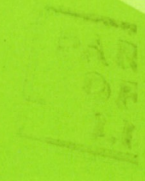
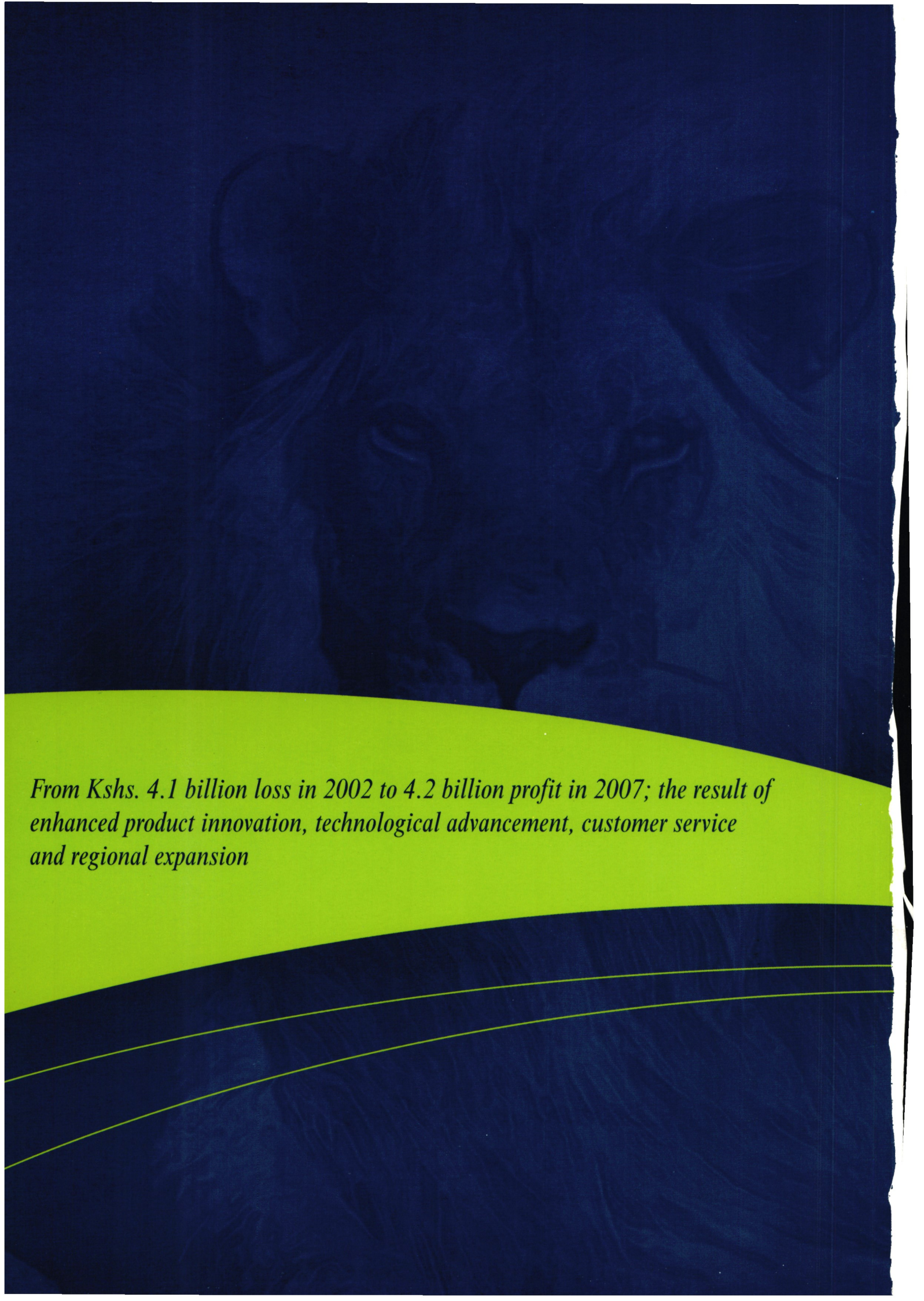




Kenya Tanzania Uganda Sudan





From Kshs. 4.1 billion loss in 2002 to 4.2 billion profit in 2007; the result of enhanced product innovation, technological advancement, customer service and regional expansion

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PRINCIPAL PLACE OF BUSINESS

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

REGISTERED OFFICES

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

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

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

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

SOLICITORS

Various
A list is available at the Bank

SECRETARY

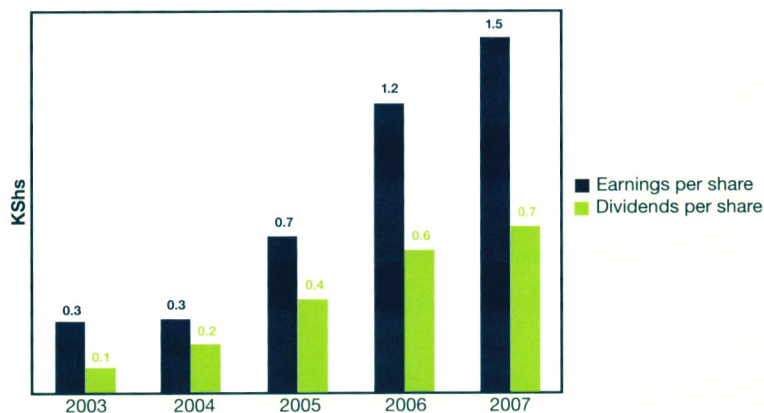
Mr. K.D. Malakwen
P. O. Box 48400
00100 Nairobi

AUDITORS

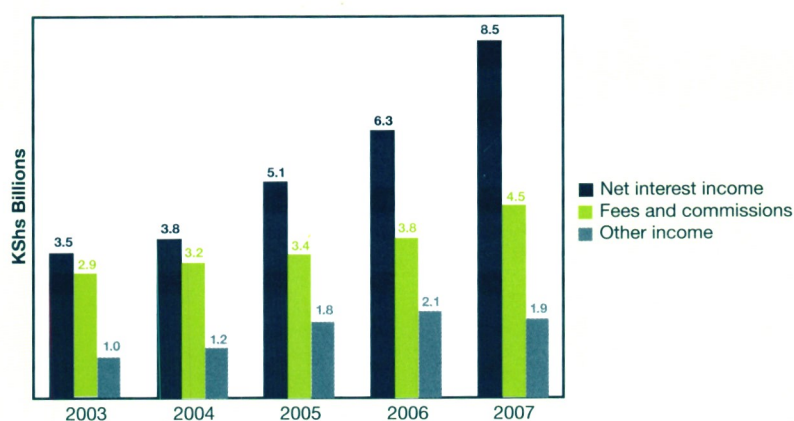
Ernst & Young
Kenya Re- Towers, Upperhill
Off Ragati Road
P. O. Box 44286
00100 Nairobi

FIVE YEAR PERFORMANCE ANALYSIS

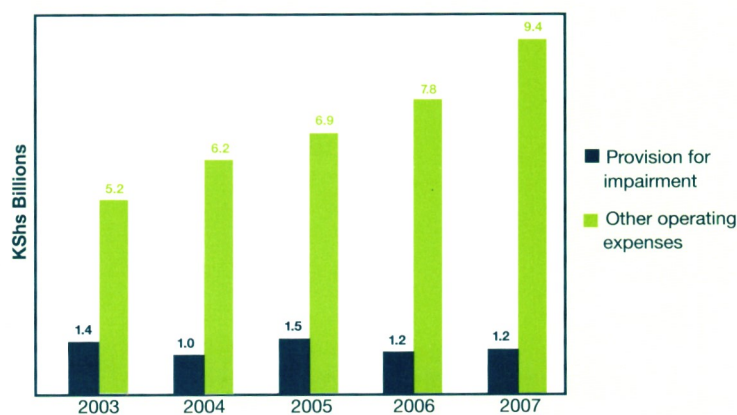
EARNINGS PER SHARE



INCOME GROWTH



EXPENSES



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%

FINANCIAL HIGHLIGHTS

KEY PERFORMANCE INDICATORS

Profit before taxation up by 33% to **4.2 billion**
2006 KShs. 3.2 billion

Operating income up by 22% to **14.8 billion**
2006 KShs 12.1 billion

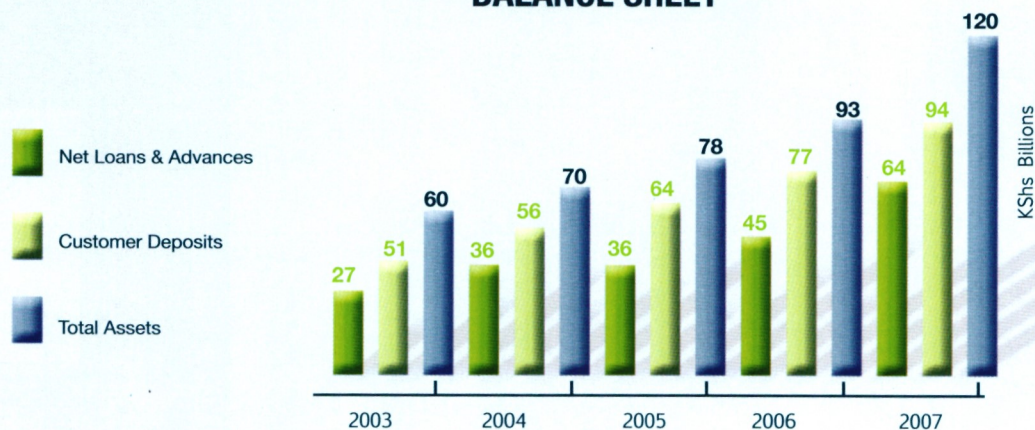
Net loans and advances up by 42% to **64.3 billion**
2006 KShs. 45.3 billion

Total assets growth by 30% to **120.5 billion**
2006 KShs. 92.5 billion

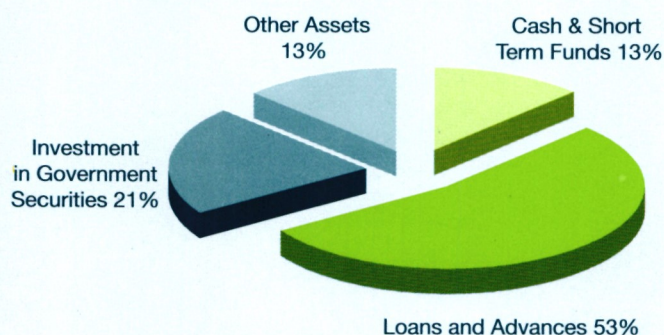
Customer deposits up by 22% to **94.4 billion**
2006 KShs. 77.2 billion

Branch network **145**
2006 branches 132

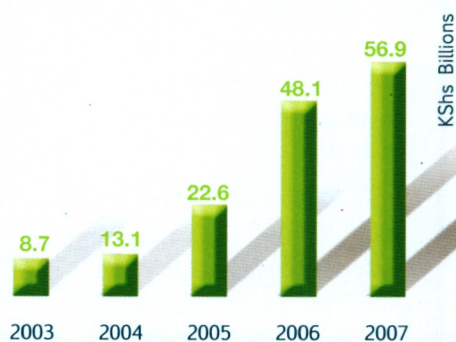
BALANCE SHEET



ASSETS DISTRIBUTION 2007



CAPITALIZATION



NOTICE OF THE 37TH ANNUAL GENERAL MEETING

Notice is hereby given that the 37th annual general meeting of THE KENYA COMMERCIAL BANK LIMITED will be held at the Main Gymnasium, Moi International Sports Centre, Thika Road, Nairobi, on Friday, 9th May 2008 at 11.00 a.m. when the following will be transacted, namely:-

AGENDA

1. CONSTITUTION OF THE MEETING

To read the notice convening the Meeting and determine if a quorum is present.

2. ORDINARY BUSINESS

a) Report of the Auditors

To read the Auditors' Report on the Consolidated Financial Statements for the year ended 31st December 2007.

b) Report and Financial Statements for the Year ended 31st December 2007

To receive and consider the Report of the Directors and Consolidated Financial Statements for the year ended 31st December, 2007 together with the auditors' report thereon.

c) Dividend

To declare a dividend.

d) Election of Directors

i) In accordance with Article 101 of the Company's Articles of Association, the Board appointed Mr. Samuel Njuguna Kimani to fill a casual vacancy on the Board. Being eligible, the said Samuel Njuguna Kimani, offers himself for re-election.

ii) In accordance with the Article 94 of the Company's Articles of Association, Mr. Joseph Kinyua, Mr. James Nairuti Koome and Mr. Joseph Isaac Adongo retire by rotation from office as Directors of the Company and, being eligible, offer themselves for re-election respectively.

e) Remuneration of Directors

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

f) Appointment of Auditors

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

g) Remuneration of the Auditors

To authorize Directors to fix the remuneration of the Auditors.

3. SPECIAL BUSINESS

a) Increase of Authorised Share Capital

To consider and, if found fit, to pass the following resolution as an ordinary resolution:

THAT the authorized share capital of the company be increased from Kenya Shillings Two Billion (KShs. 2,000,000,000) divided into Two Billion (2,000,000,000) Ordinary shares of Kenya Shillings one (KShs. 1) each to Kenya Shillings Two Billion Four Hundred Million (KShs. 2,400,000,000) by creation of Four Hundred Million new ordinary shares of Kenya Shillings one (KShs. 1) each ranking pari passu in all respects with the existing ordinary shares in the capital of the Company.

b) Rights Issue

To consider, and if found fit, to pass the following resolution as an ordinary resolution:

THAT subject to the passing of resolution 3(a) above, the Directors be and are hereby authorized and directed that Two Million ordinary shares of Kenya Shillings one (KShs. 1) each in the capital of the Company increased pursuant to the Resolution numbered 3(a) above, be offered subject to any required consent or authorization, including but not limited to the approval of the Capital Markets Authority, at a premium to be determined by the Directors, to and among the holders of the issued ordinary shares in Kenya Shillings one (KShs. 1) each in the capital of the Company registered at the close of business on such a date as shall be determined by the Directors, and notified to the members through press, in proportion to their respective holdings in the issued share capital of the Company, subject to the Articles of Association of the Company, upon such terms as the Directors shall think fit, and that the Directors be, and are hereby authorized generally to do and effect all acts and things required to give effect to the Resolution, and to deal with fractions in such manner as they think fit subject to the Articles of Association of the Company.

4. ANY OTHER BUSINESS

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

Dated at Nairobi this 28th Day of February, 2008

By Order of the Board



K.D. Malakwen
Secretary

Arifa imetolewa kwamba mkutano mkuu wa kila mwaka wa KENYA COMMERCIAL BANK LIMITED utafanywa katika ukumbi wa Gymnasium, Moi International Sports Centre, Thika Road, Nairobi, Ijumaa tarehe 9 mwezi Mei, 2008 saa tano asubuhi kujadili yafuatayo:

AJENDA

1. KUJUMUIKA KWA MKUTANO

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

2. SHUGHULI ZA KAWAIDA

a) Ripoti ya wahasibu

Kusoma ripoti ya wahasibu kuhusu taarifa ya jumla ya hesabu ya pesa kwa mwaka uliomalizika tarehe 31 Desemba mwaka wa 2007.

b) Ripoti na taarifa ya kifedha kwa mwaka uliomalizika tarehe 31 Desemba mwaka wa 2007.

Kupokea na kujadili ripoti ya wakurugenzi na taarifa za jumla za fedha kwa mwaka uliomalizika tarehe 31 Desemba mwaka wa 2007, pamoja na ripoti ya wakaguzi wa hesabu.

c) Mgao wa faida

Kutangazwa kwa mgao wa faida.

d) Uchaguzi wa wakurugenzi

- i) Kwa mujibu wa kifungu 101 cha sheria za Kampuni, Halmashauri ilimteua Bw. Samuel Njuguna Kimani kujaza nafasi ya muda katika Halmashauri. Kwa vile anastahili, Bw. Samuel Njuguna Kimani anajitolea kuchaguliwa tena.
- ii) Kwa mujibu wa kifungu 94 cha sheria za Kampuni, Bw. Joseph Kinyua, Bw. James Nairuti Koome na Bw. Joseph Isaac Odongo wanastaafu kwa zamu kama Wakurugenzi wa Kampuni na kwa vile wanastahili wanajitolea kuchaguliwa tena.

e) Malipo ya Wakurugenzi

Kuidhinisha Halmashauri ya Wakurugenzi kuweka viwango vya malipo ya Wakurugenzi.

f) Uteuzi wa wahasibu

Kuteua tena kampuni ya Ernst & Young, wahasibu walioidhinishwa, kama wakaguzi wa hesabu wa kampuni ya KCB hadi kumalizika kwa mkutano mkuu wa mwaka ujao.

g) Malipo ya wahasibu

Kuidhinisha Halmashauri ya wakurugenzi kuweka viwango vya malipo ya wahasibu.

3. SHUGHULI MAALUM

a) Ongezeko la mtaji wa hisa ulioidhinishwa

Kujadili na inaponelewa kwamba inafaa, kupitisha azimio linalofuata kama azimio la kawaida:

Kwamba mtaji wa hisa wa kampuni ulioidhinishwa uongezwe kutoka Shilingi bilioni mbili (Shilingi 2,000,000,000) hadi Shilingi bilioni mbili na milioni mia nne (Shilingi 2,400,000,000) kwa kubuni hisa mpya za kawaida milioni mia nne za Shilingi moja kila hisa ambazo zitakuwa sambamba na hisa nyinginezo za Kampuni.

b) Mauzo ya hisa

Kutafakari na inaponelewa inafaa, kupitisha azimio linalofuata kama azimio la kawaida:

Kwamba kutegemea kupitishwa kwa azimio 3(a) Wakurugenzi wameidhinishwa na kuagizwa kwamba hisa milioni mbili za kawaida za Shilingi moja kila moja katika mtaji wa kampuni kutolewa kutegemea idhini inayohitajika, ikiwa ni pamoja idhini ya Halmashauri ya Mauzo ya Hisa, kwa bei itakayoamuliwa na wakurugenzi kwa wenye hisa za kawaida za Shilingi moja kila moja kwa mtaji wa kampuni utakaosajiliwa mwishoni mwa shughuli hiyo katika tarehe ambayo itaamuliwa na Wakurugenzi, na kujulishwa kwa wanachama kupitia vyombo vya habari, kwa uwiano wa hisa walizo nazo katika Kampuni, kuambatana na sheria za makampuni, kuambatana na masharti ambayo yatawekwa na wakurugenzi na kwamba Wakurugenzi wameidhinishwa kutekeleza yote yanayowekezana kutekeleza katika azimio hilo, na kushughulikia hali yoyote ya mgawanyiko kuambatana na sheria za makampuni.

