
KENYA COMMERCIAL BANK

(Registration Number C.9/88.)

INFORMATION MEMORANDUM

RIGHTS ISSUE
OF 887,111,110 NEW ORDINARY SHARES
AT AN OFFER PRICE OF K.SHS. 17/-
IN THE RATIO OF TWO (2) NEW ORDINARY SHARES
FOR EVERY FIVE (5) ORDINARY SHARES HELD

Kenya Commercial Bank Limited

(“KCB” or the “Bank” or the “Group” or the “Company” or “Issuer”)

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

INFORMATION MEMORANDUM

IN RESPECT OF RIGHTS ISSUE OF 887,111,110 NEW ORDINARY SHARES AT AN OFFER PRICE OF KENYA SHILLINGS 17/- IN THE RATIO OF TWO (2) NEW ORDINARY SHARES FOR EVERY FIVE (5) ORDINARY SHARES HELD

The date of this Information Memorandum is 2 June 2010

This report contains 116 pages

Appendices comprise 5 pages

The offer opens on 1 July 2010 and closes on 23 July 2010

Joint Lead Transaction Advisors

KPMG Kenya
&
Standard Investment Bank Limited

Lead Sponsoring Stockbroker

Standard Investment Bank Limited

Reporting Accountants

Ernst & Young

Legal Advisors

Oraro & Company Advocates

Public Relations

Gina Din Corporate Communications

Advertising Agent

Nuturn Limited

Media Agency

Media Initiative of East Africa

VISION

To be the preferred Financial Solutions provider in Africa with Global Reach.

MISSION

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

Contents

1	Introduction	7
2	Chairman’s statement	9
3	Corporate information	10
	Advisors and other parties	11
	Definitions	12
6	Key features of the Rights Issue	14
6.1	Rights Issue Statistics	14
6.2	Reasons for the Rights Issue	14
6.3	Timetable of Principal Events	15
6.4	Minimum Success	15
6.5	Underwriting	15
6.6	Basis of Subscription Price	15
6.7	Pertinent Financial Data	17
6.8	Acceptance and Application Procedures	17
6.9	Offer	17
6.10	Status of the New Shares	17
6.11	Opening and Closing Date of the Rights Issue	18
6.12	Entitlement	18
6.13	Effect of not having a CDS Account	18
6.14	Acceptance Procedure	19
6.15	Application for Additional Shares and Allocation Policy	20
6.16	Renunciation of Rights	21
6.17	Restriction on Renunciation of Rights	22
6.18	Application Money	22
6.19	Refunds	23
6.20	New Shares	23
6.21	Untaken Rights and Allocation Policy	23
6.22	Loan Facilities	24
6.23	Foreign Investors	24
6.24	Regulatory Restrictions	25
6.25	Tax Implications	25
6.26	Expenses of the Rights Offer	26
6.27	Governing Law	26
7	Economic overview	27
7.1	Kenya	27
7.2	Uganda	28
7.3	Tanzania	28
7.4	Rwanda	29
7.5	South Sudan	30
8	Overview of the banking sector in the region	31
8.1	Kenya	31
8.2	Uganda	35
8.3	Rwanda	37
8.4	Tanzania	38
8.5	Sudan	38
9	Information on Kenya Commercial Bank Limited and its subsidiaries	40
9.1	History of the KCB Group	40
9.2	Shareholding structure	40
9.3	Recent milestones	41
9.4	KCB and its subsidiaries	43
9.5	Staffing	46
9.6	Products and services	46
9.7	KCB rankings – Kenya	46
9.8	Group financial performance	46
9.9	Performance and Statutory Ratios	47
9.10	Future outlook	48

10	Corporate governance, the Board of Directors and divisional directors.....	49
10.1	Board Committees.....	49
10.2	Direct equity investments of directors.....	50
10.3	Communication with shareholders.....	51
10.4	Board of Directors.....	51
11	Risk factors.....	60
11.1	Overview.....	60
11.2	Risk Management reporting.....	60
11.3	Core risks of the Group.....	61
12	Legal opinion.....	64
13	Statutory and general information.....	68
13.1	Incorporation details.....	68
13.2	The registered office of KCB.....	68
13.3	Extracts from the Articles of Association.....	68
13.4	Material and related party contracts.....	70
13.5	Material changes in the financial or trading position of KCB.....	70
13.6	Consents.....	70
13.7	Documents available for inspection.....	70
14	Reporting Accountants' Report.....	72
15	Authorised Selling Agents.....	101
15.1	Kenya.....	101
15.2	Tanzania.....	103
15.3	Uganda.....	103
15.4	Rwanda.....	105
16	KCB branches.....	106
16.1	Analysis of KCB Branch Network.....	106
16.2	KCB subsidiary branch listing.....	106
16.3	KCB Kenya branch listing.....	106
17	Directors' statement.....	109
	Notes.....	115

Appendices

1	Appendix: Form of Guarantee	110
2	Appendix: Form of PAL	111
3	Appendix: Group and Bank un-audited results for the quarter ended 31 March 2010	113

List of tables

Table 1: Equity injection in year 2010 by country.....	14
Table 2: KCB NSE share price – annual high and low	16
Table 3: KCB share price quarterly high and low	16
Table 4: KCB share price last six months – monthly highs and lows	16
Table 5: Ownership and asset base of financial institutions	31
Table 6: Distribution of bank branches	33
Table 7: Major shareholders (source: KCB Group)	40
Table 8: Major shareholders (source: KCB Group Annual Report)	40
Table 9: Shareholder profile.....	41
Table 10: Shareholder profile.....	41
Table 11: Milestones of KCB Group.....	41
Table 12: Operational banking subsidiaries of KCB.....	43
Table 13: Non-banking subsidiaries.....	43
Table 14: Products and services	46
Table 15: KCB Kenya – rankings	46
Table 16: Performance and Statutory ratios 2005-2009.....	47
Table 17: Members of the Committees	50
Table 18: Directors interests in KCB - Source: KCB Group	51
Table 19: Board of Directors interests in KCB - Source: KCB Group.....	51
Table 20: Profiles of KCB Tanzania, Directors	52
Table 21: Profiles of KCB Rwanda SA, Directors.....	53
Table 22: Profiles of KCB Bank Uganda, Directors.....	54
Table 23: Profiles of KCB Sudan, Directors.....	54
Table 24: Profiles of KCB Foundation, Directors.....	55
Table 25: Executive Committee of KCB - Source: KCB Group.....	56
Table 26: KCB Tanzania, Directors	58
Table 27: KCB Rwanda, Directors	58
Table 28: KCB Uganda, Directors	58
Table 29: KCB Sudan, Directors	58
Table 30: Kencom House, Directors.....	59
Table 31: KCB Foundation, Directors	59
Table 32: Licensed Investment Banks in Kenya	101
Table 33: List of licensed Stockbrokers in Kenya.....	102
Table 34: List of Commercial Banks in Kenya appointed as Authorised Selling Agents.....	102
Table 35: List of Licensed Investment Banks in Tanzania	103
Table 36: List of Licensed Stockbrokers in Uganda.....	103
Table 37: List of licensed Investment Advisors in Uganda.....	104
Table 38: List of Licensed Investment Banks in Rwanda.....	105
Table 39: Analysis of KCB branches by country and by region for Kenya.....	106
Table 40: Branch listing for subsidiaries	106
Table 41: Branch listing of KCB Kenya	107
Table 42: KCB mortgage centres.....	108
Table 43: Balance Sheets for the Group and Bank as at 31 March 2009, 31 December 2009 and 31 March 2010.....	113
Table 44: Income Statements for the Group and the Bank for the quarter ended 31 March 2009, year ended 31 December 2009 and quarter ended 31 March 2010.....	114

1. Introduction

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR CAREFUL ATTENTION

This Information Memorandum (IM) contains information that is provided in compliance with the requirements of the Companies Act (Chapter 486 of the Laws of Kenya) (“the **Companies Act**”) and the Capital Markets Act (Chapter 485A of the Laws of Kenya) (“the **Capital Markets Act**”) as well as the rules and regulations thereunder. The directors of Kenya Commercial Bank Limited (“**KCB**” or “**the Bank**”), being the persons named on page 8 of this IM have taken all reasonable care to ensure that the facts stated and the opinions expressed herein are true and accurate in all material respects, and there are no other material facts the omission of which would make any statement herein, whether of fact or opinion, misleading. All the directors of KCB accept responsibility accordingly.

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

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

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

The Nairobi Stock Exchange (“**NSE**”) has given permission for listing of the New Shares (hereinafter defined) on the Main Investment Market Segment (“**MIMS**”) of the Official List of the NSE (“the **Official List**”). It is expected that the admission of the New Shares will commence on 19 August 2010. The NSE assumes no responsibility for the correctness of any of the statements made or opinions or reports expressed in this IM. Admission of the shares issued pursuant to the Rights Issue (“the **New Shares**”) to the Official List is not to be taken as an indication of the merits of KCB or of the New Shares. The directors of the Issuer, whose names appear on page [8] of the IM, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with facts and does not omit anything likely to affect the import of such information.

This IM and the PAL are being presented to enable you to make an informed decision on the Offer. The procedures for acceptance and payment are set out in this IM and the PAL.

The latest time for the acceptance and payment in full for the rights provisionally allotted to you is 3.00 p.m. on 23rd July 2010. After this time and date, any untaken Rights will lapse and will revert to the Board of Directors of KCB to allot in line with the allotment procedure set out in this IM. The allotment procedure is fully subject to the existing regulatory requirements as set out by the Capital Markets Act and the Banking Act (Chapter 488 of the Laws of Kenya) (“the **Banking Act**”).

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

Enquiries concerning this IM or the PAL may be made to the Company Secretary of KCB or the Transaction Advisor whose contact details are set out in pages 10 and 11 hereof.

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

DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Information Memorandum:

- (a) the most recently published audited financial statements as at 31 December 2009; and
- (b) all supplements or amendments to this Information Memorandum from time to time

Any statement contained in this Information Memorandum or in a document which is deemed to be incorporated by reference in this Information Memorandum shall be deemed to be modified or superseded for the purpose of this Information Memorandum to the extent that a statement contained in any such subsequent document which is deemed to be incorporated in this Information Memorandum modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of the Information Memorandum.

The Issuer will provide without charge for inspection to each person to whom a copy of this Information Memorandum has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its office set out at the end of this Information Memorandum.

Legal Advisor's opinion

Oraro & Co Advocates, the Legal Advisors to the Issuer, have given and not withdrawn their written consent to the inclusion in this Information Memorandum of their letter and the references to their names, in the form and context in which they appear and have authorised the contents of their letter set out in **Section 12** of this Information Memorandum.

Reporting Accountant's opinion

This Information Memorandum contains a statement from Ernst & Young Certified Public Accountants, the Reporting Accountants, which constitutes a statement made by an expert in terms of Section 42(1) of the Companies Act and have not withdrawn their consent to the issue of the said statement in the form and context in which it is included in **Section 14** of this Information Memorandum.

Directors

The Directors of Kenya Commercial Bank Limited are as follows:

Director	Position	Nationality	Business address
Mr. Peter W. Muthoka	Chairman	Kenyan	P.O Box 48400-00100, Nairobi
Dr. Martin Oduor-Otieno	Chief Executive Officer	Kenyan	P.O Box 48400-00100, Nairobi
Mr Samuel Kimani	Deputy CEO	Kenyan	P.O Box 48400-00100, Nairobi
Mr. Joseph I. Adongo	Non-Executive Director	Kenyan	P.O Box 48400-00100, Nairobi
Mr. Joseph K. Kinyua	Non-Executive Director	Kenyan	P.O Box 48400-00100, Nairobi
Mrs. Catherine N. Kimura	Non-Executive Director	Kenyan	P.O Box 48400-00100, Nairobi
Eng. Musa Ndeto	Non-Executive Director	Kenyan	P.O Box 48400-00100, Nairobi
Mrs. Susan N. Omanga	Non-Executive Director	Kenyan	P.O Box 48400-00100, Nairobi
Mr. Sunil N. Shah	Non-Executive Director	Kenyan	P.O Box 48400-00100, Nairobi
Prof. Peter K. Kimuyu	Non-Executive Director	Kenyan	P.O Box 48400-00100, Nairobi
Mrs. Catherine Kola	Non-Executive Director	Kenyan	P.O Box 48400-00100, Nairobi
Mr Kiprop D Malakwen	Company Secretary	Kenyan	P.O Box 48400-00100, Nairobi

2. Chairman's statement

Dear Shareholders/Investors,

On behalf of the Board of Directors of KCB Group, I have great pleasure in presenting to you this Information Memorandum for the Third KCB Rights Issue. This follows approval by shareholders on May 7, 2010 for the increase in authorised share capital and the raising of additional capital through the rights issue.

The Purpose of this Rights Issue

Our business has grown tremendously over the last five years resulting in a balance sheet of over Kshs195 billion at the end of 2009. This growth has put pressure on our prudential ratios and impacted negatively on our ability to grow further. Consequently, the Board has made a strategic decision to go to the market for additional long-term funds to support your Bank's growth plans over the coming years and strengthen its capital base. Increased capital will also enable us to book long-term assets such as loans for housing and property development.

Our financial performance over the last five years reflects an impressive growth trend with profit before tax going up from Kshs 1.95 billion in 2005 to Kshs 6.3 billion in 2009. Net loans and advances increased from Kshs 36.3 billion in 2005 to Kshs 120.5 billion in 2009 while deposits grew from Kshs 64.2 billion in 2005 to Kshs 162.5 billion in 2009. So, we are running a very vibrant business that can only grow further if it has adequate capital and the operating environment remains favourable. It is our humble expectation that shareholders will feel motivated to put in more money to facilitate this growth.

Our Regional Brand

KCB is now a regional brand with presence in Kenya, Uganda, Tanzania, Rwanda and Southern Sudan. Our stakeholding has over the last four years grown to incorporate citizens of East Africa who are not only our customers but also our shareholders. Following the cross-listing of KCB shares in Uganda, Tanzania and Rwanda, the rights issue will be accessed by our stakeholders in all the markets where we operate as we open up further investment opportunities for the people of East Africa.

Business Consolidation

Having created a wide presence in the markets in which we operate, we want to concentrate on consolidating our business so as to reap the benefits of your investment hence increased returns for you. In that respect, we are paying a lot of attention to cost management in order to improve on efficiency and productivity as a basis of generating more value from the business. We also want to drive our customer service to a level that will make KCB the banker of choice in the region and enable us to achieve a bigger share of the market.

The future of this bank is, indeed, bright as we ready ourselves for growth in 2010 and beyond. We are optimistic that you share our vision for this business and will come on board, take up your rights and support the growth and prosperity of your bank.

Yours Sincerely,



Mr. Peter W. Muthoka, MBS, FKIB, FKIM
Group Chairman

3. Corporate information

Registered Office	Kenya Commercial Bank Limited KENCOR House, 8 th Floor, Moi Avenue P.O. Box 48400-00100 Nairobi
Company Secretary	Kiprop D. Malakwen KENCOR House, 8 th Floor Moi Avenue P.O. Box 48400-00100, Nairobi Telephone: +254 20 3270000 Facsimile: +254 20 216405 E-mail: kdmalakwen@kcb.co.ke
Auditors	Ernst & Young Certified Public Accountants P.O. Box 44286-00100, Nairobi Telephone: +254 20 2715300 Facsimile: +254 20 276271 E-mail: info@ey.co.ke
Shares Registrar	Seline D. Udi KENCOR House, 2nd Floor Moi Avenue P.O. Box 48400-00100 Telephone: +254 20 3270000 Facsimile: +254 20 216405 E-mail: sudi@kcb.co.ke
Advocates	Various (List Available at the Bank's Registered Head Office)

4. Advisors and other parties

Joint Lead Transaction Advisors	Lead Sponsoring Broker
<p>KPMG Kenya 16th Floor, Lonrho House Standard Street PO Box 40612-00100 Nairobi, Kenya Telephone: +254 20 2806000 Facsimile: +254 20 2215695</p> <p>and</p> <p>Standard Investment Bank Limited ICEA Building, 16th Floor, Kenyatta Avenue PO Box 13714-00800 Nairobi, Kenya Telephone: +254 20 2228963/2220225 Facsimile: +254 20 2240297</p>	<p>Standard Investment Bank Limited ICEA Building, 16th Floor, Kenyatta Avenue PO Box 13714-00800 Nairobi, Kenya Telephone: +254 20 2228963/2220225 Facsimile: +254 20 2240297</p>
Receiving Bank	Reporting Accountants
<p>Kenya Commercial Bank Limited KENCOM House, 8th Floor, Moi Avenue P.O. Box 48400-00100 Nairobi, Kenya Telephone: +254 20 3270000 Facsimile: +254 20 2216405</p>	<p>Ernst & Young Head Office Kenya Re Towers Upper Hill Off Ragati Road P.O. Box 44286-00100 Nairobi, Kenya Telephone: +254 20 2715300 Facsimile: +254 20 276271</p>
Legal Advisor	Public Relations Consultant
<p>Oraro & Company Advocates ACK Garden House 3rd Floor, Wing C, First Ngong Avenue PO Box 51236-00200 Nairobi, Kenya Telephone: +254 20 2713636 Facsimile: +254 20 272 7209 Mobile: +254 722 203 054</p>	<p>Gina Din Corporate Communications Gitanga Road P.O Box 42518-00100 Nairobi, Kenya Telephone: +254 20 3589000-5 Facsimile: +254 20 3589006</p>
Advertising Agent	Media Agency
<p>Nuturn Limited P. O. Box: 59051 - 00200 City Square Mombasa Road, Plaza 2000, 3rd Floor Nairobi , Kenya Telephone: +254 20 551551 Facsimile: +254 20 551549</p>	<p>Media Initiative of East Africa P.O Box 34537-00100 Nairobi, Kenya Telephone: +254 20 2711714/ 2710021-6 Facsimile: +254 20 2712433</p>

5. Definitions

In this Information Memorandum:

Subject	Definition
“Accepted Rights”	means Rights accepted by an Eligible Shareholder pursuant to a duly completed and signed Entitlement and Acceptance Form;
“Additional Shares”	means New Shares applied for by an Eligible Shareholder in excess of his Entitlement;
“Allocation Policy”	means the policy of allocating untaken Rights set out in Section 6 paragraph 6.15 of this IM;
“Application Money”	means the Subscription Price per New Share payable by Eligible Shareholders in accordance with the relevant Entitlement and Acceptance Form plus, in the case of an Eligible Shareholder with a CDS Account, K.Shs.30/= per PAL;
“ATM”	means Automated Teller Machines, a computerised telecommunications device that provides the clients of a financial institution with access to financial transactions in a public space without the need for a cashier, human clerk or bank teller;
“Authorized Selling Agent”	means the parties set out in Section 15 (<i>Authorized Selling Agents</i>) of this IM, being parties duly authorized by KCB to receive Entitlement and Acceptance Forms together with the Application Money;
“BNR”	means Bank Nationale de Rwanda;
“BOSS”	means Bank of Southern Sudan;
“BOT”	means Bank of Tanzania;
“BOU”	means Bank of Uganda;
“Capital Markets Legislation”	means (a) the Capital Markets Act, Chapter 485A of the Laws of Kenya and all subsidiary legislation and rules and guidelines promulgated thereunder (b) the rules of the NSE and (c) any law applicable to capital markets in Kenya;
“CBS”	means Central Bank of Sudan;
“CDS”	means the Central Depository System, a versatile computer system that facilitates holding of securities in electronic accounts thereby facilitating faster and easier processing of transactions at the NSE;
“CDS Account”	means a securities account opened with the Central Depository and Settlement Corporation Limited (“ CDSC ” or “ CDSC Limited ”) for the purpose of recording the deposit and dealing of immobilized securities;
“CDSC”	means the Central Depository and Settlement Corporation Limited, the Kenyan company that owns and manages the Central Depository System;
“CEO”	means Chief Executive Officer;
“CMA”	means the Capital Markets Authority in Kenya, a statutory body incorporated under the Capital Markets Authority Act and includes any body replacing it or any of its functions;
“CSR”	means Corporate Social Responsibility;
“DCEO”	means Deputy Chief Executive Officer;
“DSE”	means Dar-es-Salaam Stock Exchange;
“Directors” or “the Board”	means the Board of Directors of KCB;
“East African Community Partner States”	means the East African Community Partner States and includes such states as may be deemed to the members from time to time of the East African Community. Currently the Partner States are Kenya, Uganda, Tanzania, Rwanda and Burundi;
“EFT”	means Electronic Funds Transfer;
“Eligible Shareholder”	means a shareholder registered as holder of Existing Shares as of the Record Date;
“Entitlement”	means the entitlement to New Shares of an Existing Shareholder (or purchaser of or renounce of Rights) pursuant to the Rights Issue at the Entitlement Ratio;
“Entitlement and Acceptance Form”	means, where the context requires, the PAL and/or Form E and or Form R;
“Entitlement Ratio”	means Two (2) New Shares for every Five (5) Existing Shares;
“Existing Share”	means ordinary shares of par value Kshs. 1.00 each in KCB and held by Eligible Shareholders as of the Record Date;

Subject	Definition
“GDP”	means Gross Domestic Product;
“GoK”	means Government of Kenya;
“Group”	means KCB and its subsidiaries identified in Section 9.4 (<i>Information on Kenya Commercial Bank Limited and its Subsidiaries</i>);
“ICT”	means Information and Communication Technology;
“IM”	means Information Memorandum;
“KCB”	means Kenya Commercial Bank Limited unless specified otherwise;
“MIMS”	means the Main Investment Market Segment of the NSE;
“New Shares”	means the 887,111,110 new ordinary shares in the capital of KCB to be issued pursuant to the Rights Issue;
“NSE”	means the Nairobi Stock Exchange Limited;
“Offer”	means the offer to subscribe for New Shares pursuant to and in accordance with this IM;
“PAL”	means the Provisional Allotment Letter issued to Eligible Shareholders with CDS Accounts indicating an Eligible Shareholders Entitlement and providing for full or partial acceptance in the form or substantially in the form set out in Appendix 2;
“Record Date”	means 5.00 pm on 18 June 2010;
“Registrar”	means the share registrar appointed in connection with the Rights Issue whose name and address appear in Section 3 (<i>Corporate Information</i>);
“Renounee”	means any person of at least 18 years of age as at the date of renunciation in whose favour Rights have been renounced in accordance with this IM and the PAL;
“Rights”	means the right to subscribe for New Shares under the terms of this IM and the PAL;
“Rights Issue Documents”	means (a) this IM (b) the PAL and (c) any other written communication or notification made by KCB to Eligible Shareholders in connection with the Rights Issue;
“ROTC”	means Rwanda Over The Counter Market;
“Subscription Price”	means Kshs. 17/- per New Share;
“Untaken Rights”	means the aggregate of New Shares not subscribed for, howsoever that may occur; and
“USE”	means Uganda Securities Exchange.

In this Information Memorandum:

Except where the context otherwise requires:

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

6. Key features of the Rights Issue

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

6.1 Rights Issue Statistics

Subscription Price	Kshs. 17/- per New Share
Total number of New Shares offered	887,111,110 ordinary shares of Kshs.1.00 each, to rank <i>pari passu</i> in all respects with the existing ordinary shares in KCB
Total amount to be raised before expenses	Kshs 15,080,888,870/-
Ratio of Entitlement	Two (2) New Shares for every Five (5) Existing Shares held

6.2 Reasons for the Rights Issue

The purpose of the Rights Issue is to facilitate the Group's medium term strategy that focuses on consolidating the business in all its markets of operation and meet growth needs; fostering an efficient market-driven organisation attuned to the needs of its customers; growing profitability and market share; growing the mortgage lending business in the region; and building on the existing risk culture and cost management to enhance shareholder value.

The capital needs by the various entities of the Kenya Commercial Bank Limited Group are estimated as follows:

Table 1: Equity injection in year 2010 by country

	Kshs million
KCB-Kenya	12,901
KCB-Uganda	1,492
KCB-Rwanda	473
KCB-Tanzania	894
KCB-Sudan	(425)
Total	15,336

The exact use of the funds raised from the Rights Issue will be dictated by future business demands based on evaluation by the Management and the Board of the Bank.

6.2.1 Use of funds from earlier Rights Issues

The Bank offered Rights Issues in 2004 and 2008. The proceeds from these two offers were used as shown below.

2008 Rights Issue: an amount of Kshs 5.2 billion was raised from this issue. The proceeds from the offer supported the Bank to grow its business and finance regional expansion into Uganda and Rwanda. The proceeds from the offer also permitted the Bank to recapitalise its operations in Tanzania and Sudan. The balance sheet of the Bank grew from Kshs 120 billion in 2007 to Kshs 195 billion in 2009.

2004 Rights Issue: an amount of Kshs 2.3 billion was raised from this issue. The proceeds from the offer supported the Bank to grow its business from Kshs 60 billion in 2003 to Kshs 120 billion in 2007. The profitability of the Bank improved from pretax profits of Kshs 0.58 billion in 2003 to Kshs 2.97 billion in 2007.

6.3 Timetable of Principal Event

	Reports and Activities Completion details	Date
1.	Record Date (Register closure date)	18 June 2010
2.	Upload of the Rights into the CDSC System	24 June 2010
3.	Offer Opening and Commencement of trading in Rights at the NSE, USE, DSE and ROTC	1 July 2010
4.	Last date for immobilization of Provisional Rights	6 July 2010
5.	Last date for renunciation (by way of private transfer)/ Last date for splitting	9 July 2010
6.	Last day for trading in Rights	12 July 2010
7.	Offer Closing and last date and time for acceptance and payment of New Shares	23 July 2010
8.	Allotment and announcement of the Offer results	5 August 2010
9.	Final date for payment for Additional Shares to Receiving Bank for applications against irrevocable bank guarantees	5 August 2010
10.	Commencement of electronic crediting of CDS accounts and issuance of share certificates to Authorised Selling Agents	11 August 2010
11.	Commencement of payment of Refunds through Electronic Funds Transfer or Refund Cheques	11 August 2010
12.	Listing and Commencement of Trading (two weeks after allotment) at the NSE, USE, DSE and ROTC	19 August 2010

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

6.4 Minimum Success

The Rights Issue is subject to a minimum subscription level of fifty percent (50%) of Kshs 15 billion, that is, Kshs 7.5 billion.

6.5 Underwriting

The Rights Issue is not underwritten

6.6 Basis of Subscription Price

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

- Recent performance of the index and turnover at the NSE;
- Recent announcements of the financial results for the year ended 31 December 2009 and the proposed Rights Issue;
- Past performance of Rights Issues at the NSE;
- Current political environment;
- Current macro-economic environment;
- Banking sector environment;
- KCB's unique competitive strengths; and
- KCB's strategic plan.

The Subscription Price of Kshs 17/- represents a discount of 19.8% of the weighted average price of KCB at the NSE for the past six months period from November 2009 to April 2010 of Kshs 21/20.

The KCB closing share price on 23 February 2010, the day before the announcement of the 31 December 2009 results was Kshs 21/25 and the closing share price on the day of the announcement of the results was Kshs 21/00. The KCB closing share price on 28 April 2010, the day before the announcement of the 1st quarter 2010 results was Kshs 22/75

and the closing share price on the day of the announcement was Kshs 23/00.

The KCB share price annual lows and highs for the financial years 2005 to 2009 are as follows:

Table 2: KCB.NSE share price – annual high and low

Year	Low	High	Average
2005	6.05	11.30	7.553
2006	10.90	24.10	16.045
2007	16.90	28.50	25.115
2008	16.85	33.50	27.200
2009	15.20	24.25	20.085

The KCB share price quarterly highs and lows for full financial quarters in the two most recent full financial years (31 December 2008 and 31 December 2009) and for the quarter to 31 March 2009 are as follows:

Table 3: KCB share price quarterly high and low

Full financial quarter to:	Low	High
31 March 2008	24.00	30.00
30 June 2008	26.00	33.50
30 September 2008	25.25	31.50
31 December 2008	16.85	26.00
31 March 2009	15.20	24.25
30 June 2009	18.75	23.00
30 September 2009	19.80	23.75
31 December 2009	19.50	20.75
31 March 2010	20.00	23.25

The KCB market share price highs and lows in each month for the most recent six months, are as follows:

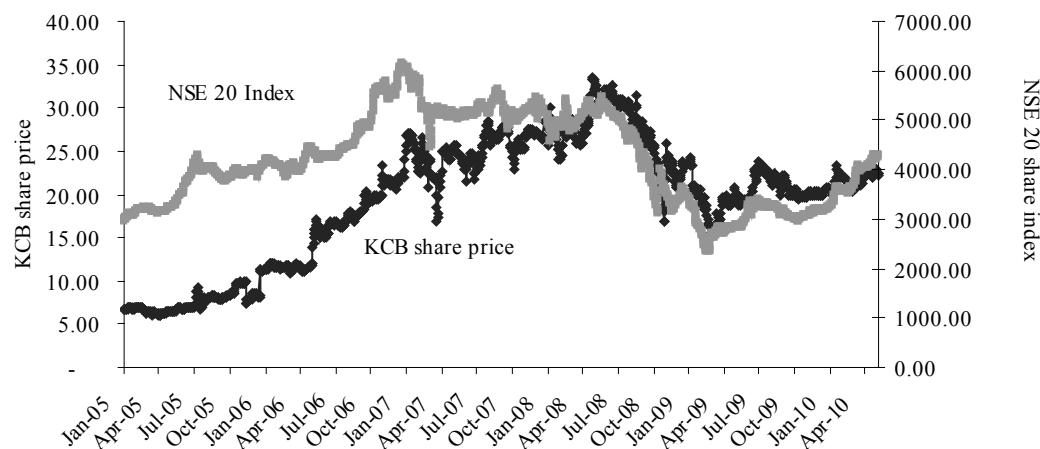
Table 4: KCB share price last six months – monthly highs and lows

Month	Low	High
November 2009	19.65	20.25
December 2009	19.85	20.75
January 2010	20.00	23.25
February 2010	20.50	22.00
March 2010	20.25	22.50
April 2010	22.00	23.50

KCB Share Price Vs NSE 20 share index

The following chart illustrates the performance of KCB share price against the NSE 20 Share Index between 3 January 2005 and 7 May 2010. The share prices up to April 2007 have been adjusted for the 10:1 share split.

