares	% of Issued Share Capital
Kenyan Individual Investors	146,192	814,135,192	26.91
Kenyan Institutional Investors	4,979	1,268,408,143	41.93
East African Individual Investors	200	2,017,894	0.07
East African Institutional Investors	41	10,678,495	0.35
Foreign Individual Investors	457	20,047,859	0.66
Foreign Institutional Investors	196	909,925,409	30.08
	152,065	3,025,212,992	100.00

MAJOR SHAREHOLDERS

	Number of Shares	% Shareholding
Permanent Secretary to the Treasury of Kenya	523,600,000	17.31
National Social Security Fund	227,436,743	7.52
Standard Chartered Kenya Nominees Ltd, A/C KE18965	65,397,900	2.16
Standard Chartered Nominees Non Resident, A/C 9318	52,837,598	1.75
Standard Chartered Nominees Non-Resident, A/C 9069	49,992,256	1.65
Kanaksinh Karsandas Babla and Sandip Kanaksinh Babla	47,002,660	1.55
Standard Chartered Nominees, A/C 9688	45,778,323	1.51
Standard Chartered Kenya Nominees Ltd, A/C KE20531	45,498,900	1.50
Standard Chartered Kenya Nominees Ltd, A/C KE18972	43,240,300	1.43
Standard Chartered Nominees Non-Resident, A/C 9867	36,998,600	1.22
	1,137,783,280	37.61

SUMMARY OF TOTALS

Shares Range	Shareholders	Number of Shares	% Shareholding
1 to 5,000	123,714	205,248,439	6.78
5,001 to 50,000	26,553	274,824,906	9.08
50,001 to 100,000	729	50,470,190	1.67
100,001 to 1,000,000	808	240,598,424	7.95
1,000,001 to 10,000,000	227	660,058,044	21.82
10,000,001 and above	34	1,594,012,989	52.69
	152,065	3,025,212,992	100.00

Risk Management

Overall risk management

Risk is an integral part of the Bank's business and continued success requires a certain risk appetite. Risk management is embedded in our business strategy and planning cycle. KCB identifies, monitors and continuously manages various types of risks throughout the organisation. The Bank continuously improves its risk visibility and management process on an ongoing basis.

Through the Operational Risk Management process each risk is assigned a rating (high, medium or low) based on the likelihood and severity of the risk being realised.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. 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 of the Board 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 the Risk Management Division, which undertakes reviews of risk management controls and procedures, the results of which are reported to the risk committee.

The Risk Management Division has increased the scope of its operations with a greater focus on enterprise risk in systems, processes and procedures. The Division continuously creates awareness of key risks in the Bank and in specific areas of operations. As a result, employees have a better knowledge of their operational scope and the risks inherent in their operations. All units of the Bank are provided with tools and skills to self-assess risk, identify key risk indicators, report and manage these risks. Each of the Bank's units and has developed a risk register that is regularly updated.

The Bank has an enterprise wide approach to risk management which covers the following risk areas:

INFORMATION RISK	Risk description KCB defines information risk as the threat arising from weaknesses in data integrity, system availability or weaknesses in the ICT environment. Example of Risk Data phishing, data fraud, data privacy breaches	Mechanisms and processes to identify, manage and mitigate risks IT security policy, IT operations monitoring, stringent personal information protection processes and policies.
MARKET RISK	Risk description KCB defines market risk as the potential loss of earnings or economic value due to sudden shifts in financial and economic factors. Market risk at KCB includes: Interest rate risk, foreign exchange risk, investment risk, settlement risk, liquidity risk and country risk Example of Risk Loss in economic value due to shift in interest rates	Mechanisms and processes to identify, manage and mitigate risks Regular monitoring of KCB's risk profile against risk appetite limits e.g. exposure and risk limits, liquidity and solvency ratios which are contained in the market risk framework incorporating market and country risk policies approved by the board.

COMPLIANCE RISK	Risk description Failure to adhere to new or existing legislation, regulations, prudential guidelines as well as key internal compliance policies. Example of Risk Introduction of new or changes to existing legislation, regulations and prudential guidelines	Mechanisms and processes to identify, manage and mitigate risks Identification of changes to the regulatory compliance universe, gap analysis and enhancement of the internal policy environment Monthly compliance self-assessments and validations Identification and analysis of compliance gaps Continuous compliance training for staff
REPUTATIONAL RISK	Risk description KCB defines reputational risk as the potential that negative publicity regarding the Bank's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions. This risk may result from the Bank's failure to effectively manage any or all of the other risk types Example of Risk Negative publicity	Mechanisms and processes to identify, manage and mitigate risks Strong risk management and ethics culture. Monitoring of print, electronic and social media and resolution of issues. Senior management oversight.
LENDING RISK	Risk description KCB defines Credit risk as the failure of an obligor of the Bank to repay principal or interest at the stipulated time or failure otherwise to perform as agreed. Example of Risk Default on credit facilities	Mechanisms and processes to identify, manage and mitigate risks Monitoring and reporting of loan book, setting of appetite limits, sector concentration limits, risk adjusted loan pricing, calculating the basel II /III capital requirements for credit risk and development of core risk models.
OPERATIONAL RISK	Risk description KCB defines operational risk as the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. Example of Risk Inadequate/insufficient documentation of processes or procedures Lack of inbuilt controls in procedures Health and safety issues, fraud risk	Mechanisms and processes to identify, manage and mitigate risks A robust risk management framework that ensures operational risks are identified in a timely fashion, measured and corrective action taken to cushion the bank from surprise operational risk events.

Risk Management

KCB Group Risk Management Governance Structure



The Group maintains a strong risk governance structure with the board exercising oversight through the Risk Committee and other committees of the board. Action is taken by senior management through the Executive Committee (EXCO) and other management committees which include the Assets and Liabilities Committee (ALCO) and the Group Operational Risk and Compliance Committee (GORCCO).

Risks are owned and managed by the business units as the first line of defense while the Risk Management function provides oversight as the second line of defense and the Group Internal Audit maintains an overall assurance role as the 3rd line of defense.

The Group's capital management objective is to maintain a strong capital position consistent with the expectations of various stakeholders, i.e. customers, investors and regulators, while delivering returns to shareholders and ensuring adequate capital resources are available for business growth, investment opportunities as well as adverse situations.

The Bank embarked on Basel II implementation in 2008 after obtaining approval from the regulator. Since June 2010, the Bank has adopted the Basel II Standardized Approach for credit risk and market risk and Basic Indicator Approach for operational risk. The Group views Basel II and sound adherence to prudential guidelines as part of its continuing efforts to strengthen its risk management culture and ensure that business growth is pursued across targeted segments and markets with the appropriate risk management discipline, practices and processes in place.

KCB Foundation

Stakeholder perceptions of the organisation affect business outcomes. This is why community programmes need to demonstrate value to both the community and the business. In this respect, KCB Foundation reviewed its programmes portfolio to ensure programmes not only transform the lives in the community, but directly enhance the reputation of the Bank and support business growth and sustainability.

Focus was placed on enterprise development programmes as they address the high poverty and unemployment challenges in our market. The education programmes remain relevant as they address the skills gap in the labour market. 68% of the funds disbursed by the Foundation went towards enterprise development through the Mifugo Ni Mali livestock value chain development programme and to the education programmes focused on scholarships. The remaining 32% was committed to health, environmental and humanitarian aid programmes.

The programmes undertaken in 2014 include:

Enterprise development

- The Mifugo Ni Mali – a pro-poor livestock value chain development programme that seeks to facilitate livestock farmers and commercialise the sector was launched in Baringo and Taita Taveta Counties.
- The KCB Made in Uganda project – a partnership between the KCB Foundation and the Uganda Small Scale Industries Association to enhance entrepreneurship competencies to create jobs and reduce poverty.

Education

- The KCB Scholarship Programme – in 2014 an additional 212 scholarships were awarded bringing the total scholars under our programme to 596. Recruitment of the students was conducted equitably in all the 47 Counties.
- Annual mentorship programme – the programme was successfully conducted in August at the Starehe Boys Centre. 544 of the 596 students attended (91% against a target of 80% attendance).

Health

- Kidneys for life – in 2014 three dialysis machines were provided to Muranga Level Three Hospital, Machakos level Five Hospital and the Eldoret Moi Teaching and Referral Hospital paediatric ward. These additional machines translate to increased capacity of 400 additional dialysis sessions for each hospital per. In addition 6000 people were screened for kidney disease during the medical camps held during the World Kidney Day activities and during subsequent screening camps held in Nairobi and Nanyuki.

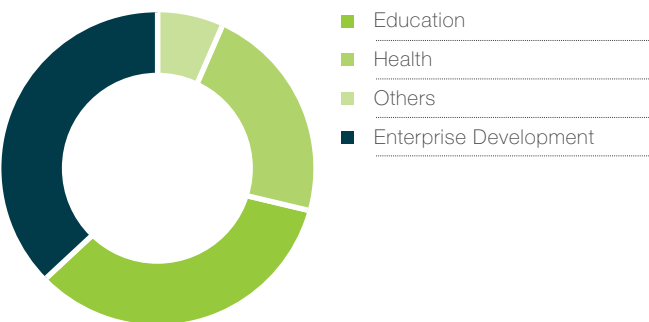
Branch Activities

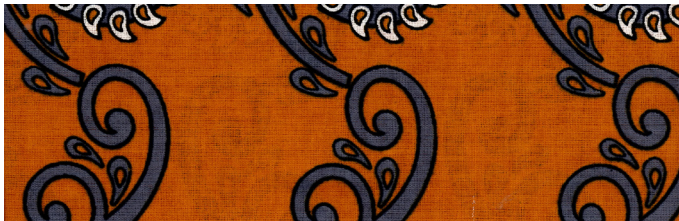
- Over 102 branches received support from the Foundation to support various community activities within their areas of operation.

Environmental Programmes

- Construction of Sand dams in Makueni and Machakos to enable farmers have water throughout the year.
- In Narok a borehole and water troughs for animals were provided in the Olare Orok Motorogi Trust to provide adequate water for their animals and for use in pasture growth and management.
- Tree growing was undertaken and over 7000 seedlings planted and conservation of riparian lands undertaken including the restoration of the Sabaki River Estuary in Kilifi and Likii River in Laikipia County.

KCB Foundation 2014 Funds Allocation KES 201,000,000

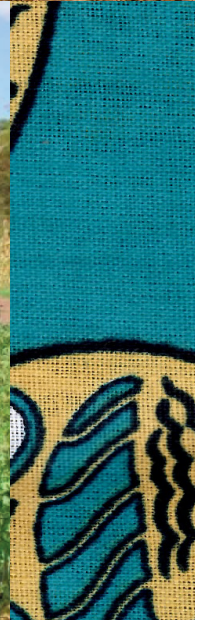




68% of the funds disbursed by the Foundation went towards enterprise development



The remaining 32% was committed to health, environmental and humanitarian aid programmes.



Pictorial



KCB Bank Group, was feted as the Best Bank in Kenya at the prestigious Euromoney Awards for Excellence 2014. (Above) KCB Chief Business Officer and Managing Director Kenya, Samuel Makome (middle) lifts the Best Bank in Kenya trophy awarded to KCB Bank Group.



During the KCB's launch of the 3rd Sustainability Report **From Left:** UNEP Executive Director Achim Steiner, KCB Group CEO Joshua Oigara, CEO Unilever East Africa and Emerging markets Marc Engel and CEO Safaricom Bob Collymore.



Comedian Churchill Ndambuki, Musician Jaguar and KCB Head of Channels pose for a photo as they take a matatu ride.



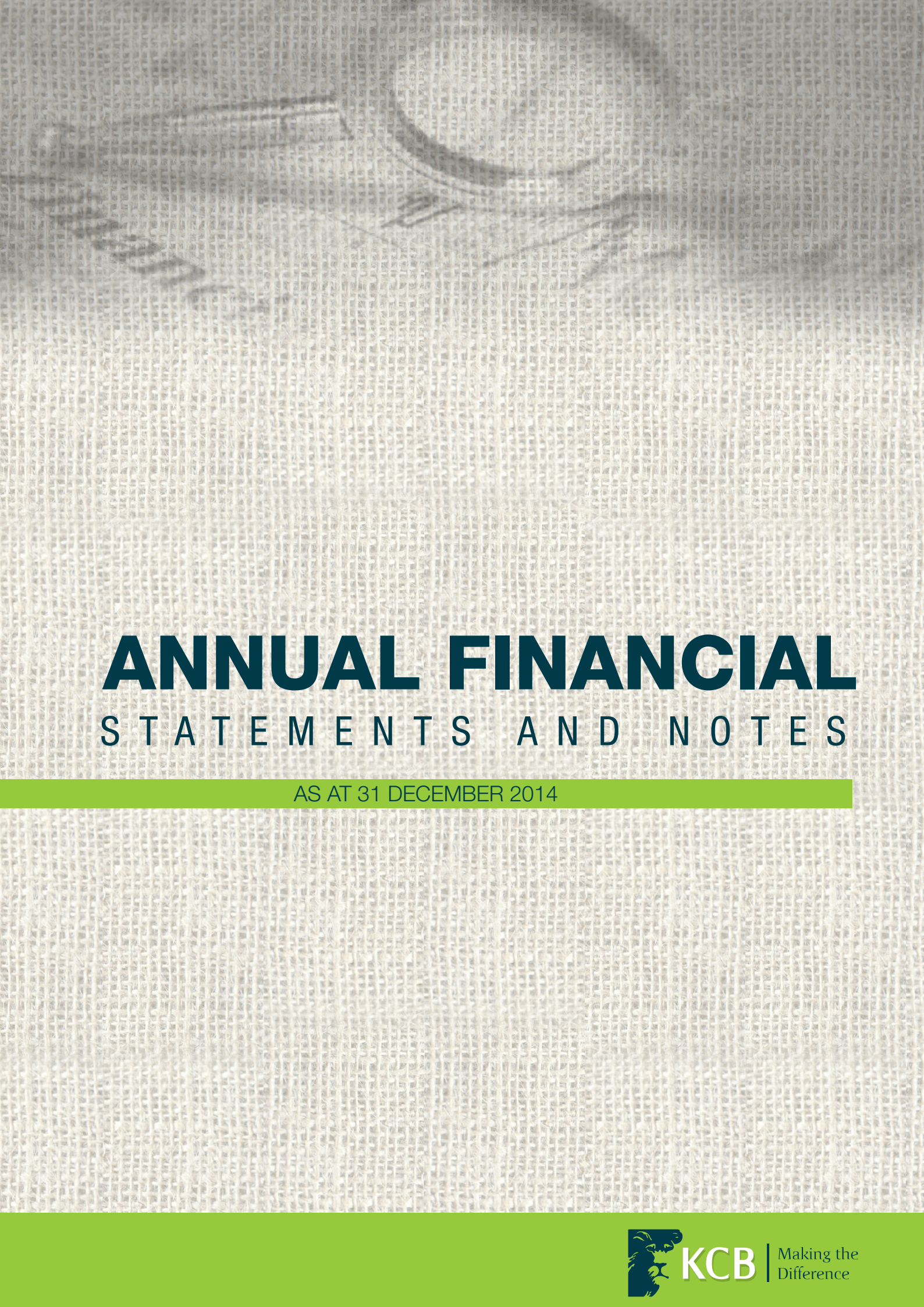
KCB Group picked three Islamic banking experts to run the Bank's Sharia Advisory Committee, heightening the roll-out of Islamic banking services in Kenya. Sheikh Ibrahim Lethome gives brief remarks during the event. KCB Group Chairman, Ngeny Biwott (left) and KCB Group CEO, Joshua Oigara (right).



Kenya's First Lady Margaret Kenyatta shakes hands with KCB Retail Director, Mrs. Annastacia Kimtai during the handing over of the mobile clinic to the Kitui County government in Kitui town. The mobile clinic will be used to offer outreach maternal and child health services in the remote areas.



KCB Bank Group cemented its position as East Africa's leading and most influential corporations by sponsoring the 2014 East African Business Summit (EABS) where the KCB Group CEO moderated a panel discussion between Kenya's President Uhuru Kenyatta and Rwanda's President Paul Kagame.



ANNUAL FINANCIAL STATEMENTS AND NOTES

AS AT 31 DECEMBER 2014



KCB

Making the
Difference

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DIRECTORS AND STATUTORY INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2014

DIRECTORS

Mr. Ngeny Biwott	-	Chairman
Mr. Joshua N. Oigara	-	Chief Executive Officer
Mr. Henry K. Rotich		
Prof. Peter K. Kimuyu	-	Retired on 9 May 2014
Eng. Jeremiah M. Ndetto	-	Retired on 9 May 2014
Mrs. Catherine Kola		
Mrs. Charity M. Muya-Ngaruiya		
Mr. Adil A. Khawaja		
Gen. (Rtd) Joseph R.E.Kibwana		
Mr. Tom D. Ipomai		
Mr. Collins O. Otiwu	-	Chief Finance Officer (Resigned on 25 July 2014)
Mr. John O.A. Nyerere	-	Appointed on 9 May 2014
Ms. Georgina M. Malombe	-	Appointed on 9 May 2014

SECRETARY

Mr. Joseph Kania
P.O. Box 48400 - 00100
Nairobi, Kenya

AUDITORS

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
ABC Place, Waiyaki Way
P.O. Box 40612 - 00100
Nairobi, Kenya

REGISTERED OFFICES AND PRINCIPAL PLACES OF BUSINESS

Kenya Commercial Bank Limited

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

KCB Bank Tanzania Limited

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

KCB Bank South Sudan Limited

KCB Plaza
Ministry Road
P.O. Box 47
Juba, Southern Sudan

KCB Bank Rwanda Limited

Avenue de la Paix
P.O. Box 5620
Kigali, Rwanda

KCB Bank Uganda Limited

Commercial Plaza
7 Kampala Road
P.O. Box 7399
Kampala, Uganda

KCB Bank Burundi Limited

Boulevard Patrice Lumumba
P.O. Box 6119
Bujumbura, Burundi

SOLICITORS

Various. A list is available at the Bank

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2014

The Directors submit their report together with the audited financial statements for the year ended 31 December 2014, in accordance with Section 22 of the Banking Act and Section 157 of the Companies Act (Cap. 486) 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 32 to the financial statements.

2. Results

The results of the Group and the Bank are set out on pages 78 and 80 respectively.

3. Dividend

The Directors recommend the payment of a dividend of KShs 6,050,426,000 which represents KShs 2.00 per share in respect of the year ended 31 December 2014 (2013 - KShs 5,968,455,000 representing KShs 2.00 per share).

4. Directors

The Directors who served during the year and up to the date of this report are set out on page 73.

All the Directors are non-executive other than the Chief Executive Officer.

5. Reserves

The reserves of the Group and Bank are set out on pages 84 to 87 and Note 41 to these financial statements.

