

KCB RIGHTS ISSUE

JUNE 2008

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INFORMATION MEMORANDUM

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KCB

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Difference



KCB

Making the
Difference

KENYA COMMERCIAL BANK LIMITED

Kenya Commercial Bank Limited was incorporated on 12th November 1970 pursuant to the Companies Act Chapter 486 of the Laws of Kenya and is registered under Registration Number C.9/88.

INFORMATION MEMORANDUM

**RIGHTS ISSUE
OF 221,777,777 NEW ORDINARY SHARES
AT AN OFFER PRICE OF KSHS 25/-
IN THE RATIO OF ONE (1) NEW ORDINARY SHARE
FOR EVERY NINE (9) ORDINARY SHARES HELD**

Transaction Advisor: Standard Investment Bank Ltd & Faida Investment Bank Ltd

Legal Advisor: Walker Kontos Advocates

Reporting Accountant: Ernst & Young

28 May 2008



Simply, we are the Standard



WALKER KONTOS

 **ERNST & YOUNG**



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VISION

To be the Best Bank in the Region

MISSION STATEMENT

To consistently deliver quality financial products and services in the interests of all our stakeholders through best business practice in the dynamic markets in which we operate

INTRODUCTION

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR CAREFUL ATTENTION

If you have sold or transferred all your ordinary shares in KCB, please forward this Information Memorandum and the Provisional Allotment Letter to the purchaser or transferee, or to the stockbroker or agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee.

This Information Memorandum contains information that is provided in compliance with the requirements of the Companies Act (Chapter 486A of the Laws of Kenya) ("the Companies Act") and the Capital Markets Act (Chapter 485A of the Laws of Kenya) ("the Capital Markets Act") as well as the rules and regulations thereunder. The directors of Kenya Commercial Bank Limited ("KCB" or "the Bank"), being the persons named in Section XII of this Information Memorandum have taken all reasonable care to ensure that the facts stated and the opinions expressed herein are true and accurate in all material respects, and there are no other material facts the omission of which would make any statement herein, whether of fact or opinion, misleading. All the directors of KCB accept responsibility accordingly.

A copy of this Information Memorandum and of the Provisional Allotment Letter ("PAL"), together with the documents required by Section 43 of the Companies Act to be attached thereto, have been delivered to the Registrar of Companies at the Attorney General's Chambers in Nairobi for registration.

By virtue of Section 40(6) of the Companies Act, this Information Memorandum is not a prospectus and is not required to and may not contain all of the information prescribed by Section 40(1) of the said Act.

This Information Memorandum contains a statement from Ernst & Young, as the Reporting Accountants' in connection with the Rights Issue, which constitutes a statement purporting to be made by an expert in terms of Section 42(1) of the Companies Act. Ernst & Young have not withdrawn their consent to the issue of the said statement in the form and context in which it is included in this Information Memorandum.

The Capital Markets Authority ("CMA") has granted permission for the Rights Issue. As a matter of policy, the CMA does not assume responsibility for the correctness of any statements or opinions made or reports contained in this Information Memorandum or the Provisional Allotment Letter. Approval of the Rights Issue and the subsequent listing are not to be taken as an indication of the merits of the Bank or the securities.

The Nairobi Stock Exchange ("NSE") has given permission for listing of the New Shares (hereinafter defined) on the Main Investment Market Segment ("MIMS") of the Official List of the NSE ("the Official List"). It is expected that the admission of the New Shares will commence on 25th August 2008. The NSE assumes no responsibility for the correctness of any of the statements made or opinions or reports expressed in this Information Memorandum. Admission of the shares issued pursuant to the Rights Issue ("the New Shares") to the Official List is not to be taken as an indication of the merits of KCB or of the New Shares.

This Information Memorandum and the accompanying PAL are presented to you to enable you make an informed decision on the Offer. The procedure for acceptance and payment is set out in this Information Memorandum and the Provisional Allotment Letter.

The latest date and time for the acceptance and payment in full for the Rights provisionally allotted to you is 3.00 p.m. on 18th July 2008. After this time and date, any untaken Rights will lapse and will revert to the Board of Directors of KCB to allot in line with the allotment procedure set out in this Information Memorandum. The allotment procedure is fully subject to the existing regulatory requirements as set out by the Capital Markets Act and the Banking Act (Chapter 488 of the Laws of Kenya) ("the Banking Act").

Enquiries concerning this Information Memorandum or the Provisional Allotment Letter may be made to the Company Secretary of KCB or the Transaction Advisor whose contact details are set out in Section IV and V hereof.

SECTION II

CHAIRMAN'S STATEMENT

Dear Shareholders,

It is with pleasure that I present to you this Information Memorandum and the accompanying Provisional Allotment Letter on behalf of the Board of Directors of the Bank in respect of this KCB Rights Issue.

The Purpose of the Rights Issue

Over the past few years, your Board has invested significant amounts of capital in subsidiary businesses across the region. A total of Kshs 2.2 billion in capital has so far been invested in our operations in Southern Sudan, Tanzania and Uganda with more expected to go into our planned operations in Rwanda. By June 2008, we expect to have put Kshs 3.2 billion into our regional businesses.

Such major expansion into the region alongside the growth and consolidation of our operations in Kenya has ramifications on our prudential ratios and ability to meet business needs. The investment means that the Bank's ability to operate within statutory Central Bank of Kenya capital ratio requirements is constrained and that it cannot, therefore, grow the asset book at the required pace due to capital constraints.

The Rights Issue has been necessitated by the need to strengthen the balance sheet and increase the Bank's ability to compete effectively in the market in order to improve shareholder value.

Future

Over the last five years, the Bank has demonstrated an impressive trend in growth and profitability. From a loss of Kshs 4.1 billion in 2002, the Bank reported a pretax profit of Kshs 4.2 billion in 2007, and Kshs 1.645 billion for the first quarter 2008, a major improvement over the years. The Bank's balance sheet has also grown from Kshs 60 billion in 2003 to Kshs 131 billion in March 2008 reflecting increased business momentum and competitiveness.

We have appended a statement of the financial performance of the Bank for the 3 months ending 31st March, 2008 for your information. This has not been independently audited but published as required by Central Bank of Kenya. Going by the business growth strategies being implemented over the next five years, the profitability trend during the period and the demonstrable commitment of our employees, the Board is confident that the Bank is destined for success.

Rights Offer

The Bank now offers, by way of rights up to 221,777,777 New Shares at Kshs 25/- each payable in full upon acceptance not later than 3.00 p.m. on 18th July 2008. The procedure for acceptance, payment, or renunciation of the Rights is contained in this Information Memorandum and the Provisional Allotment Letter.

The Rights Issue will be on the basis of One (1) New Share for every Nine (9) Existing Shares held by each shareholder on the Register at 3.00 p.m. on 4th June 2008. The Offer is subject to, and in accordance with, the terms and conditions contained in this Information Memorandum, the Provisional Allotment Letter and the Bank's Memorandum and Articles of Association.

The New Shares will, when fully paid, rank *pari passu* in all respects with the Existing Shares. All rights attached to the Existing Shares with regard to voting, dividends, liquidation proceeds and pre-emption in future capital increases are set out in the Bank's Articles of Association and otherwise in accordance with provisions of the Companies Act.

Our Operating Environment

KCB's good performance over the years has been achieved against the background of a growing economy. In 2007, for instance, Real Gross Domestic Product is estimated to have expanded by 6.5% compared with 5.8% in 2006 buoyed by a stable macro-economic environment drawing impetus from good performance in Tourism, Building and Construction, Transport and Communications and Manufacturing sectors. In addition, favorable financial market conditions continued to improve access to credit and increased remittances which spurred economic activity.

In tandem with macro-economic stability, the banking sector continued to record impressive performance in 2007. During the period, the sector's assets grew significantly from Kshs 760 billion in 2006 to Kshs 910 billion in 2007. This was boosted mainly by increases in deposits, injection of additional capital as well as retention of profits providing further opportunities for investments in government securities and new lending. There was also a general improvement in performing loans as stocks of non-performing debts declined, asset quality improved as did capital adequacy, as well as increase in the sector's overall profitability.

Employee Share Ownership Program

It is the Bank's intention to implement an Employee Share Ownership Program ("ESOP"), with a view to further incentivising the executive management and staff of KCB to acquire shares in KCB through a trust based on annual performance appraisals. This is now a common initiative amongst public listed companies to ensure retention of staff and linkage of personal performance to enhanced shareholder value. The Annual General Meeting on 9th May 2008 has authorized the Board to set up an ESOP via the allocation of a maximum of 150,000,000 shares over a period of four years subject to regulatory approvals.

Recommendation

Please read in full the Information Memorandum and Provisional Allotment Letter and take action within the timetable as detailed therein.

It is important that you as a shareholder exercise your Rights to increase your investment in the Bank. With the discount offered, you are being offered a good opportunity with resultant capital value should you wish to offload the shares in future. Should you not wish to take up your Rights, you can bequeath them to a close relative through private arrangement or sell them through the NSE. Do not, therefore, let your Rights lapse.

New investors from across the Region are also welcome and should be able to purchase Rights to the New Shares that may be renounced through the NSE. The shareholders have now approved our plans to make KCB shares available to East Africans in future through cross-listing in Uganda and Tanzania as KCB assumes the position of a regional bank. More details of this will be made available at a later date.

Conclusion

The Board of Directors considers the Rights Issue to be in the best interest of the Bank and looks to the future with optimism that the Bank will regain its rightful place as a market leader in the banking industry and achieve its vision 'to be the Best Bank in the Region'.

Yours sincerely,



Peter W. Muthoka, MBS, FKIB
Group Chairman.

DIRECTORS' STATEMENT

We hereby declare that all information stated in this application and the statements contained in the report are correct, and neither the Board of Directors' minutes, audit reports or any other internal documents contain information, which could distort the interpretation of the report.

The Board of Directors of KCB confirm that in their opinion the working capital available to KCB is sufficient for KCB's present requirements.

Yours faithfully,



MARTIN ODUOR-OTIENO
Group Chief Executive Officer



KIPROP D. MALAKWEN
Company Secretary

SECTION IV

CORPORATE INFORMATION

Registered Office

Kenya Commercial Bank Limited
KENCOM House
8th Floor
Moi Avenue
P.O. Box 48400-00100
Nairobi

Company Secretary

Kiprop David Malakwen
KENCOM House
8th Floor
Moi Avenue
P.O. Box 48400-00100
Nairobi

Auditors

Ernst & Young
Kenya Re Towers
Upper Hill, Off Ragati Road
P.O. Box 44286-00100
Nairobi
Telephone: 254-20-2715300
Facsimile: 254-20-2716271
E-mail: info@ey.co.ke

Shares Registrar

Seline D. Udi
KENCOM House
7th Floor
Moi Avenue
P.O. Box 48400-00100
Nairobi
E-mail: sudi@kcb.co.ke

Lawyers

Various
(List Available at the Bank's Registered Head Office)

SECTION V

ADVISORS AND OTHER PARTIES

Transaction Advisors

Standard Investment Bank Limited

ICEA Building, 16th Floor
P.O. Box 13714-00800
Nairobi
Telephone: 254-20-2220225/252772/4/5
Facsimile: 254-20-240297
Email: info@sib.co.ke

Faida Investment Bank Limited

Windsor House, 1st Floor
P.O. Box 45236-00100
Nairobi
Telephone: 254-20-243811/2/3
Facsimile: 254-20-243814
Email: info@faidastocks.com

Receiving Bank

Kenya Commercial Bank Limited

KENCOM House
8th Floor
Moi Avenue
P.O. Box 48400-00100
Nairobi

Reporting Accountants

Ernst & Young

Kenya Re Towers
Upper Hill, Off Ragati Road
P.O. Box 44286-00100
Nairobi
Telephone: 254-20-2715300
Facsimile: 254-20-2716271
Email: info@ey.co.ke

Legal Advisor

Walker Kontos Advocates

Hakika House
Bishops Road
P.O. Box 60680 – 00200
Nairobi
Telephone: 254-20-2713023
Facsimile: 254-20-2718429
Email: walkerkontos@walkerkontos.com

Public Relations Consultant

Scanad PR

Chancery Building
P.O. Box 34537-00100
Nairobi
Telephone: 254-20-2710021
Facsimile: 254-20-2718772
Email: info@scanad.com

Media Consultant

Saracen OMD

Ground Floor, Ideas House
Muthithi Road, Westlands
P.O. Box 7704 – 00200
Nairobi
Telephone: 254-20-3747936/46
Facsimile: 254-20-3760927

DEFINITIONS

In this Information Memorandum:

"Accepted Rights"	means Rights accepted by an Eligible Shareholder pursuant to a duly completed and signed Entitlement and Acceptance Form;
"Additional Shares"	means New Shares applied for by an Eligible Shareholder in excess of his Entitlement;
"Allocation Policy"	means the policy of allocating untaken Rights set out in Section VIII (Details of the Rights Issue) paragraph 8 of this Information Memorandum;
"Application Money"	means the Subscription Price per New Share payable by Eligible Shareholders in accordance with the relevant Entitlement and Acceptance Form plus, in the case of an Eligible Shareholder with a CDS Account, Kshs 30/- per Entitlement and Acceptance Form;
"Authorized Agent"	means the specific parties set out in Section XVII (Authorized Agents) of this Information Memorandum, being parties duly authorized by KCB to receive Entitlement and Acceptance Forms together with the Application Money;
"Capital Markets Legislation"	means (a) the Capital Markets Act, Chapter 485A of the Laws of Kenya and all subsidiary legislation and rules and guidelines promulgated thereunder (b) the rules of the NSE and (c) any law applicable to capital markets in Kenya;
"CDS Account"	means a securities account opened with the Central Depository and Settlement Corporation Limited ("CDSC" or "CDSC Limited") for the purpose of recording the deposit and dealing of immobilized securities;
"Directors" or "the Board"	means the board of directors of KCB;
"Eligible Shareholder"	means a shareholder registered as holder of Existing Shares as of the Record Date;
"Entitlement"	means the entitlement to New Shares of an Existing Shareholder (or purchaser of or Renouncee of Rights) pursuant to the Rights Issue at the Entitlement Ratio and the Subscription Price;
"Entitlement and Acceptance Form"	means, where the context requires, the PAL and/or Form E and/or Form R;
"Entitlement Ratio"	means One (1) New Share for every Nine (9) Existing Shares;
"Existing Share"	means ordinary shares of par value Kshs 1.00 each in KCB and held by Eligible Shareholders as of the Record Date;
"Group"	means KCB and its subsidiaries identified in Section XI (Information on Kenya Commercial Bank Limited and its Subsidiaries);
"MIMS"	means the Main Investment Market Segment of the NSE;
"New Shares"	means the 221,777,777 new ordinary shares in the capital of KCB to be issued pursuant to the Rights Issue;
"NSE"	means the Nairobi Stock Exchange Limited;
"Offer"	means the offer to subscribe for New Shares pursuant to and in accordance with this Information Memorandum;
"PAL"	means, the provisional allotment letter issued to Eligible Shareholders indicating an Eligible Shareholders Entitlement and providing for full or partial acceptance in the form or substantially in the form set out in Appendix I;
"Record Date"	means 5.00 pm on 4th June 2008;
"Registrar"	means the share registrar appointed in connection with the Rights Issue whose name and address appear in Section IV (Corporate Information);
"Renouncee"	means any person of at least 18 years of age as at the date of renunciation in whose favour Rights have been renounced in accordance with this Information Memorandum and the PAL;
"Rights"	means the right to subscribe for New Shares under the terms of this Information Memorandum and the PAL;
"Rights Issue Documents"	means (a) this Information Memorandum (b) the accompanying PAL and (c) any other written communication or notification made by KCB to Eligible Shareholders in connection with the Rights Issue;
"Subscription Price"	means Kshs 25/- per New Share; and
"Untaken Rights"	means the aggregate of New Shares not subscribed for, howsoever that may occur.

Except where the context otherwise requires:

- (i) words denoting the singular include the plural and vice versa;
- (ii) words denoting any one gender include all genders;
- (iii) words denoting persons include firms and corporations and vice versa and
- (iv) capitalized terms used in the PAL and accompanying forms will be construed and interpreted in accordance with this Information Memorandum.

SECTION VII

KEY FEATURES OF THE RIGHTS ISSUE

This Section contains a synopsis of the Rights Issue. You should read this Information Memorandum in full before deciding to participate in the Rights Issue.

1. Rights Issue Statistics

Subscription Price	Kshs 25/- per New Share
Total number of New Shares offered	221,777,777 ordinary shares of Kshs 1.00 each, to rank pari passu in all respects with the existing ordinary shares in KCB
Total amount to be raised before expenses	Kshs 5,544,444,425/-
Ratio of Entitlement	One (1) New Share for every Nine (9) Existing Shares held

2. Reasons for the Rights Issue

The purpose of the Rights Issue is to raise funds for the growth and expansion plans of KCB as well as to meet future prudential requirement compliance of the Central Bank of Kenya (“CBK”). KCB’s expansion plans anticipate (a) the opening of up to 40 new branches in Kenya (b) the setting up of up to 50 new Automated Teller Machines (“ATMs”) and (c) the entry of KCB, by 2010, into other countries in the East and Central African Region.

3. Timetable of Principal Events

Event		Date and Time
1	Record Date (Register closure date)	3.00pm, 4th June 2008
2	Upload of the Rights into the CDSC system and distribution of Information Memorandum and PALs to KCB shareholders	13th June 2008
3	Issue Opens and commencement in trading in Rights at the NSE	9.00am, 23rd June 2008
4	Last date for immobilization of Provisional Rights	3.00pm, 30th June 2008
5	Last date for renunciation (by way of private transfer)/ Last date for splitting	3.00pm, 7th July 2008
6	Last date for trading in Rights	3.00pm, 11th July 2008
7	Last date and time for acceptance and payment for the New Shares	3.00pm, 18th July 2008
8	Announcement of Rights Issue results	8th August 2008
9	Last date and time for payment for Additional Shares to Receiving Bank for applications using irrevocable bank guarantees	3.00pm, 14th August 2008
10	Dispatch of share certificates, electronic crediting of CDS accounts for New Shares and processing of refunds (<i>applicable if applications are received in excess of the number of Untaken Rights</i>) from	15th August 2008
11	Date of listing and commencement of trading of New Shares at the NSE	9.00am, 25th August 2008

Please note that the above dates and times may be amended with the approval of the CMA. Any such amendments will be published in the press.

4. Minimum Success

The Rights Issue is not subject to a minimum subscription level.

5. Underwriting

The Rights Issue is not underwritten.

6. Basis of Subscription Price

The Subscription Price has been determined from the trading history at the NSE of KCB and the following factors:

- Recent performance of the index and turnover at the NSE;
- Recent announcements of financial results of KCB and the proposed Rights Issue;
- Past performance of Rights Issues at the NSE;
- Current political environment;
- Current macro-economic environment;
- Banking sector environment;
- KCB's unique competitive strengths;
- KCB's strategic plan.

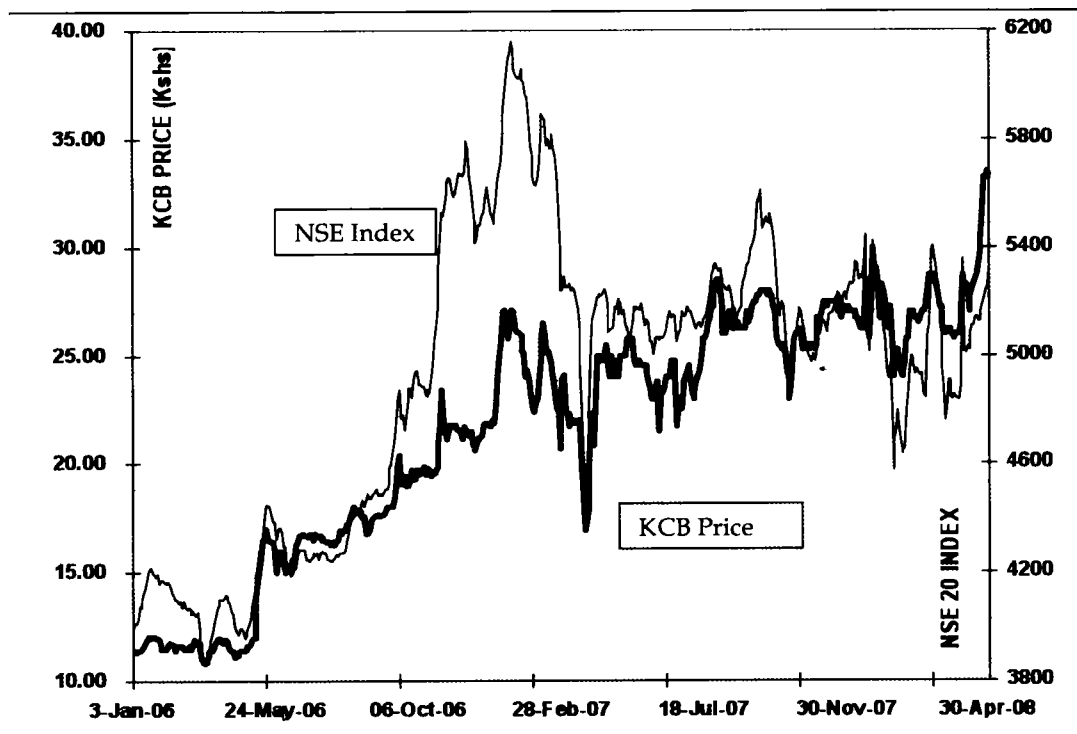
The Subscription Price of Kshs 25/- represents a discount of 24.8% of the closing price of KCB at the NSE on 30th April 2008 of Kshs 33/25. The average price on 14th May 2008 was Kshs 32/50 while the average price on 28th February 2008 was Kshs 27/25.

Month	Open	Close	High	Low	Volume	Turnover
November 2007	28.75	27.50	28.75	27.50	21,000,000	592,000,000
December 2007	28.25	28.00	28.50	28.00	22,750,000	640,000,000
January 2008	28.00	28.00	27.50	27.50	40,000,000	1,120,000,000
February 2008	28.00	28.00	28.10	28.10	20,000,000	560,000,000
March 2008	28.00	28.75	27.00	27.00	30,000,000	840,000,000
April 2008	28.00	33.25	33.25	33.25	20,000,000	665,000,000
Total for the period					133,750,000	3,777,000,000
Six Months Weighted Average Price of KCB			Kshs 27.27			
Closing Price on 30th April 2008			Kshs 33.25			

Source: Nairobi Stock Exchange, Transaction Advisor

7. KCB Share Price Vs NSE 20 Share Index

The following chart illustrates the performance of KCB share price against the NSE 20 Share Index. The share prices upto 3rd April 2007 have been adjusted for the 10:1 share split.



Source: Nairobi Stock Exchange, Transaction Advisor

8. Pertinent Financial Data

1. Rights Issue Ratio of the Offer	1 for 9
2. Offer Price per share	Kshs 25/00
3. Par Value of each share	Kshs 1/00
4. Total number of authorized shares of KCB	2,400,000,000
5. Total number of issued & fully paid up shares before Rights Issue	1,996,000,000
6. Authorised share capital of KCB	Kshs 2,400,000,000
7. Fully paid up share capital of KCB before the Rights Issue	Kshs 1,996,000,000
8. Net profits for the first quarter ended 31 March 2008	Kshs 1,158,463,000
9. Net profits for the year ended 31 December 2007	Kshs 2,974,572,000
10. EPS for the first quarter ended 31 March 2008	Kshs 0/58
11. EPS for the year ended 31 December 2007	Kshs 1/49
12. DPS for year ended 31 December 2007 payable in May 2008	Kshs 0/70
13. Net Asset Value per share for the year ended 31 December 2007	Kshs 6/62
14. Implied historic P/E ratio based on the Offer Price and the EPS for the year ended 31 December 2007	16.78
15. Market Capitalisation based on the closing price of Kshs 33/25 at the Nairobi Stock Exchange on 30 April 2008	Kshs 66.4 billion
16. Number of new shares on offer under the Rights Issue	221,777,777
17. Gross proceeds of the offer	Kshs 5,544,444,425
18. Approximate net proceeds of the offer	Kshs 5,324,444,425
19. Total number of issued and fully paid up shares after the Rights Issue assuming full subscription	2,217,777,777
20. Fully paid up share capital of KCB post Rights Issue assuming full subscription	Kshs 2,217,777,777
21. Post Rights Issue (Adjusted) EPS 2007 assuming full subscription	1.34

9. Acceptance and application procedures

Eligible Shareholders may take up all, some or none of their Rights. Eligible Shareholders wishing to take up all of their Rights are required to observe the procedures set out in paragraph 7 (Acceptance Procedure) of Section VIII (Details of the Rights Issue).

Eligible Shareholders wishing to renounce some or all of their Rights are invited to follow the steps set out in paragraph 9 (Renunciation of Rights) of Section VIII (Details of the Rights Issue). Please note that Eligible Shareholders may renounce their Rights by way of private transfer or selling the same in accordance with the said paragraph.

Eligible Shareholders wishing to apply for Additional Shares must do so in the manner set out in paragraph 8 (Additional Shares) of Section VIII (Details of the Rights Issue).

SECTION VIII

DETAILS OF THE RIGHTS ISSUE

1. Offer

- 1.1 KCB hereby offers to Eligible Shareholders, by way of renounceable Rights, a total of 221,777,777 New Shares at the Subscription Price of Kshs 25/- per New Share payable in full on acceptance in the terms set out below. The New Shares will be duly listed.
- 1.2 Persons who are not Eligible Shareholders as of the Record Date will not be entitled to participate in the Offer.
- 1.3 The Rights Issue is on the basis of a ratio of One (1) New Share for every Nine (9) Existing Shares, being the Entitlement Ratio. The Entitlement Ratio, once declared, will not be altered.
- 1.4 The number of New Shares that an Eligible Shareholder is entitled to (i.e. your Entitlement or your number of Rights) is shown on the PAL.
- 1.5 Rights are renounceable and may be sold or transferred to third parties subject to the provisions of this Information Memorandum. Information on how Rights may be sold or transferred is set out in paragraph 9 below.
- 1.6 Eligible Shareholders may also, at their option, choose not to take any action at all and untaken Rights will be allocated by the Directors in accordance with the Allocation Policy.

2. Reasons for the Rights Issue

The purpose of the Rights Issue is to raise funds for the growth and expansion plans of KCB. The bank intends to:

- 2.1 Grow the business locally by increasing the lending portfolio, opening up 40 new branches as well as setting up 50 new ATMs.
- 2.2 Boost core capital and prudential ratios. The Bank intends to maintain adequate capitalization to fund both local and regional expansion while meeting prudential guidelines. The CBK guidelines exclude investment in subsidiaries in the determination of core capital (the investment is deducted from capital to arrive at the core capital). The core capital to weighted assets ratio was 15.7% in 2006 and 13.6% in 2007 against the statutory minimum of 12%.
- 2.3 Grow the business regionally by boosting the Bank's presence in Tanzania, embark on additional investments in Uganda and Southern Sudan as well as establish a presence in Rwanda and Burundi.

3. Status of the New Shares

The New Shares will rank *pari passu* in all respects with the Existing Shares including the right to receive in full all dividends and other distributions declared, made or paid in respect of KCB shares, for the financial year ending 31st December 2008. There are therefore no time limitations in respect of the right to dividend for the said financial year.

4. Opening and Closing Date of the Rights Issue

The Rights Issue will open at 9.00 am on 23rd June 2008 and close at 3.00 pm on 18th July 2008.

5. Entitlement

- 5.1 Your Entitlement is shown on the accompanying PAL.
- 5.2 The number of New Shares offered to Eligible Shareholders has been calculated pro rata on the basis of the Entitlement Ratio and no restrictions are placed on the number of Existing Shares to be held before your Entitlement accrues. However, mathematically, this might result in fractional entitlements to New Shares and in such an event, fractions will be rounded downwards to the nearest whole number. Kindly therefore note that where this occurs, the Eligible Shareholder will be allotted the number of New Shares after rounding down.
- 5.3 Fractions of New Shares that result from applying the Entitlement Ratio will form part of the Untaken Rights.
- 5.4 Eligible Shareholders with CDS Accounts will have such accounts credited with the applicable Entitlement. In this regard, the Registrar will notify the Eligible Shareholders of their credited Entitlement through the PAL.
- 5.5 Eligible Shareholders without CDS Accounts will be notified of their Rights by the Registrar through the PAL.
- 5.6 Investors who wish to become shareholders in KCB via this Rights Issue can purchase Rights being sold on the NSE by Eligible Shareholders. Such investors will be issued with a Form E (see below) from their Authorized Agent which requires to be duly completed, accepted and fully paid for as per the Acceptance Procedure below. These investors can apply for Additional Shares provided they take up their Entitlement in full.

- 5.7 Eligible Shareholders and other investors are required to note that if they wish to take any action other than (a) full acceptance of their Entitlement or (b) to allow their Entitlement to lapse in full are asked to note that the following further documents are available for collection and due completion from Authorized Agents:

Form R	Form of Renunciation for Private Transfers to be used by Eligible Shareholders renouncing or transferring their Rights by way of private transfer and by Renounees to take up their New Shares.
CDS Form 7	To be used in connection with a private transfer by Eligible Shareholders with CDS Accounts.
Form Z	To be completed by Eligible Shareholders wishing to appoint third party as their lawful attorney or agent to act on their behalf in connection with the Rights Issue.
Form E	Form of Entitlement for Purchased Right to be used in the case of Rights purchased on the NSE by any person and issued in favour of such person.
CDS Form 5	To be used by investors utilizing loan facilities to subscribe for New Shares.

6. Effect of not having a CDS Account

It is not mandatory for an Eligible Shareholder to open a CDS Account. However, without a CDS Account, Eligible Shareholders will not be able to trade his or her Rights on the NSE. Eligible Shareholders who do not have CDS Accounts but wish to open one are requested to submit duly completed and signed CDS Account opening forms, together with their PAL to the Authorized Agents to enable crediting of Entitlements to the newly opened accounts. Renounees in whose favour Rights may have been renounced would be subject to the same constraints.

7. Acceptance Procedure

Acceptance of the Offer, once given is irrevocable. Full details of the procedure for acceptance and payment are set out below:

7.1 Acceptance may only be communicated by submitting a duly completed Entitlement and Acceptance Form together with Application Money for the number of New Shares applied for, which form cannot be withdrawn and constitutes a binding application for the number of New Shares (including any Additional Shares) specified in the Entitlement and Acceptance Form on the terms set out in this Information Memorandum. The Entitlement and Acceptance Form **must** be signed so as to be binding.

7.2 If the Entitlement and Acceptance Form is not completed correctly, KCB may in its absolute discretion reject it or treat it as valid, and KCB's decision as to whether to accept or reject, or how to construe, amend or complete an Entitlement and Acceptance Form shall be final.