KCB share price Vs NSE share index



Source: Nairobi Stock Exchange, Standard Investment Bank and KPMG

6.7 Pertinent Financial Data

1	Par Value of each share	Kshs 1/=
2	Total number of authorized shares of KCB	3,500,000,000
3	Total number of issued and fully paid up shares before the Rights Issue	2,217,777,777
4	Authorised share capital of KCB	Kshs 3,500,000,000
5	Fully paid up share capital of KCB before the Rights Issue	Kshs 2,217,777,777
6	Net profit for the year ended 31 December 2009	Kshs 4,083,871,000
7	Dividend declared and paid for the year ended 31 December 2009	Kshs 2,217,777,777
8	Earning per share (EPS) for the year ended 31 December 2009	Kshs 1/84
9	Dividend per share (DPS) for the year ended 31 December 2009	Kshs 1/=
10	Price/Earnings (PE) ratio based on the closing price of Kshs 21/=50 at the Nairobi Stock Exchange on 18 May 2010 based on the results for the year ended 31 December 2009	11.7
11	Net Assets Value per share for the year ended 31 December 2009	Kshs 10/28
12	Market Capitalisation based on the closing price of Kshs 21/=50 at the Nairobi Stock Exchange on 18 May 2010	Kshs 47,682,222,210
13	Offer Price per share	Kshs 17/-
14	Number of new shares on offer under the Rights Issue	887,111,110
15	Gross proceeds of the offer (assumes no ineligible Rights arise)	Kshs 15,080,888,870
16	Net proceeds of the offer	Kshs 14,634,003,420
17	Minimum subscription required [50% of Kshs 15 billion]	Kshs 7,500,000,000
18	Total number of issued and fully paid up shares after the Rights Issue assuming full subscription	3,104,888,887
19	Net Assets Value per share for the year ended 31 December 2009 accomodating the Rights Issue	Kshs 12/06
20	Fully paid up share capital of KCB post Rights Issue assuming full subscription	Kshs 3,104,888,887

6.8 Acceptance and Application Procedures

Eligible Shareholders may take up all, some or none of their Rights. Eligible Shareholders wishing to take up all of their Rights are required to observe the procedures set out in paragraph 6.14 (*Acceptance Procedure*). Eligible Shareholders wishing to renounce some or all of their Rights are invited to follow the steps set out in paragraph 6.16 (*Renunciation of Rights*). Please note that Eligible Shareholders may renounce their Rights by trading or selling the same in accordance with the said paragraph. Eligible Shareholders wishing to apply for Additional Shares must do so in the manner set out in paragraph 6.15 (*Additional Shares*).

6.9 Offer

1. KCB hereby offers to Eligible Shareholders, by way of renounceable Rights, a total of 887,111,110 New Shares at the Subscription Price of Kshs. 17/- per New Share payable in full on acceptance in the terms set out below.
2. Persons who are not Eligible Shareholders as of the Record Date will not be entitled to participate in the Offer.
3. The Rights Issue is on the basis of a ratio of Two (2) New Shares for every Five (5) Existing Shares.
4. The number of New Shares that an Eligible Shareholder is entitled to (i.e. your Entitlement or your number of Rights) is shown on the PAL.
5. Rights are renounceable and may be sold or transferred to third parties subject to the provisions of this IM. Information on how Rights may be sold or transferred is set out in paragraph 6.16 below.
6. Eligible Shareholders may also, at their option, choose not to take any action at all and untaken Rights will be allocated by the Directors in accordance with the Allocation Policy.

6.10 Status of the New Shares

The New Shares will rank *pari passu* in all respects with the Existing Shares including the right to receive in full all dividends and other distributions declared, made or paid in respect of KCB shares, for the financial year ending 31st December, 2010.

6.11 Opening and Closing Date of the Rights Issue

The Rights Issue will open at 9.00 am on 1 July 2010 and close at 3.00 pm on 23 July 2010.

6.12 Entitlement

1. Your Entitlement is shown on the PAL.
2. The number of New Shares offered to Eligible Shareholders has been calculated pro rata on the basis of the Entitlement Ratio and no restrictions are placed on the number of Existing Shares to be held before entitlement accrues. However mathematically, this might result in fractional entitlements to New Shares and in such an event, fractions will be rounded downwards to the nearest whole number. Kindly, therefore note that where this occurs, the Eligible Shareholder will be allotted the number of New Shares after rounding down.
3. Fractions of New Shares that result from applying the Entitlement Ratio will form part of the Untaken Rights.
4. Eligible Shareholders will have their CDS Accounts credited with the applicable Entitlement. In this regard, the Registrar will notify the Eligible Shareholders of their credited Entitlement through the PAL.
5. Eligible Shareholders without CDS Accounts will be notified of their Rights by the Registrar through the PAL.
6. Investors who wish to become shareholders in KCB via this Rights Issue can purchase Rights being sold on the NSE by Eligible Shareholders. Such investors will be issued with a Form E (see below) from their Authorized Selling Agent which requires to be duly completed, accepted and fully paid for as per the Acceptance Procedure below. These investors can apply for Additional Shares provided they take up their Entitlement in full.
7. Eligible Shareholders and other investors are required to note that if they wish to take any action other than (a) full acceptance of their Entitlement or (b) to allow their Entitlement to lapse in full are asked to note that the following further documents are available for collection and due completion from Authorized Selling Agents:

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

6.13 Effect of not having a CDS Account

A CDS Account needs to be opened if an investor intends to trade shares on the NSE. It is not mandatory for an Eligible Shareholder to open a CDS Account. However, without a CDS Account, Eligible Shareholders will not be able to trade his or her Rights on the NSE. Eligible Shareholders who do not have CDS Accounts but wish to open one are requested to submit duly completed and signed CDS Account opening form (Form 1), together with their PAL to the Authorized Selling Agents to enable crediting of Entitlements to the newly opened accounts. Renounees in whose favour Rights

may have been renounced would be subject to the same constraints.

6.14 Acceptance Procedure

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

1. Persons wishing to apply for Shares in KCB must complete the PAL.
2. Copies of the IM may be obtained from the Authorised Selling Agent referred to in Section 15 to this IM.
3. Save in the case of negligence or wilful default on the part of KCB, their Advisors or any of the Authorised Selling Agents, neither the Vendor, nor any of the Advisors nor any of the Authorised Selling Agents shall be under any liability whatsoever should a PAL not be received by the Closing Date.
4. Presentation of cheques for payment or receipt of funds transferred shall not amount to the acceptance of any application.
5. All alterations on the PAL, other than the deletion of alternatives, must be authenticated by the full signature of the Applicant.
6. Applications sent by facsimile or by any means other than the methods stipulated in this IM will not be accepted.
7. Applications once given are irrevocable and may not be withdrawn once submitted.
8. Acceptance may only be communicated by submitting a duly completed Entitlement and Acceptance Form together with Application Money for the number of New Shares applied for, which form cannot be withdrawn and constitutes a binding application for the number of New Shares (including any Additional Shares) specified in the Entitlement and Acceptance Form on the terms set out in this IM. The Entitlement and Acceptance Form must be signed so as to be binding.
9. If the Entitlement and Acceptance Form is not completed correctly, KCB may in its absolute discretion reject it or treat it as valid, and KCB's decision as to whether to accept or reject, or how to construe, amend or complete an Entitlement and Acceptance Form shall be final.
10. The Entitlement and Acceptance Form, once duly completed and signed, must be returned to the Authorized Selling Agent, together with the Application Money for the number of New Shares. Payment of the Application Money by all Eligible Shareholders must be made by way of banker's or stockbroker's cheque or Electronic Funds Transfer (EFT) and must be received by the Authorized Selling Agent not later than **3.00 pm on 23 July 2010**.
11. New Shares in respect of which duly completed and signed Entitlement and Acceptance Forms together with the Application Money, paid in accordance with paragraph 6.14.10 above, which are not received by the Receiving Bank or an Authorized Selling Agent by the dates and times stipulated in paragraph 6.14.10 above will be deemed not to have been duly subscribed for and any rights in connection with the same will have lapsed.
12. Eligible Shareholders who wish to take up their full Entitlement are required to duly complete the section entitled "**Full Acceptance of New Shares**" as well as other relevant sections of the PAL. Eligible Shareholders wishing to accept only part of their entitlement are required to duly complete the section of the PAL entitled "**Partial Acceptance of New Shares**" as well as other relevant sections of the PAL. Please note that partial acceptance will not be permitted for less than One hundred (100) New Shares.
13. By signing a PAL each Applicant:
 - (i) attests to having read this IM, and is deemed to have had notice of all information and representations concerning KCB contained herein;
 - (ii) confirms that in making such application it is not relying on any information or representation in relation to KCB other than that which is contained in this IM and it accordingly agrees that no person responsible solely or jointly for this IM or any part thereof shall have any liability for such other information or representation;
 - (iii) accepts to receive any communication from KCB including notices for meetings, through electronic means including but not limited to email or placement of such notices on KCB's web-site, as well as notification through the mass media;
 - (iv) represents and warrants that, except in cases where the applicant is licensed to apply for and hold Shares for

other persons, he applies for the Shares on his own account, will be the beneficial owner of the Shares, has not represented himself as a different person in any other application not applied for Shares under a different name, and is not applying for the Shares on the instructions of or on behalf of any other person and has not instructed any other person to apply for Shares as his nominee;

(v) being an applicant who is authorized to apply for Shares on behalf of other persons, represents and warrants that it is not making multiple applications for itself or any other person, is not applying as nominee of any person whom it knows to have applied under any other name or through any other nominee or person; or for any beneficial owner more than once; and

(vi) acknowledges that KCB reserves the right to reject any application found to be in contravention of sub paragraphs (iv) and (v) above.

14. The Authorised Selling Agent receiving a PAL will (i) check that Applicant has filled in the Provisional Allotment Letter appropriately (ii) tear-off the Application Acknowledgement Receipt from the PAL (iii) sign, stamp and include the application form serial number (iv) return the Acknowledgement Form to the Applicant. As an extra security measure, Applicants are strongly advised to make photocopies of the completed PAL form and have it stamped by the Authorising Selling Agent as evidence of the transaction.
15. The Authorised Selling Agents and the Receiving Agent are entitled to ask for sufficient identification to verify that the person(s) making the application has authority or capacity to duly complete and sign the Application Form. The Authorised Selling Agents are therefore expected to undertake all "Know Your Client" procedures and activities on nominee accounts as required by law. The Transaction Advisor and KCB have the right to demand and be provided with the details of the nominee accounts held by the Authorised Selling Agents to ascertain the eligibility of any application by nominees. In default, KCB may at its sole discretion treat such an application as invalid.
16. All bank charges incurred in submitting a PAL, together with requisite funds, are for the account of the Applicant.
17. KCB reserves the right to present all cheques for payment on receipt, to reject any application not in all respects duly completed, and to accept or reject or scale down any other application in whole or in part.
18. Every Applicant is required to provide all the information as required in the PAL, where applicable.
19. Applicants who elect to receive Share Certificates in respect of the applicable number of allocated Shares will collect them through their Authorised Selling Agent through whom the PAL was submitted.
20. Applicants will not receive Share Certificates by mail.
21. By signing a Provisional Allotment Letter, an Applicant agrees to the allotment and issue of such number of Shares (not exceeding the number applied for) as shall be allotted to the Applicant upon the terms and conditions of the IM and subject to KCB's Memorandum and Articles of Association, and agrees that KCB may enter the Applicant's name in the register of members of the Company as holder of such Shares.
22. No interest will be paid on monies received in respect of applications for Shares, nor will interest be paid on any amounts refunded or indeed deposited at the time of application.

6.15 Application for Additional Shares and Allocation Policy

1. Eligible Shareholders (except in the case of those that wish to effect payment in the manner set out in 6.15.2 below) who may have taken up all their Entitlement may apply for Additional Shares by completing the section for Application for Additional Shares on their Entitlement and Acceptance Form and signing and returning the duly completed and signed Entitlement and Acceptance Form together with the Application Money. These should be received by the Receiving Bank or the relevant Authorized Selling Agent not later than [3.00 pm on 5 August 2010].
2. Any Eligible Shareholders applying for Additional Shares may, in lieu of payment by 3.00 pm on 5 August 2010 provide an irrevocable bank guarantee in the form stipulated in Appendix 1 to this IM, for the full amount of the Additional Shares. Upon notification by the Registrar, such Eligible Shareholder will be required to effect payment for Additional Shares to the Receiving Bank by 3.00 pm on 5 August 2010. Such payment may be made by EFT to

such bank account of KCB designated in the said notification.

3. Additional Shares applied for by Eligible Shareholders will be allocated by KCB in accordance with the Allocation Policy set out in section 6.21 (*Untaken Rights and Allocation Policy*) to the extent only of any Untaken Rights. The allocation of Additional Shares (if any) will be published on or before 5 August 2010. Please note that payment in respect of any Additional Shares applied for and not allocated will be refunded in accordance with paragraph 6.19 and will be free of interest. There will be no changes once the basis of allocation has been announced.
4. The press announcement publishing the result of the Rights Issue will include the basis of allocation of any Additional Shares and will be published on or about 5 August 2010.
5. Subject to paragraph 6.15.6 of this Section, the Untaken Rights will be allocated on a *pro rata* basis to Eligible Shareholders who have applied for Additional Shares in accordance with this paragraph 6.15 (*Application for Additional Shares and Allocation Policy*).
6. If any person applies for Additional Shares which might trigger the regulatory restrictions and obligations set out in paragraph 6.24 (*Regulatory Restrictions*) of this Section, the Directors reserve the right, at their sole discretion, not to allocate any Additional Shares to any such person unless all required regulatory approvals are duly obtained and attached with the PAL before 3.00 pm on 23 July 2010.
7. Eligible Shareholders wishing to take up Additional Shares are required to duly complete the section entitled “Application for Additional Shares” as well as other relevant sections of the PAL.

6.16 Renunciation of Rights

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

6.16.1 Renunciation by way of Trading in Rights:

- 6.16.1.1 The Rights constitute a security in the form of an option and are tradable on the NSE for a value but only by Eligible Shareholders with CDS Accounts. The Rights shall be listed on the NSE under the MIMS.
- 6.16.1.2 Eligible Shareholders will be notified of their Rights through the PAL.
- 6.16.1.3 In addition, Eligible Shareholders with CDS Accounts will have such accounts credited with their Rights.
- 6.16.1.4 Only Eligible Shareholders with CDS Accounts will be permitted to trade in Rights. In such an event, Eligible Shareholders who wish to renounce some or all of their rights in this way may instruct any Authorized Selling Agent to dispose of any or all of such Rights and must duly complete the section entitled “Immobilization for trading in the Rights” as well as other relevant sections of the PAL. Shareholders without CDS will first be required to lodge the certificates with their brokers after which the brokers will advise them to complete certain forms which will be used to retire all rights for holdings in immobilised form.
- 6.16.1.5 Eligible Shareholders without CDS Accounts who wish to trade in Rights in this way must first open CDS Accounts and immobilize such Rights prior to trading and must duly complete the section entitled “Immobilization for trading in the Rights” as well as other relevant sections of the PAL. The CDS Account opening forms may be obtained from any Authorized Selling Agent.
- 6.16.1.6 Rights may be traded on the NSE from 1 July 2010 to 12 July 2010.
- 6.16.1.7 Please note that trading of Rights on the NSE will attract a brokerage commission plus other statutory costs

payable by the seller and buyer of such Rights.

6.16.1.8 The CMA and NSE have approved the trading of Rights.

6.16.2 *Renunciation by way of Private Transfer*

6.16.2.1 Eligible Shareholders wishing to transfer their Rights to a particular Renounee may do so by way of private transfer, subject to (a) Section 31 of the Capital Markets Act (b) Regulations 57 to 61 of the of the Capital Markets (Licensing Requirements) (General) (Amendment) Regulations 2002 and (c) Rule 31 of the Central Depository Rules, 2004. Regulation 57 allows a transfer, inter alia, of Rights by an Eligible Shareholder to a close relation in the form of a gift. In such a case, any Authorized Selling Agent, being a stockbroker, is required to assess, endorse and submit to the NSE a written application for such a transfer with the required information and supporting documents stating the reason for the proposed private transfer. A close relation means a relationship supported by documentary evidence of a spouse, parent, sibling, child, father-in-law, son-in-law, daughter-in-law, mother-in-law, brother-in-law, son-in-law, grandchild or spouse of a grandchild.

6.16.2.2 In order to effect a private transfer, an Eligible Shareholder must duly complete a CDS Form 7 (in the case of Eligible Shareholders with CDS Accounts) as well as Form R. Both these forms are available from Authorized Selling Agents. By executing the relevant form, an Eligible Shareholder is deemed to renounce and, subject to paragraph 6.16.2.1, transfer the relevant Rights.

6.16.2.3 Eligible Shareholders who have CDS Accounts may only transfer Rights in favour of a Renounee with a CDS Account.

6.16.2.4 The last date and time for renunciation by way of private transfer is 3.00 pm on 9 July 2010.

6.16.2.5 Eligible Shareholders are advised to contact any Authorized Selling Agent for the purposes of effecting the renunciation by way of private transfer.

6.16.2.6 If an Eligible Shareholder accepts some of his Rights and renounces the remainder by way of private transfer in the manner specified in this paragraph 6.16.2 (Renunciation by way of Private Transfer), such Eligible Shareholder shall be required to submit the Entitlement and Acceptance Form to the Receiving Bank or the relevant Authorized Selling Agent not later than 3.00 pm on 9 July 2010 both duly completed and signed and accompanied with the Application Money in connection with the Accepted Rights.

Renunciation by declining

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

6.17 Restriction on Renunciation of Rights

1. Paragraph 6.24 (Regulatory Restrictions) of this Section sets out certain regulatory restrictions and obligations that may be relevant to any Eligible Shareholder or Renounee.
2. Please note that any renunciation by way of trading of Rights through the NSE or by way of private transfer of Rights in accordance with paragraph 6.16.1 (*Renunciation by way of Trading in Rights*) and paragraph 6.16.2 (*Renunciation by way of Private Transfer*) of this Section is only permitted if such renunciation does not trigger the said regulatory restrictions and obligations.

6.18 Application Money

1. Payment for the New Shares shall be made in the form of a banker's or stockbroker's cheque or via Electronic Funds Transfer ("EFT"). Such cheques for each PAL must be in Kenya Shillings and drawn on a licensed commercial bank that is a member of the Central Bank of Kenya Clearing House, and should be made payable to "**KCB Rights Issue PAL No. {Insert No}**" and be crossed "**A/C Payee Only**". Each banker's cheque received by the Receiving Bank will be deposited immediately for collection. Please note that no interest will be payable by KCB on

money received. All payments in respect of the Rights Offer must be in Kenya Shillings.

2. Investors who wish to make payment for the additional shares using bank guarantees must produce an irrevocable bank guarantee issued by a duly licensed commercial bank in the format specified and required by KCB (see appendix 1 for the required format). Bank guarantees will only be accepted when sent by SWIFT to Kenya Commercial Bank Limited by the guarantor. Note that this will be a form of payment and the guarantee will be called upon allotment, hence no prior settlement should be made by the investor.
3. Payments made in accordance with paragraph 6.18.1 above will, upon receipt by KCB of the relevant amount in cleared funds, constitute acceptance of the Rights Issue upon the terms and conditions set out in this IM and in the Entitlement and Acceptance Form (Form E).
4. Eligible Shareholders with CDS Accounts are required to pay the Subscription Price per New Share in accordance with the Entitlement and Acceptance Form and the PAL plus KShs.30/= (a one off payment) in accordance with the Central Depositories (Regulation of Central Depositories)(Amendment) Rules, 2008.

6.19 Refunds

No interest will be paid on any Application Monies to any Eligible Shareholder or other person taking up the Rights. Interest, if any, earned on Application Monies is payable to the CMA Investor Compensation Fund in accordance with CMA regulations.

Refunds in respect of unsuccessful applications (if any) shall be in the form of refund cheques or by way of EFT by KCB (where an Eligible Shareholder has provided accurate EFT details including the name of the relevant bank, branch and account number– request your Authorised Selling Agent for detailed reference list of codes). The preferred method of refund is EFT where a bank account is available as refunds will reach the recipient quicker and more efficiently and effectively if the information provided is correct. However, all refunds from Kshs 1 million and above shall be through EFT. KCB will begin refunds to Eligible Shareholders from 11 August 2010. Eligible Shareholders are required to chose their preferred option of refund: (a) by EFT (b) by cheque to be collected by the Eligible Shareholder from the relevant Authorised Selling Agent (as designated by the Eligible Shareholder on the PAL for that purpose) against proof of identity. Neither KCB nor any Authorized Selling Agent will be responsible for any refund not received. Where a Lender (hereinafter defined) has advanced money to an investor to subscribe for New Shares, refunds will be made to or for the account of such Lender as the case may be.

6.20 New Shares

1. Eligible Shareholders and their Renounees with CDS Accounts who comply with the procedures for acceptance as set out in this IM, will receive their New Shares in electronic form by way of credit to their respective CDS Accounts. It is the responsibility of Eligible Shareholders and Renounees to ensure that their CDS Account details set out in the Entitlement and Acceptance Form are correct.
2. Eligible Shareholders without a CDS Account who comply with the procedures for acceptance as set out in this IM, will receive their New Shares in certificate form to be collected by the Eligible Shareholder through the Authorised Selling Agent. Trading of the New Shares may only take place if the Eligible Shareholder has a CDS Account.
3. New Shares will be admitted on the MIMS on **19 August, 2010**, with dealings of New Shares commencing on the same date.

6.21 Untaken Rights and Allocation Policy

1. All Eligible Shareholders who apply for their New Shares in full shall receive the full number of New Shares indicated in their PAL. New Shares not taken up shall form the Untaken Rights. The Untaken Rights may be allocated as Additional Shares in accordance with the Allocation Policy to Eligible Shareholders who duly submit applications for Additional Shares in accordance with paragraph 6.15 (*Additional Shares*) of this Section.
2. Rights not taken up as part of the Untaken Rights will be allotted on a pro-rata basis for applications received for

Additional Shares, subject to paragraph 6.24 (Regulatory Restrictions) of this Section.

6.22 Loan Facilities

1. Eligible Shareholders and/or Renounees or any purchaser of the Rights may approach a licensed financial institution or bank (“a Lender”) at their risk, for loan facilities to enable participation and payment of the full amount due in respect of the Rights Issue.
2. Please note that the extension of loan facilities by any Lender is a decision to be made by such Lender at its sole and absolute discretion.
3. Lenders extending finance to an Eligible Shareholder or Renounee or any purchaser of rights must submit payment for the full amount due and attach the duly completed and signed Entitlement and Acceptance Form, together with a letter signed by authorized representatives of the Lender addressed to the Registrar requesting the share certificates for the applicable New Shares to be submitted to such Lender, to reach the Authorised Selling Agent by 3.00p.m. on 23 July 2010.
4. *In the case of Eligible Shareholders or Renounees with CDS Accounts financed by a Lender to take the New Shares as security:*
 - 4.1 The Lender shall write to the CDSC making it clear that it requires the New Shares to be pledged as security until such time as CDSC Limited is instructed in writing to the contrary by such Lender, through an Authorized Selling Agent, to lift such pledge.
 - 4.2 Upon completion of the **CDS Form 5** (available from an Authorized Selling Agent) prescribed by CDSC all pledges will be effected through entries in the Central Depository System maintained by CDSC Limited. The pledging of such shares will at all times be subject to Rule 63 of the Central Depositories (Regulation of Central Depositories), Rules, 2004. For every financed application to the CDSC, the Lender or the purchaser of Rights are required to pay CDSC KShs 1,000/= via banker’s cheque or stockbrokers cheque payable to “CDSC Ltd – insert serial no of CDS Form 5]”.

6.23 Foreign Investors

1. The Capital Markets (Foreign Investors) Regulations, 2002 (as amended) (“the Foreign Investor Regulations”) provide that “a foreign investor” (“Foreign Investor”) is any person who is not a local investor. A “local investor” is defined to mean (a) an individual being a natural person who is a citizen of an East African Community Partner State or (b) a body corporate being a company incorporated under the Companies Act of Kenya or such other similar statute of an East African Community Partner State in which the citizen or the Government of an East African Community Partner State have beneficial interest in 100% of its ordinary shares or any other body corporate established or incorporated in an East African Community Partner State under the provisions of any written law. An East African Community Partner State means States that are members of the East African Community.
2. Eligible Foreign Investors wishing to apply for New Shares must satisfy themselves as to the full observance of the laws of the relevant territory and governmental and other consents to ensure that all requisite formalities are adhered to, and pay any issue, transfer or other taxes due in such territory. Before applying for and purchasing New Shares, foreign investors are advised to consult their own professional advisers as to whether they require any governmental or other approvals or need to observe any applicable legal or regulatory requirements.
3. This IM and the PAL do not, and are not intended to, constitute an offer for the New Shares in any place outside East African Community Partner States and even then only within East African Community Partner States. In that regard, this IM and the PAL may not be used for or in connection with any offer to, or solicitation by, anyone in any jurisdiction or in any circumstances where such offer or solicitation is not authorized or is unlawful. The distribution of this IM and the PAL outside of East Africa may be restricted by law and persons who come into possession of this IM and the PAL should seek advice on and observe those restrictions. Any failure to comply with those restrictions may constitute a violation of applicable securities laws. Any such recipient must not treat this IM and the PAL as constituting an offer to him, unless in the relevant jurisdiction, such invitation or offer could be made lawfully to him

without contravention of any unfulfilled registration or legal requirements. Without limitation, neither this IM nor the PAL may be sent or passed or otherwise distributed outside East Africa.

4. In particular, the Rights Issue has not been, and will not be, registered under the United States Securities Act, 1933 or the securities laws of any state in the United States of America and is not being made in the United States of America or to persons resident in the United States of America. Without limitation, neither this IM nor the PAL may be sent or otherwise distributed to investors in the United States of America.
5. Eligible Shareholders with a registered address in Kenya holding Existing Shares on behalf of persons who are resident in a jurisdiction outside Kenya are responsible for ensuring that taking up the New Shares under the Rights Issue does not breach securities laws in that other jurisdiction. The return of a duly completed Entitlement and Acceptance Form in accordance with this IM will not be deemed as a representation that there has been no breach of such laws.

6.24 Regulatory Restrictions

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

1. Section 9A (4)(b) of the Banking Act precludes any person from becoming a “significant shareholder” – being a person, other than the Government of Kenya or a public entity who holds directly or indirectly or otherwise has a beneficial interest in more than 5% of the share capital of a bank, financial institution or mortgage finance company – unless such person has been certified by the Central Bank of Kenya as a fit and proper person.
2. Section 13(1) of the Banking Act prohibits particular classes of persons from owning, directly or indirectly, or otherwise having a beneficial interest in more than 25% of the share capital in a bank, financial institution or mortgage finance company.
3. The Capital Markets (Take-Overs and Mergers) Regulations, 2002, oblige the observance of certain procedures if any person takes up Rights which would result in that person “acquiring effective control” of a listed company.

6.25 Tax Implications

1. Eligible Shareholders interested in participating in the Rights Issue should consult their tax advisors of any possible tax implications connected with the Rights Issue. Therefore, KCB and the Directors consider it inappropriate to provide detailed advice in respect of taxation consequences in connection with the Rights Issue save for what is expressly set out in this IM.
2. Neither KCB nor any of the Directors or any of KCB’s officers or advisers accept any liability for any taxation implications of Eligible Shareholders in connection with the Rights Issue.
3. Local investors are subject to withholding tax on dividends at the rate of 5%. Foreign Investors will be subject to a withholding tax rate of 10%. The Bank will assume responsibility of payment of withholding of tax at source.

6.26 Expenses of the Rights Offer

Expense	Kshs
Transaction Adviser costs	31,540,000
Sponsoring Broker	5,800,000
Legal costs	2,200,000
Reporting Accountants costs	3,800,000
Selling commission	225,000,000
CMA approval fees	37,500,000
NSE admission fees	500,000
Public Relations costs	20,500,000
Advertising costs including advertising firm's fee	48,975,000
Registrar fees	800,000
Receiving Bank fees	5,000,000
Other consultants fees and disbursements	14,600,000
Processing centre costs	50,670,450
TOTAL	446,885,450

Selling commission of 1.5% is payable to stockbrokers and investment banks and selling commission of 1% of the value of the successful applications payable to banks or financial institutions in respect of the Entitlement and Acceptance Forms completed and signed by Eligible Shareholders or Renounees or prospective investors, bearing the stamp of an Authorized Selling Agent.

6.27 Governing Law

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

7. Economic overview

7.1 Kenya

The information in this section is sourced from Central Bank of Kenya, Monthly Economic Bulletin, January 2010.