6. Auditors

The auditors of the Bank, KPMG Kenya, continue in office in accordance with Section 159(2) of the Companies Act (Cap. 486) and subject to Section 24(1) of the Banking Act.

BY ORDER OF THE BOARD



Mr. Joseph Kania

Secretary

Date: 25 February 2015

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 DECEMBER 2014

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 78 to 158 which comprise the consolidated and separate statements of financial position at 31 December 2014, consolidated and separate statements of profit or loss and consolidated and separate 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 information.

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 Companies Act (Cap.486) 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 Companies Act (Cap.486) 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 Companies Act (Cap.486). 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 Bank and its subsidiaries' ability to continue as a going concern and have no reason to believe the Bank and its subsidiaries 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 25 February 2015 and were signed on its behalf by:



Ngeny Biwott

Chairman



Charity M. Muya-Ngaruiya

Director



Joshua N. Oigara

Chief Executive Officer



Joseph Kania

Secretary

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF

KENYA COMMERCIAL BANK LIMITED



KPMG
Certified Public Accountants
8th Floor, ABC Towers
P.O. Box 40612 - 00100 GPO
Nairobi Kenya

Telephone: +254 20 2806000
Fax: +254 20 2215695
Email: info@kpmg.co.ke
Website: www.kpmg.com/estafrica

Report on the consolidated financial statements

We have audited the financial statements of Kenya Commercial Bank Limited and its subsidiaries set out on pages 78 to 158 which comprise the consolidated and separate statements of financial position at 31 December 2014, consolidated and separate statements of profit or loss and consolidated and separate 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 information.

Directors' responsibility for the financial statements

As stated on page 75, 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 (Cap.486), 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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 consolidated and separate financial position of Kenya Commercial Bank Limited as at 31 December 2014, and the consolidated and separate financial performance and the consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act (Cap.486).

KPMGKenya is a Kenyan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

Partners
(British*)

EE Aholi
PCAppleton
BCD'Souza
JMGathecha
JL Kariuki

JL Mwaura
RB Ndung'u
JM Ndunyu
AWPringle*

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF

KENYA COMMERCIAL BANK LIMITED (CONTINUED)



KPMG
Certified Public Accountants
8th Floor, ABC Towers
P.O. Box 40612 - 00100 GPO
Nairobi Kenya

Telephone: +254 20 2806000
Fax: +254 20 2215695
Email: info@kpmg.co.ke
Website: www.kpmg.com/estafrica

Report on other legal requirements

The Companies Act (Cap.486) requires us to expressly report to you, based on our audit, that:

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

The Engagement Partner responsible for the audit resulting in this independent auditors' report is CPA Eric Aholi - P/1471.

Date: 25 February 2015

KPMGKenya is a Kenyan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

Partners
(British*)

EE Aholi
PCAppleton
BCD'Souza
JMGathecha
JI Kariuki

JL Mwaura
RB Ndung'u
JM Ndunyu
AWPringle*

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 KShs'000	2013 KShs'000
Interest income	9	47,475,715	41,613,399
Interest expense	9	(11,527,020)	(8,629,113)
Net interest income		35,948,695	32,984,286
Fees and commission income	10	12,739,217	10,500,837
Fees and commission expense	10	(796,416)	(568,089)
Net fees and commission income		11,942,801	9,932,748
Foreign exchange gain	11	4,149,902	3,942,186
Dividend income	12	103	12,009
Other operating income	13	3,142,260	991,249
Operating income		55,183,761	47,862,478
Net impairment on financial assets	14	(3,088,593)	(995,643)
Personnel costs	15	(13,993,445)	(13,469,900)
Depreciation and amortization	16	(2,387,942)	(2,679,320)
Other operating expenses	17	(11,926,352)	(10,593,856)
Profit before tax	18	23,787,429	20,123,759
Income tax expense	19(a)	(6,938,567)	(5,782,377)
Profit for the year		16,848,862	14,341,382
Attributable to:			
Owners of the parent		16,848,862	14,341,382
Basic and diluted earnings per share (KShs)	20	5.63	4.82

The notes set out on pages 90 to 158 form an integral part of these financial statements.

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 KShs'000	2013 KShs'000
Profit for the year		16,848,862	14,341,382
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Re-measurement of defined benefit pension fund	46	(254,000)	727,000
Related tax at 30%		76,200	(218,100)
		(177,800)	508,900
<i>Items that are or may be classified to profit or loss</i>			
Exchange differences on translation of foreign operations		904,406	(736,114)
Available for sale financial assets:			
- Unrealized (loss)/gain arising from measurement at fair value		30,942	(78,581)
Related tax at 30% - Current year		(9,283)	-
Related tax at 30% - Prior years underprovision		49,019	
		70,678	(78,581)
Other comprehensive income for the year, net of taxes		797,284	(305,795)
Total comprehensive income for the year		17,646,146	14,035,587
Attributable to:			
Owners of parent		17,646,146	14,035,587

The notes set out on pages 90 to 158 form an integral part of these financial statements.

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

BANK STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 KShs'000	2013 KShs'000
Interest income	9	40,883,248	36,089,074
Interest expense	9	(9,697,802)	(7,088,483)
Net interest income		31,185,446	29,000,591
Fees and commission income	10	8,503,864	7,181,783
Fees and commission expense	10	(785,106)	(553,565)
Net fees and commission income		7,718,758	6,628,218
Foreign exchange gain	11	2,192,237	1,684,575
Dividend income	12	704,105	12,009
Other operating income	13	3,033,051	882,512
Operating income		44,833,597	38,207,905
Net impairment on financial assets	14	(1,256,039)	(247,237)
Personnel costs	15	(11,232,635)	(11,077,167)
Depreciation and amortization	16	(1,673,479)	(1,833,873)
Other operating expenses	17	(8,309,689)	(7,303,437)
Profit before tax	18	22,361,755	17,746,191
Income tax expense	19(a)	(6,482,777)	(5,319,517)
Profit for the year		15,878,978	12,426,674
Attributable to:			
Owners of the parent		15,878,978	12,426,674
Basic and diluted earnings per share (KShs)	20	5.30	4.18

The notes set out on pages 90 to 158 form an integral part of these financial statements.

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

BANK STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 KShs'000	2013 KShs'000
Profit for the year		15,878,978	12,426,674
Other comprehensive income			
<i>Items that will never be reclassified to profit or loss</i>			
Re-measurement of defined benefit pension fund	46	(254,000)	727,000
Related tax at 30%		76,200	(218,100)
		(177,800)	508,900
<i>Items that are or may be classified to profit or loss</i>			
Available for sale financial assets:			
- Unrealized (loss)/gain arising from measurement at fair value		30,942	(78,581)
Related tax at 30% - Current year		(9,283)	-
Related tax at 30% - Prior years underprovision		49,019	-
		70,678	(78,581)
Other comprehensive income for the year, net of taxes		(107,122)	430,319
Total comprehensive income for the year		15,771,856	12,856,993
Attributable to:			
Owners of parent		15,771,856	12,856,993

The notes set out on pages 90 to 158 form an integral part of these financial statements.

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

	Note	2014 KShs'000	2013 KShs'000
ASSETS			
Cash and balances with Central Banks	21	71,458,780	33,940,577
Due from banks	22	13,177,999	10,402,010
Held for trading investments	23	1,115,943	6,241,984
Available-for-sale investments	24	37,193,646	39,220,350
Clearing house	25	636,020	789,203
Other assets	26	9,205,027	9,949,880
Loans and advances to customers (Net)	27	283,732,205	227,721,781
Held to maturity investments	28	58,888,386	47,533,782
Tax recoverable	19(b)	183,283	740,020
Property and equipment	29(a)	8,838,074	8,484,836
Intangible assets	30	1,374,215	1,403,180
Prepaid operating lease rentals	31	139,110	141,642
Retirement benefit asset	46	1,835,000	1,837,000
Deferred tax asset	33	2,560,636	2,445,334
		490,338,324	390,851,579
LIABILITIES			
Due to banks	34	14,295,619	6,650,977
Customer deposits	35	377,271,886	305,659,189
Bills payable	36	1,548,979	1,533,857
Other liabilities	37	8,721,507	5,753,565
Tax payable	19(b)	131,928	179,377
Long term debt	39	12,734,848	7,719,647
		414,704,767	327,496,612
EQUITY			
Share capital	40	3,025,213	2,984,228
Reserves	41	72,608,344	60,370,739
		75,633,557	63,354,967
		490,338,324	390,851,579

The financial statements set out on pages 90 to 158 were approved by the Board of Directors on 25 February 2015 and were signed on its behalf by:



Ngeny Biwott
Chairman



Charity M. Muya-Ngaruiya
Director



Joshua N. Oigara
Chief Executive Officer



Joseph Kania
Secretary

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

BANK STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

	Note	2014 KShs'000	2013 KShs'000
ASSETS			
Cash and balances with Central Banks	21	22,199,607	16,823,446
Due from banks	22	2,577,662	5,222,915
Held for trading investments	23	1,115,943	6,241,984
Available-for-sale investments	24	35,013,035	37,905,268
Clearing house	25	571,065	699,570
Other assets	26	7,931,365	7,708,976
Loans and advances to customers	27	248,823,710	198,370,069
Held to maturity investments	28	36,601,868	28,504,194
Tax recoverable	19(b)	137,516	679,218
Property and equipment	29(b)	5,299,673	5,363,433
Intangible assets	30	1,234,309	1,334,265
Prepaid operating lease rentals	31	137,000	139,496
Investment in subsidiaries and associated companies	32	11,316,942	9,827,517
Retirement benefit asset	46	1,835,000	1,837,000
Deferred tax asset	33	2,174,706	2,027,503
		376,969,401	322,684,854
LIABILITIES			
Due to banks	34	8,733,510	5,516,617
Customer deposits	35	276,749,766	237,212,782
Bills payable	36	1,468,272	1,288,642
Other liabilities	37	4,580,145	3,863,664
Balances due to group companies	38	1,660,076	5,966,928
Long term debt	39	11,610,293	7,073,182
		304,802,062	260,921,815
EQUITY			
Share capital	40	3,025,213	2,984,228
Reserves	41	69,142,126	58,778,811
		72,167,339	61,763,039
		376,969,401	322,684,854

The financial statements set out on pages 90 to 158 were approved by the Board of Directors on 25 February 2015 and were signed on its behalf by:



Ngeny Biwott

Chairman



Charity M. Muya-Ngaruiya

Director



Joshua N. Oigara

Chief Executive Officer



Joseph Kania

Secretary

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

2014:	Note	Share Capital KShs'000	Share Premium KShs'000	Statutory Credit Risk Reserve KShs'000	Translation Reserve KShs'000	Available -for-sale- Reserve KShs'000	Retained Earnings KShs'000	Defined Benefit Reserve KShs'000	Total KShs'000
At 1 January 2014		2,984,228	19,330,200	4,371,255	(1,230,488)	(163,396)	36,598,768	1,464,400	63,354,967
Profit for the year		-	-	-	-	-	16,848,862	-	16,848,862
Other comprehensive income (net of taxes)									
Foreign currency translation differences for foreign operations					904,406				904,406
Change in fair value of available for sale increments (net of tax)						70,678			70,678
Transfer to statutory credit risk reserve		-	-	893,681			(893,681)	-	-
Re-measurement of defined benefit asset/liability (net of taxes)	46	-	-	-	-	-	-	(177,800)	(177,800)
Total comprehensive income		-	-	893,681	904,406	70,678	15,955,181	(177,800)	17,646,146
Transactions with owners recorded directly in equity									
Dividend paid - 2013	42	-	-	-	-	-	(5,968,455)	-	(5,968,455)
Share based payment transactions	40	-	-	-	-	-	(245,447)	-	(245,447)
Employee share options exercised	40	40,985	805,361	-	-	-	-	-	846,346
Total contributions and distributions		40,985	805,361	-	-	-	(6,213,902)	-	(5,367,556)
At 31 December 2014		3,025,213	20,135,561	5,264,936	(326,082)	(92,718)	46,340,047	1,286,600	75,633,557

The notes set out on pages 90 to 158 form an integral part of these financial statements.

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

2013:	Note	Share Capital KShs'000	Share Premium KShs'000	Statutory Credit Risk Reserve KShs'000	Translation Reserve KShs'000	Available -for-sale- Reserve KShs'000	Retained Earnings KShs'000	Defined Benefit Reserve KShs'000	Total KShs'000
At 1 January 2013 – As previously stated		2,970,340	18,921,568	3,151,528	(494,374)	(84,815)	28,875,312	-	53,339,559
Restatement - Retirement Benefit Scheme	46	-	-	-	-	-	-	955,500	955,500
At 1 January 2013 – As restated		2,970,340	18,921,568	3,151,528	(494,374)	(84,815)	28,875,312	955,500	54,295,059
Profit for the year		-	-	-	-	-	14,341,382	-	14,341,382
Other comprehensive income (net of taxes)									
Transfer to statutory credit risk reserve		-	-	1,219,727	-	-	(1,219,727)	-	-
Foreign currency translation differences for foreign operations		-	-	-	(736,114)	-	-	-	(736,114)
Change in fair value of available for sale increments (net of taxes)		-	-	-	-	(78,581)	-	-	(78,581)
Re-measurement of defined benefit asset/liability (net of taxes)		-	-	-	-	-	-	508,900	508,900
Total comprehensive income	46	-	-	1,219,727	(736,114)	(78,581)	13,121,655	508,900	14,035,587
Transactions with owners recorded directly in equity									
Dividend paid – 2012	42	-	-	-	-	-	(5,643,646)	-	(5,643,646)
Share based payment transactions	40	-	-	-	-	-	245,447	-	245,447
Employee share options exercised	40	13,888	408,632	-	-	-	-	-	422,520
Total contributions and distributions		13,888	408,632	-	-	-	(5,398,199)	-	(4,975,679)
At 31 December 2013		2,984,228	19,330,200	4,371,255	(1,230,488)	(163,396)	36,598,768	1,464,400	63,354,967

The notes set out on pages 90 to 158 form an integral part of these financial statements.

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

BANK STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

2014:	Note	Share capital KShs'000	Share Premium KShs'000	Statutory credit risk reserve KShs'000	Available -for-sale reserve KShs'000	Retained earnings KShs'000	Defined benefit reserve KShs'000	Total KShs'000
At 1 January 2014		2,984,228	19,330,200	3,220,136	(163,396)	34,927,471	1,464,400	61,763,039
Profit for the year		-	-	-	-	15,878,978	-	15,878,978
Other comprehensive income (net of taxes)								
Transfer to statutory credit risk reserve				785,243		(785,243)	-	-
Remeasurement of defined benefit asset/liability (net of taxes)	46	-	-	-	-	-	(177,800)	(177,800)
Change in fair value of available for sale increments (net of taxes)					70,678			70,678
Total comprehensive income	-	-	-	785,243	70,678	(785,243)	(177,800)	(107,122)
Transactions with owners recorded directly in equity								
Dividend paid – 2013	42	-	-	-	-	(5,968,455)	-	(5,968,455)
Share based payment transactions	40	-	-	-	-	(245,447)	-	(245,447)
Employee share options exercised	40	40,985	805,361	-	-	-	-	846,346
Total contributions and distributions		40,985	805,361	-	-	(6,213,902)	-	(5,367,556)
At 31 December 2014		3,025,213	20,135,561	4,005,379	(92,718)	43,807,304	1,286,600	72,167,339

The notes set out on pages 90 to 158 form an integral part of these financial statements.

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

BANK STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

2013:	Note	Share Capital KShs'000	Share Premium KShs'000	Statutory Credit Risk Reserve KShs'000	Available -for-sale Reserve KShs'000	Retained Earnings KShs'000	Defined Benefit Reserve KShs'000	Total KShs'000
At 1 January 2013 – As previously stated		2,970,340	18,921,568	2,799,884	(84,815)	28,319,248	-	52,926,225
Restatement – Retirement Benefit Scheme							955,500	955,500
At 1 January 2013 – As restated		2,970,340	18,921,568	2,799,884	(84,815)	28,319,248	955,500	53,881,725
Profit for the year		-	-	-	-	12,426,674	-	12,426,674
Other comprehensive income (net of taxes)								
Transfer to statutory credit risk reserve		-	-	420,252	-	(420,252)	-	-
Change in fair value of available for sale increments (net of taxes)					(78,581)	-	-	(78,581)
Remeasurement of defined benefit asset/liability (net of taxes)		-	-	-	-	-	508,900	508,900
Total comprehensive income		-	-	420,252	(78,581)	12,006,422	508,900	12,856,993
Transactions with owners recorded directly in equity								
Dividend paid – 2012	42	-	-	-	-	(5,643,646)	-	(5,643,646)
Share based payment transactions	40	-	-	-	-	245,447	-	245,447
Employee share options exercised	40	13,888	408,632	-	-	-	-	422,520
Total contributions and distributions		13,888	408,632	-	-	(5,398,199)	-	(4,975,679)
At 31 December 2013		2,984,228	19,330,200	3,220,136	(163,396)	34,927,471	1,464,400	61,763,039

The notes set out on pages 90 to 158 form an integral part of these financial statements.

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 KShs'000	2013 KShs'000
Net cash flows generated from operating activities	43(a)	23,557,934	5,205,833
Investing activities			
Proceeds from disposal of property and equipment		56,521	84,879
Purchase of intangible assets	30	(471,429)	(807,330)
Purchase of property and equipment	29	(2,283,265)	(1,742,986)
Effects of exchange rate changes on translation of foreign operation		904,406	(736,114)
Net cash flows used in investing activities		(1,793,767)	(3,201,551)
Financing activities			
Proceeds from additional shares floated		846,346	422,520
Net movement in borrowings	39	4,574,247	(1,213,795)
Dividends paid	42	(5,968,455)	(5,643,646)
Net cash flows used in financing activities		(547,862)	(6,434,921)
Decrease in cash and cash equivalents		21,216,305	(4,430,639)
Cash and cash equivalents at the beginning of the year		35,390,277	39,820,916
Cash and cash equivalents at the end of the year	43(b)	56,606,582	35,390,277

The notes set out on pages 90 to 158 form an integral part of these financial statements.

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

BANK STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 KShs'000	2013 KShs'000
Net cash flows generated from operating activities	43(a)	(8,339,735)	5,971,970
Investing activities			
Proceeds from disposal of property and equipment		2,308	79,402
Purchase of intangible assets	30	(330,579)	(753,938)
Purchase of property and equipment	29	(1,166,377)	(1,065,935)
Investment in subsidiaries	32	(1,489,425)	(342,888)
Net cash flows used in investing activities		(2,984,073)	(2,083,359)
Financing activities			
Proceeds from additional shares floated		846,346	422,520
Repayment of borrowings	39	4,096,658	(1,551,948)
Dividends paid	42	(5,968,455)	(5,643,646)
Net cash flows used in financing activities		(1,025,451)	(6,773,074)
Increase in cash and cash equivalents		(12,349,259)	(2,884,463)
Cash and cash equivalents at the beginning of the year		16,428,601	19,313,064
Cash and cash equivalents at the end of the year	43(b)	4,079,342	16,428,601

The notes set out on pages 90 to 158 form an integral part of these financial statements.