4. SHUGHULI NYINGINE YOYOTE

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

Tarehe 28, Mwezi Februari 2008, Nairobi

Kwa Amri ya Wakurugenzi

K.D.Malakwen
Katibu

BOARD OF DIRECTORS



Standing: left to right - Samuel Kimani, Peter Kimuyu, Sunil Shah, Joseph Adongo, James Koome, Susan Omanga, Peter Muthoka, Catherine Kimura

Seated: left to right- Martin Oduor-Otieno, Susan Mudhune, Joseph Kinyua

CHAIRMAN

Susan Mudhune, MBS (Age 58)

Joined the Board in May, 2001 and became Chairman of the Board in April, 2003. Holds a Bachelor of Arts Degree in Education and an MBA. 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 also the Chairman of KCB (U) and KCB (S).

DIRECTOR

Joseph Kinyua, CBS (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.

DIRECTOR

Sunil Shah, (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.

DIRECTOR

Prof. Peter Kimuyu, (Age 57)

Joined the Board in June 2006. Holds a PhD in Economics from University of Nairobi. He is currently Professor of Economics, Founder Director School of Economics at Nairobi University and Chairman, Board of Directors of the Export Promotion Council.

BOARD OF DIRECTORS *continued*

DIRECTOR

Catherine Kimura, (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. Chairman of the Bank's Human Resources and Remuneration Committee. She is also a Director of KCB (U).

DIRECTOR

Peter W Muthoka, MBS (Age 64)

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 served in senior positions with GOK/UN, Central Bank of Kenya and Export Promotion Council of Kenya. A Fellow of Kenya Institute of Bankers (FKIB) and Chairman of the Bank's Audit Committee. He is also a Director of KCB (TZ).

DIRECTOR

Susan Omanga, (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.

DIRECTOR

James N. Koome, (Age 56)

Joined the Board in June 2005. Holds a Post Graduate Diploma in International Marketing & Trade. Currently the Managing Director of Coomes Group Ltd. Held senior management positions at Unga Group Ltd before retiring 11 years ago. He is also a Director of KCB (S).

DIRECTOR

Joseph I. Adongo, (Age 54)

Joined the Board in June 2005. Holds a 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.

CHIEF EXECUTIVE OFFICER

Martin Oduor-Otieno, (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).

DEPUTY CEO, GROUP CONTROLS

Samuel Kimani, (Age 46)

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

DIRECTORS OF SUBSIDIARIES



Standing: left to right -

James Agin, Daniel Mavindu, Leo Onek, Rupin Rajani, Samwiri Njuki, Janet Mbene, Heri Bomani, Wangui Ngatia, Jeremiah Ndetto

Seated: left to right-

Joseph S Muiru, Peter Munyiri

DIRECTOR KCB (TZ)

Rupin Rajani, (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.

DIRECTOR S&L

Eng. Jeremiah Ndetto, (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 Procurement Committee upto 30th June 2007.

CHAIRMAN S&L

Joseph S Muiru, (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.

MD S&L

Wangui Ngatia, (Age 54)

Joined KCB in January 1978. Holds a Bachelor of Arts degree from the University of Nairobi.

MD KCB (S)

Daniel Mavindu, (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.

DIRECTOR KCB (S)

Dr. Leo Onek, (Age 55)

Joined the Board in 2006. Holds a PHD in Biochemistry from Lancaster University.

CHAIRMAN KCB (TZ)

Janet Mbene, (Age 56)

Joined the Board in May 2006. Holds Masters Degree in Economics from University of New England, Armidale New South Wales, Australia.

MD KCB (TZ)

Heri Bomani, (Age 37)

Joined KCB (T) in April 2006. Holds a Bachelor of Science Degree in Economics (Banking & Finance) from the University of Wales. Previously worked for Standard Chartered Bank Tanzania Limited as Executive Director, Consumer Banking.

MD KCB (U)

James Agin, (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 the UK and he is also pursuing an MBA Programme. Prior to this appointment, Mr. Agin was an Executive Director at Barclays Bank Uganda Ltd.

DIRECTOR KCB (U)

Samwiri Njuki, (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.

DEPUTY CEO, GROUP BUSINESSES

Peter Munyiri, (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. He is a Director of S&L, KCB (TZ), KCB (U) and KCB (S).

KCB EXECUTIVE COMMITTEE



- 1 **FRED MUTISO**, *Divisional Director: Finance & Strategy*
- 2 **DR. TONY GITHUKU**, *Divisional Director: IT & Operations*
- 3 **KIPROP MALAKWEN**, *Company Secretary*
- 4 **WILFRED SANG**, *Divisional Director: Credit*
- 5 **STANLEY TOWETT**, *Divisional Director: Audit*
- 6 **TIMOTHY KABIRU**, *Divisional Director: Treasury*
- 7 **JOHN MARK WANDOLO**, *Divisional Director: Corporate*
- 8 **KEPHA BOSIRE**, *Head of Corporate Affairs*
- 9 **CATHERINE NJOROGE**, *Divisional Director: Retail*
- 10 **MARY ANN KIRUBI**, *Divisional Director: Marketing*
- 11 **ROSE KINUTHIA**, *Chief Risk Officer*



The KCB Group registered a 33% growth in profitability, moving from KShs 3.2 billion in pretax profit in 2006 to KShs 4.2 billion.

Susan Mudhune, Chairman

SHAREHOLDERS

I am pleased to present to you the Annual Report and Financial Statements for the year ended 31 December 2007. This was a very good year for us as it reflected the ongoing growth momentum for the business and witnessed real progress towards establishing KCB as a strong regional bank with further expansion into the East African Market.

On the financials, your business reported a 33% increase in profit before tax to KShs4.2 billion up from KShs3.2 billion in 2006. These impressive results not only reflect stakeholder confidence in the business, and good leadership at Board and Management level but also confirm the competitiveness of our products and services in the market.

The ongoing good performance in the business has impacted positively on the price movement of your shares at the Nairobi Stock Exchange which have traded on average between KShs24 and KShs28.50 in the course of the year. In recognizing the potential of the business, the market has continued to trade heavily in KCB shares and shareholders have no doubt benefited from the resultant capital gain.

THE OPERATING ENVIRONMENT

KCB's good performance was achieved against the background of a thriving economy. Real Gross Domestic Product is estimated to have expanded by 6.5% in 2007 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.

This growth will considerably slow down in 2008 due to the impact of post-election violence which has painted a grim picture of the operating environment and delayed implementation of crucial investment decisions due to uncertainty. High fuel prices with the attendant inflationary pressures have negatively impacted on the economic outlook whereas the deteriorating terms of trade arising from volatile oil prices in the international market and high prices of imported inputs may continue to affect the economy.

The Consumer Price Index (CPI) increased by 8.7% from 220.7 points in January 2007 to 239.8 points at the end of December 2007. The overall annual average inflation rate, however, declined to 9.8% in 2007 from 14.5% in 2006. But the month-on-month overall inflation rate accelerated to 12.2% in December 2007 from 9.7% in January 2007 while the overall underlying inflation edged up to 5.9% compared to 4.33% at the end of 2006. The pick up reflected the impact of higher prices in most categories of the CPI. The outlook on inflation will depend on movements in food and oil prices and the strength of the Kenya Shilling. Available data indicate that the post-election crisis has already significantly aggravated prices of basic consumer items occasioned by disruption of supply networks.

Following the Treasury's ongoing strict monetary policy management, short term interest rates remained stable operating within a narrow range of between 6.0% and 8.5% during the year. The benchmark 91-day Treasury Bills rate rose steadily, starting at 6.0% in January 2007, to a high of 7.5% in November before declining to 6.9% in December 2007. The 182-day Treasury Bills rate which



KCB KAMPALA

Outside view of the bank.

was recorded at 7.4% in December 2006 increased to a peak of 8.6% in February 2007, before declining to 7.8% at the end of the year. The Inter-bank rate over the same period increased from 6.3% at the end of 2006 to 7.0% in December 2007. Sustained interest rates stability remained crucial to continued investment plans.

THE FINANCIAL MARKETS

The Kenya Shilling made significant gains against major World currencies recording the lowest exchange rates ever compared to previous years. The shilling strengthened against the US dollar, the Sterling Pound and the Euro in December 2007 to KShs62.50, KShs124.80 and KShs89.90 compared to KShs69.40, KShs136.30 and KShs91.40 in December 2006, respectively. The appreciation of the shilling reflected increased foreign currency inflows during the year. These gains have been scuttled by post-election violence resulting in depreciation of the domestic currency. In the medium term, the shilling is expected to trade at weaker levels against other world currencies.

Trading at the stock market registered declining trends associated with uncertainty among investors during the election year. The NSE 20-share Index declined by 4% from 5,645.7 points in December, 2006 to 5,444.8 points in December, 2007. Total market capitalization however, increased from KShs792 billion at the end of 2006 to KShs851 billion. The total value of shares traded at NSE declined by 7% from KShs95 billion at the end of 2006 to KShs89 billion in 2007 but the total number of shares traded increased significantly compared to previous years.

The KCB share which following the share split was trading at KShs24 climbed to close year 2007 at KShs28.50. Total market capitalization increased to KShs56.9 billion in 2007 from KShs48.1 billion in 2006. The increase reflected the impact of improved share price and the large number of issued shares. As a result of the split, the number of issued

shares increased from 199.6 million shares to 1,996 million shares.

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 KShs760 billion in 2006 to KShs910 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, improved asset quality and capital adequacy ratios, as well as increase in the sector's overall profitability.

REGIONAL EXPANSION AND SUBSIDIARIES

In order to become a regional bank, the Board approved establishment of a subsidiary in Uganda and its first branch began operations late November in Kampala. The market has welcomed the new business very well and Board has further agreed to Management plans to accelerate branch expansion there.

Other regional businesses are showing great promise and plans are in place to increase our footprint in Southern Sudan where we plan to open four new branches in 2008 and Tanzania where an aggressive branch expansion is underway to open 20 new branches over the next two years. KCB-U is expected to grow to six branches in 2008.

On performance, the subsidiaries together returned profit before tax of KShs363 million in spite of marginal profit for KCB-T of KShs0.2 million, and a loss of KShs49.2 million attributable to KCB-U in respect of set-up costs. S&L continued to do well with its profitability doubling over the period from KShs130 million in 2006 to KShs277 million

DONATION

KCB staff donate educational material to children of Good Samaritan Children's Home, Huruma during a past Community Week.



in 2007. The country's leading mortgage finance provider plans to expand its offering into the regional market within 2008 and we believe with its strong presence in the Kenyan Market it will perform even better in 2008.

The Board has given the green light to Management to review the Rwandan market and make recommendations as to how we can venture there. Like the Ugandan market, we expect high levels of business acceptability, a factor we want to capitalize on to set up a successful subsidiary there.

CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

The Board and Management of KCB are guided by Global Best Practice in leading the business to greater heights of prosperity and regularly review the systems and structures that govern our operations to minimize risks and benefit from improved efficiencies. Last year KCB became the first bank in Kenya to establish the position of the Chief Risk Officer to oversee enterprise-wide risk management and set up risk focused business units to manage operational, market, credit and reputation risks. This is in line with new Central Bank of Kenya prudential guidelines. Plans are in place to commence implementation of Basel II risk management framework. A Board Risk Committee is now in place to provide overall leadership in this area.

Board and Management held their annual Team-building and Strategic Planning retreat last year to share best practice and chart the way to the future for the bank. A blueprint to make KCB the best bank in the region is in place and results of this would be realized in the coming years.

KCB has joined a small number of companies in Kenya who have set up a body to manage community social development initiatives by registering the KCB Foundation. The Foundation, now operational, will receive funding

from the bank and channel it to meet needs of deserving communities across the region. An initial amount of KShs60 million per year has been agreed upon by the Board but will be reviewed from time to time based on business performance and the extent of community needs. A Board of Trustees has been appointed to oversee the operations of the Foundation.

In order to enhance stakeholder confidence in the business, the Bank has commenced a sustainability management and reporting process. The exercise will yield the first report on the sustainability of the business in 2008 and be followed by remedial programmes in line with the current Global Reporting Initiative (GRI) guidelines as the bank pursues compliance with global sustainable management principles.

BOARD CHANGES

Former Chief Executive, Terry Davidson, left the Board of KCB Group upon expiry of his tenure at the helm of the organization. He was succeeded by Martin Oduor-Otieno who subsequently assumed Davidson's place in the Board.

Samuel Kimani, who is the Deputy Chief Executive in charge of Group Controls has also been appointed to the Board to occupy the second Executive slot in the Board following Oduor-Otieno's elevation.

In order to enhance the governance of the subsidiaries and create better accountability, the Board resolved that the Chairman of the Group Board cede chairmanship in subsidiaries while retaining membership in the respective boards. Consequently, Mrs Janet Mbene and Mr Joshua Muiru, became chairmen of the boards of KCB-T and S&L, respectively. Further, Peter Munyiri, who is the Deputy Chief Executive in charge of Group Businesses, has joined the boards of subsidiaries as a member.



KCB ADVANTAGE

KCB Customers interact outside the newly launched KCB Advantage Banking outlet located along Aga Khan Walk.

DIVIDENDS

In line with the ongoing good performance of the business, the Board recommends an increased first and final dividend payout of KShs0.70 (70 Cents) per share held which is 17% higher than the KShs6 per share held paid out last year before the 10-for-1 split of shares.

Going forward, however, it may become necessary to review our dividend policy in the medium term in view of our ongoing local and regional expansion as we would need to progressively increase our capital to support the business through retention of earnings.

SHARE SPLIT AND RIGHTS ISSUE 2008

Following shareholder approval for the splitting of your shares in 2007 in the ratio of 10 for every 1 held, the exercise was successfully concluded and resultant shares deposited in the respective accounts of shareholders last June. This has reinvigorated activity at the KCB counter of the Nairobi Stock Exchange with the KCB share being the most liquid among the top 20 stocks listed.

Due to the successful expansion of the business into the region, our capital base has begun to experience pressure as business requirements grow. In order to support this growth and enhance shareholder value, we need to inject additional funds into our capital base. The Board has approved a Management proposal to raise the requisite funds through a rights issue and will formally apply for approvals from regulatory bodies subject to your approval at the 2008 AGM on May 9.

In the interim, Management has commenced due process in preparation for the capital raising exercise.

FUTURE OUTLOOK

In spite of uncertainty in the economy caused by the post-election political crisis the future of the bank looks promising. The ongoing network expansion in Kenya, regular review of products and services and the entrenchment of a sales culture in the business means we can successfully pursue our goals in the competitive regional market to the benefit of our shareholders. The Nation is optimistic that with the new arrangement of a Coalition Government, economic activities will once again kick off countrywide.

We have in place a five-year strategic plan to take the business forward covering essential areas such as financial targets, business expansion, product innovation, human development and technological advancement. We review and refresh this plan every year to ensure it reflects the business realities and economic circumstances of the time and are confident that we will achieve our business objectives on the platform of this plan.

I want to thank the Board for giving me immense support during the year as we continued to provide counsel to the business. Without their commitment and selflessness we would not have surmounted the challenges of 2007. I am also grateful to Management and Staff for putting in so much effort in realizing this impressive performance.

The success of the bank would not be possible without the continued backing of our customers and other stakeholders. On behalf of the Board of Directors, I wish to extend our gratitude for their continued support and confidence in your Bank. To our shareholders, I would like to say that we owe the success of this business to your unwavering support and assure you that we will always endeavour to make KCB the best bank in the region.

Thank you.



KCB ilikuwa na ukuaji wa faida wa asili mia 33 kabla ya kodi kufikia shilingi bilioni 4.2 kutoka shilingi bilioni 3.2 mwaka wa 2006

Susan Mudhune,
Mwenyekiti

WANAHISA

Nina furaha kuwasilisha ripoti ya mwaka na taarifa za kifedha kwa mwaka uliomalizika tarehe 31 Desemba 2007. Huu ulikuwa ni mwaka wa mafanikio kwetu kwani uliakisi kasi ya ukuaji ya biashara na kuonyesha maendeleo halisi kuhusu ustawi wa KCB kama benki imara katika kanda kukiwa na upanuzi zaidi katika soko la Afrika Mashariki.

Kifedha, biashara yenu ilikuwa na ukuaji wa faida wa asili mia 33 kabla ya kodi kufikia shilingi bilioni 4.2 kutoka shilingi bilioni 3.2 mwaka wa 2006. Matokeo haya ya kufurahisha sio tu kwamba yanaakisi imani ya mshirika katika biashara, na uongozi bora katika kiwango cha Halmashauri na Usimamizi, lakini pia ni dhahirisho la ubora wa mipango yetu na huduma katika soko.

Maendeleo bora katika biashara ambayo yanaendelea kuonekana yamekuwa na athari chanya katika bei ya hisa zenu kwenye Soko la Hisa la Nairobi ambazo zimekuwa zikiuzwa na kununuliwa kwa wastani wa shilingi 24 na 28.50 katika kipindi cha mwaka. Kwa kutambua uwezo wa biashara, soko limeendelea kuza na kununua kwa wingi hisa za KCB na bila shaka wanahisa wamenufaika kutokana na kuimarika kwa mtaji.

MAZINGIRA YA KIBIASHARA

Ufanisi bora wa KCB ulitokana na ukuaji bora wa uchumi. Pato halisi la ndani linakadiriwa lilikuwa kwa asili mia 6.5 mwaka wa 2007 ikilinganishwa na asili mia 5.8 mwaka wa 2006 kutokana na mazingira bora ya uchumi yaliyopelekewa na ufanisi wa sekta za Utalii, Nyumba na Ujenzi, Usafiri na Mawasiliano na Utengenezaji wa bidhaa. Pamoja na hayo, hali bora ya masoko ya kifedha iliendelea kuimarisha upatikanaji wa mikopo na kuimarika kwa viwango vya fedha kwenye akaunti hali ambayo iliimarisha shughuli za kiuchumi.

Ukuaji huu utapungua kwa kiasi kikubwa mwaka wa 2008 kutokana na athari za vurugu za baada ya uchaguzi ambazo zimesababisha mazingira ya sintofahamu kibiashara na kuchelewesha utekelezaji wa maamuzi muhimu kutokana na hali isiyotabirika. Bei ya juu ya mafuta na shinikizo za mfumuko wa bei vimekuwa na athari hasi kwa mtazamo wa uchumi wakati ambapo kupungua kwa biashara kutokana na bei ya mafuta isiyotabirika katika soko la kimataifa na bei za juu za pembejeo kutoka nje huenda vitaendelea kuathiri uchumi.