7.3 The Entitlement and Acceptance Form, once duly completed and signed, must be returned to the Receiving Bank either directly or through any Authorized Agent, together with the Application Money for the number of New Shares. Payment of the Application Money by all Eligible Shareholders must be made by way of banker's or stockbroker's cheque or Electronic Funds Transfer ("EFT") and must be received by the Receiving Bank or the relevant Authorized Agent not later than 3.00 pm on 18th July 2008.

7.4 New Shares in respect of which duly completed and signed Entitlement and Acceptance Forms together with the Application Money, paid in accordance with paragraph 7.3 above, which are not received by the Receiving Bank or an Authorized Agent by the dates and times stipulated in paragraph 7.3 above will be deemed not to have been duly subscribed for and any rights in connection with the same will have lapsed.

7.5 Eligible Shareholders who wish to take up their full Entitlement are required to duly complete the section entitled "**Full Acceptance of New Shares**" as well as other relevant sections of the PAL. Eligible Shareholders wishing to accept only part of their entitlement are required to duly complete the section of the PAL entitled "**Partial Acceptance of New Shares**" as well as other relevant sections of the PAL. Please note that partial acceptance will not be permitted for less than One hundred (100) New Shares.

8. Application for Additional Shares and Allocation Policy

8.1 Eligible Shareholders (except in the case of those that wish to effect payment in the manner set out in 8.2 below) who have taken up all their Entitlement may apply for Additional Shares by completing the section for Application for Additional Shares on their Entitlement and Acceptance Form and signing and returning the duly completed and signed Entitlement and Acceptance Form together with the Application Money. These should be received by the Receiving Bank or the relevant Authorized Agent not later than 3.00 pm on 18th July 2008.

- 8.2 Any Eligible Shareholders applying for any Additional Shares may, in lieu of payment by 3.00pm on 18th July 2008 provide an irrevocable bank guarantee in the form stipulated in Appendix II to this Information Memorandum, for the full amount of the Additional Shares. Upon notification by the Registrar, such Eligible Shareholder will be required to effect payment for Additional Shares to the Receiving Bank by 3.00 pm on 14th August 2008. Such payment may be made by EFT to such bank account of KCB designated in the said notification.
- 8.3 Additional Shares applied for by Eligible Shareholders will be allocated by KCB in accordance with the Allocation Policy to the extent only of any Untaken Rights. The allocation of Additional Shares (if any) will be published on 8th August 2008. Please note that payment in respect of any Additional Shares applied for and not allocated will be refunded in accordance with paragraph 12 and will be free of interest. There will be no changes once the basis of allocation has been announced.
- 8.4 The press announcement publishing the result of the Rights Issue will include the basis of allocation of any Additional Shares and will be published on 8th August 2008.
- 8.5 Subject to paragraph 8.6 of this Section, the Untaken Rights will be allocated on a *pro rata* basis to Eligible Shareholders who have applied for Additional Shares in accordance with this paragraph 8 (Application for Additional Shares and Allocation Policy).
- 8.6 If any person applies for Additional Shares which might trigger the regulatory restrictions and obligations set out in paragraph 16 (Regulatory Restrictions) of this Section, the Directors reserve the right, at their sole discretion, not to allocate any Additional Shares to any such person unless all required regulatory approvals are duly obtained and attached with the PAL before 3.00 pm on 18th July 2008.
- 8.7 Eligible Shareholders wishing to take up Additional Shares are required to duly complete the section entitled "**Application for Additional Shares**" as well as other relevant sections of the PAL.

9. Renunciation of Rights

The Rights are renounceable. Accordingly, Eligible Shareholders may elect to (a) give up their Rights in full or in part or (b) to transfer their rights in full or in part or (c) sell their Rights in full or in part, all in accordance with the procedures set out below.

9.1 Renunciation by way of Trading in the Rights

- 9.1.1 The Rights constitute a security in the form of an option and are tradable on the NSE for a value **but only by Eligible Shareholders with CDS Accounts**. The Rights shall be listed on the NSE under the MIMS.
- 9.1.2 Eligible Shareholders will be notified of their Rights through the PAL.
- 9.1.3 In addition, Eligible Shareholders with CDS Accounts will have such accounts credited with their Rights.
- 9.1.4 Only Eligible Shareholders with CDS Accounts will be permitted to trade in Rights. In such an event, Eligible Shareholders who wish to renounce some or all of their Rights in this way may instruct any Authorized Agent to dispose of any or all of such Rights and must duly complete the section entitled "**Immobilization for trading in the Rights**" as well as other relevant sections of the PAL.
- 9.1.5 Eligible Shareholders without CDS Accounts who wish to trade in Rights in this way must first open CDS Accounts and immobilize such Rights prior to trading and must duly complete the section entitled "**Immobilization for trading in the Rights**" as well as other relevant sections of the PAL. The CDS Account opening forms may be obtained from any Authorized Agent.
- 9.1.6 Rights may be traded on the NSE from 23rd June 2008 to 11th July 2008.
- 9.1.7 Please note that trading of Rights on the NSE will attract a brokerage commission plus other statutory costs payable by the seller and buyer of such Rights.
- 9.1.8 The CMA and NSE have approved the trading of Rights.

9.2 Renunciation by way of Private Transfer

- 9.2.1 Eligible Shareholders wishing to transfer their Rights to a particular Renounee may do so by way of private transfer, subject to (a) Section 31 of the Capital Markets Act (b) Regulations 57 to 61 of the of the Capital Markets (Licensing Requirements) General) (Amendment) Regulations 2002 and (c) Rule 31 of the Central Depository Rules, 2004. Regulation 57 allows a transfer, inter alia, of Rights by an Eligible Shareholder to a close relation in the form of a gift. In such a case, any Authorized Agent, being a stockbroker, is required to assess, endorse and submit to the NSE a written application for such a transfer with the required information and supporting documents stating the reason for the proposed private transfer. A close relation means a relationship supported by documentary evidence of a spouse, parent, sibling, child, father-in-law, son-in-law, daughter-in-law, mother-in-law, brother-in-law, son-in-law, grandchild or spouse of a grandchild.
- 9.2.2 In order to effect a private transfer, an Eligible Shareholder must duly complete a CDS Form 7 (in the case of Eligible Shareholders with CDS Accounts) as well as Form R. Both these forms are available from Authorized Agents. By executing the relevant form, an Eligible Shareholder is deemed to renounce subject to approval from the NSE and the CMA as applicable and, subject to paragraph 9.2.1, transfer the relevant Rights.

- 9.2.3 Eligible Shareholders who have CDS Accounts may only transfer Rights in favour of a Renounee with a CDS Account.
- 9.2.4 The last date and time for renunciation by way of private transfer is 3.00 pm on 7th July 2008.
- 9.2.5 Eligible Shareholders are advised to contact any Authorized Agent for the purposes of effecting the renunciation by way of private transfer.
- 9.2.6 If an Eligible Shareholder accepts some of his Rights and renounces the remainder by way of private transfer in the manner specified in this paragraph 9.2 (Renunciation by way of Private Transfer), such Eligible Shareholder shall be required to submit the Entitlement and Acceptance Form to the Receiving Bank or the relevant Authorized Agent not later than 3.00 pm on 18th July 2008 both duly completed and signed and accompanied with the Application Money in connection with the Accepted Rights.

9.3 Renunciation by declining

Eligible Shareholders who wish to decline their Rights need not do anything. Any Rights not taken up by such Eligible Shareholders will form part of the Untaken Rights.

10. **Restriction on Renunciation of Rights**

- 10.1 Paragraph 16 (Regulatory Restrictions) of this Section sets out certain regulatory restrictions and obligations that may be relevant to any Eligible Shareholder or Renounee.
- 10.2 Please note that any renunciation by way of trading of Rights through the NSE or by way of private transfer of Rights in accordance with paragraph 9.1 (Renunciation by way of Trading in Rights) and paragraph 9.2 (Renunciation by way of Private Transfer) of this Section is only permitted if such renunciation does not trigger the said regulatory restrictions and obligations.

11. **Application Money**

- 11.1 Payment for the New Shares shall be made in the form of a banker's or stockbroker's cheque or via EFT. Such cheques for each PAL must be in Kenya Shillings and drawn on a licensed commercial bank that is a member of the Central Bank of Kenya Clearing House, and should be made payable to "KCB Rights Issue-PAL No{ Insert No }" and be crossed "A/C Payee Only" or paid via EFT to a specific bank account as provided by KCB. Each banker's cheque received by the Receiving Bank will be deposited immediately for collection. Please note that no interest will be payable by KCB on money received.
- 11.2 Payments made in accordance with paragraph 10.1 above will, upon receipt by KCB of the relevant amount in cleared funds, constitute acceptance of the Rights Issue upon the terms and conditions set out in this Information Memorandum and in the Entitlement and Acceptance Form.
- 11.3 Eligible Shareholders with CDS Accounts are required to pay the Subscription Price per New Share in accordance with the Entitlement and Acceptance Form plus Kshs 30/= in accordance with the Central Depositories (Regulation of Central Depositories)(Amendment) Rules, 2008.

12. **Refunds**

No interest will be paid on any Application Monies to any Eligible Shareholder or other person taking up the Rights. Interest, if any, earned on Application Monies is payable to the CMA Investor Compensation Fund in accordance with CMA regulations. Refunds in respect of unsuccessful applications (if any) shall be in the form of refund cheques or by way of EFT by KCB (where an Eligible Shareholder has provided accurate EFT details including the name of the relevant bank, bank code, branch, branch code and account number – see Appendix III for detailed reference list of codes). The preferred method of refund is EFT where a bank account is available as refunds will reach the recipient quicker and more efficiently and effectively if the information provided is correct. KCB will begin refunds to Eligible Shareholders from 15th August 2008. Eligible Shareholders are required to choose their preferred option of refund: (a) by EFT (b) ordinary post at the risk of the Eligible Shareholder, or (c) collected by the Eligible Shareholder from the relevant Authorized Agent (as designated by the Eligible Shareholder on the PAL for that purpose) against proof of identity. Neither KCB nor any Authorized Agent will be responsible for any refund not received. Where a Lender (hereinafter defined) has advanced money to an investor to subscribe for New Shares, refunds will be made to or for the account of such Lender as the case may be.

13. **New Shares**

- 13.1 Eligible Shareholders and their Renounees with CDS Accounts who comply with the procedures for acceptance as set out in this Information Memorandum, will receive their New Shares in electronic form by way of credit to their respective CDS Accounts. It is the responsibility of Eligible Shareholders and Renounees to ensure that their CDS Account details set out in the Entitlement and Acceptance Form are correct.
- 13.2 Eligible Shareholders without a CDS Account who comply with the procedures for acceptance as set out in this Information Memorandum, will receive their New Shares in certificate form to be delivered through the Registrar. Trading of the New Shares may only take place if the Eligible Shareholder has a CDS Account.

- 13.3 New Shares will be admitted on the MIMS on 25th August 2008 with dealings of New Shares commencing on the same date.
- 14. Untaken Rights and Allocation Policy**
- 14.1 All Eligible Shareholders who apply for their New Shares in full shall receive the full number of New Shares indicated in their PAL. New Shares not taken up shall form the Untaken Rights. The Untaken Rights may be allocated as Additional Shares in accordance with the Allocation Policy to Eligible Shareholders who duly submit applications for Additional Shares in accordance with paragraph 8 (Additional Shares) of this Section.
- 14.2 Any Rights not taken up as part of the Untaken Rights may be allotted by the Board in such manner as it determines and if not so allotted, will lapse.
- 15. Loan Facilities**
- 15.1 Eligible Shareholders and/or Renounees or any purchaser of the Rights may approach a licensed financial institution or bank ("a Lender") at their risk, for loan facilities to facilitate participation and payment of the full amount due in respect of the Rights Issue.
- 15.2 Please note that the extension of loan facilities by any Lender is a decision to be made by such Lender at its sole and absolute discretion.
- 15.3 Lenders extending finance to an Eligible Shareholder or Renounee or any purchaser of Rights must submit payment for the full amount due and attach the duly completed and signed Entitlement and Acceptance Form, together with a letter signed by authorized representatives of the Lender addressed to the Registrar requesting the share certificates for the applicable New Shares to be submitted to such Lender, to reach the Authorized Agent by 3.00p.m. on 18th July 2008.
- 15.4 In the case of Eligible Shareholders or Renounees with CDS Accounts financed by a Lender to take the New Shares as security:
- 15.4.1 The Lender shall write to the CDSC making it clear that it requires the New Shares to be pledged as security until such time as CDSC Limited is instructed in writing to the contrary by such Lender, through an Authorized Agent, to lift such pledge;
- 15.4.2 Upon completion of **CDS Form 5** (available from an Authorized Agent) prescribed by CDSC all pledges will be effected through entries in the Central Depository System maintained by CDSC Limited. The pledging of such shares will at all times be subject to Rule 63 of the Central Depositories (Regulation of Central Depositories), Rules, 2004. For every financed application to the CDSC, the Lender or the purchaser of Rights are required to pay Kshs 1,000/- via banker's cheque or stockbrokers cheque payable to "**CDSC Ltd-[insert serial no of CDS Form 5]**".
- 16. Foreign Investors**
- 16.1 The Capital Markets (Foreign Investors) Regulations, 2002 (as amended) ("the **Foreign Investor Regulations**") provide that "a foreign investor" ("**Foreign Investor**") is any person who is not a local investor. A "local investor" is defined to mean (a) an individual being a natural person who is a citizen of an East African Community Partner State or (b) a body corporate being a company incorporated under the Companies Act of Kenya or such other similar statute of an East African Community Partner State in which the citizen or the Government of an East African Community Partner State have beneficial interest in 100% of its ordinary shares or any other body corporate established or incorporated in an East African Community Partner State under the provisions of any written law. An East African Community Partner State means States that are members of the East African Community.
- 16.2 Foreign Investors wishing to apply for New Shares must satisfy themselves as to the full observance of the laws of the relevant territory and governmental and other consents to ensure that all requisite formalities are adhered to, and pay any issue, transfer or other taxes due in such territory. Before applying for and purchasing New Shares, foreign investors are advised to consult their own professional advisers as to whether they require any governmental or other approvals or need to observe any applicable legal or regulatory requirements.
- 16.3 The Foreign Investor Regulations require not less than 25% (as amended by Legal Notice No. 29 of 2008) of the ordinary shares in listed companies which have been listed to be reserved for local investors.
- 16.4 This Information Memorandum and accompanying PAL do not, and are not intended to, constitute an offer for the New Shares in any place outside Kenya. In that regard, this Information Memorandum and accompanying PAL may not be used for or in connection with any offer to, or solicitation by, anyone in any jurisdiction or in any circumstances where such offer or solicitation is not authorized or is unlawful. The distribution of this Information Memorandum and the accompanying PAL outside of Kenya may be restricted by law and persons who come into possession of this Information Memorandum and the accompanying PAL should seek advice on and observe those restrictions. Any failure to comply with those restrictions may constitute a violation of applicable securities laws. Any such recipient must not treat this Information Memorandum and accompanying PAL as constituting an offer to him, unless in the relevant jurisdiction, such invitation or offer could be made lawfully to him without contravention of any unfulfilled registration or legal requirements. Without limitation, neither this Information Memorandum nor the accompanying PAL may be sent or passed or otherwise distributed outside Kenya.
- 16.5 In particular, the Rights Issue has not been, and will not be, registered under the United States Securities Act, 1933 or the securities laws of any state in the United States of America and is not being made in the United States of America or to persons resident in the United States of America. Without limitation, neither this Information Memorandum nor the accompanying PAL may be sent or otherwise distributed to investors in the United States of America.

16.6 Eligible Shareholders with a registered address in Kenya holding Existing Shares on behalf of persons who are resident in a jurisdiction outside Kenya are responsible for ensuring that taking up the New Shares under the Rights Issue does not breach securities laws in that other jurisdiction. The return of a duly completed Entitlement and Acceptance Form in accordance with this Information Memorandum will not be deemed as a representation that there has been no breach of such laws.

17. Regulatory Restrictions

Eligible Shareholders are requested to note that KCB is subject to the provisions of the Banking Act and the Capital Markets Legislation. Notable, for purposes of the Rights Issue are the provisions summarised below. Eligible Shareholders are required to seek their own advice in connection with these matters. Kindly note that the Directors may take the said provisions into account when determining the allocation of any Untaken Rights to applicants for Additional Shares.

17.1 Section 9A(2) of the Banking Act precludes any person from becoming a “significant shareholder” – being a person, other than the Government of Kenya or a public entity who holds directly or indirectly or otherwise has a beneficial interest in more than 5% of the share capital of a bank, financial institution or mortgage finance company – unless such person has been certified by the Central Bank of Kenya as a fit and proper person.

17.2 Section 13(1) of the Banking Act prohibits particular classes of persons from owning, directly or indirectly, or otherwise having a beneficial interest in more than 25% of the share capital in bank, financial institution or mortgage finance company.

17.3 The Capital Markets (Take-Overs and Mergers) Regulations, 2002, oblige the observance of certain procedures if any person takes up Rights which would result in that person “acquiring effective control” of a listed company.

18. Tax Implications

18.1 Eligible Shareholders interested in participating in the Rights Issue should consult their tax advisors of any possible tax implications connected with the Rights Issue. Therefore, KCB and the Directors consider it inappropriate to provide detailed advice in respect of taxation consequences in connection with the Rights Issue save for what is expressly set out in this Information Memorandum.

18.2 Neither KCB nor any of the Directors or any of KCB’s officers or advisers accept any liability for any taxation implications of Eligible Shareholders in connection with the Rights Issue.

18.3 Local investors are subject to withholding tax on dividends at the rate of 5%. Foreign Investors will be subject to a withholding tax rate of 10%.

19. Expenses of the Rights Issue

Expense	Kshs
Transaction Advisor Costs	8,120,000
Legal Costs	756,444
Reporting Accountants Costs	3,770,000
Placing commission*	82,500,000
CMA Approval Fees	13,750,000
NSE Admission Fees	250,000
Printing costs	15,000,000
PR and Advertising costs	17,400,000
Other consultants fees and disbursements	13,199,320
Investor Compensation Fund payment, KCB processing center, postage, other related additional manpower and infrastructure, administrative costs, marketing and other miscellaneous expenses including contingency	65,254,236
TOTAL	220,000,000

The expenses are indicative.

*Placing commission of 1.5% is payable to Members of the NSE (Subject to a minimum of Kshs 100/-) and 1% is payable to KCB who have been appointed as Authorized Agents and is computed on the value of each successful application accepted in respect of the Entitlement and Acceptance forms completed and signed by Eligible Shareholders or Renounees or respective investors, bearing the stamp of a single Authorized Agent.

20. Governing Law

The Rights Issue Documents and any contract resulting from the acceptance of an application to purchase the New Shares shall be governed by and construed in accordance with the Laws of Kenya and it shall be a term of each such contract that the parties thereto and all other interested parties submit to the exclusive jurisdiction of the Courts of Kenya.

SECTION IX

ECONOMIC OVERVIEW OF KENYA, UGANDA AND TANZANIA

1. KENYA

This section is sourced from the February, 2008 edition of Monthly Economic Review by the Central Bank of Kenya.

1.1 Macro Overview of Kenya

Kenya's economic performance in 2007 was robust with real GDP estimated to have grown by 7% compared with 6.1% in 2006. The growth was mainly supported by improved performance in agriculture, tourism (hotels and restaurants), building and construction, manufacturing, financial services sectors, transport and communications, and household consumption. Stable interest rates and a stable exchange rate provided a conducive macroeconomic environment with increased access to credit and increased remittances from abroad.

1.1.1 *Inflation*

Overall 12-month inflation increased from 18.2% in January 2008 to 19.1% in February 2008, mainly on account of higher inflation on food, and alcohol and tobacco categories of goods and services, as well as fuel and power, and transport and communication categories of goods and services.

1.1.2 *GOK Fiscal Operations*

Government budgetary operations in the first half of the fiscal year 2007/08 resulted in a deficit of Kshs 27.7 billion or 1.4% of GDP on commitment basis compared with a deficit of Kshs 7.8 billion or 0.5% of GDP in a similar period of 2006/07. However, as a percentage of GDP, the budget deficit on cash basis decreased from 1.6 % to 1.1% during the period. The budget deficits on commitment and cash basis were within the programmed target of 2.3% for the first half of the fiscal year 2007/08.

1.1.3 *Public Debt*

Public and publicly guaranteed debt increased in absolute terms from Kshs 801.3 billion in June 2007 to Kshs 845.0 billion in December 2007. In US dollar terms, the debt increased by 12% from USD 12.0 billion to USD 13.5 billion during the period. However, as a percentage of GDP, total public debt decreased from 43.8% in June 2007 to 43.5% in December 2007. The decrease in the Debt-to-GDP ratio reflected a faster growth in GDP compared with the growth in the debt.

1.1.4 *Money Supply*

Money supply, M3(1), growth increased from 17.8% in the year to January 2007 to 21.9% in the year to January 2008. The 21.9% expansion in money supply was well above the projected growth of 15% for the first quarter of 2008.

1.1.5 *Interest Rates*

Short term interest rates went up in February 2008 as the average 91-day Treasury bill rate increased from 6.95% in January 2008 to 7.28% in February 2008. The 182-day Treasury bill rate also increased from 8.09% in January 2008 to 8.30% in February 2008.

1.1.6 *Exchange Rates*

The Kenya Shilling depreciated further against major world currencies in February 2008. Against the US dollar, the shilling exchanged at Kshs 70.5 per US dollar in February 2008 compared with Kshs 68.1 per US dollar in January 2008. The shilling also depreciated against regional currencies in February 2008.

1.1.7 *Balance of Payments*

The surplus in the balance of payments increased from US\$ 675 million in 2006 to US\$ 882 million in 2007 following increased private financial inflows.

1.1.8 *Foreign Exchange Reserves*

Official foreign exchange reserves held by the Central Bank increased by US\$ 1,060 million from US\$ 2,463 million (4.3 months of import cover) at end of January 2007 to US\$ 3,522m (5.1 months of import cover) at end of January 2008.

1.2 Developments in the Real Sector

1.2.1 *Agriculture*

The agricultural sector expanded by 7.6% in 2007 compared with 5.5% in 2006. This was supported by improvements in infrastructure and favourable weather conditions in the year, leading to improved production. The main agricultural sub-sectors recorded improved growth in 2007.

- (a) *Tea.* Tea production increased by 19.01% in 2007, from 310,578.3 metric tonnes in 2006 to 369,606.2 metric tonnes. This was attributed to improved rainfall in tea growing areas. The average tea exports price was US \$ 1,800 per metric tonne in November 2007. Kenya Tea Board expects tea production in 2008 to drop by 10% over 2007 production due to lower 2008 rainfall forecast in the tea growing areas.

- (b) *Coffee.* Expansion in coffee production witnessed in 2006 was sustained in 2007 with output increasing by 3.4% from 50,527.91 metric tonnes in 2006 to 52,268 metric tonnes. The increase in the coffee output reflected favourable weather and favourable prices which were at US \$ 2,860 per metric tonne in December 2007.
- (c) *Horticulture.* Horticulture export volume increased by 17.7% in 2007 from 163,232.9 metric tonnes in 2006 to 192,187.3 metric tonnes. Flower exports increased by 5.5% from 86,480.0 metric tonnes, earning Kshs 23.6 billion in 2006, to 91,192.4 metric tonnes which earned Kshs 43.1 billion (64% of total earnings). Vegetable exports increased by 39.1%, from 61,347.6 metric tonnes earning Kshs 17.8 billion to 85,323.2 metric tonnes which fetched Kshs 25.4 billion (33% of total earnings) in 2007. Over the same period, fruit exports increased by 1.7% from 15,405.3 metric tonnes, which fetched Kshs 1.7 billion, to 15,671.7 metric tonnes which earned Kshs 1.8 billion (3% of total earnings). Thus growth in this sub-sector was buoyed by good export prices of the key export commodities, as exports values increased faster than increase in volume of exports, except for vegetables whose volume increased faster than its price.
- (d) *Sugarcane.* Sugarcane output increased by 5.6% in 2007 compared with 5.1% growth in 2006, from 4,933,805 metric tonnes to 5,208,026 metric tonnes. Similarly, processed sugar production increased by 9.3% from 475,660 metric tonnes to 520,100 metric tonnes. The sugar sector outlook is positive and is expected to be supported by strong economic expansion prospects.

1.2.2 *Manufacturing*

The manufacturing sector had a robust performance in 2007, with output of selected manufactured products expanding significantly. Soda Ash increased by 3.4% from 374,010 metric tonnes in 2006 to 386,598 metric tonnes in 2007 while beer increased by 35.3% from 280,500,000 litres to 379,485,000 litres, over the same period. Similarly, cigarettes output increased by 25.8% from 12,303,278 milles to 15,475,310 milles while cement production increased by 6.5% from 2,174,090 metric tonnes to 2,314,236 metric tonnes. Milk output also went up by 18.7% from 356,758,000 litres in 2006 to 423,542,000 litres in 2007.

1.2.3 *Energy*

Total electricity generation increased by 8.0% in 2007, with total generation standing at 6,287.7 million Kilowatts hours ("KWH") compared with 5,823.0 million KWH generated in 2006. Similarly, electricity consumption increased by 8.1% in 2007 from 4,743.1 million KWH in 2006, to 5,125.8 million KWH, reflecting increased customer connection and higher economic activity. Electricity generation by type was as follows: hydro-power generation, which accounts for 57.1% of total generation, increased by 18.9% from 3,013.96 million KWH to 3,584.76 million KWH; geo-thermal generation (15.8% of total generation), decreased by 5.2% from 1,045.69 million KWH to 991.12 million KWH, while thermal generation, representing 27.1% of total generation, decreased by 2.9% from 1,762.59 million KWH to 1,711.92 million KWH. In the fuel sub-sector, international crude oil price sustained its upward trend in 2007 increasing by 5.8% from an average of US \$ 64.57 per barrel in 2006 to an average of US \$ 68.68 per barrel. The price is US \$100 per barrel.

1.2.4 *Tourism*

Tourist arrivals in 2007 increased by 9.9% from 954,335 visitors in 2006 to 1,048,732 visitors. Tourist arrivals through Moi International Airport Mombasa ("MIAM") and Jomo Kenyatta International Airport ("JKIA"), increased by 4.8% and 12.4%, accounting for 26.3% and 76.4%, respectively, of total tourist arrivals.

1.2.5 *Transport*

Cargo throughput by Kenya Ports Authority ("KPA") increased by 10.7% from 14,418,901 metric tonnes in 2006 to 15,960,465 metric tonnes in 2007. Exports cargo volume comprising of 15.5% of total cargo throughput, went up by 9.7% from 2,255,112 metric tonnes in 2006 to 2,473,166 metric tonnes in 2007. Similarly, import cargo volume (81.8% of total cargo), went up by 10.3% from 11,845,411 metric tonnes in 2006 to 13,061,146 metric tonnes in 2007 while transshipments cargo volume, comprising of 2.7%, went up by 33.8% from 348,415 metric tonnes to 426,152 metric tonnes in 2007. The total volume of throughput by Kenya Pipeline Company ("KPC") increased by 3.6% from 3,826,154 m3 in 2006 to 3,962,279 m3. Cargo throughput by KPA and Kenya Pipeline Corporation are indicators of the trends in the level of activity in the transport sector.

1.2.6 *Telecommunications*

In the telecommunication sector, excise duty on airtime went up by 28.6%, inclusive of inflation, from Kshs 4,635 million in 2006 to Kshs 5,962 million in 2007, indicating a growth of 28.6% in the communications sector.

1.2.7 *Building & Construction*

The building and construction sector grew by 10.3% in the first eleven months of 2007 as proxied by cement consumption. Cumulative cement consumption, the main indicator of activity in the building and construction sector, increased by 15.3% from 1,624,554 metric tonnes in the January-November period of 2006 to 1,872,636 metric tonnes over a similar period in 2007.

2. UGANDA

This section is sourced from the February, 2008 edition of Monthly Economic Review by the Bank of Uganda.

2.1 Macro Overview of Uganda

Uganda's economic performance in 2006/07 was robust with real Gross Domestic Product (GDP) estimated to have grown by 6% compared with 5.3% in 2005/06 and is forecasted to hit 7% in the current fiscal year. Uganda's major economic sectors include agriculture (coffee, tea, fish, fresh flowers, tobacco), mining, construction, manufacturing, textiles.

2.1.1 *Inflation*

Month on month overall inflation declined to 0.7% from 1.0% recorded during the month of January 2008. Easing prices of fresh milk, sweet potatoes, special hire, and petrol more than offset increases in prices of matoke, tomatoes, taxi fare (long distance). The annual underlying inflation increased to 7.9% from 7.5% in the year ended January 2008. This was due to higher annual increase in prices of soda, refined oil, bus fare, and theatre admission fee. On the contrary, the month on month underlying inflation dropped to 0.8%; down from 1.1% in January 2008, on account of lower motorcycle fares, price of meat and slower increase in taxi fare (short distance).

2.1.2 *Bank of Uganda Fiscal Operations*

The overall fiscal balance including grants for the three months to December 2007 was a surplus of Ushs 194.4 billion compared to a deficit of Ushs 147.8 billion envisaged in the period. Excluding grants, the surplus reduced to Ushs 26.7 billion, compared to a deficit of Ushs 440.3 billion envisaged in the program.

2.1.3 *Money Supply*

Broad Money M3, which comprises currency in circulation plus all private deposits, grew by 5.1% to Ushs 4,648.2 billion. This is compared to a decline in M3 of 1.5% registered in December 2007.

2.1.4 *Interest Rates*

The respective weighted annualized yields on the 91-day, 182-day, and 364-day bills stood at 8.2%, 12.3%, and 12.7% for the auction of February 27, 2008. This was compared to the respective yields of 8.9%, 12.9% and 13.8% recorded in the auction held on January 02, 2008.

2.1.5 *Exchange Rates*

The Ugandan shilling appreciated against the U.S. dollar in February 2008. The unit gained Ushs 2.8 against the US dollar from an average mid-rate of Ushs 1,710.6 per U.S. dollar in January 2008 to Ushs 1,707.83 per U.S. dollar.

2.1.6 *Balance of Payments*

In January 2008, the current account balance was estimated at a deficit of US\$35.3 million, while the capital and financial account recorded an estimated surplus of US\$85.0 million. As a result, the overall balance of payments was estimated at a surplus of US\$49.7 million.

2.1.7 *Foreign Exchange Reserves*

Official foreign exchange reserves held by the Central Bank of Uganda increased by US\$ 1,060 million from US\$ 2,463 million (4.3 months of import cover) at end of January 2007 to US\$ 3,522m (5.1 months of import cover) at end of January 2008.

3. TANZANIA

This section is sourced from the February, 2008 edition of Monthly Economic Review by the Bank of Tanzania.

3.1 Macro Overview of Tanzania

Recorded real GDP growth approximately 6.9% in 2007 on the back of solid macroeconomic policies such as banking reforms and continued donor assistance. The economy depends heavily on agriculture, which accounts for more than 40% of GDP, provides 85% of exports, and employs 80% of the work force.