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

1. REPORTING ENTITY

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

The Bank is incorporated in Kenya under the Kenyan Companies Act (Cap.486) and has subsidiaries in Kenya, South Sudan, Tanzania, Uganda, Rwanda and Burundi. The consolidated financial statements of the Bank as at and for the year ended 31 December 2014 comprise the Bank and its subsidiaries (together referred to as the “Group” and individually referred to as the “Bank”) and the Group’s interest in associates. The address of its registered office is as follows:

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

The Bank has a 100% ownership in Kenya Commercial Finance Company Ltd, Savings and Loan Kenya Ltd, Kenya Commercial Bank Nominees Ltd, KCB Capital Ltd, Kencom House Ltd, KCB Bank Tanzania Ltd, KCB Bank South Sudan Ltd, KCB Bank Rwanda Ltd, KCB Bank Uganda Ltd, KCB Bank Burundi Ltd, KCB Insurance Agency 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.

For Kenyan Companies Act (Cap.486) reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss in these financial statements.

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 (Cap.486).

(b) Basis of measurement

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

- Financial instruments at fair value through profit or loss are measured at fair value;
- Available-for-sale financial assets are measured at fair value;
- The liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains less unrecognised past service cost and unrecognised actuarial losses.

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

2. BASIS OF PREPARATION (continued)

(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) Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 6.

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) Adoption of new standards or amendments effective for the year ended 31 December 2014

New standard or amendments	Effective for annual periods beginning on or after
• Amendments to IFRS 10, IFRS 12 and IAS 27- Investment Entities (2012)	1 January 2014
• Amendments to IAS 32-Offsetting Financial Assets and Financial Liabilities (2011)	1 January 2014
• Amendments to IAS 36-Recoverable Amount Disclosures for Non-Financial Assets (2013)	1 January 2014
• Amendments to IAS 39-Novation of Derivatives and continuation of Hedge Accounting (2013)	1 January 2014
• IFRC 21 Levies (2013)	1 January 2014

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(a) Adoption of new standards or amendments effective for the year ended 31 December 2014**
(continued)**i. Investment entities** (*Amendments to IFRS 10, IFRS 12 and IAS 27*)

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, introduced an exception to the principle that all subsidiaries shall be consolidated. The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* instead of consolidating those subsidiaries in its consolidated and separate financial statements. In addition, the amendments introduce new disclosure requirements related to investment entities in IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements*.

The parent company does not qualify to be classified as an Investment Entity as defined in the new amendments. Further the group does not account for its investment properties at fair value through profit or loss. These amendments therefore have no effect on the Group's financial statements or the separate financial statements of the company.

ii. Offsetting Financial Assets and Financial Liabilities (*Amendments to IAS 32 Financial Instruments: Presentation*)

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

The clarification contained in these amendments reinforces the Group's policy and would not alter the manner in which offsetting arrangements are accounted for.

iii. Recoverable amount disclosures for Non-Financial assets (*Amendments to IAS 36*)

The amendments eliminate the requirement to disclose the recoverable amount of each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. The amendments require the disclosure of the recoverable amount of an asset (including goodwill) or cash-generating unit when a material impairment loss is recognized or reversed during the period for that asset or unit.

The amendments to IAS 36 have no impact on the Group's financial statements. The Group has no intangible assets or goodwill acquired in business combinations; neither does it have assets classified at fair value less costs of disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(a) Adoption of new standards or amendments effective for the year ended 31 December 2014 (continued)****iv. Novation of Derivatives and continuation of Hedge Accounting (Amendments to IAS 39)**

IAS 39 requires hedge accounting to be discontinued when the hedging instrument expires or is sold, terminated or exercised, unless the replacement or rollover of a hedging instrument into another hedging instrument is part of the entity's documented hedging strategy. The amendments clarify that an entity is required to discontinue the hedge accounting for a derivative that has been designated as a hedging instrument in an existing hedging relationship if the derivative is novated to a Central Counter Party.

The Group does not have any derivatives and is currently not employing hedge accounting. Consequently these changes would have no impact of the Group's financial statements.

v. IFRIC 21 Levies

The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached.

The legislation regarding levies in the jurisdictions where the Group operates provide for specific dates when these levies are due and payable. There is no ambiguity when the liability arises. The Group therefore complies with the interpretations proposed in IFRIC 21.

(b) New Standards and amendments issued but not are not yet effective

The group has not applied the following new or amended standards in preparing these consolidated financial statements. The group will adopt these standards as per their respective effective dates indicated below.

New standard or amendments	Effective for annual periods beginning on or after
• Amendments to IAS 19 – Defined Benefit Plan	1 July 2014
• IFRS 9 Financial Instruments (2010)	1 January 2018
• IFRS 15 Revenue from Contracts with Customers	1 January 2017
• IFRS 14 Regulatory Deferral Accounts	1 January 2016
• Amendments to IFRS 11-Accounting for acquisitions of interests in Joint Operations	1 January 2016
• Amendments to IAS 16 and IAS 38-Clarification of Acceptable Methods of Depreciation and Amortization.	1 January 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**(b) New Standards and amendments issued but not yet effective. (continued)****i. Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)**

The amendments clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service.

The amendments are effective for annual periods beginning on or after 1 July 2014, with earlier application being permitted.

The Group's defined benefits scheme does not provide for employee contributions. The adoption of these changes would not affect the amounts and disclosures of the Group's defined benefits obligations.

ii. IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The new Standard is effective for annual periods beginning on or after 1 January 2018.

Although the Group does not envisage any major impact on its financial statements on the adoption of IFRS 9 given its limited use of complex financial instruments, the Standard is still going through major changes before it finally replaces IAS 39. The full impact of these changes cannot therefore be reliably estimated at this time.

iii. IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The new Standard is effective for annual periods beginning on or after 1 January 2017. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

iv. Amendments to IFRS 11 Accounting for Acquisition of Interests in Joint Operations

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.

The new Standard is effective for annual periods beginning on or after 1 January 2016.

The amendment will only have an effect on the consolidated financial statements if such an interest is acquired. Management will assess the impact if and when that occurs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(b) New Standards and amendments issued but not yet effective. (continued)****v. Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization**

The amendments to IAS 38 Intangible assets introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated' or when the intangible asset is expressed as a measure of revenue. The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

The new Standard is effective for annual periods beginning on or after 1 January 2016.

The Group does not apply revenue-based methods of depreciation or amortization therefore these amendments are not expected to have an effect on the consolidated financial statements.

The Group did not early adopt new or amended Standards in 2014 and is in the process of assessing the impact.

(c) Basis of consolidation**(i) Subsidiaries**

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Associate

The Group has an investment in an associate which is dormant.

Associates are entities in which the Group has significant influence, but not control, over the financial and operational policies. 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. Subsequent to initial recognition, the financial statement includes the Group's share of the profit or loss and other comprehensive income of equity accounted investee until the date in which 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.

The Bank's investment in associate is accounted for at cost in its separate financial statements.

3. SIGNIFICANT ACCOUNTING POLICIE (continued)**(c) Basis of consolidation (continued)****(iii) Loss of control**

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity.

Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Transactions eliminated on consolidation

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

(d) Foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized as profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or costs". All other foreign exchange gains and losses are presented in the statement of profit or loss for the year within "other gains/losses-net".

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(d) Foreign currency (continued)****Foreign operations**

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 recognised in other comprehensive income and accumulated in equity in the translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

(e) Recognition of income and expense

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

(i) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying asset or financial liability. When calculating effective interest rate, the Group estimates future cash-flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense recognized in profit or loss include

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.
- Interest on available for sale investment securities calculated on an effective interest basis.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value through profit and loss in the income statement.

(ii) Dividend income

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

(iii) Fees and commission income

Fees and commission income and expense are recognised on an accrual basis when the service has been provided. Commission and fees arising from negotiation of transactions with third parties, or participating in the negotiation of a transaction for a third party is recognised on completion of the underlying transaction. Fees and commission that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(iv) Rental income

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

(v) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

(f) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or 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 recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, 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. It is also not recognised for temporary differences related to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future and the investor is able to control the timing of the reversal of the temporary difference.

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 recognised 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.

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(g) Financial assets and financial liabilities****(i) Recognition**

The Group initially recognizes loans and advances, deposits and debt securities on the date at which they are originated. All other financial assets and liabilities (including assets designated at fair value through profit and loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provision of the instrument.

A financial asset or 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. Subsequent to initial recognition, financial liabilities (deposits and debt securities) are measured at their amortized cost using the effective interest method except where the group designates liabilities at fair value through profit and loss.

(ii) Classification and measurement**Financial assets**

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

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.

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.

ii) Loans, advances and receivables

Loans and advances to customers and trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money directly to a debtor with no intention of trading the receivable. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(g) Financial assets and financial liabilities (continued)**

iii) Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. A sale or reclassification of more than an insignificant amount of held to maturity investments would result in the reclassification of the entire category as available for sale. Held to maturity investments includes treasury bills and bonds. They are subsequently measured at amortized cost using the effective interest method.

iv) Available for sale

Available for sale financial investments are those non derivative financial assets that are designated as available for sale or are not classified as any other category of financial assets. Available for sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in other comprehensive income and presented in the available for sale fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is re-classified to profit or loss.

Financial Liabilities

Financial liabilities are recognised when the Group enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurements of financial liabilities is at amortised cost incurred. Subsequent measurements of financial liabilities is at amortised cost using effective interest rate method. Financial liabilities will include deposits from banks or customers, trade payables from the brokerage and lines of credit for which the fair value option is not applied.

(iii) Identification and measurement of impairment of financial assets

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset than can be estimated reliably.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. Significant assets found not to be specifically impaired are then collectively assessed for any impairment that may have been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would otherwise not 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(g) Financial assets and financial liabilities (continued)****(ii) Classification and measurement (continued)**

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 judgment 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 trends. Default rate, 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 amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised as profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement.

Amounts classified as available for sale

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit and loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

If in subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise any increase in fair value is recognised through OCI. Any subsequent recovery in the fair value of an impaired available for sale equity security is always recognised in OCI.

(iv) De-recognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when 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 derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the 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 repurchase transactions.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(g) Financial assets and financial liabilities** (continued)**(ii) Classification and measurement** (continued)**(v) Offsetting of financial assets and financial liabilities**

Financial assets and financial liabilities are offset and the net amount reported in 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 realize 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.

(vi) Restructured Loans

Restructured troubled loans and advances are loans and advances for which the Group has granted a concession to the borrower due to a deterioration of the borrower's financial condition. The restructuring may include:

- A modification of terms, e.g., a reduction in the interest from that originally agreed or a reduction in the principal amount; and
- The transfer from the borrower to the bank of real estate, receivables from third parties, other assets, or equity interest in the borrower in full or partial satisfaction of the loan.

Such restructured loans and advances whose terms have been renegotiated are no longer considered to be past due but are treated as new loans after the minimum number of payments under the new arrangement have been received.

(vii) Fair value of financial assets and financial liabilities

Fair value of financial assets and financial liabilities is the price that would be received to sell an asset or paid to transfer a liability respectively in an orderly transaction between market participants at the measurement date.

(viii) Amortized cost measurement

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

(h) 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 measured at amortized cost using effective interest method in the statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(i) 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.

Property and equipment is derecognised 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 recognised net within 'other operating income' in profit or loss.

(ii) Depreciation

Depreciation is recognised 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 residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date. Changes in the expected useful life, residual values or methods of depreciation are accounted for as changes in accounting estimates.

(iii) Subsequent costs

Subsequent expenditure is capitalized only when it is probable that future economic benefits of the expenditure will flow to the Group. Recurrence repairs and maintenance are expensed as incurred.

(j) 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 measured 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 recognised 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 reporting date and adjusted if appropriate. Changes in the expected useful life, residual value or amortization method are accounted for as

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(j) Intangible assets (continued)**

changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognised 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 recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortized using the straight-line method over a period of five years.

There are no intangible assets with indefinite useful lives.

(k) Leases

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.

Where the Group is a lessor, it presents assets subject to operating leases in Statement of Financial Position according to the nature of the asset. Lease income from operating leases is recognised in income on a straight line basis over the lease term. Costs, including depreciation, incurred in earning the lease income are recognised as an expense.

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 the 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(l) 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 profit or loss 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.

(m) Investment in subsidiaries

Investments in subsidiary companies are carried at cost in the Bank's separate financial statements, 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 recognize any impairment in the value of individual investments. The impairment loss is taken to profit or loss.

(n) 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 the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as staff costs in profit or loss in the periods during which related services are rendered. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit plan is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of the economic benefits available in the form of any refunds from the plan or deductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(n) Employee benefit cost (continued)**

Remeasurements of the net defined benefit liability, which compromise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest) are recognised immediately in other comprehensive income. The Group determines the net interest (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during a period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that employees have earned in return for their service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on settlement of a defined benefit plan when the settlement occurs.

(iii) Other long term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is 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. Remeasurements are recognised in profit or loss in the periods in which they arise.

(iv) Short-term benefits

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

A 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.

(v) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(vi) Share-based payment transactions

The grant date fair value of equity-settled share-based payment awards (i.e. stock options) granted to employees is recognised 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 recognised 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 recognised as an expense with a corresponding increase in liabilities over the period in which the employees unconditionally become entitled to payment. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(o) 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.

(p) 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.

(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.

(r) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(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 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) Fair value measurements

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). That definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(v) Fair value measurements (continued)**

When measuring fair value, an entity uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.

The IFRS explains that a fair value measurement requires an entity to determine the following:

- the particular asset or liability being measured;
- for a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis;
- the market in which an orderly transaction would take place for the asset or liability; and
- the appropriate valuation technique(s) to use when measuring fair value. The valuation technique(s) used should maximise the use of relevant observable inputs and minimise unobservable inputs. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability.

4. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, market risks and operational risks. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize 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, Risk, Human Resources and Procurement and Information Technology committees, which are responsible for developing and monitoring the Group risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyze 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 suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances. For risk management reporting purposes, the Group considers and consolidates all elements of

4. FINANCIAL RISK MANAGEMENT (continued)**(a) Credit risk** (continued)

credit risk exposure.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets and settlement balances with market counterparties and reverse repurchase loans.

(i) Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Board 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 authorization structure for the approval and renewal of credit facilities. Authorization 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 categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation;
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries and product types. Regular reports are provided to the Credit Committee on the credit quality of local portfolios and appropriate corrective action is taken;
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk;
- 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
- 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 counter party. The rating scale has been developed internally and combines data analysis with credit officer judgment and is validated, where appropriate, by comparison with externally available information. Customers of the Group are segmented into five rating classes.

The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability

4. FINANCIAL RISK MANAGEMENT (continued)**(ii) Credit risk measurement** (continued)

of default changes. The rating scale is kept under review and upgraded as necessary. The Group regularly validates the performance of the rating and their predictive power with regard to default events.

The Group's internal ratings scale is as follows:

Grade 1 - Normal risk	Grade 5 - Loss
Grade 2 - Watch risk	Grade 4 - Doubtful risk
Grade 3 - Sub-standard risk	

(iii) Impairment and allowance 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 allowance recognized in the statement of financial position at year-end is derived from each of the five internal rating grades. However, the impairment allowance is composed largely of the bottom two grades.

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.

	GROUP		BANK	
	2014	2013	2014	2013
	KShs '000	KShs '000	KShs '000	KShs '000
Individually impaired				
Grade 3	3,152,735	7,246,557	2,644,390	6,151,311
Grade 4	4,239,961	2,990,862	3,231,579	2,298,697
Grade 5	11,011,438	8,990,285	7,491,975	6,749,941
Gross amount	18,404,134	19,227,704	13,367,944	15,199,949
Allowance for impairment	(9,528,190)	(6,518,471)	(6,735,126)	(4,970,039)
Carrying amount	8,875,944	12,709,233	6,632,818	10,229,910
Collectively impaired				
Grade 1	250,836,465	182,759,807	222,354,562	158,376,074
Grade 2	24,876,342	34,622,225	20,509,474	31,883,797
Gross amount	275,712,807	217,382,032	242,864,036	190,259,871
Allowance for impairment	(856,546)	(2,369,484)	(673,144)	(2,119,712)
Carrying amount	274,856,261	215,012,548	242,190,892	188,140,159
Total carrying amount	283,732,205	227,721,781	248,823,710	198,370,069

4. FINANCIAL RISK MANAGEMENT (continued)**(a) Credit risk (continued)**

The other financial assets, other than loans and advances, are neither impaired nor past due.

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. Excess allowances 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 Group bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral.

(iv) Past due but not impaired loans and advances

Past due but not impaired loans and advances are those for which contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of stage of collection of amounts owed to the Group. As at 31 December, the ageing analysis of past due but not impaired loans and advances was as follows:

	GROUP		BANK	
	2014	2013	2014	2013
	KShs '000	KShs '000	KShs '000	KShs '000
Less than 60 days	21,289,713	32,407,572	19,894,188	30,927,283
Between 60 and 120 days	2,437,594	2,825,620	1,674,695	2,130,000
Greater than 120 days	2,613,117	1,254,356	-	-
	26,340,424	36,487,548	21,568,883	33,057,283

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(v) 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 to loans and are mitigated by the same control processes and policies.

(vi) 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.

(vii) Collateral on loans and advances

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property and 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.

(viii) Concentration of credit risk

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

	GROUP		BANK	
	2014 KShs '000	2013 KShs '000	2014 KShs '000	2013 KShs '000
Concentration risk				
Construction	49,000,345	44,004,438	40,037,682	37,901,763
Consumer	78,535,792	69,632,988	72,594,699	67,207,442
Micro credit	1,668,272	1,115,346	1,668,272	1,115,346
Agriculture	10,785,493	7,741,808	9,844,314	7,079,160
SME	30,987,342	36,438,636	24,667,985	26,054,428
Corporate	123,139,696	77,676,789	107,419,027	66,101,681
	294,116,941	236,610,005	256,231,979	205,459,820

4. FINANCIAL RISK MANAGEMENT (continued)**(a) Credit risk** (continued)**(ix) 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; fixed assets such as plant and machinery; marketable securities; bank guarantees and letters of credit.

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 2014 and 2013. 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	
	2014 KShs '000	2013 KShs '000	2014 KShs '000	2013 KShs '000
Impaired loans	5,187,100	9,058,996	3,125,202	5,376,080
Performing loans	229,146,131	183,778,972	189,296,580	153,462,778
	234,333,231	192,837,968	192,421,782	158,838,858

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:

	GROUP 2014	BANK 2014	GROUP 2014	BANK 2014
At close of the year	43.7%	31.3%	35.0%	33.3%
Average for the year	44.8%	36.1%	34.9%	34.5%
Maximum for the year	48.1%	41.6%	38.3%	37.9%
Minimum for the year	40.9%	29.9%	31.0%	31.5%

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

The table below summarizes the Group's liquidity risk as at 31 December 2014 and 31 December 2013, categorized into relevant maturity groupings based on the earlier of the remaining contractual maturities or re-pricing dates.