Kigezo cha bei ya mnunuzi, kiliongezeka kwa asili mia 8.7 kutoka alama 220.7 mwezi Januari mwaka wa 2007 hadi alama 239.8 mwishoni mwa Desemba mwaka wa 2007. Kwa ujumla kiwango cha mfumuko wa bei kwa mwaka, hata hivyo, kilipungua kwa asili mia 9.8 mwaka wa 2007 kutoka asili mia 14.5 mwaka wa 2006. Lakini kwa ujumla kiwango cha mfumuko wa bei cha mwezi hadi mwezi kiliongezeka na kufikia asili mia 12.2 mwezi Desemba 2007 kutoka asili mia 9.7 mwezi Januari 2007 huku mfumuko wa bei kwa jumla ukiongezeka hadi asili mia 5.9 ikilinganishwa na asili mia 4.33 mwishoni mwa mwaka wa 2006. Ongezeko hilo liliakisi athari ya bei za juu katika viwango vingi vya kigezo cha mnunuzi. Mtazamo kuhusu mfumuko wa bei utategemea usafirishaji wa chakula na bei za mafuta na uthabiti wa Shilingi ya Kenya. Takwim zilizoko zinaonyesha kwamba machafuko ya baada ya uchaguzi tayari yamepelekea ongezeko la bei za bidhaa za kimsingi kulikosababishwa na kutatizwa kwa mfumo wa ugavi. Kufuatia hatua inayoendelea ya wizara ya Hazina ya kusimamia kwa uthabiti sera ya fedha, viwango vya riba vya muda mfupi vilibakia thabiti kwenye mkondo wa kati ya asili mia 6.0 na 8.5 mwaka wa 2007. Kigezo cha hati za dhamana za siku 91 kiliimarika kuanzia asili mia 6.0 mwezi Januari mwaka wa 2007, hadi kiwango cha juu cha asili mia 7.5 mwezi Novemba kabla ya kupungua hadi asili mia 6.9 mwishoni mwa mwaka.



KCB JUBA

Outside view of KCB Juba branch.

Viwango vya riba baina ya mabanki katika kipindi hicho viliongezeka kutoka asili mia 6.3 mwishoni mwa 2006 hadi asili mia 7.0 mwezi Desemba 2007. Viwango vya riba vilivyodumishwa viliendelea kuwa muhimu katika mipango ya uwekezaji.

MASOKO YA KIFEDHA

Shilingi ya Kenya ilikuwa na imariko kuu dhidi ya sarafu muhimu za kimataifa na kuwa na viwango vya chini zaidi vya ubadilishanaji ikilinganishwa na miaka iliyotangulia. Shilingi iliimarika dhidi ya Dola ya Marekani, Pauni ya Uingereza na Euro mwezi Desemba mwaka wa 2007 hadi Shilingi 62.50, Shilingi 124.80 na Shilingi 89.90 kulinganishwa na Shilingi 69.40, Shilingi 136.30 na Shilingi 91.40 mwezi Desemba mwaka wa 2006 mtawalia. Kuimarika kwa Shilingi kuliakisi kuingia kwa fedha za kigeni katika kipindi cha mwaka huo. Ufanisi huu umedhoofishwa na ghasia za baada ya uchaguzi na kupelekea kudidimia kwa thamani ya Shilingi.

Biashara katika Soko la Hisa ilionyesha viwango vya chini kutokana na hali ya sintofahamu miongoni mwa wawekezaji wakati wa mwaka wa uchaguzi. Kigezo cha kampuni bora 20 katika soko la Hisa la Nairobi kilipungua kwa asili mia 4 kutoka alama 5,645.7 mwezi Desemba, 2006 hadi alama 5,444.8 mwezi Desemba 2007. Hata hivyo mtaji wa jumla wa soko hilo uliongezeka kutoka Shilingi bilioni 792 mwishoni mwa 2006 hadi Shilingi bilioni 851. Thamani ya jumla ya hisa zilizouzwa katika soko la Hisa la Nairobi ilipungua kwa asili mia 7 kutoka Shilingi bilioni 95 mwishoni mwa mwaka wa 2006 hadi Shilingi bilioni 89 mwaka wa 2007, lakini jumla ya hisa zilizouzwa ziliongezeka kwa kiasi kikubwa ikilinganishwa na miaka iliyotangulia.

Hisa za KCB ambazo kufuatia gawanyiko zilikuwa zikiuzwa kwa shilingi 24 ziliimarika na kufikia shilingi 28.50. Mtaji wa jumla uliongezeka hadi shilingi bilioni 56.9 mwaka wa 2007 kutoka shilingi bilioni 48.1 mwaka wa 2006. Ongezeko hili lilikuwa linaakisi shinikizo la kuimarika kwa bei ya hisa na kiasi kikubwa cha hisa zilizotolewa. Kutoka na gawanyo hilo, hisa zilizotolewa ziliongezeka kutoka hisa milioni 199.6 hadi hisa milioni 1,996.

Kuambatana na imariko la uchumi, sekta ya benki iliendelea kuonyesha ukuaji bora mwaka wa 2007. Wakati wa kipindi hicho, mali za sekta hiyo ziliongezeka kutoka kiwango kikubwa cha shilingi bilioni 760 mwaka wa 2006 hadi shilingi bilioni 910 mwaka wa 2007. Hii hasa ilitokana na ongezeko la fedha kwenye akaunti, mtaji wa ziada pamoja na hifadhi ya faida iliyotoa nafasi zaidi ya uwekezaji katika hati za dhamana za serikali na ukopeshaji.

Aidha kulikuwa na imariko la jumla la mikopo iliyolipwa huku visa vya kutolipwa kwa mikopo vikipungua, ongezeko la thamani ya mali na toshelezo la uwiano wa mtaji pamoja na kuimarika kwa faida katika sekta kwa jumla.

UPANUZI WA MAENEO NA MASHIRIKA

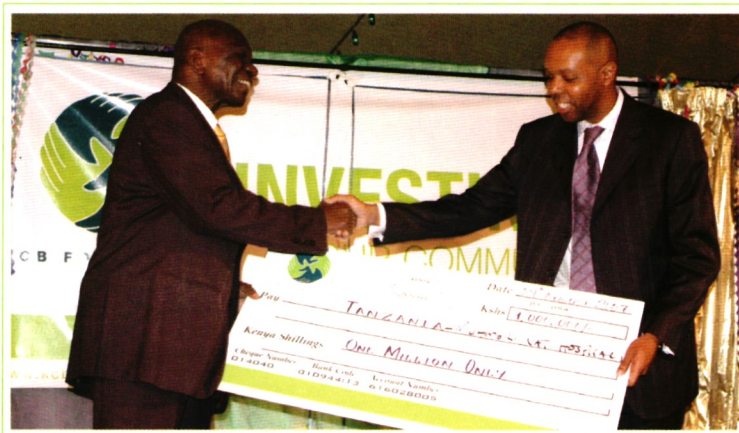
Ili tuwe benki ya kanda, Halmashauri iliidhinisha kuanzishwa kwa tawi la benki nchini Uganda na ikaanza shughuli zake mwishoni mwa mwezi Novemba mjini Kampala. Soko limepokea vyema biashara hiyo mpya na Halmashauri imekubaliana na mipango ya Usimamizi ya kuongeza matawi zaidi nchini humo.

Matawi mengine ya kanda yanaonyesha dalili njema na kuna mipango ya kuongeza huduma zaidi Kusini mwa Sudani ambapo tuna mipango ya kufungua matawi manne zaidi mwaka wa 2008 na Tanzania ambapo kuna mipango ya kuongeza matawi 20 zaidi katika muda wa miaka miwili ijayo. KCB-U inatarajia kuwa na matawi sita mwaka wa 2008.

Kwa ujumla, matawi hayo ya benki kwa pamoja yalikuwa na faida ya shilingi milioni 363 kabla ya kodi licha ya faida kiasi kutoka KCB-T (Shilingi milioni 0.2) na hasara ya shilingi milioni 49.2 kutoka KCB-U kutokana na gharama za kuianzisha. Shirika la S&L liliendelea kuimarika huku faida yake ikiongezeka maradufu wakati wa kipindi hicho kutoka shilingi milioni 130 mwaka wa 2006 hadi shilingi milioni 277 mwaka wa 2007. Shirika hili ambalo linaongoza kwa utoaji wa mikopo ya ujenzi wa nyumba nchini lina mipango wa kupanua huduma zake katika mataifa ya kanda ndani ya mwaka wa 2008 na tunaamini kwa kuwa lina ushindani

KCB FOUNDATION

Former Vice President, Hon. Moody Awori, hands over a KShs. 1 million sponsorship cheque to KCB(T) Managing Director, Heri Bomani during the launch of the KCB Foundation.



bora katika soko la Kenya litakuwa na ufanisi zaidi mwaka wa 2008.

Halmashauri imeukubalia usimamizi kuchunguza upya soko la Rwanda na kutoa mapendekezo jinsi tunavyoweza kuanzisha biashara nchini humo.

Sawia na soko la Uganda, tunatarajia viwango vya juu vya biashara na kukubalika, kigezo ambacho tunataka kutumia kuanzisha tawi lenye ufanisi nchini humo.

MAONGOZI NA WAJIBU KWA JAMII

Halmashauri na Usimamizi wa KCB wanaongozwa namaadili bora ya dunia katika kuendelea biashara kufikia viwango vya juu vya ufanisi na mara kwa mara wanachunguza upya mifumo na miundo ambayo inaongoza shughuli zetu ili kupunguza athari na kunufaika kutokana na utendaji bora. Mwaka jana KCB ilikuwa benki ya kwanza ya Kenya kuanzisha cheo cha Afisa anayehusika na Athari, kubuni na kusimamia vitengo vya kudhibiti shughuli, masoko, mikopo na dosari kwa benki. Hii ni kuambatana na muongozo mpya thabiti wa Benki Kuu ya Kenya. Mipango imo mbioni ya kutekeleza mfumo wa usimamizi wa Basel II. Kamati ya Halmashauri ya Athari sasa imebuniwa kutoa muongozo katika nyanja hii.

Halmashauri na Usimamizi walifanya mkutano wao wa mwaka wa Mshikamano wa Kikazi na Mpango wa Mikakati mwaka jana kubadilishana tajiriba na kupanga mwelekeo kwa hali ya baadaye ya benki. Mpango wa kuifanya KCB benki bora zaidi katika kanda hii imeandaliwa na ufanisi wa shughuli hii utabainika katika miaka inayokuja.

KCB imejiunga na makampuni kadhaa madogo nchini Kenya ambayo yameanzisha kundi la kushughulikia mipango ya maendeleo ya kijamii kwa kuunda Wakfu wa KCB. Wakfu huu ambao umeanza kazi yake, utafadhiliwa na benki na kuzitoa kutosheleza mahitaji ya jamii zinazositahili kote katika kanda. Kiasi cha awali cha shilingi milioni 60 kwa mwaka kimekubaliwa na Halmashauri, lakini kitachunguzwa mara kwa mara kuambatana na utendaji wa biashara na kiasi cha mahitaji ya jamii. Halmashauri ya

wasimamizi imebuniwa kuelekeza shughuli za Wakfu huo.

Ili kuimarisha imani ya mwanahisa katika biashara, Benki imeanzisha mpango wa kudumu wa usimamizi na utoaji wa taarifa. Shughuli hiyo itatoa ripoti ya kwanza kuhusu uendeleu wa biashara mwaka wa 2008 na kufuatiwa na mipango ya marekebisho sambamba na muongozo wa mpango wa Dunia wa kutoa Ripoti, GRI, huku benki inapotafuta kuafiki kanuni za kimataifa za kuendeleza usimamizi.

MABADILIKOYA HALMASHAURI

Mkurugenzi Mkuu wa zamani, Terry Davidson, aliondoka kwenye Halmashauri ya kampuni ya KCB baada ya kumalizika kwa muda wake wa kuhudumu akiwa kinara wa kampuni.

Nafasi yake ilitwaliwa na Martin Oduor-Otieno ambaye hatimaye alichukua nafasi ya Davidson kwenye Halmashauri.

Samuel Kimani ambaye ni naibu wa mkurugenzi mkuu anayesimamia uthibiti wa kampuni pia ameteuliwa kwenye Halmashauri kuchukua nafasi ya pili kuu katika Halmashauri kufuatia kupandishwa cheo kwa Oduor-Otieno.

Ili kuboresha usimamizi wa matawi na kubuni uwajibikaji bora zaidi, Halmashauri iliamua kwamba Mwenyekiti wa Halmashauri ya Kampuni ajiondoe kwenye uenyekiti wa matawi huku akihifadhi uanachama katika Halmashauri hizo. Kuambatana na hilo, Bi. Janet Mbene na Bw. Joshua Muiru wamekuwa wenyeviti wa Halmashauri za KCB-T na S&L, mtawalia. Pamoja na hayo Peter Munyiri, ambaye ni naibu mkurugenzi anayesimamia biashara za kampuni, amejiumba na halmashauri za hayo mashirika kama mwanachama.

MGAO WA FAIDA

Kufunguamana na maendeleo bora ya biashara, Halmashauri inapendekeza nyongeza ya mgao wa faida



KCB FAMILY FUN DAY

KCB staff members take part in team building activities during the KCB family fun day.

wa kwanza na wa mwisho wa shilingi 0.70(senti 70) kwa hisa ambayo ni asili mia 17 zaidi kuliko shilingi 6 kwa hisa iliyotolewa mwaka jana kabla ya gawanyiko la hisa kumi kwa moja.

Tunapoelekea mbele hata hivyo, huenda ikawa muhimu kuchunguza sera yetu ya mgao wa faida katika kipindi kifupi kutokana na upanuzi ambao unaendelea hapa nchini na pia katika kanda kwa kuwa tutahitajika kuendelea kuongeza mtaji wa kuhimili biashara kupitia baki ya mapato.

KUGAWANYWA HISA NATOLEO LA HISA 2008

Kufuatia idhini kwa wanahisa ya kugawanya hisa zenu mwaka wa 2007 kwa uwiano wa hisa kumi kwa kila moja mtu aliyenayo, shughuli hiyo ilikamilishwa kwa ufanisi na hisa hizo kuwekwa kwenye akaunti za wenye hisa mwezi Juni mwaka jana.

Hii imechechemua shughuli katika sehemu ya mauzo ya hisa za KCB katika Soko la Hisa la Nairobi ambapo hisa za KCB zinazwa zaidi miongoni mwa makampuni 20 yaliyoorodheshwa.

Kutokana na ufanisi wa kupanua biashara katika kanda, mtaji wetu wa kimsingi umeanza kupata shinikizo huku mahitaji ya biashara yanapongezeka. Ili kuhimili ukuaji huu na kuimarisha thamani kwa mwenyehisa, tunahitaji kuongeza fedha katika mtaji wetu. Halmashauri imepitisha pendekezo la Usimamizi la kutafuta fedha kupitia mauzo ya hisa na tutatuma maombi rasmi kutoka kwa mashirika ya kusimamia hisa iwapo idhini itatolewa katika mkutano mkuu wa mwaka tarehe 9 Mei, 2008.

Kwa sasa, Usimamizi umeanzisha utaratibu unaohitajika kutayarisha shughuli ya kuimarisha mtaji.

HALIYA BAADAYE

Licha ya sintofahamu ya kiuchumi iliyosabishwa na ghasia

za baada ya uchaguzi hali ya baadaye ya benki inaonekana ya kuvutia. Shughuli inayoendelea ya kupanua mtandao nchini Kenya, uchunguzi wa mara kwa mara wa mipango na huduma na tabia iliyojikita ya mauzo katika biashara inamaanisha tunaweza kufuata kwa ufanisi malengo yetu katika soko lenye ushindani la kanda kwa manufaa ya wanahisa wetu. Taifa lina matumaini makubwa kwamba kufuatia mpangilio mpya wa serikali ya mseto, shughuli za kiuchumi zitaanza tena kote nchini.

Tumeweka mkakati wa miaka mitano kusukuma biashara mbele katika nyanja muhimu kama vile malengo ya kifejha, upanuzi wa biashara, ubunifu wa mipango, kuendeleza rasilimali ya binadamu na maendeleo ya teknolojia. Tunachunguza na kurekebisha mpango huu kila mwaka kuhakikisha kwamba unaakisi hali halisi ya biashara na hali ya kiuchumi kwa wakati uliopo na tuna imani kwamba tutaafikia malengo yetu ya kibiashara kupitia mpango huu.

Nataka kushukuru Halmashauri kwa kunipa usaidizi thabiti wakati wa kipindi cha mwaka tulipokuwa tunaendelea kutoa mwelekeo kwa biashara. Bila kujitolea kwao hatungeshinda changamoto za mwaka wa 2007.

Aidha ninashukuru Usimamizi na Wafanyakazi kwa bidii yao kubwa katika kuafikia matokeo haya ya kupendeza.

Ufanisi wa Benki hauwezekani pasina kuongwa mkono na wateja na wanahisa wetu.

Kwa niaba ya Halmashauri ya Wakurugenzi, ningependa kuwatolea shukurani kwa kuendelea kuunga mkono na kuwa na imani na Benki yenu. Kwa wanahisa wetu, ningependa kusema kwamba ufanisi wa biashara hii umetokana na kutuunga mkono bila kuyumba na nawahakikishia kwamba daima tutajitahidi kuifanya KCB kuwa benki bora zaidi katika kanda.

Asanteni



Profit before tax increased from KShs3.2 billion in 2006 to KShs4.2 billion reflecting impressive performance in all segments of our business.

Martin Oduor-Otieno,
Chief Executive

We had a great year 2007, continuing business growth momentum that resulted in a 33% increase in profitability. Profit before tax increased from KShs3.2 billion in 2006 to KShs4.2 billion reflecting impressive performance in all segments of our business.

Following this good performance the Board has proposed a dividend payout of KShs0.70 (70 cents) per share which is a 17% increase over 2006.

This performance was buoyed by a favourable economic environment that created stability in interest and exchange rates.

Our total operating income increased by 22% from KShs12.1 billion in 2006 to KShs14.8 billion, backed by strong growth in interest income. Net interest income went up by an impressive 34% from KShs6.3 billion to KShs8.5 billion. Foreign exchange income and fees and commissions contributed KShs839 million (up 27% on 2006) and KShs4.5 billion (up 20% on 2006) to the Group bottom line.