7.1.1 Overview

During the third quarter of 2009, the economy is estimated to have recorded zero growth in the output of goods and services, with the Gross Domestic Product (GDP) for the quarter standing at Kshs 361.0 billion compared with Kshs 361.2 billion for the same quarter in 2008. This performance followed mixed sectoral performances during the quarter. Of significance was the decline in the value added of key sectors including agriculture and forestry, manufacturing, electricity and water supply, transport and communication and construction which declined by 3.5%, 2.4%, 7.4%, 1.8% and 1.1%, respectively. Agriculture and forestry and the electricity sectors contracted following the persistent drought, while the manufacturing, construction and transport and communications sectors were affected by the high energy prices and the global economic recession. The decline was counteracted by growth in sectors such as hotels and restaurants, financial intermediation, education, other services, real estate, public administration and defence and the wholesale and retail trade sector which expanded during the quarter by 44.4%, 8.9%, 3.7%, 3.2%, 2.7%, 2.7%, and 1.8%, respectively, thus resulting in 0.0% overall growth.

7.1.2 Inflation rates

Overall 12 month inflation declined in January 2010 to close at 4.7%, down from 5.3% recorded in December 2009. The downward trend which characterised most of year 2009 persisted, with the 12 month inflation remaining at single digit level since May 2009, compared with 13.3% inflation in January 2009. The decline in inflation was more pronounced in the food category which accounts for 50.5% of the weight of the Consumer Price Index (CPI) basket.

12 month underlying inflation increased from 5.2% in December 2009 to 5.7% in January 2010. The increase was reflected in the prices of alcohol and tobacco, clothing and footwear, recreation and education and housing.

7.1.3 Interest rates

The Central Bank Rate (CBR) remained at 7.0% in the month of December 2009, having been lowered in November 2009 from the previous position of 7.75% in October 2009. The average inter bank rate decreased from 3.11% in November 2009 to 2.95% in December 2009. The reverse Repurchase Agreement (REPO) rate also declined from 4.36 % in November 2009 to 3.62 % in December 2009.

The 91 day Treasury bill rate decreased from 7.22 % in November 2009 to 6.82% in December 2009, whereas the 182 Treasury bill rate dropped significantly from 8.02% to 7.38% during the same period. The movement in the short term interest rates was in line with Central Bank's desire to bring down interest rates.

Commercial banks' average lending rate and deposit rates decreased in the month of December 2009. Overall the lending rate decreased from 14.87 % in November to 14.76 % December 2009. The deposit rate also decreased from 5.06 % in November 2009 to 4.84 % in December 2009. With these developments, the interest rate spread widened to 9.92 % in December 2009 up from 9.83 % in November 2009.

7.1.4 Exchange rates

The Kenya shilling depicted mixed performance against major world currencies, weakening against the US dollar and the Japanese Yen but strengthening against the Euro and the Sterling Pound in December 2009. Against the US dollar, the shilling depreciated to exchange at an average of Kshs 75.43 in December 2009 compared with Kshs 74.74 per US dollar in November 2009. Against the Japanese Yen, the shilling depreciated to exchange at an average of Kshs 84.12 per 100 Japanese Yen in December 2009 compared with Kshs 83.79 per 100 Japanese Yen in November 2009. The shilling, however, appreciated against the Euro and the Sterling Pound to exchange at Kshs 110.27 per Euro and Kshs 122.54 per Sterling Pound in December 2009 compared with Kshs 111.68 per Euro and Kshs 124.14 per Sterling Pound in November 2009.

Against the regional currencies, the Kenya shilling appreciated marginally against the Uganda shilling and depreciated against the Tanzania shilling to trade at Ushs 25.20 per Kenya shilling and Tshs 17.65 per Kenya shilling in December 2009 compared with per Ushs 25.16 per Kenya shilling and Tshs 17.75 per Kenya shilling in November 2009.

7.2 Uganda

The information below is sourced from the Bank of Uganda, Monthly Economic Review December 2009.

7.2.1 Overview

The global economic crisis, which has affected Uganda since the second quarter of 2009/10, reduced the growth of aggregate demand and hence slowed real Gross Domestic Product (GDP) growth.

7.2.2 Inflation rates

Annual headline inflation decreased to 12.0% in November 2009 from 13.4% recorded in October 2009, a level lower than the 14.7% recorded in November 2008. The decrease in annual headline inflation was largely a result of the decrease of annual food crop inflation. Other decreases were from the beverages and tobacco and health and entertainment categories. On a monthly basis, headline inflation increased to 0.1% in November 2009 from (0.2)% in October 2009 as a result of increases in prices of charcoal and milk (local packs) among others.

Annual core inflation decreased to 8.8% from 9.3% registered in October 2009. The drop in annual core inflation was partly attributed to decreases in prices of computer courses, newspapers, bottled beer, firewood, and maize flour. On the other hand, monthly core inflation rose to 0.3% in November 2009 from 0.2% observed in October 2009.

7.2.3 Interest rates

The respective weighted annualised yields on the 91 day, 182 day and 364 day bills stood at 6.1%, 9.5%, and 10.2% for the auction of 18 November 2009. This compares to the respective yields of 6.8%, 9.9% and 11.0% recorded in the auction held on October 21, 2009. The average discount rates on all treasury bill tenors were lower in November 2009 than those registered in November 2008 which ranged between 9.3% and 14.1%.

The lending rate for the Uganda shilling denominated loans decreased to 20.4% in October 2009 from 21.7% recorded in September 2009. The lending rate for the foreign currency denominated loans increased to 10.7% from 10.4% in September 2009.

In October 2009, the deposit rate for local currency denominated demand deposits increased slightly to 1.3% from 1.2% in September 2009. The weighted average interest rate on foreign currency denominated demand deposits remained relatively stable at 1.0%. The rate on shilling denominated savings deposits decreased to 2.2% from 2.4% in September 2009. The rate on foreign denominated savings deposits remained stable at 1.5%. The weighted average interest rate for the foreign currency denominated time deposits decreased to 4.1% from 4.8% in September 2009. The interest rate on the shilling denominated time deposits increased to 9.5% in October 2009 from 8.5% in September 2009.

7.2.4 Exchange rates

During November 2009, the Uganda shilling appreciated by 1.3% to an average mid rate of Ushs 1,873.8 per U.S. dollar from Ushs 1,898.3 per U.S. dollar in October 2009. The shilling gain was attributed to increased inflows of foreign exchange from offshore investors and agricultural export proceeds.

7.3 Tanzania

The information in this section is sourced from Bank of Tanzania, Monthly Economic Review December 2009.

7.3.1 Overview

Tanzania's GDP grew by 7.1% in 2007, up from 6.7% in 2006. This performance reflected strong growth in services and construction and the recovery of the agricultural and industrial sectors. The global financial crisis has had a significant impact on the Tanzanian economy and has compounded existing policy challenges, particularly food security, poverty alleviation, and addressing the infrastructure gap. Trade and investment impacts have contributed to a slowdown in GDP growth from 7.5% in 2008 to approximately 5% in 2009.

7.3.2 Inflation rates

Annual headline inflation rate decreased to 12.2% in December 2009 from 12.5% recorded in November 2009 due to decrease in food inflation. The 3 month moving average annual headline inflation rate increased to 12.5% in December 2009 from 12.4% recorded in November 2009. Likewise, the 12 month average annual headline inflation increased to 12.1% in December 2009 from 10.3% recorded in the period January 2008 to December 2008.

The month to month headline inflation rate increased to 2.1% in December 2009 from 1.4% recorded in November 2009. The increase was explained by the rise in fuel and food prices. On the contrary, the seasonally adjusted month to month headline inflation decreased to 0.6% in December 2009 from 1.1% in November 2009, implying that the increase observed in the headline inflation in December was partly related to seasonal factors.

7.3.3 Interest rates

The overall weighted average yields of Treasury bills increased to 6.91% in December 2009 from 6.36% and 5.17% in November and October 2009, respectively. However, the yields are still lower when compared with 10.99% and 10.33% in December and November 2008, respectively. The Treasury bonds market recorded gradual decline in yields across all maturities, which is consistent with money market developments.

Overall time deposits rate decreased to 6.36% in December 2009 from 6.52% in November 2009 and 6.63% in December 2008. The negotiated deposit rate increased slightly to 9.94% in December 2009 from 9.85% in November 2009, while savings deposit rate decreased slightly to 2.83% in December 2009 from 2.67% in November 2009 and 2.74% in December 2008.

Overall lending rates decreased to 14.38% from 14.74% in November 2009 while negotiated lending rates decreased to 13.18% in December 2009 from 13.38% in November 2009. The spread between short term lending rate (up to one year) and one year time deposit rate narrowed to 4.97 percentage points in December 2009 from 5.24 percentage points recorded in November 2009.

7.3.4 Exchange rates

The value of the Tanzania shilling against the US dollar remained fairly stable, exchanging at an average of Tshs 1,327.1 per US dollar in December 2009 when compared to Tshs 1,325.1 per US dollar in November 2009. On annual basis, the shilling depreciated by 4.2% against the US dollar in December 2009 when compared to December 2008.

7.4 Rwanda

The information in this section is sourced from the Economic Intelligence Unit and National Bank of Rwanda.

7.4.1 Overview

Rwanda witnessed strong economic growth of 11.2% in 2008 when compared to 7.9% registered in 2007. This was the first double digit real GDP growth in the last five years which was achieved despite soaring imported inflation and the effects of the global financial and economic slump. The improved economic performance was achieved following significant improvements in different sectors of the economy with agriculture exhibiting strong recovery. The agricultural sector had a real growth of 15% because the sector benefited from favourable weather conditions as well as the Government's crops intensification program supported with fertilizer application, improved seeds and storage facilities.

Multiple external and domestic shocks affected economic performance during the first half of 2009. These shocks reduced demand for exports, especially minerals, reduced income and revenues from tourism and remittances, as well as foreign direct investments. Despite these shocks, economic performance at the end of 2009 was satisfactory.

7.4.2 Inflation rates

Despite monetary tightening, during the year 2008, Rwanda experienced high inflationary pressures and annual average inflation increased from 9.1% in 2007 to 15.4% in 2008. Annual average underlying inflation increased from 8.8% in 2007 to 15.6% in 2008. This increase in inflation was attributed to imported inflation and local factors. Imported inflation increased by 22.3% in year 2008 and this has created an upward pressure on local products.

7.4.3 Interest rates

The 4 week Treasury bill rate increased from 7.5% in January 2010 to 7.72% in February 2010, whereas the 13 week Treasury bill rate decreased from 9.38% to 8.55% during the same period. The inter bank average lending rate increased from 7.07% in January 2010 to 7.28% in February 2010 while the REPO decreased from 5.25% to 4.61% over the same period.

7.4.4 Exchange rates

The Rwanda Franc depreciated by 2% in 2008 from an average of RWF 543.8 in 2007 to an average of RWF 554.97 in 2008 against the US Dollar. The Rwanda Franc appreciated by 6.2% and 24.9% against the Euro and Sterling in 2008 respectively.

7.5 South Sudan

The information in this section is sourced from the Economic Intelligence Unit.

7.5.1 Overview

In recent years, oil has been the main driver of growth, although agriculture still accounts for more than one-third of GDP and the services sector is expanding. The real GDP growth is estimated to have slowed substantially, to 3.9%, in 2009, and the forecast GDP growth is estimated at 4.6% in 2010. This will be led by growth in services and utilities.

7.5.2 Inflation

Sudan experienced a modest fall in inflation in 2009. In 2010-11 the inflation forecast is estimated to average 9.7% as the domestic economy remains relatively subdued. The government is expected to maintain food and fuel subsidies.

7.5.3 Exchange rates

The Central Bank of Sudan operates a managed float of the pound (SP) through foreign-currency purchases and daily limits on the trading band, sometimes intervening to smooth out volatility related to oil exports and foreign direct investment flows. Having strengthened by 10% since August 2009 owing to a weak dollar, the pound is expected to depreciate over the forecast period, as fiscal pressures and political concerns weigh on the currency, to an average of SP 2.28 to the US dollar in 2010 and SP2.39 to the US dollar in 2011, despite a weakening of the dollar.

8. Overview of the banking sector in the region

8.1 Kenya

8.1.1 Introduction

Kenya has a comparatively developed financial sector when compared to most African and other third world countries. The financial sector has been one of the fastest growing sectors in the economy in the last few years.

During the period ended 31 December 2009, the Kenyan banking sector registered significant growth in asset base largely supported by growth in deposits, injection of capital and retention of profits. The sector registered high capital adequacy and liquidity ratios and a decline in the level of non performing loans compared to same period in 2008.

8.1.2 Industry structure

The banking sector in Kenya comprises of the Central Bank of Kenya as the regulatory authority with the regulated being commercial banks, non bank financial institutions and foreign exchange bureaus. As at 31 December 2009, the banking sector comprised of 44 commercial banks, one mortgage finance company, one deposit taking micro finance institution and 130 foreign exchange bureaus. Commercial banks and mortgage finance companies are the major players in the banking industry and are licensed and regulated under the Banking Act, Cap 488 and Prudential Regulations while foreign exchange bureaus are licensed and regulated under the Central Bank of Kenya Act, Cap 491 and Foreign Exchange Bureaus Guidelines.

Out of the 45 licensed banking institutions, 32 are locally owned and 13 are foreign owned. The locally owned financial institutions comprised of three banks with significant government shareholding, 28 privately owned commercial banks and one mortgage finance company. The foreign owned financial institutions comprised of eight locally incorporated foreign banks and four branches of foreign incorporated banks. All foreign exchange bureaus are 100% private and the majority are locally owned.

As at 31 December 2008, locally owned private financial institutions which accounted for 64% of the sector's institutions controlled over 55% of the total net assets. Financial institutions with foreign ownership of over 50% accounted for 26% of the sector's institutions and controlled over 40% of the total net assets. The following table provides details of ownership and asset bases of financial institutions in Kenya as at 31 December 2008.

Table 5: Ownership and asset base of financial institutions

Ownership	Number	%	Net assets (Ksh million)	%
Local public financial institutions	3	6.7 %	53,872	4.6 %
Local private financial institutions	29	64.4 %	653,710	55.2 %
Foreign owned financial institutions	13	28.9 %	476,072	40.2 %
Total	45	100 %	1,183,654	100 %

Source: Central Bank of Kenya

10 out of the 45 licensed financial institutions are listed at the Nairobi Stock Exchange. These include Barclays Bank, CFC Stanbic, Co-operative Bank, Diamond Trust Bank, Equity Bank, Housing Finance, Kenya Commercial Bank, National Bank, NIC Bank and Standard Chartered Bank. Of these financial institutions, only Kenya Commercial Bank is cross listed in stock exchanges within East Africa and Equity Bank is cross listed in the Uganda Stock Exchange.

8.1.3 Regulation

The banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalised in 1995 and exchange controls were subsequently lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system.

Pursuant to the second principal objective of the Central Bank of Kenya specified under Section 4 (2) of the Central

Bank of Kenya Act, the Bank Supervision Department (BSD) is mandated to promote and maintain the safety, soundness and integrity of the banking system. This responsibility is undertaken through the implementation of policies and standards that are in line with international best practice for bank supervision and regulation.

8.1.3.1 Deposit protection

Section 36 of the Banking Act provides for the establishment of the Deposit Protection Fund as a body corporate. A key objective of the fund is the protection of deposits in banks and other financial institutions. The extent of a protected deposit is determined by the Minister of Finance and published in the official Kenya Gazette.

8.1.3.2 Key regulatory policies

The key regulatory policies that are applicable to banks and financial institutions in Kenya are as shown in the following section.

- Operating license - According to Section 8A of the Banking Act, a financial institution cannot transact business in Kenya unless it holds a valid license and cannot open a branch outside Kenya unless authorised by the CBK;
- Statutory cash reserve requirement - 5% of deposit liabilities is required to be placed with the CBK;
- Minimum capital requirement - The second schedule to the Banking Act stipulates that every banking institution must maintain a core capital of not less than 8% of total risk adjusted assets plus risk adjusted off balance sheet items, a core capital of not less than 8% of its total deposit liabilities, a total capital of not less than 12% of its total risk adjusted assets plus risk adjusted off balance sheet items and a core capital of at least Kshs 1 Billion (effective 2012);
- Lending limit - According to Section 10 and 11 of the Banking Act, the maximum amount of credit exposure to any single borrower is limited to 25% of core capital;
- Ownership - According to Section 13 (1) of the Banking Act, no person is allowed to hold, directly or indirectly, a beneficial interest in more than 25% of the share capital of a bank except another financial institution, the Government of Kenya or the Government of a foreign sovereign state, a state corporation within the meaning of the State Corporations Act and a foreign company which is licensed to carry on the business of an institution in its country of incorporation; and
- Foreign exchange limit - Overall net open position of the bank at any time must not exceed 20% of its core capital.

8.1.4 Performance

The banking sector continued on its growth trajectory in 2009 notwithstanding local turbulences arising principally from the post election crisis. The sector also emerged unscathed from the effects of the global financial crisis as it was not exposed to the toxic assets that fuelled the crisis. Despite the challenging operating environment brought about by post election violence in the first quarter of 2008 and global financial crisis, the banking sector remained stable with all institutions remaining adequately capitalised. The highlights of the sectors' financial performance are as highlighted in the following sections.

8.1.4.1 Total assets

The Kenya banking sector aggregate balance sheet increased by 14.9% from Kshs 1,193.4 billion in December 2008 to Kshs 1,371.8 billion in December 2009. The main components of the balance sheet were net loans and advances, government securities and placements, which accounted for 53.0%, 22.0% and 7.0% of total assets respectively.

8.1.4.2 Loans and advances

The Kenya banking sector's gross loans and advances increased from Kshs 685.9 billion in December 2008 to Kshs 771.1 billion in December 2009 representing a 12.5 % growth. The growth was attributed to increased economic ac-

tivities in the households and corporate sectors. Loans and advances net of provisions stood at Kshs 732.3 billion in December 2009, up from Kshs 641.4 billion registered in November 2008.

8.1.4.3 Customer deposits

Deposits from customers were the main source of funding for the banking sector, accounting for 77.7% of total funding liabilities. The deposits increased by 13.9% from Kshs 935.6 billion in December 2008 to Kshs 1,065.4 billion in December 2009 on account of receipts from exports and remittances from abroad.

8.1.4.4 Capital

The banking sector recorded stronger capital levels in December 2009 with total capital increasing by 15.9 % from Kshs 149.9 billion in December 2008 to Kshs 173.7 billion, while shareholders' funds increased by 18.4% from Kshs 165.9 billion in December 2008 to Ksh 196.5 billion. As a result, the ratios of total and core capital to total risk weighted assets improved from 18.9% and 16.9% to 19.5% and 17.3% in December 2009, respectively. The increase in capital was attributed to capital injections by some institutions and retention of profits.

8.1.4.5 Non performing loans

The amount of gross non performing loans (NPLs) decreased by 0.3% from Kshs 61.5 billion in December 2008 to Kshs 61.3 billion at end of December 2009. As a result, the coverage ratio which is measured as a percentage of specific provisions to total NPLs decreased to 45.0% from 51.1% in December 2008. The quality of assets as measured by the proportion of net non performing loans to gross loans decreased from 3.4% to 3.7 % in December 2009.

8.1.4.6 Profitability

In the twelve months period to December 2009, the banking sector registered 15.6% growth in pre tax profits, from Kshs 41.8 billion achieved in December 2008 to Kshs 48.3 billion in December 2009. Return on assets remained constant at 2.8% in December 2009 since profits and asset growths were proportionate. Return on equity declined to 24.6% in December 2009 from 25.2% in December 2008 largely due to higher proportionate growth in equity. Total income increased by 13.9% from Kshs 148.9 billion in December 2008 to Kshs 169.6 billion in December 2009. Total expenses increased by 13.2% from Kshs 107.2 billion in December 2008 to Kshs 121.3 billion in December 2009. Interest on loans and advances, driven by growth in loans, fees and commissions and government securities were the main sources of income accounting for 54%, 23% and 14% of total income, respectively. Staff costs, other expenses and interest on deposits were the major expense components and accounted for 32%, 28% and 26% respectively.

8.1.4.7 Branch network

The following table provides details of the distribution of bank branches in Kenya.

Table 6: Distribution of bank branches

Province	2008	2007
Central	100	78
Coast	111	93
Eastern	75	61
Nairobi	353	293
North Eastern	10	6
Nyanza	61	52
Rift Valley	137	128
Western	40	29
Total	887	740

Source: Central Bank of Kenya

The branch network grew by 20% from 740 in 2007 to 887 in 2008. All provinces registered positive growth in branch network. Nairobi had the highest growth accounting for 60 out of the 147 new branches opened in 2008 and 41% of the total. Central Province was second with 22 new branches and Coast province was ranked third with 18 new branches

in 2008. The branch distribution as highlighted in the previous table reflects the level of economic activities across the regions.

8.1.5 Recent developments

8.1.5.1 Increase in minimum core capital

To enable banks to effectively and competitively serve their market niches, the Banking Act was amended through the Finance Act, 2008 raising progressively the minimum core capital from Kshs 250 million to Kshs 1 billion by the end of 2012.

8.1.5.2 Credit reference bureau regulations

Banks play a central role in extending financial services within an economy. In support of this role, credit bureaus assist lenders in making faster and more accurate credit decisions since they collect, manage and disseminate customer information to lenders within a provided regulatory framework. Credit histories not only provide necessary input for credit underwriting, but also allow borrowers to take their credit history from one financial institution to another, thereby making lending markets more competitive and, in the end, more affordable. Credit Reference Bureaus assist in making credit accessible to more people and enabling lenders and businesses reduce risk and fraud.

The publication of the Banking (Credit Reference Bureau) Regulations, 2008 in July 2008 was an important milestone. These regulations empower the Central Bank of Kenya to license and oversee Credit Reference Bureaus that will collate credit information from banking institutions. Credit referencing mechanisms will enhance risk appraisal by institutions and will also facilitate the generation of personal collateral information particularly for Kenyans in the informal and small and medium enterprises sectors. CRB Africa, the first credit reference bureau in Kenya was granted a licence by CBK in February 2010 and was officially launched on 4 March 2010.

8.1.5.3 Increased use of ICT services

The last few years have witnessed unprecedented investment in Information and Communication Technology (ICT) in the banking industry in the country. Consequently, it is very evident that ICT is a key driver of growth in banking business since it influences the unit cost of providing banking services and the diversity of products and services that a bank can offer to its customers. Cut throat competition within the banking industry has led to the development and implementation of strategies biased towards increasing business volumes. Therefore, to optimise a bank's objective function, and faced with the constraint of providing efficient and affordable services, the only feasible solution is to invest in good ICT infrastructure. It is now apparent that any bank embarking on business growth strategy has to consider whether its ICT platform is adequate and robust enough to support the desired business model. Any mismatch between business growth and IT infrastructure could lead to unmanageable operational risks.

The development in ICT therefore poses various challenges to the banking industry. Automation of business processes leads to an increase in the number of transactions processed and the increase in operational risks relating to processing, approval, dissemination and storage of the processed information. This will call for a policy shift on institutions' risk management framework as more effort is required to ensure information is efficiently processed and data integrity and confidentiality are maintained.

8.1.5.4 Growth in micro finance

The Microfinance Act 2006 became operational in May 2008. The principal object of the Microfinance Act is to regulate the establishment, business and operations of microfinance institutions in Kenya through licensing and supervision. The Act enables deposit taking microfinance institutions licensed by the Central Bank of Kenya to mobilise savings from the general public, thus promoting competition, efficiency and access. Approximately 30 institutions have applied for approval to be issued with licences to undertake deposit taking and two institutions (Faulu Kenya and Kenya Women Finance Trust) have been granted approval (issued with letters of intent/approval in principle) to conduct deposit taking micro finance business.

8.1.5.5 Bank charges and lending rates

The CBK has enforced legislative provisions that require the approval of bank charges. More importantly, CBK has been engaged in a series of initiatives to enhance the communication of bank charges and lending rates to the general public. These initiatives involve conducting periodic media launches of surveys on bank charges and lending rates which commenced in 2007. In addition, the Kenya Bankers Association (KBA) and CBK formed a joint taskforce to enhance the communication of bank charges and lending rates. One of the key initiatives being undertaken by the taskforce is the possible adoption of an Annual Percentage Rate (APR) as a measure of the cost of credit by the Kenyan banking sector. An APR is a measure of the cost of credit that incorporates the interest rate on credit facilities including other charges such as commitment fees, loan processing fees and insurance. The APR is therefore an inclusive measure of the cost of credit that facilitates comparison of credit facilities by customers and is widely used in the United States and United Kingdom.

8.1.6 Future outlook

The dynamism in the banking sector is expected to continue into 2010 as financial institutions continue to seek new opportunities in the face of an anticipated subdued risk appetite arising from uncertainty surrounding the economic downturn. Though the banking sector in Kenya emerged unscathed from the effects of the global financial crisis, there are some concerns that the lag effects of the crisis could impact the real sector. This may then in turn affect the quality of the loan portfolio held by banks.

However, it is expected that banks will continue to explore new opportunities locally and regionally to maintain their growth momentum. Initiatives to raise capital are therefore expected to continue in 2010 as institutions consolidate their market niches and explore new opportunities particularly within the East African Community.

8.2 Uganda

8.2.1 The banking system in Uganda

The banking system comprises of the Bank of Uganda (BOU) at the apex of the system, 20 commercial banks, 17 insurance companies, 2 development banks, 1 reinsurance company, more than 90 forex bureaus, 10 credit institutions and over 100 micro finance institutions (only a few are deposit taking).

The total assets of the banking sector as at 31 December 2007 was Ushs 5,611 billion (US\$ 3.3 billion). Commercial banks account for more than 90% of the total assets in the financial sector.

A Financial System Stability Assessment carried out by the World Bank/IMF in January 2003 found the banking system in Uganda to be fundamentally sound, more resilient than in the past, and posing no threat to macroeconomic stability. The resilience was attributed to the preventive action taken by the BOU in closing four banks in the aftermath of a banking crisis in 1998/99, and the fact that the system is now dominated by large reputable foreign banks that are well capitalized and managed. Despite its resilience, the sector needs to develop in order to be able to better support the country's economic development. The Government's efforts to improve the performance of the financial sector have included reform of government-owned financial institutions, legal and judicial reforms, and enhancing banking regulation and supervision and licensing of additional strong banks.

8.2.2 Regulatory environment

Uganda's financial sector is relatively stable owing to fairly sound policy measures introduced aimed at ensuring institutional stability as a major strategy in financial sector development. The Bank of Uganda oversees the operations of commercial banks and licensed non-banking financial institutions (NBFIs) to ensure that sound banking practices are observed.

8.2.3 Deposit insurance

The banking laws provide for the establishment of a Deposit Protection Fund as a body corporate. A key objective of the Fund is to protect depositors in banks and regulated NBFIs. The protected deposits are up to Ushs 3 million.

8.2.4 Key regulations applicable to the sector and Bank Supervision

The Bank of Uganda (BOU) supervises financial institutions, through its supervision function, using Supervision Acts and Regulations put into force from time to time. The regulated institutions include commercial banks, credit institutions, microfinance deposit taking institutions (MDIs) and forex bureaus.

The BOU promotes a state of stable and efficient banking system by ensuring that banking institutions strictly observe all the banking laws and regulations. The BOU regulates the banking industry through its Bank Supervision Division.

The role of the Bank Supervision Division is to foster a sound, liquid and stable banking system. The function carries out its mandate through issuance of banking regulations, onsite reviews and offsite inspection of banks by reviewing returns submitted to the BOU on a regular basis. In its onsite reviews the BOU uses the risk based audit.

8.2.5 Key regulatory policies

The table below sets out the key regulatory policies that are applicable to banks and financial institutions:

8.2.6 Key industry players

The banking business in Uganda is dominated by a handful of banks. Traditionally, Stanbic Bank, Citibank, Standard Chartered, Bank of Baroda and Barclays have mainly targeted corporate customers and were therefore providers of corporate banking services. In the recent past, a remarkable shift has been observed with increasing focus on consumer banking, business banking and mortgage financing. This sub-sector has high margins and high scope for growth. Stanbic Bank, has unrivalled network advantage of 75 branches through the acquisition of Uganda Commercial Bank which had built a strong footprint in the rural as well as urban areas of Uganda is leveraging on this network to grow its retail business. Barclays Bank has also shifted its business strategy to embrace consumer banking, mortgage financing and SMEs. The acquisition of Nile Bank Ltd, a retail and SME focused bank with 18 branches and 30 ATMs, in 2007, signaled Barclays' change of business strategy in Africa. Barclays Bank has grown to over 45 branches since 2008.

Although the banking sector is dominated by the larger banks, the smaller banks in the country have been able to operate profitably in a competitive environment by carrying out proper market research to identify specific market niches and positioning their products properly.

8.2.7 Financial products/services

The Uganda banking sector is dominated by retail commercial banking, and basically offers the traditional commercial banking products, such as current accounts, savings accounts, time deposits and overdrafts. Treasury management products, mortgage financing products and discounting products are now being developed in this market. The financial infrastructure is generally less developed compared to Kenya's level of automation and it is only now that a number of banks are developing new and exciting products for this market. Standard Chartered Bank and Stanbic Bank, for example, have just launched their mortgage financing products. There is need in the marketplace for newer and a bit more sophisticated products/services.

8.2.8 Distribution /delivery channels

Banks in Uganda rely heavily on the branch outlets. The total number of bank branches countrywide is estimated at over 200. Out of that number, over 70 of them are located within the capital city, Kampala. The other service delivery channels banks are competing to establish are automated teller machines (ATMs). These have been installed by big banks and are spread across the country. Stanbic leads in terms of outlets with 75, followed by Barclays and Centenary Bank.

A company called Bankom Uganda Ltd, which has specialized in ATM connectivity, has established a centralized ATM network in the country. This has brought together smaller banks who do not have the capacity individually to implement a credible stand-alone ATM network.