As at 31 December 2014	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	71,458,780	-	-	-	-	71,458,780
Due from banks	13,177,999	-	-	-	-	13,177,999
Held for trading investments	1,115,943	-	-	-	-	1,115,943
Available for sale investments	341,165	548,644	1,969,225	99,885	34,234,727	37,193,646
Held to maturity investments	584,766	2,008,027	19,244,636	449,090	36,601,867	58,888,386
Loans and advances to customers	41,646,141	240,845,098	45,951	336,451	858,564	288,732,205
Clearing house	-	-	636,020	-	-	636,020
Total financial assets	128,324,794	243,401,769	21,895,832	885,426	71,695,158	466,202,979
Due to banks	1,302,695	12,992,924	-	-	-	14,295,619
Other customer deposits	263,694,576	53,885,348	53,682,622	6,009,340	-	377,271,886
Bills payable	-	-	-	-	-	-
Long term debt	-	-	2,051,151	10,683,697	-	12,734,848
Total financial liabilities	264,997,271	66,878,272	55,733,773	16,693,037	-	404,302,353
	(136,672,477)	176,523,497	(33,837,941)	(15,807,611)	71,695,158	61,900,626

The amounts in the tables above have been compiled based on undiscounted cash flows, which include estimated interest payments.

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

The table below summarizes the Group's liquidity risk as at 31 December 2014 and 31 December 2013, categorized into relevant maturity groupings based on the earlier of the remaining contractual maturities or re-pricing dates.

As at 31 December 2013	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	33,940,577	-	-	-	-	33,940,577
Due from banks	10,402,010	-	-	-	-	10,402,010
Held for trading investments	6,241,984	-	-	-	-	6,241,984
Available for sale investments	-	-	-	39,097,777	122,573	39,220,350
Held to maturity investments	746,012	437,287	6,650,720	21,849,093	17,850,670	47,533,782
Loans and advances to customers	39,132,352	187,827,587	13,820	118,445	629,577	227,721,781
Clearing house	-	-	789,203	-	-	789,203
Total financial assets	90,462,935	188,264,874	7,453,743	61,065,315	18,602,820	365,849,687
Due to banks	3,697,900	2,953,077	-	-	-	6,650,977
Other customer deposits	242,657,804	39,069,354	13,390,447	10,541,584	-	305,659,189
Bills payable	-	-	1,533,857	-	-	1,533,857
Long term debt	-	-	1,541,818	6,177,829	-	7,719,647
Total financial liabilities	246,355,704	42,022,431	16,466,122	16,719,413	-	321,563,670
	(155,892,769)	146,242,443	(9,012,379)	44,345,902	18,602,820	44,286,017

The amounts in the tables above have been compiled based on undiscounted cash flows, which include estimated interest payments.

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk

(i) 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 2014 and 31 December 2013:

	GROUP		BANK	
	2014	2013	2014	2013
	KShs '000	KShs '000	KShs '000	KShs '000
Assets in foreign currencies	95,297,505	81,242,861	55,358,124	49,812,968
Liabilities in foreign currencies	(89,149,075)	(84,667,207)	(53,559,347)	(51,206,126)
Net foreign currency exposure at the end of the year	6,148,430	(3,424,346)	1,798,777	(1,393,158)

31 December 2014:

	USD	GBP	Euro	Other	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
ASSETS					
Cash and balances with Central Bank of Kenya	3,051	422	781	352	4,606
Loans and advances to banks	-	-	-	-	-
Loans and advances to customers	46,574	1	2,150	-	48,725
Other assets	1,918	16	89	4	2,027
At 31 December 2014	51,543	439	3,020	356	55,358
LIABILITIES					
Deposits from banks	251	7	86	24	368
Deposits from customers	30,369	376	3,750	134	34,629
Other liabilities	18,127	47	346	42	18,562
At 31 December 2014	48,747	430	4,182	200	53,559
Net statement of financial position exposure	2,796	9	(1,162)	156	1,799

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Currency risk (continued)

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 Bank's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	At 31 December 2014			At 31 December 2013		
	Currency Carrying Amount	10% Depreciation	10% Appreciation	Currency Carrying Amount	10% Depreciation	10% Appreciation
Assets						
USD	51,543	(5,154)	5,154	43,441	(4,344)	4,344
GBP	439	(44)	44	504	(50)	50
Euro	3,020	(302)	302	5,483	(548)	548
Other	356	(36)	36	458	(46)	46
		(5,536)	5,536		(4,988)	4,988
Liabilities						
USD	48,747	4,875	(4,875)	45,627	4,563	(4,563)
GBP	430	43	(43)	425	43	(43)
Euro	4,182	418	(418)	4,977	498	(498)
Others	200	20	(20)	128	13	(13)
		5,356	(5,356)		5,117	(5,117)
Net increase/decrease		(180)	180		129	(129)
Tax charge at 30%		(54)	(54)		(39)	(39)
Effect on net profit		(126)	126		90	90
As a percentage of net profit		0.8%	0.8%		0.7%	0.7%

At 31 December 2014 if the shilling had weakened / strengthened by 10% against the major trading currencies, with all other variables held constant, net profit would have been KShs 126 (2013: KShs 90) lower/higher.

(ii) Interest rate risk

Interest rate 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. Assets and Liabilities Committee is the monitoring body for compliance with the set interest rate gaps.

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(iii) 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 2014	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	-	-	-	-	-	-	71,458,780	71,458,780
Due from banks	7.9%	13,177,999	-	-	-	-	-	13,177,999
Held for trading investments	10.0%	1,115,943	-	-	-	-	-	1,115,943
Available for sale investments	10.9%	341,165	548,644	1,969,225	99,885	34,138,776	95,951	37,193,646
Loans and advances to customers	16.5%	41,646,141	240,845,098	45,951	336,451	858,564	-	283,732,205
Clearing house	-	-	-	-	-	-	636,020	636,020
Held to maturity investments	10.2%	584,766	2,008,027	19,244,636	449,090	36,601,867	-	58,888,386
Total assets		56,866,014	243,401,769	21,259,812	885,426	71,599,207	72,190,751	466,202,979
Due to banks	7.9%	1,302,695	12,992,924	-	-	-	-	14,295,619
Other customer deposits	4.1%	263,694,576	53,885,348	53,682,622	6,009,340	-	-	377,271,886
Bills payable	-	-	-	-	-	-	1,548,979	1,548,979
Long term debt	-	-	-	2,051,151	10,683,697	-	-	12,734,848
Total liabilities and equity		264,997,271	66,878,272	55,733,773	16,693,037	-	1,548,979	405,851,332
Interest rate sensitivity gap		(208,131,257)	176,523,497	(34,473,961)	(15,807,611)	71,599,207	70,641,772	60,351,647

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

4. FINANCIAL RISK MANAGEMENT (continued)**(c) Market risk** (continued)**(iii) Interest rate risk** (continued)

As at 31 December 2013	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	-	-	-	-	-	-	33,940,577	33,940,577
Due from banks	8.3%	10,402,010	-	-	-	-	-	10,402,010
Held for trading investments	8.9%	6,241,981	-	-	-	-	-	6,241,981
Available for sale investments	8.9%	-	-	-	39,097,777	-	122,573	39,220,350
Loans and advances to customers	18.4%	39,132,352	187,827,587	13,820	118,445	629,577	-	227,721,781
Clearing house	-	-	-	-	-	-	789,203	789,203
Held to maturity investments	8.9%	746,012	437,287	6,650,720	21,849,093	17,850,670	-	47,533,782
Total assets		56,522,355	188,264,874	6,664,540	61,065,315	18,480,247	34,852,353	365,849,684
Due to banks	8.3%	3,697,900	2,953,077	-	-	-	-	6,650,977
Other customer deposits	4.6%	242,657,804	39,069,354	13,390,447	10,541,584	-	-	305,659,189
Bills payable	-	-	-	-	-	-	1,533,857	1,533,857
Long term debt	2.3%	-	-	1,514,818	6,204,829	-	-	7,719,647
Total liabilities and equity		246,355,704	42,022,431	14,905,265	16,746,413	-	1,533,857	321,563,670
Interest rate sensitivity gap		(189,833,349)	146,242,443	(8,240,725)	44,318,902	18,480,247	33,318,496	44,286,014

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(iii) Interest rate risk (continued)

An analysis of the Group's sensitivity to an increase or decrease in market interest rates assuming no asymmetrical movement in yield curves and a constant financial position is as follows on profit or loss:

GROUP	1% change in 2014		1% change in 2013	
	Full Year KShs'000	From June KShs'000	Full Year KShs'000	From June KShs'000
As at 31 December	877,736	928,201	891,676	836,226
Average for the period	884,706	882,213	840,719	801,410

BANK	1% change in 2014		1% change in 2013	
	Full Year KShs'000	From June KShs'000	Full Year KShs'000	From June KShs'000
As at 31 December	984,095	848,901	871,242	739,033
Average for the period	927,668	614,866	830,713	711,909

(d) 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 maximize shareholders' value.

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

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

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

- Core Capital (Tier 1), 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 credit risk reserve.

Various limits are applied to elements of the capital base.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes 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 capital management policies of the group remain consistent with prior year.

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Capital management (continued)

(iii) Interest rate risk (continued)

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

	2014 KShs'000	2013 KShs'000
Core Capital (Tier 1):		
Ordinary share capital	3,025,213	2,984,228
Retained earnings	44,312,490	37,019,471
Share premium	20,135,561	19,330,200
Less: Investments in financial institutions	(9,668,073)	(8,428,648)
Total Core Capital	57,805,191	50,905,251
Supplementary Capital (Tier 2):	13,405,197	10,293,318
Total regulatory capital	71,210,388	61,198,569
Risk weighted assets	338,995,357	272,565,071
Capital ratios:		
Total regulatory capital expressed as a percentage of total risk-weighted assets	21.0%	22.5%
Total tier 1 capital expressed as a percentage of total risk-weighted assets	17.1%	18.7%
The minimum capital ratios, as per the Central Bank of Kenya regulations, are as follows:		
Total core capital expressed as a percentage of total risk-weighted assets	14.5%	14.5%
Total tier 1 capital expressed as a percentage of total risk-weighted assets	10.5%	10.5%

As at end of the year, the minimum core capital requirement by Central Bank of Kenya was KShs. 1 billion. The Bank was in compliance with all statutory capital requirements as at end of the year.

5. OPERATIONAL RISK MANAGEMENT

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 behavior. 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.

5. OPERATIONAL RISK MANAGEMENT (continued)

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 authorization 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 program 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.

6. USE OF ESTIMATES AND JUDGMENTS

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

(a) Impairment losses on loans and advances

The estimation of potential credit losses is inherently uncertain and depends upon many factors, including general economic conditions, changes in individual customers' circumstances, structural changes within industries that alter competitive positions and other external factors such as legal and regulatory requirements.

Impairment is measured for all accounts that are identified as non-performing. All relevant considerations that have a bearing on the expected future cash flows are taken into account which include but not limited to future business prospects for the customer, realizable value of securities, the Group's position relative to other claimants and the existence of any court injunctions placed by the borrower. Subjective judgments are made in this process of cash flow determination both in value and timing and may vary from one person to another and team to team. Judgments may also change with time as new information becomes available.

The Group reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognized 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.

6. USE OF ESTIMATES AND JUDGMENTS (continued)

The Group also makes a collective impairment measurement for exposures which, although not specifically identified as non-performing, have an inherent risk of default. The portfolio constitutes a large number of loan and advances account cutting across various industries. Assets with similar risk characteristics are grouped together for the purpose of determining the collective impairment within the group.

(b) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in orderly transaction between market participants at the measurement date.

All financial instruments are initially recognized at fair value, which is normally the transaction price. Subsequent to initial recognition, some of the Group's financial instruments are carried at fair value. The fair values of quoted financial instruments in active markets are based on current prices with no subjective judgments. If the market for a financial instrument does not exist or is not active including for unlisted securities, the Group establishes fair value by using valuation techniques.

These 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. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(c) Retirement benefits

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 and a change in any of the assumptions will alter the carrying amount of pension obligations.

The assumptions used in determining the net cost (income) for pensions include the discount rate. The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations.

In determining the appropriate discount rate, the Bank considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions.

6. USE OF ESTIMATES AND JUDGMENTS (continued)**(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 programs are taken into account which involves extensive subjective judgment. 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 (i).

(e) Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax balances and deferred tax provisions in the period in which such determination is made.

(f) Share based payments

Equity based payments are recognized as an expense based on the fair value of the options rights as at the reporting date. The fair value of the options is estimated through the use of option valuation models which require inputs such as risk free interest rate, expected dividends, expected volatility and the expected option life and is expensed over the vesting period. These inputs to the model are driven by external market forces and are judgmental in nature and use of different input estimates or models could produce different option values, which would result in the recognition of higher or lower expense.

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(a) Accounting classification and fair values

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount						Fair value			
	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	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total Fair value KShs '000
2014-Group										
Financial assets										
Cash and balances with Central Banks	-	-	71,458,780	-	-	71,458,780	-	-	-	-
Due from other banks	-	-	13,177,999	-	-	13,177,999	-	-	-	-
Government securities	1,115,943	58,888,386	-	36,315,676	-	96,320,005	96,320,005	-	-	96,320,005
Investment in other securities	-	-	-	877,970	-	877,970	-	877,970	-	877,970
Loans and advances to customers	-	-	283,732,205	-	-	283,732,205	-	-	283,732,205	283,732,205
Clearing house	-	-	636,020	-	-	636,020	-	-	-	-
Total financial assets	1,115,943	58,888,386	369,005,004	37,193,646	-	466,202,979	96,320,005	877,970	283,732,205	380,930,180
Financial Liabilities										
Due to other banks	-	-	-	-	14,194,381	14,194,381	-	-	-	-
Deposits from customers	-	-	-	-	377,271,886	377,271,886	-	-	-	-
Bills payable	-	-	-	-	-	-	-	-	-	-
Long term debt	-	-	-	-	12,734,848	12,734,848	-	-	-	-
Total financial liabilities	-	-	-	-	404,201,115	404,201,115	-	-	-	-

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(a) Accounting classification and fair values (continued)

	Carrying amount					Fair value				
	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	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total Fair value KShs '000
2014-Bank										
Financial assets										
Cash and balances with Central Banks	-	-	22,199,607	-	-	22,199,607	-	-	-	-
Due from other banks	-	-	2,577,662	-	-	2,577,662	-	-	-	-
Government securities	1,115,943	36,601,868	-	34,147,776	-	71,865,587	71,865,587	-	-	71,865,587
Investment in other securities	-	-	-	865,259	-	865,259	-	865,259	-	865,259
Loans and advances to customers	-	-	248,823,710	-	-	248,823,710	-	-	248,823,710	248,823,710
Clearing house	-	-	571,605	-	-	571,605	-	-	-	-
Total financial assets	1,115,943	36,601,868	274,172,584	35,013,035	-	346,903,430	71,865,587	865,259	248,823,710	321,554,556
Financial Liabilities										
Due to other banks	-	-	-	-	8,733,510	8,733,510	-	-	-	-
Deposits from customers	-	-	-	-	276,749,766	276,749,766	-	-	-	-
Bills payable	-	-	-	-	-	-	-	-	-	-
Long term debt	-	-	-	-	11,610,293	11,610,293	-	-	-	-
Total financial assets	-	-	-	-	297,093,569	297,093,569	-	-	-	-

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(a) Accounting classification and fair values (continued)

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount					Fair value				
	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	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total Fair value KShs '000
2013-Group										
Financial assets										
Cash and balances with Central Banks	-	-	33,940,577	-	-	33,940,577	-	-	-	-
Due from other banks	-	-	10,402,010	-	-	10,402,010	-	-	-	-
Government securities	6,241,984	47,533,782	-	37,167,167	-	90,942,933	90,942,933	-	-	90,942,933
Investment in other securities	-	-	-	2,053,183	-	2,053,183	2,053,183	-	-	2,093,183
Loans and advances to customers	-	-	227,721,781	-	-	227,721,781	-	-	228,089,376	228,089,376
Clearing house	-	-	789,203	-	-	789,203	-	-	-	-
Total financial assets	6,241,984	47,533,782	272,853,571	39,220,350	-	365,849,687	92,996,116	-	228,089,376	321,125,492
Liabilities										
Due to other banks	-	-	-	-	6,650,977	6,650,977	-	-	-	-
Deposits from customers	-	-	-	-	305,659,189	305,659,189	-	-	-	-
Bills payable	-	-	-	-	1,533,857	1,533,857	-	-	-	-
Long term debt	-	-	-	-	7,719,647	7,719,647	-	-	6,724,978	6,724,978
Total financial liabilities	-	-	-	-	321,563,670	321,563,670	-	-	6,724,978	6,724,978

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(a) Accounting classification and fair values (continued)

	Carrying amount					Fair value				
	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	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total Fair value KShs '000
2013-Bank										
Financial assets										
Cash and balances with Central Banks	-	-	16,823,446	-	-	16,823,446	-	-	-	-
Due from other banks	-	-	5,222,915	-	-	5,222,915	-	-	-	-
Government securities	6,241,984	28,504,194	-	35,852,085	-	70,598,263	70,598,263	-	-	70,598,263
Investment in other securities	-	-	-	2,053,183	-	2,053,183	2,053,183	-	-	2,053,183
Loans and advances to customers	-	-	198,370,069	-	-	198,370,069	-	-	198,690,283	198,690,283
Clearing house	-	-	699,570	-	-	699,570	-	-	-	-
Total financial assets	6,241,984	28,504,194	221,116,000	37,905,268	-	293,767,446	72,651,446	-	198,690,283	271,341,729
Financial Liabilities										
Due to other banks	-	-	-	-	5,516,617	5,516,617	-	-	-	-
Deposits from customers	-	-	-	-	237,212,782	237,212,782	-	-	-	-
Bills payable	-	-	-	-	1,288,642	1,288,642	-	-	-	-
Long Term debts	-	-	-	-	7,073,182	7,083,182	-	-	6,724,978	6,724,978
Total financial liabilities	-	-	-	-	251,091,223	251,101,223	-	-	6,724,978	6,724,978

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

The following sets out the Group's basis of establishing fair values of financial instruments:

Investment securities with observable market prices including equity securities are fair valued using that information. Investment securities that do not have observable market data are fair valued either using discounted cash flow method or quoted market prices for securities with similar yield characteristics. The table above includes KShs 2,053.2 million (2013: KShs 1,934.4 million) of securities in both carrying amount and fair value columns that were measured at cost and for which disclosure at fair value was not provided because their fair value was not considered to be reliably measurable.