We experienced a 20% increase in operating expenses from KShs7.8 billion in 2006 to KShs9.4 billion in 2007 due to enhanced business activities, including marketing, training and customer service initiatives. A significant amount of money in this line item relates to infrastructure upgrades and the ongoing implementation of our core banking system. We expect to continue to spend in branch and

ATM expansion across the region in a bid to make our services more accessible to the market.

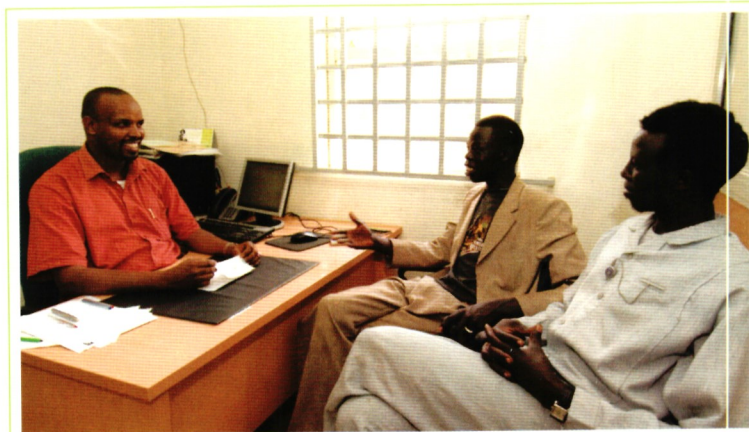
There was a significant increase in the profitability of the subsidiaries which together contributed a net profit of KShs268 million to Group bottom-line. With KCB-T and KCB-S gaining business momentum we envisage higher contribution from them going forward.

The Group Balance Sheet grew by 30% to move from KShs92.5 billion to KSh120.5 billion, putting KCB among very few banks in the region with a balance sheet of that size. This was a result of large increases in our assets and liabilities.

Net loans and advances grew by 42% from KShs45.3 billion in 2006 to KShs64.3 billion in 2007 billion due to increased marketing efforts and the implementation of an efficient loan processing system.

Customer deposits were higher by KSh17.2 billion during the year from KShs77.2 billion to KShs94.4 billion, with significant contribution from our current accounts (KSh8.9 billion), transaction accounts (KSh3.2 billion) and the Simba Savings Account (KSh1 billion) among other liability products.

The Good Bank grew considerably from KShs41.3 billion in 2006 to KShs62 billion in 2007 whereas the Bad Bank shrunk further from KShs4 billion in 2006 to KShs2.2 billion



KCB JUBA

Customers being advised on banking services.

in 2007 reflecting ongoing improvement in the quality of our loan book and enhanced focus on marketing for new borrowers. Provisions for bad and doubtful debts increased slightly by 5% in line with new Central Bank of Kenya's provisioning guidelines to stand at KShs1.2 billion up from KShs1.1 billion in 2006.

The bank remained strong on prudential ratios with Core Capital to Total Deposit Liabilities at 11.7% (CBK minimum - 8.0%), Core Capital to Weighted Assets at 13.6% (CBK minimum - 8.0%) and liquidity at 33% (CBK minimum - 20%).

Going forward we want to focus on consolidating our business here in Kenya and accelerate expansion across the region. To this end we have plans to open 40 more branches in our regional network to enhance our footprint and gain competitive edge.

Over the past year we have opened 11 branches in Kenya (Serem, Emali, Gateway Nairobi, Mutomo, Kengeleni, Buru Buru, Sondu, Isiolo, Kisumu West, Watamu and Garsen) and two more across the region (Milimani, Tanzania and Kampala Road, Uganda).

In line with our vision, we have made progress in our regional growth agenda. In November 2007 we established a new Subsidiary, KCB Uganda with a branch in Kampala. Work is going on to open more outlets with a target of six by the end of 2008. This young business has been received

well in the market and has motivated us to look into the prospects of venturing into Rwanda in the coming year.

We launched two new products in 2007 as we endeavored to position the business for competitiveness. KCB Biashara Banking targets small to medium businesses with deposit and loan products whereas KCB Advantage Banking is suited for the middle to high end individual clientele. We also initiated a number of business partnerships as part of our loan packages among them that of KEMRI and S&L to finance housing projects for KEMRI employees. We also augmented our growing Quickserve ATM network by a partnership with PesaPoint giving our customers access to over 250 service outlets across the country.

We began the journey towards implementation of a new state-of-the art core banking System with Temenos A.G. of Switzerland with a contract to supply and install T24. Recent political instability threw our plans slightly off balance but the implementation is back on track and we expect to switch over to the new system by the third quarter of 2008.

Our brand continues to be strong in the market with a recent survey by Steadman Group placing KCB fourth most popular brand in the market with a score of 75 (Safaricom - 85, Kenya Airways - 78, Coca Cola - 77). We will continue to enhance our brand visibility through our flagship sponsorships like the KCB Kenyan National Rally Championships, the KCB Safari Rally, the KCB Pro-Am Golf

TEAM BUILDING

KCB staff take a pose on top of Mount Sinai during a past team building activity.



Tour and the KCB/Athletics Kenya National Cross Country Championships, among other business engagements.

We also invested significantly in Community Social Development with involvement in environmental conservation activities, through our tree planting initiatives, entrepreneurial development and community welfare initiatives. Our employees were involved in tree planting as part of the KCB Community Day and in supporting needy schools during the KCB Community Week.

To improve the capacity of our employees to deliver exemplary service, we continued to avail to them high quality training in customer care and other business support areas. An employee satisfaction survey released recently indicated an overall improvement in employee satisfaction across all areas of the study and a significant enhancement in the quality of leadership in the business.

There were several changes in the Senior Management of the business with the departure of former Chief Executive, Terry Davidson and my installation as his successor. I am pleased with the support I am receiving from the Board and the Senior Management team and I am confident that

I have a strong team to guide this bank to future success. In a reorganized structure, the Board created the positions of Deputy Chief Executive, Group Businesses and Group Controls and appointed Peter Munyiri and Samuel Kimani to the new positions. Two divisional directors (Philip Ilako – Corporate Banking and Kalyan Mukherjee – Treasury) also left the business at the expiry of their terms and were replaced by John Mark Wandolo and Timothy Kabiru, respectively.

I want to thank all stakeholders for their support which has resulted in this great performance and especially employees of KCB for their efforts and commitment towards delivering this performance. I am also grateful to customers and shareholders for their confidence in us. My special thanks go to the Board of Directors for entrusting the management of this organization to us and for their ongoing support and guidance. We are confident that we can sustain this momentum into the future and together make KCB the best bank in the region and beyond.

Thank you.



Faida kabla ya kodi iliongezeka kutoka Shilingi bilioni 3.2 mwaka wa 2006 hadi Shilingi bilioni 4.2 hali ambayo iliakisi utendaji bora katika sekta zote za biashara.

**Martin Oduor-Otieno,
Mkurugenzi Mkuu**

Mwaka wa 2007 ulikuwa na ufanisizi ambapo maendeleo ya kasi ya biashara yalipelekea ongezeko la faida la asili mia 33. Faida kabla ya kodi iliongezeka kutoka Shilingi bilioni 3.2 mwaka wa 2006 hadi Shilingi bilioni 4.2 hali ambayo iliakisi utendaji bora katika sekta zote za biashara.

Kufuatia utendaji bora huu, Halmashauri imependekeza mgao wa faida wa Shilingi 0.70(senti 70) kwa kila hisa hili likiwa ni ongezeko la asili mia 17 kulinganishwa na mwaka wa 2006.

Utendaji huu ulisukumwa na mazingira bora ya kiuchumi ambayo yaliweka msingi bora wa riba na viwango vya ubadilishanaji fedha za kigeni.

Jumla ya mapato ya shughuli zetu yaliongezeka kwa asili mia 22 kutoka Shilingi bilioni 12.1 mwaka wa 2006 hadi Shilingi bilioni 14.8 kutokana na ukuaji thabiti wa mapato ya riba. Jumla ya mapato ya riba yaliongezeka kwa kima cha kupendeza cha asili mia 34 kutoka Shilingi bilioni 6.3 hadi Shilingi bilioni 8.5. Mapato kutokana na ubadilishaji wa fedha za kigeni na ada yalichangia Shilingi milioni 839 (nyongeza ya asili mia 27 mwaka wa 2006) na Shilingi bilioni 4.5 (ongezeko la asili mia 20 mwaka wa 2006) kwenye kima cha msingi cha Kundi.

Tulishuhudia ongezeko la asili mia 20 la gharama za utendaji kutoka Shilingi bilioni 7.8 mwaka wa 2006 hadi Shilingi bilioni 9.4 mwaka wa 2007 kwa sababu ya ongezeko la shughuli za kibiashara, ikiwa ni pamoja na mauzo, mafunzo

na mikakati ya huduma kwa wateja. Kiasi kikubwa cha fedha katika mkondo huu zimetumika katika kuimarisha muundo msingi na shughuli inayoendelea ya kutekeleza shughuli zetu kuu za mtandao wa benki.

Tunatarajia kuendelea kutumia fedha katika upanuzi wa matawi na mashini za ATM kote katika kanda katika jitihada za kufanya huduma zetu kupatikana zaidi katika soko.

Kulikuwa na ongezeko kubwa la faida katika mashirika ambayo kwa pamoja yalichangia faida ya jumla ya Shilingi milioni 268 kwa Kundi. Huku KCB-T na KCB-S zikipata kasi ya biashara tunatarajia mchango mkubwa zaidi kutoka kwao katika siku za zinazokuja.

Mali ya Kundi ilikuwa kwa asili mia 30 na kuongezeka kutoka Shilingi bilioni 92.5 hadi Shilingi bilioni 120.5, na kuiweka KCB miongoni mwa Benki chache katika kanda zenye mali ya kiasi hicho. Hii ilitokana na ongezeko kubwa la mali zetu na madeni.

Jumla ya mikopo iliyotolewa iliongezeka kwa asili mia 42 kutoka Shilingi bilioni 45.3 mwaka wa 2006 hadi Shilingi bilioni 64.3 mwaka wa 2007 kutokana na ongezeko la juhudi za masoko na utekelezaji wa mfumo bora wa kutayarisha mikopo.

Fedha zilizowekwa na wateja ziliongezeka kwa Shilingi bilioni 17.2 wakati wa kipindi cha mwaka kutoka Shilingi bilioni 77.2 hadi Shilingi bilioni 94.4 huku kiasi kikubwa kikiwa ni kutoka kwa akaunti za hundi(Shilingi bilioni 8.9),

KCB KAMPALA

State-of-the-art banking hall.



akaunti za kibiashara(Shilingi bilioni 3.2) na akaunti ya akiba ya Simba (Shilingi bilioni 1) miongoni mwa shughuli nyingine zenye madeni.

Mikopo inayoleta faida iliongezeka kwa kiasi kikubwa kutoka Shilingi bilioni 41.3 mwaka wa 2006 hadi bilioni 62 mwaka wa 2007 nayo mikopo isiyoleta faida yakaendelea kupungua kutoka Shilingi bilioni 4 mwaka wa 2006 hadi Shilingi bilioni 2.2 mwaka wa 2007 hali ambayo inaakisi kuimarika kwa mikopo yetu na ubora wa malengo yetu katika masoko kwa wateja wapya wa mikopo. Nafasi ya madeni yasiyolipwa iliongezeka kidogo kwa asili mia 5 sambamba na muongozo wa Benki Kuu ya Kenya.

Benki iliendelea kuwa thabiti katika uwiano wa kimsingi hadi jumla ya madeni kwa kima cha asili mia 11.7 (Kiwango cha chini cha CBK-asili mia 8.0), Mtaji muhimu kulinganishwa na mali kwa asili mia 13.6 (Kiwango cha chini cha CBK-asili mia 8.0) na fedha taslimu kwa asili mia 33 (Kiwango cha chini cha CBK-asili mia 20).

Tunaposonga mbele tunataka kulenga kuimarisha biashara yetu hapa Kenya na kuharakakisha upanuzi kote katika kanda. Kufukia sasa tuna mpango wa kufungua matawi 40 zaidi katika mtandao wetu wa kanda kuimarisha uwezo na kupata nafasi kubwa ya ushindani.

Katika muda wa mwaka mmoja uliopita tumefungua matawi 11 nchini Kenya (Serem, Emali, Gateway Nairobi, Mutomo, Kengeleni, Buruburu, Sondu, Isiolo, Kisumu Magharibi,

Watamu na Garsen) na mengine mawili zaidi katika kanda(Milimani,Tanzania na Kampala Road,Uganda)

Sambamba na maono yetu, tumepiga hatua katika ajenda yetu ya ukuaji katika kanda. Mwezi Novemba 2007 tulianzisha shirika jipya, KCB Uganda, kukiwa na tawi Kampala. Kazi inaendelea ya kufungua matawi zaidi kukiwa na lengo la matawi sita kufikia mwisho wa mwaka 2008. Biashara hii changa imepokelewa vyema katika soko na imetupa motisha wa kuangalia uwezekano wa kuingia nchini Rwanda mwaka ujao.

Tulianzisha mipango miwili mwaka wa 2007 tulipokuwa tunajitahidi kuweka biashara katika hali bora ya ushindani. Malengo ya KCB Biashara ni kusaidia biashara ndogo ndogo na zile za kadri zenye fedha kwenye akaunti na mikopo wakati ambapo KCB Advantage imekusudiwa wateja wa daraja ya katikati na wateja wengine. Aidha tulianzisha biashara kadhaa za ushirikiano kama sehemu ya mikopo tunayotoa miongoni mwao ile ya KEMRI na S&L kufadhili ujenzi wa nyumba za wafanyakazi wa KEMRI. Pia tulidhibiti mtandao wetu wa ATM Quickserve kwa ushirikiano na PesaPoint ili kuwapa wateja wetu huduma za fedha katika zaidi ya vituo 250 kote nchini.

Tulianza kutekeleza mfumo wa hali ya juu wa shughuli za benki na Temenos A.G. ya Uswizi kwa kandarasi ya kuwasilisha na kuweka T24. Ghasia za hivi majuzi za baada ya uchaguzi ziliteteresha mipango yetu kidogo, lakini utekezaji huo umeanza tena na tunatarajia kuanza

DONATION

Maria Immaculate Children's Centre celebrate upon receiving their donation from KCB.



kutumia mfumo huo mpya kufika robo ya tatu ya mwaka wa 2008.

Nembo yetu inaendelea kuwa thabiti katika soko ambapo uchunguzi wa hivi majuzi uliofanywa na kampuni ya Steadman iliorodhesha KCB ya nne miongoni mwa nembo maarufu zaidi kwenye soko kwa alama 75 (Safaricom-85, Kenya Airways-78, Coca Cola-77). Tutaendelea kuimarisha utambuzi wa nembo yetu kupitia kwa udhamini wetu mkuu kama vile KCB Kenyan National Rally Championships, KCB Safari Rally, KCB Pro-AM Golf Tour na KCB/Athletics Kenya National Cross Country Championships, miongoni mwa shughuli nyingine za kibiashara.

Pia tuliwekeza kwa kiasi kikubwa katika shughuli za maendeleo ya kijamii za kuhifadhi mazingira, kupitia mikakati yetu ya upanzi wa miti, maendeleo ya uwaminishi na mikakati ya shughuli za maslahi ya jamii.

Wafanyakazi wetu walihusika katika upanzi wa miti kama sehemu ya siku ya jamii ya KCB na katika kusaidia shule zenye mahitaji wakati wa wiki ya jamii ya KCB.

Ili kuimarisha uwezo wa wafanyakazi wetu wa kutoa huduma bora zaidi, tuliendelea kuwapa mafunzo ya hali ya juu katika huduma kwa wateja na nyanja nyingine za usaidizi wa kibiashara. Uchunguzi wa kuangalia kuridhika kwa wateja uliotolewa hivi majuzi unaonyesha imariko la jumla katika kuridhika kwa wafanyakazi katika nyanja zote zilizoangaziwa na kuimarika kwa kiasi kikubwa kwa ubora wa uongozi katika bashara.

Kulikuwa na mabadiliko kadhaa katika wasimamizi wakuu wa biashara baada ya kuondoka kwa Mkurugenzi Mkuu wa zamani, Terry Davidson na kuteuliwa kwangu kuchukua mahali pake. Nimefurahishwa na usaidizi ninaopokea kutoka kwa Halmashauri na Wasimamizi wakuu na nina imani kwamba nina kundi thabiti la kuelekeza Benki hii katika ufanisi wa baadaye. Katika kufanya marekebisha, Halmashauri ilibuni nyadhifa za naibu wa mkurugenzi mkuu, Biashara za kundi na Uthibiti wa biashara na kumteua Peter Munyiri na Samuel Kimani kusimamia vitengo hivyo. Wakurugenzi wawili wa idara (Philip Ilako-Huduma za benki kwa mashirika na Kalyan Mukherjee-Hazina) pia walitoka kwenye kampuni baada ya kumalizika kwa vipindi vyao vya kuhudumu na nafasi zao kutwaliwa na John Mark Wandolo na Timothy Kabiru, mtawalio.

Ningependa kuwashukuru washirika wote kwa usaidizi wao ambao umepelekea ufanisi huu mkubwa na hasa wafanyakazi wa KCB kwa juhudi zao na kujitolea katika ufanisi huu. Aidha nina wingi wa shukrani kwa wateja na wenyehisa kwa imani yao kwetu.

Shukrani zangu za dhati ziwaendee Wakurugenzi wa Halmashauri kwa kutupa majukumu ya kusimamia shirika hili na kwa kuendelea kutuunga mkono na kutupa mwelekeo. Tuna imani kwamba tunaweza kudumisha msukumo huu katika siku zijazo na kwa pamoja kuifanya KCB kuwa benki bora zaidi katika kanda na kwingineko.

Asanteni.

The directors submit their report and the audited financial statements for the year ended 31 December 2007, which show the state of affairs of the Bank and its subsidiary companies.

1. PRINCIPAL ACTIVITIES

The Bank continues to offer corporate and retail banking services. The activities of the subsidiary companies are those recorded in Note 7(a) to the financial statements.

2. GROUP RESULTS

The Group's results are set out on page 36.

3. BANK RESULTS

The Bank's results are set out on page 38.

4. DIVIDEND

The directors recommend the payment of a dividend of KShs.1,397,200,000 which represent KShs.0.70 per share in respect of the year ended 31 December 2007 (2006:-KShs.1,197,600,000 representing KShs.0.60 per share).