Another emerging delivery channel of financial service in the Ugandan market is mobile banking. Various banks are at different levels in the introduction of either mobile or internet or home banking. This is likely to be a major delivery channel as banks embrace new technologies. At the corporate end of the business, relationship management has been emphasized and has become one of the delivery channels for corporate products. Sales teams have also been introduced by a few banks in Uganda and their focus is on retail products.

8.3 Rwanda

8.3.1 Banking and competitive environment

Rwanda's financial sector comprises the Central Bank Banque National du Rwanda (BNR) at the apex, nine commercial banks, a housing bank (Rwanda Housing Bank), a development bank, an investment bank, about 50 microfinance institutions (MFI), insurance companies and a young capital market.

The commercial banks Commercial Bank of Rwanda, Bank of Kigali, Fina Bank, Eco-Bank, Access Bank, KCB Rwanda SA, Compagnie Générale de Banque, Banque Populaire du Rwanda SA, Urwego Opportunity Microfinance Bank. Bank of Kigali is the largest bank in that market.

8.3.2 Regulatory environment

Several key reforms in the Financial Services sector are still outstanding waiting to be passed in to law. These reforms are mainly geared towards enhancing the regulatory capacity of BNR and improve risk management and governance in the market. BNR guideline requires the minimum capital of commercial banks to be Rwf 5 billion.

The BNR is the primary regulator of the banking industry.

8.3.3 Banking sector performance

The overall financial condition of the banking sector for the year 2008 continued to be sound.

By the end of December 2008, the average core capital to risk weighted assets ratio for banks dropped slightly to 15.6 % from the 17.2% level of the previous year. The decrease in this ratio was primarily due to a significant increase in the total risk weighted assets which grew by 78% compared to the 62% growth in core capital.

Total assets of the banking system increased by 33% and stood at RWF 511 billion (including BPR) at the end of December 2008 against RWF 384.1 billion in December 2007. Total deposits on the other hand increased from RWF 300 billion end December 2007 to RWF 381.9 billion at the end of December 2008, or a growth rate of 27%.

A significant improvement was noted in terms of the banks' loans portfolio quality with the ratio of net non performing loans (NPL) improving from 13.8% in December 2007 to 9.3% at the end of December 2008. The gross NPL ratio (including interest in suspense) also improved from 18.5% at 31 December 2007 to 11.4% at December 2008. Only three banks had a non performing loan ratio in excess of 10%. While total provisions accumulated by banks against NPLs decreased to 74% from 81% in December 2007, the ratio of NPL net of provisions to core capital also improved from 20% in December 2007 to 17.8% in December 2008.

The banks' overall profits reflected an upward improvement pattern. The consolidated net profit after tax was reported at RWF 12.2 billion for the year ended December 2008 against RWF 6.1 billion during the year 2007. Similarly, the return on average assets increased to 2.4% at the end of December 2008 against 1.7% in December 2007 and the return on average equity also increased to 18.6% in December 2008 from 17.5% in December 2007.

8.3.4 Banks' Branch Network

The banks in the market continued to expand their branches and agencies network with six new agencies and nine counters opened. KCB Rwanda S.A obtained a license to operate in Rwanda in 2008. In the same way, the conversion of "Union des Banques Populaires" into a commercial bank has substantially increased the number of branches of banks offering a broad range of financial services to the population. The BPR network currently includes 18 large branches, 111 sub-branches as well as points of sale throughout the country.

8.4 Tanzania

8.4.1 Key Industry players

As at 31 December 2009, the banking sector comprised 38 main participants, consisting of Bank of Tanzania (“BOT”) at the apex of the system, 28 commercial banks, five non-bank financial institutions, and five Regional Unit Banks. The larger banks in Tanzania include National Microfinance Bank, CRDB Bank, National Bank of Commerce, Standard Chartered Bank, Stanbic Bank and Barclays Bank.

8.4.2 Regulation

Bank of Tanzania is mandated to supervise Financial Institutions, through the Supervision Function, by the following legislation:

8.4.2.1 Tanzania Banking Sector Acts:

Bank of Tanzania Act, 1965 as amended in 1978 and 1995 was repealed and replaced by the Bank of Tanzania Act, 2006, which expressly specifies functions and objectives among others as to the regulation and supervision of banks and financial institutions in Tanzania.

The Banking and Financial Institutions Act, 2006 (BFIA, 2006) which consolidated the law relating to business of banking, to harmonize the operations of all financial institutions in Tanzania, to foster sound banking activities, to regulate credit operations and provide for other matters incidental to or connected with those purposes.

The Foreign Exchange Act, 1992 was passed by the Parliament for the purpose of making better provisions for the more efficient administration and management of dealings and other acts in relation to gold, foreign currency, securities, payments, debts, import, export, transfer or settlement of property and for the purposes incidental to and connected to those.

8.4.3 Distribution /delivery channels

Banks in Tanzania rely heavily on branch outlets. The total number of bank branches countrywide is estimated at over 381. A number of these branches are located within the capital city, Dar es Salaam. National Microfinance Bank has over 135 branches which is the largest branch network followed by National Bank of Commerce Ltd with 56 branches and CRDB with 53 branches. The other service delivery channels banks are competing to establish are automated teller machines (ATMs). These have been installed by big banks and are spread across the country. Stanbic leads in terms of outlets with 75, followed by Barclays and Centenary Bank.

A company called SCI (Tanzania) Limited, which has specialized in ATM connectivity, has established a centralized ATM network in the country. This brings together smaller banks who do not have the capacity individually to implement a credible stand-alone ATM network.

Another emerging delivery channel of financial service in the market is mobile banking. Various banks are at different levels in the introduction of either mobile or internet or home banking. This is likely to be a major delivery channel as banks embrace new technologies. At the corporate end of the business, relationship management has been emphasized and has become one of the delivery channels for corporate products.

8.5 Sudan

8.5.1 The Banking Sector

The Central Bank of Sudan or Bank of Sudan (CBS) developed and uses two sets of banking instruments, one Islamic and the other conventional and implements one single monetary policy.

The Bank of Southern Sudan (BOSS) headed by a deputy governor of CBS has been established to manage the conventional window using conventional financing instruments in implementing the same national monetary policy in Southern Sudan. The BOSS has the responsibility for chartering and supervising financial institutions in Southern Sudan.

Under the Comprehensive Peace Agreement (CPA), CBS is mandated to ensure price stability, maintaining stable exchange rate, sound banking system and issuance of currency.

The Bank of Sudan is officially charged with managing monetary and credit policy, and has responsibility for setting capital and reserve requirements, and minimum murabaha (profit) rates for Islamic Banking, the equivalent of interest rates.

The establishment of Bank of Southern Sudan, in mid-2006, under the overall control of the Bank of Sudan, has opened up the way for the growth of a non-Islamic banking sector in the south, and a number of banks from neighbouring countries such as Kenya have already set up representative offices in the southern capital, Juba. As the CPA continues to be implemented, foreign banking interest in the southern states is likely to increase further.

8.5.2 Players in the banking sector in South Sudan

The banking sector is highly concentrated in Juba, Rumbek and a few urban centers. Significant expansion activity is however ongoing with major players trying to reach the vast unbanked population. The main challenge is the non-existence of basic infrastructure and the lack of banking knowledge among the population. The vast untapped resources in agriculture, mining and tourism as well as donor inflows to fund government programs continue to attract regional and international banks to the market. The leading banking players are:

- KCB Sudan – has 34% assets market share (5 branches in 2009);
- Nile Commercial Bank - linked to the SPLM and has 22 branches;
- Ivory Bank – with 8 branches;
- Agriculture Bank – with 4 branches;
- Commercial Bank of Ethiopia – with 1 branch;
- Buffalo Commercial Bank – linked to South Sudanese Diaspora – has 2 branches; and
- Equity Bank – has 1 branch.

9 Information on Kenya Commercial Bank Limited and its subsidiaries

9.1 History of the KCB Group

The history of KCB dates back to 1896 when its predecessor, the National Bank of India opened an outlet in Mombasa. Eight years later in 1904, the Bank extended its operations to Nairobi, which had become the headquarters of the expanding railway line to Uganda. The next major change in the Bank's history came in 1958. Grindlays Bank merged with the National Bank of India to form the National and Grindlays Bank. Upon attainment of independence, the Government of Kenya acquired 60% shareholding in National and Grindlays Bank in an effort to bring banking services closer to the majority of Kenyans. In 1970, the Government acquired 100% of shareholding in the Bank to take full control of the largest commercial bank in Kenya. National and Grindlays Bank was then renamed Kenya Commercial Bank. In 1972, Kenya Commercial Bank acquired Savings and Loan Limited that specialised in the provision of mortgage finance. Kenya Commercial Bank incorporated KCB (Tanzania) Limited in 1997, KCB Sudan Limited in 2006, KCB Bank Uganda Limited in 2007 and KCB Rwanda SA in 2008.

The Government of Kenya has progressively over the years reduced its shareholding to 80% in 1988, 70% in 1990, 60% in 1996, 35% in 1998 and to 26.2% following the rights issue of 2004 where rights were renounced. In the rights issue of 2008, the Government sold their rights which further reduced its shareholding to 23.61% but continues to remain the single major shareholder of the Bank.

The shareholders of Kenya Commercial Bank Limited at the annual general meeting of the Company held in May, 2009, passed a resolution approving the amalgamation of Kenya Commercial Bank Limited with Savings and Loan Kenya Limited. Subsequently, The Minister for Finance approved the amalgamation with effect from January 2010.

9.2 Shareholding structure

The largest shareholders of Kenya Commercial Bank Kenya Limited as of 31 December 2009 are as follows:

Table 7: Major shareholders (source: KCB Group)

Name of shareholder	No of shares held	% shareholding
Permanent Secretary to the Treasury of Kenya	523,600,000	23.61 %
National Social Security Fund	115,933,812	5.23 %
Stanbic Nominees Kenya Ltd A/C ICDCI	74,524,907	3.36 %
Sunil Narshi Shah	51,779,088	2.33 %
Stanbic Nominees Kenya Ltd A/C R48701	44,022,433	1.98 %
United Millers Ltd	30,407,633	1.37 %
KCB Nominees Ltd A/C 744 A	28,438,260	1.28 %
Barclays Nominees Ltd A/C 9230	22,871,277	1.03 %
Nomura Nominees Ltd A/C NSSF	22,490,333	1.10 %
Kenya Re Insurance Corporation Ltd	19,187,944	0.87 %
Total	933,255,687	42.08 %

The shareholders owning 3% or more of the issued ordinary shares over each of the last three financial years to 31 December 2009 are as follows:

Table 8: Major shareholders (source: KCB Group Annual Report)

Name of shareholder	No of shares held	% shareholding	% shareholding	% shareholding
	2009	2009	2008	2007
Permanent Secretary to the Treasury of Kenya	523,600,000	23.61 %	23.61%	26.23%
National Social Security Fund	115,933,812	5.23 %	5.23%	6.80%
Stanbic Nominees Kenya Ltd A/C ICDCI	74,524,907	3.36 %	3.43%	3.49%

The KCB Group's shareholder profile as at 31 December 2009 is as shown by the following table.

Table 9: Shareholder profile

Shareholder group	No of shareholders	No of shares held	% share capital
East African institutional investors	21	2,642,040	0.12 %
Foreign institutional investors	55	64,167,140	2.89 %
East African individual investors	198	1,099,800	0.05 %
Foreign individual investors	438	6,851,514	0.31 %
Kenyan institutional investors	6,069	1,406,038,632	63.40 %
Kenyan individual investors	162,295	736,978,651	33.23 %
Total	169,076	2,217,777,777	100 %

Source: KCB Group

The range of shareholding in the KCB Group as at 31 December 2009 is as shown by the following table.

Table 10: Shareholder profile

Shares range	No of shareholders	No of shares held	% shareholding
1 – 5,000	138,471	234,360,425	10.57 %
5,001 – 50,000	28,873	296,338,653	13.36 %
50,001 – 100,000	784	54,148,313	2.44 %
100,001 – 1,000,000	782	215,546,926	9.72 %
1,000,001 – 10,000,000	148	438,410,558	19.77 %
10,000,001 and above	18	978,972,902	44.14 %
Total	169,076	2,217,777,777	100 %

Source: KCB Group

9.3 Recent milestones

Recent milestones for the Group are as follows:

Table 11: Milestones of KCB Group

2005	<ul style="list-style-type: none"> • 111% growth in pre-tax profits to Kshs 1.95 billion • S&L subsidiary reported a pre-tax profit of Kshs.77 million from Kshs 18 million the previous year. • KCB Tanzania reported a pre-tax profit of Kshs 11 million for the first time in its 8 years history. • Partnered with Western Union Money Transfer and Safaricom air time top up product-Pay mate 150. • Dr Martin Oduor-Otieno joined the bank in the newly created position of Deputy Chief Executive.
2006	<ul style="list-style-type: none"> • 63% growth in profitability moving from Kshs 1.95 billion to Kshs 3.2 billion. • KCB Sudan licensed and commenced operations. • Announced a share split of 10:1. • Increased ATM network to 115. • Restructured Tanzanian subsidiary for growth.

2007	<ul style="list-style-type: none"> • Cost to income ratio dropped to 63%. • The profit before tax increased by 33% to Kshs 4.2 billion. • The return on equity increased to 23%. • Launched the KCB Uganda subsidiary. • Subsidiaries begun to make attractive profits contribution. • 11 branches opened in Kenya. • Launched the KCB Biashara Banking and KCB Advantage Banking products. • KCB placed the fourth most popular brand according to an independent survey. • Continued sponsorship of KCB Kenyan National Rally Championships, KCB Safari Rally, KCB Pro-Am Golf Tour, KCB/Athletics Kenya National Cross Country Championships. • Dr. Martin Oduor-Otieno appointed Chief Executive Officer replacing Terry Davidson whose contract expired.
2008	<ul style="list-style-type: none"> • Profit before tax increased by 42% to Kshs 6.013 billion. • KCB Sudan after only two-and-half years in operation and 3 branches posted an impressive profit before tax of Kshs 530 million. • Commenced operations in KCB Rwanda. • Successfully raised Kshs 5.5 billion in additional capital through a rights issue exercise. • KCB shares were cross listed in the Uganda Securities Exchange and the Dar es Salaam Stock Exchange. • A new core banking System, T24 Temenos, was successfully implemented. • In the Kenyan business 28 new outlets were opened, comprising normal retail branches, Advantage banking centers and sales outlets. • In the region, opened eight, three and seven branches in Tanzania, Southern Sudan and Uganda respectively. • Launched the KCB Biashara Club for the bank's business customers and S&L Developers Club for players in the real estate sector. • Mr. Peter W. Muthoka appointed chairman replacing Mrs Susan Mudhune whose term expired.
2009	<ul style="list-style-type: none"> • Profit before tax increased by 5% to Kshs 6.3 billion. • Savings & Loan Kenya Limited posted an impressive profit before tax of Kshs 1.016 billion representing an increase of 118%. • KCB shares were cross listed in the Rwanda Over the Counter Market. • In the Kenyan business, eleven new outlets were opened. • In the Region, KCB opened three, four, eight and nine branches in Tanzania, Sudan, Rwanda and Uganda respectively. • The bank launched KCB Connect 24 hour mobile banking services. • The bank launched KCB Contact Centre a one-stop customer service centre. • A resolution was passed in May 2009 to amalgamate Savings & Loan Kenya Limited and transfer the business assets and liabilities to Kenya Commercial Bank Limited effective 1 January 2010.

9.4 KCB and its subsidiaries

The operational subsidiaries of KCB Group are 100% owned. The operational subsidiaries of the KCB Group as at 31 December 2009 were as follows:

Table 12: Operational banking subsidiaries of KCB

	Subsidiary	Ownership	Date of Incorporation	Country	Number of branches
1	KCB (Tanzania) Limited	100%	April 1997	Tanzania	10
2	KCB Bank Uganda Limited	100%	2007	Uganda	12
3	KCB Sudan Limited	100%	December 2005	Sudan	6
4	KCB Rwanda SA	100%	19 June 2008	Rwanda	9

The other non-banking subsidiaries and associated companies are as follows:

Table 13: Non-banking subsidiaries

Subsidiary	Activity	Beneficial ownership (%)
Kenya Commercial Finance Co. Ltd	Dormant	100%
Kenya Commercial Bank Nominees Ltd	Nominee Shareholders	100%
Kencom House Ltd	Property ownership & management	100%
Savings & Loan Kenya Limited	Mortgage business (effective 1 Jan 2010, the operations were transferred to the Bank)	100%
Investment in associate	Activity	Beneficial ownership (%)
United Finance Ltd	Dormant	45%

9.4.1 KCB (Tanzania) Limited

KCB (Tanzania) Limited ('KCB Tanzania') was incorporated in April 1997 to provide a wide range of financial products and to facilitate cross-border trading following the revival of East African Co-operation. KCB Tanzania has ten branches namely Mwanza, Arusha, Milimani, Stonetown, Samora, Uhuru, Msimbazi, Morogoro, Buguruni and Moshi. The registered office and location of KCB Tanzania is Harambee Plaza, Ali Hassan Mwinyi Road/Kaunda Drive Junction, Post Office Box Number 804 Dar-Es-Salaam.

9.4.2 KCB Bank Uganda Limited

KCB Bank Uganda Limited ('KCB Uganda') started business in November 2007. It is expected to help leverage on existing business in Sudan as Uganda is a key transit and trading partner with Sudan. KCB Uganda provides customers with a wide range of innovative products and services including SME banking, corporate banking, personal banking, money transfers and mortgage financing. KCB Uganda now boasts of twelve branches namely Arua, Mbarara, Lira, Gulu, Hoima, Ben Kiwanuka, Luwum Street, Commercial Plaza-Kampala, Oasis Mall, Jinja, Fort Portal and Elgon Masaba. KCB Uganda has its registered office at Kampala Road, Commercial Plaza, 7 Kampala Road, P.O. Box Number 7399, Kampala.

9.4.3 KCB Sudan Limited

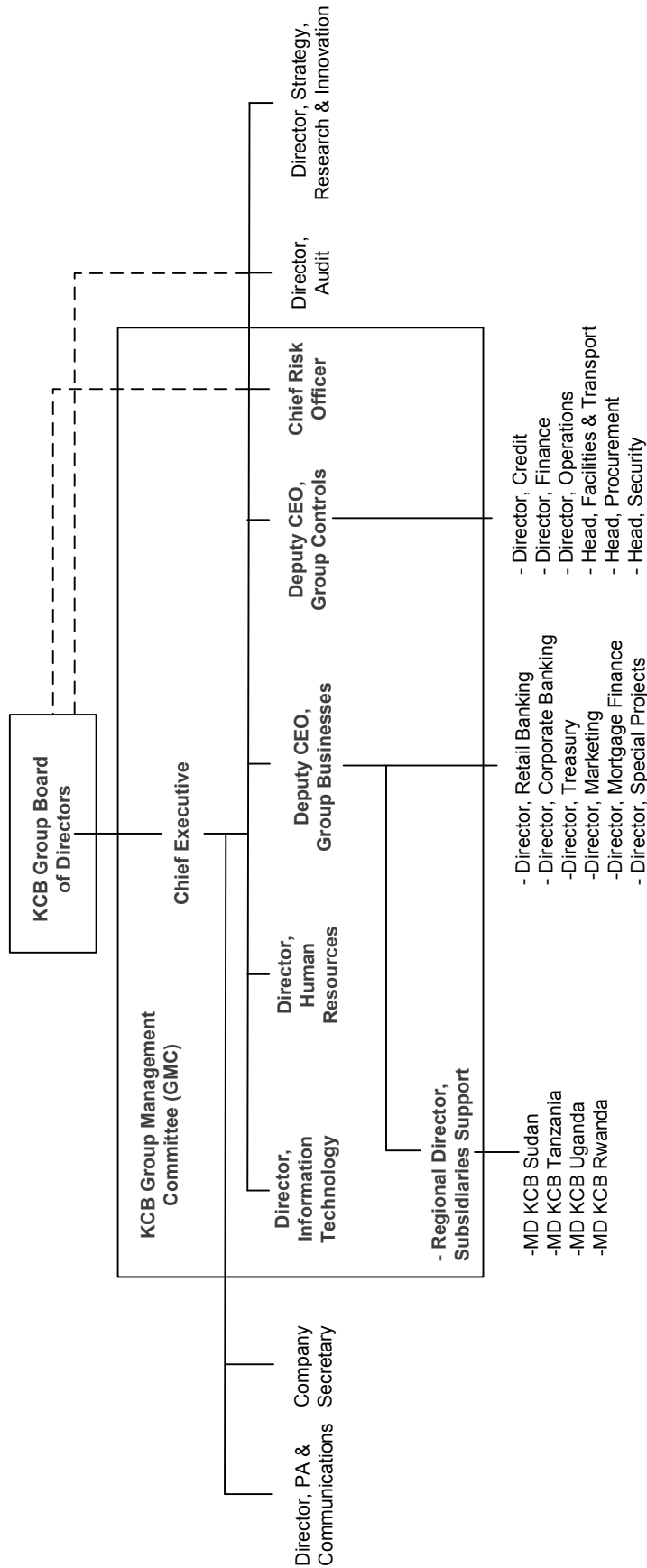
KCB Sudan Limited ('KCB Sudan') was launched in May 2006 and immediately commenced operations in Southern Sudan. The subsidiary offers a wide range of banking services with tailor made products and services for non-governmental organizations, individuals and the young civil Service in the Government of Southern Sudan. Operations commenced with two branches - Juba and Rumbek - where impressive progress has already been made to command a greater share of government and NGO business. KCB Sudan has eight branches across major centres in Southern Sudan namely Juba, Malakia, Buluk, Rumbek, Bentiu, Yei, Rock City and Bilpam. KCB Sudan has its registered office at Amin Muhammed Building, off Addis Ababa Road, P.O. Box Number 47, Juba, Southern Sudan.

9.4.4 KCB Rwanda SA

KCB Rwanda SA ('KCB Rwanda') commenced operations in the fourth quarter of 2008. The banking license was granted in the third quarter of 2008. KCB Rwanda has nine branches namely Avenue De La Paix, Huye, Rusizi, Remera, Rubavu, Kimironko, Nyabugogo, Musanze and Muhanga. KCB Rwanda has its registered office at Avenue de la Paix, P.O Box 5620, Kigali, Rwanda.

KCB business units and organisation structure

Figure 1: KCB business unit structure



Source: KCB

9.5 Staffing

The total number of permanent and non-permanent staff employed by the Group as at 31 December 2009 was 5,492.

9.6 Products and services

The KCB Group is engaged in the business of banking and provides a wide array of related financial services through its wide and extensive branch network and subsidiary companies. The Group's current product range is as shown by the following table.

Table 14: Products and services

Division	Service offerings
Retail banking	Personal banking, Card business, Biashara banking, Advantage banking and Micro banking
Corporate banking	Custodial services, Asset finance, Corporate finance, Trade finance
Treasury	Money market, Foreign exchange services, Cash management, Institutional banking
Mortgage finance	Personal accounts, Mortgage loans, Housing development bonds

9.7 KCB rankings – Kenya

An independent survey released in 2009 (The Banking Survey of 2009) using the financials for the financial year ended 31 December, 2008 for 43 commercial banks ranked KCB as per the table below. However, note that the financial results for the year ended 2009 for these banks in Kenya will most likely result in some changes to these rankings.

Table 15: KCB Kenya – rankings

Category	Value	Market Share
Total Assets	Kshs191.21 billion	Market Share 15.75 %
Customer Deposits	Kshs 126.69 billion	Market Share 14.13 %
Total Deposits	Kshs 165.20 billion	Market Share 16.86 %
Loans & Advances (Net)	Kshs 93.52 billion	Market Share 14.88 %
Shareholders Funds	Kshs 21.09 billion	Market Share 12.52%
Interest on Loans and Advances	Kshs 10.22 billion	Market Share 13.14 %
Total Interest Income	Kshs 14.75 billion	Market Share 13.96 %
Net Interest Income	Kshs 11.78 billion	Market Share 15.79 %
Operating Profits Before Provisions	Kshs 9.71 billion	Market Share 17.74 %
Profits Before Tax	Kshs 6.01 billion	Market Share 13.60 %

9.8 Group financial performance

9.8.1 First quarter – 2010

The un-audited results for the Bank and the Group for the quarter ended 31 March 2010 are in Appendix 3 to this Information Memorandum.

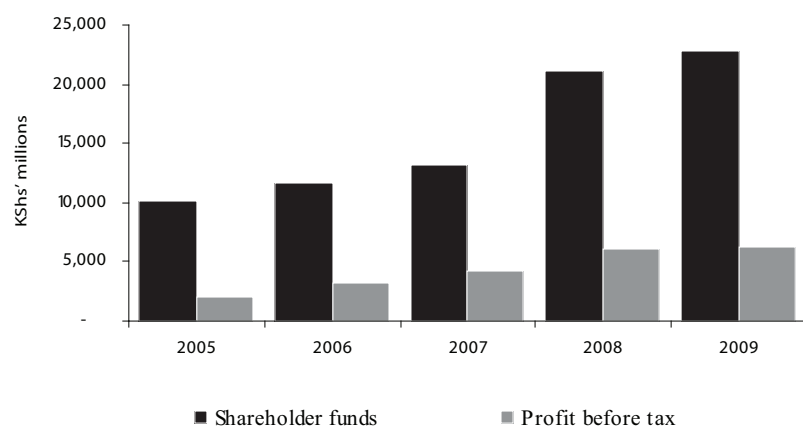
9.8.2 Audited Financial Results of KCB – 2005 to 2009

For a detailed analysis of the Group's five year financial performance, please refer to the Reporting Accountant's Report in Section 14.

9.8.3 Growth in Group Profits and Shareholders Funds

The following chart shows the profits before tax (PBT) and shareholders funds over the last five years:

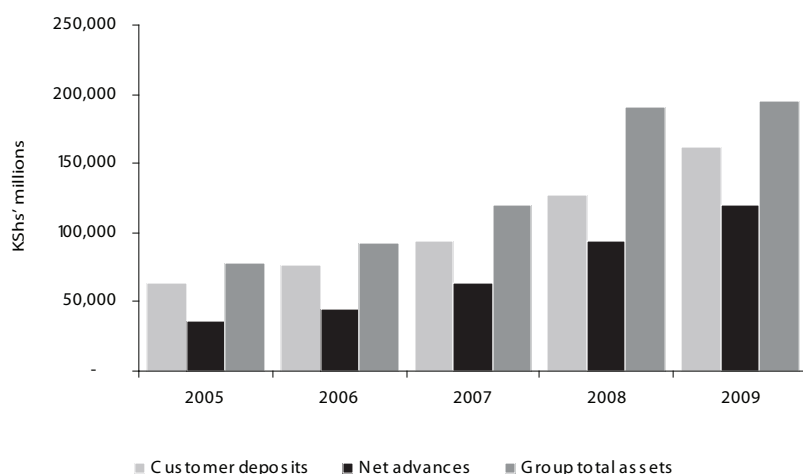
Trend in shareholder funds and PBT



9.8.4 Growth in Customer Deposits, Net Customer Advances and Group Assets

The following chart shows the trend in customer deposits, net customer advances and group assets over the last five years:

Trend in customer deposits, advances and total assets



9.9 Performance and Statutory Ratios

Performance and statutory ratios for the five years ended 31 December 2009 are as follows:

Table 16: Performance and Statutory ratios 2005-2009

Performance and Statutory Ratios	2005	2006	2007	2008	2009
Cost to income ratio	67%	64%	63%	62%	69%
Return on equity	13%	21%	23%	20%	18%
Core capital to deposits	16%	13%	12%	12%	13%
Total capital to total weighted assets	18%	16%	14%	16%	15%
Liquidity ratio	44%	42%	33%	32%	28%
Net impaired advances to net advances	11%	9%	3%	3%	5%
Net impaired advances to gross impaired advances	29%	33%	22%	26%	44%

9.10 Future outlook

Up to 2007, the plans laid emphasis on turnaround measures and the establishment of sound foundation for business growth. From 2007 to 2009, focus shifted to repositioning the bank to reclaim its leadership position in the region in line with its vision.

During the 2007 – 2009 period, the following significant achievements can be identified:

- **Statutory and Performance Ratios:** All the prudential ratios were within the prescribed limits. Return on equity and the cost to income ratio however, were below the industry average performance during the period.
- **Distribution network:** The number of branches and ATMs has increased from 126 and 91 in 2005 to 210 and 344 in the first quarter of 2010 respectively. The Bank has also invested significant resources in refurbishing branches to reflect the corporate brand and the drive towards improved customer service. A good proportion of the new distribution outlets is made up of small branches and sales centers located in rural areas; demonstrating the Bank's commitment to spreading financial services to the vast unbanked population and driving a savings culture in those areas.
- **Products and Services:** A number of products and services have been launched in line with changing customer needs and demands of the competitive landscape. The personal check-off loan product on the retail end has proved quite lucrative. Its success is evident in the corporate-retail loan mix from 70:30 to the current 55:45 ratio (approximately). In the corporate and high net worth segments, the Bank has structured specific products such as asset based finance and liability products designed to attract wholesale deposits. In the SMEs and Micro banking space, the Bank has tailored solutions to address the unique customer needs. While riding on technology, the Bank has also launched KCB Connect which provides customers the convenience of using their mobile phones to do business and obtain prompt information on their accounts.
- **Regional Presence:** With investments in four out of the five countries in the East African Community and in Southern Sudan, the Bank is effectively positioned as a true regional bank. In terms of returns, the South Sudan subsidiary stands above the rest mainly because of first mover advantages the bank enjoys in that market. Returns and market share in the other subsidiaries remain low but the increased visibility & expanded network should help improve it.
- **Information Technology:** The IT component has undergone tremendous change from the two completely discrete platforms (TC3 and AS400 systems). The first phase of the transformation involved the migration of all branches to one platform (an upgraded TC3) to improve connectivity and achieve one-branch-banking. This, together with more simplified processes and an element of centralization enabled branch reconfiguration with more resources redeployed to the front office. The second phase culminated in the implementation of the T24 core banking system which provides the platform for upgrading services and rolling out more IT-based products and services.
- **Staff Training & Development:** The Bank recognizes the importance of its human capital in rendering services and generating revenues and returns commensurate with customer and shareholder expectations. Thus significant resources are spent in talent management, training, placement and staff development each year. Majority of staff have undergone the customer service training. The ongoing leadership program is expected to create business leaders at middle and senior management levels.
- **Risk Management and Corporate Governance:** Significant progress has been made in the areas of risk and governance. A risk management framework is in place and all activities are now focused on creating a risk-culture in the Bank. This will be achieved through investment in systems, training and sensitization.