Loans and advances to customers are net of allowance for impairment. The estimated fair value of loans and advances represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. A substantial proportion of loans and advances are on floating rates and re-price within 12 months, hence their fair value approximates their carrying amounts.

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. Estimated fair value of fixed interest bearing deposits without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar maturities and interest rates. A substantial proportion of deposits mature within 12 months and hence the fair value approximates their carrying amounts.

Cash and balances with Central Banks are measured at amortized cost and their fair value approximates their carrying amount.

(b) Valuation hierarchy

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

	Level 1	Level 2	Level 3
Fair value determined using;	Unadjusted quoted prices in active markets for identical assets or liabilities;	Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;	Valuation models using significant non-market observable inputs.
Types of financial assets	Actively traded government and other agency securities. Listed derivative instruments. Listed equities.	Corporate and other government bonds and loans. Over-the-counter derivatives. (OTC)	Corporate bonds in illiquid markets. Highly structured OTC derivatives with unobservable parameters.
Types of financial liabilities	Listed derivative instruments.	Over-the-counter derivatives. (OTC)	Highly structured OTC derivatives with unobservable parameters.

The fair value hierarchy of financial assets and liabilities has been disclosed in note 7(a)

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

8. 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 and mortgages based lending.
- Corporate banking** – incorporating banking services such as current accounts, fixed deposits, overdrafts, loans and other credit facilities both in local and foreign currencies.
- Mortgages** – incorporating the provision of mortgage finance.
- Treasury** – operates the Group's funds management activities

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

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

Income Statement For the year ended 31 December 2014	Corporate banking KShs'000	Retail banking KShs'000	Treasury KShs'000	Mortgages KShs'000	Other KShs'000	Total KShs'000
Interest income	16,774,995	14,431,457	10,504,085	5,744,252	20,926	47,475,715
Interest expense	(7,594,655)	(2,856,856)	(601,252)	(128,008)	(346,249)	(11,527,020)
Net interest income	9,180,340	11,574,601	9,902,833	5,616,244	(325,323)	35,948,695
Net fees and commission income	4,027,881	7,572,060	5,365	84,893	252,602	11,942,801
Other income	70,798	20,708	4,206,030	-	2,993,576	7,291,112
Depreciation and amortization	(35,454)	(635,425)	(7,929)	(14,190)	(1,694,944)	(2,387,942)
Operating expenses	(3,405,237)	(11,734,096)	(858,692)	(802,771)	(12,206,441)	(29,007,237)
Profit before tax	9,838,328	6,797,848	13,247,607	4,884,176	(10,980,530)	23,787,429
Tax Expense	(1,963,415)	(1,356,632)	(2,643,797)	(974,723)	-	(6,938,567)
Profit after tax	7,874,913	5,441,216	10,603,810	3,909,453	(10,980,530)	16,848,862
For the year ended 31 December 2013						
Interest income	14,639,194	12,649,456	9,207,038	5,099,370	18,342	41,613,399
Interest expense	(4,384,264)	(3,232,167)	(965,259)	(32,210)	(15,214)	(8,629,113)
Net interest income	10,254,930	9,417,289	8,241,779	5,067,160	3,128	32,984,286
Net fees and commission income	4,090,374	5,608,198	-	61,938	172,238	9,932,748
Other income	-	123,413	3,942,186	-	879,845	4,945,444
Depreciation and amortization	(56,618)	(649,562)	(8,214)	(11,296)	(1,953,630)	(2,679,320)
Operating expenses	(1,939,655)	(10,647,174)	(482,715)	(328,170)	(11,661,685)	(25,059,399)
Profit before tax	12,349,031	3,852,164	11,693,036	4,789,632	(12,560,104)	20,123,759
Tax Expense	(2,184,771)	(681,519)	(2,068,713)	(847,374)	-	(5,782,377)
Profit after tax	10,164,260	3,783,645	9,624,323	3,942,258	(12,560,104)	14,341,382

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

8. SEGMENT REPORTING (continued)

Financial Position as at 31 December 2014	Corporate banking KShs'000	Retail banking KShs'000	Treasury KShs'000	Mortgages KShs'000	Other KShs'000	Total KShs'000
Short term funds	-	8,457,845	120,124,540	-	53,252,368	181,834,753
Loans and advances	146,419,431	96,275,672	-	41,037,102	-	283,732,205
Other assets	1,097,500	4,902,272	2,235,441	830,466	15,705,687	24,771,366
Total assets	147,516,931	109,635,789	122,359,981	41,867,568	68,958,055	490,338,324
Customer deposits	160,154,833	208,432,546	6,021,524	2,517,748	145,235	377,271,886
Borrowed funds	-	-	-	-	12,734,848	12,734,848
Other liabilities	1,017,372	246,448	12,615,887	13	10,818,313	24,698,033
Shareholders' funds	-	-	-	-	75,633,557	75,633,557
Total liabilities and shareholders' funds	161,172,205	208,678,994	18,637,411	2,517,761	99,331,953	490,338,324
As at 31 December 2013						
Short term funds	-	24,076,482	112,990,895	-	271,326	137,338,703
Loans and advances	115,929,962	75,599,091	-	36,192,728	-	227,721,781
Other assets	107,565	1,103,278	158,488	77,281	24,344,483	25,791,095
Total assets	116,037,527	100,778,851	113,149,383	36,270,009	24,615,809	390,851,579
Customer deposits	136,621,103	164,170,823	2,736,887	2,130,376	-	305,659,189
Borrowed funds	-	-	14,370,624	-	-	14,370,624
Other liabilities	577	148,475	82,399	-	7,235,348	7,466,799
Shareholders' funds	-	-	-	-	63,354,967	63,354,967
Total liabilities and shareholders' funds	136,621,680	164,319,298	17,189,910	2,130,376	70,590,315	390,851,579

Geographical information

Five of the Group companies, KCB Bank Tanzania Limited, KCB Sudan Limited, KCB Bank Uganda Limited, KCB Bank Rwanda Limited and KCB Bank Burundi Limited operate outside the domestic financial market. The following table analyses the regional segments in which the Group operates.

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

8. SEGMENT REPORTING (continued)

Geographical information (continued)

Income Statement For the year ended 31 December 2014	Kenya KShs 000	Tanzania KShs 000	South Sudan KShs 000	Uganda KShs 000	Rwanda KShs 000	Burundi KShs 000	Group Elimination KShs 000	Total KShs 000
Interest income	40,896,580	1,619,505	2,139,989	1,289,737	1,312,074	217,830	-	47,475,715
Interest expense	(9,684,014)	(691,890)	(114,181)	(437,833)	(561,415)	(37,687)	-	(11,527,020)
Net interest income	31,212,566	927,615	2,025,808	851,904	750,659	180,143	-	35,948,695
Net fees and commission income	7,971,361	518,972	2,487,744	487,045	390,640	87,039	-	11,942,801
Other income	5,943,830	203,518	1,178,807	352,970	229,323	86,666	(704,002)	7,291,112
Operating expenses	(22,604,745)	(1,398,798)	(4,264,116)	(1,573,058)	(1,215,516)	(338,946)	-	(31,395,179)
Profit before tax	22,523,012	251,307	1,428,243	118,861	155,106	14,902	(704,002)	23,787,429
Tax	(6,531,884)	(47,500)	(325,644)	4,162	(45,728)	8,027	-	(6,938,567)
Profit after tax	15,991,128	203,807	1,102,599	123,023	109,378	22,929	(704,002)	16,848,862
For the year ended 31 December 2013								
Interest income	36,092,200	1,361,413	1,629,890	1,188,474	1,175,657	165,764	-	41,613,398
Interest expense	(7,088,483)	(610,540)	(31,742)	(374,682)	(497,036)	(26,628)	-	(8,629,111)
Net interest income	29,003,717	750,873	1,598,148	813,792	678,621	139,136	-	32,984,287
Net fees and commission income	6,628,218	444,920	1,999,646	408,921	333,677	60,830	-	9,876,212
Other income	2,627,976	191,796	1,304,675	314,819	289,860	57,919	-	4,787,045
Operating expenses	(20,464,840)	(1,288,923)	(2,958,852)	(1,270,755)	(1,288,406)	(252,008)	-	(27,523,784)
Profit before tax	17,795,071	98,666	1,943,617	266,777	13,752	5,877	-	20,123,760
Tax	(5,334,448)	-	(422,225)	(41,476)	(4,383)	20,154	-	(5,782,378)
Profit after tax	12,460,623	98,666	1,521,392	225,301	9,369	26,031	-	14,341,382

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

8. SEGMENT REPORTING (continued)

Geographical information (continued)

Statement of financial position 31 December 2014	Kenya KShs 000	Tanzania KShs 000	South Sudan KShs 000	Uganda KShs 000	Rwanda KShs 000	Burundi KShs 000	Group Elimination KShs 000	Total KShs 000
Cash and short term funds	98,227,316	6,320,960	62,128,285	8,418,961	5,842,397	1,616,034	(719,198)	181,834,753
Loans and advances	248,823,710	10,586,000	7,324,578	6,461,366	9,027,464	1,509,087	-	283,732,205
Other assets	30,815,031	657,770	2,330,178	1,074,488	879,681	331,158	(11,316,942)	24,771,366
Total assets	377,866,057	17,564,730	71,783,041	15,954,815	15,749,542	3,456,279	(12,036,140)	490,338,324
Customer deposits	276,749,766	12,376,580	61,541,028	13,640,326	11,370,102	2,313,283	(719,198)	377,271,887
Borrowed funds	11,610,293	-	-	-	1,124,555	-	-	12,734,848
Other liabilities	15,644,143	2,991,643	3,859,158	155,028	1,794,720	253,342	-	24,698,034
Shareholders' funds	73,861,855	2,196,507	6,382,855	2,159,461	1,460,165	889,654	(11,316,942)	75,633,555
Total liabilities and shareholders' funds	377,866,057	17,564,730	71,783,041	15,954,815	15,749,542	3,456,278	(12,036,140)	490,338,324
31 December 2013								
Cash and short term funds	94,697,806	5,156,049	32,201,906	5,846,824	3,407,376	1,608,958	(5,851,543)	137,067,376
Loans and advances	198,370,069	8,356,322	7,899,814	6,418,519	6,146,380	530,677	-	227,721,781
Other assets	29,616,979	539,225	3,456,380	1,085,046	807,654	221,391	(9,664,253)	26,062,422
Total assets	322,684,854	14,051,596	43,558,100	13,350,389	10,361,410	2,361,026	(15,515,796)	390,851,579
Customer deposits	237,212,782	10,614,456	36,989,571	11,544,346	8,165,013	1,314,245	(181,224)	305,659,189
Borrowed funds	12,589,798	1,405,439	312,222	17,119	774,507	197,144	(925,604)	14,370,625
Other liabilities	11,119,235	250,538	2,076,817	(271,129)	221,892	23,803	(5,954,359)	7,466,797
Shareholders' funds	61,763,039	1,781,163	4,179,490	2,060,053	1,199,998	825,834	(8,454,609)	63,354,968
Total liabilities and shareholders' funds	322,684,854	14,051,596	43,558,100	13,350,389	10,361,410	2,361,026	(15,515,796)	390,851,579

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

9. INTEREST INCOME AND EXPENSE

INTEREST INCOME

Interest on loans and advances
Interest on investment in Government securities
Interest on impaired loans and advances
Interest on placements and bank balances

GROUP		BANK	
2014	2013	2014	2013
KShs'000	KShs'000	KShs'000	KShs'000
36,574,907	32,457,329	31,927,540	28,311,468
9,991,210	8,327,336	8,665,293	7,355,172
427,186	256,080	-	61,488
482,412	572,654	290,415	360,946
47,475,715	41,613,399	40,883,248	36,089,074

INTEREST EXPENSE

Interest on deposits
Interest on borrowed funds

10,633,005	7,871,928	9,019,457	6,447,162
894,015	757,185	678,345	641,321
11,527,020	8,629,113	9,697,802	7,088,483
35,948,695	32,984,286	31,185,446	29,000,591

NET INTEREST INCOME

10. FEES AND COMMISSIONS INCOME

Retail and corporate fee income
Commission income
Custodian fee income

4,472,773	4,555,703	4,097,352	3,716,968
8,103,867	5,816,744	4,243,935	3,336,425
162,577	128,390	162,577	128,390
12,739,217	10,500,837	8,503,864	7,181,783
(796,416)	(568,089)	(785,106)	(553,565)
11,942,801	9,932,748	7,718,758	6,628,218

Commission expense

11. FOREIGN EXCHANGE GAINS

Foreign currency dealings
Translation gains

3,446,211	3,275,662	1,701,938	1,440,928
703,691	666,524	490,299	243,647
4,149,902	3,942,186	2,192,237	1,684,575

12. DIVIDEND INCOME

Available for sale investments

103	12,009	704,105	12,009
103	12,009	704,105	12,009

13. OTHER OPERATING INCOME

Rent income
Profit on disposal of property and equipment
Miscellaneous income

182,808	165,445	168,371	153,495
11,560	29,847	12,669	28,849
2,947,892	795,957	2,852,011	700,168
3,142,260	991,249	3,033,051	882,512

14. NET IMPAIRMENT

Losses on financial assets

Additional specific allowance (Note 27(b))
Additional collective allowance (Note 27(c))
Bad debts recovered during the year (Note (27)b)

6,597,231	2,585,930	4,460,320	1,490,466
(1,512,938)	320,045	(1,446,569)	292,380
(1,995,700)	(1,910,332)	(1,757,712)	(1,535,609)
3,088,593	995,643	1,256,039	247,237

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

15. PERSONNEL COSTS

	GROUP		BANK	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Salaries and wages	10,806,235	9,307,687	8,662,021	7,387,889
Staff bonus costs	1,571,180	1,027,839	1,400,000	912,926
Medical expenses	628,693	517,674	531,486	440,862
Pension costs - Defined benefit scheme	112,485	158,077	67,550	82,359
Pension costs - Defined contribution scheme	411,740	563,481	276,249	475,463
Social security contributions	167,639	135,187	38,003	27,702
Share based payments expense	-	245,447	-	245,447
Restructuring costs	41,258	1,170,675	41,258	1,170,676
Other	254,215	343,833	216,068	333,843
	13,993,445	13,469,900	11,232,635	11,077,167

The number of employees of the Group as at 31 December 2014 was 7,084 (31 December 2013 – 6,489).

16. DEPRECIATION and AMORTIZATION

Depreciation of property and equipment (Note 29)	1,885,066	2,098,691	1,240,498	1,270,770
Amortization of intangible assets (Note 30)	500,344	578,095	430,485	560,605
Amortization of prepaid operating lease rentals (vNote 31)	2,532	2,534	2,496	2,498
	2,387,942	2,679,320	1,673,479	1,833,873

17. OTHER OPERATING EXPENSES

Directors' emoluments - As Directors	141,452	101,965	42,028	40,364
-As Executives	155,512	95,430	90,942	95,430
Auditors' remuneration	34,800	29,000	15,120	14,000
Advertising costs	918,329	683,274	765,103	536,201
Software license renewal fees	656,341	543,385	522,586	466,169
Computer hardware maintenance	419,056	436,043	390,464	398,889
Guard services	696,485	617,985	543,355	483,255
Depositor's protection fund premiums	398,628	359,104	350,077	325,138
Staff development cost	299,938	279,719	259,790	236,954
Corporate social responsibility	219,014	176,029	201,835	172,122
Business stationery expenses	287,924	317,239	210,513	228,582
Staff travelling expenses	551,359	440,862	300,784	244,375
Communication expenses	536,334	423,670	348,083	247,456
Consultancy services	343,299	303,490	323,934	278,858
Other administrative expenses	6,267,881	5,786,661	3,945,075	3,535,644
	11,926,352	10,593,856	8,309,689	7,303,437

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

18. PROFIT BEFORE TAX

	GROUP		BANK	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Profit before tax is arrived at after charging/ (crediting):				
Depreciation	1,885,066	2,098,691	1,240,770	1,270,770
Amortization of intangible assets	500,344	578,095	430,485	563,103
Directors' emoluments: - Fees	141,451	101,965	42,098	40,364
- Others	155,512	95,430	90,942	95,430
Auditors remuneration	34,800	29,000	15,120	14,000
Amortization of prepaid lease rentals	2,532	2,534	2,496	2,497
Net profit on sale of property and equipment	11,560	29,847	12,669	29,847
Loss on disposal of intangible assets	(50)	-	(50)	-

19. INCOME TAX

(a) Income statement

Current tax	6,952,974	6,520,863	6,489,465	6,040,597
Prior year overprovision	24,579	-	24,579	-
Deferred tax charge/(credit) (note 33)	(82,943)	(738,486)	(45,056)	(721,080)
Prior year overprovision	43,957	-	13,789	-
	6,938,567	5,782,377	6,482,777	5,319,517

Accounting profit before tax	23,787,429	20,123,759	22,361,755	17,746,191
Tax calculated using applicable tax rates based on respective Income Tax Laws	6,907,543	5,843,664	6,708,527	5,323,858
Prior year overprovision	68,536	-	38,368	-
Effects of non-allowable expenses	238,296	103,206	204,556	168,569
Effects of non-taxable income	(275,808)	(164,493)	(468,674)	(172,910)
	6,938,567	5,782,377	6,482,777	5,319,517

(b) Statement of financial position

At 1 January	560,643	(1,802,488)	679,218	(1,713,284)
Tax paid during the year	6,468,265	8,883,994	5,972,342	8,433,099
Tax charge for the year	(6,977,553)	(6,520,863)	(6,514,044)	(6,040,597)
Translation difference	-	-	-	-
At 31 December	51,355	560,643	137,516	679,218

Comprising:				
Tax recoverable	183,283	740,020	137,516	679,218
Tax payable	(131,928)	(179,377)	-	-
	51,355	560,643	137,516	679,218

The Group neither has a potential tax liability out of payment of dividends nor material tax cases pending resolution with taxation authorities.

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

20. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated on the profit attributable to ordinary shareholders of KShs 16,848 million (2013: KShs 14,341 million) and on the weighted average number of ordinary shares during the year of 3,025 million (2013: 2,984 million shares).

	GROUP		BANK	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Basic and diluted earnings per share	5.63	4.82	5.30	4.18

21. CASH AND BALANCES WITH CENTRAL BANKS

	GROUP		BANK	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Cash on hand	33,275,231	15,759,310	8,219,247	8,649,572
Balances with Central Banks:				
Cash reserve ratio	18,343,314	11,024,058	13,980,360	7,116,384
Other current accounts	19,840,235	7,157,209	-	1,057,490
	71,458,780	33,940,577	22,199,607	16,823,446

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

22. DUE FROM BANKS

	GROUP		BANK	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Balances in nostro accounts*	6,433,178	9,342,372	2,577,662	5,166,173
Placements with other banks	6,744,821	1,059,638	-	56,742
	13,177,999	10,402,010	2,577,662	5,222,915

The Group participates in the inter-bank market for the generation of revenue. Regularly, the counterparties are assessed for creditworthiness in line with the Group credit policies. The weighted average effective interest rate on balances due from other banks at 31 December 2014 was 7.9% (2013 - 8.3%).