5. RESERVES

The reserves of the Group and the Bank are set out on pages 39 and 40, respectively and on note 20.

6. DIRECTORS

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

Mrs. S.O. Mudhune	- Chairman
Mr. M.L. Oduor-Otieno	- Chief Executive Officer, appointed on 1 May 2007
Mr. T.M. Davidson	- Chief Executive Officer, retired on 1 May 2007
Mr. S. Kimani	- Appointed on 31 August 2007
Mr. J.N. Koome	
Mr. J. I. Adongo	
Mr. J.K. Kinyua	
Mrs. C.N. Kimura	
Mrs. S.N. Omanga	
Mr. S.N. Shah	
Mr. P.W. Muthoka	
Prof. P.K. Kimuyu	

7. AUDITORS

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

BY ORDER OF THE BOARD



MR. K.D. MALAKWEN
SECRETARY

28TH FEBRUARY 2008

RIPOTI YA WAKURUGENZI

Wakurugenzi wanawasilisha ripoti yao na taarifa za kifedha zilizokaguliwa za kipindi cha mwaka kilichomalizikia tarehe 31 mwezi Desemba mwaka wa 2007 ambazo zinaonyesha hali ya shughuli za benki na makampuni washirika wake.

1. MAJUKUMU MUHIMU ZAIDI

Benki inaendelea kutoa huduma kwa makampuni na watu binafsi. Shughuli za makampuni washirika zimechapishwa katika kipengele 7(a) cha taarifa za kifedha.

2. MATOKEO YA KUNDI

Matokeo ya kifedha ya Kundi yamechapishwa katika ukurasa wa 36.

3. MATOKEO YA BENKI

Matokeo ya kifedha ya Benki yamechapishwa katika ukurasa wa 38.

4. MGAO WA FAIDA

Wakurugenzi wanapendekeza kutolewa kwa mgao wa faida wa Shilingi 1,397,200,000 ambao unawakilisha Shilingi 0.70 kwa hisa kwa mwaka uliomalizika tarehe 31 Desemba 2007 (2006:-Shilingi 1,197,600,000 iliyowasilisha Shilingi 0.60 kwa kila hisa)

5. AKIBA

Akiba za Kundi na Benki zimechapishwa katika kurasa za 39 na 40 mtawaliao na kipengele cha 20.

6. WAKURUGENZI

Wakurugenzi waliohudumu katika kipindi cha mwaka hadi tarehe ya kutayarishwa kwa ripoti hii ni:-

Bi. S.O. Mudhune	- Mwenyekiti
Bw. M.L. Oduor-Otieno	- Mkurugenzi Mkuu, aliyeteuliwa tarehe 1 Mei 2007
Bw. T.M. Davidson	- Mkurugenzi mkuu, aliyestaafu tarehe 1 Mei 2007
Bw. S.Kimani	- Aliyeteuliwa 31 Agosti 2007
Bw. J.N. Koome	
Bw. J.I. Adongo	
Bw. J.K. Kinyua	
Bi. C.N. Kimura	
Bi.S.N. Omanga	
Bw. S.N. Shah	
Bw. P.W. Muthoka	
Prof. P.K.Kimuyu	

7. WAHASIBU

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

KWA AMRI YA HALMASHAURI YA WAKURUGENZI

BW. K.D. MALAKWEN
KATIBU

28 FEBRUARI 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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



DIRECTOR



DIRECTOR



DIRECTOR

28 FEBRUARY 2008

CORPORATE GOVERNANCE STATEMENT

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 Company whilst being accountable to the shareholders for legal compliance and maintenance of the highest corporate governance standards and business ethics.

THE BOARD OF DIRECTORS

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

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

BOARD MEETINGS

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

The Board held 12 Meetings during the year under review.

BOARD COMMITTEES

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

(a) Risk Management Committee

This Committee was set up in the year to oversee the Group's mitigation and appreciation of all risks in the

business. It meets quarterly to advise the business on all matters pertaining to credit, market, operations, legal, environmental and other risks.

The Committee had 1 meeting during the year.

(b) Audit and Compliance Committee

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

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

The Committee held 4 Meetings during the year under review.

(c) Credit Committee

This Committee meets twice a month to review the credit risk profile of the Company 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 Company's customers are given timely attention.

The Committee held 18 Meetings during the year under review.

(d) Human Resources Committee

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

The Committee met 15 times during the year under review.

(e) Procurement and Information Technology Committee

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

CORPORATE GOVERNANCE STATEMENT *continued*

The Committee met 12 times during the year under review.

(f) KCB Foundation

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

The Foundation held 2 Meetings during the year.

COMMUNICATION WITH SHAREHOLDERS

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

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

DIRECTORS' EMOLUMENTS AND LOANS

The aggregate amount of emoluments paid to Directors for services tendered during the Year 2007 is disclosed in Note 26 to the Financial Statements.

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

Lending to Board of Directors as at the end of the year is disclosed in note 30 to the Financial Statements

BOARD/COMMITTEE EVALUATIONS

At the end of 2007 the Board undertook a Board, Committee and Peer review and on the basis of end of year performance returned a Generally Exceeding Rating in the year 2007.

BOARD/BOARD COMMITTEES ATTENDANCE

The following table gives the record of attendance of the KCB Board and its Committee Meetings for the year ended 31 December, 2007:

	MAIN BOARD	AUDIT & COMPLIANCE	CREDIT	RISK MANAGEMENT	HUMAN RESOURCES	PROCUREMENT & INFORMATION TECHNOLOGY	KCB FOUNDATION
NO. MEETINGS HELD	12	4	18	1	15	12	2
MEETINGS ATTENDED							
MRS. S.O. MUDHUNE	12		16				2
MR. M. ODUOR-OTIENO	7		5	1	4		1
MR. J.N. KOOME	12			1		8	
MR. J.I. ADONGO	12		18	1			1
MR. J.K. KINYUA	5	4					1
MRS. C.N. KIMURA	11		12		14		1
MRS. S.N. OMANGA	11		18		14	3	2
MR. S.N. SHAH	11	2				12	1
MR. P.W. MUTHOKA	12	4		1	15		
PROF. P.K. KIMUYU	11	3		1	13	7	

CORPORATE GOVERNANCE STATEMENT *continued*

Directors interest in the shares of the Company and the distribution of the Company's shareholding and analysis of the ten largest shareholders as at 31 December, 2007 were as follows: -

DIRECTORS INTERESTS AS AT 31 DECEMBER, 2007

Name of Director	Number of Shares	% Shareholding
Permanent Secretary to the Treasury of Kenya	523,600,000	26.23
Susan Mudhune	20,200	0.00
Catherine Ngima Kimura	117,260	0.01
Sunil Narshi Shah	46,601,180	2.33
Susan Nkirote Omanga	20,000	0.00
Joseph Isaac Adongo	11,000	0.00
James Koome Nairuti	3,390	0.00

Shareholders' Profile as at 31 December, 2007

	Number of Shareholders	Number of Shares Held	% of Issued Share Capital
Kenyan Individual Investors	147,426	665,402,430	33.33
Kenyan Institutional Investors	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
	152,618	1,996,000,000	100.00

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
	920,562,014	46.09

Summary of Totals

Shares 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
10,000,001 & above	13	956,693,574	47.93
	152,618	1,996,000,000	100.00

COMMUNITY SOCIAL DEVELOPMENT REPORT

KCB is committed to supporting the development of communities among whom it operates business. Working with its employees and other stakeholders across the region, KCB offers support in the areas of health, education, environment, entrepreneurship, water and sanitation, welfare and sports. The bank identifies the most pressing needs of various communities and mobilizes resources to meet those needs cost-effectively, at all times involving the communities in seeking appropriate resolutions to their needs.

In 2007 KCB strengthened its ability to effectively support the communities by launching the KCB Foundation, a charitable trust with the mandate to carry out the Bank's community support initiatives. The Foundation is led by a Board of Directors and has in place structures to ensure it achieves its vision to be the most responsible and responsive provider of social investment support to deserving communities in the region.

KCB supported community initiatives in 2007 as follows:

HEALTH

In partnership with Avenue Healthcare, KCB made an impact on the lives of thousands of Kenyans by providing medical treatment through rollout of four medical camps for underserved populations in Nairobi's slum areas. The joint initiative provided treatment for over 8,000 patients in Kikuyu, Kibera and Eastleigh.

We had another successful partnership with Operation Smile Mission in Kenya, during which 1,401 patients across the country received cleft lip and palette operations. In both partnerships, KCB employees volunteered essential non-medical services besides the bank's annual grant of Kshs 1 million.

Through our Tanzania subsidiary KCB provided support to the paediatric ward of Muhimbili National Hospital, whilst in Kenya the Nairobi Hospice and Nairobi Women's Hospital received financial donations.

Health investment: Kshs4,114,333

ENTREPRENEURSHIP

In 2007, KCB engaged with AIESEC Nairobi to support Young Entrepreneurs in a programme that teaches practical lessons in entrepreneurship to tertiary level students.

In conjunction with the Ministry of Youth Affairs and Technoserve, the Bank supported Chora Bizna, a national business plan competition that facilitated training and networking for small and medium enterprises across the country. The competition received overwhelming entries with many young businesses receiving both recognition and monetary support countrywide. This support was part of the KCB Entrepreneurship Initiative and will continue to be a key focus of the Foundation in coming years.

Entrepreneurship investment: Kshs2,200,000

ENVIRONMENT

The annual KCB Community Day is the main occasion for KCB to support environmental conservation. During this time staff from all branches separately invest in the future of Kenya by planting trees. In 2007, the KCB team planted over 60,000 trees in 56 forest sites across Kenya, thereby contributing to improving the water catchments. Throughout the year, the Kenya Forest Service monitors the growth of the seedlings and provides much needed technical support to ensure the continued regeneration of the forests. In the course of the year KCB also contributed to the UNEP-supported Nairobi Dam Trust towards the rehabilitation of the capital city's major water resource.

Environment investment: KShs3, 403,419

EDUCATION

As the cornerstone of development, education continues to be an important community social investment area for KCB. During the Community Week in October 2007, KCB teams donated chairs, desks, beds, beddings, reading and teaching materials to boost the learning of disadvantaged children. Through this initiative over 90 schools benefited from the Banks' programme. The power of team effort was

exhibited when KCB staff teams from Sarit Centre, KICC, Milimani, Kipande House and River Road branches joined together to support the construction of two classrooms for the Maria Immaculate Educational Centre in Kahawa West, Nairobi. Additionally, scholarship support for bright needy students entering secondary school was provided by the Bank through the Palmhouse Foundation. The Bank's support extends to all the countries in the region where we operate and Peiti Primary School in Southern Sudan received a valuable contribution for reconstruction. Several other institutions across Kenya also received donations towards improvement of learning facilities.

Education investment: KShs11, 868,560

WELFARE

KCB continues to be a caring partner for all our communities, and at branch level this is exhibited through our support for a number of local needy institutions, school events, charity walks and sponsorships towards deserving causes. Some of the beneficiaries in 2007 included: AIC Care Centre-Kajiado, Embu Special School, Gertrude's Children Hospital, Freedom From Hunger Walk, Heart to Heart Foundation, Kipsigis Girls Secondary School, Starehe Girls Centre, Kenya Scouts Association, Kenya Red Cross Society, Kenya Paraplegic Association, Kenya Secondary School Heads Association, Kenya Breast Health Programme, Mukuruweini Development Trust, Riziki Children's Home, Rotary Club of Nairobi and Rhino Ark, among many others. KCB participates in numerous charitable events both as a donor and through involvement of community champions and staff.

Welfare investment: KShs3, 986,440

SPORTS

KCB continues to nurture and support the development of sporting talent in Kenya as a national resource. To this end, KCB sponsored the KCB Pro-Am Golf series, the KCB Kenya Open Tennis Championship, the KCB/Athletics Kenya National Cross-country series and the KCB Kenya National Rally Championship. In addition, KCB sponsored soccer, rugby, basketball and volleyball teams in various national leagues.

Sports investment: KShs17,781,793

REPORT OF THE INDEPENDENT AUDITORS

The accompanying financial statements of Kenya Commercial Bank Limited and subsidiaries as set out on pages 35 to 76, which comprise the balance sheet of the Group and the Bank as at 31 December 2007 and the income statement of the Group and the Bank, statement of changes in equity of the Group and the Bank, cash flow statement of the Group for the year then ended and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures

that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the accompanying financial statements give a true and fair view of the state of the financial affairs of the Group and of the Bank as at 31 December 2007 and of the profit of the Group and the Bank and cash flows of the Group for the year in accordance with the requirements of International Financial Reporting Standards and the Kenyan Companies Act.

REPORT ON OTHER LEGAL REQUIREMENTS

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

- i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) In our opinion, proper books of account have been kept by the Group and the Bank, so far as appears from our examination of those books;
- iii) The Group and the Bank balance sheets and income statements are in agreement with the books of account.

Nairobi

28th February 2008

RIPOTI YA WAKAGUZI - WAHASIBU

Taarifa zilizoambatanishwa za Benki ya Kenya Commercial na mashirika yake kama zilivyoonyeshwa kwenye ukurasa wa 35 hadi 76, ambazo zinahusisha hesabu ya Kundi na Benki kufikia tarehe 31 Disemba 2007 na taarifa ya mapato ya Kundi na Benki, taarifa ya mabadiliko katika hisa za Kundi na Benki, taarifa ya matumizi ya fedha ya Kundi kwa mwaka uliomalizika katika kipindi hicho na muktasari wa sera muhimu za uhasibu na maelezo mengine.

WAJIBU WA WAKURUGENZI KWA TAARIFA ZA UHASIBU

Wakurugenzi wanawajibikia utayarishaji na uwasilishaji wa taarifa za uhasibu wa haki kuambatana na kanuni na viwango vya kimataifa vya uhasibu na mahitaji ya sheria za kampuni za Kenya. Wajibu huu ni pamoja na upangaji, utekelezaji na kudumisha udhibiti ambao ni muhimu kwa utayarishaji na uwasilishaji wa haki wa taarifa za uhasibu ambazo ziko huru kutokana na upungufu, ama kwa sababu ya ulaghai au makosa, kuchagua na kutumia sera zinazofaa za uhasibu na kufanya makadirio ya uhasibu ambayo yanakubalika kwa wakati huo.

WAJIBU WA WAHASIBU

Wajibu wetu ni kuelezea maoni huru kuhusu taarifa hizi za uhasibu kwa msingi wa hesabu zetu. Tulifanya uhasibu wetu kuambatana na viwango vya kimataifa vya uhasibu. Viwango hivyo vinatuhitaji kuafiki maadili na kupanga na kutekeleza hesabu ili kupata hakikisho linalokubalika iwapo taarifa za uhasibu zimeelezwa kikamilifu.

Uhasibu unahusisha utekelezaji wa kanuni ili kupata ushahidi wa hesabu kuhusu kiwango cha fedha na maelezo katika taarifa za uhasibu. Kanuni zilizochaguliwa zinategemea uamuzi wa wahasibu, ikiwa ni pamoja na ukadiriaji wa kasoro za taarifa za uhasibu zisizo kamilifu ama kwa sababu ya udanganyifu au makosa. Katika kufanya maamuzi hayo, mhasibu anatilia maanani udhibiti wa kampuni ambao ni muhimu katika utayarishaji na uwasilishaji wa haki wa taarifa za kifedha ili kubuni kanuni

za wahasibu ambazo zinafaa kwa hali hiyo, lakini sio kwa minajili ya kuwasilisha maoni kuhusu uwezo wa Kundi wa kudhibiti shughuli zake.

Uhasibu pia unahusisha kutathimini sera sawa za uhasibu zilizotumika na kukubalika kwa makadirio ya uhasibu uliofanywa na Wakurugenzi, pamoja na kutathimini uwasilishaji wa jumla wa taarifa za uhasibu.

Tunaamini kwamba ushahidi wa uhasibu tuliopata unatosha na unafaa kutoa msingi wa maoni yetu ya uhasibu.

MAONI

Kwa maoni yetu taarifa za uhasibu zilizoambatanishwa zinaeleza hali halisi ya kifedha katika Kundi hili na Benki kufikia tarehe 31 mwezi Disemba 2007 na ile ya faida kwa Kundi hili na matumizi na mapato ya fedha kwa kundi hili kwa mwaka uliomalizika kuambatana na mahitaji ya sheria za makampuni nchini Kenya na viwango vya kimataifa vya kutoa ripoti za uhasibu.

RIPOTI KUHUSU MAHITAJI MENGINE YA KISHERIA

Kama inavyohitajika na sheria za makampuni nchini Kenya, tunaripoti kwenu, kuambatana na uhasibu wetu kwamba:

- i) Tumepata taarifa zote na maelezo ambazo kadri tunavyoelewa na kuamini zilikuwa muhimu kwa minajili ya kufanya uhasibu wetu;
- ii) Kwa maoni yetu, vitabu sahihi vya uhasibu vimewekwa na Kundi na Benki, kwa jinsi tulivyoona kutokana na uchunguzi wa vitabu hivyo;
- iii) Hesabu za Kundi na Benki zinawiana na vitabu vya hesabu.