The paradigm in which financial institutions conduct business has shifted dramatically, resulting in increased competition from traditional and non-traditional sources, compressed margins and stringent capital regulations. The rapidly changing outlook necessitates that the Bank remains prudent and focuses on the core principles of risk management, customer service and operational efficiency, while continuing to look for opportunities to strengthen its footprint and grow the business. It also demands a shift in structures, systems, policies and procedures to embrace versatility and innovation.

Thus the strategy in the medium term will focus on consolidating the business; fostering an efficient market-driven organisation attuned to the needs of its customers; growing profitability; and building on the existing risk culture and cost management to enhance shareholder value.

10 Corporate governance, the Board of Directors and divisional directors

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

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

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

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

10.1 Board Committees

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

10.1.1 Risk Management Committee

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

10.1.2 Audit Committee

This Committee meets quarterly, or as required. In accordance with regulatory requirements, the Committee comprises non executive members of the Board who are independent of the day to day management of the Bank's operations. The Committee is primarily charged with the responsibility of dealing with all matters relating to the financial statements and internal control systems of the Bank including dealing with external auditors and Central Bank of Kenya inspectors.

10.1.3 Credit Committee

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

10.1.4 Human Resources Committee

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

10.1.5 Procurement Committee

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

10.1.6 New Markets Committee

This Committee was constituted in 2008 so as to assist the Board in analysing propositions for new markets, products and services.

10.1.7 Members of the Committees

The members of the various committees as at 31 December 2009 are as follows:

Table 17: Members of the Committees

Member	Audit	Risk	Credit	Human Resource	Procurement	New Markets
Mrs. Catherine Kimura	√			√		√
Mrs. Catherine Kola			√	√		
Mrs. Janet Mbene	√					
Mr. Joseph Adongo			√			
Mr. Joshua Muiru	√		√			
Mr. Kiprop Malakwen (Secretary)			√	√	√	√
Mr. Leonzio Onek					√	
Dr. Martin Oduor-Otieno		√	√	√		√
Eng. Musa Ndeto		√			√	
Prof. Peter Kimuyu				√		√
Mr. Peter Munyiri						√
Mr. Protus Sigei		√	√			
Mr. Samuel Kimani			√		√	√
Mr. Samwiri Njuki	√					
Mr. Sunil Shah		√		√	√	√
Mrs. Susan Omanga	√	√			√	

10.1.8 KCB Foundation

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

10.2 Direct equity investments of directors

The direct equity investments of the directors in the Bank as at 31 December 2009 and at the date of issuing this IM are as follows:

Table 18: Directors interests in KCB - Source: KCB Group

Name of Director	No. of shares held at 31 December 2009	Change in No. of shares held	No. of shares held at the date of this IM	% shareholding
Permanent Secretary to the Treasury of Kenya	523,600,000	-	523,600,000	23.61 %
Sunil Narshi Shah	51,779,088	-	51,779,088	2.33 %
Peter Wanyaga Muthoka	170,933	-	170,933	0.01 %
Catherine Ngima Kimura	140,620	(100,000)	40,620	0.00 %
Martin Oduor-Otieno	30,000	(30,000)	-	0.00 %
Eng. Jeremiah Musa Ndeto	25,704	-	25,704	0.00 %
Joseph Isaac Adongo	12,222	-	12,222	0.00 %
Catherine Adongo Kola	11,100	-	11,100	0.00 %
Susan Nkirote Omanga	2,222	-	2,222	0.00 %
Total	575,771,889	(130,000)	575,641,889	25.96 %

10.3 Communication with shareholders

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

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

10.4 Board of Directors

Main Board

The Directors of KCB's Main Board are as follows:

Table 19: Board of Directors interests in KCB - Source: KCB Group

KCB main board	
Chairman Peter W Muthoka (MBS)	Peter, aged 66 years joined the Board in June 2004 and became Chairman of the Board in May 2008. He holds BA (Hons) Degree from University of East Africa (Nairobi Campus), MA Degree from University of California, Los Angeles (USA) and Bank of England/IMF/WTO/UNESCO Course Certificates. He has served in senior positions with GOK/UN, Central Bank of Kenya, College of Banking and Finance, Export Promotion Council of Kenya and Sasini Limited. He is a Fellow of Kenya Institute of Bankers (FKIB) and Fellow of Kenya Institute of Management (FKIM). He is the Chairman of KCB Sudan, KCB Rwanda, Director of KCB Tanzania and KCB Bank Uganda, and Non-Executive Director of KCB Foundation. Peter is also a director of Sasini Limited.
Director Permanent Secretary, Treasury Joseph K Kinyua (CBS)	Joseph, aged 58 years holds a Bachelor of Arts Degree and a Masters of Arts Degree in Economics from the University of Nairobi. He is a career economist having served in various capacities in the Treasury and the Central Bank of Kenya and he has also worked as an economist with the International Monetary Fund between 1985 and 1990. He has served as a Board member in various State Corporations and as a member of the Programme Committee of the African Economic Research Consortium (AERC) and currently is a member of the Board AERC and an Alternate Governor, World Bank Board of Governors.
Director Joseph I. Adongo	Joseph, aged 56 years joined the Board in June 2005. He holds a BA and MA degrees in Economics. He is a fellow of the Economic Institute of the World Bank and Chairman of Betting Control and Licensing Board and the Bank's Credit Committee.
Director Catherine Kola	Catherine, aged 60 years joined the Board in May 2009 and is the Chairman of the Human Resource Committee of the Board. She has over 26 years experience in law and company secretarial practice in the Financial and Energy sectors. She is an advocate of the High Court of Kenya, Certified Public Secretary of Kenya (CPSK) and an associate member of the Chartered Institute of Arbitrators. She holds a Bachelor of Laws (LL.B) degree from the University of Nairobi.

KCB main board	
Director Eng. Musa Ndeto	Musa, aged 56 years joined the Board in June 2003. He is a member of IEE (UK) and practices as a Consulting Electrical Engineer. He is also a Director of Kenya Electricity Generating Company (KenGen). He is the chairman of the Bank's Risk Management Committee.
Director Catherine Kimura	Catherine, aged 61 years joined the Board in June 2003 (Representing Permanent Secretary Treasury). She holds a Bachelor of Arts Degree (Hon) from University of East Africa (Nairobi), a Diploma in Tourism and International Relations (Finance), a Certificate in Public Finance (University of Connecticut) and a Certificate in Budgeting (Harvard). She has served in senior positions in Government rising to the position of Investment Secretary, Ministry of Finance. She is currently the Chairman of the Bank's Audit Committee and a Director of KCB Tanzania.
Director Prof. Peter Kimuyu, MBS	Peter, aged 59 years joined the Board in June 2006 and is also a Director of KCB Rwanda. He holds a PhD in Economics from University of Nairobi. He is currently the Professor of Economics, Founder Director School of Economics at Nairobi University and Chairman, Privatization Commission.
Director Susan Omanga	Susan, aged 49 years joined the Board in June 2004. She holds a Degree in Business Management and Marketing. She is currently the Managing Director of Exclamation Marketing Limited. She has headed Marketing function in the local banking industry for many years. She is also the Chairman of the KCB Foundation and a Director in KCB Bank Uganda.
Director Mr Sunil N. Shah	Sunil, aged 56 years joined the Board in June 2004. He is currently the Managing Director of United Millers Limited and a member of various Professional Bodies among other directorships. He is also the Chairman of the Bank's Procurement Committee.
Chief Executive Officer Dr. Martin Oduor-Otieno, (CBS)	Martin, aged 53 years, joined the bank in the year 2005 and is also a Director of KCB Tanzania, KenCom House Limited and KCB Foundation. He holds an honorary Doctor of Business Leadership degree from the KCA University. He also has an MBA and a Bachelor of Commerce Degree in Accounting and is an Alumnus of Harvard Business School's Advanced Management Program, a Fellow of the Institute of Certified Public Accountants of Kenya (ICPAK), Fellow of the Kenya Institute of Bankers (KIB) and a Certified Public Secretary (CPS). He is the current Chairman of the Kenya Bankers Association, and in this capacity represents the industry on the boards of Kenya Private Sector Alliance (KEPSA) and Federation of Kenya Employers (FKE).
Deputy CEO Group Controls Samuel Kimani	Samuel, aged 47 years joined KCB in 2000. He is also a Director of KCB Rwanda and KenCom House Limited. He has over 20 years' experience in Financial Management, having previously worked for Price Waterhouse and 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 an alumnus of Harvard Business School's Advanced Management Program. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK).
Company Secretary Kiprop D. Malakwen	Kiprop joined the Bank in July 1994 as Company Secretary. He is a holder of the Degrees of Bachelor of Laws (LL.B Hons) and Master of Laws (LL.M) from the University of Nairobi. He is an Advocate of the High Court of Kenya and a member of the East African Law Society and Commonwealth Bar Association. He is also a Fellow of the Institute of Certified Public Secretaries of Kenya (FCPSK). He also acts as the Company Secretary for KCB Rwanda, KCB Sudan and KCB Bank Uganda and a member of the Executive Committee.

Directors of subsidiaries

The full list of Directors for each of the subsidiaries is presented in the section following the profiles of the subsidiary directors below.

The profiles of KCB Tanzania directors other than those mentioned above are as follows:

Table 20: Profiles of KCB Tanzania, Directors

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

KCB Tanzania	
Director Philemon Nikubuka Shimwela	Philemon joined the Board in March 2010. He holds a Master's degree in Public Policy and Administration from the University of Wisconsin at Madison, WI, USA (1977), and a Bachelor's degree in Economics, Management and Administration from the University of Dar es Salaam (1973). He retired from public service in 2002. He is the current Chairman of the Fair Competition Commission, member of the Tax Revenue Appeals Tribunal and CEO and Lead Consultant of Kasuto Company Limited. He has been an external director of many companies including the former state-owned National Bank of Commerce which he served for nine years.
Director Joshua S. Muiro	Joshua joined the Board in August 2006 after working with Central Bank of Kenya for over 23 years. Holds a Masters Degree in Economics from the University of Nairobi. He is an examiner with Kenya Institute of Bankers and Consultant with Ukweli Consult. He was elected Chairman of S&L from 1 July 2007.
Managing Director Joram Kiarie	Joram has held various senior management roles in KCB since his joining the Bank's service in 2004. He has served as a Senior Corporate Banking Relationship Manager, Head of Marketing & Business Development in Savings and Loan. Joram has also held the position of Unit Head, Regional Corporate, Industry & SMEs, in Corporate Banking Division. Before joining KCB, Joram worked with Cooperative Bank of Kenya, ABN Amro Bank and Express Travel Group, gaining over 15 years experience. He holds a Bachelor of Arts Degree from the University of Nairobi, a Bachelor of Science Degree from University of Manchester Institute and a Master of Business Administration from the University of Birmingham. Joram is also an Associate of the Chartered Institute of Bankers.

The profiles of KCB Rwanda SA Directors other than those mentioned above are as follows:

Table 21: Profiles of KCB Rwanda SA, Directors

KCB Rwanda SA	
Director Mr Faustin Mbundu	Faustin, aged 46 years, joined the bank in October 2009. He holds a Bachelor of Commerce degree (Honors) from Makerere University. He has a lot of entrepreneurial experience having started and run several companies in East Africa. Currently, he runs and holds equity in a number of companies involved in different businesses ranging from Information Technology, Tourism, Agri-business to Education. He is also the Chairman of the East African Business Council.
Director Ms. Anne Wangari Kirima	Anne, aged 42 years, joined the bank in October 2009. She holds a Masters degree (Brunel University London) and an MSc in Commercial Property Management (Liverpool John Moores University) and a Bachelor of Arts (Hons) Politics and Economics from University of London. She has over 10 years experience in property consultancy in Kenya, Uganda, Tanzania and UK. She is qualified at graduate level in international development studies and in political economy of developing countries with special reference to East Africa.
Director Mrs. Sarah Mukandutiye	Sarah, aged 40 years joined the bank in November 2009. She is a holder of a Master of Arts (Econ) degree in Development Administration and Management from the University of Manchester, UK and a Bachelors of Arts degree in Social Administration from Makerere University. She has over 10 Years of practical experience in financial management, operations and administration. She is the Managing Director of Seroma Ltd, a private limited liability company that deals with building materials.
Director Mrs Marie-Josée Kankerra	Marie-Josée, aged 45 years joined the bank in November 2009. She holds a Masters degree in Business from Maastricht School of Management-Netherlands and a Bachelor Degree in Management from University of Rwanda. She is currently an independent Consultant involved in different areas such as Project Management, M&E Systems, Good Governance and Gender Development.
Managing Director Maurice Toroitich	Maurice, aged 39 years, joined the bank in October 2008. He holds a Bachelors Degree in Commerce from the University of Nairobi and is a final year MBA student at Strathmore Business School. He is a Certified Public Account of Kenya (CPAK) and ACIB (London) qualifications. He has over 16 years banking experience in Retail and Corporate Banking. He previously worked for CFCStanbic Bank.

The profiles of the Directors in KCB Bank Uganda Limited other than those mentioned in the main Board are as follows:

Table 22: Profiles of KCB Bank Uganda, Directors

KCB Bank Uganda	
Chairman Samwiri H. K. Njuki	Samwiri, aged 57 years, joined KCB Bank (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 Bank (U), he worked as the Managing Director of Orient Bank Uganda Limited from where he retired in July 2007. He is the immediate past Chairman of Uganda Securities Exchanges and was previously the Chairman Uganda Bankers Association. He has been in banking for over 30 years.
Director David M. Nyende	David, aged 60 years, joined KCB Bank (U) in August 2008 as a non-Executive Board member. He holds a Bachelor of commerce degree and is a fellow of Association of Chartered Certified Accountants (FCCA) and a member of the Uganda Institute of Certified Public Accountants (CPA). He is currently a Partner with Johnson and Nyende, Certified Public Accountants in Kampala. He has diverse international experience in Finance and related disciplines obtained in several countries including Nigeria, the U. K., Germany, Kenya, Tanzania and Uganda.
Director Florence Kata	Florence, aged 51 year, joined the bank in July 2009 She has over 28 years of experience in both the public and private sector, specializing in the marketing of services and products. She has a Bachelor of Arts Honors Degree in Economics/Rural Economics from Makerere University, Post Graduate Diploma in Business Management and a Masters in Management. She is currently the Executive Director, Uganda Export Promotion Board.
Divisional Director, Finance Stanley Towett	Stanley joined KCB in 1984 as a management trainee rising through the ranks to become the Assistant Chief General Manager, Administration Savings and Loan to Divisional Director Audit and further to his current position. He holds a Bachelor of Commerce degree (Accounting Option) from the University of Nairobi and Masters of Business Administration degree from E.S.A.M.I. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He has attended numerous courses and workshops in the fields of Strategic and financial management. He is also a member of the Executive Committee.
Managing Director James Agin	James, aged 40 years, joined the bank in January 2008. He has over 16 years of banking experience. He has a Bachelor of Science Degree from University of Nairobi and an MBA from IESE Business School, Spain. He is an associate of the Chartered Institute of Bankers, UK. He previously worked for Barclays Bank of Uganda as the Corporate Director.
Executive Director Nyangiry Bwonditi	Nyangiry joined the Board in October 2007 as Executive Director. He holds Bachelor of Arts (Econ) degree from the University of Nairobi and Master's degree in Banking & Finance (MBF) from Finafrica, Milano Italia. He also obtained an MBA in Strategic Marketing from Daystar University in 2006. He is an Alumnus of Strathmore Business School's Executive Education Program He has over 24 years working experience in banking and strategic management having joined KCB in June 1986. Prior to that, Nyangiry was a lecturer of Economics and Banking at the Kenya Polytechnic. At KCB, he rose within the ranks to become Head of Strategic Planning and Brand Programme before being appointed the Executive Director, KCB Bank (U). In addition, he played an instrumental role in the rebranding of KCB which totally transformed the brand and the perception of KCB by the public. He also successfully spearheaded the establishment and branch expansion of KCB Bank Uganda Ltd. He had also served as a Board Member of Nyumbani Orphanage Home for the aids orphans from 2002 to 2008. He is a Fellow of Kenya Institute of Bankers (KIB).

The profiles of the Directors in KCB Sudan other than those mentioned in the main Board are as follows:

Table 23: Profiles of KCB Sudan, Directors

KCB Sudan	
Director Dr. Leonzio A. Onek	Leonzio, aged 57 years, joined KCB Sudan in 2006. He holds a Bachelor of Science degree in Biological Sciences, University of Ulster and a PhD in Biochemistry, Lancaster University, UK. Dr. Onek is currently the Chief Executive Director of Equatoria Civic Fund, a non-governmental organization and a founding Chief Executive Director of Southern Sudan Energies and Mining Co. Limited, member of the Group Procurement Committee and Chairman of Audit Committee of KCB Sudan Ltd.
Director Yar Manoa Majok Deng	Ya Manoa Majok, aged 43 years joined KCB Sudan in September 2008. Yar holds a Bachelors Degree in Business Administration from Cairo University. She is currently the Managing Director of Sudan Business Link Ltd. She has previously worked as a Money Management Trainer, fundraiser, Interpreter/Translator-Arabic/English/Dinka.

KCB Sudan	
Director Mou Ambrose Thiik	Mou, aged 46 years joined KCB Sudan in July 2009. He holds a Bachelor of Science degree in Economics from Christian Albrechts University, Germany and a Bachelor of Arts degree in Comparative Literature (Arabic and English) at Ain Shams University in Cairo, Egypt. Mou currently works in the Honorary Consul General for the Republic of Turkey and serves as a Programme Manager for Friedrich-Ebert-Foundation. He is also an independent consultant to the Ministry of Trade and Industry, GOSS.
Director Jashinto Pakon Genye	Jashinto, aged 47 years joined KCB Sudan in July 2009. He holds Msc. in National Development and Project Planning from Bradford University, UK. Pg/D (Economic Development) Glasgow University, UK and B.Sc (Business Administration) Khartoum University, Sudan. He previously worked as a Regional Facilitator, Relief and Development Coordinator and an Executive Director for SCC, Western Sudan region. Mr. Jashinto is currently the Chairman and Executive Director of the Consultancy: Centre for Alternative Development (CEFAD) and a member of Board of Directors in a number of Private companies.
Deputy CEO Group Businesses Peter Munyiri	Peter joined KCB in 2007. He has vast experience in banking and finance having previously worked in senior and executive management at Barclays, Standard Chartered and Cooperative bank in Kenya. He holds a Bachelor of Arts Degree in Economics from the University of Nairobi and an MBA in Strategic Management. He is an associate of the Chartered Institute of Bankers (UK) and Fellow of the Kenya Institute of Bankers. He is also a member of the Executive Committee and attends all Group Board meetings.
Managing Director Sammy Itemere	Sammy has served in various senior management roles in KCB since joining the Bank in 2004. He has held the positions of National Retail Manager, Head of Marketing, Regional Business Manager, Western and Regional Business Manager, Nairobi. In 2008, Sammy successfully steered the setup of KCB Uganda Operations as the Acting Managing Director. Sammy previously worked with Barclays Bank of Kenya and Cadbury Kenya Ltd, gaining over 17 year's experience. He holds both a Bachelor of Arts Degree and a Masters of Business Administration Degree from University of Poona.

The profiles of the KCB Foundation Directors other than those mentioned in the main Board are as follows:

Table 24: Profiles of KCB Foundation, Directors

KCB Foundation	
Director George Odo	George joined the KCB Foundation Board in June 2009. He has a Bachelor of Commerce in Accounting from the University of Rani Durgavati in India, studied for his Certified Public Accountant (CPA) at Strathmore College in Kenya and attained Partnership Brokering (PBAS) professional qualifications from Wales. He is currently the Managing Director of AfricInvest Capital Partners East Africa, a Pan African Private Equity group that invests in mid-sized SMEs. George served for almost 10 years with CARE International where he left as the Regional Director of CEP the Investments unit. He has a vast experience in the public, private and development sectors in areas of policy development, fund management, fundraising and private sector partnerships in development and working with Foundations. He has served in several boards in the past and currently sits in the boards of two Financial Institutions in Zambia and an International Aid Agency in Kenya.
Director Grace A. Akumu	Grace joined the Board in June, 2009. She has a Bachelor of Arts Degree in International Relations and a diploma in French from Switzerland. She is the Executive Director of Climate Network Africa, in Kenya. She is actively involved in climate change and sustainable development issues at the national and international levels. She has served in various capacities in the public sector and the non-governmental organizations. She has previously served as the National Chairperson, Governing Council, NEPAD- African Peer Review Mechanism Kenya, and Project Manager for Kenya Women Literature Group.
Divisional Director Kepha Bosire	Kepha joined KCB in 1995 as a Trainee Officer and has over the years risen through the ranks to his present position. He was a Public Relations Officer and later Manager, Corporate Relations before his appointment to Head of Corporate Affairs in 2003. He has attended various courses and workshops in management, banking and business development. He holds an MBA in Strategic Management, B. Sc. in Information Science from Moi University and a Diploma in Strategic Public Relations from The Management School of London.
Company Secretary Irene Metto	Irene has over 16 years working experience in the Bank. She joined KCB in April, 1994 and has served in various capacities. She is currently the Legal Manager of the KCB Group. She holds an LLB Degree (Hons) from Nairobi University, is an Advocate of the High Court and a Certified Public Secretary.

The profiles of the Executive Committee members are as follows:

Table 25: Executive Committee of KCB - Source: KCB Gro

Executive committee	
Dr. Martin Oduor-Otieno Chief Executive Officer	Dr. Martin Oduor Otieno aged 53 years, joined the bank in the year 2005 and is also a Director of KCB Tanzania, KenCom House Limited and KCB Foundation. He holds an honorary Doctor of Business Leadership degree from the KCA University. He also has an MBA and a Bachelor of Commerce Degree in Accounting and is an Alumnus of Harvard Business School's Advanced Management Program, a Fellow of the Institute of Certified Public Accountants of Kenya (ICPAK), Fellow of the Kenya Institute of Bankers (KIB) and a Certified Public Secretary (CPS). He is the current Chairman of the Kenya Bankers Association, and in this capacity represents the industry on the boards of Kenya Private Sector Alliance (KEPSA) and Federation of Kenya Employers (FKE).
Samuel Kimani (Deputy CEO, Group Controls)	Samuel joined KCB in the year 2000. He has over 20 years experience in Financial Management having previously worked with Price Water House and the Central Bank of Kenya. He holds a Bachelor of Science Degree in Civil Engineering and an MBA Strategic Management both from the University of Nairobi. He is an alumnus of Harvard Business School's Advanced Management Program. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK).
Peter Munyiri (Deputy CEO, Group Businesses)	Peter joined KCB in 2007. He has vast experience in banking and finance having previously worked in senior and executive management at Barclays, Standard Chartered and Cooperative bank in Kenya. He holds a Bachelor of Arts Degree in Economics from the University of Nairobi and an MBA in Strategic Management. He is an associate of the Chartered Institute of Bankers (UK) and Fellow of the Kenya Institute of Bankers. He is a Director of KCB Sudan and attends all Group Board meetings.
Stanley Towett Divisional Director, Finance	Stanley joined KCB in 1984 as a management trainee rising through the ranks to become the Assistant Chief General Manager, Administration Savings and Loan to Divisional Director Audit and further to his current position. He holds a Bachelor of Commerce degree (Accounting Option) from the University of Nairobi and Masters of Business Administration degree from E.S.A.M.I. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He has attended numerous courses and workshops in the fields of Strategic and financial management. He is also a director of KCB Bank Uganda Limited.
Kiprop D. Malakwen Company Secretary	Kiprop joined the Bank in July 1994 as Company Secretary. He is a holder of the Degrees of Bachelor of Laws (LL.B Hons) and Master of Laws (LL.M) from the University of Nairobi. He is an Advocate of the High Court of Kenya and a member of the East African Law Society and Commonwealth Bar Association. He is also a Fellow of the Institute of Certified Public Secretaries of Kenya (FCPSK).
David Thuo Divisional Director, Treasury	David joined the bank in June 2006 as a Senior Corporate Dealer- Treasury Division. He is responsible for the Group Treasury and Institutional Banking function and holds a Bachelor of Arts degree in Economics and a Masters in Business Administration both from the University of Nairobi, Kenya. He has over 11 years experience in the Banking Sector & Capital Markets having previously worked as Head- Treasury Corporate & Institutional Sales in KCB, Senior Corporate Dealer at First American Bank and Chief Dealer at Equity Stockbrokers.
Kepha Bosire Divisional Director, Public Affairs and Communication	Kepha joined KCB in 1995 as a Trainee Officer and has over the years risen through the ranks to his present position. He was a Public Relations Officer and later Manager, Corporate Relations before his appointment to Head of Corporate Affairs in 2003. He has attended various courses and workshops in management and banking and business development. He holds an MBA in Strategic Management, B.Sc., and Information Science from Moi University and a Diploma in Strategic Public Relations from The Management School of London. Kepha is a director of the KCB Foundation.
Caroline Kariuki Divisional Director, Mortgages	Caroline is currently the Director, Mortgage Division following the merger of S&L Kenya Limited with Kenya Commercial Bank on 1 January 2010. She was previously the Managing Director of S&L, the KCB Group's Mortgage subsidiary. She has over 16 years working experience in the banking sector. She joined KCB in January 2006 as Unit Head, Corporate Banking having previously worked in Commercial Bank of Africa and ABN AMRO Bank. She holds an MBA from Warwick Business School, UK and a Bachelor of Commerce degree from the University of Nairobi.
Charles Maranga Divisional Director, Human Resource	Charles joined the bank in June 2008. He holds a Bachelor of Arts Degree from the University of Nairobi and a Masters of Science Degree in Business Studies from Salford UK. He has over 20 years experience in senior leadership positions in Human Resources management. He has previously worked for Kenya Airways, as Head of Human Resources, Barclays Bank as Regional Head of Human Resources (East Africa) and the Central Bank of Kenya as Director Human Resources and Administration. He is also a member of Kenya Institute of Bankers and Chartered Institute of Personnel Management (CIPD)-UK.

Executive committee	
Fred Mutiso Divisional Director, Audit	Fred joined KCB in 2001 as the Head of Change and was later promoted to Divisional Director Strategy & Change in 2002. He moved on to become the Divisional Director, Finance & Strategy from August 2007. Currently he is the Divisional Director Audit a position he took over from May 2009. He has over 10 years experience in Change Management having worked previously with B.A.T as the Area Continuous Improvement Manager. He holds a Bachelor of Commerce degree in Accounting from the University of Nairobi and is a member of both the Institute of Certified Public Accountants of Kenya (ICPAK) and the Institute of Certified Public Secretaries of Kenya (ICPSK) where he sits in the Research & Development, and CPS Governance Centre Development Committees.
John Mark Wandolo Divisional Director, Credit	John joined the bank in November 1990. He has over 15 years experience in credit and corporate banking having served at different managerial positions. He rose through the ranks to become Corporate Relationship Manager in 2000 where he served for four years before his promotion to Unit Head – Corporate, then Divisional Director, Corporate in 2007 to July 2009 where he transferred to Director Credit. He holds a Bachelor of Arts Degree from the University of Nairobi.
Paul Tikani Divisional Director, Operations	Paul joined the bank in February 1986 as a Management trainee. He has over 23 years experience in banking operations at KCB Group. He has worked both in Kenya and Tanzania. He has a Bachelor of Education Degree from the University of Nairobi and an MBA from ESAMI and Maastricht School of Management in Netherlands.
Rose Kinuthia Chief Risk Officer	Rose joined the bank in May 2004 as Divisional Director, Risk Management. She has over 22 years banking experience. She holds an MBA from Adelphi University in New York and a Bachelor of Arts Degree from the University of Nairobi. She has served as the Chief Risk Officer for the past two years. She has previously worked for Barclays Bank and First National bank of Chicago.
Timothy Kabiru Divisional Director, Retail Banking	Timothy joined the bank in May 2007 as the Divisional Director Treasury. He is currently responsible for Retail Banking. Tim holds a Bachelor of Business Administration degree in Finance and Economics from the University of New Brunswick, Canada. He has over 15 years experience in the banking sector having previously worked as a Treasurer as well as Head of Correspondent Banking and Strategic Planning at Co-operative Bank and Head of Trading at ABN Amro Bank N.V.
Dr. Anthony Githuku Divisional Director, Information Technology	Anthony joined the bank in May 2003 as the Divisional Director, Information Technology. About two years later he took over the merged responsibilities for Operations and Technology to create the necessary synergies of the two portfolios. The operations were split again in 2009. He holds a Ph.D in engineering from Ohio State University, an M.Applied.Sc. from Glasgow University and a B.Sc (Eng) from University of Nairobi. He was previously the Chief Executive Officer of the Fintech Group of Companies, based in Nairobi.
Dr. Robert Ochola Divisional Director, Strategy, Research and Innovation	Robert joined KCB in April 2010 from Zain Group-Bahrain, where he was the Group Product Manager. He had also served as Group Marketing Development Manager and Sales and Marketing Manager within the Zain Group. He previously Worked for Kenya Shell Limited. Robert holds a PHD in Mechanical Engineering, University of Cape Town; Masters of Science Imperial College, London; Bachelor of Engineering, Imperial College, London, and is currently pursuing an MBA with Warwick Business School.
Wilfred Sang Divisional Director, Corporate Banking	Wilfred joined KCB in 1987 as a Trainee Officer and has over the years risen through the ranks to his present position. Other senior positions he has held include the Head of Corporate Credit Unit. He has attended various courses and workshops in management, banking and business development. He previously served as a Divisional Director Credit. He took up his current position in Corporate on April, 2009. He holds an MBA, Financial Services from Sheffield Hallam University and a B.Sc., Agriculture from University of Nairobi.
Catherine Njoroge Divisional Director, Special Projects	Catherine joined the bank in July 2001 and has served as Customer Services and Retail Banking Director. She has over 20 years experience in Banking having previously worked with Commercial Bank of Africa as an assistant General Manager, personal banking. She holds an MBA and a Bachelors of Arts Degree in Economics and Accounting from University of Nairobi and Edinboro State College Pennsylvania, USA respectively.
Mary-Ann Musangi Divisional Director Marketing	Mary-Ann joined KCB in 2006 as the divisional irector. She holds a BA degree in international Adminstraion from Franklin College, Switzerland and a MSc in Management from University of Surrey, UK. Mary-Ann has over 14 years of marketing experience gained while working with Coca-Cola, Ogilvy & Mather and GlaxoSmithKline East Africa.