3.1.1 *Inflation*

Month-to-month inflation rate went up by 3.4% in January 2008 compared to the increase of 1.1% recorded in December 2007, mainly on account of an increase in food inflation.

3.1.2 *Bank of Tanzania Fiscal Operations*

Government budgetary operations recorded an overall deficit of Tshs 125.6 billion against the estimated deficit of Tshs 178.6 billion. In line with the fiscal plan, the Government financed the deficit by borrowing from foreign sources Tshs 58.3 billion and by drawing down Tshs 67.3 billion from its savings in the banking system.

3.1.3 *Revenue Performance*

Total revenue collected by Government during the month of January 2008 was Tshs 286.6 billion against the target of Tshs 268.2 billion.

3.1.4 *Money Supply*

M3 increased by 21% rise in the month of January.

3.1.5 *Interest Rates*

The overall weighted average Treasury bills rate declined from an average of 11.40% in December 2007 to 10.89% in February following high oversubscription due to relatively high yields.

3.1.6 *Exchange Rates*

The Tanzanian shilling depreciated against the dollar in February 2008 to exchange at Tshs 117,324 per US dollar compared with Tshs 117,190 per US dollar in January 2008.

SECTION X

OVERVIEW OF THE BANKING SECTOR IN KENYA, UGANDA AND TANZANIA

1. KENYA

This sub-section is sourced from the February, 2008 edition of Monthly Economic Review by the Central Bank of Kenya as well as the Banking Supervision Annual Report, 2006.

1.1 *Industry Structure*

As at the end of January 2008, the number of financial institutions in Kenya stood at 46. Most commercial banks continue to implement expansion programmes with the number of branches and ATMs expected to increase substantially countrywide.

1.2 *Macro Developments*

Credit to the domestic economy increased from 16.7% in the year to January 2007 to 19.2 in the year to January 2008. Credit to Government increased by 11.4% in the year to January 2008 which was slower compared with the year to January 2007 mainly due to increased Government deposits at the Central Bank. Growth in private sector credit increased from 15.9% in the year to January 2007 to 24% in the year to January 2008.

Credit to the private sector in the year to December 2007 was mainly to private households (33.1%), consumer durables (7.6%), business services (5.9%), trade (5.6%) and transport and communication (4.1%). Credit to other activities was also significant accounting for 57% of the credit expansion between January 2007 and January 2008.

The Central Bank Rate remained unchanged at 8.75% in February 2008, while the average 91-day Treasury Bill rate increased from 6.95% in January 2007 to 7.28% in February 2008 and the 182-day Treasury Bill rate also increased from 8.09% in January 2007 to 8.30% in February 2008.

Commercial banks' average lending rate increased from 13.78% in January 2007 to 13.84% in February 2008. The overdraft rate declined from 13.41% to 13.26% over the same period while the overall deposit rate remained unchanged at 4.37% in February 2008. Consequently, the interest rate spread increased to 9.47% in February 2008.

1.3 *Developments in Supervisory Framework*

In 2006, the Banking Act was amended while the Microfinance Act, 2006 and the Finance Act, 2006 were enacted. In addition, the Proceeds of Crime and Anti-Money Laundering Bill, 2006 was published.

1.3.1 *The Banking Act*

The Banking (Amendment) Act, 2006 became effective on May 1, 2007. Key provisions contained in the Banking (Amendment) Act, 2006 were:

- i. Ceding of operational supervisory powers of licensing, revocation of licenses, opening and closing of places of business and statutory management from the Minister of Finance to the Central Bank of Kenya.
- ii. Vetting of significant shareholders (holding more than five per cent of the share capital) by the Central Bank of Kenya.
- iii. No charges to be imposed on savings, seven day call or fixed deposit account and interest to be paid on savings accounts so long as the minimum balance is maintained.
- iv. The introduction of *in-duplum*, restricting the interest charged on a loan to the principal amount when it becomes non-performing.

1.3.2 *The Microfinance Sector*

Microfinance in Kenya has experienced considerable transformation over the past twenty years, growing from a fledgling industry dominated by a few donor and church-based NGOs to a vibrant sector increasingly driven by commercialization. Microfinance institutions are now recognized as legitimate providers of financial services and as the key to unlocking economic growth for entrepreneurs and poor families, especially in rural areas. A significant step in the development of the microfinance industry in Kenya was the enactment of the Microfinance Act in December 2006 but which has yet to come into effect. The Act has been introduced to enhance the performance of this sector by putting in place the necessary laws and regulatory framework.

1.3.3 *Anti Money Laundering Bill*

The Proceeds of Crime and Anti Money Laundering Bill was published on October 30, 2006 but it has yet to be passed by Parliament.

1.3.4 *Risk Management*

The CBK continued with its focus on inculcating a "Risk Management Culture" in the banking sector, following a shift to Risk Based Supervision whose bedrock is the proactive detection of threats to banking sector stability and prompt corrective action. One of the key prerequisites for the implementation of Basel II is the adoption of Risk Based Supervision.

1.3.5 *Future Supervisory Strategy*

The Central Bank of Kenya 2006 to 2009 strategy includes the following key initiatives:

- Comprehensive review of the Banking Act;
- Implementation of Risk Based Supervision;
- Formulation of a Consolidated Supervision Framework to take into account the diversification by Kenyan banks into other sectors of the financial system such as insurance;
- Adoption of the Market Risk Amendment to the Basel I Accord.

1.4 *Access to Financial Services*

In its report released in 2007, the Banking Supervision Department of the CBK, in collaboration with representatives from the financial sector, commissioned a national survey to measure the demand and access to financial services in Kenya. The survey's objective was to establish the basic aspects of financial behaviour of Kenyan citizens across the financial spectrum – from rich to poor. A total of 4420 interviews were targeted. The findings of this survey revealed the following aspects ranging from product usage to challenges in gaining access to financial services:

- only 19% of Kenyans are banked and thus have formal access to financial services through commercial banks, building societies and the Post Bank;
- an additional 8% are served by SACCOs and micro-finance institutions and 35% depend primarily on informal financial services such as ROSCAs (Rotating Savings and Credit Associations) and ASCAs (Accumulating Savings and Credit Associations). These constitute the financially included, who have access to other formal and informal financial services;
- 38% of Kenyans are financially excluded, i.e. they have no access to financial services and are classified as 'unbanked', reporting no usage of either formal or informal products;
- the study also revealed that access to financial services varies across the country and is highest in Nairobi, which has the greatest number of bank branches (194 out of 443).

1.5. *Banking Sector Developments*

The banking sector continued with impressive growth. Overall profitability for January 2008 rose by 18.2% while the asset portfolio expanded by 26.8%. The banking sector performance indicators improved with a decline in the stock of non-performing loans and enhancement of capital adequacy ratios attributed mainly to fresh capital injections and retention of profits over the period.

1.5.1 *Structure of Sector Balance Sheet*

Total assets expanded by 26.8% or Kshs 205 billion from Kshs 766 billion as at January 2007 to Kshs 971.1 billion as at January 2008. The major assets were loans and advances, government securities and placements which constituted 52%, 20% and 8%, respectively. The top 15 banks, in the large peer group category controlled 83%, 82%, 84% and 85% of gross assets, net loans, deposits and profits, respectively. On the other hand, twelve banks in the small peer group category controlled 3.7%, 3.5%, 3.5% and 4.0% of gross assets, net loans, deposits and profits. The sector is therefore dominated by a few big banks.

1.5.2 *Government Securities*

Government securities comprised 20% of total assets and stood at Kshs 189.7 billion in January 2008 compared with Kshs 158.1 billion in January 2007. Treasury bonds accounted for 80% of government securities as investor preferences shifted to the longer dated securities which offered higher yield rates.

1.5.3 *Deposit Liabilities*

Deposit liabilities in the banking system, including accrued interest increased by 23.1% from Kshs 628.2 billion as at the end of January 2007 to Kshs 773.5 billion as at January 2008. The increase in deposit base was attributed to aggressive marketing campaigns for new deposits by some institutions and rapid expansion of branch network. Increase in deposits was also attributed to external donor inflows to various government agencies and non-governmental organizations coupled with the increase in earnings from tourism and exports.

1.5.4 *Capital Reserves*

During the twelve month period ending January 2008, the banking system remained stable and banks were adequately capitalized, with the banking-sector capital adequacy ratio remaining in excess of the minimum requirement of 12%. As a result, capital to total risk weighted assets ratio increased from 17.2% in January 2007 to 19.3% in January 2008. This was mainly due to increase in core capital by 35% that more than offset the increase in risk weighted assets of 23%. Similarly, capital and reserves of the banking system increased by 34% from Kshs 97.0 billion to Kshs 129.0 billion. The increase in capital over the period was attributed to fresh capital injection and retention of profits.

1.5.5 *Non-Performing Loans*

Gross non-performing loans ("**NPLs**") in the sector have been on the decline in the past one year. As at January, 2008 the stock of NPL's stood at Kshs 57.3 billion or 10.4% of gross loans compared with Kshs 100.4 billion or 21% of gross loans as at the end of January 2007. The sharp reduction in the level of NPL's was attributed mainly to write-offs against provisions held and recoveries by some of the banks. NPL's net of loan loss provisions improved from 5.3% in January 2007 to 3.4% in January 2008.

1.5.6 Profitability

As at January 31, 2008, the sector realized pre-tax profit of Kshs 3.2 billion, an increase of 18.5% compared with Kshs 2.7 billion reported in a similar period in 2007. The improved profitability was attributed to an increase in interest income on loans and advances and on government securities.

1.5.7 Liquidity ratio

The average liquidity ratio as at the end of January 2008 stood at 40.7% compared with 43.4% in January 2007 and was well above the minimum statutory requirement of 20%. The decline in liquidity ratio was attributed to a 19% increase in net deposit liabilities that more than offset a 12% increase in net liquid assets. However, all institutions meet the minimum statutory liquidity requirements during the period under review.

1.5.8 Cash ratio

Commercial banks maintained an average 6.4% reserve ratio with the Central Bank in January 2008 against the 6.0% reserve ratio requirements. Commercial banks held on average Kshs 2,288 million in January 2008 as excess reserves compared with Kshs 1,251 million held in December 2007.

2. UGANDA

This section is sourced from the February, 2008 edition of Monthly Economic Review by the Bank of Uganda.

2.1 Industry Structure

The financial sector in Uganda comprises of the Bank of Uganda ("BOU"), 21 commercial banks, 7 credit reference institutions, 27 insurance companies, 2 development banks, a building society, a reinsurance company, a leasing company and over 70 forex bureaux.

2.2 Macro Developments

Growth projections were revised upward to 7% over the next few years reflecting progress in addressing electricity shortages and peace prospects in northern Uganda. Inflation is projected to return to below 5% by the end of 2007/08, as the impact of earlier shocks dissipates. Imports for Bujagali dam construction will widen the current account deficit but will not undermine external sustainability. The recent surge in oil prices is a downside risk for growth, but the economy has shown resilience in the face of similar shocks in the past. The economy however, continues to face the following challenges, arising from continued strong and volatile foreign exchange flows which might complicate the conduct of monetary policy.

At end-December 2007, the stock of outstanding credit to the private sector by the banking sector stood at Ushs 2,219.8 billion, of which Ushs 20.6 billion was from BOU and Ushs 2,199.1 billion was from commercial banks. The outcome represented a rise of 3.5% or UShs 74.9 billion during the month of December 2007, and 22.4% growth from June 2007. In comparison, with the month of November 2007, total private sector credit rose by 1.5% or Ushs 32.1 billion.

The end period weighted discount rates on the 91-day, 182-day, and the 364-day Treasury bill rose from the end-December 2007 levels of 8%, 11% and 11.6% to 8.4%, 11.8% and 21.1% at end January 2008 respectively. There was no change in the policy margin on the rediscount rate and bank rates. However, on account of the developments in the Treasury bill market during this month, both the rediscount and bank rates were marginally up to 14.1% and 15.1% from the end December 2007 levels of 13.7% and 14.7% respectively. The monthly average lending rate on the commercial banks' shilling denominated loans declined to 18.2% in December 2007 from 18.3% in November 2007. The foreign exchange denominated loans' average lending rate however remained at the November 2007 level of 10.0%.

In an environment of strong foreign currency inflows, price stability remains the primary objective of monetary policy. Uganda's banking sector is profitable and well-capitalized, providing more and more credit to the private sector.

2.3 Banking Sector Developments

The lifting of the moratorium on bank licensing three years ago by the BOU has seen KCB and Nigeria's UBA enter the market. The entry of new banks and the likely service extension to include areas outside Kampala is bound to increase competition particularly to existing dominant players in the banking industry.

A few years ago, the BOU revised the core capital requirements for banks upward to Ushs 4billion from Ushs 1billion a move intended to further strengthen and improve the quality of the banking industry.

3. TANZANIA

This section is sourced from the February, 2008 edition of Monthly Economic Review by the Bank of Tanzania, KCB and other public information.

3.1 Tanzania's Macro-economic conditions

The economy of Tanzania is estimated to have attained real GDP growth of 7.3% during 2007 compared with the growth rate of 6.7% attained in 2006. The considerations for the increased growth momentum takes into account the recorded favorable developments in the agriculture, mining and quarrying, hotels and restaurants (including tourism), and manufacturing sectors of the economy. The economy is expected to continue growing at the rate above 7% in the short to medium term, associated with government efforts to implement reform policies geared at increased economic activities and promotion of private sector-led growth.

3.2 Inflation Developments

The annual headline inflation declined to 6.9% during the quarter ending December 2007 from 8.4% recorded in the preceding quarter mainly driven by decrease in food prices. The recorded decline in food *inflation* is attributed to the improvement in domestic food supply following favorable short rains in most parts of the country.

3.3 Interest Rate Structure

During the quarter ending December 2007, the margin between the overall lending and saving deposit rates narrowed by 0.8 % points to 12.5% from 13.3% recorded during the preceding quarter. While the overall lending rate declined by 0.7%, the short-term lending rates increased by 0.6 % points from the September 2007 levels, mainly associated with an increase in private sector demand for credit. Saving deposit rates increased marginally by 0.13% points.

3.4 Domestic Credit

During the period under review, credit to the private sector grew by 44.1%, above an annual growth rate of 41% recorded in January 2007. The acceleration in the growth of credit to the private sector was in line with the increased economic activity in the economy alongside increased number of credit-worthy clients. Furthermore, the recent substantial decrease in yields on treasury bills has somewhat reduced the appetite of banks towards treasury bills. As a result, the ratio of private sector credit to total deposits increased from 60.6% in October 2007 to 61.8% in January 2008, while the ratio of government securities decreased from 35.5% to 31.0%.

3.5 Banking Sector overview

Tanzania embarked on financial liberalization in 1992 in order to sustain its economic growth. This has been done by mobilizing financial resources, increasing competition in the financial market and enhancing quality and efficiency in credit allocation. As a result the banking sector has been growing since then and new merchant banks, commercial banks, bureau de change, insurance companies, a stock exchange and related financial units have entered the market.

With a total of 27 banks, few non-banking financial institutions (not allowed to open current accounts) and a large number of forex bureaux, the market is characterized by few big players and several small banks. In total the banking sector is estimated to hold Tshs 4,980.6 billion, growing at about 36% in December 2007. Domestic credit to private sector was also growing at an annual rate of 27% to Tshs 2,474 billion at the end of December 2007. Demand for Treasury securities have remained relatively high in Tanzania, increasing from Tshs 757.3 billion in September 2007 to Tshs 1,004.3 billion in January 2007.

3.6 Banking Sector Vibrancy

The vibrant banking sector, following liberalization of economic policy, is consistently attracting foreign financial institutions to enter the market.

At the same time, local financial institutions are developing and expanding, with some of them acquiring status as a full-fledged financial institution. Despite such dramatic improvements, the Tanzanian banking sector remains small in respect to the country's booming economy. The total amount of funds managed by the banking and non-banking institutions are estimated at little more than 26% of GDP. However, the outlook for the Tanzanian banking industry is very positive and there are appealing opportunities for new comers in the sector.

3.7 Impediments to Banking Sector Growth

At the same time, the sector remains affected by structural impediments and anomalies. These include excess liquidity, the conservative investment portfolio of the banks and financial institutions with a large set of assets kept in government securities, the inadequacy of the legal framework and the absence of a widespread loan repayment culture. This is why Small and Medium Enterprises ("SMEs") have difficulty in obtaining loans, also because of the lack of viable projects say local bankers.

3.8 Banking Sector Prospects

Overall the banking sector in Tanzania is growing. Some structural impediments limit the pace of development in the sector, but the government is addressing such issues. At the same time, private banks are assuming more risks by increasing their financing to formally excluded sectors and taking advantage of the opportunities arising in this growing economy. Within this framework, the Bank of Tanzania continues to play a crucial role.

SECTION XI

INFORMATION ON KENYA COMMERCIAL BANK LIMITED AND ITS SUBSIDIARIES

1. Background of KCB

KCB commenced operations in 1896 when its predecessor, the National Bank of India, opened a branch in the Coastal Town of Mombasa. In 1958, Grindlays Bank of Britain merged with National Bank of India to form The National and Grindlays Bank. In 1970, the Government of Kenya acquired 60% shareholding in National and Grindlays Bank and renamed it The Kenya Commercial Bank. In 1976, the Government of Kenya acquired 100% of the shares in the Bank, taking full control of the largest commercial bank in Kenya.

The Government of Kenya progressively started reducing its shareholding in KCB to 80% in 1988, 70% in 1990, 60% in 1996 and 35% in 1998. In June 2004 it offloaded a further 9% holding by renouncing its rights in a rights issue. The Government of Kenya however continues to remain a single major shareholder controlling 26.2% stake in the Bank.

2. Shareholding Structure as of 31st December, 2007

Major Shareholders	Number of shares held	% Shareholding
Permanent Secretary to the Treasury of Kenya	523,600,000	26.23
National Social Security Fund	135,823,837	6.80
Stanbic Nominees Kenya Ltd A/C ICDCI	69,724,937	3.49
Mr. Sunil Narshi Shah	46,601,180	2.33
KCB Staff Pension Fund Registered Trustees	46,362,210	2.32
Stanbic Nominees Kenya Ltd A/C R48701	30,620,190	1.53
Nomura Nominees Ltd A/C NSSF	20,241,300	1.01
Kenya Re-Insurance Corporation Ltd	17,269,150	0.87
Barclays (K) Nominees Ltd A/C 9230	16,464,750	0.82
Barclays (K) Nominees Ltd A/C 1256	13,854,460	0.69
Total	920,562,014	46.09

Shareholders' Profile As at 31 December, 2007	Number of Shareholders	Number of shares held	% of issued share capital
Kenya Individual Investors	147,426	665,402,430	33.33
Kenya Institutional Investor	4,843	1,289,138,132	64.59
East African Individual investors	42	168,580	0.01
East African Institutional investors	10	1,747,100	0.09
Foreign Individual investors	270	5,526,240	0.28
Foreign Institutional investors	27	34,017,518	1.70
Total	152,618	1,996,000,000	100.00

Summary of Totals

Share Range	Shareholders	Number of Shares	% Shareholding
1 to 5,000	123,578	150,357,581	7.53
5,001 to 50,000	27,626	197,583,555	9.90
50,001 to 100,000	662	47,607,157	2.39
100,001 to 1,000,000	623	176,070,016	8.82
1,000,001 to 10,000,000	116	467,688,117	23.43
10,000,000 & Above	13	956,693,574	47.93
Total	152,618	1,996,000,000	100.00

3. Recent Milestones

YEAR	MILESTONES
2003	<ul style="list-style-type: none"> • Profit before tax of Kshs 842 million from previous year's pre-tax loss of Kshs 4,178.5 million • Launched a new Corporate Identity in April (to be achieved by end of 2006) • Instituted a Board Charter defining Mandate and Responsibilities of the Directors • Instituted Ethics policy to govern the conduct of employees (KCB is thus a member of Ethics Business Group) • Sponsored the Safari Rally 2003 at the popular Kenyan coast • Successfully shed off expensive call and fixed deposits substituting them with cheaper current and savings account balances. This was buoyed by the bank's rebranding and a successful savings campaign • Gross NPL's reduced from Kshs 25.1 billion to Kshs 20.8 billion • Improved collections, recoveries and incremental provisions of Kshs 1.3 billion and drastically reduced the Net NPL's by 35% to Kshs 7.9 billion from the previous Kshs 12.2 billion • Project Mteja, a 3-years strategic plan approved by the Board; Kshs 3 billion to be spent; all branch network to be refurbished by end of 2006 and increase ATM network by 56 to 115 by end of 2005; Upgrade IT infrastructure • New Branch in Arusha increasing the branches in Tanzania to three • Branches to be opened in Kenya by end of 2004 • Licensed to acquire MasterCard credit cards
2004	<ul style="list-style-type: none"> • Pre-tax profit up by 9% to Kshs 920 million • Raised Kshs 2.35 billion through a successful Rights issue • S&L subsidiary reported a 38% increase in pre-tax profit of Kshs 18.2 million • KCB Tanzania inched closer to profitability reporting a pre-tax loss of Kshs 23 million down from Kshs 59.7 million loss the previous year • Completed the centralization of all NPL's into Head Office for ease of administration • 29 branches refurbished in the new brand bringing the total to 34 refurbished branches • New branch at the NHIF building and acquired approval from CBK to open additional seven • ATM network increased from 56 to 84, the largest network then • Raised over Kshs.6 million during the launch of United Against Hunger Initiative aimed at feeding about 12,000 people in drought stricken areas
2005	<ul style="list-style-type: none"> • 111% growth in pre-tax profits of Kshs 1.95 billion • S&L subsidiary reported a pre-tax profit of Kshs 77 million from Kshs 18.2 million the previous year • KCB Tanzania reported a pre-tax profit of Kshs 11 million for the first time in its 8 years history • Partnered with western Union Money Transfer and Safaricom air time top up product-Pay mate 150 • Mr Martin Odour-Otieno joined the bank in the newly created position of Deputy Chief Executive
2006	<ul style="list-style-type: none"> • 63% growth in profitability moving from Kshs 1.95 billion to Kshs 3.2 billion • Commenced KCB Sudan • Increased ATM network to 115 • Increased staffing at the Tanzanian subsidiary by 50%
2007	<ul style="list-style-type: none"> • Cost to income ratio continues to drop to 63% • The profit before tax moves up 33% to Kshs 4.2 billion • The return on equity moves up to 23% • Announced a share split of 10:1 • Launch of Uganda subsidiary • Subsidiaries begin to make attractive profits contribution • 11 branches opened in Kenya • Launch of KCB Biashara Banking and KCB Advantage Banking products • KCB placed the fourth most popular brand according to independent survey • Continued sponsorship of KCB Kenyan National Rally Championships, KCB Safari Rally, KCB Pro-Am Golf Tour, KCB/Athletics Kenya National Cross Country Championships

4. KCB and the Subsidiaries

Kenya Commercial Bank Limited has four wholly-owned trading subsidiaries:

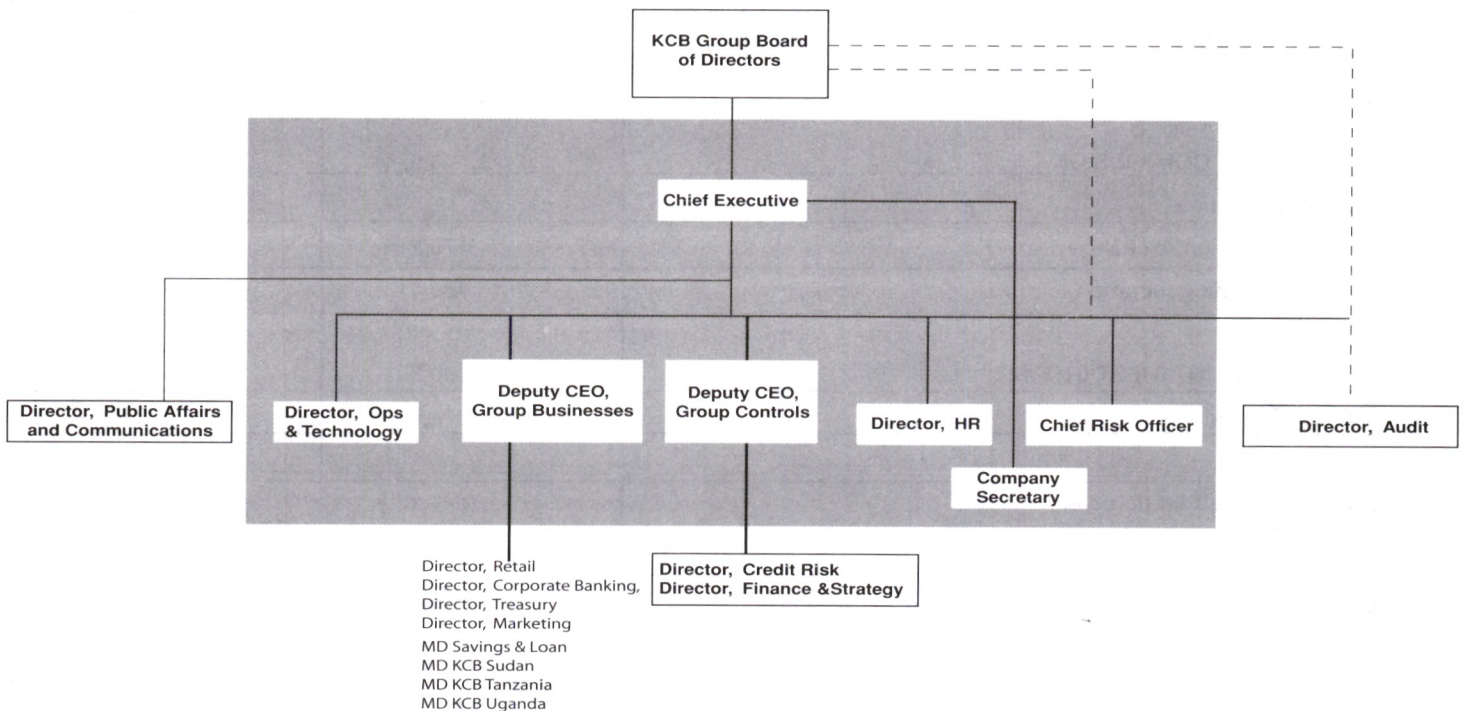
- 4.1 Savings & Loan Kenya Limited ("S&L") is the oldest mortgage finance company in Kenya, established in 1949 as a branch of Savings & Loan Society, a private company registered in Tanzania. Savings and Loan Society converted to a limited company in 1962 and was acquired by KCB in 1972 to serve as the housing finance arm of the Bank, providing mortgage finance. S&L has its registered office at Lonrho House, 18th Floor, Standard Street P.O. Box 45129 – 00200 Nairobi.
- 4.2 KCB (Tanzania) Limited ("KCB Tanzania") was incorporated in April 1997 to provide a wide range of financial products to the emerging regional economies and facilitate cross-border trading following the revival of East African Co-operation. KCB Tanzania has its registered office at PPF Tower, 17th Floor, Garden Avenue/ Ohio Street, Post Office Box Number 804 Dar-Es-Salaam.
- 4.3 KCB Sudan Limited ("KCB Sudan") was incorporated in pursuance of the vision "to be the Best Bank in the Region". KCB Sudan was launched in May 2006 and immediately commenced operations in Southern Sudan. Operations commenced with two branches - Juba and Rumbek - where impressive progress has already been made to command a greater share of government and NGO business. KCB Sudan has its registered office at Amin Muhammed Building, off Addis Abba Road, P. O. Box Number 47, Juba, Southern Sudan.
- 4.4 KCB Uganda Limited ("KCB Uganda") started business late November 2007. It is expected to help leverage on existing business in Sudan as Uganda is a key transit and trading partner with Sudan. KCB Uganda provides customers a wide range of innovative products and services including SME banking, corporate banking, personal banking, money transfers and mortgage financing. KCB Uganda has its registered office at Kampala Road Branch, Commercial Plaza, 7 Kampala Road, P. O. Box Number 7399, Kampala.

5. KCB Product Range, Business Units and Organization Structure

KCB's current product range is divided as follows:

- Retail Banking which is divided into Personal, Business, Western Union and Card Business ;
- Corporate Banking ;
- Treasury.

KCB's internal business units include Marketing, Operations and IT, Risk Management, Group Controls, Corporate Affairs, Company Secretary and Audit. The current organization structure is:



The total number of staff as of 31st December 2007 was 3108.

The total number of staff as of 31st March 2008 was 3191.

6. Ranking of KCB for 2006

An independent survey published in July 2007 (The Banking Survey Kenya 2007 by Think Business Ltd) using the financials for the financial year ending 31st December 2006 for 42 commercial banks ranked KCB as per the table below and is an illustration of KCB's positioning before the recent performance in 2007 and 2008. Note that the financial results for the year ending December 2007 and interim results for 2008 for all banks in Kenya will most likely result in some changes to these rankings.