Nairobi

28 Februari 2008

CONSOLIDATED BALANCE SHEET

as at 31st December 2007

ASSETS	NOTE	2007 KShs'000	2006 KShs'000
Cash and balances with Central Banks	4	11,400,788	7,394,536
Cheques and items for clearing		829,312	527,534
Held to maturity investments	5	21,279,799	17,939,890
Held for trading investments	6	4,399,098	3,530,419
Placements and balances with other banking institutions		3,772,082	6,936,108
Available for sale investments	7(b)	859,640	902,860
Tax recoverable	8.1	124,122	452,515
Loans and advances to customers	9	64,278,123	45,269,726
Other assets	12	8,020,632	4,436,745
Intangible assets	13	228,718	110,076
Property and equipment	14(a)	4,565,832	4,067,788
Leasehold land	14(c)	187,659	192,113
Deferred tax	8.1	533,748	766,261
TOTAL ASSETS		120,479,553	92,526,571
LIABILITIES			
Deposits and balances from other banking institutions	15	5,828,635	609,624
Other customer deposits	16	94,392,361	77,192,889
Other liabilities	17	6,130,354	2,997,312
Tax payable	8.1	855,848	24,270
Lines of credit	18	67,695	82,170
TOTAL LIABILITIES		107,274,893	80,906,265
CAPITAL EMPLOYED			
Share capital	19	1,996,000	1,996,000
Reserves	20	9,811,460	8,426,706
Proposed dividend	21	1,397,200	1,197,600
SHAREHOLDERS' FUNDS		13,204,660	11,620,306
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		120,479,553	92,526,571

The financial statements were approved by the Board of Directors on 28th February 2008 and were signed on its behalf by:-



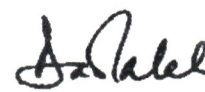
S O MUDHUNE
CHAIRMAN



M L ODUOR-OTIENO
CHIEF EXECUTIVE



P W MUTHOKA
DIRECTOR



K D MALAKWEN
SECRETARY

CONSOLIDATED INCOME STATEMENT

for the year ended 31st December 2007

	NOTE	2007 KShs'000	2006 KShs'000
INTEREST INCOME	22	9,373,389	7,064,400
INTEREST EXPENSE	23	(921,822)	(750,928)
NET INTEREST INCOME		8,451,567	6,313,472
FEES AND COMMISSION INCOME		4,524,178	3,780,573
FEES AND COMMISSION EXPENSE		(243,877)	(210,316)
Dividend income	24	4,280,301	3,570,257
Gain on foreign exchange		23,961	42,534
Other operating income	25	838,890	658,595
		540,036	952,028
		5,683,188	5,223,414
Operating income		14,134,755	11,536,886
Bad and doubtful debts expense	10.2	(748,152)	(752,939)
Other operating expenses	26	(9,160,621)	(7,617,194)
PROFIT BEFORE TAXATION		4,225,982	3,166,753
TAXATION	8.2	(1,251,410)	(734,875)
PROFIT AFTER TAXATION		2,974,572	2,431,878
EARNINGS PER SHARE			
Basic and diluted earnings per share (KShs.)	27	1.49	1.22

BALANCE SHEET OF THE BANK

as at 31st December 2007

	NOTE	2007 KShs'000	2006 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	4	8,401,278	6,829,837
Cheques and items for clearing		793,340	516,386
Held to maturity investments	5	20,144,267	17,220,424
Held for trading investments	6	4,399,098	3,530,419
Placements and balances with other banking institutions		2,528,774	5,905,342
Investment in subsidiaries and associated companies	7(a)	2,953,876	2,321,809
Available for sale investments	7(b)	859,640	902,860
Tax recoverable	8.1	-	330,336
Loans and advances to customers	9	56,477,448	40,658,629
Balances due from group companies	11	4,121,160	1,649,333
Other assets	12	7,704,220	3,880,233
Intangible assets	13	228,451	109,472
Property and equipment	14(b)	3,056,096	2,678,125
Leasehold land	14(c)	146,933	150,246
Deferred tax	8.1	396,079	642,619
TOTAL ASSETS		112,210,660	87,326,070
LIABILITIES			
Deposits and balances from other banking institutions	15	7,047,115	1,419,060
Other customer deposits	16	85,638,139	71,494,612
Other liabilities	17	5,801,575	2,849,592
Tax payable	8.1	809,744	-
Lines of credit	18	67,695	82,170
TOTAL LIABILITIES		99,364,268	75,845,434
CAPITAL EMPLOYED			
Share capital	19	1,996,000	1,996,000
Reserves	20	9,453,192	8,287,036
Proposed dividend	21	1,397,200	1,197,600
SHAREHOLDERS' FUNDS		12,846,392	11,480,636
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		112,210,660	87,326,070

The financial statements were approved by the Board of Directors on 28th February 2008 and were signed on its behalf by:-



S O MUDHUNE
CHAIRMAN



M L ODUOR-OTIENO
CHIEF EXECUTIVE



P W MUTHOKA
DIRECTOR



K D MALAKWEN
SECRETARY

INCOME STATEMENT OF THE BANK

for the year ended 31st December 2007

	NOTE	2007 KShs'000	2006 KShs'000
INTEREST INCOME	22	8,527,122	6,567,773
INTEREST EXPENSE	23	(789,826)	(670,889)
NET INTEREST INCOME		7,737,296	5,896,884
FEES AND COMMISSION INCOME		4,189,752	3,629,717
FEES AND COMMISSION EXPENSE		(243,877)	(210,316)
Dividend income	24	3,945,875	3,419,401
Gain on foreign exchange		23,961	42,534
Other operating income	25	686,142	604,551
		423,818	884,628
		5,079,796	4,951,114
Operating income		12,817,092	10,847,998
Bad and doubtful debts expense	10.2	(699,576)	(749,631)
Other operating expenses	26	(8,254,607)	(7,063,458)
PROFIT BEFORE TAXATION		3,862,909	3,034,909
TAXATION	8.2	(1,156,333)	(680,230)
PROFIT AFTER TAXATION		2,706,576	2,354,679
EARNINGS PER SHARE			
Basic and diluted earnings per share (KShs)	27	1.36	1.18

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31st 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 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

STATEMENT OF CHANGES IN EQUITY OF THE BANK

for the year ended 31st December 2007

	SHARE CAPITAL KShs'000	REVENUE RESERVE KShs'000	REVALUATION RESERVE KShs'000	SHARE PREMIUM KShs'000	PROPOSED DIVIDEND KShs'000	TOTAL KShs'000
At 1 January 2006	1,996,000	3,921,402	933,575	2,319,764	798,400	9,969,141
Dividend paid – 2005	-	-	-	-	(798,400)	(798,400)
Proposed dividend – 2006	-	(1,197,600)	-	-	1,197,600	-
Realised on disposal	-	-	(347,647)	-	-	(347,647)
Change in value of available for sale investments	-	-	302,863	-	-	302,863
Profit for the year	-	2,354,679	-	-	-	2,354,679
AT 31 DECEMBER 2006	1,996,000	5,078,481	888,791	2,319,764	1,197,600	11,480,636
At 1 January 2007	1,996,000	5,078,481	888,791	2,319,764	1,197,600	11,480,636
Dividend paid-2006	-	-	-	-	(1,197,600)	(1,197,600)
Proposed dividend-2007	-	(1,397,200)	-	-	1,397,200	-
Change in value of available for sale investments	-	-	(143,220)	-	-	(143,220)
Profit for the year	-	2,706,576	-	-	-	2,706,576
AT 31 DECEMBER 2007	1,996,000	6,387,857	745,571	2,319,764	1,397,200	12,846,392

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31st December 2007

	NOTE	2007 KShs'000	2006 KShs'000
NET CASH FLOWS FROM OPERATING ACTIVITIES	28(a)	2,395,523	1,865,848
Taxation recovered		231,708	-
Taxation paid		(92,764)	(64,778)
		138,944	(64,778)
INVESTING ACTIVITIES			
Proceeds from disposal of property, equipment and leasehold land		162,876	52,696
Proceeds from disposal of available for sale investments		-	497,256
Purchase of intangible assets		(176,987)	(38,902)
Purchase of property and equipment		(1,139,830)	(1,237,267)
Purchase of a corporate bond		(100,000)	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(1,253,941)	(726,217)
FINANCING ACTIVITIES			
Lines of credit		(14,475)	(44,398)
Dividends paid		(1,197,600)	(798,400)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(1,212,075)	(842,798)
INCREASE IN CASH AND CASH EQUIVALENTS		68,451	232,055
EFFECTS OF EXCHANGE RATE CHANGES ON OPENING NET INVESTMENT IN FOREIGN ENTITIES		(49,398)	(50,379)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		18,793,852	18,612,176
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	28(b)	18,812,905	18,793,852

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 2007

1. GENERAL INFORMATION

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

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

The shares of the Bank are listed on the Nairobi Stock Exchange.

2. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS

The Group adopted the following new and amended IFRS and IFRIC interpretations during the year:

- 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.

IFRS 7, 'Financial Instruments: Disclosures', requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. These new disclosures are shown in note 34.

IAS 1, 'Presentation of Financial Statements', requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 35.

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'.

3. ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

(b) Basis of consolidation

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

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

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

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

(c) Significant accounting judgements and estimates

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

from those estimates. The most significant use of judgements and estimates are as follows:

i) Impairment losses on loans and advances

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

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

ii) Fair value of financial instruments

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

iii) Deferred tax assets

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

iv) Pensions

The cost of the defined benefit pension plan is determined using actuarial valuation. The actuarial valuation involves making assumptions

about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

(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.

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

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.

(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.

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-

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

negotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subjected to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

iii) **Held to maturity investments**

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

(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.

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

4. CASH AND BALANCES WITH CENTRAL BANKS	GROUP		BANK	
	2007	2006	2007	2006
	KShs'000	KShs'000	KShs'000	KShs'000
Cash on hand	3,217,132	2,513,850	3,080,403	2,347,614
Balances with Central Banks	8,183,656	4,880,686	5,320,875	4,482,223
	11,400,788	7,394,536	8,401,278	6,829,837

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

5. HELD TO MATURITY INVESTMENTS

	GROUP		BANK	
	2007	2006	2007	2006
	KShs'000	KShs'000	KShs'000	KShs'000
(a) Treasury bills				
Maturing within 1 month	1,444,695	698,093	1,444,695	599,481
Maturing after 1 month but within 3 months	1,079,478	456,862	1,079,478	198,223
Maturing after 3 months but within 6 months	273,268	2,968,080	273,268	2,605,865
	2,797,441	4,123,035	2,797,441	3,403,569
(b) Treasury bonds				
Maturing within 1 month	352,770	-	-	-
Maturing after 1 month but within 3 months	1,560,366	-	1,066,604	-
Maturing after 3 months but within 12 months	2,034,374	2,263,794	1,745,374	2,263,794
Maturing after 1 year but within 5 years	13,744,476	9,197,356	13,744,476	9,197,356
Maturing after 5 years	790,372	2,355,705	790,372	2,355,705
	18,482,358	13,816,855	17,346,826	13,816,855
TOTAL GOVERNMENT SECURITIES	21,279,799	17,939,890	20,144,267	17,220,424
Maturing as follows:-				
Maturing within 1 month	1,797,465	698,093	1,444,695	599,481
Maturing after 1 month but within 3 months	2,639,844	456,862	2,146,082	198,223
Maturing after 3 months but within 12 months	2,307,642	5,231,874	2,018,642	4,869,659
Maturing after 1 year but within 5 years	13,744,476	9,197,356	13,744,476	9,197,356
Maturing after 5 years	790,372	2,355,705	790,372	2,355,705
	21,279,799	17,939,890	20,144,267	17,220,424

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

The weighted average effective interest rates on treasury bonds and bills as at 31 December 2007, was 10.54 % and 7.32 %, respectively (2006 - 11.63% and 8.12 %, respectively).

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

6. HELD FOR TRADING INVESTMENTS

These are treasury bonds issued by the Government of the Republic of Kenya and acquired by the Group for the generation of revenue from short term fluctuations in interest rates. The weighted average effective interest rates on treasury bonds as at 31 December 2007 was 10.54% (2006 : 11.63%)

7. INVESTMENTS

(a) INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

			2007	2006
			KShs'000	KShs'000
Company	Activity	Beneficial ownership %		
Kenya Commercial Finance Co. Ltd	Investment	100	150,000	150,000
Savings & Loan Kenya Ltd	Mortgage Finance	100	167,402	167,402
Enterprise Consultants Ltd	Dormant	100	-	-
Kenya Commercial Bank Nominees Ltd	Nominee Shareholders	100	-	-
Kencom House Ltd	Property ownership & management	100	748,645	748,645
KCB (Tanzania) Ltd	Commercial Banking	100	878,385	878,385
KCB Sudan Ltd	Conventional Banking	100	710,503	377,252
United Finance Ltd	Dormant	45	125	125
KCB Bank Uganda Ltd	Commercial banking	100	298,816	-
			2,953,876	2,321,809

(b) AVAILABLE FOR SALE INVESTMENTS

Quoted investments	854,875	898,095
Unquoted investments	4,765	4,765
	859,640	902,860

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

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

8. TAXATION

	GROUP		BANK	
	2007	2006	2007	2006
	KShs'000	KShs'000	KShs'000	KShs'000
8.1 BALANCE SHEET				
TAX (PAYABLE)/RECOVERABLE				
At 1 January	428,245	442,751	330,336	329,887
Tax paid during the year	92,764	64,778	1,421	449
Tax charge during the year	(1,018,742)	(58,752)	(909,921)	-
Translation difference	(2,130)	(251)	-	-
Under-provision in the previous years	(155)	(20,281)	128	-
Offset against other taxes	(231,708)	-	(231,708)	-
AT 31 DECEMBER	(731,726)	428,245	(809,744)	330,336

Comprising:

Tax recoverable	124,122	452,515	-	330,336
Tax payable	(855,848)	(24,270)	(809,744)	-
	(731,726)	428,245	(809,744)	330,336

DEFERRED TAX

The net deferred tax asset is attributable to the following items:

Depreciation over tax allowances	(6,702)	29,189	(27,690)	10,303
Provisions held	464,762	279,875	423,769	250,779
Tax losses carried forward	75,688	457,197	-	381,537
	533,748	766,261	396,079	642,619

8.2 INCOME STATEMENT

Current tax	1,018,742	58,752	909,921	-
Deferred tax charge	232,513	655,842	246,540	680,230
Under-provision in the previous years	155	20,281	(128)	-
	1,251,410	734,875	1,156,333	680,230

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

Accounting profit before taxation	4,225,982	3,166,753	3,862,909	3,034,909
Tax calculated at tax rate of 30%	1,267,795	950,026	1,158,873	910,473
Tax effects on items not deductible for tax purposes	232,323	202,657	374,233	185,949
Originating and reversing temporary differences	(248,708)	(417,808)	(376,773)	(416,192)
	1,251,410	734,875	1,156,333	680,230

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

9. LOANS AND ADVANCES TO CUSTOMERS

	GROUP		BANK	
	2007 KShs'000	2006 KShs'000	2007 KShs'000	2006 KShs'000
9.1 Loans and advances to customers				
Loans and advances to customers (gross)	72,897,589	53,878,600	64,618,163	48,801,561
Specific provisions for impairment (Note 10.1(a))	(7,900,913)	(8,106,321)	(7,488,715)	(7,690,932)
Collective provisions for impairment (Note 10.1(b))	(718,553)	(502,553)	(652,000)	(452,000)
LOANS AND ADVANCES TO CUSTOMERS (NET)	64,278,123	45,269,726	56,477,448	40,658,629
9.2 Maturity analysis of gross loans and advances to customers:				
Maturing within 1 month	8,775,879	5,445,946	7,986,658	4,707,986
Maturing after 1 month but within 3 months	320,900	462,389	235,312	457,724
Maturing after 3 months but within 1 year	2,673,289	4,258,872	2,224,021	4,123,955
Maturing after 1 year but within 5 years	51,730,432	37,745,350	51,681,143	37,192,061
Maturing after 5 years	9,397,089	5,966,043	2,491,029	2,319,835
	72,897,589	53,878,600	64,618,163	48,801,561
9.3 Sectoral analysis of gross loans and advances to customers:				
Private sector and individuals	66,955,347	48,070,876	58,675,921	42,993,837
Government and parastatals	5,942,242	5,807,724	5,942,242	5,807,724
	72,897,589	53,878,600	64,618,163	48,801,561

The weighted average effective interest rates on loans and advances as at 31 December 2007 was 12.12 % (2006 - 11.25%).

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

10. PROVISIONS FOR IMPAIRMENT

	GROUP		BANK	
	2007 KShs'000	2006 KShs'000	2007 KShs'000	2006 KShs'000
10.1 (a) Specific provisions for impairment (Note 9.1)				
At 1 January	8,106,321	9,520,018	7,690,932	9,071,215
Provisions made during the year	997,653	1,023,858	932,009	976,509
Interest suspended during the year	784,617	625,246	764,206	601,167
Write downs/write-offs during the year	(1,522,177)	(2,657,882)	(1,465,999)	(2,621,081)
Recoveries during the year	(465,501)	(404,919)	(432,433)	(336,878)
AT 31 DECEMBER	7,900,913	8,106,321	7,488,715	7,690,932

10.1 (b) Collective provisions for impairment (Note 9.1)

At 1 January	502,553	368,553	452,000	342,000
Provisions made during the year	216,000	134,000	200,000	110,000
AT 31 DECEMBER	718,553	502,553	652,000	452,000

10.2 Bad and doubtful debt expense

Additional specific provisions	997,653	1,023,858	932,009	976,509
Additional collective provisions	216,000	134,000	200,000	110,000
Recoveries made during the year	(465,501)	(404,919)	(432,433)	(336,878)
	748,152	752,939	699,576	749,631

11. BALANCES DUE FROM GROUP COMPANIES

Kencom House Limited		630,517	669,102
Savings and Loan Kenya Limited		3,344,159	927,459
Kenya Commercial Finance Company Limited		-	170
KCB (Tanzania) Limited		-	248
KCB Bank Uganda Limited		26,573	-
KCB Sudan Limited		119,911	52,354
		4,121,160	1,649,333

The net amount due from Savings and Loan Kenya Limited, as at 31 December 2007, includes a loan of KShs.3,375,000,000. The loan attracts interest at an average rate of 3 % p.a.

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

12. OTHER ASSETS

	GROUP		BANK	
	2007 KShs'000	2006 KShs'000	2007 KShs'000	2006 KShs'000
Other receivables	7,073,399	4,108,186	6,817,179	3,575,868
Prepayments	947,233	328,559	887,041	304,365
	8,020,632	4,436,745	7,704,220	3,880,233

13. INTANGIBLE ASSETS

COST				
At 1 January	385,941	347,324	368,180	329,563
Additions	176,987	38,902	176,987	38,902
Disposals	-	(285)	-	(285)
AT 31 DECEMBER	562,928	385,941	545,167	368,180
AMORTISATION				
At 1 January	275,865	200,329	258,708	183,717
Amortisation for the year	58,345	75,821	58,008	75,276
Disposals	-	(285)	-	(285)
AT 31 DECEMBER	334,210	275,865	316,716	258,708
NET BOOK VALUE				
AT 31 DECEMBER	228,718	110,076	228,451	109,472

The intangible assets are in respect of computer software costs.