*Nostro accounts are accounts held in other banks in a foreign country.

23. HELD FOR TRADING INVESTMENTS

	GROUP		BANK	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Treasury bonds	1,115,943	6,241,984	1,115,943	6,241,984

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 2014 was 10.0% (31 December 2013 – 8.9%).

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

24. AVAILABLE FOR SALE INVESTMENTS

	GROUP		BANK	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Quoted investments	18,691	58,025	18,691	58,025
Unquoted equity investments	64,549	64,549	64,549	64,549
Corporate bonds	782,019	1,935,375	782,019	1,935,375
Treasury bonds	36,328,387	37,162,401	34,147,776	35,847,319
	37,193,646	39,220,350	35,013,035	37,905,268

25. CLEARING HOUSE

	GROUP		BANK	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Un-cleared effects	636,020	789,203	571,065	699,570

The clearing house balance consists of items in transit to/from other banks through the Central Banks of various countries' clearing system. These items generally clear by end of the next business day.

26. OTHER ASSETS

Other receivables	5,432,828	6,240,038	4,689,730	4,721,444
Prepayments	3,772,199	3,709,842	3,241,635	2,987,532
	9,205,027	9,949,880	7,931,365	7,708,976

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

27. LOANS AND ADVANCES TO CUSTOMERS

	GROUP		BANK	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
(a) Loans and advances to customers				
Gross loans and advances to customers	294,116,941	236,610,005	256,231,979	205,459,820
Specific allowances for impairment (Note 27(b))	(9,528,190)	(6,518,740)	(6,735,126)	(4,970,039)
Collective allowances for impairment (Note 27(c))	(856,546)	(2,369,484)	(673,143)	(2,119,712)
	283,732,205	227,721,781	248,823,710	198,370,069
(b) Specific allowance for impairment loss				
At 1 January	6,518,740	6,835,904	4,970,039	5,816,636
Allowance made during the year (Note 14)	6,597,231	2,585,930	4,460,320	1,490,466
Allowance recovered/un required during the year (Note 14)	(1,995,700)	(1,910,332)	(1,757,712)	(1,535,609)
Write downs/write offs during the year	(1,592,081)	(992,762)	(937,521)	(801,454)
At 31 December	9,528,190	6,518,740	6,735,126	4,970,039
(c) Collective allowance for impairment loss				
At 1 January	2,369,484	2,049,439	2,119,712	1,827,332
Allowance made during the year (Note 14)	(1,512,938)	320,045	(1,446,569)	292,380
At 31 December	856,546	2,369,484	673,143	2,119,712

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

27. LOANS AND ADVANCES TO CUSTOMERS (continued)

(d) Maturity analysis of gross loans and advances to customers:

	GROUP		BANK	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Maturing within 1 month	43,634,881	12,562,345	39,573,225	10,446,348
Maturing after 1 month but before 3 months	21,684,140	18,812,636	19,513,795	17,577,802
Maturing after 3 months, but within 1 year	19,227,101	44,440,079	14,649,335	39,975,570
Maturing after 1 year, but within 5 years	98,620,995	88,303,877	81,926,520	72,558,301
Maturing after 5 years	110,949,824	72,491,068	100,569,104	64,901,799
	294,116,941	236,610,005	256,231,979	205,459,820

(e) Sectorial analysis of gross loans and advances to customers:

	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Private sector and individuals	228,433,929	227,784,132	190,548,967	196,633,947
Government and parastatals	65,683,012	8,825,873	65,683,012	8,825,873
	294,116,941	236,610,005	256,231,979	205,459,820

The weighted average effective interest rate on loans and advances as at 31 December 2014 was 16.5% (2013: 18.4%).

28. HELD TO MATURITY INVESTMENTS

(a) Treasury bills

	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Maturing within 1 month	584,766	1,134,934	-	500,000
Maturing between 1-3 months	1,761,811	1,072,550	-	-
Maturing between 3-6 months	18,101,831	7,081,124	-	-
Maturing between 6-12 months	667,442	9,096,466	-	-
	21,115,850	18,385,074	-	500,000

(b) Treasury bonds

	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Maturing within 1 month	-	-	-	-
Maturing between 1 and 3 months	1,146,216	273,257	900,000	273,257
Maturing between 3 and 6 months	3,620,355	1,100,000	3,300,000	1,100,000
Maturing between 6 and 12 months	755,007	3,150,307	600,000	2,743,400
Maturing between 1 and 5 years	16,815,090	13,313,607	16,366,000	12,576,000
Maturing after 5 years	15,435,868	11,311,537	15,435,868	11,311,537
	37,772,536	29,148,708	36,601,868	28,004,194

TOTAL INVESTMENT IN GOVERNMENT SECURITIES

	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
	58,888,386	47,533,782	36,601,868	28,504,194

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

28. HELD TO MATURITY

INVESTMENTS (continued)

Maturing as follows:-

Maturing within 1 month

Maturing between 1-3 months

Maturing between 3-12 months

Maturing between 1-5 years

Maturing after 5 years

	GROUP		BANK	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
	584,766	1,134,934	-	500,000
	2,908,027	1,345,807	900,000	273,257
	23,144,635	20,427,897	3,900,000	3,843,400
	16,815,090	13,313,607	16,366,000	12,576,000
	15,435,868	11,311,537	15,435,868	11,311,537
	58,888,386	47,533,782	36,601,868	28,504,194

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, United Republic of Tanzania, Government of the Republic of Burundi and the Republic of South Sudan. The bills and bonds are categorized as amounts held to maturity and carried at amortized cost.

The weighted average effective interest rates on Government securities as at 31 December 2014, was 10.2% (31 December 2013 – 8.9%).

29. PROPERTY AND EQUIPMENT

(a) GROUP

As at 31 December 2014:

COST:

At 1 January 2014

Additions

Disposals

At 31 December 2014

DEPRECIATION

At 1 January 2014

Charge for the year

Disposals

At 31 December 2014

CARRYING AMOUNT

At 31 December 2014

	Freehold and Leasehold Premises KShs'000	Leasehold Improvements KShs'000	Motor Vehicles, Furniture and Equipment KShs'000	Total KShs'000
	1,809,987	3,325,755	13,983,268	19,119,010
	-	373,532	1,909,733	2,283,265
	(7,675)	(17,495)	(968,611)	(993,781)
	1,802,312	3,681,792	14,924,390	20,408,494
	306,569	1,248,494	9,079,111	10,634,174
	17,200	308,556	1,559,310	1,885,066
	(4,127)	-	(944,693)	(948,820)
	319,642	1,557,050	9,693,728	11,570,420
	1,482,670	2,124,742	5,230,662	8,838,074

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

29. PROPERTY AND EQUIPMENT (continued)

(a) GROUP

At 1 January 2013

COST:	1,841,276	3,035,008	13,029,634	17,905,918
Additions	-	290,747	1,452,239	1,742,986
Disposals	(31,289)	-	(498,605)	(529,894)

At 31 December 2013	1,809,987	3,325,755	13,983,268	19,119,010
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DEPRECIATION

At 1 January 2013	292,159	803,009	7,915,182	9,010,350
Charge for the year	23,785	445,485	1,629,421	2,098,691
Disposals	(9,375)	-	(465,492)	(474,867)

At 31 December 2013	306,569	1,248,494	9,079,111	10,634,174
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CARRYING AMOUNT

At 31 December 2014	1,503,418	2,077,261	4,904,157	8,484,836
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(a) BANK

At 1 January 2014

COST:	1,751,168	77,308	11,809,768	13,638,244
Additions	-	-	1,166,377	1,166,377
Disposals	(7,675)	-	(967,784)	(975,459)

At 31 December 2014	1,743,493	77,308	12,008,361	13,829,162
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DEPRECIATION

At 1 January 2014	289,613	77,308	7,907,890	8,274,811
Charge for the year	16,417	-	1,224,081	1,240,498
Disposals	(4,128)	-	(981,692)	(985,820)

At 31 December 2014	301,902	77,308	8,150,279	8,529,489
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CARRYING AMOUNT

At 31 December 2014	1,441,591	-	3,858,082	5,299,673
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KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

29. PROPERTY AND EQUIPMENT (continued)

As at 31 December 2013

COST:

At 1 January 2013	1,782,457	77,308	11,225,781	13,085,546
Additions	-	-	1,065,935	1,065,935
Disposals	(31,289)	-	(481,948)	(513,237)

At 31 December 2013	1,751,168	77,308	11,809,768	13,638,244
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DEPRECIATION

At 1 January 2013	275,987	75,821	7,115,917	7,467,725
Charge for the year	23,001	1,487	1,246,282	1,270,770
Disposals	(9,375)	-	(454,309)	(463,684)

At 31 December 2013	289,613	77,308	7,907,890	8,274,811
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CARRYING AMOUNT

At 31 December 2013	1,461,555	-	3,901,878	5,363,433
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30. INTANGIBLE ASSETS

COST

	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
At 1 January	4,131,495	3,324,165	4,019,021	3,265,083
Additions	471,429	807,330	330,579	753,938
Disposals	(410,592)	-	(372,359)	-
At 31 December	4,192,332	4,131,495	3,977,241	4,019,021

AMORTISATION

At 1 January	2,728,315	2,150,220	2,684,756	2,124,151
Amortization for the year	500,344	578,095	430,485	560,605
Reclassification	(410,542)	-	(372,309)	-

At 31 December	2,818,117	2,728,315	2,742,932	2,684,756
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CARRYING AMOUNT

At 31 December	1,374,215	1,403,180	1,234,309	1,334,265
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The intangible assets are in respect of computer software purchase costs.

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

31. PREPAID OPERATING LEASE RENTALS

COST

At 1 January

Disposal

At 31 December

AMORTISATION

At 1 January

Charge for the year

At 31 December

CARRYING AMOUNT

At 31 December

GROUP		BANK	
2014	2013	2014	2013
KShs'000	KShs'000	KShs'000	KShs'000
223,035	225,800	219,575	219,575
-	(2,765)	-	-
223,035	223,035	219,575	219,575
81,393	78,859	80,079	77,581
2,532	2,534	2,496	2,498
83,925	81,393	82,575	80,079
139,110	141,642	137,000	139,496

32. INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in subsidiaries: Incorporated in Kenya: Company	Activity	Beneficial ownership %	2014 KShs'000	2013 KShs'000
Kenya Commercial Finance Co. Ltd	Dormant	100	150,000	150,000
KCB Capital	Investment	100	250,000	-
Savings and Loan Kenya Ltd	Dormant	100	500,000	500,000
KCB Foundation	Corporate Social Responsibility	100	-	-
Kenya Commercial Bank Nominees Ltd	Nominee Shareholders	100	-	-
Kencom House Ltd	Property Ownership and Management	100	748,645	748,645
KCB Insurance Agency Ltd	Insurance Brokerage	100	100	100
Incorporated outside Kenya:				
KCB Bank Tanzania Limited	Commercial Banking	100	2,245,585	2,035,587
KCB Bank South Sudan Limited	Commercial Banking	100	1,919,400	1,025,649
KCB Bank Rwanda Limited	Commercial Banking	100	1,882,584	1,746,908
KCB Bank Burundi Limited	Commercial Banking	100	936,517	936,517
KCB Bank Uganda Limited	Commercial banking	100	2,683,986	2,683,986
Investment in associates:				
United Finance Ltd	Dormant	45	125	125
			11,316,942	9,827,517

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

32. INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES (continued)

Movement in investment in subsidiaries

	2014 KShs'000	2013 KShs'000
Balance at 1 January	9,827,517	9,484,629
Additional investment in KCB Bank Tanzania Limited	210,000	50,141
Additional investment in KCB Bank Burundi Limited	-	266,517
Additional investment in KCB Sudan Limited	893,751	-
Additional investment in KCB Bank Rwanda Limited	135,674	26,230
Initial investment in KCB Capital Limited	250,000	-
Total additional investment in subsidiaries	1,489,425	342,888
Balance at 31 December	11,316,942	9,827,517

The significant risks for the various subsidiaries have been documented in Note 4.

Significant restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios. The carrying amounts of banking subsidiaries' assets and liabilities are KShs 124,509 million and KShs 111,420 million respectively (2013: KShs 83,683 million and KShs 73,636 million respectively).

33. DEFERRED TAX

	GROUP		BANK	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
At 1 January	2,445,334	1,920,618	2,027,503	1,524,523
Credit/(charge) for the year	82,943	738,486	45,056	721,080
Over provision previous year	(43,957)	-	(13,789)	-
Retirement Benefit Scheme – through Equity	76,200	(218,100)	76,200	(218,100)
AFS Reserve – through Equity	39,736	-	39,736	-
Translation difference	(39,620)	4,330	-	-
At 31 December	2,560,636	2,445,334	2,174,706	2,027,503
The net deferred tax asset is attributable to the following items:				
Depreciation over tax allowances	62,860	(34,402)	255,542	151,500
Provisions	2,597,963	2,566,524	2,430,828	2,503,603
Pension remeasurement	(551,400)	(627,600)	(551,400)	(627,600)
AFS fair value movement	8,167	-	39,736	-
Tax losses carried forward	443,046	540,812	-	-
	2,560,636	2,445,334	2,174,706	2,027,503
Comprising: Deferred tax asset	2,560,636	2,445,334	2,174,706	2,027,503

Recognition of deferred tax asset of KShs 2,560 million (2013: KShs 2,445 million) is based on management's profit forecasts (which are based on the available evidence, including historical levels of profitability), which indicates that it is probable that the group's entities will have future taxable profits against which these assets can be used.

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

34. DUE TO OTHER BANKS

	GROUP		BANK	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Deposits and balances from other banks	14,295,619	6,650,977	8,733,510	5,516,617
Payable within 1 month	3,972,972	1,244,812	-	-
Payable after 1 month, but within 3 months	10,322,647	5,406,165	8,733,510	5,516,617
Payable after 3 months, but within 1 year	-	-	-	-
	14,295,619	6,650,977	8,733,510	5,516,617

35. CUSTOMER DEPOSITS

	GROUP		BANK	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
(a) From government and parastatals:				
Payable within 1 month	39,789,890	46,582,790	39,681,688	46,509,989
Payable after 1 month, but within 3 months	13,516,012	9,854,969	13,422,398	9,434,410
Payable after 3 months, but within 1 year	11,943,147	1,614,652	11,878,895	1,614,652
Payable after 1 year, but within 5 years	700,031	781,154	700,031	781,154
	65,949,080	58,833,565	65,683,012	58,340,205
(b) From private sector and individuals:				
Payable within 1 month	223,185,437	196,496,431	143,017,249	142,321,639
Payable after 1 month, but within 3 months	40,369,337	26,161,177	35,740,107	18,725,969
Payable after 3 months, but within 1 year	41,739,475	16,509,532	31,895,167	10,171,804
Payable after 1 year, but within 5 years	6,028,557	7,658,484	414,231	7,653,165
	311,322,806	246,825,624	211,066,754	178,872,577
Total other customer deposits	377,271,886	305,659,189	276,749,766	237,212,782
Maturing as follows:				
Payable within 1 month	262,975,327	243,079,221	182,698,937	188,831,628
Payable after 1 month but within 3 months	53,885,349	36,016,146	49,162,505	28,160,379
Payable after 3 months but within 1 year	53,682,622	18,124,184	43,774,062	11,786,456
Payable after 1 year but within 5 years	6,728,588	8,439,638	1,114,262	8,434,319
	377,271,886	305,659,189	276,749,766	237,212,782

The weighted average effective interest rates on interest bearing customer deposits as at 31 December 2014 was 4.1% (31 December 2013 – 7.4%).

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

36. BILLS PAYABLE

	GROUP		BANK	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Bills payable	1,548,979	1,533,857	1,468,272	1,288,642

Bills payable consist of cheques issued by the bank to customers and suppliers that were not presented for payment at the end of the year.

37. OTHER LIABILITIES

Accruals	3,549,789	3,167,226	3,170,356	2,163,102
Other payables	5,171,718	2,586,339	1,409,789	1,700,562
	8,721,507	5,753,565	4,580,145	3,863,664

38. 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:

	2014 KShs'000	2013 KShs'000
a) Balances due from group companies		
KCB Nominees	239	-
KCB Bank Tanzania Limited	1,014,065	543,861
KCB Bank Burundi Limited	27,124	-
KCB Bank Assurance Limited	6,546	10,740
KCB Bank Rwanda Limited	100,457	127,948
KCB Capital	57,492	-
KCB Bank Uganda Limited	188,850	-
	1,394,773	682,549
b) Balances due to group companies		
KCB Bank Burundi Limited	-	77,582
Savings and Loan Kenya Limited	499,766	499,900
Kencom House Limited	444,511	449,861
Kenya Commercial Finance Company Limited	115,069	115,145
KCB Bank Uganda Limited	-	290,465
KCB Bank Rwanda Limited	-	-
KCB South Sudan Limited	1,995,503	5,216,524
	3,054,849	6,649,477
Net balances due to group companies	1,660,076	5,966,928

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

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

38. RELATED PARTY TRANSACTIONS (continued)

	GROUP		BANK	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
(c) Shareholders, Directors and key management personnel				
(i) Loans				
Government of Kenya	319,483	344,814	319,483	344,814
Directors	104,335	45,590	55,897	8,266
Senior management	322,417	257,586	244,593	257,586
	746,235	647,990	619,973	610,666
Movement in loans to Directors and senior management				
At 1 January	303,176	374,839	265,852	195,583
Loans issued during the year	217,560	13,525	104,779	94,174
Loans repayments during the year	(93,984)	(85,188)	(70,181)	(23,905)
At 31 December	426,752	303,176	300,450	265,852
Interest income earned	68,111	53,359	11,518	10,905
(ii) Deposits				
Government of Kenya	41,283,192	40,531,436	41,283,192	40,531,436
Directors	37,887	21,238	20,017	9,980
Senior management	52,981	109,179	33,308	104,536
At 31 December	41,374,060	40,661,853	41,336,517	40,645,952
Movement in deposits by Directors and senior management				
At 1 January	130,503	454,971	114,516	429,179
Deposits received during the year	601,454	650,123	562,027	387,109
Deposits withdrawn during the year	(641,089)	(974,591)	(623,218)	(701,772)
At 31 December	90,868	130,503	53,325	114,516
Interest expense	814	723	313	149

Interest rates charged on balances outstanding from related parties are approximately half of the rated that would be charged in an arm's length transaction. The interest charged on balances outstanding from related parties amounted to KShs 68,111,000 (2013: KShs 53,359,000). The interest paid on balances outstanding to related parties amounted to KShs 814,000 (2013: 723,000). The mortgages and secured loans granted are secured over property of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

No impairment losses have been recorded against balances outstanding during the period with key management personnel and no specific allowance has been made for impairment losses on balances with key management personnel at the reporting date.