Total Assets	Kshs 92 billion	No 2 Market Share 12%
Total Deposits	Kshs 77.8 billion	No 2 Market Share 12.75%
Loans & Advances (Net)	Kshs 45 billion	No 2 Market Share 11.5%
Shareholders Funds	Kshs 11.6 billion	No 2 Market Share 11.75%
Interest on Loans and Advances	Kshs 4.3 billion	No 3 Market Share 9.38%
Total Income	Kshs 12.5 billion	No 2 Market Share 12.64%
Total Expenditure	Kshs 8.6 billion	No 2 Market Share 13.4%
Operating Profits Before Provisions	Kshs 3.9 billion	No 3 Market Share 11%
Profits Before Tax	Kshs 3.17 billion	No 3 Market Share 11.5%

7. Group Performance Analysis 2003 to 31st March, 2008

7.1 Financial Results – 1st Quarter, 2008

CONSOLIDATED INCOME STATEMENT

INTEREST INCOME	3,379,269	2,071,848
INTEREST EXPENSE	(367,634)	(171,878)
Net interest income	3,011,635	1,899,970
FEEs AND COMMISSION INCOME	1,161,773	1,134,534
FEEs AND COMMISSION EXPENSE	(58,099)	(44,196)
NET FEEs & COMMISSION	1,103,674	1,090,338
Dividend income	-	-
Gain on foreign exchange	470,214	159,899
Other operating income	486,413	123,592
TOTAL NON INTEREST INCOME	2,060,301	1,373,829
Operating income	5,071,936	3,273,799
Bad and doubtful debts expense	(671,238)	(314,900)
Other operating expenses	(2,754,880)	(1,942,849)
PROFIT BEFORE TAXATION	1,645,818	1,016,050
TAXATION	(487,355)	(307,699)
PROFIT AFTER TAXATION	1,158,463	708,351

CONSOLIDATED BALANCE SHEET

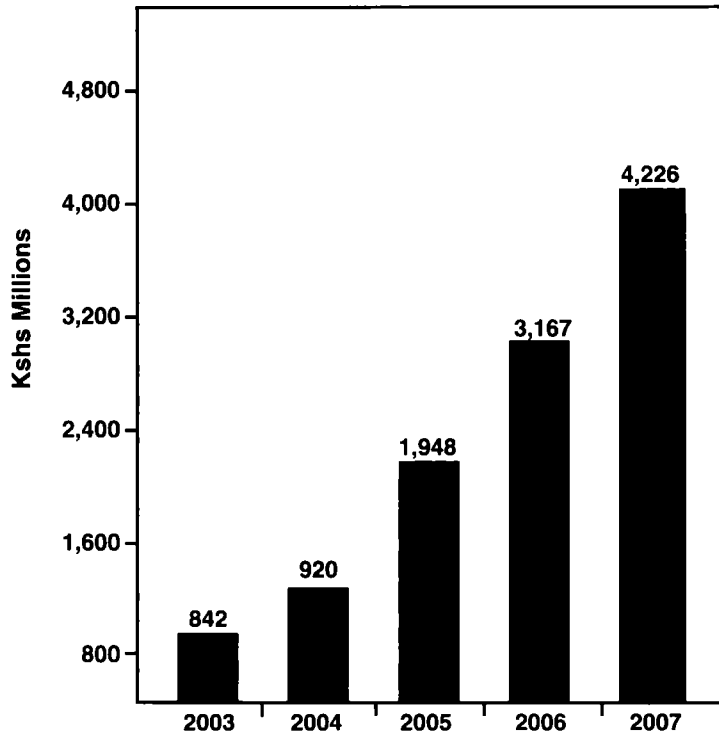
	31-Mar-08	31-Mar-07
	KShs'000	KShs'000
ASSETS		
Cash and balances with Central Banks	11,558,494	8,376,528
Cheques and items for clearing	304,938	39,588
Held to maturity investments	25,736,364	23,197,276
Held for trading investments	3,485,300	1,696,986
Placements and balances with other banking institutions	9,397,413	4,741,059
Available for sale investments	919,797	902,860
Tax recoverable	124,121	452,354
Loans and advances to customers	67,412,397	52,403,681
Other assets	7,041,037	3,249,017
Intangible assets	288,635	91,172
Property and equipment	4,661,460	4,285,598
Leasehold land	190,519	191,356
Deferred tax	472,453	473,075
TOTAL ASSETS	131,592,928	100,100,550
LIABILITIES		
Deposits and balances from other banking institutions	3,064,709	485,241
Other customer deposits	108,802,689	83,373,496
Other liabilities	4,014,734	3,757,413
Tax payable	1,290,629	38,615
Lines of credit	56,929	96,252
TOTAL LIABILITIES	117,229,690	87,751,017
CAPITAL EMPLOYED		
Share capital	1,996,000	1,996,000
Reserves	10,970,038	9,155,933
Proposed dividend	1,397,200	1,197,600
SHAREHOLDERS' FUNDS	14,363,238	12,349,533
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	131,592,928	100,100,550

No new important developments affecting KCB or its business have occurred since the last annual report of KCB.

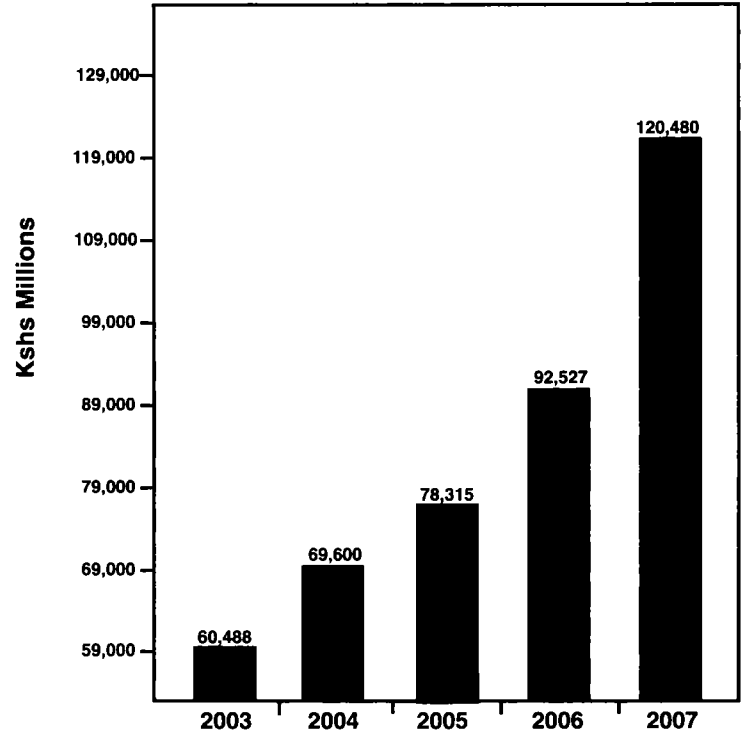
7.2 *Financial Results of KCB – 2003 to 2007*

FOR A DETAILED ANALYSIS OF THE BANK'S 5 YEAR PERFORMANCE, PLEASE REFER TO THE REPORTING ACCOUNTANTS' REPORT IN SECTION XIV. The annual accounts of KCB included in this Information Memorandum have been Audited.

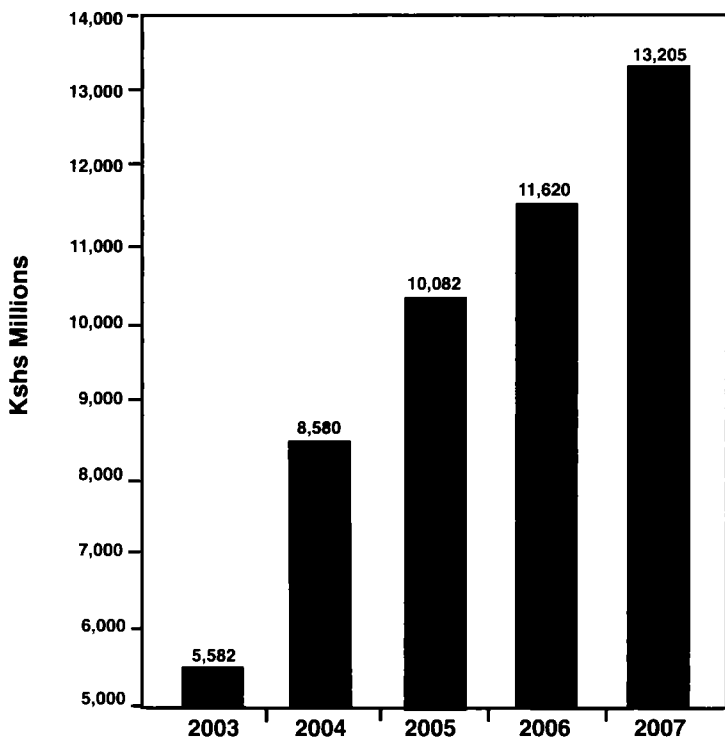
7.2.1 *Growth in Group Profit Before Taxation*



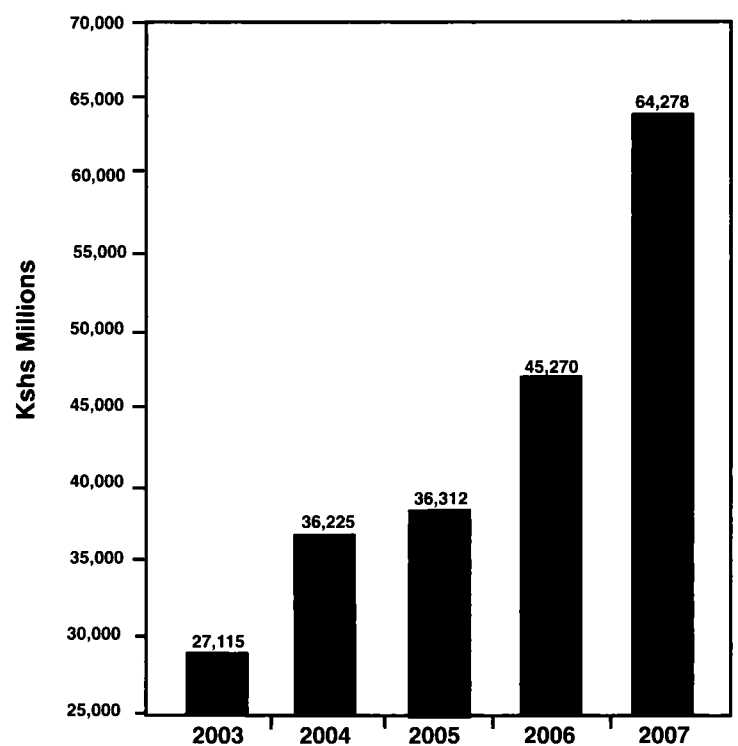
7.2.2 *Growth in Group Assets*



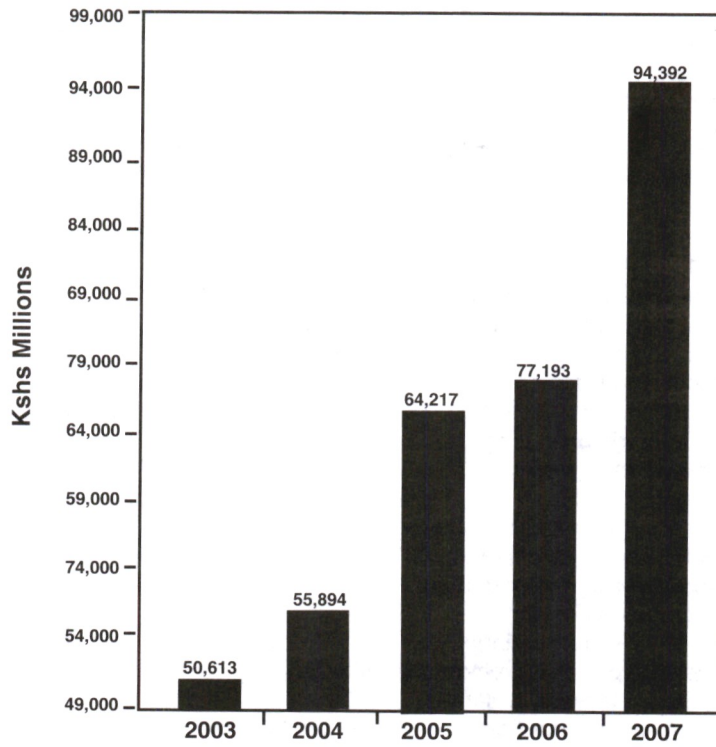
7.2.3 *Growth in Shareholder Funds*



7.2.4 *Growth in Net Customer Advances*



7.2.5 *Growth in Customer Deposits*



7.3 *Performance and Statutory Ratios (2003 – 2007)*

Performance and Statutory Ratios	2003	2004	2005	2006	2007
Cost to income ratio	70%	76%	67%	64%	63%
Return on equity	11%	7%	13%	21%	23%
Core capital to deposits	9%	14%	16%	13%	12%
Total capital to total weighted assets	13%	17%	18%	16%	14%
Liquidity ratio	37%	39%	44%	42%	33%
Net impaired advances to net advances	29%	21%	11%	9%	3%
Net impaired advances to gross impaired advances	38%	37%	29%	33%	22%

Source: KCB Annual Report 2007

8. Future Outlook

Upto 2007, the plans laid emphasize on turnaround measures and the establishment of sound foundation for business growth. The turnaround phase is complete and focus is shifting to repositioning the bank to reclaim its leadership position in the region in line with its vision.

KCB recognizes that customers have become more price and service sensitive with the competitive front shifting to efficiency in service delivery, turn around times and the range of products/services offered. Other challenges facing the industry include:

- Increased competition for SME business;
- Massive branch network expansion to reach out to the un-banked Kenyans;
- Installation of more ATMs to improve quality of customer service;
- More banks will connect to PesaPoint/Kenswitch ATM network;
- Increased investment in ICT infrastructure;
- Provision of alternative ICT based financial services – SMS banking & E banking;
- More banks will enter the cards business;
- Innovation in new products and services;
- Business consolidations;
- More commercial banks in investment banking and brokerage business;
- Implementation of 'in-duplum' rule from May 2007;
- Increasing cost of funds, maybe thinner margin;
- Intense competition in consumer credit;
- Rationalization of bank charges to continue;
- Implementation of Basel II capital requirements standards;
- Emergence of new players – Islamic banking;
- Banks will continue going regional and growing bigger capital base;
- Slow legal reforms and constraints at the commercial courts will slow pace of resolving NPL's.

KCB has set out four major principles and at least twelve major initiatives:

8.1 Principles :

- Increase shareholder value;
- Strengthening the human resource capital through training and development programs;
- Focusing on core activity of providing banking services/solutions to customers;
- Living the KCB values.

8.2 Initiatives:

- Improving operational efficiency to reduce the cost of running the business;
- Improving Turn Around Time in key processes via Straight Through processing (STP);
- Establishment of a call centre supporting the whole network;
- Growing the brand equity and maintaining visibility;
- Through research, develop and innovate products and services;
- Optimising the utilization of the core banking system;
- Improving Management Information Systems;
- Embedding high performance culture;
- Pursuing the regional expansion;
- Continuing with strategic branch network expansion;
- Drawing on organisation synergies through cross selling and widened product and services portfolio;
- Effectively manage enterprise risk.

8.3 KCB will continue focusing on its core product areas as follows:

8.3.1 Retail Banking

Personal & Business

- Continue to expand service outlets;
- Grow and optimize utilization of ATM network;
- Embed sales and customer centric culture;
- Grow business in value and volumes;
- Improve quality of MIS;
- Effectively manage costs.

Card

- Strategy to retain demand driven cards;
- Pushing flagship cards (Gold, Classic, General Purpose, Payroll);
- Increasing penetration;
- Co-branding;
- Increasing quality of customer service.

Western Union

- Increase market share;
- Establish dedicated counters in key branches.

8.3.2 Corporate Banking

- Aggressive growth through high quality service delivery;
- Concentrating and focusing more on target sectors;
- Increasing product cross-selling with existing clients in Retail/Subsidiaries/ Treasury.

8.3.3 Treasury

- Aggressively drive foreign exchange sales and marketing campaign;
- Introduce new hedging products;
- Manage the cost of funds within specific limits;
- Cross sell treasury products/services;
- Drive deposits mobilization;
- Implement aggressive investment strategy to maximize returns from bond portfolios;
- Diversify investment opportunities.

KCB will lay emphasis on its business units as follows:

8.4 Marketing

The function is to effectively support the banks core banking and mortgage units to drive profitable growth across the region whilst driving stellar service delivery so as to strengthen the corporate brand equity, by focusing on customer and industry insights. The marketing function will support operations in the Kenyan market but increase emphasis on Tanzania, Sudan and Uganda.

Kenya

- Exploit market segmentation;
- Increase quality of customer service;
- Expand service offering;
- Engage in more research to understand the market;
- Enhance communication.

Region

- Research customer needs in the local market;
- Drive customer service;
- Highlight branch expansion;
- Adequately support new product lines.

8.5 Savings and Loan Kenya Limited

The mortgage industry has benefited immensely from the turnaround in the economy. There is increasing demand for mortgage products and the government has initiated specific programs aimed at promoting housing in the country. The industry has also seen the emergence of cut throat competition with new players entering the market and offering very attractive incentives. It is estimated that the total mortgage market is approx Kshs 20 billion with S&L controlling a sizable stake of this market.

GOK incentives in this industry include:

- tax incentives on savings for home ownership and developers;
- implementation of low cost housing technologies;
- development of infrastructure in rural and urban centres;
- use of pension funds as security for mortgage.

S&L rebranding in 2005 has given it greater visibility and increased volume of business but to grow market share the following is required:

- Retain leadership as a leading mortgage company in Kenya;
- Achieve and maintain a competitive edge in service delivery;
- Enhance the subsidiary image and exert its presence as a key player in the industry;
- Optimize use of assets and control costs;
- Introduce further efficiency in the processing of applications;
- Leverage KCB's financial strength to grow its business;
- Introduce further cross-selling;
- Introduce new products and services.

8.6 Regional Strategy

The plan is to continue to position KCB as a strong regional presence as a basis of enhancing or optimizing shareholder value – without losing opportunities in the Kenyan market. This is also in line with KCB's vision. It is also a way of leveraging their Kenyan businesses.

The Bank's regional strategy is driven by a number of factors:

- To achieve the Bank's vision, leverage existing business and compliment growth in profitability;
- To grow shareholder value and achieve optimal utilization of infrastructure and resource base;
- To mitigate shrinking margins and increased competition;
- The expansion of the Bank's competition in the region;
- The consolidation in the banking industry around the World;
- To harness benefits of economic integration within the East African Community;
- To diversify risks and investments;
- To exploit regional opportunities due to relative local market saturation.

As part of the regional strategy, KCB may explore prospects of establishing subsidiaries in the wider region in the future.

Regional

- Socio-political environment;
- Smaller economies than Kenya but with big upside potential;
- Growing competition;
- Smaller KCB businesses but will contribute to KCB profits.

8.6.1 *KCB Tanzania*

This subsidiary has been in operation since 1997. With the injection of additional capital in 2006 and revamping of management the subsidiary is profitable. A number of initiatives are planned:

- Improve return on equity;
- Organic growth with roll-out of more branches;
- Increase market share and profitability by focusing on retail deposits;
- Special focus on retail banking, SMEs and local corporates;
- Treasury leadership and performance;
- Improving risk management function;
- Improving internal controls environment;
- Expand product/service range;
- Expand ATM network;
- Continue brand awareness campaign;
- Reduce cost to income ratio.

8.6.2 *KCB Sudan*

There are challenging environment issues such as legal and regulatory framework, the banking industry is still at an infant stage and the economy appears to offer limited scope but there is future potential. The plan is to:

- Stabilise the business and grow number of outlets;
- Increase market share and profitability;
- Increase bank visibility and create more awareness;
- Improve range of product offerings.

8.6.3 *KCB Uganda*

The business commenced trading in November 2007. The key objective is to break even as soon as possible. The Uganda subsidiary will help leverage KCB's existing business in Sudan as Uganda is a key transit and trading partner.

Some areas of focus will be further investment capital, more branches, enhanced human resources, increased corporate governance, introduction of new products and services, establishing new target markets, identifying new delivery channels and sourcing new customer deposits and offering more loans.

8.7 Human Resources

KCB requires a well trained and motivated staff force. KCB will consider amongst others:

- Implement an ESOP scheme;
- Identifying top talents for new competencies and skills;
- Embed high performance culture;
- Manage staff costs with agreed limits;
- Implement a more modern human resource IT system;
- Embed a leadership development program.

8.8 Operations and ICT

The migration to the Temenos T24 Core Banking System is critical for KCB. Other areas of operations improvements to be carried out will be:

- Other infrastructure improvements;
- Improving operational efficiency overall;
- Process improvement/continuous improvement;
- Enhanced business continuity planning.

8.9 Risk Management

This focuses on operational, compliance, credit portfolio, reputation and market risk. KCB will continue to design robust Group risk structures based on industry and best practice.

8.10 Audit

The audit function will continue to provide independent assurance over the effectiveness of risk management, control and governance to enhance control culture within the group. There are various activities planned in the area of audit including business-as-usual audit, core banking system audit and audit plans in respect of regional expansion.

8.11 Public Affairs and Communications

Corporate affairs function will continue to focus on CSR through the KCB Foundation and will also manage corporate communication to ensure KCB is positioned positively in the eyes of its respective internal and external stakeholders.

KCB is expected to grow its financial performance as the future plans are implemented in a planned and timely manner. Going forward, however, it may become necessary to review the dividend policy in the medium term in view of the ongoing local and regional expansion plans.

SECTION XII

CORPORATE GOVERNANCE, BOARD OF DIRECTORS, DIRECTORS OF SUBSIDIARIES AND DIVISIONAL DIRECTORS

1. Corporate Governance

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

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

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

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

1.1 Board Committees

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

1.1.1 *Risk Management Committee*

This Committee was set up in the year 2007 to oversee the Group's mitigation and appreciation of all risks in the business. It meets quarterly to advise the business on all matters pertaining to credit, market, operations, legal, environmental and other risks.

1.1.2 *Audit Committee*

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

The Committee deals with all matters relating to the financial statements and internal control systems of the Bank including dealing with independent auditors and Central Bank of Kenya inspectors.

1.1.3 *Credit Committee*

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

1.1.4 *Human Resources Committee*

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

1.1.5 *Procurement and Information Technology Committee*

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

1.1.6 *KCB Foundation*

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

1.2 Direct Equity Investments of Directors

December 2008	
Permanent Secretary to the Treasury	523,600,000
Susan Mudhune	20,200
Catherine Ngima Kimura	117,260
Sunil Narshi Shah	46,601,180
Susan Nkirote Omanga	20,000
Joseph Isaac Adongo	11,000

1.3 Communication with Shareholders

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

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

2. **Board of Directors**

Peter W. Muthoka (MBS) – Group Chairman (Age 64): Elected on 22nd May 2008. Joined the Board in June 2004. Holds BA (Hons) Degree (UEA/NBI), MA Degree(UCLA/USA) and Bank of England/IMF/WTO/UNESCO Course Certificates. Currently Managing Director of Sasini Limited. Previously worked in senior positions with GOK/UN, Central Bank of Kenya and Export Promotion Council of Kenya. He has over 40 years experience in private and public sectors as well as international organizations in the areas of banking and finance, investment and export promotion, education and international diplomacy. He is a Fellow of Kenya Institute of Bankers (FKIB), a Fellow of Cambridge (University) Association of Managers (FCAM) and a recipient of the Presidential medal: Moran of the Burning Spear. He is the Chairman of KCB (U) and KCB (S) and is a Director of KCB (TZ).

Martin Oduor-Otieno – Group Chief Executive (Age 51): Joined KCB in October 2005. Holds an MBA and Bachelor of Commerce Degree in Accounting. He is a Fellow of the Institute of Certified Public Accountants of Kenya, Fellow of the Kenya Institute of Bankers and a Certified Public Secretary. He is also a Director of KCB (T), KCB (U) and KCB (S). He spent the early part of his career with Panel Bellhouse Mwangi as an auditor and a further 10 years in various finance positions in British American Tobacco. Was with Barclays Bank for 13 years, although for 2 of those years he was seconded to the Government as the Permanent Secretary in the Ministry of Finance. He has worked in various areas in Barclays, most recently as Head of Reporting and Compliance in Barclays Bank's Africa Regional Office in Johannesburg, South Africa.

Samuel Kimani – Deputy CEO Group Controls (Age 46): Joined KCB in 2000 as the Financial Controller and later promoted to Divisional Director Finance before being promoted to his current position in May 2007. Samuel has over 20 years experience in Financial Management having previously worked with PriceWaterhouseCoopers as a financial consultant before joining Central Bank of Kenya as Deputy Chief Banking Manager. He holds a Bachelor of Science degree in Civil Engineering and an MBA in Strategic Management both from the University of Nairobi. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK).

Susan Mudhune (MBS) – Director (Age 58): Joined KCB Board in May, 2001 and became Chairman of the Board in April, 2003. Holds a Bachelor of Arts Degree in Education and an MBA. A Fellow of Kenya Institute of Bankers (KIB), a Director of Eveready East Africa Board, a member of Institute of Directors (K) and National Chairman of Kenya Girl Guides Association. She is a Director of KCB (TZ) and S&L Ltd.

Joseph Kinyua (CBS) – Director- (Age 56): Joined the Board in July 2004. Holds BA and MA degrees in Economics from University of Nairobi. Currently the Permanent Secretary, Treasury, a member of the Board of Governors of African Economic Research Consortium and alternate Governor of World Bank Board of Governors. He has served in various senior positions in the Ministry of Finance and Central Bank of Kenya. Also served as Permanent Secretary, Ministry of Planning and National Development and Ministry of Agriculture.

Sunil Shah – Director (Age 54): Joined the Board in June 2004. He is currently the Executive Director and Managing Director of United Millers Limited and a member of various Professional Bodies among other directorships.

Prof. Peter Kimuyu – Director (Age 57): Joined the Board in June 2006. Holds PhD in Economics from University of Nairobi. He is currently Professor of Economics, Founder Director School of Economics at Nairobi University and Chairman, Board of Directors of the Export Promotion Council.

Catherine Kimura – Director (Age 61): Joined the Board in June 2003. Holds a Bachelor of Arts degree, Certificate in Public Finance and a Diploma in Tourism and International Relations. She has held senior positions in the public sector. She is the Chairman of the Bank's Human Resources and Remuneration Committee and a Director of KCB (U).

Susan Omanga - Director (Age 47): Joined the Board in June 2004. Holds a Degree in Business Management and Marketing. She is currently the Managing Director of Exclamation Marketing Limited. Has headed marketing function in local banking industry for many years. She is the Chairman of the KCB Foundation.

Eng. Musa Ndetto – Director (Age 55): Joined the Board in June 2003. He is a member of IEE (UK) and practices as a Consulting Electrical Engineer. Director of Kenya Electricity Generating Company Limited (KenGen). Chairman of the Bank's Audit Committee.

Joseph I. Adongo – Director (Age 54): Joined the Board in June 2005. Holds BA and MA degrees in Economics. Fellow of the Economic Institute of the World Bank. Chairman of Betting Control and Licensing Board. Chairman of the Bank's Credit Committee.

3. Directors of Subsidiaries

Peter Munyiri Maina – Deputy CEO Group Businesses (Age 42): Joined KCB in 2007. He has over 17 years experience in banking having previously worked in various banks in Kenya. He holds a Bachelor of Arts Degree in Economics from the University of Nairobi and an MBA in Strategic Management. He is an Associate of the Chartered Institute of Bankers (UK) and Fellow of the Kenya Institute of Bankers (FKIB). He is a Director of S&L, KCB (TZ), KCB (U) and KCB (S).

Wangui Ngatia – Managing Director S&L (Age 54): Joined KCB in 1978. Holds a Bachelor of Arts Degree from the University of Nairobi.

Caroline Kariuki – Incoming Managing Director S&L (Age 45): Joined KCB in 2006. Holds a Bachelor of Commerce Degree from the University of Nairobi and an MBA from Warwick Business School.

Joshua S. Muriu – Chairman S&L (Age 58): Joined the Board in August 2006 after working with the Central Bank of Kenya for over 23 years. Holds a Masters Degree in Economics from University of Nairobi. He is an examiner with Kenya Institute of Bankers and a consultant with Ukweli Consult. He was elected Chairman of S&L from 1st July 2007.

Heri Bomani – Managing Director KCB Tanzania (Age 37): Joined KCB (T) in 2006. Holds a Bachelor of Science Degree in Economics (Banking and Finance) from University of Wales. Previously worked for Standard Chartered Bank Tanzania Limited as Executive Director, Consumer Banking.

Janet Mbene – Chairman KCB Tanzania (Age 56): Joined the Board in May 2006. Holds Masters Degree in Economics from University of New England, Armidale New South Wales, Australia. She is a member of the Group Audit Committee.

Rupin Rajani – Director KCB Tanzania (Age 45): Joined the Board in May 2006. Holds a Masters Degree in Business Administration from Institute of Management Development, Lausanne, Switzerland. He is the CEO of Rajani Industries Ltd.

James Agin – Managing Director KCB Uganda (Age 37): Joined KCB (U) in January 21, 2008 as Managing Director. He holds a Bachelor of Science Degree and Associate of the Chartered Institute of Bankers (UK) and he is also pursuing an MBA Programme. Prior to his appointment, Mr. Agin was an Executive Director at Barclays Bank Uganda Ltd.

Samwiri Njuki – Director KCB Uganda (Age 56): Joined KCB (U) as a Non-Executive Board Member in November 2007. He holds a Bachelor of Arts Degree and an Advanced Diploma in Economics of Banking. Before he joined KCB (U), he had worked as the Managing Director of Orient Bank Uganda Ltd from where he retired in July 2007. He has also been a board member of Uganda Securities Exchange, Uganda Bankers Association, among others. He is a member of the Group Audit Committee.

Daniel Mavindu – Managing Director KCB Sudan (Age 46): Joined KCB (S) in May 2006. Holds a Bachelor of Commerce degree in Accounting from the University of Nairobi and is a Certified Public Accountant. Previously worked for Chase Bank (K) Limited as Executive Director, Banking Operations, Finance and Administration.

Dr. Leo Onek – Director KCB Sudan (Age 55): Joined the Board in 2006. Holds a PHD in Biochemistry from Lancaster University. He is a member of the Group Procurement Committee.

4. Divisional Directors (KCB Executive Committee)

Rose Kinuthia (Mrs) – Chief Risk officer: Joined KCB in 2004 as the Divisional Director. Rose has over 19 years experience in Banking and Finance having worked for 2 years with New York Life Insurance Company, 5 years as the Head of Credit Administration at the First National Bank of Chicago before joining Barclays Bank where she worked for 12 years as a Senior Risk Manager. She holds a Bachelor of Arts degree in Economics and French from the University of Nairobi and a Master of Business Administration from Adelphi University in New York.

Fredrick Mutiso – Finance and Strategy: Joined KCB in 2001 as the Head of Change and was later promoted to Divisional Director Strategy & Change in 2002. He was promoted to Divisional Director, Finance & Strategy in Aug 2007. He has over 10 years experience in Change Management having worked with BAT as the Area Continuous Improvement Manager. He holds a Bachelor of Commerce degree in Accounting from the University of Nairobi and is a member of both the Institute of Certified Public Accounts of Kenya (ICPAK) and the Institute of Certified Public Secretaries of Kenya where he sits in the Financial Sector Committee.

Mary-Ann Kirubi – Marketing: Joined KCB in July 2006 as the Divisional Director. Mary-Ann holds a BA degree in International Administration from Franklin College, Switzerland, and a M.Sc. in Management from University of Surrey, U.K. She joined KCB from Coca-Cola Company East & Central Africa, where she was the Franchise Marketing Manager. Mary-Ann has 12 years of Marketing experience gained while working with Ogilvy & Mather (both locally and in the UK), GlaxoSmithKline East Africa, as Group Product Manager, and most recently with Coca-Cola where she was the Franchise Marketing Manager for the horn of Africa, Indian Ocean Islands and Mid-Africa, covering 14 countries.

Catherine Njoroge (Mrs) – Retail: Joined KCB in 2001 as the Divisional Director. Catherine has over 20 years experience in banking having worked with Commercial Bank of Africa as Assistant General Manager, Personal Banking and various senior related positions. She holds a Bachelor of Arts degree in Economics from Edinburg State College, USA and a Masters degree in Business Administration from Nairobi University.

Charles Maranga – Human Resources: Joined KCB in June 2008 having worked for Central Bank of Kenya as Director, Human Resources and Administration for 3 years. Charles has over 10 years' experience in senior leadership positions in Human Resources management, having previously worked with Kenya Airways as Head of Human Resources and Barclays Bank of Kenya as the Head of Human Resources responsible for East Africa. He holds a Bachelor of Arts degree from the University of Nairobi and a Masters of Science degree in Business Studies from the University of Salford (UK).