14 (a) PROPERTY AND EQUIPMENT (GROUP)

As at 31 December 2007:	Freehold and leasehold premises KShs'000	Leasehold improvements KShs'000	Motor vehicles, furniture and equipment KShs'000	Total KShs'000
COST/VALUATION				
At 1 January 2007	1,823,115	187,341	4,866,717	6,877,173
Additions	38,458	30,904	1,070,468	1,139,830
Disposals	(32,460)	(36,120)	(158,759)	(227,339)
Reclassification	-	(46,161)	46,161	-
Translation differences	1,604	-	86	1,690
AT 31 DECEMBER 2007	1,830,717	135,964	5,824,673	7,791,354

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

14 (a) PROPERTY AND EQUIPMENT (GROUP) *(continued)*

DEPRECIATION

At 1 January 2007	310,984	69,346	2,429,055	2,809,385
Charge for the year	24,363	14,401	518,748	557,512
Disposals	(10,845)	(2,512)	(129,043)	(142,400)
Reclassification	-	(10,679)	10,679	-
Translation differences	441	-	584	1,025

AT 31 DECEMBER 2007	324,943	70,556	2,830,023	3,225,522
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NET BOOK VALUE

AT 31 DECEMBER 2007	1,505,774	65,408	2,994,650	4,565,832
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- i) A revaluation of certain freehold and leasehold properties held by the Group was carried out by Professional Valuers, in previous years, on the basis of open market value.
- ii) The translation difference arises from translation of opening balances in KCB (Tanzania) Limited and KCB Sudan Limited using the current year's closing exchange rate.

As at 31 December 2006:	Freehold and leasehold premises	Leasehold improvements	Motor vehicles, furniture and equipment	Total
	KShs'000	KShs'000	KShs'000	KShs'000

COST/VALUATION

At 1 January 2006	1,772,905	288,279	3,865,227	5,926,411
Additions	57,375	54,710	1,125,182	1,237,267
Disposals	(2,660)	(4,817)	(313,458)	(320,935)
Reclassification	-	(113,956)	113,956	-
Translation differences	(4,505)	-	(6,278)	(10,783)
Adjustment	-	(36,875)	82,088	45,213

AT 31 DECEMBER 2006	1,823,115	187,341	4,866,717	6,877,173
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DEPRECIATION

At 1 January 2006	293,901	145,561	2,071,974	2,511,436
Charge for the year	20,236	17,403	402,332	439,971
Disposals	(542)	(1,018)	(283,612)	(285,172)
Reclassification	-	(85,818)	85,818	-
Translation differences	(2,611)	-	(3,827)	(6,438)
Adjustment	-	(6,782)	156,370	149,588

AT 31 DECEMBER 2006	310,984	69,346	2,429,055	2,809,385
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NET BOOK VALUE

AT 31 DECEMBER 2006	1,512,131	117,995	2,437,662	4,067,788
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NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

- i) A revaluation of certain freehold and leasehold properties held by the Group was carried out by Professional Valuers, in previous years, on the basis of open market value.
- ii) The translation difference arises from translation of opening balances in KCB (Tanzania) Limited using the current year's closing exchange rate.
- iii) Adjustment relates to differences arising from the reconciliation of the fixed assets register to the general ledger.

14 (b) PROPERTY AND EQUIPMENT (BANK)

	Freehold and leasehold premises KShs'000	Leasehold improvements KShs'000	Motor vehicles, furniture and equipment KShs'000	Total KShs'000
As at 31 December 2007:				
COST				
At 1 January 2007	391,049	117,308	4,676,007	5,184,364
Additions	-	1,088	934,162	935,250
Disposals	-	(36,120)	(149,950)	(186,070)
Reclassification	-	(20,320)	20,320	-
AT 31 DECEMBER 2007	391,049	61,956	5,480,539	5,933,544
DEPRECIATION				
At 1 January 2007	165,311	29,607	2,311,321	2,506,239
Charge for the year	-	9,587	485,774	495,361
Disposals	-	(2,512)	(121,640)	(124,152)
Reclassification	-	(10,679)	10,679	-
AT 31 DECEMBER 2007	165,311	26,003	2,686,134	2,877,448
NET BOOK VALUE				
AT 31 DECEMBER 2007	225,738	35,953	2,794,405	3,056,096
As at 31 December 2006:				
COST				
At 1 January 2006	391,049	244,087	3,723,218	4,358,354
Additions	-	28,869	1,070,203	1,099,072
Reclassification	-	(113,956)	113,956	-
Adjustments	-	(36,875)	82,088	45,213
Disposals	-	(4,817)	(313,458)	(318,275)
AT 31 DECEMBER 2006	391,049	117,308	4,676,007	5,184,364

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

14 (b) PROPERTY AND EQUIPMENT (BANK) *(continued)*

DEPRECIATION				
At 1 January 2006	165,311	109,315	1,964,100	2,238,726
Charge for the year	-	13,910	388,646	402,556
Disposals	-	(1,018)	(283,613)	(284,631)
Adjustments	-	(6,782)	156,370	149,588
Reclassification	-	(85,818)	85,818	-
AT 31 DECEMBER 2006	165,311	29,607	2,311,321	2,506,239
NET BOOK VALUE				
AT 31 DECEMBER 2006	225,738	87,701	2,364,686	2,678,125

14 (c) LEASEHOLD LAND

	GROUP		BANK	
	2007	2006	2007	2006
	KShs'000	KShs'000	KShs'000	KShs'000
COST				
At 1 January	287,657	290,119	227,035	228,488
Disposals	(2,309)	(2,462)	(1,388)	(1,453)
AT 31 DECEMBER	285,348	287,657	225,647	227,035
AMORTISATION				
At 1 January	95,544	93,736	76,789	75,423
Disposals	(865)	(1,223)	(444)	(1,017)
Amortisation for the year	3,010	3,031	2,369	2,383
AT 31 DECEMBER	97,689	95,544	78,714	76,789
NET BOOK VALUE				
AT 31 DECEMBER	187,659	192,113	146,933	150,246

15. DEPOSITS AND BALANCES FROM OTHER BANKING INSTITUTIONS

	GROUP		BANK	
	2007	2006	2007	2006
	KShs'000	KShs'000	KShs'000	KShs'000
Deposits and balances from other banks	5,828,635	609,624	7,047,115	1,419,060
Maturing as follows:				
Payable within 1 month	5,828,635	609,624	7,047,115	1,419,060

The weighted average effective interest rates on deposits and balances from other banking institutions as at 31 December 2007 was 7.50% (2006- 5.85%).

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

16. OTHER CUSTOMER DEPOSITS	GROUP		BANK	
	2007 KShs'000	2006 KShs'000	2007 KShs'000	2006 KShs'000
(a) From government and parastatals:				
Payable within 1 month	19,286,740	15,697,771	17,592,232	14,099,865
Payable after 1 month, but within 3 months	1,099,826	1,540,258	1,086,417	1,527,230
Payable after 3 months, but within 1 year	147,707	49,392	95,327	49,392
	20,534,273	17,287,421	18,773,976	15,676,487
(b) From private sector and individuals:				
Payable within 1 month	66,164,343	53,965,339	61,073,618	51,423,361
Payable after 1 month, but within 3 months	5,384,374	3,654,925	4,478,562	2,919,374
Payable after 3 months, but within 1 year	2,305,229	2,213,539	1,311,983	1,407,905
Payable after 1 year, but within 5 years	4,142	71,665	-	67,485
	73,858,088	59,905,468	66,864,163	55,818,125
TOTAL OTHER CUSTOMER DEPOSITS	94,392,361	77,192,889	85,638,139	71,494,612
Maturing as follows:-				
Payable within 1 month	85,451,083	69,663,110	78,665,850	65,523,226
Payable after 1 month but within 3 months	6,484,200	5,195,183	5,564,979	4,446,604
Payable after 3 months but within 1 year	2,452,936	2,262,931	1,407,310	1,457,297
Payable after 1 year but within 5 years	4,142	71,665	-	67,485
	94,392,361	77,192,889	85,638,139	71,494,612

The weighted average effective interest rates on interest bearing customer deposits as at 31 December 2007 was 2.3 % (2006- 2.4 %).

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

17. OTHER LIABILITIES	GROUP		BANK	
	2007 KShs'000	2006 KShs'000	2007 KShs'000	2006 KShs'000
Bills payable	1,593,520	1,769,209	1,590,745	1,767,798
Accrued expenses	1,343,402	470,619	1,259,088	445,065
Other payables	3,193,432	757,484	2,951,742	636,729
	6,130,354	2,997,312	5,801,575	2,849,592

18. LINES OF CREDIT				
Payable after 3 months, but within 1 year	30,300	47,930	30,300	47,930
Payable after 1 year, but within 5 years	37,395	34,240	37,395	34,240
	67,695	82,170	67,695	82,170

The lines of credit relates to European Investment Bank (EIB) foreign currency loans and represents amounts which the Group has on-lent to private enterprises under the Global Private Enterprise Scheme introduced by EIB and channeled through the Approved Financial Institutions. The loans are advanced in Euros. The average interest rate for the year was 4.76 % p.a (2006 - 4.76 % p.a).

19. SHARE CAPITAL	2007 KShs'000	2006 KShs'000
Authorised:- 2,000,000,000 ordinary shares of KShs.1 each	2,000,000	2,000,000
Issued and fully paid:- 1,996,000,000 ordinary shares of KShs.1 each	1,996,000	1,996,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at Annual General Meeting of the Bank.

The top ten largest shareholders as at 31 December 2007 were:

Shareholder	No. of Shares	% 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 Limited 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 Limited A/C R48701	30,620,190	1.53
Nomura Nominees Limited A/C NSSF	20,241,300	1.01
Kenya Re-Insurance Corporation Ltd	17,269,150	0.87
Barclays (Kenya) Nominees Limited A/C 9230	16,464,750	0.82
Barclays (Kenya) Nominees Limited A/C 1256	13,854,460	0.69
TOTAL SHARES	920,562,014	46.09

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

The distribution of shareholders as at 31 December 2007 was as follows:

Share range	No. of shareholders	Shares held	%
1 to 5,000	123,578	150,357,581	7.53
5,001-50,000	27,626	197,583,555	9.90
50,001-100,000	662	47,607,157	2.39
100,001-1,000,000	623	176,070,016	8.82
1,000,001-10,000,000	116	467,688,117	23.43
10,000,001 and above	13	956,693,574	47.93
	152,618	1,996,000,000	100.00

20. RESERVES

	GROUP		BANK	
	2007 KShs'000	2006 KShs'000	2007 KShs'000	2006 KShs'000
Capital reserve	275,422	275,422	-	-
Revenue reserve	6,727,945	5,150,573	6,387,857	5,078,481
Share premium	2,319,764	2,319,764	2,319,764	2,319,764
Revaluation reserve	745,571	888,791	745,571	888,791
Translation reserve	(257,242)	(207,844)	-	-
	9,811,460	8,426,706	9,453,192	8,287,036

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.

21. DIVIDEND

	2007 KShs'000	2006 KShs'000
Final proposed	1,397,200	1,197,600
Dividend per share (KShs)	0.70	0.60

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

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

22. INTEREST INCOME	GROUP		BANK	
	2007 KShs'000	2006 KShs'000	2007 KShs'000	2006 KShs'000
Interest on loans and advances	6,558,239	4,312,982	5,783,100	3,876,231
Interest on held to maturity and trading investments	2,425,303	2,201,188	2,327,038	2,127,028
Interest on placements and bank balances	389,847	550,230	416,984	564,514
	9,373,389	7,064,400	8,527,122	6,567,773
23. INTEREST EXPENSE				
Interest on deposits	838,302	733,192	706,306	653,606
Interest on borrowed funds	83,520	17,736	83,520	17,283
	921,822	750,928	789,826	670,889
24. DIVIDEND INCOME				
Available for sale investments	23,961	42,534	23,961	42,534
25. OTHER OPERATING INCOME				
Rent income	89,356	117,750	17,621	41,920
Profit on disposal of property and equipment	75,028	11,100	33,007	10,421
Profit on disposal of available for sale investments	-	494,903	-	494,903
Miscellaneous income	375,652	328,275	373,190	337,384
	540,036	952,028	423,818	884,628
26. OTHER OPERATING EXPENSES				
Administrative expenses	3,230,027	2,907,416	2,769,255	2,664,850
Staff costs (note 29)	5,185,939	4,086,768	4,813,449	3,822,643
Directors' emoluments:				
-As directors	30,845	29,645	24,941	24,875
-As executives	82,924	63,275	82,924	63,275
Depreciation of property, equipment and leasehold land	557,512	439,971	495,361	402,556
Amortisation of intangible assets	58,345	75,821	58,008	75,276
Amortisation of leasehold land	3,010	3,031	2,369	2,383
Auditors' remuneration	12,019	11,267	8,300	7,600
	9,160,621	7,617,194	8,254,607	7,063,458

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

27. EARNINGS PER SHARE

Earnings per share is calculated on the profit attributable to ordinary shareholders of KShs 2,975 million and KShs 2,707 million for the Group and Bank, respectively (2006: KShs. 2,432 million and KShs. 2,355 million for the Group and Bank, respectively) and on the number of ordinary shares in issue at the respective balance sheet dates of 1.996 billion shares. There were no potentially dilutive shares outstanding at the respective balance sheet dates. Diluted earnings per share is, therefore, the same as basic earnings per share.

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) CASH FLOWS FROM OPERATING ACTIVITIES

This has been derived as follows:-

	2007 KShs'000	2006 KShs'000
Profit before taxation	4,225,982	3,166,753
Adjustments for:		
Depreciation of property and equipment	557,512	439,971
Amortisation of leasehold land	3,010	3,031
Amortisation of intangible assets	58,345	75,821
Profit on disposal of property, equipment and leasehold land	(75,028)	(11,100)
Profit on disposal of available for sale investments	-	(494,903)
Cash reserve ratio	(56,973)	(67,749)
Held to maturity investments	(57,555)	(4,201,284)
Loans and advances	(19,008,397)	(8,958,090)
Other assets	(3,583,887)	(582,037)
Other customer deposits	17,199,472	12,976,260
Other liabilities	3,133,042	(585,200)
Property and equipment adjustment	-	104,375

2,395,523

1,865,848

(b) ANALYSIS OF CASH AND CASH EQUIVALENTS

Balances with Central Banks	7,986,607	4,740,610
Cash on hand	3,217,132	2,513,850
Cheques and items for clearing	829,312	527,534
Held to maturity investments	4,437,309	1,154,955
Held for trading investments	4,399,098	3,530,419
Placements and balances with other banking institutions	3,772,082	6,936,108
Deposits and balances from other banking institutions	(5,828,635)	(609,624)

18,812,905

18,793,852

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.

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

29. STAFF COSTS

	GROUP		BANK	
	2007 KShs'000	2006 KShs'000	2007 KShs'000	2006 KShs'000
Salaries and wages	4,683,125	3,574,546	4,349,540	3,328,851
Medical	215,450	152,533	197,849	148,750
Pension scheme contributions	274,794	283,727	260,681	270,642
Other	12,570	75,962	5,379	74,400
	5,185,939	4,086,768	4,813,449	3,822,643

The number of employees of the Group as at the end of the year was 2,921 (2006 – 2,759).

30. RELATED PARTY TRANSACTIONS

(a) Inter-company transactions

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

	BANK	
	2007 KShs'000	2006 KShs'000
Due from subsidiary companies (Note 11)	4,121,160	1,649,333
Deposits and balances from other banking institutions	1,518,994	1,101,148

The above balances relate to transactions entered into with the subsidiary companies at arm's length in the ordinary course of business. Except as disclosed on note 11 to the financial statements, these transactions are carried out on normal commercial terms and at prevailing market rates.

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

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

	GROUP		BANK	
	2007 KShs'000	2006 KShs'000	2007 KShs'000	2006 KShs'000
Government of Kenya	657,623	-	657,623	-
Directors	1,812,070	886,674	1,812,070	886,674
Senior management	117,249	111,642	103,776	101,626
Other employees	2,485,203	2,312,153	2,387,253	2,218,208
	5,072,145	3,310,469	4,960,722	3,206,508

(c) Senior management compensation

Salaries and allowances (Included under staff costs-note 29)	238,519	212,668	209,669	195,383
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NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

31. SEGMENT REPORTING

(a) Business segments

The Group's main business is banking/finance which accounts for more than 90% of the total income. There are therefore no material distinct business segments to necessitate detailed disclosures.

(b) Geographical segments

Three of the Group companies, KCB (Tanzania) Limited, KCB Sudan Limited and KCB Bank Uganda Limited operate outside the domestic financial market. The income derived from these companies is less than 10% of the Group's total income and thus, no detailed geographical segments have been disclosed.

32. COMMITMENTS

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

	GROUP		BANK	
	2007 KShs'000	2006 KShs'000	2007 KShs'000	2006 KShs'000
(a) Capital commitments contracted for at year end	440,368	267,999	407,937	264,154
(b) Loans committed but not disbursed at year end	8,962,512	1,767,715	6,846,196	287,679
(c) Foreign currency commitments	519,164	3,187,569	519,164	3,187,569

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

33. CONTINGENT LIABILITIES

	GROUP		BANK	
	2007 KShs'000	2006 KShs'000	2007 KShs'000	2006 KShs'000
Letters of credit, acceptances, guarantees, indemnities and other engagements entered into on behalf of customers at 31 December	25,719,367	11,728,823	25,016,222	11,704,781
Litigation	92,115	92,115	56,000	56,000

for the year ended 31st December 2007

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.

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors of the Group has established the Risk Management, 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.

34.1 CREDIT RISK

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

Management of Credit Risk

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

- Formulating credit policies in consultation with business units, covering collateral requirements,

credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

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

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

Credit Risk Measurement

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

The Group's internal ratings scale is as follows:

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

Impairment and Provisioning Policies

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

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

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

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

GROUP	2007		2006	
	Loans and advances balance KShs'000	Provisions held KShs'000	Loans and advances balance KShs'000	Provisions held KShs'000
Grade 1	58,208,053	589,462	37,840,734	382,889
Grade 2	4,547,688	129,091	3,946,545	119,664
Grade 3	3,381,478	1,628,549	4,641,941	1,354,740
Grade 4	5,871,500	5,166,690	5,975,160	5,277,129
Grade 5	888,870	1,105,674	1,474,220	1,474,452
	72,897,589	8,619,466	53,878,600	8,608,874
BANK				
Grade 1	50,912,359	526,409	33,454,655	335,836
Grade 2	4,186,369	125,591	3,864,614	116,164
Grade 3	3,259,050	1,578,131	4,478,089	1,334,036
Grade 4	5,788,135	5,121,005	5,816,825	5,169,357
Grade 5	472,250	789,579	1,187,378	1,187,539
	64,618,163	8,140,715	48,801,561	8,142,932

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.

Loans and 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.

Included in advances graded 1 and 2 are balances amounting to KShs 1,448,582,000 (2006: KShs 884,382,000) which are past due but not impaired. These are advances where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of collateral available and / or the stage of collection of amounts owed to the Group.