Directors of KCB's operating subsidiaries

The additional directors of KCB's operating subsidiaries are as follows:

KCB (Tanzania) Limited

The directors of KCB (Tanzania) Limited are:

Table 26: KCB Tanzania, Directors

Director	Position	Nationality	Address
Dr. Edmund Bernard Mndolwa	Chairman	Tanzanian	P.O Box 804, Dar es Salaam
Mr. Peter. W. Muthoka	Non-Executive Director	Kenyan	P.O Box 48400-00100, Nairobi
Dr. Martin Oduor-Otieno	CEO	Kenyan	P.O Box 48400-00100, Nairobi
Mr. Joshua S. Muiru	Non Executive Director	Kenyan	P.O Box 48400-00100, Nairobi
Mrs. Catherine N. Kimura	Non-Executive Director	Kenyan	P.O Box 48400-00100, Nairobi
Mr. Philemon Nikubuka Shimwela	Non-Executive Director	Tanzanian	P.O Box 804, Dar es Salaam
Mr. Joram Kiarie	Managing Director	Kenyan	P.O Box 804, Dar es Salaam

KCB Rwanda SA

The Directors of KCB Rwanda SA are:

Table 27: KCB Rwanda, Directors

Director	Position	Nationality	Address
Mr. Peter Muthoka	Chairman	Kenyan	P.O Box 48400-00100, Nairobi
Prof. Peter K. Kimuyu	Non-Executive Director	Kenyan	P.O Box 48400-00100, Nairobi
Mr. Samuel Kimani	DCEO, Group Controls	Kenyan	P.O Box 48400-00100, Nairobi
Mr. Faustine Mbundu	Non-Executive Director	Rwandese	P.O Box 5620, Kigali, Rwanda
Ms. Anne Wangari Kirima	Non-Executive Director	Kenyan	P.O Box 48400-00100, Nairobi
Mrs. Sarah Mukandutiye	Non-Executive Director	Rwandese	P.O Box 5620, Kigali, Rwanda
Mrs. Marie-José Kankerra	Non-Executive Director	Rwandese	P.O Box 5620, Kigali, Rwanda
Mr. Maurice Toroitich	Managing Director	Kenyan	P.O Box 5620, Kigali, Rwanda

KCB Bank Uganda Limited

The Directors of KCB Bank Uganda Limited are:

Table 28: KCB Uganda, Directors

Director	Position	Nationality	Address
Mr. Samwiri Njuki	Chairman	Ugandan	P.O Box 7399, Kampala
Mr. Peter Muthoka	Non-Executive Director	Kenyan	P.O Box 48400-00100, Nairobi
Mr. David Nyende	Non- Executive Director	Ugandan	P.O Box 7399, Kampala
Ms. Florence Kata	Non-Executive Director	Ugandan	P.O Box 7399, Kampala
Mrs. Susan Omanga	Non-Executive Director	Kenyan	P.O Box 48400-00100, Nairobi
Mr. Nyangiry Bwonditi	Executive Director	Kenyan	P.O Box 7399, Kampala
Mr. Stanley Towett	Divisional Director, Finance	Kenyan	P.O Box 48400-00100, Nairobi
Mr. James Agin	Managing Director	Kenyan	P.O Box 7399, Kampala

KCB Sudan

The Directors of KCB Sudan are:

Table 29: KCB Sudan, Directors

Director	Position	Nationality	Address
Mr. Peter W. Muthoka	Chairman	Kenyan	P.O Box 48400-00100, Nairobi
Eng. Musa Ndeto	Non-Executive Director	Kenyan	P.O Box 48400-00100, Nairobi
Dr. Leonzio A. Onok	Non-Executive Director	Sudanese	P.O Box 47, Juba
Mrs. Yar Manoa Majok Deng	Non-Executive Director	Sudanese	P.O Box 47, Juba
Mr. Mou Ambrose Thiik	Non-Executive Director	Sudanese	P.O Box 47, Juba

Director	Position	Nationality	Address
Mr. Jashinto Pakon Genye	Non-Executive Director	Sudanese	P.O Box 47, Juba
Mr. Peter Munyiri	Deputy CEO Group Businesses	Kenyan	P.O Box 48400-00100, Nairobi
Mr Sammy Itemere	Managing Director	Kenyan	P.O Box 47, Juba

KenCom House

The Directors of Kencom House Limited are as follows:

Table 30: Kencom House, Directors

Director	Position	Nationality	Address
Dr. Martin Oduor-Otieno	CEO	Kenyan	P.O Box 48400-00100, Nairobi
Mr. Samuel Kimani	DCEO Group Controls	Kenyan	P.O Box 48400-00100, Nairobi

KCB Foundation

The Directors of KCB Foundation are:

Table 31: KCB Foundation, Directors

Director	Position	Nationality	Address
Mrs. Susan Omanga	Chairman	Kenyan	P.O Box 48400-00100, Nairobi
Dr. Martin Oduor-Otieno	Chief Executive Officer	Kenyan	P.O Box 48400-00100, Nairobi
Mr. George Odo	Non-Executive Director	Kenyan	P.O Box 48400-00100, Nairobi
Mr. Sunil Shah	Non-Executive Director	Kenyan	P.O Box 48400-00100, Nairobi
Mr. Peter W Muthoka	Non-Executive Director	Kenyan	P.O Box 48400-00100, Nairobi
Ms. Grace A. Akumu	Non-Executive Director	Kenyan	P.O Box 48400-00100, Nairobi
Mr. Kepha Bosire	Executive Director	Kenyan	P.O Box 48400-00100, Nairobi

11 Risk factors

Risk Philosophy

Creating shareholder value is the overriding business objective of the KCB Group. The focus on the shareholder implies a fundamentally long-term perspective as any valuation is based primarily on the future earnings streams. Those streams have to be protected and secured for purposes of laying a solid base for group value.

The focus on the shareholder is the most comprehensive approach, because value creation on behalf of the shareholders is only possible if our customers are satisfied, our employees motivated and the regulatory authorities sufficiently reassured with respect to the safety and soundness of the Bank. Thus the four pillars supporting Risk Management agenda in KCB are ***Shareholders, Employees, Customers and Regulatory Authorities***.

Consequently and consistently with other corporate activity, the KCB Group derives its approach to risk management and control from a shareholder value perspective. In that sense the risk process covers a much broader range than the narrowly defined traditional risk categories and specifically includes strategic and reputational risk, and thus the concept of a group enterprise-wide risk management framework.

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

11.1 Overview

The Group is exposed to a variety of risks as a result of activities. The Risk Management function is an independent function under the Group Chief Risk Officer with a principal mandate of managing risks on an Enterprise wide basis across the Group. Risk Management has the following functional lines – Lending Risk, Operational Risk, Compliance/Regulatory Risk, Market Risk (Interest rate, Foreign/currency, Price and Liquidity risk), Reputational Risk, Strategic Risk and Ethics. 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 establishment and oversight of the Group's risk management framework and monitors the process of risk management across the Group. The Board of Directors of the Group has established the Credit, Audit, Risk, Human Resources and Procurement committees, which are responsible for identifying, managing and monitoring the Group risks. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

11.2 Risk Management reporting

The Overall objective of Enterprise-wide Risk Management (ERM) is to ensure an integrated and effective risk management framework, where all risks are identified, quantified and managed in order to achieve an optimal risk reward profile and thus enhance shareholder value within the KCB Group.

Independent Risk monitoring is done at Group Risk Division. The Group Chief Risk Officer (CRO) reports directly to the Group Chief Executive and the Risk Committee of the Board, provides strategic risk management leadership, independent risk monitoring and key support to the various risk committees, interacts closely with business units and is responsible for championing of effective enterprise-wide risk management and control including governance and the Independent Group Compliance function. The risk committee meets on a quarterly basis and is comprised of executive directors – the Chief Executive, Deputy Chief Executive Group Controls and Group Business and 5 non-executive Directors.

The subsidiaries have independent risk committees that meet on a quarterly basis. The subsidiary Risk Committees comprise of the Subsidiary Managing Director, The Group Chairman non-Executive Director(s), a Director from the Group management, and the Subsidiary Head of Risk. KCB Rwanda and KCB Uganda have a Head of Risk while engagement for Head of Risk for Tanzania and Sudan is at advanced stage.

The risk reports are prepared on a monthly basis and reliance is also placed on the Internal Audit Department that gives assurance on risk management controls and procedures, the results of which are reported to the Risk & Audit Committees. The Anti-Money Laundering and Know Your Customer (KYC) matters are monitored by the Head of Compliance Risk.

11.3 Core risks of the Group

11.3.1 Political risk

Kenya, like the majority of developing countries, is subject to certain political, economic and social events that may individually or collectively, create risks for investors. These risks are more difficult to predict and measure than in developed countries.

Year 2010 marks the culmination of key milestones in Kenya's quest for a new constitution that will result in a referendum expected in mid 2010. This is expected to generate political activity. The continued economic development of the East African region is dependent on continued political stability. Events in the political arena still pose a risk to the Kenyan economy and any adverse events could erode the gains made so far.

11.3.2 Economic risk

The Bank is engaged in transactions with businesses across various sectors and sub-sectors such as agriculture, manufacturing, construction, telecommunication, energy and others. The growth in these sectors is dependant on the continued economic and infrastructure development with the support of both the public and private sectors. The economic growth is dependant on the formulation of policies and procedures to support the initiatives of the public and private sectors to remain profitable and yield net returns that will maintain current investments and attract other foreign direct investments, bilateral and multilateral aid.

The Eastern Africa region comprises developing states generally with low GDP per capita. Increases in lending rates or erosion of purchasing power due to inflation, drought, economic recession and other factors may lower demand and result in declining economic activity and therefore exert pressure on the earnings and the need for borrowing.

11.3.3 Regulatory risk

Regulatory risk relates to the risk of non compliance or non conformity with laws, rules, regulations, prescribed practice or ethical standards issued from time to time. Regulatory risk may arise in instances where the laws and rules governing the conduct of business may be ambiguous or change drastically. There is always a risk that changes in government and subsequent regulations and legislation can affect the banking sector in general and more specifically, the operations of the Group.

Banking services are regulated by the Banking Act (and its amendments) and the Finance Act. KCB is regulated by the Central Bank of Kenya (while subsidiaries are regulated by the Central Banks in the respective countries) and is therefore subject to comply with various policy guidelines issued by the regional central banks. New policy guidelines issued by the central banks where KCB has operations could impact on the operations of the Bank.

The Audit and Risk committees of the Board are responsible for ensuring business compliance with the relevant laws and regulations.

11.3.4 Risks relating to the Business

11.3.4.1 General

The operating complexities as well as the responsibility of management have increased as a result of this expansion requiring more managerial and operational resources. Management of these complexities will require, in addition:

- Raising new capital and its effective and timely utilization;

- Continued development of financial and management controls and information technology systems and their implementation in newly opened branches;
- Increased marketing activities to increase the customer base and market share;
- Co-ordination of sales activities across various markets;
- Hiring and training of new personnel;
- Adapting to new changes in our markets, including new and sophisticated competition;
- Maintaining if not growing the profit margin and enhancing shareholder value.

The business strategy, which is paramount to the future growth, contemplates consolidation of the established network and attaining efficiencies. Challenges in attaining this include: difficulty in enforcing agreements through regional legal systems; increased cost in designing products and services that are more compatible with varying local needs; difficulty in staffing and managing regional operations; actions taken by regional governments or regulators; difficulty in complying with local laws and regulations; variations in tax regimes; general political and economic instability.

KCB's ability to maintain its competitive position and to implement its business strategy is dependent upon the services of its senior management team and other key personnel. Competition in Kenya and the region for personnel with relevant experience is intense due to local banking, market talent war

11.3.4.2 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. The risks of operating in an economic recession, financial turmoil or any other political or market adversities could pose challenges which may directly impact on borrowers' ability to service their obligations. Such adversities could lead to a decline in the fair value of the collaterals which could in turn expose the Bank ability to recover its assets in full in the event of default. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee. The Credit Division, reporting to the Credit Committee, is responsible for managing the Group's credit exposure while the Risk Committee of the Board and the Lending Risk Department maintain independent oversight of the Group's credit risk.

11.3.4.3 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.

11.3.4.4 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. 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 areas such as compliance with regulatory requirements, ethical and business standards, training and professional development, documentation of controls and procedures and requirements for the reconciliation and monitoring of transactions amongst others, development of contingency plans, 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.

11.3.4.5 Liquidity risk

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

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

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

11.3.4.6 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 losses in the event that unexpected movement arises. The Group closely monitors interest rate movements and seeks to limit its exposure by managing the interest rate and maturity structure of assets and liabilities carried on the balance sheet.

11.3.4.7 Strategic risk

Strategic risks are those risks that arise from formulation of strategic plans, business plans, and implementation of plans that are inappropriate and inconsistent with internal factors and external environment which may affect earnings, capital fund or viability of the business. To avert strategic risks, the board of directors and senior management carefully formulates strategic and business plans, supportive to corporate governance, in addition to putting in place internal infrastructure appropriated for implementation of the strategic plans.

11.3.4.8 Reputational risk

Reputational risk is the potential that negative publicity regarding an institution's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions. This risk may result from a financial institution's failure to effectively manage any or all of the other risk types. The ultimate accountability for reputational risk management rests with the board. The Board of directors addresses explicitly reputational risk as a distinct and controllable risk to KCB's safety and soundness through a versatile risk management framework for reputational risk. Responsibility for corporate reputation is resided with the chief executive's office and managed by Public Affairs & communications department.

11.3.5 Risks relating to this rights issue

In the event that all the New Shares are not taken up by Eligible Shareholders or other investors the future growth strategy of the Bank may be impacted.

There has recently been strong demand from investors for Government securities, corporate bonds, reflecting the aversion to equity, due to the recent bear run.

There maybe Untaken Rights that may or may not come to the NSE for trading either because the shareholders are unwilling to take up their rights. may not respond to the offer. KCB will put in place a mechanism to deal with Untaken Rights.

Legal opinion

Date: 2nd June, 2010



The Directors
Kenya Commercial Bank Limited
8th Floor, Kencom House
Moi Avenue
P. O. Box 48400-00100

NAIROBI

Dear Sirs

**RE: LEGAL OPINION ON THE RIGHTS ISSUE OF 887,111,110 NEW ORDINARY SHARES BY
KENYA COMMERCIAL BANK LIMITED**

We have acted as the legal advisors to Kenya Commercial Bank Limited (“the Bank”) on the Rights Issue set out in the Information Memorandum dated the 2nd day of June, 2010.

We Oraro & Company Advocates are Advocates of the High Court of Kenya, practising and qualified as such to practice in Kenya, and to advice on the Laws of Kenya.

Unless otherwise stated or the context otherwise requires, words and terms defined in the said Information Memorandum and provided by the Bank in relation to the Rights Issue, bear the same meaning in this Opinion.

1. DOCUMENTS

For this Opinion, we have examined originals and certified copies of the following documents:

- 1.1 The Certificate of Incorporation of the Bank and its Memorandum and Articles of Association, in force as at the date of the Information Memorandum.
- 1.2 Resolutions by the shareholders of the Bank in an Annual General Meeting (“AGM”) dated the 7th day of May, 2010 *inter alia*, approving an increment of the authorized share capital of the Bank and the Rights Issue.
- 1.3 A letter of “No Objection” dated the 2nd day of June, 2010 from the Central Bank of Kenya (“CBK”) to the Bank confirming that Central Bank of Kenya has no objection to the Rights Issue.
- 1.4 A letter dated the 28th day of May, 2010 from the Nairobi Stock Exchange (“NSE”) noting that it has no objection to the admission of the additional shares into the Official List of the NSE once approval for listing has been obtained from the Capital Markets Authority (“CMA”).
- 1.5 A letter dated the 2nd day of June, 2010 from the CMA to the Bank, approving the Rights Issue.
- 1.6 Contracts entered into between the Bank and other parties.

- 1.7 The Information Memorandum and the Provisional Allotment Letters thereto (incorporating the application to the Central Depository and Settlements Corporation (“CDSC”).
- 1.8 Such other records and documents as we have considered necessary and appropriate for the purposes of this Opinion.

2. **ASSUMPTIONS**

For the purposes of this opinion, we have assumed:

1.1 **Accuracy of information supplied**

All written information supplied to us by the Bank and by its officers and advisors is true, accurate, and up to date.

1.2 **Authenticity of copies**

The authenticity of documents submitted as originals, the conformity with the original documents of all documents submitted as copies and the authenticity of the originals of such latter documents.

1.3 **Signatures**

The genuineness of all signatures on all documents.

1.4 **Due execution by other parties**

All agreements and other relevant documents have been duly authorized, executed and delivered by the parties to those documents other than the Bank.

1.5 **Factual matters**

With respect to matters of fact, we have relied on the representations of the Bank and its officers and advisors.

3. **OPINIONS**

In our opinion, based on the information made available to us by the Bank and subject to (i) the foregoing, (ii) section 4 of this Opinion; (iii) any matters set out in the Information Memorandum; (iv) the reservations set out below; and (v) any matters not disclosed to us:

- 1.1 The Bank’s registered offices are situated on Land Reference Number 209/4279, Nairobi (Moi Avenue, Kencom House, 8th Floor) with its postal address being Post Office Box Number 48400-00100, Nairobi.
- 1.2 The Bank is a public company, limited by shares, listed at the NSE, duly incorporated in Kenya pursuant to the provisions of the Companies Act (Chapter 486 of the Laws of Kenya) under Certificate Number C.9/88.
- 1.3 The Bank is subject to the provisions of the Banking Act (Chapter 488 of the Laws of Kenya) duly licensed to carry on the business of banking in Kenya, with power to execute, deliver and exercise its rights and perform its obligations pursuant to the Rights Issue and such execution, delivery and performance have been duly authorized by appropriate corporate action.
- 1.4 The corporate records of the Bank are complete and up to date and all notifications returns and other filings required under the Companies Act have been duly filed.
- 1.5 All rights and obligations of the Bank contemplated by the Rights Issue constitute valid and binding rights and

obligations enforceable according to their terms.

- 1.6 The existing share capital of the Bank has been authorized and issued in conformity with all applicable laws and has received all necessary authorizations.
- 1.7 The transactions contemplated by the Rights Issue and the performance of the Bank of its obligations hereunder will not violate any laws of Kenya.
- 1.8 All authorizations, approvals, consents, licences, exemptions, filings and registrations required in connection with the business of the Bank, have been duly obtained in proper form and are in full force and effect.
- 1.9 The Bank is the registered proprietor of several properties. The titles of the properties are valid and the Bank has not created any encumbrances over any of its properties. A list the properties owned by the Bank together with copies of the titles are in the custody of the Share Registrar, Shares Department, Kencom House, 1st Floor, Moi Avenue, Nairobi and are available for inspection.
- 1.10 There are other properties occupied by the Bank which have been leased from third parties. The relevant leases have been duly stamped and registered.
- 1.11 There is no other agreement or arrangement concerning the Rights Issue, save as disclosed in the Information Memorandum.
- 1.12 Material litigation in which the Bank is involved, indicating the key facts and the legal issues in each case, are set out in a list in the custody of the Share Registrar, Shares Department, Kencom House, 1st Floor and is available for inspection.
- 1.13 There is no material litigation, prosecution or other civil or criminal legal action in which any of its Directors are involved.
- 1.14 The contracts between the Bank and third parties have been entered into in the ordinary course of the business carried on by the Bank. Particulars of the contracts and copies of the same are in the custody of the Share Registrar, Shares Department, Kencom House, 1st Floor, Moi Avenue, Nairobi and are available for inspection.
- 1.15 The Bank continues to maintain its statutory books at its registered office.
- 1.16 The Information Memorandum has been dated in accordance with section 43(4) of the Companies Act.
- 1.17 A copy of the Information Memorandum, together with the documents required under section 43 of the Companies Act, have been delivered to the Registrar of Companies at Nairobi, for registration in accordance with section 43(1) of the Act, duly signed by the persons named in the Information Memorandum as Directors of the Company or by its agent duly authorized in writing, and a statement to such effect appears on the face of the Information Memorandum in accordance with section 43(3) of the Act.
- 1.18 There are no other material items not mentioned in the Information Memorandum of which we are aware, with regard to the legal status of the Bank and the Rights Issue.

4. **FURTHER OPINIONS**

Based upon and subject as aforesaid, and without prejudice to the generality of the foregoing, we are also of the opinion that:

- 1.1 Application has been duly made to and permission duly granted by the CMA in respect of the Rights Issue pursuant to the Capital Markets (Securities) (Public Offers, Listing and Disclosure) Regulations 2002 and the Fourth Schedule thereto.

- 1.2 The CBK as the primary regulator has been notified about the Rights Issue. The said Bank has issued a “Letter of No Objection” to the transaction.
- 1.3 In addition to the information required to be included by the Companies Act and the Capital Markets Regulations, the Information Memorandum includes such information as shareholders would reasonably require and reasonably expect to find therein, for the purpose of making an informed assessment of: the assets and liabilities, financial information and auditors statements, Rights Issue Highlights, allotment procedure, background information and corporate strategy.

Based on the foregoing, we are of the opinion that the Rights Issue is in conformity with all applicable laws and has received all necessary authorizations.

5. **RESERVATIONS**

- 1.1 This letter and the opinions given herein are to be governed by Kenyan laws and relate only to Kenyan law as applied by the Kenyan courts as at today’s date. We express no opinion in this letter on the laws of any other jurisdiction.
- 1.2 We, as the legal advisors, confirm that we have not given and have not, prior to the date of the Rights Issue, withdrawn our written consent to the inclusion of the legal opinion in the form and context in which it appears.



ORARO & COMPANY

ADVOCATES

13 Statutory and general information

13.1 Incorporation details

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

13.2 The registered office of KCB

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

13.3 Extracts from the Articles of Association

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

“Share Capital and Variation of Rights

6. The share Capital of the Company is Kenya Shillings The Three Billion Five Hundred Million (3,500,000,000/=) divided into Three Billion Five Hundred (3,500,000,000) ordinary shares of Kshs.1/= each. Each share shall rank pari passu in all respects. (Adopted by Special Resolution passed on 7th May, 2010).
7. Without prejudice to any special rights previously conferred on the holders of any shares or class of shares, any share in the Company may be issued with or have attached thereto such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise, as the Company may from time to time by Ordinary Resolution determine.
8. Subject to the provisions of Section 60 of the Act, any preference shares may, with the sanction of an Ordinary Resolution, be issued on the terms that they are or, at the option of the Company, liable to be redeemed on such terms and in such manner as the Company may by Special resolution determine.
9. If, at any time, the Share Capital is divided into different classes of shares, the rights attached to any class, unless otherwise provided by the terms of issue of the shares of that class, may from time to time (whether or not the Company is being wound up) be altered or abrogated with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a Special Resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting all the provisions of these Articles relating to General Meetings of the Company shall, mutatis mutandis, apply but so that the necessary quorum shall be two persons at least holding or representing by proxy not less than one-third of the issued shares of the class and that any holder of shares of the class present in person or by proxy or by its representative in the case of a corporation represented in accordance with Article 76, may demand a poll.
10. The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided by the conditions of issue of such shares, be deemed to be altered by the creation or issue of further shares ranking pari passu therewith.
11. Unless otherwise determined by Ordinary Resolution and except in the case of the issue of shares pursuant to any rights previously conferred in accordance with Article 7, whenever the Board proposes to issue any shares it shall offer them in the first instance to Members, other than preference shareholders not specifically entitled to them under the terms of issue of their preference shares, in proportion as nearly as may be to the number of existing shares held by them. Such offer shall be made by notice specifying the number of shares to which the Members is entitled and limiting a time (being not less than Three weeks) within which the offer, if not accepted, will be deemed to be declined and after the expiration of that time, if the offer is not accepted, or on the receipt of an intimation from the Member to whom the offer is made that he declines to accept the shares offered, the Board may allot or otherwise dispose of those shares to such persons and upon such terms as may be decided by it. The Board may likewise so dispose of any shares which, by reason of the ration which the offered shares bear to existing shares, cannot in the opinion of the Board be conveniently offered under this Article.
12. Subject to the foregoing provisions of these Articles, the shares in the capital of the Company shall be at the disposal of the Board which may allot, grant options over or otherwise dispose of them to such persons, for such terms and conditions and at such times as it may determine but so that no shares shall be issued at a discount except in accordance with Section 59 of the Act.
13. The Company may exercise the powers of paying commissions conferred by Section 55 of the Act, provided that the rate per cent or the amount of the commission paid or agreed to be paid and the number of shares which persons have agreed for a commission to subscribe absolutely shall be disclosed in the manner required by the said Section and that such commission shall not exceed Ten per cent of such price, as the case may be. Such commission may be satisfied by the payment of cash or the allotment of fully or partly paid shares or partly in one way and partly in the other. The Company may also, on any issue of shares, pay such brokerage as may be lawful.
14. If any shares of the Company are issued for the purpose of raising money to defray the expenses of the construction of any works or buildings or the provision of any plant which cannot be made profitable for a long time, the Company may, subject to the conditions and restrictions mentioned in Section 67 of the Act, pay interest on so much of such share capital as part of the cost of construction of the works or buildings or the provision of plant as the case may be.
15. Except as required by law, no person shall be recognised by the Company as holding any share upon any trust and the Company shall not be bound by or compelled in any way to recognise (even having notice thereof) any equitable, contingent, future or partial interest in any share or any interest in any fractional part of a share or, except only as by these Articles or by law otherwise required or provided, any right in respect of any share other than an absolute right to the entirety thereof in the registered holder.

Increase of Capital

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

Alteration of Capital

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

General Meetings

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

Votes of Members

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

Dividends and Reserves

113. The Company may, in General Meeting, declare dividends but no dividend shall exceed the amount recommended by the Board.
114. The Board may, from time to time, pay to the Members such interim dividends as appear to the Board to be justified by the profits of the Company.
115. No dividend shall be paid otherwise than out of profits and subjects to the conditions from time to time imposed by the Banking Act.
116. Subject to special rights as to dividends carried by any shares all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividends are paid but no amount paid or credited as paid on a share in advance of calls shall be treated, for the purposes of this Article, as paid up on the share. All dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid but if any share be issued on terms providing that it shall rank for dividend as from a particular date, such share shall rank for dividend accordingly.
117. The Board may deduct from any dividend payable to any Member on or in respect of a share any sums of money presently payable by him to the Company on account of calls or otherwise.
118. The Board may retain any dividend or other money payable on or in respect of a share on which the Company has a lien and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.
119. No dividend shall bear interest against the Company.
120. With the sanction of a General Meeting, any dividend may be paid wholly or in part by the distribution of specific assets and, in particular, of paid-up shares or debentures or any other company or in anyone or more of such ways. Where any difficulty arises in regard to such distribution, the Board may settle the same as it deems expedient and, in particular, may issue fractional certificates and fix the value for distribution of such specific assets or any part thereof and may determine that a cash payment shall be made to any Member upon the footing of the value so fixed in order to adjust the rights of all Members and may vest any such specific assets in trustees upon trust for the Members entitled to the dividend as may seem expedient to the Board.
121. Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address or, in the case of joint holders, addressed to the holder whose name stands first on the Register in respect of the shares.

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

122. In addition to any reserves provided for in compliance with the requirements of the Banking Act the Board may, before recommending any dividend, set aside out of the profits of the Company such sums as it thinks proper as a reserve or reserves which shall, at the discretion of the Board, be applicable for any purpose to which the profits of the Company may be properly applied and, pending such application, may, at the discretion, either be employed in the business of the Company or be invested in such investments (other than shares of the Company or its holding company, if any) as are permitted under the Banking Act and as the Board may from time

to time think fit. The Board may also, without placing the same to reserve, carry forward any profits which it may think prudent not to distribute.