Stanley Towett – Audit: Joined KCB in 1984 as a management trainee rising through the ranks to become the Managing Director, Savings and Loan Limited and further to his current position. He holds a Bachelor of Commerce degree (Accounting Option) from the University of Nairobi and Masters of Business Administration degree from E.S.A.M.I. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He has attended numerous courses and workshops in the fields of Strategic and financial management.

Dr Anthony Githuku – Operations and Technology: Joined KCB in 2003. He has over 15 years experience in IT having worked with Quick Solutions, Inc. Ohio serving such customers as Qwest communications, J.P Morgan and World/UUNET before joining Fintech International as a business manager, rising to become its Chief Executive Officer. He is also a holder of Java2 platform Certification. He holds a Bachelor of Science degree in Engineering from the University of Nairobi, a Master of Science in Geographic Information Systems from University of Glasgow and a PhD in Engineering from The Ohio State University.

Timothy Kabiru – Treasury: Joined KCB in 2007. Before joining KCB he worked at Co-operative Bank of Kenya where he was the Treasurer as well as Head of Correspondent Banking and Strategic Planning. Timothy has over 10 years experience in treasury management in the banking sector gained while working with ABN Amro NV, NIC Bank and most recently Co-operative Bank of Kenya. Timothy holds a Bachelor of Business Administration degree from the University of New Brunswick, Canada.

John Mark Wandolo – Corporate: Joined KCB in 1990 as a Management Trainee in Credit. In 1991 he was promoted to the position of Assistant Corporate Account Manager, where he held the position up to June 1994. In June, 1994 he was promoted to the position of Corporate Account Manager, Mombasa. In 1997, he moved to Consultancy Business Services then based at the Head Office. In 1999 he was posted to City Centre Branch as Advances/Lending Officer. In 2000 he was promoted to the role of Corporate Relationship Manager where he served for 4 years before his promotion to Unit Head - Corporate before being appointed to Corporate Director in April 2007. Holds a Bachelor of Arts Degree from University of Nairobi.

Wilfred Sang – Credit: Joined KCB in 1987 as a Trainee Officer and has over the years rose through the ranks to his present position. Other Senior positions he held include the Head of Corporate Credit Unit. He has attended various courses and workshops in management and banking and business development. He holds an MBA, Financial Services from Sheffield Hallam University and a B.Sc., Agriculture from University of Nairobi.

Kiprop David Malakwen – Company Secretary: Joined KCB in 1994 as the Company Secretary having worked with the defunct Kenya Posts and Telecommunications Corporation in the same capacity. Mr. Malakwen has over 20 years experience in company secretarial affairs whose counsel has aided the Bank through a decade of continuous change and continues to be a vital link between management and the Board. He is an Advocate of the High Court of Kenya and a member of the Institute of Certified Public Secretaries of Kenya (ICPSK). He holds a Bachelor of Laws (LL.B) degree from the University of Nairobi.

Kepha Bosire – Public Affairs and Communications: Joined KCB in 1995 as a Trainee Officer and has over the years rose through the ranks to his present position. He was a Public Relations Officer and later Manager, Corporate Relations before his appointment to Head of Corporate Affairs in 2003. He was appointed to his current post with effect from May 2008. He has attended various courses and workshops in management and banking and business development. He holds a B.Sc., Information Science from Moi University and a Diploma in Strategic Public Relations from The Management School of London.

SECTION XIII

RISK FACTORS

Investors are hereby cautioned that they should carefully consider the following risk factors that affect KCB's business in Kenya and the region together with the other information contained in this document. These risks and uncertainties are not the only issues that KCB faces; additional risks and uncertainties not presently known to it or that it currently believes not to be material may also have a material adverse effect on KCB's future performance. If this occurs, the price of KCB shares may decline and investors could lose part or all of their investment.

1. Political Risk

The majority of the income for KCB is from Kenya as is the location of the majority of KCB's infrastructure and other assets. The dramatic events in January and February 2008 related to social and political turmoil, which included civil unrest, riots, protests and street demonstrations were unprecedented in Kenya's history. This all unfolded following the official results of the national elections held on 27 December 2007 which declared H.E. President Mwai Kibaki the winner and which the challenger Hon. Raila Odinga rejected. The election was the closest election ever in Kenya's history. However, with the help of Dr. Kofi Annan and other eminent African personalities, a power sharing agreement culminated in the National Accord and Reconciliation Act 2008 that effectively creates a new post of Prime Minister with powers and a new broader coalition government. Subsequently, key constitutional changes have been enacted and a new cabinet has been sworn in.

2. Economic Risk

The political risk as outlined above clearly had some effect on economic activity in the country but it is difficult to quantify the effect that it has already had on the various sectors of the economy and whether there will be continued impact due largely in part to the continued unfolding new political environment for some time. It is known for sure that inflation has increased steeply in March 2008 and will need to be brought under control as soon as possible. Generally in the past, other factors that have had adverse effects include, withdrawal or suspension or market reduction in bilateral and multilateral aid, major currency appreciation and depreciation of the Kenya shilling, drop in tourism activity, inadequate general infrastructure, lack of adequate national power supply, high inflation and high interest rates.

3. Risks relating to the Regulatory Environment

Provision of banking services is under the Banking Act (and its amendments) and the Finance Act 2006. KCB is regulated by the Central Bank of Kenya and is therefore subject to comply with various policy guidelines issued by the CBK. The Banking Act has been undergoing a comprehensive review and its implementation in the future may have some adverse effects on the banking industry. More regularly there are new policy guidelines issued by the CBK which can have an adverse implications for financial institutions.

4. Risks relating to the Business

Additional risk factors relating to the business are set out in detail in paragraph 30 of Section XIV (Reporting Accountants' Report) below.

There has been rapid growth in the last few years and this needs to be successfully managed in order to viably expand the operations. The operating complexity as well as the responsibility of management have increased as a result of this growth requiring more managerial and operational resources. Management of this growth will require, in addition:

- Raising new capital and its effective and timely utilization;
- Continued development of financial and management controls and information technology systems and their implementation in newly acquired businesses;
- Increased marketing activities;
- Co-ordination of sales activities across various markets;
- Hiring and training of new personnel;
- Adapting to new changes in our markets, including new and sophisticated competition;
- Maintaining if not growing the profit margin.

The business strategy contemplates geographical expansion and the future growth depends on the execution of this strategy. Many of the competitors in these areas have more experience and greater resources that KCB does, which may allow them to identify such opportunities more quickly. Other challenges include: difficulty in enforcing agreements through regional legal systems; increased cost in designing products and services that are more compatible with varying local needs; difficulty in staffing and managing regional operations; actions taken by regional governments or regulators; difficulty in complying with local laws and regulations; variations in tax regimes; general political and economic instability.

KCB's ability to maintain its competitive position and to implement its business strategy is dependent upon the services of its senior management team and other key personnel. Competition in Kenya and the region for personnel with relevant experience is intense due to small number of qualified individuals. As a result, KCB may not be able to retain and attract qualified personnel to fill in key positions.

5. Risks Relating to this Rights Issue

There are a number of factors that can affect the performance of the stock market which can also impact a listed corporate.

In the event that all the new shares are not taken up by Eligible Shareholders or other investors some of the initiatives with regards to application of proceeds of this Offer may be impacted.

The Safaricom IPO that has closed was a gigantic offer, was heavily oversubscribed and may have created some tightness in liquidity in the markets. The refund payments to hundreds of thousands of investors may be in excess of Kshs 35 billion. This may raise new challenges in logistics management for the advisors and adherence to the tight offer timetable. A large number of investors expected into the Safaricom IPO are present and expected shareholders of KCB. The timing of the Rights Issue may become a critical success of the offer.

There may be other listed corporates raising equity capital in the market at the same time as KCB and this may have some impact on KCB.

There may be substantial Untaken Rights that may or may not come to the NSE for trading either because the large shareholders are unwilling to take up their Rights or tens of thousands of individual shareholders may not respond to the offer. KCB has therefore put a mechanism to deal with Untaken Rights.

The CMA currently allows up to 75% of a company listed on the NSE to be owned by foreign investors. It is possible that foreign investors may take up a substantial portion of the Rights.

SECTION XIV

REPORTING ACCOUNTANTS' REPORT



28 May 2008

The Directors
Kenya Commercial Bank Limited
Kencom House
Moi Avenue
Nairobi

■ Certified Public Accountants
Kenya-Re Towers, Upperhill
Off Ragati Road
P.O. Box 44286
00100 Nairobi, Kenya

■ Phone: +254 20 2715300
Fax: +254 20 2716271
Email: info@ey.co.ke
Web: www.ey.com

Ladies and Gentlemen,

REPORTING ACCOUNTANTS' REPORT ON KENYA COMMERCIAL BANK LIMITED FOR THE RIGHTS ISSUE

A. INTRODUCTION

We have examined the consolidated audited financial statements of Kenya Commercial Bank Limited (the "Bank") and its subsidiaries, Savings and Loan Kenya Limited, Kencom House Limited, KCB (Tanzania) Limited, KCB Sudan Limited, KCB Bank Uganda Limited and Kenya Commercial Finance Company Limited (collectively referred to as "The Group") for the years relevant to this report.

The directors of the Group are responsible for the preparation of the Information Memorandum and all the information contained therein and for the financial statements and financial information to which this Accountants' Report relates and from which it has been prepared. Our responsibility is to review and compile the financial information set out in our report from the financial statements.

Ernst & Young have acted as auditors of the Group for the years relevant to this report. PricewaterhouseCoopers acted as auditors of KCB (Tanzania) Limited up to 31 December 2005. For each of the relevant years, unqualified audit reports were issued.

We have not audited any financial statements nor reviewed any management accounts of the Group as of any date or for any period subsequent to 31 December 2007. The audited financial statements for the year ended 31 December 2007 were approved by the Board of Directors on 28 February 2008.

The financial information set out below is based on the audited financial statements of the Group, after making the adjustments we considered appropriate, for the inclusion of our report in the Information Memorandum. The summary of these adjustments are set out in section H below.

We are not aware of any material items not mentioned in the Information Memorandum regarding the rights issue, which could influence the evaluation by the investors of the assets, liabilities and financial position of the Group.

The audited financial statements have been prepared on the basis of the accounting policies set out in section B below. For all the accounting periods dealt with in this report, the financial statements have, in all material respects, been prepared in accordance with the International Financial Reporting Standards.

B. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied for all the five years.

(a) Basis of preparation

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

The financial statements have been prepared on the historical cost basis, except for certain financial assets and financial liabilities, that have been measured at fair value.

The consolidated financial statements of the Group comprise the financial statements of the Bank and its subsidiaries as at 31 December, each year.

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

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

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

(b) Revised standards, amendments and interpretations

In 2007, several new and revised standards, amendments and interpretations to published standards became effective and have been adopted by the Group, where relevant to its operations.

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 and have been adopted by the Group:

- IFRS 7 Financial Instruments: Disclosures.
- IAS 1 Amendment - Presentation of Financial Statements.

IFRS 7, 'Financial Instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of Financial Statements - Capital Disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments.

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007, but they are not relevant to the Group's operations:

- IFRS 4, 'Insurance contracts';
- IFRIC 7, 'Applying the restatement approach under IAS 29, financial reporting in hyperinflationary economies';
- IFRIC 8, 'Scope of IFRS 2',
- IFRIC 9, 'Re-assessment of embedded derivatives'; and,
- IFRIC 10, 'Interim financial reporting and impairment'.

The Group has chosen not to early adopt the following standards, amendments and interpretations to existing standards that were issued, but not yet effective, for accounting periods beginning on 1 January 2007. The application of these standards, amendments and interpretations will not have material impact on the Group's financial statements in the period of initial application.

- IFRS 11, 'IFRS 2 – Group and treasury share transactions (effective from 1 March 2007)';
- IAS 23, Amendment, 'Borrowing costs (effective from 1 January 2009)';
- IFRS 8, 'Operating segments (effective from 1 January 2009)';
- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction (effective from 1 January 2008);
- IFRIC 12, 'Service concession arrangements (effective from 1 January 2008); and,
- IFRIC 13, 'Customer loyalty programmes (effective from 1 July 2008'.

(c) Significant accounting judgements and estimates

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

i) Impairment losses on loans and advances

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

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

B. ACCOUNTING POLICIES (Continued)

ii) Fair value of financial instruments

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

iii) Deferred tax assets

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

iv) Pensions

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

(d) Recognition of income and expenses

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

i) Interest and similar income and expense

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

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

ii) Dividend income

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

iii) Fees and commission income

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

iv) Rental income

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

(e) Property, equipment and depreciation

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

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

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

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

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

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

B. ACCOUNTING POLICIES (Continued)

(f) Provisions

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

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

(g) Financial instruments

i) Loans and advances to customers

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

ii) Investments held for trading

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

iii) Held to maturity investments

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

iv) Available for sale investments

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

(h) Impairment of financial assets

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

i) Loans and advances to customers

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

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

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

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

B. ACCOUNTING POLICIES (Continued)

ii) Re-negotiated loans and advances

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

iii) Held to maturity investments

For held to maturity investments, the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

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

iv) Available for sale investments

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

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

(i) Foreign currencies

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

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

(j) Taxation

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

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

(k) Retirement benefit costs

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

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

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

(l) Leases

Where:-

i) A group company is the lessee

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

ii) A group company is the lessor

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

B. ACCOUNTING POLICIES (Continued)

(m) Guarantees, acceptances and letters of credit

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

(n) Computer software development costs

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

(o) Foreign exchange forward and spot contracts

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

(p) Cash and cash equivalents

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

(q) Fiduciary assets

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

(r) Dividends

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

(s) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(t) Impairment of non-financial assets

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

(u) Offsetting

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

C. CONSOLIDATED INCOME STATEMENTS FOR THE FIVE YEARS ENDED 31 DECEMBER 2007

		2007	2006	2005	2004	2003
	Note	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Interest income	1	9,373,389	7,064,400	5,725,090	4,219,575	4,394,635
Interest expense	2	(921,822)	(750,928)	(597,280)	(432,795)	(944,043)
Net interest income		8,451,567	6,313,472	5,127,810	3,786,780	3,450,592
Fees and commission income		4,524,178	3,780,573	3,385,279	3,202,453	2,946,253
Fees and commission expense		(243,877)	(210,316)	(106,965)	(87,839)	(56,654)
Net fees and commission income		4,280,301	3,570,257	3,278,314	3,114,614	2,889,599
Dividend income	3	23,961	42,534	50,872	14,147	4,850
Gain on foreign exchange		838,890	658,595	483,384	420,757	351,762
Other operating income	4	540,036	952,028	379,088	547,776	244,246
Operating income		14,134,755	11,536,886	9,319,468	7,884,074	6,941,049
Impairment losses on loans and advances	5	(748,152)	(752,939)	(591,074)	(837,836)	(994,419)
Other operating expenses	6	(9,160,621)	(7,617,194)	(6,780,786)	(6,126,040)	(5,096,442)
Profit before share of loss of associated company and taxation		4,225,982	3,166,753	1,947,608	920,198	850,188
Share of loss of associated company		-	-	-	-	(8,559)
PROFIT BEFORE TAXATION		4,225,982	3,166,753	1,947,608	920,198	841,629
TAXATION	7	(1,251,410)	(734,875)	(621,581)	(286,416)	(264,631)
PROFIT AFTER TAXATION		2,974,572	2,431,878	1,326,027	633,782	576,998
EARNINGS PER SHARE						
Basic and diluted (KShs.)	8	1.49	1.22	0.66	0.32	0.39

D. CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2003 TO 2007

		2007	2006	2005	2004	2003
ASSETS	Note	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cash and balances with						
Central Banks	9	11,400,788	7,394,536	6,322,971	5,798,081	4,955,206
Cheques and items for clearing		829,312	527,534	168,933	93,414	46,025
Held to maturity investments	10	21,279,799	17,939,890	17,035,034	15,320,329	15,818,599
Held for trading investments	11	4,399,098	3,530,419	4,013,193	1,684,066	-
Placements and balances with						
other banking institutions		3,772,082	6,936,108	4,023,708	1,681,365	2,887,963
Available for sale investments	12	859,640	902,860	949,995	302,227	156,208
Tax recoverable	7	124,122	452,515	454,418	472,349	471,600
Loans and advances	13	64,278,123	45,269,726	36,311,636	36,225,440	27,114,888
Other assets	14	8,020,632	4,436,745	3,854,708	3,029,980	4,009,088
Intangible assets	15	228,718	110,076	146,995	57,165	49,844
Property and equipment	16	4,565,832	4,067,788	3,414,975	2,722,011	2,475,327
Prepaid leases on land	17	187,659	192,113	196,383	199,223	203,673
Deferred tax	18	533,748	766,261	1,422,103	2,014,517	2,299,734
TOTAL ASSETS		120,479,553	92,526,571	78,315,052	69,600,167	60,488,155
LIABILITIES						
Deposits and balances from						
other banking institutions		5,828,635	609,624	295,685	1,628,715	706,211
Other customer deposits	19	94,392,361	77,192,889	64,216,629	55,893,730	50,613,268
Other liabilities	20	6,130,354	2,997,312	3,582,512	3,263,882	3,270,366
Tax payable	7	855,848	24,270	11,667	-	-
Lines of credit	21	67,695	82,170	126,568	233,681	315,900
TOTAL LIABILITIES		107,274,893	80,906,265	68,233,061	61,020,008	54,905,745
CAPITAL EMPLOYED						
Share capital	22	1,996,000	1,996,000	1,996,000	1,996,000	1,496,000
Reserves	23	9,811,460	8,426,706	7,287,591	6,184,959	3,936,810
Proposed dividend	24	1,397,200	1,197,600	798,400	399,200	149,600
SHAREHOLDERS' FUNDS		13,204,660	11,620,306	10,081,991	8,580,159	5,582,410
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		120,479,553	92,526,571	78,315,052	69,600,167	60,488,155

E. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE FIVE YEARS ENDED 31 DECEMBER 2007

	Share capital KShs'000	Capital reserve KShs'000	Revenue reserve KShs'000	Share premium KShs'000	Proposed dividend KShs'000	Translation reserve KShs'000	Revaluation reserve KShs'000	Total KShs'000
At 1 January 2003	1,496,000	276,583	2,725,527	473,800	-	(61,572)	97,095	5,007,433
Change in value of available for sale investments	-	-	-	-	-	-	35,443	35,443
Proposed dividends - 2003	-	-	(149,600)	-	149,600	-	-	-
Translation differences	-	-	-	-	-	(37,464)	-	(37,464)
Profit for the year	-	-	576,998	-	-	-	-	576,998
At 31 December 2003	1,496,000	276,583	3,152,925	473,800	149,600	(99,036)	132,538	5,582,410
At 1 January 2004	1,496,000	276,583	3,152,925	473,800	149,600	(99,036)	132,538	5,582,410
Change in value of available for sale investments	-	-	-	-	-	-	153,269	153,269
Rights issue	500,000	-	-	1,845,964	-	-	-	2,345,964
Dividend paid - 2003	-	-	-	-	(149,600)	-	-	(149,600)
Proposed dividends-2004	-	-	(399,200)	-	399,200	-	-	-
Transfer from capital reserves	-	(1,161)	1,161	-	-	-	-	-
Translation differences	-	-	-	-	-	14,334	-	14,334
Profit for the year	-	-	633,782	-	-	-	-	633,782
At 31 December 2004	1,996,000	275,422	3,388,668	2,319,764	399,200	(84,702)	285,807	8,580,159
At 1 January 2005	1,996,000	275,422	3,388,668	2,319,764	399,200	(84,702)	285,807	8,580,159
Change in value of available for sale investments	-	-	-	-	-	-	647,768	647,768
Dividend paid - 2004	-	-	-	-	(399,200)	-	-	(399,200)
Proposed dividend - 2005	-	-	(798,400)	-	798,400	-	-	-
Translation differences	-	-	-	-	-	(72,763)	-	(72,763)
Profit for the year	-	-	1,326,027	-	-	-	-	1,326,027
At 31 December 2005	1,996,000	275,422	3,916,295	2,319,764	798,400	(157,465)	933,575	10,081,991
At 1 January 2006	1,996,000	275,422	3,916,295	2,319,764	798,400	(157,465)	933,575	10,081,991
Change in value of available for sale investments	-	-	-	-	-	-	302,863	302,863
Realised on disposal	-	-	-	-	-	-	(347,647)	(347,647)
Dividend paid - 2005	-	-	-	-	(798,400)	-	-	(798,400)
Proposed dividend - 2006	-	-	(1,197,600)	-	1,197,600	-	-	-
Translation differences	-	-	-	-	-	(50,379)	-	(50,379)
Profit for the year	-	-	2,431,878	-	-	-	-	2,431,878
At 31 December 2006	1,996,000	275,422	5,150,573	2,319,764	1,197,600	(207,844)	888,791	11,620,306
At 1 January 2007	1,996,000	275,422	5,150,573	2,319,764	1,197,600	(207,844)	888,791	11,620,306
Change in value of available for sale investments	-	-	-	-	-	-	(143,220)	(143,220)
Dividend paid - 2006	-	-	-	-	(1,197,600)	-	-	(1,197,600)
Proposed dividend - 2007	-	-	(1,397,200)	-	1,397,200	-	-	-
Translation differences	-	-	-	-	-	(49,398)	-	(49,398)
Profit for the year	-	-	2,974,572	-	-	-	-	2,974,572
At 31 December 2007	1,996,000	275,422	6,727,945	2,319,764	1,397,200	(257,242)	745,571	13,204,660

F. CONSOLIDATED CASH FLOW STATEMENTS FOR THE FIVE YEARS ENDED 31 DECEMBER 2007

	Note	2007 KShs'000	2006 KShs'000	2005 KShs'000	2004 KShs'000	2003 KShs'000
NET CASH FLOWS FROM OPERATING ACTIVITIES	25(a)	2,395,523	1,865,848	7,062,142	3,037,843	2,887,583
Taxation recovered		231,708	-	-	-	-
Taxation paid		(92,764)	(64,778)	-	(1,948)	(476)
		138,944	(64,778)	-	(1,948)	(476)
INVESTING ACTIVITIES						
Proceeds from disposal of property, equipment and leasehold land		162,876	52,696	89,948	38,155	21,374
Proceeds from disposal of available for sales investments		-	497,256	-	25,000	-
Proceeds from disposal of associated company		-	-	-	-	5,600
Purchase of intangible assets		(176,987)	(38,902)	(51,765)	(19,534)	(52,737)
Purchase of property and equipment		(1,139,830)	(1,237,267)	(1,132,241)	(750,986)	(121,200)
Purchase of a corporate bond		(100,000)	-	-	-	-
Net cash flows from investing activities		(1,253,941)	(726,217)	(1,094,058)	(707,365)	(146,963)
FINANCING ACTIVITIES						
Lines of credit		(14,475)	(44,398)	(107,113)	(82,219)	(20,422)
Proceeds from rights issue		-	-	-	2,345,964	-
Dividends paid		(1,197,600)	(798,400)	(399,200)	(149,600)	-
Net cash flows from financing activities		(1,212,075)	(842,798)	(506,313)	2,114,145	(20,422)
Increase in cash and cash equivalents		68,451	232,055	5,461,771	4,442,675	2,719,722
Effects of exchange rate changes on opening net investment in foreign entities		(49,398)	(50,379)	(72,763)	14,334	(37,464)
Cash and cash equivalents at the beginning of the year		18,793,852	18,612,176	13,223,168	8,766,159	6,083,901
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	25(b)	18,812,905	18,793,852	18,612,176	13,223,168	8,766,159

G. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. INTEREST INCOME	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Interest on loans and advances	6,558,239	4,312,982	3,949,126	2,751,544	2,437,761
Interest on held to maturity and trading investments	2,425,303	2,201,188	1,576,963	1,121,283	1,577,197
Interest on placements and bank balances	389,847	550,230	199,001	346,748	379,677
	<u>9,373,389</u>	<u>7,064,400</u>	<u>5,725,090</u>	<u>4,219,575</u>	<u>4,394,635</u>
2. INTEREST EXPENSE					
Interest on deposits	838,302	733,192	568,502	375,517	826,323
Interest on borrowed funds	83,520	17,736	28,778	57,278	117,720
	<u>921,822</u>	<u>750,928</u>	<u>597,280</u>	<u>432,795</u>	<u>944,043</u>
3. DIVIDEND INCOME					
Available for sale investments	23,961	42,534	50,872	14,147	4,850
4. OTHER OPERATING INCOME					
Rent income	89,356	117,750	110,421	86,451	85,576
Profit on disposal of property and equipment	75,028	11,100	52,965	12,733	4,183
Profit on disposal of available for sale investments	-	494,903	-	-	-
Profit on disposal of associated company	-	-	-	-	5,100
Miscellaneous income	375,652	328,275	215,702	448,592	149,387
	<u>540,036</u>	<u>952,028</u>	<u>379,088</u>	<u>547,776</u>	<u>244,246</u>
5. IMPAIRMENT LOSSES ON LOANS AND ADVANCES					
Specific provisions made during the year	997,653	1,023,858	1,426,485	966,297	1,378,474
Collective provisions made during the year	216,000	134,000	80,000	80,787	-
Recoveries made during the year	(465,501)	(404,919)	(915,411)	(209,248)	(384,055)
	<u>748,152</u>	<u>752,939</u>	<u>591,074</u>	<u>837,836</u>	<u>994,419</u>
6. OTHER OPERATING EXPENSES					
Administrative expenses and staff costs	8,141,172	6,710,457	6,026,877	5,528,058	4,473,623
Pension scheme contributions	274,794	283,727	311,187	275,818	276,377
Directors emoluments: - As directors	30,845	29,645	24,239	15,092	18,604
As executives	82,924	63,275	50,843	42,437	39,970
Depreciation of property, equipment and leasehold land	557,512	439,971	305,501	239,793	269,826
Amortisation of intangible assets	58,345	75,821	49,713	12,213	5,426
Amortisation of prepaid leases on land	3,010	3,031	2,840	3,051	3,390
Auditors' remuneration	12,019	11,267	9,586	9,578	9,226
	<u>9,160,621</u>	<u>7,617,194</u>	<u>6,780,786</u>	<u>6,126,040</u>	<u>5,096,442</u>

G. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. TAXATION	2007	2006	2005	2004	2003
INCOME STATEMENT	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Current tax	1,018,742	58,752	29,167	489	2,939
Deferred tax charge	232,513	655,842	592,414	285,217	262,296
Under/(over) provisions in the previous years	155	20,281	-	710	(604)
	<u>1,251,410</u>	<u>734,875</u>	<u>621,581</u>	<u>286,416</u>	<u>264,631</u>
BALANCE SHEET					
Tax recoverable/(payable)					
At 1 January	428,245	442,751	472,349	471,600	473,459
Tax paid during the year	92,764	64,778	-	1,948	476
Tax charge during the year	(1,018,742)	(58,752)	(29,167)	(489)	(2,939)
Translation difference	(2,130)	(251)	(431)	-	-
(Under)/over provision in the previous years	(155)	(20,281)	-	(710)	604
Offset against other taxes	(231,708)	-	-	-	-
At 31 December	<u>(731,726)</u>	<u>428,245</u>	<u>442,751</u>	<u>472,349</u>	<u>471,600</u>
Comprising:					
Tax recoverable	124,122	452,515	454,418	472,349	471,600
Tax payable	(855,848)	(24,270)	(11,667)	-	-
	<u>(731,726)</u>	<u>428,245</u>	<u>442,751</u>	<u>472,349</u>	<u>471,600</u>
8. EARNINGS PER SHARE					
Earnings per share is calculated on the profit attributable to ordinary shareholders and on the weighted average number of ordinary shares in issue during the relevant years adjusted with the effect of the year 2007 share split.					
9. CASH AND BALANCES WITH CENTRAL BANKS					
	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cash on hand	3,217,132	2,513,850	2,455,883	2,396,203	1,901,414
Balances with Central Banks	8,183,656	4,880,686	3,867,088	3,401,878	3,053,792
	<u>11,400,788</u>	<u>7,394,536</u>	<u>6,322,971</u>	<u>5,798,081</u>	<u>4,955,206</u>
10. HELD TO MATURITY INVESTMENTS					
Treasury bills	2,797,441	4,123,035	2,969,666	4,896,482	3,107,837
Treasury bonds	18,482,358	13,816,855	14,065,368	10,423,847	12,710,762
	<u>21,279,799</u>	<u>17,939,890</u>	<u>17,035,034</u>	<u>15,320,329</u>	<u>15,818,599</u>

G. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. HELD FOR TRADING INVESTMENTS

These are treasury bonds issued by the Government of the Republic of Kenya and acquired by the Group for the generation of revenue from short term fluctuations in interest rates.

12. AVAILABLE FOR SALE

INVESTMENTS	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Quoted investments	854,875	898,095	945,230	297,462	144,193
Unquoted investments	4,765	4,765	4,765	4,765	12,015
	<u>859,640</u>	<u>902,860</u>	<u>949,995</u>	<u>302,227</u>	<u>156,208</u>

13. LOANS AND ADVANCES

Gross loans and advances	72,897,589	53,878,600	46,200,207	49,402,570	40,298,902
Specific provisions for impairment	(7,900,913)	(8,106,321)	(9,520,018)	(12,888,577)	(12,976,248)
Collective provisions for impairment	(718,553)	(502,553)	(368,553)	(288,553)	(207,766)
Net loans and advances	<u>64,278,123</u>	<u>45,269,726</u>	<u>36,311,636</u>	<u>36,225,440</u>	<u>27,114,888</u>

14. OTHER ASSETS

Other receivables	7,073,399	4,108,186	3,765,240	675,004	1,614,154
Prepayments	947,233	328,559	89,468	2,354,976	2,394,934
	<u>8,020,632</u>	<u>4,436,745</u>	<u>3,854,708</u>	<u>3,029,980</u>	<u>4,009,088</u>

15. INTANGIBLE ASSETS

Cost	562,928	385,941	347,324	101,265	81,731
Amortisation	(334,210)	(275,865)	(200,329)	(44,100)	(31,887)
Net book value	<u>228,718</u>	<u>110,076</u>	<u>146,995</u>	<u>57,165</u>	<u>49,844</u>

Intangible assets relate to computer software.

G. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. PROPERTY AND EQUIPMENT	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
COST					
Freehold and leasehold premises	1,830,717	1,823,115	1,772,905	1,803,679	1,810,107
Leasehold improvements	135,964	187,341	288,279	258,506	258,625
Motor vehicles, furniture and equipment	5,824,673	4,866,717	3,865,227	3,378,677	2,596,901
Capital work-in-progress	-	-	-	-	313,649
	<u>7,791,354</u>	<u>6,877,173</u>	<u>5,926,411</u>	<u>5,440,862</u>	<u>4,979,282</u>
ACCUMULATED DEPRECIATION					
Freehold and leasehold premises	324,943	310,984	293,901	274,543	243,906
Leasehold improvements	70,556	69,346	145,561	147,654	133,116
Motor vehicles, furniture and equipment	2,830,023	2,429,055	2,071,974	2,296,654	2,126,933
	<u>3,225,522</u>	<u>2,809,385</u>	<u>2,511,436</u>	<u>2,718,851</u>	<u>2,503,955</u>
NET BOOK VALUE					
Freehold and leasehold premises	1,505,774	1,512,131	1,479,004	1,529,136	1,566,201
Leasehold improvements	65,408	117,995	142,718	110,852	125,509
Motor vehicles, furniture and equipment	2,994,650	2,437,662	1,793,253	1,082,023	469,968
Capital work-in-progress	-	-	-	-	313,649
	<u>4,565,832</u>	<u>4,067,788</u>	<u>3,414,975</u>	<u>2,722,011</u>	<u>2,475,327</u>
17. PREPAID LEASES ON LAND					
Cost	285,348	287,657	290,119	290,119	291,790
Amortisation	(97,689)	(95,544)	(93,736)	(90,896)	(88,117)
Net book value	<u>187,659</u>	<u>192,113</u>	<u>196,383</u>	<u>199,223</u>	<u>203,673</u>
18. DEFERRED TAX					
The net deferred tax asset is attributable to the following items:					
Depreciation over tax allowances	(6,702)	29,189	3,496	5,391	27,935
Provisions held	464,762	279,875	240,788	194,149	97,799
Tax losses carried forward	75,688	457,197	1,177,819	1,814,977	2,174,000
	<u>533,748</u>	<u>766,261</u>	<u>1,422,103</u>	<u>2,014,517</u>	<u>2,299,734</u>

G. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. OTHER CUSTOMERS DEPOSITS	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
From government departments and parastatals	20,534,273	17,287,421	14,380,946	13,288,071	14,019,873
From private sector and individuals	73,858,088	59,905,468	49,835,683	42,605,659	36,593,395
	<u>94,392,361</u>	<u>77,192,889</u>	<u>64,216,629</u>	<u>55,893,730</u>	<u>50,613,268</u>
20. OTHER LIABILITES					
Bills payable	1,593,520	1,769,209	739,260	876,882	1,113,506
Accrued expenses	1,343,402	470,619	812,971	299,486	131,419
Other payables	3,193,432	757,484	2,030,281	2,087,514	2,025,441
	<u>6,130,354</u>	<u>2,997,312</u>	<u>3,582,512</u>	<u>3,263,882</u>	<u>3,270,366</u>
21. LINES OF CREDIT					
Opec Line III	-	-	-	15,493	49,915
EIB Kenya Shillings Loan	-	-	23,464	38,171	47,329
EIB Foreign Currency Loans	67,695	82,170	103,104	180,017	218,656
	<u>67,695</u>	<u>82,170</u>	<u>126,568</u>	<u>233,681</u>	<u>315,900</u>

a) OPEC Loans

These amounts represent the funds lent to the Group by the Government of Kenya in accordance with loan agreements for lines of credit from the OPEC Fund for International Development.

b) EIB Kenya Shillings Loan

This represents amounts which the Group has on-lent to private enterprises under the Global Private Enterprise Scheme, introduced in 1993 by the European Investment Bank and channelled through the Central Bank of Kenya. The loans were advanced in Kenya Shillings.

c) EIB Foreign Currency Loans

These represent amounts which the Group has on-lent to private enterprises under the Global Private Enterprise Scheme introduced by European Investment Bank and channelled through the Approved Financial Institutions. The loans are advanced in US dollars and Euro Currency.

22. SHARE CAPITAL	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Authorised:					
2 billion (2003: 1.5 billion) ordinary shares of KShs.1 each	2,000,000	2,000,000	2,000,000	2,000,000	1,500,000
Issued and fully paid:					
1.996 billion (2003: 1.496 billion) ordinary shares of KShs.1 each	1,996,000	1,996,000	1,996,000	1,996,000	1,496,000

G. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the Annual General Meeting held on 28 May 2004, the shareholders approved the increase in the authorized share capital of the company from KShs.1.5 billion to KShs 2 billion by the creation of 50 million ordinary shares of KShs.10 each. At the same meeting, the shareholders approved the increase in the issued share capital of the company, from 149,600,000 ordinary shares of KShs.10 each to 199,600,000 ordinary shares of KShs.10 each, through a rights issue of 50,000,000 ordinary shares.

23. RESERVES	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Capital reserve	275,422	275,422	275,422	275,422	276,583
Revenue reserve	6,727,945	5,150,573	3,916,295	3,388,668	3,152,925
Share premium	2,319,764	2,319,764	2,319,764	2,319,764	473,800
Revaluation reserve	745,571	888,791	933,575	285,807	132,538
Translation reserve	(257,242)	(207,844)	(157,465)	(84,702)	(99,036)
	9,811,460	8,426,706	7,287,591	6,184,959	3,936,810

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

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

The translation reserve arises from translation of the net investment in KCB (Tanzania) Limited, KCB Sudan Limited and KCB Bank Uganda Limited to Kenya Shillings.

24. DIVIDENDS	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Final proposed	1,397,200	1,197,600	798,400	399,200	149,600
Dividends per share (KShs.)	0.70	0.60	0.40	0.20	0.10

The dividend per share is calculated on the total proposed dividends for each respective year and on the number of ordinary shares in issue at the respective balance sheet dates adjusted with the effect of the year 2007 share split.

G. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT	2007 KShs'000	2006 KShs'000	2005 KShs'000	2004 KShs'000	2003 KShs'000
(a) CASH FLOWS FROM OPERATING ACTIVITIES					
This has been derived as follows:					
Profit before taxation	4,225,982	3,166,753	1,947,608	920,198	850,188
Adjustments for:					
Depreciation of property and Equipment	557,512	439,971	305,501	239,793	269,826
Amortisation of prepaid leases on land	3,010	3,031	2,840	3,051	3,390
Amortisation of intangible assets	58,345	75,821	49,713	12,213	5,426
Profit on disposal of associated Company	-	-	-	-	(5,100)
Profit on disposal of property, equipment and leasehold land	(75,028)	(11,100)	(52,965)	(12,733)	(4,183)
Profit on disposal of available for sale investments	-	(494,903)	-	(17,750)	-
Cash reserve ratio	(56,973)	(67,749)	(27,496)	(12,824)	(24,426)
Held to maturity investments	(57,555)	(4,201,284)	(2,903,110)	2,690,107	(4,730,988)
Loans and advances	(19,008,397)	(8,958,090)	(86,196)	(9,110,552)	2,792,326
Other assets	(3,583,887)	(582,037)	(824,728)	979,108	(349,775)
Placement and balances with other banking institutions	-	-	-	2,000,000	-
Other customer deposits	17,199,472	12,976,260	8,322,899	5,280,462	4,455,639
Other liabilities	3,133,042	(585,200)	318,630	(6,484)	(25,970)
Deposits and balances with other financial institutions	-	-	-	(167,232)	(345,630)
Property and equipment adjustment	-	104,375	9,446	240,486	(3,140)
	<u>2,395,523</u>	<u>1,865,848</u>	<u>7,062,142</u>	<u>3,037,843</u>	<u>2,887,583</u>
(b) ANALYSIS OF CASH AND CASH EQUIVALENTS					
Balances with Central Banks	7,986,607	4,740,610	3,794,761	3,357,047	3,021,785
Cash on hand	3,217,132	2,513,850	2,455,883	2,396,203	1,901,414
Cheques and items for clearing	829,312	527,534	168,933	93,414	46,025
Held to maturity investments	4,437,309	1,154,955	4,451,383	5,639,788	3,447,951
Held for trading investments	4,399,098	3,530,419	4,013,193	1,684,066	-
Placements and balances with other banking institutions	3,772,082	6,936,108	4,023,708	1,681,365	887,963
Deposits and balances from other banking institutions	(5,828,635)	(609,624)	(295,685)	(1,628,715)	(538,979)
	<u>18,812,905</u>	<u>18,793,852</u>	<u>18,612,176</u>	<u>13,223,168</u>	<u>8,766,159</u>

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

G. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. RELATED PARTY TRANSACTIONS

Loans due from directors, staff and other related parties

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

	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Government of Kenya	657,623	-	2,114,752	-	1,329,036
Directors	1,812,070	886,674	757,457	572,373	26,892
Employees	2,602,452	2,423,795	2,374,667	2,147,325	1,928,382
	<u>5,072,145</u>	<u>3,310,469</u>	<u>5,246,876</u>	<u>2,719,698</u>	<u>3,284,310</u>

27. COMMITMENTS

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

	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
(a) Capital commitments contracted for at year end	<u>440,368</u>	<u>267,999</u>	<u>212,850</u>	<u>171,792</u>	<u>251,876</u>
(b) Loans committed but not disbursed at year end	<u>8,962,512</u>	<u>1,767,715</u>	<u>1,093,713</u>	<u>2,636,112</u>	<u>3,394,087</u>
(c) Foreign currency commitments	<u>519,164</u>	<u>3,187,569</u>	<u>2,992,122</u>	<u>422,799</u>	<u>1,560,041</u>

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

28. CONTINGENT LIABILITIES	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Letters of credit, acceptances, guarantees, indemnities and other engagements entered into on behalf of customers at 31 December	<u>25,719,367</u>	<u>11,728,823</u>	<u>11,676,556</u>	<u>12,985,457</u>	<u>10,371,469</u>
Litigation	<u>92,115</u>	<u>92,115</u>	<u>92,115</u>	<u>92,115</u>	<u>92,115</u>

G. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The amounts included above as litigation are in respect of court rulings against the Bank and its subsidiary companies. In all cases, the Bank and its subsidiary companies appealed against judgments. The advice from external lawyers is that there are reasonable chances of succeeding on appeal. No provision has been made in the financial statements as the directors are of a similar view that the appeal is likely to succeed.

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

29. RETIREMENT BENEFIT OBLIGATIONS

KCB Pension Fund and Staff Retirement Benefit Scheme

The pension fund was split with effect from 1 June 2006 with the introduction of a Defined Contribution Scheme alongside the Defined Benefit Scheme. The assets of the fund were valued as at 31 May 2006 and a surplus of KShs.463.9 million was reported. The information below summarises the make up of the scheme surplus amount and actuarial assumptions made.

	KShs '000'
Fair value of scheme assets	8,925,000
Past service pension benefits	(8,461,100)
	<hr/>
Past service pension surplus	463,900

The principal actuarial assumptions used are as follows:

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

Credit Risk

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

G. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Management of Credit Risk

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

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

Credit Risk Measurement

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

The Group's internal ratings scale is as follows:

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

Impairment and Provisioning Policies

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

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

G. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Loans and advances	2007 KShs'000	2006 KShs'000	2005 KShs'000	2004 KShs'000	2003 KShs'000
Grade 1	58,208,053	37,840,734	23,516,331	22,852,387	14,021,609
Grade 2	4,547,688	3,946,545	9,310,242	6,171,719	5,402,520
Grade 3	3,381,478	4,641,941	1,616,491	2,076,043	2,346,681
Grade 4	5,871,500	5,975,160	1,558,051	2,938,497	6,026,759
Grade 5	888,870	1,474,220	10,199,092	15,363,924	12,501,333
	<u>72,897,589</u>	<u>53,878,600</u>	<u>46,200,207</u>	<u>49,402,570</u>	<u>40,298,902</u>

Provisions Held

Grade 1	589,462	382,889	238,518	227,759	146,249
Grade 2	129,091	119,664	130,035	60,794	61,517
Grade 3	1,628,549	1,354,740	120,094	388,868	164,294
Grade 4	5,166,690	5,277,129	1,245,673	2,006,858	4,167,432
Grade 5	1,105,674	1,474,452	8,154,251	10,492,851	8,644,522
	<u>8,619,466</u>	<u>8,608,874</u>	<u>9,888,571</u>	<u>13,177,130</u>	<u>13,184,014</u>

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

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

The internal rating scale assists management to determine whether objective evidence of impairment exists under IAS 39, 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.

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

Write-off Policy

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

G. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Collateral on Loans and Advances

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

Concentration of Credit Risk

The Group monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Construction	6,264,323	4,077,361	3,061,333	2,272,802	2,200,678
Micro credit	24,407,902	13,865,874	7,653,463	7,760,990	7,854,840
Agriculture	5,168,890	3,642,505	2,916,253	2,060,660	2,289,216
SME	5,523,157	2,287,356	2,679,507	2,291,217	2,035,046
Corporate	31,533,317	30,005,504	29,889,651	35,016,901	25,919,122
	<u>72,897,589</u>	<u>53,878,600</u>	<u>46,200,207</u>	<u>49,402,570</u>	<u>40,298,902</u>

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.

The table below summarises the Group's currency risk as at 31 December of each of the years.

	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Assets in foreign currencies	14,411,191	15,550,287	11,429,548	11,507,285	6,571,992
Liabilities in foreign currencies	<u>(14,739,272)</u>	<u>(14,532,172)</u>	<u>(11,530,379)</u>	<u>(11,611,332)</u>	<u>(5,384,916)</u>
Net foreign currency exposure	<u>(328,081)</u>	<u>1,018,115</u>	<u>(100,831)</u>	<u>(104,047)</u>	<u>1,187,076</u>

Operational Risk

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

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

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

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

G. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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 dates were as follows:

	2007	2006	2005	2004	2003
At 31 December	41%	46%	48%	41%	45%

Interest Rate Risk

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

31. CAPITAL MANAGEMENT

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

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Central Banks in Kenya, Uganda, Tanzania and Southern Sudan. The Central Banks individually set and monitor capital requirements for the banking industry in each country.

In implementing current capital requirements, the Central Banks require the Group companies to maintain a prescribed ratio of total capital to total risk-weighted assets.

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

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for investments in financial institutions, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances, revaluation reserve, irredeemable preference shares and convertible notes on similar capital investments.

Various limits are applied to elements of the capital base.

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

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

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

H. STATEMENT OF ADJUSTMENTS

In compiling the financial information included herein, we have effected a number of adjustments and restatements which have affected the figures reported in the audited financial statements, as follows:

a) Adjustments that impact on profit:

	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Profit after tax as reported in the audited financial statements	2,974,572	2,431,878	1,326,027	787,051	485,520
Changes in fair value of available for sale financial instruments now dealt with directly in equity	-	-	-	(153,269)	(35,443)
Prior year adjustment	-	-	-	-	126,921
Profit after tax as reported in the Accountants' Report	2,974,572	2,431,878	1,326,027	633,782	576,998

b) Adjustments that impact on total assets in the consolidated balance sheets:

	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Total assets as reported in the audited financial statements	120,479,553	92,526,571	78,315,052	69,600,167	60,385,257
Prior year adjustment	-	-	-	-	102,898
Total assets as reported in the the Accountants' Report	120,479,553	92,526,571	78,315,052	69,600,167	60,488,155

c) Adjustments that impact on total liabilities in the consolidated balance sheets:

	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Total liabilities as reported in the audited financial statements	107,274,893	80,906,265	68,233,061	61,020,008	54,771,404
Prior year adjustment	-	-	-	-	134,341
Total liabilities as reported in the Accountants' Report	107,274,893	80,906,265	68,233,061	61,020,008	54,905,745

The prior year adjustment relates to the effect of the return of the Kencom House property sold in year 2000 to Kenya Commercial Bank Staff Pension Fund. Some pensioners of the Fund had instituted a legal suit against the trustees of the Fund and obtained an injunction restraining the purchase of the property. In year 2004, the matter was resolved out of court and a decision was made to return the property to the Group. As a result, the profit on sale of the property, rent income and related expenses and other related transactions, were reversed.

H. STATEMENT OF ADJUSTMENTS (Continued)

d) Restatement to earnings per share:

	2007	2006	2005	2004	2003
	KShs	KShs	KShs	KShs	KShs
Earnings per share as reported in the audited financial statements	<u>1.49</u>	<u>12.18</u>	<u>6.64</u>	<u>3.94</u>	<u>3.25</u>
Restated earnings per share as reported in the Accountants' Report	<u>1.49</u>	<u>1.22</u>	<u>0.66</u>	<u>0.32</u>	<u>0.39</u>

Earnings per share as reported in the Accountants' Report is based on the adjusted profit attributable to ordinary shareholders and on the weighted average number of ordinary shares in issue during the relevant years adjusted with the effect of the year 2007 share split. In year 2007, the ordinary shares of the Bank were split in the ratio of 1 to 10 and this, effectively, increased the number of ordinary shares in issue from 199.6 million to 1.996 billion shares for the years 2004 to 2007 and 1.496 billion for 2003.

The earnings per share as reported in the audited financial statements was based on the profit attributable to ordinary shares and on the weighted average number of ordinary shares in issue in each of the respective years, as follows:

	2007	2006	2005	2004	2003
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Average number of ordinary shares in issue	<u>1,996,000</u>	<u>199,600</u>	<u>199,600</u>	<u>199,600</u>	<u>149,600</u>

e) Restatement to dividends per share:

	2007	2006	2005	2004	2003
	KShs	KShs	KShs	KShs	KShs
Dividends per share as reported in the audited financial statements	<u>0.70</u>	<u>6.00</u>	<u>4.00</u>	<u>2.00</u>	<u>1.00</u>
Dividends per share as reported in the Accountants' Report	<u>0.70</u>	<u>0.60</u>	<u>0.40</u>	<u>0.20</u>	<u>0.10</u>

Dividends per share as reported in the Accountants' Report is based on the amount of the proposed dividend and on the number of ordinary shares in the respective balance sheet dates adjusted with the effect of the share split which took place in year 2007. The dividends per share as reported in the audited financial statements was based on the amount of the proposed dividend and on the number of ordinary shares in issue at the respective balance sheet dates.

I. CONSENT

We consent to the inclusion of this report in the Information Memorandum to be issued on 28th May 2008 in the form and context in which it appears.

J. OPINION

In our opinion, the financial information set out above gives, for purposes of the Information Memorandum dated 28th May 2008, a true and fair view of the profit and cash flows of the Group for the five financial years ended 31 December 2007 and of the state of the financial affairs of the Group as at the end of each of those years.

Yours faithfully

Certified Public Accountants
Nairobi

SECTION XV

LEGAL OPINION

 **WALKER KONTOS**

ADVOCATES . NOTARIES PUBLIC . COMMISSIONERS FOR OATHS

www.walkerkontos.com

Hakika House, Bishops Road
P.O.Box 60680-00200, Nairobi, Kenya

Landlines:

(+254 20) 2713023-6

(+254 20) 2718432-6

Facsimile:

(+254 20) 2718429

Mobiles:

0720 679913

0724 256706

0734 454981

Telegrams:

HAKIKA

DZ No. 40

Alexandra Kontos

Michael S. Kontos

Peter M. Mwangi

Allen W. Gichuhi

Deepen N. Shah

28th May, 2008

The Directors,
Kenya Commercial Bank Limited,
Kencom House, 7th Floor,
Moi Avenue
P.O. Box 48400 – 00100
NAIROBI

Dear Sirs,

RE: OPINION CONCERNING THE RIGHTS ISSUE OF 221,777,777 NEW ORDINARY SHARES OF KENYA COMMERCIAL BANK LIMITED

We have acted as legal advisors for Kenya Commercial Bank Limited (the “**Bank**”) in relation to the Rights Issue, the terms and conditions of which are contained in the Information Memorandum issued by the Bank and dated 28th May, 2008 (“the **Information Memorandum**”).

Walker Kontos Advocates are Advocates of the High Court of Kenya, practicing and qualified as such to practice in Kenya, and to advise on the laws of Kenya.

Unless otherwise stated, or the context otherwise requires, the words and terms used in this opinion bear the same meaning as those defined in the Information Memorandum.

This Opinion is based on our examination of originals or certified copies of the following documents:

- a) The certificate of incorporation of the Bank, and its Memorandum and Articles of Association;
- b) A resolution of the shareholders of the Bank in an Annual General Meeting dated 9th May, 2008 *inter alia*, approving an increment of the authorized share capital of the Bank and the Rights Issue;
- c) A letter of “No objection” dated the 11th April, 2008 from the Central Bank of Kenya approving the Rights Issue;
- d) A letter dated 23rd May, 2008 from the Capital Markets Authority approving the Rights Issue in the manner prescribed under the Information Memorandum;
- e) The Information Memorandum and the Provisional Allotment Letter thereto; and
- f) Such other records and documents as we have considered necessary and appropriate for the purposes of this Opinion.

For the purpose of our opinion we have assumed that:

- (i) All information supplied to us by the Bank and by its officers is true, accurate and up to date;
- (ii) All copies of and signatures on the documents supplied to us are authentic;
- (iii) All agreements and other relevant documents have been duly authorised, executed and delivered by the parties to those documents other than the Bank;
- (iv) With respect to matters of fact, we have relied on the representations of the Bank and its officers and advisors.

Subject to the reservation that this Opinion is based only on Kenyan law and does not relate to any other jurisdiction, and based on the information supplied to us as above and upon due enquiry we state as follows:-

1. Status of the Bank

- 1.1. The Bank is a public liability company limited by shares, duly registered under the Companies Act (Cap. 486) of the Laws of Kenya under Certificate of Registration Number C.9/88. The Bank is duly licensed to carry on the business of banking in Kenya. The Bank's registered offices are situated on Land Reference Number 209/4279 Moi Avenue, Kencom House, 8th Floor, Nairobi and its registered address is P.O. Box 48400 – 00100 Nairobi.
- 1.2. The Authorized Share Capital of the Bank is Kenya Shillings Two Billion Four Hundred Million (Kshs 2,400,000,000/=) divided into Two Billion Four Hundred Million (Kshs 2,400,000,000) ordinary shares of Kshs 1.00 each of which 1,996,000,000 are issued and fully paid up;
- 1.3. The Bank is listed at the Nairobi Stock Exchange, with power to execute, deliver and exercise its rights and perform its obligations pursuant to the Rights Issue, and such execution, delivery and performance have been duly authorised by the requisite corporate action;
- 1.4. All rights and obligations of the Bank contemplated by the Rights Issue constitute valid and binding rights and obligations enforceable according to their terms;
- 1.5. The transactions contemplated by the Rights Issue and the performance by the Bank of its obligations thereunder will not violate any laws of Kenya;
- 1.6. The Bank continues to maintain its statutory books at its registered office;
- 1.7. The contracts between the Bank and third parties have been entered into in the ordinary course of the business carried on by the Bank.

2. Licences

All the requisite authorizations, consents, approvals, licences, filings, exemptions or registrations of or with any governmental or public bodies or authorities of or in Kenya, in connection with the Rights Issue, have been obtained in proper form and are in full force and effect.

All licences and consents required to perform the business of the Bank have been duly obtained and the appropriate licence and consent fees have been paid to the applicable authorities.

3. Ownership of Assets

The Bank is the registered proprietor of several properties, details of which are contained in a schedule of properties located in the Data Room at the Bank's Head Office. The Bank has not created any encumbrances over the properties or any of its assets.

4. Material Litigation

To the best of our knowledge, information and belief and after due enquiry, save as otherwise mentioned in the Information Memorandum, there is no material litigation, prosecution or other civil or criminal legal action in which the Bank is involved.

Similarly none of the Directors of the Bank are to our knowledge, information and belief after due enquiry involved in any material litigation, prosecution or other civil or criminal legal action.

5. Share Capital

The existing authorised and issued share capital of the Bank as stated in the Information Memorandum is in conformity with the applicable laws and has received all the necessary approvals and authorisations.

6. Compliance

- 6.1. The Information Memorandum has been duly dated and signed in the manner required by Section 43(4) of the Companies Act;

- 6.2. A copy of the Information Memorandum together with the requisite documents under Section 43 of the Companies Act, have been delivered to the Registrar of Companies at Nairobi for registration as provided under Section 43(1) of the Companies Act, duly signed by every person named in the Information Memorandum as a director of the Bank or by his agent duly authorized in writing, and, in accordance with Section 43(3) of the Companies Act, a statement to such effect appears on the face of the Information Memorandum.
- 6.3. The Information Memorandum includes statements made by Messrs Ernst & Young, Certified Public Accountants, and by ourselves, all of whom are experts for the purposes of Section 42(1) of the Companies Act. In accordance with this Section, Ernst & Young and we have given, and have not prior to the date of this Information Memorandum withdrawn our consent to the issue of the Information Memorandum containing the statements by us in the form and context in which they are included;
- 6.4. The shares to be issued under the Rights Issue will rank *pari passu* in all respects with the existing Ordinary Shares in the issued share capital of the Bank, including the right to receive in full all dividends and other distributions declared, made or paid in respect of such shares, for the financial year ending 31st December, 2008.
- 6.5. Application has been duly made to the Capital Markets Authority and permission duly granted by the same with regard to the Rights Issue as required by the Capital Markets (Securities) (Public Offers, Listing and Disclosure) Regulations 2002 and the Fourth Schedule thereto.
- 6.6. Over and above the information the inclusion of which the Companies Act requires, the Information Memorandum incorporates such information as investors would reasonably require and reasonably expect to find therein for the purpose of making an informed assessment of:
 - a) the rights attaching to the new ordinary shares to be issued pursuant to the Rights Issue; and
 - b) the financial status, assets and liabilities, profits and losses, and prospects of the Bank.

Subject to the above we are of the opinion that there are no other material facts with regard to the legal status of the Bank and the Rights Issue and that the Rights Issue is in conformity with all applicable laws and has received all necessary authorisations.

Yours faithfully,



WALKER KONTOS

STATUTORY AND GENERAL INFORMATION

1. Incorporation Details

Kenya Commercial Bank commenced operations in 1896 when its predecessor, the National Bank of India opened a branch in the Coastal Town of Mombasa. In 1958 Grindlay Bank of Britain merged with National Bank of India to form The National and Grindlay Bank. In 1970, the government of Kenya acquired 60% and later 100% shareholding in National and Grindlay bank and renamed it the Kenya Commercial Bank Limited and it was incorporated under Certificate of Registration Number C. 9/88.

2. The Registered Office of KCB

The Registered office of Kenya Commercial Bank is situated at Kencom House, 8th Floor, Moi Avenue, and its postal address is Post Office Box Number 48400-00100 Nairobi.

3. Extracts from the Articles of Association

The following paragraphs are key extracts from the Articles of Association of Kenya Commercial Bank Limited:

Share Capital and Variation of Rights

6. The authorized share capital of the Company is Kenya Shillings Two Billion Four Hundred Million (Kshs 2,400,000,000/=) divided into Two Billion Four Hundred Million (2,400,000,000) ordinary shares of Kshs 1/= each of which 1,996,000,000 are issued and fully paid up.
7. Without prejudice to any special rights previously conferred on the holders of any shares or class of shares, any share in the Company may be issued with or have attached thereto such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise, as the Company may from time to time by Ordinary Resolution determine.
8. Subject to the provisions of Section 60 of the Act, any preference shares may, with the sanction of an Ordinary Resolution, be issued on the terms that they are or, at the option of the Company, liable to be redeemed on such terms and in such manner as the Company may by Special resolution determine.
9. If, at any time, the Share Capital is divided into different classes of shares, the rights attached to any class, unless otherwise provided by the terms of issue of the shares of that class, may from time to time (whether or not the Company is being wound up) be altered or abrogated with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a Special Resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting all the provisions of these Articles relating to General Meetings of the Company shall, mutatis mutandis, apply but so that the necessary quorum shall be two persons at least holding or representing by proxy not less than one-third of the issued shares of the class and that any holder of shares of the class present in person or by proxy or by its representative in the case of a corporation represented in accordance with Article 76, may demand a poll.
10. The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided by the conditions of issue of such shares, be deemed to be altered by the creation or issue of further shares ranking *pari passu* therewith.
11. Unless otherwise determined by Ordinary Resolution and except in the case of the issue of shares pursuant to any rights previously conferred in accordance with Article 7, whenever the Board proposes to issue any shares it shall offer them in the first instance to Members, other than preference shareholders not specifically entitled to them under the terms of issue of their preference shares, in proportion as nearly as may be to the number of existing shares held by them. Such offer shall be made by notice specifying the number of shares to which the Members is entitled and limiting a time (being not less than Three weeks) within which the offer, if not accepted, will be deemed to be declined and after the expiration of that time, if the offer is not accepted, or on the receipt of an intimation from the Member to whom the offer is made that he declines to accept the shares offered, the Board may allot or otherwise dispose of those shares to such persons and upon such terms as may be decided by it. The Board may likewise so dispose of any shares which, by reason of the ration which the offered shares bear to existing shares, cannot in the opinion of the Board be conveniently offered under this Article.
12. Subject to the foregoing provisions of these Articles, the shares in the capital of the Company shall be at the disposal of the Board which may allot, grant options over or otherwise dispose of them to such persons, for such terms and conditions and at such times as it may determine but so that no shares shall be issued at a discount except in accordance with Section 59 of the Act.
13. The Company may exercise the powers of paying commissions conferred by Section 55 of the Act, provided that the rate per cent or the amount of the commission paid or agreed to be paid and the number of shares which persons have agreed for a commission to subscribe absolutely shall be disclosed in the manner required by the said Section and that such commission shall not exceed Ten per cent of such price, as the case may be. Such commission may be satisfied by the payment of cash or the allotment of fully or partly paid shares or partly in one way and partly in the other. The Company may also, on any issue of shares, pay such brokerage as may be lawful.

14. If any shares of the Company are issued for the purpose of raising money to defray the expenses of the construction of any works or buildings or the provision of any plant which cannot be made profitable for a long time, the Company may, subject to the conditions and restrictions mentioned in Section 67 of the Act, pay interest on so much of such share capital as part of the cost of construction of the works or buildings or the provision of plant as the case may be.
15. Except as required by law, no person shall be recognised by the Company as holding any share upon any trust and the Company shall not be bound by or compelled in any way to recognise (even having notice thereof) any equitable, contingent, future or partial interest in any share or any interest in any fractional part of a share or, except only as by these Articles or by law otherwise required or provided, any right in respect of any share other than an absolute right to the entirety thereof in the registered holder.

Increase of Capital

45. The Company may from time to time, by Ordinary Resolution, increase its capital by such sum, to be divided into shares of such amounts, as the resolution shall prescribe. All new share shall be subject to all the provisions of the Articles with reference to the payment of calls, lien, transfer, transmission, forfeiture and otherwise.

Alteration of Capital

46. The Company may, from time to time, by Ordinary Resolution:-
 - a) Consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
 - b) Sub-divide its shares or any of them into shares of smaller amount than is fixed by the memorandum of Association (subject, nevertheless, to the provisions of Section 63(1)(a) of the Act) and the resolution whereby any share is so sub-divided may determine that one or more of the shares resulting from such sub-division may carry any such preferred, special or qualified rights over or be subject to any such restrictions as compared with the other or others as the Company has power to attach to unissued or new shares;
 - c) Cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person.