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

38. RELATED PARTY TRANSACTIONS

(continued)

iii) Senior management personnel compensation

(Included under personnel costs - Note 15)

Short term employee benefits

Share based payments

Termination benefits

Post-employment benefits

	GROUP		BANK	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
	506,221	464,872	375,345	329,499
	-	-	-	-
	-	107,000	-	107,000
	-	23,025	-	22,078
	506,221	594,897	375,345	458,577

39. LONG TERM DEBT

Maturing within one year

Maturing after one year, but within five years

	GROUP		BANK	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
	3,116,995	1,735,710	1,992,440	1,571,818
	9,617,853	5,983,937	9,617,853	5,501,364
	12,734,848	7,719,647	11,610,293	7,073,182

Reconciliation of the movement in the long term debt

Group

At 1 January

Funds received IFC

Funds received Ghana International Bank

Funds received EIB-Rwanda

Payments on principal and interest

Translation differences

At 31 December

Bank

At 1 January

Funds received IFC

Funds received Ghana International Bank

Payments on principal and interest

Translation differences

At 31 December

	2014	2013
	KShs'000	KShs'000
	7,719,647	8,923,312
	3,456,000	338,153
	2,595,000	-
	572,244	-
	(2,048,997)	(1,551,948)
	440,954	10,130
	12,734,848	7,719,647
	7,073,182	8,615,000
	3,456,000	-
	2,595,000	-
	(1,954,342)	(1,551,948)
	440,453	10,130
	11,610,293	7,073,182

The long term debt includes:-

- A 7 year loan obtained from International Finance Corporation (IFC) in 2011 of USD 100 million at interest terms of Libor+2.25 p.a. %.
- A 6 year loan obtained from International Finance Corporation in 2014 of USD 40 million at interest terms of Libor +3.5 p.a. %.
- A 3 year loan obtained from Ghana International Bank (GIB) of USD 30 million in 2014 at interest terms of Libor+ 3.5 p.a. %
- Loans obtained by KCB Bank Rwanda from National Bank of Rwanda (BNR) as follows;

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

				Amount	Amount
Date	Term	Maturity date	Interest rate	RWF '000	KShs'000
4 March 2011	5 years	26 Feb 2016	9%	295,549	37,842
10 May 2011	5 years	2 May 2016	8.5%	733,708	93,945
				1,029,257	131,787

(f) A 5 year loan of RWF 4,412 million obtained by KCB Bank Rwanda from European Investment Bank at 8 p.a.%.

GROUP AND BANK	
2014 KShs'000	2013 KShs'000
3,500,000	3,500,000
3,025,213	2,984,228
2,984,228 40,985	2,970,340 13,888
3,025,213	2,984,228

The bank has an Employee Share Option plan which offers shares to the employees at a price lower than the market. This plan has however been suspended pending amendments to the vesting conditions and operations of the plan. The following is a movement of options that were outstanding at the beginning of the year.

	Weighted average exercise price 2014	Number of options price 2014	Weighted average exercise price 2013	Number of options price 2013
Outstanding at 1 January	21.46	49,098,300	21.46	76,646,500
Granted during the period	-	-	-	-
Forfeited during the period	20.65	8,113,000	20.04	13,660,864
Exercised during the period	20.65	40,985,300	20.04	13,887,336
Expired during the year	-	-	-	-
Outstanding at 31 December	-	-	21.46	49,098,300
Exercisable as at 31 December	-	-	21.46	49,098,300

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

40. SHARE CAPITAL (continued)

(b) Employee Share Option Plan (continued)

Options exercised during the period were measured at the share market price as of the date of exercise.

The fair value of the options that are outstanding is recognized as employee expenses in the income statement of the Group. There were no options outstanding as at 31 December 2014 and therefore no expenses were recognized in the profit or loss during the year (2013: KShs 245,447,000).

(c) Shareholding

The top ten largest shareholders of the Bank as at 31 December 2014 were:

Shareholder	No. of Shares	%
Permanent Secretary to the Treasury of Kenya	523,600,000	17.31
National Social Security Fund	227,436,743	7.52
Standard Chartered Kenya Nominees Ltd, A/C KE18965	65,397,900	2.16
Standard Chartered Nominees Non Resident A/C 9318	52,837,598	1.75
Standard Chartered Nominees Non Resident A/C 9069	49,992,256	1.65
Kanaksinh Karsandas Babla and Sandip Kana Sinh Babla	47,002,660	1.55
Standard Chartered Nominees A/C 9688	45,778,323	1.51
Standard Chartered Kenya Nominees Ltd A/C KE20531	45,498,900	1.50
Standard Chartered Kenya Nominees Ltd, A/C KE18972	43,240,300	1.43
Standard Chartered Nominees Non-Resd. A/C 9687	36,998,600	1.22
Total shares	1,137,783,280	37.61

The distribution of shareholders as at 31 December 2014 was as follows:

Share range	No. of shareholders	Shares held	%
1 to 5000	123,714	205,248,439	6.78
5,001-50,000	26,553	274,824,906	9.08
50,001-100,000	729	50,470,190	1.67
100,001-1,000,000	808	240,598,424	7.95
1,000,001-10,000,000	227	660,058,044	21.82
10,000,001 and above	34	1,594,012,989	52.70
	152,065	3,025,212,992	100.00

41. RESERVES

	GROUP		BANK	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Retained earnings	46,340,047	36,598,768	43,807,304	34,927,471
Share premium	20,135,561	19,330,200	20,135,561	19,330,200
Available-for-sale reserve	(92,718)	(163,396)	(92,718)	(163,396)
Statutory credit risk reserve	5,264,936	4,371,255	4,005,379	3,220,136
Re-measurement of defined pension fund	1,286,600	1,464,400	1,286,600	1,464,400
Translation reserve	(326,082)	(1,230,488)	-	-
	72,608,344	60,370,739	69,142,126	58,778,811

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

41. RESERVES (continued)

Share premium arises from issue of shares at a price higher than the par value of the shares. These are being applied in business expansion by the Group. During the year, 40,985,000 (2013: 13,888,000) ordinary shares were issued at KShs 20.65 per share leading to a share premium of KShs 19.65 per share issued.

The **available-for-sale reserve** arises from marking to market of investment securities classified under available-for-sale category. The reserves are recognized in income statement once the underlying asset has been derecognized. This amount is not available for distribution.

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. This amount is not available for distribution.

42. 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 8th May 2015, a final dividend in respect of the year ended 31 December 2014 of KShs 6,050,425,984 (2013 – KShs 5,968,455,000) for every ordinary share of KShs1 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.

Dividends per share (KShs.)

Group

At 1 January

Dividend proposed

Dividend paid

At 31 December

Company

At 1 January

Dividend proposed

Dividend paid

At 31 December

GROUP AND BANK	
2014	2013
KShs'000	KShs'000
2.00	2.00
476,275	151,466
6,050,426	5,968,455
(5,968,455)	(5,643,646)
558,246	476,275
476,275	151,466
6,050,426	5,968,455
(5,968,455)	(5,643,646)
558,246	476,275

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

43. NOTES TO THE STATEMENT OF CASH FLOWS

	GROUP		BANK	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
(a) Cash flows from operating activities				
This has been derived as follows:-				
Profit before tax	23,787,429	20,123,759	22,361,755	17,746,191
Adjustments for:				
Depreciation of property and equipment	1,885,066	2,098,691	1,240,498	1,270,770
Amortization of prepaid operating lease rentals	2,532	2,534	2,496	2,497
Amortization of intangible assets	500,344	578,095	430,485	560,605
Retirement benefit expense	(252,000)	(61,000)	(252,000)	(61,000)
Share based payment	(245,447)	245,447	(245,447)	245,447
Profit on disposal of leasehold property	-	2,765	-	-
Loss on disposal of intangible property	50	-	50	-
Profit on disposal of property and equipment	(11,560)	(29,847)	(12,669)	(29,847)
Operating profit before movements in operating assets and liabilities	25,666,414	22,960,444	23,525,168	19,734,663
Cash reserve ratio	(7,319,256)	2,522,120	(6,863,976)	4,306,108
Available for sale investments	2,057,646	(23,382,056)	2,923,175	(22,066,974)
Held to maturity investments	(10,342,552)	12,462,180	(7,970,931)	10,690,541
Effects of foreign exchange rates on long term debt and deferred tax	480,574	5,800	440,453	10,130
Loans and advances	(56,010,424)	(16,057,555)	(50,453,641)	(11,347,405)
Balances due from group companies	-	-	(4,306,852)	281,680
Other assets	898,036	(3,713,980)	(93,884)	(2,974,092)
Other customer deposits	71,612,697	17,621,822	39,536,984	13,719,504
Other liabilities	2,983,064	1,671,052	896,111	2,050,914
Cash flow from operating activities	30,026,199	14,089,827	(2,367,393)	14,405,069
Income taxes paid	(6,468,265)	(8,883,994)	(5,972,342)	(8,433,099)
Net cash flows from operating activities	23,557,934	5,205,833	(8,339,735)	5,971,970
(b) Analysis of cash and cash equivalents				
Balances with Central Banks	19,840,235	7,157,209	-	1,057,490
Cash on hand	33,275,231	15,759,310	8,219,247	8,649,572
Held to maturity investments	3,492,793	2,480,741	900,000	773,257
Due from banks	13,177,999	10,402,010	2,577,662	5,222,915
Due to banks	(14,295,619)	(6,650,977)	(8,733,510)	(5,516,617)
Held for trading	1,115,943	6,241,984	1,115,943	6,241,984
	56,606,582	35,390,277	4,079,342	16,428,601

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, KShs. 18,343 million (2013 KShs. 11,024 million) being the cash reserve requirement held with the Central Banks which is not available for use by the Group.

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

43. NOTES TO THE STATEMENT OF CASH FLOWS

The cash and cash equivalent components disclosed above are same amounts included in the statement of financial position except held to maturity investments, whose reconciliation is as follows:

	GROUP		BANK	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Balance as per statement of cash flows	3,492,793	2,480,741	900,000	773,257
Balances with more than three months maturity from the acquisition date	55,395,593	45,053,041	35,701,868	27,730,937
Balance as per statement of financial position	58,888,386	47,533,782	36,601,868	28,504,194

44. 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	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Capital commitments contracted for at year end	231,080	127,104	231,080	59,161
Loans committed but not disbursed at year end	2,308,249	41,868,926	2,308,249	41,617,845
Foreign currency commitments	3,396,636	415,369	1,859,996	377,839

Commitments to extend credit represent contractual commitments to make loans and other credit facilities to counterparties who, as per the Group credit risk rating model, are rated as either normal or watch. 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.

45. CONTINGENT LIABILITIES

	GROUP		BANK	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Letters of credit, acceptances, guarantees, indemnities and other engagements entered into on behalf of customers at year end	108,824,439	121,793,806	104,599,410	119,086,030

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.

45. CONTINGENT LIABILITIES (continued)

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.

46. RETIREMENT BENEFIT OBLIGATIONS**KCB Pension Fund and Staff Retirement Benefit Scheme**

The Bank operates a funded defined benefit plan. The Fund closed to new entrants effective 1 June 2006. The Fund is non-contributory with the Bank responsible for the cost of benefits accruing. The Fund is established under trust. The Fund assets are invested in a variety of asset classes comprising Government securities, corporate bonds, call and term deposits, investment properties, shares and off shore investments. Old Mutual Asset Managers and Pine Bridge Investments (East Africa) limited are responsible for the investment of assets.

Characteristics and risks of the Fund

The Fund is registered under irrevocable trust with the Retirement Benefits Authority. The Retirement Benefits Act, 1997 ("the Act") and the Regulations under the Act require the Fund to maintain a funding level of 100%. Where the funding level is below, such deficits are required to be amortized over a period not exceeding 6 years.

- The Fund is managed by a Board of Trustees. The Board is responsible for the overall operation of the Fund including making sure benefits are paid to beneficiaries on time.
- 36.3% of the Fund assets are invested in property assets. The exposure is a concentration risk to the property market for the Fund and, by extension, the Company.
- Following the closing of the Fund as at 1 June 2006, some active in-service members opted to transfer their accrued benefits under the Fund to the new Defined Contribution Plan established by the Company. The Fund therefore comprises mainly of pensioners and deferred pensioners, although some in-service members remain in the Fund. Some of the main risks relating to the benefits under the Fund are the rates of pension increases and the rates of return earned on the Fund assets. For the in-service members, rates of salary escalation will also have a direct bearing on the benefits paid under the Fund. In addition, the pension benefits are payable for the duration of the life of the pensioners. Therefore, the Fund's post-retirement mortality experience with respect to the pensioners will also have an impact on the liabilities under the Fund.

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

46. RETIREMENT BENEFIT OBLIGATIONS (continued)

The information below summarizes the scheme assets and liabilities:

Composition of fund assets based on the Investment Manager's reports as at 31st December 2014.

Asset Class	KShs'000	Percentage
Property	3,124,000	36.7%
Government securities	1,948,000	22.9%
Fixed and term deposits	290,000	3.4%
Quoted equities	2,473,000	29.1%
Corporate bonds	479,000	5.7%
Cash and demand deposits	190,000	2.2%
Total	8,504,000	100%

Changes in the present value of the defined benefit obligation over the year:

	2014 KShs'000	2013 KShs'000
At start of year	6,472,000	6,355,000
Current service cost (net of employer contributions)	66,000	134,000
Interest cost	831,000	727,000
Actuarial gains/(losses) due to experience adjustments	-	636,000
Actuarial gain/(loss) due to changes in assumptions	-	(657,000)
Benefits paid	(700,000)	(723,000)
At end of year	6,669,000	6,472,000

Changes in the fair value of plan assets over the year

At start of year	8,309,000	7,404,000
Interest income on plan assets	1,080,000	849,000
Employer contributions	69,000	73,000
Actuarial gains/(loss)	(254,000)	706,000
Benefits paid	(700,000)	(723,000)
At end of year	8,504,000	8,309,000

The amounts recognised in the statement of financial position are determined as follows:

	2014 KShs'000	2013 KShs'000
Present value of fund obligations	(6,669,000)	(6,472,000)
Fair value of plan assets	8,504,000	8,309,000
Asset recognized in the statement of financial position	(1,835,000)	(1,837,000)

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

46. RETIREMENT BENEFIT OBLIGATIONS (continued)

Reconciliation of asset in the statement of financial position

	2014 KShs'000	2013 KShs'000
At start of year	1,837,000	1,049,000
Net expense recognised in statement of profit and loss	183,000	12,000
Employer contribution	69,000	73,000
Amount recognised in Other Comprehensive Income	(254,000)	727,000
At end of year	1,835,000	1,837,000

The amount recognised in profit and loss for the year are as follows;

Service Cost

Current service cost (employer)

Total Service Cost

Interest Cost

Interest cost on defined benefit obligation

Interest income on plan assets

Interest on the effect of the asset ceiling

Net Interest cost on Balance Sheet liability

	(66,000)	(134,000)
Total Service Cost	(66,000)	(134,000)
	(831,000)	(727,000)
	1,080,000	849,000
	-	-
	249,000	122,000
Net included in profit and loss in respect of the scheme	183,000	(12,000)

Re-measurement (Other comprehensive income)

Actuarial (gain)/loss – obligation

Return on plan assets (excluding amount in interest cost)

Amount recognized in Other comprehensive income

	2014 KShs'000	2013 KShs'000
	-	21,000
	(254,000)	706,000
	(254,000)	727,000

The principal actuarial assumptions used are as follows:

Actuarial Assumptions

	2014	2013
Discount Rate (% p.a.)	13.5%	13.5%
Future salary increases (% p.a.)	8.5%	8.5%
Future pension increases (% p.a.)	0.0%	0.0%
Mortality (pre-retirement)	A1949-1952	A1949-1952
Mortality (post-retirement)	a(55) ultimate	a(55) ultimate
Withdrawals (voluntary)	At rates consistent with similar arrangements.	At rates consistent with similar arrangements.
Retirement age	55 years	55 years

KENYA COMMERCIAL BANK LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

46. RETIREMENT BENEFIT OBLIGATIONS (continued)

Sensitivity Analysis

The results of the actuarial valuation will be more sensitive to changes in the financial assumptions than changes in the demographic assumptions. In preparing the sensitivity analysis of the results to the discount rate used, we have relied on our calculations of the duration of the liability. Based on this methodology, the results of our sensitivity analysis are summarized in the table below:

	Current discount rate	Discount rate +1
Present Value of Obligation	KShs 6,669,000	KShs 6,259,000

Given a large portion of the liability is in respect of inactive members, the sensitivity of the liability to a change in the salary escalation assumption will not be as significant as a change to the discount rate as it affects only in service members.

47. OPERATING LEASE COMMITMENTS

Operating lease commitments – Group as lessee

Non-cancellable operating lease rentals are payable as follows:

	2014 KShs'000	2013 KShs'000
Within 1 year	64,077	36,826
After 1 year but less than 5 years	734,732	527,825
After 5 years	497,140	357,141
	1,295,949	921,792
Operating leases – Group as lessor		
Within 1 year	711,192	510,194
After 1 year but less than 5 years	249,349	179,130
After 5 years	6,726	4,832
	967,267	694,156

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.

NOTICE OF THE 44TH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 44TH ANNUAL GENERAL MEETING of the Shareholders of KENYA COMMERCIAL BANK LIMITED will be held at the Tsavo Ballroom, Kenyatta International Conference Centre, Nairobi, on Friday, 15 May, 2015 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 and Financial Statements for the Year ended 31 December, 2014

To receive, consider and, if thought fit, adopt the Consolidated Financial Statements for the year ended 31 December, 2014 together with the reports of the Group Chairman, the Group Chief Executive Officer and the Auditors' thereon.

B. Dividend

To declare a first and final dividend of KES 2 per Share and approve the closure of the Register of Members on 19 May, 2015, after the Annual General Meeting.

C. Election of Directors

In accordance with Article 94 of the Company's Articles of Association, the following Directors retire by rotation, and being eligible, offer themselves for re-election:

- (a) Mr. Ngeny Biwott
- (b) Mrs. Charity Muya-Ngaruiya
- (c) General (Rtd) Joseph Kibwana

D. Remuneration of Directors

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

E. 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.

F. Remuneration of the Auditors

To authorize Directors to fix the remuneration of the Auditors.

3. Special Business

To consider and, if thought fit, to pass the following resolutions as recommended by the Directors:

A. Ordinary Resolutions

(a) Ratification of Incorporation

THAT the incorporation of KCB Bank Kenya Limited as a wholly-owned subsidiary of the Company, having such authorised, issued and paid up capital as the Board may determine from time to time, be and is hereby ratified.