Capitalisation of Reserves

123. The Company in General Meeting may, upon the recommendation of the Board, resolve that it is desirable to capitalise any part of the amount for the time being standing to the credit of any of the Company's reserve accounts or of any share premium account or of the profit and loss account or otherwise available for distribution amongst the Members who would have been entitled thereto if distributed by way of dividend and in the same proportions, on condition that the same be not paid in cash but be applied either in or towards paying up any amounts for the time being unpaid on any shares held by such Members respectively or paying up, in full, unissued shares, income notes or debentures of the Company to be allotted and distributed, credited as fully paid up, to and amongst such Members in the proportions aforesaid or partly in the one way and partly in the other and the Board shall give effect to such resolution; provided that amounts standing to the credit of a share premium account or capital redemption reserve fund may, for the purposes of this Article, only be applied in the paying up of unissued shares to be issued to Members of the Company as fully paid bonus shares.
124. Whenever such resolution as aforesaid shall have been passed the Board shall make all such appropriations and applications of the undistributed profits, allotments and issues of fully paid shares, income notes or debentures as may be required thereby and shall do all acts and things required to give effect thereto, with full power to the Board to make such provisions, by the issue of fractional certificates or by payment in cash or otherwise as it thinks fit, for the case of shares or debentures becoming distributable in fractions. The Board may authorise any person to enter, on behalf of all Members entitled thereto, into an agreement with the Company providing for the allotment to them respectively, credited as fully paid up, of any shares, income notes or debentures to which they may be entitled upon such capitalisation or, as the case may require, for the payment up by the Company on their behalf, by the application thereto of their respective proportions of the profits resolved to be capitalised, of the amounts or any part of the amounts remaining unpaid on their existing shares and any agreement made under such authority shall be effective and binding on all such Members."

13.4 Material and related party contracts

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

- I. any material contracts with third parties which have any onerous or illegal covenants;
- II. any contracts that restrict the freedom of KCB to carry on its business as KCB deems fit or restrict the ability of KCB to transfer the whole or part of its business;
- III. any transaction otherwise than at arms length;
- IV. any contracts of material capital commitments;
- V. any contracts with subsidiaries of other group companies.

13.5 Material changes in the financial or trading position of KCB

Save as indicated in this IM, there have been no material changes in the financial or trading position of KCB from 31 December 2009 to the date of this IM.

13.6 Consents

KPMG, Oraro & Company Advocates, Ernst & Young have each consented in writing to act in the capacity stated and to their names being used in this IM and PAL in the context in which they appear.

13.7 Documents available for inspection

Copies of the following documents will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays, Sundays and public holidays excluded) from the date of this IM up to and including the Closing Date of the Rights Issue:

- 1 The Information Memorandum and Provisional Allotment Letter;

- 2 The Memorandum and Articles of Association of the Company;
- 3 A copy of the shareholders' and Board of Directors' resolution increasing the issued share capital;
- 4 A copy of the shareholders' and Board of Directors' resolution approving the Rights Issue;
- 5 The shareholder's register used to determine the Entitlement;
- 6 The consolidated audited annual report and accounts of the Group for the financial year ended 31st December 2009, audited accounts for the five years preceding the publication of the Information Memorandum, including all notes, reports or information required by the Companies Act;
- 7 Unaudited financial statements of KCB for the 3-month period ended 31 March, 2010;
- 8 A signed copy of the Reporting Accountants Report;
- 9 Approval for the Rights Issue and listing of New Shares from Capital Markets Authority;
- 10 Approval for Listing of New Shares from the Nairobi Stock Exchange;
- 11 The Legal Opinion of Oraro & Company Advocates; and
- 12 The letter of "**no objection**" to the Rights Issue from the CBK.
- 13 Particulars of major litigation matters
- 14 Authorised Selling Agents Agreement

14 Reporting Accountants' Report



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2 June 2010

The Directors
Kenya Commercial Bank Limited
Kencom House
Moi Avenue
Nairobi

Ladies and Gentlemen,

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

A. INTRODUCTION

We have examined the consolidated audited financial statements of Kenya Commercial Bank Limited ("the Bank") and its subsidiaries, Savings and Loan Kenya Limited, Kencom House Limited, KCB (Tanzania) Limited, KCB Sudan Limited, KCB Bank Uganda Limited, KCB Rwanda SA, Kenya Commercial Finance Company Limited and KCB Foundation Limited (collectively referred to as "the Group") for the five years ended 31 December 2009.

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

Ernst & Young have acted as auditors of the Group for the five years ended 31 December 2009. PricewaterhouseCoopers acted as auditors of KCB (Tanzania) Limited up to 31 December 2005. For each of the relevant years, unqualified audit reports were issued.

We have not audited any financial statements nor reviewed any management accounts of the Group as of any date or for any period subsequent to 31 December 2009. The audited financial statements for the year ended 31 December 2009 were approved by the Board of Directors on 24 February 2010.

The financial information set out below is based on the audited financial statements of the Group for the five years ended 31 December 2009 after making the adjustments we considered appropriate, for the inclusion of our report in the Information Memorandum. The summary of these adjustments are set out in section H below.

We are not aware of any material items not mentioned in the Information Memorandum regarding the Rights Issue at the Nairobi Stock Exchange, which could influence the evaluation by the investors of the assets, liabilities and financial position of the Group.

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

B. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented in these consolidated financial statements and have been consistently applied by Group entities.

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

(b) Basis of consolidation

i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and

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

ii) Associate

The Group's investment in its associate is accounted for using the equity method. Under the equity method, the investment in the associate is carried in the statement of the financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill related to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

iii) Funds Management

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity.

iv) Transactions eliminated on consolidation

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

(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 statement of financial position 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 judgment is required in establishing fair values.

iii) Deferred tax assets

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

iv) Pensions

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

v) Property and equipment

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

(d) Recognition of income and expense

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

i) Interest 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, which in the case of quoted securities is the ex-dividend date.

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.

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

iv) Rental income

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

(e) Property and equipment

i) Recognition and measurement

Property and equipment are stated at cost or valuation, less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the asset. The cost of self constructed assets includes the cost of materials, direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they were located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Gains and losses arising on disposal of an item of property and equipment are determined by comparing the net proceeds from disposal with the carrying amount of the item and are recognised net within 'other income' in the income statement. When revalued items are sold, the amount included in the revaluation surplus reserve is transferred to retained earnings.

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

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. Impairment losses are recognised in the income statement. 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.

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

ii) Depreciation

Depreciation is recognised in the income statement on a straight line basis over the estimated useful lives of each part of property and equipment. The annual depreciation rates in use are:-

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

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

iii) Subsequent costs

The costs of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Group and its costs can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day- to-day servicing of property and equipment are recognised in the income statement as incurred.

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors. A collective impairment provision is maintained based on an evaluation of the portfolio of loans and advances in respect of losses, which, although not specifically identified, are known from experience to be present in any such portfolio. This provision is based on the directors' assessment of the risk of non-recovery known to be present in the portfolio of the Group advances.

ii) Re-negotiated loans and advances

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

iii) Held to maturity investments

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

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

iv) Available for sale investments

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

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

(i) Foreign currencies

- i) The consolidated financial statements are presented in Kenya Shillings, which is the Bank's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.
- ii) Assets and liabilities in foreign currencies have been translated at rates approximating the mean rates of exchange ruling at year end. 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.

- iii) As at the reporting date, the assets and liabilities of foreign subsidiaries are translated into Kenya Shillings at the rate of exchange ruling at year end, 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) Taxes

Current corporate tax

Current corporate tax is provided on the basis of the results for the year as shown in the income statement, adjusted in accordance with the Income Tax Act and at the tax rate, enacted or substantively enacted at year end. Corporate tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on all temporary differences at year end arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit, it is not accounted for.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are determined using tax rates that have been enacted or substantively enacted at year end and are expected to apply when the asset is realised or the liability is settled.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax except where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables that are stated with the amount of value added tax included. The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of accounts receivables or payables in the statement of financial position.

(k) Employee benefit cost

i) Defined contribution plans

The Group contributes to a defined contribution plan. 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.

ii) Retirement benefit plans

The Group contributes to a defined benefit and defined contribution pension schemes. The defined benefit pension scheme is funded by the Bank and its subsidiaries. In determining the contributions to be made, the recommendations of independent qualified actuaries are taken into account.

The pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who value the pension plan at least once in every three years. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability.

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

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

iii) Short-term benefits

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

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

(l) Leases

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

Where:-

i) A group company is the lessee

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

ii) A group company is the lessor

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

(m) Guarantees, acceptances and letters of credit

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

(n) Intangible assets

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

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

The useful lives of intangible assets are assessed to be either finite or infinite. 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.

There are no intangible assets with infinite useful lives.

(o) Foreign exchange forward and spot contracts

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

(p) Cash and cash equivalents

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

(q) Fiduciary assets

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

(r) Dividends

Dividends are charged to equity in the year in 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 statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(v) Investment in subsidiaries

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

(w) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

i) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

ii) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

iii) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, but including service concession receivables, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

iv) Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty, when appropriate.

v) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

C. CONSOLIDATED INCOME STATEMENTS

	Note	2009	2008	2007	2006	2005
		KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
INTEREST INCOME	1	17,968,455	14,745,585	9,373,389	7,064,400	5,725,090
INTEREST EXPENSE	2	(3,499,734)	(2,970,468)	(921,822)	(750,928)	(597,280)
Net interest income		14,468,721	11,775,117	8,451,567	6,313,472	5,127,810
FEES AND COMMISSION INCOME		5,849,668	5,778,501	4,524,178	3,780,573	3,385,279
FEES AND COMMISSION EXPENSE		(310,135)	(229,346)	(243,877)	(210,316)	(106,965)
Net fees and commission income		5,539,533	5,549,155	4,280,301	3,570,257	3,278,314
Foreign exchange income		1,648,227	1,628,566	838,890	658,595	483,384
Dividend income	3	1,138	6,721	23,961	42,534	50,872
Other operating income	4	936,154	467,983	540,036	952,028	379,088
Operating income		22,593,773	19,427,542	14,134,755	11,536,886	9,319,468
Allowance for impairment losses	5	(717,921)	(1,408,510)	(748,152)	(752,939)	(591,074)
Other operating expenses	6	(15,575,491)	(12,006,170)	(9,160,621)	(7,617,194)	(6,780,786)
PROFIT BEFORE TAX		6,300,361	6,012,862	4,225,982	3,166,753	1,947,608
INCOME TAX EXPENSE	7.1	(2,216,490)	(1,822,172)	(1,251,410)	(734,875)	(621,581)
PROFIT FOR THE YEAR		4,083,871	4,190,690	2,974,572	2,431,878	1,326,027
EARNINGS PER SHARE						
Basic and diluted (KShs.)	8	1.84	1.97	1.47	1.20	0.65

D. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2009	2008	2007	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
PROFIT FOR THE YEAR	4,083,871	4,190,690	2,974,572	2,431,878	1,326,027
OTHER COMPREHENSIVE INCOME					
Exchange differences on translation of foreign operations	(154,031)	291,376	(49,398)	(50,379)	(72,763)
Net gain/(loss) on available for sale investments	4,911	(402,574)	(143,220)	302,863	647,768
Income tax effect	-	-	-	-	-
Other comprehensive income for the year, net of taxes	(149,120)	(111,198)	(192,618)	252,484	575,005
Total comprehensive income for the year, net of taxes	3,934,751	4,079,492	2,781,954	2,684,362	1,901,032
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
Owners of the parent	3,934,751	4,079,492	2,781,954	2,684,362	1,901,032

E. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		2009	2008	2007	2006	2005
ASSETS	Note	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cash and balances with						
Central Banks	9	19,870,878	17,239,280	11,400,788	7,394,536	6,322,971
Due from banks		9,067,840	42,175,191	3,772,082	6,936,108	4,023,708
Held for trading investments	10	2,628,843	3,765,417	4,399,098	3,530,419	4,013,193
Tax recoverable	7.2	509,370	123,966	124,122	452,515	454,418
Available for sale investments	11	1,921,277	457,066	859,640	902,860	949,995
Held to maturity investments	12	21,484,138	20,940,910	21,279,799	17,939,890	17,035,034
Loans and advances	13	120,467,051	93,522,105	64,278,123	45,269,726	36,311,636
Other assets	14	9,472,103	5,114,593	8,849,944	4,964,279	4,023,641
Deferred tax asset	7.2	107,280	661,485	533,748	766,261	1,422,103
Intangible assets	15	1,354,478	1,237,733	228,718	110,076	146,995
Property and equipment	16	7,980,332	5,787,978	4,565,832	4,067,788	3,414,975
Prepaid operating leases rentals	17	147,958	185,862	187,659	192,113	196,383
TOTAL ASSETS		195,011,548	191,211,586	120,479,553	92,526,571	78,315,052
LIABILITIES						
Due to banks		6,668,388	38,506,010	5,828,635	609,624	295,685
Other customer deposits	18	162,544,539	126,691,068	94,392,361	77,192,889	64,216,629
Other liabilities	19	2,871,972	4,185,801	6,130,354	2,997,312	3,582,512
Tax payable	7.2	110,361	741,755	855,848	24,270	11,667
Lines of credit	20	-	-	67,695	82,170	126,568
Deferred tax liability	7.2	12,363	-	-	-	-
TOTAL LIABILITIES		172,207,623	170,124,634	107,274,893	80,906,265	68,233,061
EQUITY						
Share capital	21	2,217,778	2,217,778	1,996,000	1,996,000	1,996,000
Reserves	22	18,368,369	16,651,396	9,811,460	8,426,706	7,287,591
Proposed dividend	23	2,217,778	2,217,778	1,397,200	1,197,600	798,400
TOTAL EQUITY		22,803,925	21,086,952	13,204,660	11,620,306	10,081,991
TOTAL LIABILITIES AND EQUITY		195,011,548	191,211,586	120,479,553	92,526,571	78,315,052

F. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital KShs'000	Revaluation reserve KShs'000	Revenue reserve KShs'000	Share premium KShs'000	Proposed dividend KShs'000	Translation reserve KShs'000	Available for Sale reserve KShs'000	Total KShs'000
At 1 January 2005	1,996,000	241,943	3,422,147	2,319,764	399,200	(84,702)	285,807	8,580,159
Transfer to retained earnings	-	(1,646)	1,646	-	-	-	-	-
Dividend paid – 2004	-	-	-	-	(399,200)	-	-	(399,200)
Proposed dividend – 2005	-	-	(798,400)	-	798,400	-	-	-
Total comprehensive income for the year	-	-	1,326,027	-	-	(72,763)	647,768	1,901,032
At 31 December 2005	1,996,000	240,297	3,951,420	2,319,764	798,400	(157,465)	933,575	10,081,991
At 1 January 2006	1,996,000	240,297	3,951,420	2,319,764	798,400	(157,465)	933,575	10,081,991
Transfer to retained earnings	-	(1,646)	1,646	-	-	-	-	-
Realised on disposal	-	-	-	-	-	-	(347,647)	(347,647)
Dividend paid – 2005	-	-	-	-	(798,400)	-	-	(798,400)
Proposed dividend – 2006	-	-	(1,197,600)	-	1,197,600	-	-	-
Total comprehensive income for the year	-	-	2,431,878	-	-	(50,379)	302,863	2,684,362
At 31 December 2006	1,996,000	238,651	5,187,344	2,319,764	1,197,600	(207,844)	888,791	11,620,306

F. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

	Share capital KShs'000	Revaluation reserve KShs'000	Revenue reserve KShs'000	Share premium KShs'000	Proposed dividend KShs'000	Translation reserve KShs'000	Available for sale reserve KShs'000	Total KShs'000
At 1 January 2007	1,996,000	238,651	5,187,344	2,319,764	1,197,600	(207,844)	888,791	11,620,306
Transfer to retained earnings	-	(1,646)	1,646	-	-	-	-	-
Dividend paid – 2006	-	-	-	-	(1,197,600)	-	-	(1,197,600)
Proposed dividend – 2007	-	-	(1,397,200)	-	1,397,200	-	-	-
Total comprehensive income for the year	-	-	2,974,572	-	-	(49,398)	(143,220)	2,781,954
At 31 December 2007	1,996,000	237,005	6,766,362	2,319,764	1,397,200	(257,242)	745,571	13,204,660
At 1 January 2008	1,996,000	237,005	6,766,362	2,319,764	1,397,200	(257,242)	745,571	13,204,660
Transfer to retained earnings	-	(1,646)	1,646	-	-	-	-	-
Rights issue	221,778	-	-	4,978,222	-	-	-	5,200,000
Dividend paid – 2007	-	-	-	-	(1,397,200)	-	-	(1,397,200)
Proposed dividend -2008	-	-	(2,217,778)	-	2,217,778	-	-	-
Total comprehensive income for the year	-	-	4,190,690	-	-	291,376	(402,574)	4,079,492
At 31 December 2008	2,217,778	235,359	8,740,920	7,297,986	2,217,778	34,134	342,997	21,086,952

F. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

	Share capital KShs'000	Revaluation reserve KShs'000	Revenue reserve KShs'000	Share premium KShs'000	Regulatory reserve KShs'000	Proposed dividend KShs'000	Translation reserve KShs'000	Available for sale reserve KShs'000	Total KShs'000
At 1 January 2009	2,217,778	235,359	8,740,920	7,297,986	-	2,217,778	34,134	342,997	21,086,952
Transfer to retained earnings	-	(1,646)	1,646	-	-	-	-	-	-
Dividend paid – 2008	-	-	-	-	-	(2,217,778)	-	-	(2,217,778)
Proposed dividend – 2009	-	-	(2,217,778)	-	-	2,217,778	-	-	-
Total comprehensive income for the year	-	-	4,083,871	-	-	-	(154,031)	4,911	3,934,751
Transfer to regulatory reserve	-	-	(104,670)	-	104,670	-	-	-	-
At 31 December 2009	2,217,778	233,713	10,503,989	7,297,986	104,670	2,217,778	(119,897)	347,908	22,803,925

G. CONSOLIDATED STATEMENTS OF CASH FLOWS

		2009	2008	2007	2006	2005
	Note	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
NET CASH FLOWS FROM OPERATING ACTIVITIES	24 (a)	10,463,200	8,851,621	1,592,267	875,361	6,688,963
Taxation recovered		198,260	7,073	231,708	-	-
Taxation paid		(2,866,449)	(2,070,918)	(92,764)	(64,778)	-
		(2,668,189)	(2,063,845)	138,944	(64,778)	-
INVESTING ACTIVITIES						
Proceeds from disposal of property, equipment and leasehold land		77,304	66,121	162,876	52,696	89,948
Proceeds from disposal of available for sales investments		-	-	-	497,256	-
Purchase of intangible assets		(420,711)	(1,106,567)	(176,987)	(38,902)	(51,765)
Purchase of property and equipment		(3,296,120)	(2,017,645)	(1,139,830)	(1,237,267)	(1,132,241)
Purchase of a corporate bond		(1,459,300)	-	(100,000)	-	-
Net cash flows from investing activities		(5,098,827)	(3,058,091)	(1,253,941)	(726,217)	(1,094,058)
FINANCING ACTIVITIES						
Lines of credit		-	(67,695)	(14,475)	(44,398)	(107,113)
Proceeds from Rights Issue		-	5,200,000	-	-	-
Dividends paid		(2,217,778)	(1,397,200)	(1,197,600)	(798,400)	(399,200)
Net cash flows from financing activities		(2,217,778)	3,735,105	(1,212,075)	(842,798)	(506,313)
Increase/(decrease) in cash and cash equivalents		478,406	7,464,790	(734,805)	(758,432)	5,088,592
Effects of exchange rate changes on opening net investment in foreign entities		(154,031)	291,376	(49,398)	(50,379)	(72,763)
Cash and cash equivalents at the beginning of the year		21,023,772	13,267,606	14,051,809	14,860,620	9,844,791
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	24 (b)	21,348,147	21,023,772	13,267,606	14,051,809	14,860,620

	2009	2008	2007	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
1. INTEREST INCOME					
Interest on loans and advances	14,483,274	10,222,805	6,558,239	4,312,982	3,949,126
Interest on held to maturity and trading investments	3,122,695	2,872,421	2,425,303	2,201,188	1,576,963
Interest on placements and bank balances	362,486	1,650,359	389,847	550,230	199,001
	17,968,455	14,745,585	9,373,389	7,064,400	5,725,090
2. INTEREST EXPENSE					
Interest on deposits	3,136,547	2,514,178	838,302	733,192	568,502
Interest on borrowed funds	363,187	456,290	83,520	17,736	28,778
	3,499,734	2,970,468	921,822	750,928	597,280
3. DIVIDEND INCOME					
Available for sale investments	1,138	6,721	23,961	42,534	50,872
4. OTHER OPERATING INCOME					
Rent income	109,223	89,691	89,356	117,750	110,421
Profit on disposal of property and equipment	14,242	65,107	75,028	11,100	52,965
Profit on disposal of available for sale investments	-	-	-	494,903	-
Miscellaneous income	812,689	313,185	375,652	328,275	215,702
	936,154	467,983	540,036	952,028	379,088
5. ALLOWANCE FOR IMPAIRMENT LOSSES					
Specific provisions made during the year	1,457,030	2,967,425	997,653	1,023,858	1,426,485
Collective provisions made during the year	117,171	733,136	216,000	134,000	80,000
Bad debts recovered during the year	(856,280)	(2,292,051)	(465,501)	(404,919)	(915,411)
	717,921	1,408,510	748,152	752,939	591,074
6. OTHER OPERATING EXPENSES					
Administrative expenses and staff costs	13,715,496	10,638,796	8,141,172	6,710,457	6,026,877
Pension scheme contributions	355,305	350,154	274,794	283,727	311,187
Directors emoluments: - As directors	36,484	29,545	30,845	29,645	24,239
- As executives	67,663	78,682	82,924	63,275	50,843
Depreciation of property, equipment and leasehold land	1,078,012	794,484	557,512	439,971	305,501
Amortisation of intangible assets	303,966	97,552	58,345	75,821	49,713
Amortisation of prepaid leases on land	2,065	1,797	3,010	3,031	2,840
Auditors' remuneration	16,500	15,160	12,019	11,267	9,586
	15,575,491	12,006,170	9,160,621	7,617,194	6,780,786

7.	INCOME TAX	2009	2008	2007	2006	2005
		KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
7.1	INCOME STATEMENT					
	Current tax	1,652,425	1,941,245	1,018,742	58,752	29,167
	Deferred tax charge/(credit)	566,568	(127,737)	232,513	655,842	592,414
	Under/(over) provisions in the previous years	(2,503)	8,664	155	20,281	-
		2,216,490	1,822,172	1,251,410	734,875	621,581
7.2	STATEMENT OF FINANCIAL POSITION					
	Tax recoverable/(payable):					
	At 1 January	(617,789)	(731,726)	428,245	442,751	472,349
	Tax paid during the year	2,866,449	2,070,918	92,764	64,778	-
	Tax charge during the year	(1,652,425)	(1,941,245)	(1,018,742)	(58,752)	(29,167)
	Translation difference	6,052	1	(2,130)	(251)	(431)
	(Under)/over provision in the previous years	2,503	(8,664)	(155)	(20,281)	-
	Write off during the year	(7,521)	-	-	-	-
	Offset against other taxes	(198,260)	(7,073)	(231,708)	-	-
	At 31 December	399,009	(617,789)	(731,726)	428,245	442,751
	Comprising:					
	Tax recoverable	509,370	123,966	124,122	452,515	454,418
	Tax payable	(110,361)	(741,755)	(855,848)	(24,270)	(11,667)
		399,009	(617,789)	(731,726)	428,245	442,751

DEFERRED TAX

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

	2009	2008	2007	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Depreciation over tax allowances	(150,943)	(94,730)	(6,702)	29,189	3,496
Provisions held	164,467	665,631	464,762	279,875	240,788
Tax losses carried forward	81,393	90,584	75,688	457,197	1,177,819
	94,917	661,485	533,748	766,261	1,422,103
Comprising					
Deferred tax asset	107,280	661,485	533,748	766,261	1,422,103
Deferred tax liability	(12,363)	-	-	-	-
	94,917	661,485	533,748	766,261	1,422,103

8. EARNINGS PER SHARE

Earnings per share is calculated on the profit attributable to ordinary shareholders and on the weighted average number of ordinary shares in issue during the relevant years adjusted with the effects of the year 2007 share split and year 2008 rights issue.

9. CASH AND BALANCES WITH CENTRAL BANKS

	2009	2008	2007	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cash on hand	7,066,591	4,909,178	3,217,132	2,513,850	2,455,883
Balances with Central Banks:					
Cash reserve ratio	6,659,317	6,257,487	4,913,036	4,354,585	3,654,950
Other current accounts	6,144,970	6,072,615	3,270,620	526,101	212,138
	<u>19,870,878</u>	<u>17,239,280</u>	<u>11,400,788</u>	<u>7,394,536</u>	<u>6,322,971</u>

10. 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.

	2009	2008	2007	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
11. AVAILABLE FOR SALE INVESTMENTS					
Quoted investments	357,212	352,301	854,875	898,095	945,230
Unquoted investments	1,564,065	104,765	4,765	4,765	4,765
	<u>1,921,277</u>	<u>457,066</u>	<u>859,640</u>	<u>902,860</u>	<u>949,995</u>

12. HELD TO MATURITY INVESTMENTS

Treasury bills	5,801,911	4,224,416	2,797,441	4,123,035	2,969,666
Treasury bonds	15,682,227	16,716,494	18,482,358	13,816,855	14,065,368
	<u>21,484,138</u>	<u>20,940,910</u>	<u>21,279,799</u>	<u>17,939,890</u>	<u>17,035,034</u>

13. LOANS AND ADVANCES

Gross loans and advances	130,225,424	102,656,274	72,897,589	53,878,600	46,200,207
Specific provisions for impairment	(8,189,513)	(7,682,480)	(7,900,913)	(8,106,321)	(9,520,018)
Collective provisions for impairment	(1,568,860)	(1,451,689)	(718,553)	(502,553)	(368,553)
Net loans and advances	<u>120,467,051</u>	<u>93,522,105</u>	<u>64,278,123</u>	<u>45,269,726</u>	<u>36,311,636</u>

14.	OTHER ASSETS					
	Other receivables	8,482,151	4,565,122	7,902,711	4,635,720	3,934,173
	Prepayments	989,952	549,471	947,233	328,559	89,468
		9,472,103	5,114,593	8,849,944	4,964,279	4,023,641
15.	INTANGIBLE ASSETS					
	Cost	2,090,206	1,669,495	562,928	385,941	347,324
	Amortisation	(735,728)	(431,762)	(334,210)	(275,865)	(200,329)
	Net book value	1,354,478	1,237,733	228,718	110,076	146,995
	Intangible assets relate to computer software.					
16.	PROPERTY AND EQUIPMENT	2009	2008	2007	2006	2005
		KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
	COST					
	Freehold and leasehold premises	2,361,107	2,017,032	1,830,717	1,823,115	1,772,905
	Leasehold improvements	502,212	311,670	135,964	187,341	288,279
	Motor vehicles, furniture and equipment	9,932,697	7,416,902	5,824,673	4,866,717	3,865,227
		12,796,016	9,745,604	7,791,354	6,877,173	5,926,411
	ACCUMULATED DEPRECIATION					
	Freehold and leasehold premises	360,126	317,832	324,943	310,984	293,901
	Leasehold improvements	118,064	89,149	70,556	69,346	145,561
	Motor vehicles, furniture and equipment	4,337,494	3,550,645	2,830,023	2,429,055	2,071,974
		4,815,684	3,957,626	3,225,522	2,809,385	2,511,436
	NET BOOK VALUE					
	Freehold and leasehold premises	2,000,981	1,699,200	1,505,774	1,512,131	1,479,004
	Leasehold improvements	384,148	222,521	65,408	117,995	142,718
	Motor vehicles, furniture and equipment	5,595,203	3,866,257	2,994,650	2,437,662	1,793,253
		7,980,332	5,787,978	4,565,832	4,067,788	3,414,975
17.	PREPAID OPERATING LEASE RENTALS					
	Cost	223,031	285,348	285,348	287,657	290,119
	Amortisation	(75,073)	(99,486)	(97,689)	(95,544)	(93,736)
	Net book value	147,958	185,862	187,659	192,113	196,383

18. OTHER CUSTOMERS DEPOSITS	2009	2008	2007	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
From government departments and parastatals	48,253,170	31,631,298	20,534,273	17,287,421	14,380,946
From private sector and individuals	114,291,369	95,059,770	73,858,088	59,905,468	49,835,683
	<u>162,544,539</u>	<u>126,691,068</u>	<u>94,392,361</u>	<u>77,192,889</u>	<u>64,216,629</u>
19. OTHER LIABILITES					
Bills payable	726,022	1,529,813	1,593,520	1,769,209	739,260
Accrued expenses	693,880	1,638,017	1,343,402	470,619	812,971
Other payables	1,452,070	1,017,971	3,193,432	757,484	2,030,281
	<u>2,871,972</u>	<u>4,185,801</u>	<u>6,130,354</u>	<u>2,997,312</u>	<u>3,582,512</u>
20. LINES OF CREDIT					
EIB Kenya Shillings Loan	-	-	-	-	23,464
EIB Foreign Currency Loans	-	-	67,695	82,170	103,104
	<u>-</u>	<u>-</u>	<u>67,695</u>	<u>82,170</u>	<u>126,568</u>

i). EIB Kenya Shillings Loan

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

ii). EIB Foreign Currency Loans

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

21. SHARE CAPITAL	2009	2008	2007	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Authorised:					
2.4 billion (2005-2007: 2 billion) ordinary shares of KShs.1 each	2,400,000	2,400,000	2,000,000	2,000,000	2,000,000
Issued and fully paid:					
2.218 billion (2005-2007: 1.996 billion) ordinary shares of KShs.1 each	2,217,778	2,217,778	1,996,000	1,996,000	1,996,000

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

22. RESERVES	2009	2008	2007	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Revaluation reserve	233,713	235,359	237,005	238,651	240,297
Retained earnings	10,503,989	8,740,920	6,766,362	5,187,344	3,951,420
Share premium	7,297,986	7,297,986	2,319,764	2,319,764	2,319,764
Available-for-sale reserve	347,908	342,997	745,571	888,791	933,575
Regulatory reserve	104,670	-	-	-	-
Translation reserve	(119,897)	34,134	(257,242)	(207,844)	(157,465)
	<u>18,368,369</u>	<u>16,651,396</u>	<u>9,811,460</u>	<u>8,426,706</u>	<u>7,287,591</u>

The revaluation reserve arose on the revaluation of certain property in 1990.