General Meetings

48. The Company shall, in each year, hold a General Meeting as its Annual General Meeting in addition to any other Meetings in that year and shall specify the Meeting as such in the notices calling it. Not more than Fifteen months shall elapse between the date of one Annual General Meeting of the Company and that of the next. Annual and other General Meetings shall be held at such times and places as the Board shall appoint. All General Meetings, other than Annual General Meetings, shall be called Extraordinary General Meetings.
49. The Board may, whenever it thinks fit, convene an Extraordinary General Meeting and Extraordinary General Meetings shall also be convened on such requisition or, in default, may be convened by such requisitionists as is provided by Section 132 of the Act.

Votes of Members

66. Subject to any special terms as to voting upon which any shares may be issued or may for the time being be held, on a show of hands every Member who, being an individual, is present in person or by proxy or attorney or, being a corporation, is present by a representative appointed in accordance with Article 76 or by proxy or attorney, shall have one vote. On a poll every Member shall have one vote for each share of which he is the holder.

Dividends and Reserves

113. The Company may, in General Meeting, declare dividends but no dividend shall exceed the amount recommended by the Board.
114. The Board may, from time to time, pay to the Members such interim dividends as appear to the Board to be justified by the profits of the Company.
115. No dividend shall be paid otherwise than out of profits and subjects to the conditions from time to time imposed by the Banking Act.
116. Subject to special rights as to dividends carried by any shares all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividends are paid but no amount paid or credited as paid on a share in advance of calls shall be treated, for the purposes of this Article, as paid up on the share. All dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid but if any share be issued on terms providing that it shall rank for dividend as from a particular date, such share shall rank for dividend accordingly.
117. The Board may deduct from any dividend payable to any Member on or in respect of a share any sums of money presently payable by him to the Company on account of calls or otherwise.
118. The Board may retain any dividend or other money payable on or in respect of a share on which the Company has a lien and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.

1. If you have sold or transferred all your ordinary shares in KCB, please forward this Provisional Allotment Letter and the Information Memorandum to the purchaser or transferee, or to the stockbroker or agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee.
2. Eligible Shareholders should read the Information Memorandum that accompanies this Provisional Allotment Letter before deciding whether to take up their Rights and exercising the options available to them. Terms defined in the information Memorandum shall, where applicable, apply herein.
3. **Instructions for Completion**
(refer to Section VIII of the Information Memorandum for detailed information)
 - a) **To accept your Entitlement in full**, use this PAL, make payment (including Kshs 30/- if you have a CDS Account), sign at the bottom and deliver to your Authorized Agent on or before 3:00 p.m. on 18th July 2008.
 - b) **To accept your Entitlement in full and apply for Additional Shares** (in multiples of 100), use this PAL, fill in the number of Additional Shares and the corresponding Amount Payable (by multiplying by Kshs 25/- per Additional Share). Then fill in the Total New Shares (add Entitlement and no of Additional Shares) and Total Amount Payable (add Amount Payable in Full Acceptance of New Shares and Amount Payable for Additional Shares), make total payment (including Kshs 30/- if you have a CDS Account), complete the Refund Details section (refer to Appendix III of the Information Memorandum for a list of bank and branch codes for Electronic Funds Transfer), sign at the bottom and deliver to your Authorized Agent on or before 3:00 p.m. on 18th July 2008. If payment for the Additional Shares is via an irrevocable bank guarantee (see Appendix II of the Information Memorandum), tick the appropriate box in Additional Shares, make a photocopy of the guarantee for yourself and staple the guarantee to this PAL when handing over to the Authorized Agent.
 - c) **To accept your Entitlement in part and do nothing with the balance**, use this PAL, fill in Partial Acceptance of New Shares (in multiples of 100) and the corresponding Amount Payable (by multiplying by Kshs 25/- per partial New Share). Then make payment (including Kshs 30/- if you have a CDS Account), sign at the bottom and deliver to your Authorized Agent on or before 3:00 p.m. on 18th July 2008.
 - d) **To accept your Entitlement in part and renounce part to a close relative via private transfer**, use this PAL but ask your Authorized Agent for a Form R and a CDS Form 7 (where applicable for CDS account holders only), fill in all the required details and deliver to your Authorized Agent on or before 3:00 p.m. on 7th July 2008. Fill in the Partial Acceptance of New Shares section on this PAL (in multiples of 100) and the corresponding Amount Payable (by multiplying by Kshs 25/- per Partial New Share), make payment (including Kshs 30/- if you have a CDS Account), sign at the bottom and deliver to your Authorized Agent on or before 3:00 p.m. on 18th July 2008.
 - e) **To accept your Entitlement in part and sell the balance (or portion of the balance) Rights on the NSE**, use this PAL and fill in Partial Acceptance of New Shares section on this PAL (in multiples of 100) and the corresponding Amount Payable (by multiplying by Kshs 25/- per partial New Share), make payment (including Kshs 30/- if you have a CDS Account), sign at the bottom and deliver to your Authorized Agent on or before 3:00 p.m. on 18th July 2008. If you already have a CDS account give a sale order to your Authorized Agent (last date for trading in Rights is 3:00 p.m. on 11th July 2008). If you do not have a CDS account, place a tick in the box provided under Immobilization for Trading in the Rights section on this PAL, obtain and complete the CDS Form 1 (CDS Account Opening) and CDS Form 2 (Immobilization) from your Authorized Agent in order to effect immobilization (last date for immobilization is 3:00 p.m. on 30th June 2008) and give a sale order to your Authorized Agent (subject to the immobilization being successful).
 - f) **To accept your Entitlement in part and renounce part to a close relative via private transfer and sell the balance (or portion of the balance) Rights on the NSE**, refer to both (d) and (e) above and act accordingly.
 - g) **To sell all your Rights on the NSE** and you already have a CDS account give a sale order to your Authorized Agent (last date for trading in Rights is 3:00 p.m. on 11th July 2008) and hand over this PAL. If you do not have a CDS account, place a tick in the box provided under Immobilization for Trading in Rights section on this PAL, obtain and complete the CDS Form 1 and CDS Form 2 from your Authorized Agent in order to effect immobilization (last date for immobilization is 3:00 p.m. on 30th June 2008), give a sale order to your Authorized Agent (subject to the immobilization being successful) and hand over this PAL.
 - h) **If you take no action** on or before 3:00 p.m. on 18th July 2008 the Rights will lapse.
 - i) If a banker's cheque is not being used to make payment then tick Global Payment via Authorized Agent section.
 - j) If a Lender is financing the take-up of Rights, then fill in the CDS Pledge Form 5 Serial No in the Payment Details section, make a photocopy for your records and staple the form to this PAL.
4. **Authorized Agents**
KCB has appointed Authorized Agents (including the Transaction Advisor, Standard Investment Bank Ltd and Faida Investment Bank Ltd) in connection with the Rights Issue. These Authorized Agents have signed agency agreements with KCB which contain various terms and conditions that each Authorized Agent is required to comply with. The Authorized Agents are (a) Members of the NSE that are issued with licenses by the CMA and (b) KCB. These Authorized Agents are listed in Section XVII of the Information Memorandum.



KCB PROVISIONAL ALLOTMENT LETTER

BB024619

AUTHORIZED AGENT STAMP **AUTHORIZED AGENT CODE** **PROVISIONAL ALLOTMENT LETTER (PAL) NO.**

This document is of value and is negotiable. Please consult your preferred advisor and read the Information Memorandum dated 28th May, 2008 accompanying this PAL. Refer to the notes on the reverse of this page.

CDS ACCOUNT NUMBER
0000000641979LI

**Ordinary Shares Registered In
Your Name As At Record Date**

2,000

MRS FARIDA WANGUI KINYUA
P.O BOX 41842 - 00100
NAIROBI

10133

28
May
2008

**ENTITLEMENT
Number Of New Shares
Provisionally Allotted To You**

222

DETAILS OF ELIGIBLE SHAREHOLDER

FULL ACCEPTANCE OF NEW SHARES

I/We hereby accept in full, subject to the terms of the Information Memorandum, this PAL and the Memorandum and Articles of Association of KCB, the number of New Shares specified above and hereby make payment (see box on the right):

AMOUNT PAYABLE (Kshs)

5,550.00

APPLICATION FOR ADDITIONAL SHARES AND TOTAL NEW SHARES

ADDITIONAL SHARES

Having accepted all of my original allotment of New Shares as set out above, I/We hereby apply for the number of Additional Shares in the appropriate box on the right, subject to the terms of the Information Memorandum, this PAL and the Memorandum and Articles of Association of KCB:

**ADDITIONAL
SHARES**

(In multiples of 100)

**AMOUNT PAYABLE
(Kshs)**

**Guarantee
(tick)**

TOTAL NEW SHARES

Having accepted all of my original allotment of New Shares and applied for the Additional Shares as set out above, I/We have applied for the total New Shares and hereby make total payment accordingly (see box on the right):

**TOTAL NEW
SHARES
full acceptance plus additional**

**TOTAL AMOUNT PAYABLE
(Kshs)**

PARTIAL ACCEPTANCE OF NEW SHARES

I/We hereby accept in part, subject to the terms of the Information Memorandum, this PAL and the Memorandum and Articles of Association of KCB, the number of partial New Shares as indicated in the box on the right:

PARTIAL ACCEPTANCE

(In multiples of 100)

AMOUNT PAYABLE (Kshs)

PAYMENT DETAILS

WHERE PAYMENT IS FINANCED-CDS PLEDGE FORM 5 SERIAL NO:

BANKERS CHEQUE

Bank Code Branch Name Branch Code Cheque No

GLOBAL PAYMENT VIA
AUTHORIZED AGENT (tick)

Bank Name

REFUND DETAILS

ELECTRONIC FUNDS TRANSFER

Bank Code Branch Name Branch Code Account No

BY CHEQUE

Bank Name

VIA AUTHORIZED
AGENT (tick) VIA ORDINARY
MAIL (tick)

POWER OF ATTORNEY

Eligible Shareholders who wish to appoint an attorney to deal with the Rights Issue are required to fill in Form Z (Appointment of Attorney) available from an Authorized Agent

RENUNCIATION VIA PRIVATE TRANSFER

Eligible Shareholders who wish to renounce all or part of their Entitlement above to a close relative via private transfer are required to fill in Form R (Form of Renunciation for Private Transfers) and CDS Form 7 (if immobilised shares) available from an Authorized Agent

IMMOBILIZATION FOR TRADING IN THE RIGHTS

Having been provisionally allotted the New Shares in certificate form as set out on my/our PAL, I/We hereby accept, subject to the terms of the Information Memorandum, this PAL and the Memorandum and Articles of Association of KCB, to immobilise and sell my Entitlement on the NSE via my Authorized Agent and I enclose completed CDS Form 1 and CDS Form 2 for this purpose and hereby indicate as follows: (tick)

SIGNATURE OF ELIGIBLE SHAREHOLDER (where applicable, the authorised attorney)

(1) Signature & ID/PP No & Date

(2) Signature & ID/PP No & Date

(3) Company Seal

19148091963 - 122292

119. No dividend shall bear interest against the Company.
120. With the sanction of a General Meeting, any dividend may be paid wholly or in part by the distribution of specific assets, and, in particular, of paid-up shares or debentures or any other company or in anyone or more of such ways. Where any difficulty arises in regard to such distribution, the Board may settle the same as it deems expedient and, in particular, may issue fractional certificates and fix the value for distribution of such specific assets or any part thereof and may determine that a cash payment shall be made to any Member upon the footing of the value so fixed in order to adjust the rights of all Members and may vest any such specific assets in trustees upon trust for the Members entitled to the dividend as may seem expedient to the Board.

121. Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address or, in the case of joint holders, addressed to the holder whose name stands first on the Register in respect of the shares.

Every such cheque or warrant shall, unless the holder otherwise directs, be made payable to the order of the registered holder or, in the case of joint holders, to the order of the holder whose name stands first on the Register in respect of such shares and shall be sent at his or their risk. Anyone of two or more joint holders may give effectual receipts for any dividends or other moneys payable in respect of the shares held by such joint holders.

122. In addition to any reserves provided for in compliance with the requirements of the Banking Act the Board may, before recommending any dividend, set aside out of the profits of the Company such sums as it thinks proper as a reserve or reserves which shall, at the discretion of the Board, be applicable for any purpose to which the profits of the Company may be properly applied and, pending such application, may, at the discretion, either be employed in the business of the Company or be invested in such investments (other than shares of the Company or its holding company, if any) as are permitted under the Banking Act and as the Board may from time to time think fit. The Board may also, without placing the same to reserve, carry forward any profits which it may think prudent not to distribute.

Capitalisation of Reserves

123. The Company in General Meeting may, upon the recommendation of the Board, resolve that it is desirable to capitalise any part of the amount for the time being standing to the credit of any of the Company's reserve accounts or of any share premium account or of the profit and loss account or otherwise available for distribution amongst the Members who would have been entitled thereto if distributed by way of dividend and in the same proportions, on condition that the same be not paid in cash but be applied either in or towards paying up any amounts for the time being unpaid on any shares held by such Members respectively or paying up, in full, unissued shares, income notes or debentures of the Company to be allotted and distributed, credited as fully paid up, to and amongst such Members in the proportions aforesaid or partly in the one way and partly in the other and the Board shall give effect to such resolution; provided that amounts standing to the credit of a share premium account or capital redemption reserve fund may, for the purposes of this Article, only be applied in the paying up of unissued shares to be issued to Members of the Company as fully paid bonus shares.

124. Whenever such resolution as aforesaid shall have been passed the Board shall make all such appropriations and applications of the undistributed profits, allotments and issues of fully paid shares, income notes or debentures as may be required thereby and shall do all acts and things required to give effect thereto, with full power to the Board to make such provisions, by the issue of fractional certificates or by payment in cash or otherwise as it thinks fit, for the case of shares or debentures becoming distributable in fractions. The Board may authorise any person to enter, on behalf of all Members entitled thereto, into an agreement with the Company providing for the allotment to them respectively, credited as fully paid up, of any shares, income notes or debentures to which they may be entitled upon such capitalisation or, as the case may require, for the payment up by the Company on their behalf, by the application thereto of their respective proportions of the profits resolved to be capitalised, of the amounts or any part of the amounts remaining unpaid on their existing shares and any agreement made under such authority shall be effective and binding on all such Members.

4. Material and Related Party Contracts

Apart from contracts entered into by KCB in the ordinary course of its business, KCB has not entered into:

- (i) any material contracts with third parties which have any onerous or illegal covenants;
- (ii) any contracts that restrict the freedom of KCB to carry on its business as KCB deems fit or restrict the ability of KCB to transfer the whole or part of its business;
- (iii) any transaction otherwise than at arms length;
- (iv) any contracts of material capital commitments;
- (v) any contracts with subsidiaries of other group companies.

5. Material Changes in the Financial or Trading Position of KCB

Save as indicated in this Information Memorandum, there have been no material changes in the financial or trading position of KCB from 31st December 2007 to the date of this Information Memorandum.

6. Consents

Standard Investment Bank Limited, Faida Investment Bank Limited, Walker Kontos Advocates and Ernst & Young have each consented in writing to act in the capacity stated and to their names being used in this Information Memorandum and PAL in the context in which they appear.

7. Documents Available for Inspection

Copies of the following documents will be available for inspection at the Shares Registrars office of the Company during normal business hours on any weekday (Saturdays, Sundays and public holidays excluded) from the date of this Information Memorandum up to and including 3.00pm on 18th July 2008:

- 7.1 The Information Memorandum and PAL dated 28th May 2008;
- 7.2 The Memorandum and Articles of Association of the Company;
- 7.3 A copy of the shareholders' and Board of Directors' resolution increasing the issued share capital;
- 7.4 A copy of the shareholders' and Board of Directors' resolution approving the Rights Issue;
- 7.5 The shareholders' register used to determine the Entitlement;
- 7.6 The consolidated audited annual report and accounts of the Group for the financial year ended 31st December 2007, audited accounts for the five years preceding the publication of the Information Memorandum, including all notes, reports or information required by the Companies Act;
- 7.7 Unaudited financial statements of KCB for the 3-month period ended 31st March 2008;
- 7.8 A signed copy of the Reporting Accountants Report;
- 7.9 Approval for the Rights Issue and listing of New Shares from Capital Markets Authority;
- 7.10 Approval for Listing of New Shares from the Nairobi Stock Exchange;
- 7.11 The Legal Opinion of Walker Kontos Advocates; and
- 7.12 The letter of "no objection" to the Rights Issue from the CBK.

AUTHORIZED AGENTS

KCB has appointed specific Authorized Agents in connection with the Rights Issue. These Authorized Agents have signed agency agreements with KCB which contain various terms and conditions that each Authorized Agent is required to comply with. The Authorized Agents are (a) Members of the NSE that are issued with licenses by the CMA and (b) KCB. These Authorized Agents are listed below.

MEMBERS OF THE NAIROBI STOCK EXCHANGE

<p>Standard Investment Bank Ltd 16th floor, ICEA Building, Kenyatta Avenue & 17th Floor, Hazina Towers, Monrovia St PO Box 13714, 00800, Nairobi. Tel: 2220225, 252772 info@sib.co.ke</p>	<p>Faida Investment Bank Ltd 1st Floor, Windsor House, University Way PO Box 45236, 00100, Nairobi. Tel: 243811-13 info@faidastocks.com</p>
<p>Afrika Investment Bank Ltd 13th Floor, Finance House, Loita Street PO Box 11019, 00100, Nairobi. Tel: 212989 info@afrikainvestmentbank.com</p>	<p>Apex Africa Investment Bank Ltd 4th Floor, Rehani House, Koinange Street P.O. Box 43676, 00100, Nairobi. Tel: 242170 invest@apexafrica.com</p>
<p>CFC Financial Services Ltd 2nd Floor, CFC Centre, Chiromo Road, PO Box 47198, 00100 Nairobi. Tel: 3638900, cfcfs@cfcgroup.co.ke</p>	<p>Drummond Investment Bank Ltd 2nd Floor, Hughes Building, Kenyatta Avenue, PO Box 45465, 00100, Nairobi. Tel: 318689 Info@francisdrummond.com</p>
<p>Dyer & Blair Investment Bank Ltd 10th Floor, Loita House, Loita Street PO Box 45396, 00100, Nairobi. Tel: 3240000 shares@dyerandblair.com</p>	<p>Kestrel Capital Investment Bank Ltd 5th Floor, ICEA Building, Kenyatta Avenue PO Box 40005, 00100, Nairobi. Tel: 251758 info@kestrelcapital.com</p>
<p>Renaissance Capital (Kenya) Ltd 7th Floor, Purshottam Place, Chiromo Road PO Box 40560-00100 Nairobi. Tel : 3601822</p>	<p>Sterling Investment Bank Ltd 11th Floor, Finance House, Loita Street P.O. Box 45080, 00100, Nairobi. Tel: 213914 info@sterlingstocks.com</p>
<p>Suntra Investment Bank Ltd 7th & 10th Floors, Nation Centre, Kimathi Street PO Box 74016, 00200, Nairobi. Tel: 2870000 info@suntra.co.ke</p>	
<p>African Alliance Securities Kenya Ltd Kenya Re Towers, Ground Floor Upper Hill, off Ragati Road PO Box 27639, 00506 Nairobi Tel: 2718720,2710978 info@africanalliance.co.ke</p>	<p>Bob Mathews Stockbrokers Ltd Nginyo Towers, 3rd Floor, Koinange Street PO Box 73253, 00200, Nairobi. Tel : 311898,313492 bobmathews@bobmathewstocks.com</p>
<p>Crossfield Securities Ltd 5th Floor, IPS Building, Kimathi Street PO Box 34137, 00100, Nairobi. Tel : 246036 crossfield@wananchi.com</p>	<p>Discount Securities Ltd 4th Floor, International House, Mama Ngina Street PO Box 42489, 00100, Nairobi Tel: 2773000 discount@dsl.co.ke</p>
<p>Ngenye Kariuki & Co. Ltd 8th & 15th Floors, Corner House, Kimathi St. PO Box 12185, 00400, Nairobi. Tel: 224333 ngenyekari@wananchi.com</p>	<p>NIC Capital Securities Ltd (subsidiary of NIC Capital Ltd, a licensed investment bank) NIC House, Masaba Road PO Box 44599, 00100, Nairobi. Tel: 2888000</p>
<p>Reliable Securities Ltd 6th Floor, IPS Building, Kimathi Street PO Box 50338, 00200, Nairobi. Tel: 241350 info@reliablesecurities.co.ke</p>	<p>Genghis Capital Limited 5th Floor, Prudential Assurance Building, Wabera Street PO Box 9959, 00100 Nairobi Tel: 2337535 Email: Info@genghiscapital.co.ke</p>

BRANCHES OF KENYA COMMERCIAL BANK LIMITED

1.	Bomet	01181	49.	Migori	01192
2.	Bungoma	01197	50.	Milimani	01175
3.	Chuka	01196	51.	Moi Avenue	01100
4.	Custody Services	01133	52.	Moyale	01127
5.	Eastleigh	01091	53.	Mukurweini	01177
6.	Eldama Ravine	01163	54.	Mumias	01124
7.	Eldoret	01109	55.	Muranga	01115
8.	Embu	01116	56.	Mvita	01136
9.	Garissa	01169	57.	Mwingi	01148
10.	Gilgil	01159	58.	Naivasha	01190
11.	Githunguri	01193	59.	Nakuru	01103
12.	Hola	01146	60.	Nandi Hills	01143
13.	Industrial Area	01113	61.	Nanyuki	01125
14.	Iten	01158	62.	Narok	01184
15.	Jogoo Road	01137	63.	Nyahururu	01122
16.	K.I.C.C.	01104	64.	Nyamira	01176
17.	Kabarnet	01152	65.	Nyeri	01112
18.	Kajiado	01131	66.	Ongata Rongai	01161
19.	Kakamega	01110	67.	Othaya	01185
20.	Kangema	01117	68.	Registrar Services	01084
21.	Kapenguria	01151	69.	River Road	01114
22.	Kapsabet	01166	70.	Ruiru	01147
23.	Karatina	01120	71.	S & L Garden Plaza	01989
24.	Kericho	01106	72.	S & L Haile Selassie	01987
25.	Kerugoya	01195	73.	S & L Kisumu	01983
26.	Kiambu	01119	74.	S & L Mombasa	01982
27.	Kibwezi	01164	75.	S & L Nakuru	01985
28.	Kikuyu	01129	76.	S & L Salama House	01981
29.	Kilifi	01174	77.	S & L Sarit Centre	01990
30.	Kilindini	01111	78.	S & L Thika	01986
31.	Kipande House	01101	79.	Saba Saba	01138
32.	Kisii	01191	80.	Sarit Centre	01141
33.	Kisumu	01105	81.	Siaya	01121
34.	Kitale	01149	82.	Sotik	01189
35.	Kitengela	01162	83.	Tala	01130
36.	Kitui	01135	84.	Thika	01108
37.	Lamu	01173	85.	Treasury Square	01102
38.	Limuru	01155	86.	U.N. Gigiri	01145
39.	Lodwar	01144	87.	Uganda Road	01168
40.	Loitokitok	01142	88.	Ukunda	01157
41.	Machakos	01194	89.	University Way	01167
42.	Malindi	01199	90.	Village Market	01180
43.	Mandera	01150	91.	Voi	01186
44.	Maralal	01154	92.	Wajir	01153
45.	Marsabit	01140	93.	Webuye	01188
46.	Matuu	01134	94.	Wote	01095
47.	Mbale	01183	95.	Wundanyi	01198
48.	Meru	01123			

APPENDIX I

KCB PROVISIONAL ALLOTMENT LETTER

AUTHORIZED AGENT STAMP	AUTHORIZED AGENT CODE	PROVISIONAL ALLOTMENT LETTER (PAL) NO.				
This document is of value and is negotiable. Please consult your preferred advisor and read the Information Memorandum dated 28th May, 2008 accompanying this PAL. Refer to the notes on the reverse of this page.	CDS ACCOUNT NUMBER	Ordinary Shares Registered In Your Name As At Record Date				
DETAILS OF ELIGIBLE SHAREHOLDER	28	ENTITLEMENT Number Of New Shares Provisionally Allotted To You				
	May					
	2008					
FULL ACCEPTANCE OF NEW SHARES						
I/We hereby accept in full, subject to the terms of the Information Memorandum, this PAL and the Memorandum and Articles of Association of KCB, the number of New Shares specified above and hereby make payment (see box on the right):	AMOUNT PAYABLE (Kshs)					
APPLICATION FOR ADDITIONAL SHARES AND TOTAL NEW SHARES						
ADDITIONAL SHARES Having accepted all of my original allotment of New Shares as set out above, I/We hereby apply for the number of Additional Shares in the appropriate box on the right, subject to the terms of the Information Memorandum, this PAL and the Memorandum and Articles of Association of KCB:	ADDITIONAL SHARES <small>(In multiples of 100)</small>	AMOUNT PAYABLE (Kshs)	Guarantee (tick)			
			<input type="checkbox"/>			
TOTAL NEW SHARES Having accepted all of my original allotment of New Shares and applied for the Additional Shares as set out above, I/We have applied for the total New Shares and hereby make total payment accordingly (see box on the right):	TOTAL NEW SHARES full acceptance plus additional	TOTAL AMOUNT PAYABLE (Kshs)				
PARTIAL ACCEPTANCE OF NEW SHARES						
I/We hereby accept in part, subject to the terms of the Information Memorandum, this PAL and the Memorandum and Articles of Association of KCB, the number of partial New Shares as indicated in the box on the right:	PARTIAL ACCEPTANCE <small>(In multiples of 100)</small>	AMOUNT PAYABLE (Kshs)				
PAYMENT DETAILS		WHERE PAYMENT IS FINANCED-CDS PLEDGE FORM 5 SERIAL NO:				
BANKERS CHEQUE	Bank Code	Branch Name	Branch Code	Cheque No	GLOBAL PAYMENT VIA AUTHORIZED AGENT (tick)	
Bank Name						
REFUND DETAILS						
ELECTRONIC FUNDS TRANSFER	Bank Code	Branch Name	Branch Code	Account No	BY CHEQUE	
Bank Name					VIA AUTHORIZED AGENT (tick)	VIA ORDINARY MAIL (tick)
POWER OF ATTORNEY			RENUNCIATION VIA PRIVATE TRANSFER			
Eligible Shareholders who wish to appoint an attorney to deal with the Rights Issue are required to fill in Form Z (Appointment of Attorney) available from an Authorized Agent			Eligible Shareholders who wish to renounce all or part of their Entitlement above to a close relative via private transfer are required to fill in Form R (Form of Renunciation for Private Transfers) and CDS Form 7 (if immobilised shares) available from an Authorized Agent			
IMMOBILIZATION FOR TRADING IN THE RIGHTS						
Having been provisionally allotted the New Shares in certificate form as set out on my/our PAL, I/We hereby accept, subject to the terms of the Information Memorandum, this PAL and the Memorandum and Articles of Association of KCB, to immobilise and sell my Entitlement on the NSE via my Authorized Agent and I enclose completed CDS Form 1 and CDS Form 2 for this purpose and hereby indicate as follows: <input type="checkbox"/> (tick)						
SIGNATURE OF ELIGIBLE SHAREHOLDER (where applicable, the authorised attorney)						

(1) Signature & ID/PP No & Date

(2) Signature & ID/PP No & Date

(3) Company Seal

1. If you have sold or transferred all your ordinary shares in KCB, please forward this Provisional Allotment Letter and the Information Memorandum to the purchaser or transferee, or to the stockbroker or agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee.
2. Eligible Shareholders should read the Information Memorandum that accompanies this Provisional Allotment Letter before deciding whether to take up their Rights and exercising the options available to them. Terms defined in the Information Memorandum shall, where applicable, apply herein.
3. **Instructions for Completion**
(refer to Section VIII of the Information Memorandum for detailed information)
 - a) To accept your Entitlement in full, use this PAL, make payment (including Kshs 30/- if you have a CDS Account), sign at the bottom and deliver to your Authorized Agent on or before 3:00 p.m. on 18th July 2008.
 - b) To accept your Entitlement in full and apply for Additional Shares (in multiples of 100), use this PAL, fill in the number of Additional Shares and the corresponding Amount Payable (by multiplying by Kshs 25/- per Additional Share). Then fill in the Total New Shares (add Entitlement and no of Additional Shares) and Total Amount Payable (add Amount Payable in Full Acceptance of New Shares and Amount Payable for Additional Shares), make total payment (including Kshs 30/- if you have a CDS Account), complete the Refund Details section (refer to Appendix III of the Information Memorandum for a list of bank and branch codes for Electronic Funds Transfer), sign at the bottom and deliver to your Authorized Agent on or before 3:00 p.m. on 18th July 2008. If payment for the Additional Shares is via an irrevocable bank guarantee (see Appendix II of the Information Memorandum), tick the appropriate box in Additional Shares, make a photocopy of the guarantee for yourself and staple the guarantee to this PAL when handing over to the Authorized Agent.
 - c) To accept your Entitlement in part and do nothing with the balance, use this PAL, fill in Partial Acceptance of New Shares (in multiples of 100) and the corresponding Amount Payable (by multiplying by Kshs 25/- per partial New Share). Then make payment (including Kshs 30/- if you have a CDS Account), sign at the bottom and deliver to your Authorized Agent on or before 3:00 p.m. on 18th July 2008.
 - d) To accept your Entitlement in part and renounce part to a close relative via private transfer, use this PAL but ask your Authorized Agent for a Form R and a CDS Form 7 (where applicable for CDS account holders only), fill in all the required details and deliver to your Authorized Agent on or before 3:00 p.m. on 7th July 2008. Fill in the Partial Acceptance of New Shares section on this PAL (in multiples of 100) and the corresponding Amount Payable (by multiplying by Kshs 25/- per Partial New Share), make payment (including Kshs 30/- if you have a CDS Account), sign at the bottom and deliver to your Authorized Agent on or before 3:00 p.m. on 18th July 2008.
 - e) To accept your Entitlement in part and sell the balance (or portion of the balance) Rights on the NSE, use this PAL and fill in Partial Acceptance of New Shares section on this PAL (in multiples of 100) and the corresponding Amount Payable (by multiplying by Kshs 25/- per partial New Share), make payment (including Kshs 30/- if you have a CDS Account), sign at the bottom and deliver to your Authorized Agent on or before 3:00 p.m. on 18th July 2008. If you already have a CDS account give a sale order to your Authorized Agent (last date for trading in Rights is 3:00 p.m. on 11th July 2008). If you do not have a CDS account, place a tick in the box provided under Immobilization for Trading in the Rights section on this PAL, obtain and complete the CDS Form 1 (CDS Account Opening) and CDS Form 2 (Immobilization) from your Authorized Agent in order to effect immobilization (last date for immobilization is 3:00 p.m. on 30th June 2008) and give a sale order to your Authorized Agent (subject to the immobilization being successful).
 - f) To accept your Entitlement in part and renounce part to a close relative via private transfer and sell the balance (or portion of the balance) Rights on the NSE, refer to both (d) and (e) above and act accordingly.
 - g) To sell all your Rights on the NSE and you already have a CDS account give a sale order to your Authorized Agent (last date for trading in Rights is 3:00 p.m. on 11th July 2008) and hand over this PAL. If you do not have a CDS account, place a tick in the box provided under Immobilization for Trading in Rights section on this PAL, obtain and complete the CDS Form 1 and CDS Form 2 from your Authorized Agent in order to effect immobilization (last date for immobilization is 3:00 p.m. on 30th June 2008), give a sale order to your Authorized Agent (subject to the immobilization being successful) and hand over this PAL.
 - h) If you take no action on or before 3:00 p.m. on 18th July 2008 the Rights will lapse.
 - i) If a banker's cheque is not being used to make payment then tick Global Payment via Authorized Agent section.
 - j) If a Lender is financing the take-up of Rights, then fill in the CDS Pledge Form 5 Serial No in the Payment Details section, make a photocopy for your records and staple the form to this PAL.
4. **Authorized Agents**
KCB has appointed Authorized Agents (including the Transaction Advisor, Standard Investment Bank Ltd and Faida Investment Bank Ltd) in connection with the Rights Issue. These Authorized Agents have signed agency agreements with KCB which contain various terms and conditions that each Authorized Agent is required to comply with. The Authorized Agents are (a) Members of the NSE that are issued with licenses by the CMA and (b) KCB. These Authorized Agents are listed in Section XVII of the Information Memorandum.