(b) Approval of Re-organisation

THAT subject to and on the terms and conditions set out in the Transfer Agreement:



Notice of the Annual General Meeting

- (i) KCB Bank Kenya Limited be and is hereby authorised to apply for and obtain a banking licence from the Central Bank of Kenya as provided in the Banking Act and the Prudential Guidelines (2013);
- (ii) the Company be and is hereby authorised to transfer the Company's banking business, assets and liabilities (excluding certain assets and liabilities) to KCB Bank Kenya Limited pursuant to Section 9 of the Banking Act subject to obtaining all required regulatory and tax approvals and/or exemptions in terms acceptable to the Directors;
- (iii) the Company be and is hereby authorised to acquire such additional shares in the share capital of KCB Bank Kenya Limited as determined in the Transfer Agreement, in consideration for the transfer of the Company's banking business, assets and liabilities (excluding certain assets and liabilities) to KCB Bank Kenya Limited;
- (iv) the Company be and is hereby authorised to apply for and obtain the Central Bank of Kenya's approval to conduct the business of a non-operating holding company as provided in the Banking Act and the Prudential Guidelines (2013).

B: Special Resolutions

(a) Change of name

THAT subject to completion of the transfer of the Company's banking business, assets and liabilities (save for the excluded assets and liabilities) to KCB Bank Kenya Limited occurring ("Completion"), the name of the Company be and is hereby changed from "Kenya Commercial Bank Limited" to "KCB Group Limited" with effect from the date set out in the Certificate of Change of Name issued in that regard by the Registrar of Companies.

(b) Alteration of Memorandum of Association

THAT subject to Completion, the Memorandum of Association of the Company be and is hereby amended by inserting the following new objects as objects 3(1)(A), 3(1)(B), and 32(A):

3(1)(A) *'To carry on the business of a non-operating holding company as defined in the Banking Act (Chapter 488 of the Laws of Kenya)'*

3(1)(B) *'To co-ordinate the administration of and to provide advisory, administrative, management and other services in connection with the activities of any company which is its subsidiary'*

32(A) *'To establish and maintain, and to contribute to, any trust or other scheme for encouraging or facilitating the holding of shares or debentures in the Company by or for the benefit of its employees or former employees, or those of its subsidiaries or holding company or other subsidiaries of its holding company or by or for the benefit of such other persons as may from time to time be permitted by law, or any trust or other scheme for sharing profits with its employees or those of its subsidiaries and/or associated companies, and so far as the same may be permitted by law to lend money to the Company's employees with a view to enabling them to acquire shares in the Company, its subsidiaries or its holding Company.'*

(c) Alteration of Articles of Association

- (i) THAT the Articles of Association of the Company be and are hereby amended by inserting the following new Articles 82(A), 91(A), 110(A), 121(A), 121(B) and 139:

82(A)

- (i) *Any Director may appoint any person who is approved by the Board to be an Alternate Director of the Company, and may at any time remove any Alternate Director so appointed by him from office. An Alternate Director so appointed shall not be entitled to appoint an alternate to himself. Every person acting as an Alternate Director shall be an officer of the Company, and he shall not be deemed to be the agent of the Director by whom he was appointed.*
- (ii) *An Alternate Director shall be entitled to receive notices of all meetings of the Board and to attend and vote as a Director at any such meeting at which the Director appointing him is not personally present, and generally to perform all the functions of his appointer as a Director in his absence, including that of being counted as part of a quorum at any such meeting.*
- (iii) *An Alternate Director shall ipso facto cease to be an Alternate Director if his appointer ceases for any reason to be a Director or if of his own volition he resigns.*
- (iv) *Every appointment and removal of an Alternate Director shall be effected by notice in writing to the Company under the hand of the Director making or revoking such appointment.*
- (v) *A Director or any other person duly appointed as an Alternate Director may act to represent more than one Director, and a Director appointed as an Alternate Director shall be entitled at Board meetings to one vote for every Director whom he represents in addition to his own vote (if any) as a Director.*
- (vi) *Subject to Article 79, the remuneration of an Alternate Director shall be payable out of the remuneration of his appointer and shall be such proportion thereof as shall be agreed between them.*

- 91(A) *The Directors shall cause to be kept a register of the Directors' holdings of shares and debentures of the Company and of its subsidiaries or holding company (if any) required by law, and shall cause the same to be available for inspection during the period and by the persons prescribed, and shall produce the same at every annual general meeting as required by law.*

- 110(A) *The Directors, and any committee of Directors, shall be deemed to meet together if, being in separate locations, they are nonetheless linked by conference telephone or other audio or audio-visual communication equipment which allows those participating to hear and speak to each other and a quorum for such meeting shall nevertheless be in accordance with Article 104(b). Such meeting shall be deemed to take place where the largest group of those participating is assembled, or if there is no such group, where the Chairman of the meeting is.*

- 121(A) *The Board may with the sanction of an ordinary resolution of the Company, and upon such terms and conditions as they shall think fit, resolve to offer to all Members the right to receive an allotment of additional fully paid ordinary shares in lieu of a cash*

Notice of the Annual General Meeting

dividend and, upon the election of a Member to receive such scrip dividend, may appropriate the net cash dividend to which such Member would otherwise be entitled and apply such sum in paying up in full unissued ordinary shares in the capital of the Company at such price as shall have been determined in accordance with the ordinary resolution sanctioning the scrip dividend and allot such ordinary shares credited as fully paid to those Members who shall have elected to receive the dividend in scrip.

- 121(B) The Board may offer, implement and maintain in accordance with such terms and conditions as the Board may determine from time to time a share dividend reinvestment plan or plans for the benefit of the holders of ordinary shares of the Company whereby such holders may invest the net cash amount due to them in respect of any dividend (or any part thereof) declared or paid on all or any ordinary shares held by them in purchasing, from the stock exchange or stock exchanges on which the Company's shares are listed, ordinary shares in the capital of the Company on the terms of any such plan or elect for any other option in respect of the whole or any part of any dividend on all or any ordinary shares of the Company.

UNCLAIMED FINANCIAL ASSETS

- 139 The Company may, pursuant to and in accordance with the provisions of the Unclaimed Financial Assets Act, 2011 (as amended or modified from time to time) or any other law, deliver or pay to any prescribed regulatory authority any unclaimed assets including, but not limited to shares in the Company presumed to be abandoned or unclaimed in law and any dividends or interest thereon remaining unclaimed beyond prescribed statutory periods. Upon such delivery or payment, the unclaimed assets shall cease to remain owing by the Company and the Company shall no longer be responsible to the owner or holder or his or her estate, for the relevant unclaimed assets.

- (ii) THAT Article 129 of the Articles of Association of the Company be and is hereby amended by inserting the following at the end of the Article:

The Accounts may be sent or otherwise made available by electronic means and not by post. This Article shall not require a copy of the Accounts to be sent or otherwise made available by electronic means to any person whose electronic or postal address the Company is not aware of, nor to more than the first named of any joint holders of any securities of the Company. The Company may also send the Accounts to all persons entitled thereto by publishing the Accounts on the Company's official website provided that the Company shall send to every Member or publish a summary of the financial statements and Auditors report in two daily newspapers with national circulation for two consecutive days drawing attention to the website on which the Accounts in full may be read and the address to which a request for a printed copy of the Accounts may be submitted to the Company Secretary and upon any such publication the Accounts shall be deemed to have been sent to every Member or other person entitled to receive a copy of the Accounts.

- (iii) THAT Article 137 of the Articles of Association of the Company be and is hereby amended by inserting the following new sub-articles:

- (c) *All new securities of the Company shall be dematerialized and held in electronic form with a central depository approved by the Capital Markets Authority (established under the Capital Markets Act, Chapter 485A of the Laws of Kenya).*
- (d) *No certificate shall be issued for the securities held by the central depository.*

Notice of the Annual General Meeting

- (e) *The Central Depositories Act, 2000 (the CD Act) (as amended or modified from time to time) shall apply to a central depository in respect of dematerialized securities held by it on behalf of Members.*
- (f) *The rights and obligations of the Members and matters connected therewith or incidental thereto shall be governed by the provisions of the CD Act and the regulations and rules made thereunder.*

4. Any Other Business

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

Dated at Nairobi this 22nd day of April, 2015.

BY ORDER OF THE BOARD



Joseph Kania
Secretary

Note:

1. A Member entitled to attend and vote at the Meeting, but who is unable to attend is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a Member of the Company.
2. To be valid, a proxy form must be completed and signed by the Member and must be deposited with the offices of The Registrar, Kenya Commercial Bank Limited, 2nd Floor, Kencom House, Moi Avenue, P.O. Box 48400, GPO 00100, Nairobi, to arrive not later than **11:00 a.m. on 13 May, 2015** i.e. 48 hours before the Meeting or any adjournment thereof.
3. If the appointer is a body corporate, the instrument appointing the proxy shall be given under its common seal or under the hand of an officer or duly authorized attorney of such corporation or Government office.
4. A copy of this Notice, the Proxy Form and the entire Annual Report and Accounts may be viewed on the Company's website at www.kcbbankgroup.com
5. Registration of Members and proxies for the Annual General Meeting will commence at **8:00 a.m. on 15 May, 2015**. Members and proxies should carry their national ID cards and a copy of the relevant Central Depository and Settlement Corporation (CDSC) account statement for ease of registration process.

Proxy Form

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

I/We _____

ID/Passport 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 44th Annual General Meeting to be held on 15 May 2015 at 11.00 or at any adjournment thereof.

Signed _____ this day of _____ 2015

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 on 13 May 2015 i.e. 48 hours prior to 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.

Board of Directors Profiles

NAME: NGENY BIWOTT

DESIGNATION: GROUP CHAIRMAN

EDUCATION AND PROFESSIONAL BACKGROUND: Ngeny Biwott has over 37 years' experience in the aviation industry and holds a MSc Degree in Civil Emergency, Risk and Crisis Management from University of Hertfordshire. In addition, he obtained specialised certification in risk and strategy from Cranfield University, the University of Southern California, and the Langley NASA Research Centre College.

DATE OF APPOINTMENT TO DESIGNATION: Appointed Group Chairman in August 2013

DATE OF APPOINTMENT TO BOARD: June 2011

NAME: HENRY ROTICH

DESIGNATION: DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND: Henry Rotich is Kenya's Cabinet Secretary for the National Treasury. He holds a Master's Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University. In addition, he holds a Master's degree in Economics and a Bachelor's degree in Economics (First Class Honours), both from the University of Nairobi.

DATE OF APPOINTMENT TO BOARD: The office of the cabinet secretary of the National Treasury is an institutional director of KCB.

ALTERNATE APPOINTED: Julius Mutua serves as alternate on the Board.

He is chairman of the Credit Committee and a member of the HR and Nomination, IT and Innovation and Finance and Strategy committees.

He is a member of KCB Bank Uganda Board and a trustee of the KCB Foundation.

NAME: CATHERINE KOLA

DESIGNATION: DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND: Catherine Kola is an advocate of the High Court of Kenya, a Certified Public Secretary of Kenya (CPSK) and an associate member of the Chartered Institutes of Arbitrators. She holds a Bachelor of Law (LLB) Honours degree from the University of Nairobi and has over 30

years' experience in legal practice, development banking, company secretarial and administration in the financial and energy sectors.

DATE OF APPOINTMENT TO BOARD: May 2009

CURRENT KCB GROUP BOARD APPOINTMENTS: Kola is a member of the Credit and IT and Innovation committees. She also serves as the chairman of KCB Foundation Board, KCB Staff Retirement Benefits (Defined Contribution) Scheme 2006 and KCB Bank Burundi Board.

NAME: GENERAL JOSEPH RAYMOND KIBWANA, (RTD.) EGH, CBS

DESIGNATION: DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND: An Alumni of the Britannia Royal Naval College, the US Naval Staff College and the US Naval War College, Gen. Kibwana retired from the Kenya Armed Forces in 2005 having served as Chief of the General Staff (2000-2005), Commandant of the National Defence College (1998-2000) and Commander of the Kenya Navy (1988-1998).

DATE OF APPOINTMENT TO BOARD: June 2012

CURRENT KCB GROUP BOARD APPOINTMENTS: Kibwana is a member of the Audit, Procurement and Credit committees and Chairman of the Finance and Strategy Committee, he also serves as Chairman of the KCB Staff Pension Fund (Defined Benefit) Scheme and member of the KCB Bank Burundi Board.

APPOINTMENTS: Gen. Kibwana has served as the chairman of the Board of Directors of the Kenya Ports Authority. He is currently the Chairman of the Board of Directors of Kenya Trade Network Agency.

NAME: ADIL KHAWAJA

DESIGNATION: DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND: Adil Khawaja holds an LLB (Hons) degree from the University of Sheffield England, a diploma in Law from the Kenya School of Law and is a certified public secretary (CPS). He is a member of the London Court of International Arbitration (LCIA) and Managing Partner of law firm, Hamilton Harrison and Mathews, incorporating Oraro and Company Advocates.

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DATE OF APPOINTMENT TO BOARD: June 2012

CURRENT KCB GROUP BOARD APPOINTMENTS: Khawaja is a member of the HR and Nomination and Finance and Strategy committees and Chairman of the Risk and Procurement committees. In addition, he serves as Chairman of the KCB Capital Board and a member of KCB Bank Tanzania Board.

SOCIETY/MEMBERSHIP: He also serves as trustee of Kenya Wild life Services (KWS).

NAME: CHARITY MUYA-NGARUIYA
DESIGNATION: DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND: Charity Muya-Ngaruiya holds a Bachelor of Commerce degree and a Master's degree in Business Administration from the University of Nairobi. She is a fellow of certified accountants (FCCA), Certified Public Secretary (CPS) of the Chartered Institute of Arbitrators. She holds certificate in investment banking and is a trainer in governance, member of the Institute of Directors, and honorary member of the Institute of Financial Analysts. She is a management and financial restructuring expert with more than 35 years' experience in financial management, information management systems, financial internal control systems, financial accounting and reporting, corporate restructuring, project management and privatization.

DATE OF APPOINTMENT TO BOARD: June 2012

CURRENT KCB GROUP BOARD APPOINTMENTS: Muya-Ngaruiya is a member of the Risk, HR and Nomination and Finance and Strategy committees and Chairman of the Audit Committee. In addition, she serves as Chairman of KCB Bank South Sudan Board and is a member of the KCB Capital Board.

SOCIETY/ MEMBERSHIP: She has served as a council member of Institute of Certified Public Accountants, a member of the Registration of Accountants Board, the Examination Committee of Kenya Accountants and Secretaries National Examination Board.

NAME: TOM IPOMAI
DESIGNATION: DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND: Tom Ipomai is a Corporate Finance specialist. He holds a degree in Computer Science from the University of Nairobi and a Master of Philosophy (MPhil) in Management Studies. He is a Certified Chartered Accountant (ACCA).

DATE OF APPOINTMENT TO BOARD: June 2012

CURRENT KCB GROUP BOARD APPOINTMENTS: Ipomai is a member of the Credit and Procurement committees and Chairman of the HR and Nomination and IT and Innovation committees. He also serves as a trustee of KCB Foundation Board and Chairman of the CB Bank Rwanda Board.

OTHER BOARD/SOCIETY/MEMBERSHIP THAT ADDS VALUE: Previously, Ipomai worked for the Central Bank of Kenya, Barclays Bank in the UK, Kenya and Zambia and at Deloitte's in its Corporate Finance Advisory division. He is currently CEO of Ler Ltd, a real-estate focused investment company.

NAME: GEORGINA MALOMBE
DESIGNATION: DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND: Georgina Malombe is a Certified Public Accountant (CPA (K)) and professional trainer. She holds a Bachelors degree in Agribusiness Management from Egerton University and a Master of Business Administration, Finance Option from the University of Nairobi. She is the Manager: Public Policy and Governance at the Institute of Certified Public Accountants of Kenya (ICPAK). Her key technical competencies include Audit Quality Assurance, Auditing, Accounting, Finance, Budgeting and Budgetary Controls.

DATE OF APPOINTMENT TO BOARD: June 2014

CURRENT KCB GROUP BOARD APPOINTMENTS: Malombe is a Member of the Audit, Risk, IT and Innovation and Finance and Strategy committees. She also serves as a member of the KCB Bank South Sudan Board.

Board of Directors Profiles

NAME: JOHN NYERERE
DESIGNATION: DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND: John Nyerere is a HHH (Fulbright) fellow and holds an MBA, Bachelor of Arts (Hons) Economics, MBA General Management and Bachelor of Arts Economics and Sociology. He lectures on business management at the United States International University. He has experience in corporate planning, operations management and transformation leadership and his key technical competencies include strategy development and economics.

DATE OF APPOINTMENT TO BOARD: June 2014

CURRENT KCB GROUP BOARD APPOINTMENTS: Nyerere is a member of the Risk, Credit, Procurement and Finance and Strategy committees and serves as a member of KCB Bank Tanzania Board.

OTHER: He is currently a serving Board member of Hashi Energy (K) Limited where he chairs the HR committee.

NAME: JOSHUA OIGARA
DESIGNATION: CHIEF EXECUTIVE OFFICER

EDUCATION AND PROFESSIONAL BACKGROUND: Joshua Oigara holds a Masters degree in Business Administration with a distinction in International Business Management from Edith Cowan University, Australia, a Bachelor of Commerce Degree, Accounting Option, from the University of Nairobi and is an Advanced Management Program Graduate from INSEAD, Fontainebleau, France. He is a graduate of the Program for Management Development (JuMP), Fuqua School of Business, Duke University, North Carolina, USA as well as a Certified Public Accountant of Kenya, CPA (K), having studied at the School of Accountancy, Strathmore University, Kenya.

DATE OF APPOINTMENT TO BOARD: He was appointed KCB Group CEO in January 2013

CURRENT KCB GROUP BOARD APPOINTMENTS: Oigara is a member of the Risk, Credit, HR and Nomination, IT and Innovation and Finance and Strategy committees and serves as a member of the KCB Capital Board and trustee of KCB Foundation.

NAME: JOSEPH KANIA
DESIGNATION: COMPANY SECRETARY

EDUCATION AND PROFESSIONAL BACKGROUND: Joseph Kania has over 25 years' experience as an Advocate of the High Court and 10 years' experience as a Company Secretary. He holds an LLB degree from the University of Nairobi and is an Advocate of the High Court of Kenya. He is a Notary Public, Commissioner of Oaths as well as a Certified Public Secretary of Kenya. He previously served as the Company Secretary at the Housing Finance Company of Kenya. Other roles previously held include Senior Legal Officer at the Industrial and Commercial Development Corporation and Legal Officer at Senator Cards/Southern Credit Corporation.

DATE OF APPOINTMENT TO DESIGNATION: He was appointed Company Secretary June 2013

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Regulated by the Central Bank of Kenya