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.

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

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

Write-off Policy

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

Collateral on Loans and Advances

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

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

	GROUP		BANK	
	2007 KShs'000	2006 KShs'000	2007 KShs'000	2006 KShs'000
Collateral on loans and advances	50,033,668	35,069,191	36,735,475	24,102,108

Concentration of Credit Risk

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

	GROUP		BANK	
	2007 KShs'000	2006 KShs'000	2007 KShs'000	2006 KShs'000
Construction	6,264,323	4,077,361	-	-
Micro credit	24,407,902	13,865,874	24,407,902	13,865,874
Agriculture	5,168,890	3,642,505	5,168,890	3,642,505
SME	5,523,157	2,287,356	3,508,052	1,287,678
Corporate	31,533,317	30,005,504	31,533,319	30,005,504
	72,897,589	53,878,600	64,618,163	48,801,561

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

34.2 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Group has no significant concentration of market risk.

34.3 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.

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

34.4 OPERATIONAL RISK

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

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

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

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

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

34.5 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

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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

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

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

	GROUP		BANK	
	2007	2006	2007	2006
At 31 December	40.7%	46.0%	33.3%	41.9%
Average for the year	43.1%	49.6%	42.5%	39.3%
Maximum for the year	46.0%	52.7%	43.5%	50.5%
Minimum for the year	40.7%	46.0%	33.3%	38.4%

Note 40 summarises the Group's liquidity risk as at 31 December 2007 and 31 December 2006.

34.6 INTEREST RATE RISK

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

Note 39 summarises the interest rate risk of the Group as at 31 December 2007 and 31 December 2006.

35. CAPITAL MANAGEMENT

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

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

Various limits are applied to elements of the capital base.

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

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

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

	2007 KShs'000	2006 KShs'000
Tier 1 capital		
Ordinary share capital	1,996,000	1,996,000
Retained earnings	7,785,057	6,276,081
Share premium	2,319,764	2,319,764
Less investments in financial institutions	(2,055,107)	(1,423,040)
Total	10,045,714	9,168,805
Tier 2 capital	-	-
TOTAL REGULATORY CAPITAL	10,045,714	9,168,805
RISK WEIGHTED ASSETS	73,813,317	58,217,932
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	13.6%	15.7%
Total tier 1 capital expressed as a percentage of risk-weighted assets	13.6%	15.7%
The minimum capital ratios, as per the Central Bank of Kenya regulations, is as follows:		
Total regulatory capital expressed as a percentage of total risk-weighted assets	12%	12%
Tier 1 capital expressed as a percentage of risk-weighted assets	8%	8%

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

37. FOREIGN CURRENCY EXPOSURE

The table below summarises the foreign currency exposure as at 31 December 2007.

	GROUP		BANK	
	2007 KShs'000	2006 KShs'000	2007 KShs'000	2006 KShs'000
Assets in foreign currencies	14,411,191	15,550,287	14,407,478	12,742,752
Liabilities in foreign currencies	(14,739,272)	(14,532,172)	(14,736,178)	(12,333,654)
Net foreign currency exposure at 31 December	(328,081)	1,018,115	(328,700)	409,098

38. RETIREMENT BENEFIT OBLIGATIONS

(a) KCB Pension Fund and Staff Retirement Benefit Scheme

The pension fund was split with effect from 1 June 2006 with the introduction of a Defined Contribution Scheme alongside the Defined Benefit Scheme. The assets of the fund were valued as at 31 May 2006 and a surplus of KShs.463.9 million was reported.

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

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

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

Current contribution costs (note 29)	274,794
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The principal actuarial assumptions used are as follows:

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

(b) National Social Security Fund (NSSF)

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

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

39. INTEREST RATE RISK

The tables below shows interest rate sensitivity position of the Group at 31 December 2007 and 31 December 2006 based on the earlier of maturity or re-pricing dates. Off balance sheet items do not pose any significant interest rate risk to the Group.

As At 31 December 2007:	Up To 1 Month					3-12 Months			1-5 Years		Over 5 Years		Non-Interest Bearing		Total KShs'000
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	
Cash and balances with Central Banks	-	-	-	-	-	-	-	-	-	-	-	-	11,400,788	11,400,788	
Cheques and items for clearing	-	-	-	-	-	-	-	-	-	-	-	-	829,312	829,312	
Held to maturity investments	1,797,465	2,639,844	2,307,642	13,744,476	790,372	-	-	-	-	-	-	-	21,279,799	21,279,799	
Held for trading investments	4,399,098	-	-	-	-	-	-	-	-	-	-	-	4,399,098	4,399,098	
Placements and balances with other banking institutions	3,772,082	-	-	-	-	-	-	-	-	-	-	-	3,772,082	3,772,082	
Available for sale investments	-	-	-	-	-	-	-	-	-	-	-	-	859,640	859,640	
Tax recoverable	-	-	-	-	-	-	-	-	-	-	-	-	124,122	124,122	
Loans and advances to customers	7,738,215	282,957	2,357,197	45,613,786	8,285,968	-	-	-	-	-	-	-	64,278,123	64,278,123	
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	8,020,632	8,020,632	
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	228,718	228,718	
Leasehold land	-	-	-	-	-	-	-	-	-	-	-	-	187,659	187,659	
Property and equipment	-	-	-	-	-	-	-	-	-	-	-	-	4,565,832	4,565,832	
Deferred tax	-	-	-	-	-	-	-	-	-	-	-	-	533,748	533,748	
TOTAL ASSETS	17,706,860	2,922,801	4,664,839	59,358,262	9,076,340	26,750,451	120,479,553	26,750,451	26,750,451	26,750,451	26,750,451	120,479,553	120,479,553	120,479,553	
Deposits and balances from other banking institutions	5,828,635	-	-	-	-	-	-	-	-	-	-	-	-	5,828,635	
Other customer deposits	85,451,083	6,484,200	2,452,936	4,142	-	-	-	-	-	-	-	-	-	94,392,361	
Other liabilities	-	-	-	-	-	-	-	-	-	-	-	-	6,130,354	6,130,354	
Tax payable	-	-	-	-	-	-	-	-	-	-	-	-	855,848	855,848	
Lines of credit	-	-	30,300	37,395	-	-	-	-	-	-	-	-	-	67,695	
Shareholders' funds	-	-	-	-	-	-	-	-	-	-	-	-	13,204,660	13,204,660	
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	91,279,718	6,484,200	2,483,236	41,537	20,190,862	120,479,553	120,479,553	120,479,553	120,479,553	120,479,553	120,479,553	120,479,553	120,479,553	120,479,553	
INTEREST RATE SENSITIVITY GAP	(73,572,858)	(3,561,399)	2,181,603	59,316,725	9,076,340	6,559,589	-	-	-	-	-	-	-	-	

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

39. INTEREST RATE RISK (Continued)

As at 31 December 2006:	Up to 1 month					1-3 months		3-12 months		1-5 years		Over 5 years		Non-interest bearing		Total KShs'000
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	
Cash and balances with Central Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	7,394,536	-	7,394,536
Cheques and items for clearing	-	-	-	-	-	-	-	-	-	-	-	-	-	527,534	-	527,534
Held to maturity investments	698,093	456,862	5,231,874	9,197,356	2,355,705	-	-	-	-	-	-	-	-	-	-	17,939,890
Held for trading investments	3,530,419	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,530,419
Placements and balances with other banking institutions	6,936,108	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,936,108
Available for sale investments	-	-	-	-	-	-	-	-	-	-	-	-	-	902,860	-	902,860
Tax recoverable	-	-	-	-	-	-	-	-	-	-	-	-	-	452,515	-	452,515
Loans and advances to customers	5,445,946	462,389	4,258,872	29,136,476	5,966,043	-	-	-	-	-	-	-	-	-	-	45,269,726
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	4,436,745	-	4,436,745
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	110,076	-	110,076
Leasehold land	-	-	-	-	-	-	-	-	-	-	-	-	-	192,113	-	192,113
Property and equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	4,067,788	-	4,067,788
Deferred tax	-	-	-	-	-	-	-	-	-	-	-	-	-	766,261	-	766,261
TOTAL ASSETS	16,610,566	919,251	9,490,746	38,333,832	8,321,748	18,850,428	92,526,571	92,526,571	92,526,571	92,526,571	92,526,571	92,526,571	92,526,571	92,526,571	92,526,571	92,526,571
Deposits and balances from other banking institutions	609,624	-	-	-	-	-	-	-	-	-	-	-	-	-	-	609,624
Other customer deposits	69,663,110	5,195,183	2,262,931	71,665	-	-	-	-	-	-	-	-	-	-	-	77,192,889
Other liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	2,997,312	-	2,997,312
Tax payable	-	-	-	-	-	-	-	-	-	-	-	-	-	24,270	-	24,270
Lines of credit	-	-	47,930	34,240	-	-	-	-	-	-	-	-	-	-	-	82,170
Shareholders' funds	-	-	-	-	-	-	-	-	-	-	-	-	-	11,620,306	-	11,620,306
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	70,272,734	5,195,183	2,310,861	105,905	8,321,748	14,641,888	92,526,571	92,526,571	92,526,571	92,526,571	92,526,571	92,526,571	92,526,571	92,526,571	92,526,571	92,526,571
INTEREST RATE SENSITIVITY GAP	(53,662,168)	(4,275,932)	7,179,885	38,227,927	8,321,748	4,208,540	-	-	-	-	-	-	-	4,208,540	-	-

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

40. LIQUIDITY RISK MANAGEMENT

As at 31 December 2007:

	Up to 1 month KShs'000	1-3 months KShs'000	3- 12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Cash and balances with Central Banks	10,753,380	450,359	196,703	346	-	11,400,788
Cheques and items for clearing	829,312	-	-	-	-	829,312
Held to maturity investments	1,797,465	2,639,844	2,307,642	13,744,476	790,372	21,279,799
Held for trading investments	4,399,098	-	-	-	-	4,399,098
Placements and balances with other banking institutions	3,772,082	-	-	-	-	3,772,082
Available for sale investments	-	-	-	-	859,640	859,640
Tax recoverable	-	-	124,122	-	-	124,122
Loans and advances to customers	7,738,215	282,957	2,357,197	45,613,786	8,285,968	64,278,123
Other assets	-	-	8,020,632	-	-	8,020,632
Intangible assets	-	-	-	228,718	-	228,718
Leasehold land	-	-	-	-	187,659	187,659
Property and equipment	-	-	-	-	4,565,832	4,565,832
Deferred tax	-	-	-	533,748	-	533,748
TOTAL ASSETS	29,289,552	3,373,160	13,006,296	60,121,074	14,689,471	120,479,553
Deposits and balances from other banking institutions	5,828,635	-	-	-	-	5,828,635
Other customer deposits	85,451,083	6,484,200	2,452,936	4,142	-	94,392,361
Other liabilities	-	-	6,130,354	-	-	6,130,354
Tax payable	-	-	855,848	-	-	855,848
Lines of credit	-	-	30,300	37,395	-	67,695
Shareholders' funds	-	-	-	-	13,204,660	13,204,660
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	91,279,718	6,484,200	9,469,438	41,537	13,204,660	120,479,553
NET LIQUIDITY GAP	(61,990,166)	(3,111,040)	3,536,858	60,079,537	1,484,811	-

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

40. LIQUIDITY RISK MANAGEMENT (Continued)

As at 31 December 2006:

	Up to 1 month	1-3 months	3- 12 months	1-5 years	Over 5 years	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cash and balances with Central Banks	6,942,749	311,711	135,776	4,300	-	7,394,536
Cheques and items for clearing	527,534	-	-	-	-	527,534
Held to maturity investments	698,093	456,862	5,231,874	9,197,356	2,355,705	17,939,890
Held for trading investments	3,530,419	-	-	-	-	3,530,419
Placements and balances with other banking institutions	6,936,108	-	-	-	-	6,936,108
Available for sale investments	-	-	-	-	902,860	902,860
Tax recoverable	-	-	-	-	452,515	452,515
Loans and advances to customers	5,445,946	462,389	4,258,872	29,136,476	5,966,043	45,269,726
Other assets	-	-	4,436,745	-	-	4,436,745
Intangible assets	-	-	-	-	110,076	110,076
Leasehold land	-	-	-	-	192,113	192,113
Property and equipment	-	-	-	-	4,067,788	4,067,788
Deferred tax	-	-	-	766,261	-	766,261
TOTAL ASSETS	24,080,849	1,230,962	14,063,267	39,104,393	14,047,100	92,526,571
Deposits and balances from other banking institutions	609,624	-	-	-	-	609,624
Other customer deposits	69,663,110	5,195,183	2,262,931	71,665	-	77,192,889
Other liabilities	-	-	2,997,312	-	-	2,997,312
Tax payable	-	-	24,270	-	-	24,270
Lines of credit	-	-	47,930	34,240	-	82,170
Shareholders' funds	-	-	-	-	11,620,306	11,620,306
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	70,272,734	5,195,183	5,332,443	105,905	11,620,306	92,526,571
NET LIQUIDITY GAP	(46,191,885)	(3,964,221)	8,730,824	38,998,488	2,426,794	-

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2007

41. OPERATING LEASE RENTALS

Non-cancellable operating lease rentals are payable as follows:

	2007 KShs'000	2006 KShs'000
Up to five years	182,847	48,898
More than five years	370,889	188,834
	553,736	237,732

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

42. COMPARATIVES

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

43. CURRENCY

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



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

I/We _____

Shares A/C No _____

of P O Box _____

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

of P O Box _____

or failing him the Chairman of the meeting as my/our proxy vote for me/us and on my/our behalf a the 37th Annual General Meeting to be held on 9th May 2008 and at any adjournment thereof.

Signed this _____ day of _____ 2008

Signature(s) _____

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



KATIBU

BENKI YA KENYA COMMERCIAL

GHOROFA YA 8, KENCOM HOUSE, MOI AVENUE

SANDUKU LA POSTA 48400 - 00100 NAIROBI KENYA

Mimi/Sisi _____

Nambari ya Akaunti ya Mwenyehisa _____

Sanduku la Posta _____

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

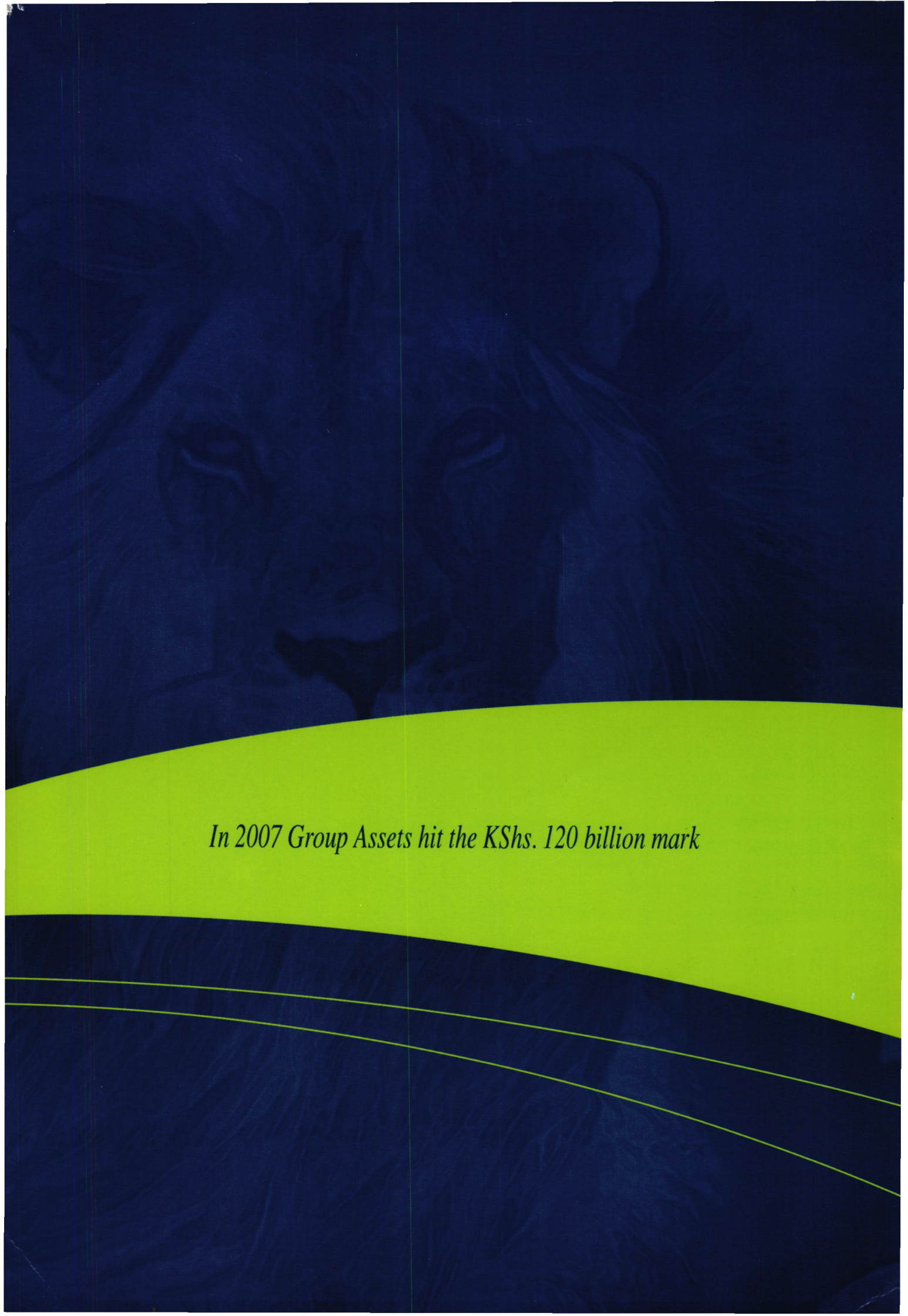
wa Sanduku la Posta _____

au akishindwa, Mwenyekiti wa Mkutano, kama mwakilishi wangu/wetu kupiga kura kwa niaba yangu/yetu katika Mkutano Mkuu wa 37 wa Mwaka wa Kampuni utakaofanyika tarehe 9 Mei 2008 au pale utakapoarishwa.

Imewekwa sahihi tarehe _____ Mwezi wa _____ 2008

Sahihi _____

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



In 2007 Group Assets hit the KShs. 120 billion mark



KCB | Making the
Difference

Kenya Commercial Bank Ltd.
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P O Box 48400 - 00100
Nairobi, Kenya

www.kcbbankgroup.com