APPENDIX II

FORM OF IRREVOCABLE GUARANTEE FOR ADDITIONAL SHARES ONLY

[LETTERHEAD OF COMMERCIAL BANK]

Ref: [*insert reference number*]

Date: [*On or before 18th July 2008*]

The Chief Executive Officer
Kenya Commercial Bank Limited
P O Box 48400-00100
Nairobi

Dear Sirs

**KENYA COMMERCIAL BANK LIMITED – RIGHTS ISSUE
IRREVOCABLE GUARANTEE IN RESPECT OF PAYMENT FOR ALLOCATION OF SHARES TO**
[*name of Eligible Shareholder or buyer of Rights*]

WHEREAS [*name of Eligible Shareholder or buyer of Rights*] (“the **Investor**”) has by an Entitlement and Acceptance Form No [*insert No*] applied for [*insert No*] Additional Shares in the Kenya Commercial Bank Ltd – Rights Issue as set out in the Information Memorandum dated 28th May 2008 (“the **KCB-IM**”) (*capitalised terms used in this Guarantee shall have the meaning and interpretation given to such terms in the KCB-IM*).

AND WHEREAS it has been stipulated by you in the KCB-IM that the Investor shall furnish you with an irrevocable on demand guarantee for the full value payable for the Additional Shares applied for at the Subscription Price.

AND WHEREAS we [*name of Guarantor*] have agreed to give this irrevocable Guarantee:

NOW at the request of the Investor and in consideration of your allocating to the Investor the Additional Shares or such lesser number as you shall in your absolute discretion determine, we hereby irrevocably undertake to pay you in Kenya Shillings, promptly upon your first written demand and without any delay or argument, such sum as may be demanded by you up to a maximum sum of Kenya Shillings [*figures*] [*words*] without your needing to prove or to show grounds or reasons for your demand or the sum specified therein by way of EFT or banker’s cheque payable to KCB on or before 3.00 p.m. on 14th August 2008 as set out in the KCB-IM.

This Guarantee will remain in force up to and including 3.00 p.m. on 15th August 2008 and any demand in respect thereof should reach our office not later than the above date and time.

This Guarantee shall be governed and construed in accordance with the laws of Kenya.

IN WITNESS WHEREOF THIS LETTER OF IRREVOCABLE GUARANTEE HAS BEEN EXECUTED BY US ON THIS [*date on or before 18th July 2008*]

[*Signed as per the bank mandate*]

APPENDIX III

LIST OF BANK AND BRANCH CODES

The following list of codes is to be used to provide accurate Electronic Funds Transfer details for more efficient refunds and needs to be inserted in the PAL, Form R or Form E in the relevant section. This list may not be exhaustive and therefore you should refer to your bank for additional codes.

Bank Code	Branch Code	Branch Name	Town	Bank	Branch Code	Branch Code	Town Name
KENYA COMMERCIAL BANK (01)							
01	089	OPS PROCESSING CENTER	NAIROBI	01	151	KAPENGURIA	KAPENGURIA
01	091	EASTLEIGH	NAIROBI	01	152	KABARNET	KABARNET
01	092	CENTRAL CLEARING CENTRE	NAIROBI	01	153	WAJIR	WAJIR
01	093	MTWAPA	MOMBASA	01	154	MARALAL	MARALAL
01	094	HEAD OFFICE DMMU	NAIROBI	01	155	LIMURU	LIMURU
01	095	WOTE	WOTE	01	157	UKUNDA	UKUNDA
01	096	HEAD OFFICE FINANCE	NAIROBI	01	158	ITEN	ITEN
01	097	FOREX CENTER	NAIROBI	01	159	GILGIL	GILGIL
01	098	PAYROLL CENTER	NAIROBI	01	161	ONGATA RONGAI	NAIROBI
01	100	MOI AVENUE NAIROBI	NAIROBI	01	162	KITENGELA	NAIROBI
01	101	KIPANDE HOUSE	NAIROBI	01	163	ELDAMA RAVINE	ELDAMA RAVINE
01	102	TREASURY SQ MOMBASA	MOMBASA	01	164	KIBWEZI	KIBWEZI
01	103	NAKURU	NAKURU	01	166	KAPSABET	KAPSABET
01	104	KICC	NAIROBI	01	167	UNIVERSITY WAY	NAIROBI
01	105	KISUMU	KISUMU	01	168	UGANDA ROAD	ELDORET
01	106	KERICHO	KERICHO	01	169	GARISSA	GARISSA
01	107	TOM MBOYA	NAIROBI	01	173	LAMU	LAMU
01	108	THIKA	NAIROBI	01	174	KILIFI	KILIFI
01	109	ELDORET	ELDORET	01	175	MILIMANI	NAIROBI
01	110	KAKAMEGA	KAKAMEGA	01	176	NYAMIRA	NYAMIRA
01	111	KILINDINI MOMBASA	MOMBASA	01	177	MUKURUWEIN	MUKURUWEINI
01	112	NYERI	NYERI	01	178	KEHANCHA	KEHANCHA
01	113	INDUSTRIAL AREA NAIROBI	NAIROBI	01	180	VILLAGE MARKET	NAIROBI
01	114	RIVER ROAD	NAIROBI	01	181	BOMET	BOMET
01	115	MURANGA	MURANGA	01	183	MBALE	MBALE
01	116	EMBU	EMBU	01	184	NAROK	NAROK
01	117	KANGEMA	KANGEMA	01	185	OTHAYA	OTHAYA
01	118	CITY CENTRE	NAIROBI	01	186	VOI	VOI
01	119	KIAMBU	NAIROBI	01	188	WEBUYE	WEBUYE
01	120	KARATINA	KARATINA	01	189	SOTIK	SOTIK
01	121	SIAYA	SIAYA	01	190	NAIVASHA	NAIVASHA
01	122	NYAHURURU	NYAHURURU	01	191	KISII	KISII
01	123	MERU	MERU	01	192	MIGORI	MIGORI
01	124	MUMIAS	MUMIAS	01	193	GITHUNGURI	AIROBI
01	125	NANYUKI	NANYUKI	01	194	MACHAKOS	NAIROBI
01	127	MOYALE	MOYALE	01	195	KERUGOYA	KERUGOYA
01	128	KENYATTA AVENUE	NAIROBI	01	196	CHUKA	CHUKA
01	129	KIKUYU	NAIROBI	01	197	BUNGOMA	BUNGOMA
01	130	TALA	NAIROBI	01	198	WUNDANYI	WUNDANYI
01	131	KAJIADO	NAIROBI	01	199	MALINDI	MALINDI
01	132	TOWN CENTRE MOMBASA	MOMBASA	01	900	AS400	NAIROBI
01	133	CUSTODY SERVICES	NAIROBI	01	981	SALAMA HOUSE	NAIROBI
01	134	MATUU	MATUU	01	982	MOMBASA	MOMBASA
01	135	KITUI	KITUI	01	983	KISUMU	KISUMU
01	136	MVITA	MOMBASA	01	985	NAKURU	NAKURU
01	137	JOGOO RD	NAIROBI	01	986	THIKA	NAIROBI
01	139	CARD CENTRE	NAIROBI	01	987	HAILE SELASSIE	NAIROBI
01	140	MARSABIT	MARSABIT	01	988	HEAD OFFICE	NAIROBI
01	141	SARIT CENTRE	NAIROBI	01	989	GARDEN PLAZA	NAIROBI
01	142	LOITOKITOK	LOITOKITOK	01	990	SARIT CENTRE	NAIROBI
01	143	NANDI HILLS	NANDI HILLS	01	985	NAKURU	NAKURU

Bank Code	Branch Code	Branch Name	Town	Bank	Branch Code	Branch Code	Town Name
01	144	LODWAR	LODWAR	01	986	THIKA	NAIROBI
01	145	UN GIGIRI	NAIROBI	01	987	HAILE SELASSIE	NAIROBI
01	146	HOLA	HOLA	01	988	HEAD OFFICE	NAIROBI
01	147	RUIRU	NAIROBI	01	989	GARDEN PLAZA	NAIROBI
01	148	MWINGI	MWINGI	01	990	SARIT CENTRE	NAIROBI
01	149	KITALE	KITALE				
01	150	MANDERA	MANDERA				

STANDARD CHARTERED BANK KENYA (02)

02	000	ELDOROT	ELDOROT	02	020	KIAMBU	NAIROBI
02	001	KERICHO	KERICHO	02	053	INDUSTRIAL AREA	NAIROBI
02	002	KISUMU	KISUMU	02	054	KAKAMEGA	KAKAMEGA
02	003	KITALE	KITALE	02	060	MALINDI	MALINDI
02	004	TREASURY SQUARE	MOMBASA	02	061	GATUNDU	NAIROBI
02	005	KILINDINI	MOMBASA	02	062	LAMU	LAMU
02	006	KENYATTA AVENUE	NAIROBI	02	064	OLD MUTUAL	NAIROBI
02	007	KIMATHI STREET	NAIROBI	02	065	KABARNET	KABARNET
02	008	MOI AVENUE	NAIROBI	02	069	ATHI RIVER	NAIROBI
02	009	NAKURU	NAKURU	02	071	YAYA CENTRE	NAIROBI
02	010	NANYUKI	NANYUKI	02	072	RUARAKA	NAIROBI
02	011	NYERI	NYERI	02	073	LANGATA	NAIROBI
02	012	THIKA	NAIROBI	02	074	MAKUPA	MOMBASA
02	015	WESTLANDS	NAIROBI	02	075	KAREN	NAIROBI
02	016	MACHAKOS	NAIROBI	02	076	MUTHAIGA	NAIROBI
02	017	MERU	MERU	02	078	C.O.U	NAIROBI
02	019	HARAMBEE AVENUE	NAIROBI				

BARCLAYS BANK OF KENYA (03)

03	001	HEAD OFFICE - CPIC	NAIROBI	03	046	ISIOLO	ISIOLO
03	002	BUNGOMA	BUNGOMA	03	049	SOTIK	SOTIK
03	003	ELDOROT	ELDOROT	03	051	OL KALOU	OL KALOU
03	004	EMBU	EMBU	03	052	NAIVASHA	NAIVASHA
03	005	MURANGA	MURANGA	03	053	ELDAMA RAVINE	ELDAMA RAVINE
03	006	KARATINA	KARATINA	03	054	KAKAMEGA	KAKAMEGA
03	007	KERICHO	KERICHO	03	055	MUTHAIGA	NAIROBI
03	008	KISII	KISII	03	056	BARCLAYS ADVISORY	NAIROBI
03	009	KISUMU	KISUMU	03	057	MIGORI	MIGORI
03	010	KITALE	KITALE	03	058	KAPSABET	KAPSABET
03	011	LIMURU	NAIROBI	03	059	WEBUYE	WEBUYE
03	012	MALINDI	MALINDI	03	060	VOI	VOI
03	013	MERU	MERU	03	061	KITUI	KITUI
03	014	MOLO	MOLO	03	062	MPALE	MPALE
03	015	MOI AVENUE, MOMBASA	MOMBASA	03	063	DIANI	MOMBASA
03	016	NKRUMAH ROAD, MOMBASA	MOMBASA	03	064	KENYATTA AVENUE	NAIROBI
03	017	DIGO ROAD MOMBASA	MOMBASA	03	065	KAREN	NAIROBI
03	018	CHANGAMWE MOMBASA	MOMBASA	03	066	UNION TOWERS	NAIROBI
03	019	KILIFI	KILIFI	03	067	RUARAKA	NAIROBI
03	020	KIAMBU	NAIROBI	03	068	PORT	MOMBASA
03	021	CARD CENTRE, NAIROBI	NAIROBI	03	069	JKIA	NAIROBI
03	022	NAFEX	NAIROBI	03	070	ENTERPRISE ROAD	NAIROBI
03	023	HARAMBEE AVENUE	NAIROBI	03	071	LITEIN	LITEIN
03	024	NIC HOUSE	NAIROBI	03	072	AVON CENTRE	NAIROBI
03	027	NAKURU EAST	NAKURU	03	073	WESTLANDS	NAIROBI
03	028	NAKURU WEST	NAKURU	03	074	GITHUNGURI	NAIROBI
03	029	NANYUKI	NANYUKI	03	075	MOI AVENUE NAIROBI	NAIROBI
03	030	NYERI	NYERI	03	076	PIONEER HOUSE	NAIROBI
03	031	THIKA	NAIROBI	03	077	PLAZA BUSINESS CENTRE	NAIROBI
03	032	NYAHURURU	NYAHURURU	03	082	HAILE SELASSIE AVENUE	NAIROBI
03	033	KERUGOYA	KERUGOYA	03	087	OTHAYA	OTHAYA
03	034	GARISSA	GARISSA	03	088	MARKET	NAIROBI
03	035	HOMA BAY	HOMA BAY	03	094	QUEENSWAY HOUSE	NAIROBI

Bank Code	Branch Code	Branch Name	Town	Bank	Branch Code	Branch Code	Town Name
03	036	PREMIER BRANCH	NAIROBI	03	096	B.M.F.L	NAIROBI
03	038	ACCRA RD	NAIROBI	03	097	CHUKA	CHUKA
03	039	NAROK	NAROK	03	040	MACHAKOS	NAIROBI
03	041	MAUA	MAUA	03	042	NGONG	NAIROBI
03	043	MARAGUA	MARAGUA	03	045	HURLINGHAM	NAIROBI
BANK OF INDIA (05)							
05	000	KENYATTA AVENUE	NAIROBI	05	001	NKRUMAH ROAD	MOMBASA
05	002	INDUSTRIAL AREA	NAIROBI	05	003	WESTLANDS	NAIROBI
BANK OF BARODA (06)							
06	000	NAIROBI MAIN	NAIROBI	06	001	CITY SQUARE	NAIROBI
06	002	DIGO ROAD, MOMBASA	MOMBASA	06	004	THIKA	NAIROBI
06	005	KISUMU	KISUMU	06	006	SARIT CENTRE	NAIROBI
06	007	INDUSTRIAL AREA	NAIROBI				
COMMERCIAL BANK OF AFRICA (07)							
07	000	WABERA STREET	NAIROBI	07	001	INTERNATIONAL HSE	NAIROBI
07	002	INDUSTRIAL AREA	NAIROBI	07	003	MAMLAKA AGENCY	NAIROBI
07	004	HILTON AGENCY	NAIROBI	07	005	NKURUMAH RD-MSA	MOMBASA
07	020	MOMBASA	MOMBASA	07	022	BAMBURI AGENCY	MOMBASA
HABIB BANK LTD (08)							
08	046	MOMBASA	MOMBASA	08	047	MALINDI	MALINDI
08	048	KIMATHI STREET	NAIROBI	08	049	KENYATTA AVENUE	NAIROBI
08	086	KISUMU	KISUMU				
PRIME BANK (10)							
10	000	H/O RIVERSIDE	NAIROBI	10	001	KENINDIA	NAIROBI
10	002	BIASHARA	NAIROBI	10	003	MOMBASA	MOMBASA
10	004	WESTLANDS	NAIROBI	10	005	INDUSTRIAL AREA	NAIROBI
10	006	KISUMU	KISUMU	10	007	PARKLANDS	NAIROBI
10	008	RIVERSIDE DRIVE	NAIROBI				
CO-OPERATIVE BANK (11)							
11	000	HEAD OFFICE	NAIROBI	11	001	FINANCE AND ACCOUNTS	NAIROBI
11	002	CO-OP HOUSE	NAIROBI	11	003	KISUMU	KISUMU
11	004	MOMBASA	MOMBASA	11	005	MERU	MERU
11	006	NAKURU	NAKURU	11	007	INDUSTRIAL AREA	NAIROBI
11	008	KISII	KISII	11	009	MACHAKOS	NAIROBI
11	010	NYERI	NYER	11	011	UKULIMA	NAIROBI
11	012	KERUGOYA	KERUGOYA	11	013	ELDORET	ELDORET
11	016	STAFF TRAINING CENTRE	NAIROBI	11	017	NYAHURURU	NYAHURURU
11	018	CHUKA	CHUKA	11	021	KIAMBU	NAIROBI
11	022	HOMA BAY	HOMA BAY	11	023	EMBU	EMBU
11	024	KERICHO	KERICHO	11	025	BUNGOMA	BUNGOMA
11	026	MURANGA	MURANGA	11	028	KARATINA	KARATINA
11	031	UNIVERSITY WAY	NAIROBI	11	033	ATHI RIVER	NAIROBI
11	034	MUMIAS	MUMIAS	11	035	STIMA PLAZA	NAIROBI
11	039	THIKA	NAIROBI	11	040	NACICO	NAIROBI
11	041	KARIOBANGI	NAIROBI	11	042	KAWANGWARE	NAIROBI
11	043	MAKUTANO	NAIROBI	11	044	CANON HOUSE	NAIROBI
11	045	KIMATHI STREET	NAIROBI	11	046	KITALE	KITALE
11	047	GITHURAI	NAIROBI	11	048	MAUA	MAUA
11	049	CITY HALL	NAIROBI	11	097	C.O.U	NAIROBI
11	099	SETTLEMENTS	NAIROBI				

Bank Code	Branch Code	Branch Name	Town	Bank	Branch Code	Branch Code	Town Name
NATIONAL BANK OF KENYA (12)							
12	001	MOI AVENUE	NAIROBI	12	002	KENYATTA	NAIROBI
12	003	HARAMBEE	NAIROBI	12	004	HILL	NAIROBI
12	005	BUSIA	BUSIA	12	006	MUHORONI	MUHORONI
12	007	MERU	MERU	12	008	KARATINA	KARATINA
12	009	NAROK	NAROK	12	010	KISII	KISII
12	012	NYERI	NYERI	12	013	KITALE	KITALE
12	014	KERICHO	KERICHO	12	015	NYAMIRA	NYAMIRA
12	016	LIMURU	NAIROBI	12	017	KITUI	KITUI
12	018	MOLO	MOLO	12	019	BUNGOMA	BUNGOMA
12	020	MOMBASA	MOMBASA	12	021	KAPSABET	KAPSABET
12	022	AWENDO	AWENDO	12	023	PORTWAY-MSA	MOMBASA
12	024	VALLEY RD	NAIROBI	12	025	HOSPITAL BR.	NAIROBI
12	026	RUIRU	NAIROBI	12	030	NAKURU	NAKURU
12	040	ELDORET	ELDORET	12	050	KISUMU	KISUMU
12	098	CARD CENTRE	NAIROBI	12	099	HEAD OFFICE	NAIROBI
12	198	TSC SALARIES	NAIROBI				
ORIENTAL BANK (14)							
14	001	KOINANGE STREET	NAIROBI	14	005	ELDORET	ELDORET
14	006	KITALE	KITALE				
FIRST AMERICAN BANK OF KENYA (15)							
15	000	NAIROBI	NAIROBI	15	001	MOMBASA	MOMBASA
CITIBANK NA KENYA (16)							
16	000	HEAD OFFICE, NAIROBI	NAIROBI	16	400	MOMBASA	MOMBASA
16	700	KISUMU	KISUMU	16	500	GIGIRI AGENCY	NAIROBI
16	400	MOMBASA	MOMBASA				
HABIB BANK A.G. ZURICH (17)							
17	000	HEAD OFFICE	NAIROBI	17	001	MOMBASA	MOMBASA
17	003	WESTLANDS	NAIROBI				
MIDDLE EAST BANK KENYA (18)							
18	000	HEAD OFFICE	NAIROBI	18	001	NAIROBI	NAIROBI
18	002	MOMBASA	MOMBASA	18	003	MILIMANI	NAIROBI
BANK OF AFRICA (19)							
19	000	REINSURANCE PLAZA	NAIROBI	19	001	MOMBASA	MOMBASA
19	002	WESTLANDS	NAIROBI				
DUBAI BANK KENYA (20)							
20	000	HEAD OFFICE	NAIROBI	20	001	EASTLEIGH	NAIROBI
20	002	MOMBASA	MOMBASA				
CONSOLIDATED BANK OF KENYA (23)							
23	000	HARAMBEE AVENUE	NAIROBI	23	001	MURANGA	MURANGA
23	002	EMBU	EMBU	23	003	MOMBASA	MOMBASA
23	004	KOINANGE STREET	NAIROBI	23	005	THIKA	NAIROBI
23	006	MERU	MERU	23	007	NYERI	NYERI
23	009	MAUA	MAUA	23	010	ISIOLO	ISIOLO
23	099	ELDORET	ELDORET				

Bank Code	Branch Code	Branch Name	Town	Bank	Branch Code	Branch Code	Town Name
CREDIT BANK KENYA (25)							
25	000	KOINANGE STREET	NAIROBI	25	001	KISUMU	KISUMU
25	002	NAKURU	NAKURU	25	003	KISII	KISII
TRANS-NATIONAL BANK (26)							
26	001	HEAD OFFICE	NAIROBI	26	002	MOMBASA	MOMBASA
26	003	ELDORET	ELDORET	26	004	NAKURU	NAKURU
26	007	KIRINYAGA RD NAKURU	NAKURU				
CHASE BANK (30)							
30	000	KISUMU	KISUMU	30	001	NAIROBI	NAIROBI
30	002	VILLAGE MARKET	NAIROBI				
STANBIC BANK KENYA (31)							
31	000	KENYATTA AVENUE	NAIROBI	31	001	MOMBASA	MOMBASA
CFC BANK (32)							
32	000	CHIROMO ROAD	NAIROBI	32	001	KIMATHI STREET	NAIROBI
32	002	MOMBASA	MOMBASA	32	003	UPPERHILL	NAIROBI
32	004	INTERCONTINENTAL	NAIROBI				
AFRICAN BANKING CORPORATION (35)							
35	000	MAIN BRANCH	NAIROBI	35	001	WESTLANDS	NAIROBI
35	002	INDUSTRIAL AREA	NAIROBI	35	003	MOMBASA	MOMBASA
35	004	KISUMU	KISUMU	35	005	ELDORET	ELDORET
35	006	MERU	MERU				
IMPERIAL BANK (39)							
39	001	HEAD OFFICE	NAIROBI	39	002	MOMBASA	MOMBASA
39	005	MALINDI	MALINDI				
NIC BANK (41)							
41	000	NIC HOUSE, NAIROBI	NAIROBI	41	101	20TH CENTURY PLAZA	NAIROBI
41	102	AMBANK HSE	NAIROBI	41	103	MOMBASA	MOMBASA
41	105	WESTLANDS	NAIROBI	41	106	THE JUNCTION BR.	NAIROBI
GIRO COMMERCIAL BANK (42)							
42	000	NAIROBI	NAIROBI	42	001	MOMBASA	MOMBASA
42	002	INDUSTRIAL AREA	NAIROBI	42	004	KISUMU BRANCH	KISUMU
42	005	WESTLANDS	NAIROBI				
AKIBA BANK (43)							
43	000	FEDHA BRANCH, HEAD OFFICE	NAIROBI	43	001	MOI AVENUE NAIROBI	NAIROBI
43	002	AKIBA HSE MOMBASA	MOMBASA	43	003	PLAZA 2000	NAIROBI
EQUATORIAL COMMERCIAL BANK (49)							
49	000	NAIROBI	NAIROBI	49	002	MOMBASA	MOMBASA
49	003	WESTLANDS	NAIROBI				

Bank Code	Branch Code	Branch Name	Town	Bank	Branch Code	Branch Code	Town Name
PARAMOUNT UNIVERSAL BANK (50)							
50	000	HEAD OFFICE	NAIROBI	50	001	WESTLANDS	NAIROBI
50	002	PARKLANDS	NAIROBI	50	003	KOINANGE STREET	NAIROBI
FINA BANK (53)							
53	001	HEAD OFFICE	NAIROBI	53	002	INDUSTRIAL AREA	NAIROBI
53	003	WESTLANDS	NAIROBI	53	004	LAVINGTON	NAIROBI
53	005	NKRUMAH ROAD	MOMBASA				
VICTORIA COMMERCIAL BANK (54)							
54	001	NAIROBI	NAIROBI	54	002	KISUMU	KISUMU
GUARDIAN BANK (55)							
55	001	HEAD OFFICE	NAIROBI	55	002	WESTLANDS	NAIROBI
55	003	MOMBASA	MOMBASA	55	004	ELDORET	ELDORET
55	005	KISUMU	KISUMU	55	006	MOI AVE	NAIROBI
I & M BANK (57)							
57	000	KENYATTA AVENUE	NAIROBI	57	001	2ND NONG AVENUE	NAIROBI
57	002	SARIT CENTRE	NAIROBI	57	003	HEAD OFFICE	NAIROBI
57	005	MOMBASA	MOMBASA	57	006	INDUSTRIAL AREA	NAIROBI
57	007	KISUMU	KISUMU	57	008	KAREN	NAIROBI
57	008	KAREN	NAIROBI				
SOUTHERN CREDIT CORPORATION (58)							
58	001	HEAD OFFICE	NAIROBI	58	002	MOMBASA	MOMBASA
58	003	CHESTER HSE	NAIROBI	58	005	KISUMU	KISUMU
58	006	IND AREA	NAIROBI	58	007	KAKAMEGA	KAKAMEGA
DEVELOPMENT BANK OF KENYA (59)							
59	000	HEAD OFFICE	NAIROBI	59	001	LOITA STREET	NAIROBI
FIDELITY COMMERCIAL BANK (60)							
60	001	HEADOFFICE	NAIROBI	60	002	WESTLANDS	NAIROBI
60	003	INDUSTRIAL AREA	NAIROBI				
DIAMOND TRUST BANK (63)							
63	000	HEAD OFFICE	NAIROBI	63	001	NATION CENTRE	NAIROBI
63	002	MOMBASA	MOMBASA	63	003	KISUMU	KISUMU
63	005	PARKLANDS	NAIROBI	63	008	MOMBASA RD	NAIROBI
CHARTERHOUSE BANK (64)							
64	000	LONGONOT PLACE - KIJABE STREET	NAIROBI	64	003	NGONG	NAIROBI
64	004	UHURU H/WAY	NAIROBI	64	005	WESTLANDS	NAIROBI
64	006	VILLAGE MARKET	NAIROBI	64	007	NYALI	MOMBASA
64	008	LIKONI	MOMBASA	64	009	MEGA CITY	KISUMU

Bank Code	Branch Code	Branch Name	Town	Bank	Branch Code	Branch Code	Town Name
EQUITY BANK (68)							
68	000	HEAD OFFICE	NAIROBI	68	001	CO-OPERATE	NAIROBI
68	002	FOURWAYS	NAIROBI	68	003	KANGEMA	KANGEMA
68	004	KARATINA	KARATINA	68	005	KIRIAINI	KIRIAINI
68	006	MURARANDI	MURARANDI	68	007	KANGARI	KANGARI
68	008	OTHAYA	OTHAYA	68	009	THIKA	NAIROBI
68	010	KERUGOYA	KERUGOYA	68	011	NYERI	NYERI
68	012	TOM MBOYA	NAIROBI	68	013	NAKURU	NAKURU
68	014	MERU	MERU	68	015	MAMA NGINA	NAIROBI
68	016	NYAHURURU	NYAHURURU	68	017	COMMUNITY	NAIROBI
68	018	PRESTIGE	NAIROBI	68	019	EMBU	EMBU
68	020	NAIVASHA	NAIVASHA	68	021	CHUKA	CHUKA
68	022	MURANGA	MURANGA	68	023	MOLO	MOLO
68	024	HARAMBEE AVENUE	NAIROBI	68	025	MOMBASA	MOMBASA
68	026	KIMATHI	NAIROBI				

FAMILY BANK (70)

70	035	FOURWAYS TOWERS CORP	NAIROBI	70	068	FOURWAYS TOWERS	
70	001	KIAMBU	KIAMBU	70	002	GITHUNGURI	GITHUNGURI
70	003	SONALUX	SONALUX	70	004	GATUNDU	GATUNDU
70	005	THIKA	THIKA	70	006	MURANGA	MURANGA
70	007	KANGARI	KANGARI	70	008	KIRIA-INI	KIRIA-INI
70	009	KANGEMA	KANGEMA	70	011	OTHAYA	OTHAYA
70	012	KENYATTA	KENYATTA	70	014	CARGEN	NAIROBI
70	018	NAKURU/Fin	NAKURU	70	019	NJORO	NAKURU
70	023	NYAHURURU	NYAHURURU	70	024	RUIRU	RUIRU
70	025	KISUMU	KISUMU	70	027	KISII	KISII
70	035	FOURWAYS	FOURWAYS	70	038	KTDA RETAIL	NAIROBI
70	041	KARIOBANGI	NAIROBI	70	043	GIKOMBA	NAIROBI
70	045	GITHURAI	NAIROBI	70	047	LIMURU	LIMURU
70	057	KERUGOYA	KERUGOYA	70	065	KTDA CORPORATE	NAIROBI
70	068	FOURWAYS CORPORATE	NAIROBI	70	073	MACHAKOS	MACHAKOS
70	075	EMBU	EMBU	70	077	BUNGOMA	BUNGOMA
70	079	BUSIA	BUSIA	70	083	MOLO	MOLO
70	085	ELDORET	ELDORET	70	093	KITALE	KITALE
70	095	MOMBASA	MOMBASA	70	096	SALAYANIS	MOMBASA
70	097	KAPSABET	ELDORET				

**Shares Registrar Office
KENCOR House
7th Floor
Moi Avenue
P.O. Box 48400-00100
Nairobi**