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

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

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

23. PROPOSED DIVIDENDS	2009	2008	2007	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Final proposed	2,217,778	2,217,778	1,397,200	1,197,600	798,400
Dividends per share (KShs.)	1.00	1.00	0.70	0.60	0.40

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

24. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS	2009	2008	2007	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
(a) CASH FLOWS FROM OPERATING ACTIVITIES					
This has been derived as follows:-					
Profit before tax	6,300,361	6,012,862	4,225,982	3,166,753	1,947,608
Adjustments for:					
Depreciation of property, equipment and leasehold land	1,078,012	794,484	557,512	439,971	305,501
Amortisation of prepaid leases on land	2,065	1,797	3,010	3,031	2,840
Amortisation of intangible assets	303,966	97,552	58,345	75,821	49,713
Profit on disposal of property, equipment and leasehold land	(14,242)	(65,107)	(75,028)	(11,100)	(52,965)
Profit on disposal of available for sale investments	-	-	-	(494,903)	-
Cash reserve ratio	(401,830)	(1,344,451)	(558,451)	(699,635)	(325,156)
Held to maturity investments	(42,318)	(1,491,039)	(57,555)	(4,201,284)	(2,903,110)

	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000	2005 KShs'000
Loans and advances	(26,944,946)	(29,243,982)	(19,008,397)	(8,958,090)	(86,196)
Other assets	(4,357,510)	3,735,351	(3,885,665)	(940,638)	(900,247)
Other customer deposits	35,853,471	32,298,707	17,199,472	12,976,260	8,322,899
Other liabilities	(1,313,829)	(1,944,553)	3,133,042	(585,200)	318,630
Property and equipment adjustment	-	-	-	104,375	9,446
	10,463,200	8,851,621	1,592,267	875,361	6,688,963

(b) ANALYSIS OF CASH
AND CASH EQUIVALENTS

Balances with Central Banks	6,144,970	6,072,615	3,270,620	526,101	212,138
Cash on hand	7,066,591	4,909,178	3,217,132	2,513,850	2,455,883
Held to maturity investments	3,108,291	2,607,381	4,437,309	1,154,955	4,451,383
Held for trading investments	2,628,843	3,765,417	4,399,098	3,530,419	4,013,193
Due from banks	9,067,840	42,175,191	3,772,082	6,936,108	4,023,708
Due to banks	(6,668,388)	(38,506,010)	(5,828,635)	(609,624)	(295,685)
	21,348,147	21,023,772	13,267,606	14,051,809	14,860,620

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.

25. RELATED PARTY TRANSACTIONS

Loans due from directors, staff and other related parties

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

	2009 KShs'000	2008 KShs'000	2007 KShs'000	2006 KShs'000	2005 KShs'000
Government of Kenya	44,001	402,217	657,623	-	2,114,752
Directors	1,764,159	1,673,725	1,812,070	886,674	757,457
Employees	4,148,943	3,172,467	2,602,452	2,423,795	2,374,667
	5,957,103	5,248,409	5,072,145	3,310,469	5,246,876

26. 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.

	2009	2008	2007	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
(a) Capital commitments					
Contracted for at year-end	981,347	740,244	440,368	267,999	212,850
(b) Loans committed but not disbursed at year-end	19,840,492	13,601,111	8,962,512	1,767,715	1,093,713
(c) Foreign currency commitments	(28,787)	(95,564)	519,164	3,187,569	2,992,122

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.

27. CONTINGENT LIABILITIES

	2009	2008	2007	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Letters of credit, acceptances, guarantees, indemnities and other engagements entered into on behalf of customers	32,909,317	28,681,175	25,719,367	11,728,823	11,676,556

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.

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 31 December 2009, 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.

28. RETIREMENT BENEFIT OBLIGATIONS

KCB Pension Fund and Staff Retirement Benefit Scheme

The Pension Fund was split with effect from 1 June 2006 with the introduction of a Defined Contribution Scheme alongside the Defined Benefit Scheme. The assets of the Pension Fund were valued as at 31 December 2008 and a deficit of KShs.38 million was reported. In the opinion of the actuary, the assets of the scheme together with the future contributions payable by members in accordance with the regulations should be sufficient to provide the future benefits payable under the scheme provided that the sponsor increases the contribution rate from the current 10% to 16.6% of the total pensionable salaries of the members in service.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors of the Group has established the Credit, Audit and Risk, Human Resources and Procurement

and Information Technology committees, which are responsible for developing and monitoring the Group risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

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

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

Credit Risk

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

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 statement of financial position is derived from each of the five internal rating grades. However, the impairment provision is composed largely of the bottom two grades.

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

Loans and Advances	2009	2008	2007	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Collectively impaired:					
Grade 1	97,749,533	64,184,430	58,208,053	37,840,734	23,516,331
Grade 2	17,836,310	28,116,630	4,547,688	3,946,545	9,310,242
Gross amount	115,585,843	92,301,060	62,755,741	41,787,279	32,826,573
Allowance for impairment	(1,568,860)	(1,451,689)	(718,553)	(502,553)	(368,553)
Carrying amount	114,016,983	90,849,371	62,037,188	41,284,726	32,458,020
Specifically impaired:					
Grade 3	4,218,587	2,801,828	3,381,478	4,641,941	1,616,491
Grade 4	7,259,747	6,781,595	5,871,500	5,975,160	1,558,051
Grade 5	3,161,247	771,791	888,870	1,474,220	10,199,092
Gross amount	14,639,581	10,355,214	10,141,848	12,091,321	13,373,634
Allowance for impairment	(8,189,513)	(7,682,480)	(7,900,913)	(8,106,321)	(9,520,018)
Carrying amount	6,450,068	2,672,734	2,240,935	3,985,000	3,853,616
Total net carrying amount	120,467,051	93,522,105	64,278,123	45,269,726	36,311,636

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. Allowances for impairment losses for these loans and advances are assessed collectively.

The Group also complies with Central Banks' prudential guidelines on collective and specific impairment losses. Additional provisions for loan losses required to comply with the requirements of Central Banks' prudential guidelines are transferred to regulatory reserve.

The internal rating scale assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group:

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

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

Write-off Policy

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

Collateral on Loans and Advances

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

Concentration of Credit Risk

The Group's financial instrument 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:

	2009	2008	2007	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Construction	20,782,526	17,466,635	6,264,323	4,077,361	3,061,333
Micro credit	39,906,217	32,809,733	24,407,902	13,865,874	7,653,463
Agriculture	8,599,126	6,615,909	5,168,890	3,642,505	2,916,253
SME	7,291,951	5,581,070	5,523,157	2,287,356	2,679,507
Corporate	53,645,604	40,182,927	31,533,317	30,005,504	29,889,651
	<u>130,225,424</u>	<u>102,656,274</u>	<u>72,897,589</u>	<u>53,878,600</u>	<u>46,200,207</u>

Currency Risk

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

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

The table below summarises the Group's currency risk as at period ends.

	2009	2008	2007	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Assets in foreign currencies	98,139,796	102,078,454	14,411,191	15,550,287	11,429,548
Liabilities in foreign currencies	(99,063,338)	(98,407,883)	(14,739,272)	(14,532,172)	(11,530,379)
Net foreign currency exposure	(923,542)	3,670,571	(328,081)	1,018,115	(100,831)

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 governance. 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.

Liquidity Risk

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

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

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

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

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

	2009	2008	2007	2006	2005
At year ends	28%	32%	33%	42%	44%

Interest Rate Risk

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

30. 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 Banks of Kenya. The Central Bank of Kenya sets and monitors capital requirements for the banking industry as a whole.

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

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

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

Various limits are applied to elements of the capital base.

The 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 also 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.

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

H. STATEMENT OF ADJUSTMENTS

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

i) Restatement to earnings per share:

	2009	2008	2007	2006	2005
	KShs	KShs	KShs	KShs	KShs
Earnings per share as reported in the audited financial statements	1.84	1.97	1.49	12.18	6.64
Restated earnings per share as reported in the Accountants' Report	1.84	1.97	1.47	1.20	0.65

Earnings per share as reported in the Accountants' Report is based on the adjusted profit attributable to ordinary shareholders and on the weighted average number of ordinary shares in issue during the relevant periods adjusted with the effect of the year 2007 share split and year 2008 Rights Issue. In year 2007, the ordinary shares of the Bank were split in the ratio of 1 to 10 and this, effectively, increased the number of ordinary shares in issue from 199.6 million to 1.996 billion shares for the years 2004 to 2007. In year 2008, the shareholders resolved to increase the issued share capital of the company from 1,996,000,000, to 2,217,777,777 ordinary shares of KShs 1 each.

The average number of ordinary shares in issue adjusted with the effect of the Rights Issue and share split is as follows:

	2009	2008	2007	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Average number of ordinary shares in issue	2,217,778	2,123,386	2,028,994	2,028,994	2,028,994

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

	2009	2008	2007	2006	2005
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Profit attributable to ordinary shareholders	4,083,871	4,190,690	2,974,572	2,431,878	1,326,027
Average number of ordinary shares in issue	2,217,778	2,123,386	1,996,000	199,600	199,600

ii) Restatement to dividends per share:

	2009	2008	2007	2006	2005
	KShs	KShs	KShs	KShs	KShs
Dividends per share as reported in the audited financial statements	1.00	1.00	0.70	6.00	4.00
Dividends per share as reported in the Accountants' Report	1.00	1.00	0.70	0.60	0.40

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

I. CONSENT

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

J. SUBSEQUENT EVENTS

In 2009, approval was granted to the Bank by the Central Bank of Kenya to have the operations of Savings and Loan Kenya Limited (a company owned 100% by Kenya Commercial Bank Limited) merged with those of the Bank. Prior to the merger, Savings and Loan Kenya Limited principal activity was to provide mortgage finance products. The merger took place on 1 January 2010.

We are not aware of any other events subsequent to 31 December 2009 which have or are likely to have material effect on the financial information contained in the Information Memorandum.

K. OPINION

In our opinion, the financial information set out above gives, for purposes of the Information Memorandum to be issued, a true and fair view of the state of affairs of the Group as at the dates stated and of the results for the years then ended.

Yours faithfully

A handwritten signature in black ink, appearing to read "Ernst & Young", is written in a cursive style.

Certified Public Accountants

Nairobi

15 Authorised Selling Agents

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

15.1 Kenya

The members of the NSE issued with annual licenses by the CMA in Kenya are listed below:

Table 32: Licensed Investment Banks in Kenya

Licensed Investment Banks	
Afrika Investment Bank Ltd 9 th Floor, Finance House, Loita Street PO Box 11019, 00100, Nairobi. Tel: 2210178/2212989 info@afrikainvestmentbank.com	Genghis Capital Ltd 5th Floor, Prudential Building, Wabera Street P.O Box 1670-00100, Nairobi. Tel : 2337535/36 info@gencap.co.ke
Apex Africa Investment Bank Ltd 4th Floor, Rehani House, Koinange Street P.O. Box 43676, 00100, Nairobi. Tel: 242170/2220517 invest@apexafrica.com	Kestrel Capital Investment Bank Ltd 5th Floor, ICEA Building, Kenyatta Avenue PO Box 40005, 00100, Nairobi. Tel: 251758/2251893 info@kestrelcapital.com
CFC Stanbic Financial Services CFC Stanbic House 2nd Floor, CFC Centre, Chiromo Road, PO Box 47198, 00100 Nairobi. Tel:3638900, cfcfs@cfcgroupp.co.ke	Renaissance Capital (Kenya) Ltd 6th Floor, Purshottam Place, Chiromo Road PO Box 40560-00100 Nairobi. Tel : 3682000/3754422
Drummond Investment Bank Ltd 2 nd Floor, Hughes Building, Kenyatta Avenue, PO Box 45465, 00100, Nairobi. Tel: 318690/318689 Info@drummond.com	Standard Investment Bank Ltd 16th floor, ICEA Building, Kenyatta Avenue PO Box 13714, 00100, Nairobi. Tel: 2228963/2228967 info@standardstocks.com
Dyer & Blair Investment Bank Ltd 10th Floor, Loita House, Loita Street PO Box 45396, 00100, Nairobi. Tel: 3240000/2227803 shares@dyerandblair.com	Sterling Investment Bank Ltd 11th Floor, Finance House, Loita Street P.O. Box 45080, 00100, Nairobi. Tel: 2213914/244077 info@sterlingstocks.com
Faida Investment Bank 1st Floor, Windsor House, University Way PO Box 45236, 00100, Nairobi. Tel: 243811-13 info@faidastocks.com	Suntra Investment Bank Ltd 10 th Floor, Nation Centre, Kimathi Street PO Box 74016, 00200, Nairobi. Tel: 2870000 info@suntra.co.ke

Table 33: List of licensed Stockbrokers in Kenya

Licensed Stockbrokers	
<p>African Alliance Kenya Securities Ltd 1st Floor, Trans-national Plaza Mama Ngina Street PO Box 27639,00506 Nairobi Tel: 2762000/2762557 securities@africanalliance.co.ke</p>	<p>Kingdom Securities Limited 5th Floor Co-operative House, Haile Selassie Avenue PO Box 48231- 00100, Nairobi. Tel : 3276000 info@kingdomsecurities.co.ke</p>
<p>ABC Capital Ltd 5th Floor, IPS Building, Kimathi Street PO Box 34137, 00100, Nairobi. Tel : 2246036/2245971 headoffice@abccapital.co.ke</p>	<p>NIC Capital Securities Ltd NIC House, Masaba Road PO Box 63046, 00200, Nairobi. Tel: 2016482/3 invest@nic-capital.com</p>
<p>Discount Securities Ltd (Under Statutory management) NHIF Building PO Box 42489, 00100, Nairobi Tel: 2219552/38, 2773000 discount@dsl.co.ke</p>	<p>Reliable Securities Ltd 6th Floor, IPS Building, Kimathi Street PO Box 50338, 00200, Nairobi. Tel: 2241350/4/79 info@reliablesecurities.co.ke</p>

The list of Commercial Banks in Kenya that are appointed as the Authorised Selling Agents are as follows;

Table 34: List of Commercial Banks in Kenya appointed as Authorised Selling Agents

Commercial Banks	
<p>Barclays Bank of Kenya Ltd Barclays Plaza, Loita Street PO Box 30120-00100 Nairobi Tel: 3267000/313364/2241270 Email: bbl.contact-centre@barclays.com</p>	<p>Kenya Commercial Bank Ltd Kencom House, Moi Avenue PO Box 48400-00100 Nairobi Tel: 3270000/2852000/2229129 Email: kcbhq@kcb.co.ke</p>
<p>Co-operative Bank of Kenya Co-operative House Haile Selassie Avenue P.O. Box 48231, Nairobi Tel: 3276000, 3276100 Email: customerservice@co-opbank.co.ke</p>	<p>National Bank of Kenya Limited National Bank Building Harambee Avenue P.O. Box: 72866 00200-City Square, Nairobi Tel: 020-2828000 E-Mail: info@nationalbank.co.ke</p>
<p>Equity Bank Ltd Equity Centre, Hospital Road PO Box 75104-00200 Nairobi Tel: 2262000/2263000 Email: info@equitybank.co.ke</p>	<p>Standard Chartered Bank Kenya International House, 13th Floor Mama Ngina Street P.O Box 30003-00100, Nairobi Tel: 3291050</p>

15.2 Tanzania

The Licensed Dealing Members of the DSE that are issued with annual licenses by the Capital Markets and Securities Authority, Tanzania (CMSA-TZ) are:

Table 35: List of Licensed Investment Banks in Tanzania

Licensed Investment Banks	
<p>Core Securities Ltd Ground Floor, Twiga House, Samora Avenue, Dar es Salaam Tel: +255 22 212 3103 info@coresecurities.co.tz</p>	<p>Solomon Stockbrokers Ltd Ground Floor, PPF House Samora Avenue/Morogoro Road Dar es Salaam Tel: +255 22 22 211 2874 Solomon@simbanet.net</p>
<p>Orbit Securities Co. Ltd 3rd Floor, Twiga House, Samora Avenue P.O Box 70254 Dar es Salaam Tel: +255 22 211 1758 orbit@orbit.co.tz</p>	<p>Tanzania Securities Ltd 7th Floor, IPS Building Samora Avenue/Azikiwe Street, Dar es Salaam Tel : +255 22 211 2807 tsl@muchs.ac.tz</p>
<p>Rasimali Ltd Tanzania Government Flight Agency Building Along Sokoine Drive/Zanaki Junction Tel : +255 22 211 1708 rasilimali@africaonline.co.tz</p>	<p>Vertex International Securities Ltd Annex Building – Zambia High Commission Sokoine Drive/ Ohio Street, Dar es Salaam Tel : +255 22 211 6382 vertex@vertex.co.tz</p>

15.3 Uganda

The members of the Uganda Securities Exchange that are issued with annual licenses by Capital Markets Authority in Uganda (CMA-UG) are listed below:

Table 36: List of Licensed Stockbrokers in Uganda

Licensed Stockbrokers	
<p>African Alliance (Uganda) Limited 1st Floor Workers House Pilkington Road Kampala Tel: 0414 235577 info@africanalliance.co.ug</p>	<p>Dyer and Blair Uganda Ltd Dyer and Blair P.O.Box 36620 Ground Floor Rwenzori House Tel: 0141 233050 shares@dyerandblair.com</p>
<p>Baroda Capital Markets Ltd Plot 18 Kampala Road P.O. Box 7197 Kampala Tel: 0414 233 680/3 bob10@calva.com</p>	<p>Equity Stock Brokers Ltd Plot 6/6a Orient Plaza P.O. Box 3072, Kampala Tel: 0414 236012/3/4/5 equity@orient-bank.com</p>
<p>Crane Financial Services Ltd Crane Chambers Plot 38 Kampala Road P.O. Box 22572 Kampala Tel: 0414 341414/345345 cfs@cranefinancialservices.com</p>	<p>MBEA Brokerage Services Limited 44 Lumumba Avenue P. O. Box 24613 Kampala Tel: 0414 231960 info@mbea.net</p>
<p>Crested Stocks and Securities Ltd 6th Floor Impala House Plot 13/15 Kimathi Avenue P. O. Box 31736, Kampala Tel: 0414 230900 info@crestedsecurities.com</p>	<p>Renaissance Capital (U) Limited Plot 13, Kololo Hill Drive P O Box 893, Kampala Tel: 0312 264775/6, 0414 340018/9</p>

The Investment Advisors are issued with annual licenses by the CMA-UG. All Broker/Dealer members of the Uganda Securities Exchange are also licensed as Investment Advisors. The list of Licences of the CMA who are Investment Advisors only are listed below.

Table 37: List of licensed Investment Advisors in Uganda

Licensed Investment Advisors	
<p>AIG Global Investment Company (EA) Limited Workers' House, 1 Pilkington Road, 7th Floor P O Box 9831, Kampala, Uganda Tel: 0414 340707/8 nicholas.malaki@aig.com</p>	<p>ICEA Investment Services Limited Rwenzori Courts P. O. Box 33953 Kampala Tel: 0412 347535/ 0414 232337 icea@africaonline.co.ug</p>
<p>Deloitte Uganda Limited 3 Floor Rwenzori House 1 Lumumba Avenue P.O. Box 10314 Kampala Tel: 0414 343850/ 0752 740300</p>	<p>PKF Consulting Ltd Plot 37 Yusuf Lule Road P. O. Box 24544, Kampala Tel: 0414 341523/5 pkfkam@ug.pkfea.com</p>
<p>Dero Capital Uganda Limited Plot 1001, Tank Hill Road, Mutungo P. O. Box 5970 Kampala Tel: +256-712-638644, +256-751-638644</p>	<p>Stanbic Investment Management Services (EA) Limited 11th Floor Crested Towers P. O. Box 7131, Kampala Tel: 0312 224322/600 owinym@stanbic.com</p>
<p>DFCU Bank Ltd Impala House 13 Kimathi Avenue P.O. Box 70, Kampala Tel: 0414 231784/256891/3, 0312 300300 official@dfcugroup.com</p>	<p>The Profin Group Uganda Limited Plot 10 School Lane Naguru, Kampala P O Box 36697, Kampala Tel: 0414 533261/2 Uganda@theprofiningroup.com</p>
<p>DeVere and Partners Uganda Ltd B4 Adam House Plot 11, Portal Avenue P. O. Box 21409 Kampala Tel: 0414 342411, 340846, 0782 551797 jatin.ghughu@ia-int.com</p>	<p>UAP Financial Services Limited Floor 1 Communications House P.O. Box 1610 Kampala Tel: 0414 233843, 343222,343269 abumayanja@miaibea.net</p>
<p>Fidelity Capital Management Limited 4th Floor, Room 401 Diamond Trust Building Kampala Road. P.O.Box 30283, Kampala, Uganda Tel/Fax : 0414 340497 Tel : 0312 101774 Robinah@fidelitycapital.co.ug</p>	<p>PricewaterhouseCoopers Limited 10 Floor Communications House 1 Colville Street Kampala Tel: 0414 236018, 0414 233 743 general@ug.pwc.com</p>

15.4 Rwanda

The Members of the Rwanda Over the Counter Market that are issued with annual membership by the Capital Markets Advisory Council (CMAC) are listed below:

Table 38: List of Licensed Investment Banks in Rwanda

Licensed Investment Banks	
African Alliance Rwanda P.O Box 6368 C/o Bugingo, J Bosco Kigali, Rwanda	Faida Securities Rwanda Ltd P.O Box 6679 C/o Trust Law Chambers Rue de l'Akagera Kigali, Rwanda
Continental Discount House 5th Floor , Ecobank Building P.O Box 6237 Tel : 250 570735 Kigali, Rwanda	Kingdom Securities Rwanda P.O Box 6571 C/o Kamanzi, Ntaganira & Associates Tel : 250 574042 Kigali, Rwanda
Dallas Securities Brokerage P.O Box 1028 Tel: 577071 Kiyovu, Kigali Rwanda	Mbea Brokerage Securities P.O Box 92, Avenue de la Paix Tel : 250 574565 Kigali, Rwanda
Dyer and Blair Rwanda Limited P.O Box 5292, Chadel Building Avenue de la Milles Collinnes Tel : 250 570390 Kigali, Rwanda	Mbea Financial Services Rwanda SARL P.O Box 92, Avenue de la Paix 1235 Tel : 250 574565 Kigali, Rwanda

16 KCB branches

16.1 Analysis of KCB Branch Network

An analysis of a total of KCB banking branches by country and by region for Kenya are as follows:

Table 39: Analysis of KCB branches by country and by region for Kenya

Entity	No. of branches	Region	No. of branches
KCB Kenya	162	Western	28
KCB mortgage centres	9	Central	39
KCB Uganda	12	Coast	25
KCB Tanzania	10	Nairobi	41
KCB Sudan	8	Rift valley	29
KCB Rwanda SA	9	Total	162
Total	210		

16.2 KCB subsidiary branch listing

The KCB subsidiary branches are listed below.

Table 40: Branch listing for subsidiaries

No.	Uganda	No.	Tanzania	No	Sudan	No.	Rwanda
1	Arua Branch	1	Arusha	1	Bentiu	1	Avenue De La Paix
2	Ben Kiwanuka	2	Buguruni	2	Bilpam	2	Huye
3	Elgon Masaba	3	Kariokoo (Uhuru)	3	Buluk	3	Kimironko
4	Fort Portal	4	Mlimani	4	Juba	4	Maseze
5	Gulu	5	Morogoro	5	Malakia	5	Muhanga
6	Hoima	6	Moshi	6	Rock City	6	Nyabugogo
7	Jinja	7	Msimbazi	7	Rumbek	7	Remera
8	Kampala	8	Mwanza	8	Yei	8	Rubavu
9	Lira	9	Samora			9	Rusuzi
10	Luwum Street	10	Zanzibar				
11	Mbarara						
12	Oasis Branch						

Source: KCB Website

16.3 KCB Kenya branch listing

The KCB Kenya list of branches by region are as follows:

Table 41: Branch listing of KCB Kenya

No.	Nairobi	No.	Central	No.	Riftvalley	No.	Western	No.	Coast
1	BiasharaStreet	1	Chogoria	1	Bomet	1	Bondo	1	Garsen
2	BuruBuru	2	Chuka	2	Egerton Uni- versity	2	Bungoma	2	Hola
3	Capital Hill	3	Emali	3	Eldama Ra- vine	3	Busia	3	Kengeleni
4	Eastleigh	4	Embu	4	Eldoret	4	HomaBay	4	Kibwezi
5	GatewayHouse- MsaRd	5	Garissa	5	Flamingo- Nakuru	5	Isebania	5	Kilifi
6	Gikomba	6	Gatundu	6	Gilgil	6	Kakamega	6	Kilindini
7	Haile Selassie	7	Githunguri	7	Iten	7	Kehancha	7	Kisauni
8	Industrial Area	8	Isiolo	8	Kabarnet	8	Keroka	8	Kwale
9	JogooRoad	9	Kangari	9	Kapenguria	9	Kilgoris	9	Lamu
10	Kajiado	10	Kangema	10	Kapsabet	10	Kimilili	10	Makindu
11	Karen	11	Karatina	11	Kapsowar	11	Kisumu	11	Malindi
12	Kariobangi	12	Kerugoya	12	Kericho	12	Kisumu West	12	Mariakani
13	Kawangware	13	Kianyaga	13	Kitale	13	Ksii	13	Mpeketoni
14	Kiambu	14	Kiriaini	14	Litein	14	Luanda	14	MtitoAndei
15	KICC	15	Kitui	15	Londiani	15	Malaba	15	Mtwapa
16	Kikuyu	16	Kyuso	16	Maralal	16	Mbale	16	Mvita
17	Kimathi Street	17	Loitokitok	17	Marigat	17	Migori	17	Mwembe Tayari
18	Kipande House	18	Machakos	18	Moi's Bridge	18	Muhoroni	18	Nyali
19	Kiserian	19	Makuyu	19	Molo	19	Mumias	19	Taveta
20	Kitengela	20	Masii	20	Naivasha	20	Nyamira	20	Town Centre
21	Limuru	21	Matuu	21	Nakuru	21	Oyugis	21	Treasury Square
22	Lodwar	22	Maua	22	Nandi Hills	22	Rongo	22	Ukunda
23	Lokichoggio	23	Meru	23	Narok	23	Serem	23	Voi
24	Mandera	24	Mukurweini	24	Njabini	24	Siaya	24	Watamu
25	Marsabit	25	Muranga	25	Njoro	25	Sondu	25	Wundanyi
26	Mashariki	26	Mutomo	26	Nyahururu	26	Ugunja		
27	Milimani	27	Mwea	27	OIKalou	27	United Mall		
28	Moi Avenue	28	Mwingi	28	Sotik	28	Webuye		
29	Moyale	29	Nanyuki	29	Uganda Road				
30	Namanga	30	Naromoru						
31	Ngara	31	Nkubu						
32	Ngong Town	32	Nyeri						
33	Ongata Rongai	33	Othaya						
34	Prestige Plaza Ngong Road	34	Ruiru						
35	River Road	35	Saba Saba						
36	Sarit Centre	36	Tala						
37	Tom Mboya	37	Thika						
38	UN Gigiri	38	Wanguru						
39	University Way	39	Wote						
40	Village Market								
41	Wajir								

Source: KCB

The mortgage centres of KCB effective 1 January 2010 (formerly Savings & Loan Kenya Limited branches) are as follows:

Table 42: KCB mortgage centres

	Centre
1	Sarit Centre
2	Salama House
3	Garden Plaza
4	Nakuru
5	Haile Selassie
6	Mombasa
7	Thika
8	Kisumu
9	Head Office – Lonrho House

Source: KCB

17 Directors' statement

We hereby declare that all information stated in this application and the statements contained in the report are correct, and neither the Board of Directors' minutes, audit reports nor any other internal documents contain information, which could distort the interpretation of the report.

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

The Issued Capital of KCB (including the amount to be raised in pursuance of this offer) is adequate for the purposes of the Bank and of its subsidiaries for the foreseeable future.

Yours faithfully,



Dr. Martin Oduor-Otieno

Group Chief Executive Officer



Mr. Kiprop D. Malakwen

Company Secretary

1 Appendix: Form of Guarantee

[LETTERHEAD OF COMMERCIAL BANK]

Date:

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

Dear Sirs

KENYA COMMERCIAL BANK LIMITED – RIGHTS ISSUE GUARANTEE IN RESPECT OF PAYMENT FOR ALLOCATION OF SHARES TO [name of INVESTOR]

WHEREAS [name of investor] (“the **Investor**”) has by an application form dated [] applied for [] Additional Shares in the Kenya Commercial Bank Ltd – Rights Issue as set out in the IM dated [DATE] (“the **KCB-IM**”). Capitalised terms used in this Guarantee shall have the meaning and interpretation given to such terms in the KCB-IM.

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

AND WHEREAS we (**name of Guarantor**) have agreed to give this Guarantee:

NOW at the request of the Investor and in consideration of your allocating to the Investor the Additional Shares or such lesser number as you shall in your absolute discretion determine, we hereby irrevocably undertake to pay you, promptly upon your first written demand declaring the Investor to be in default and without delay or argument, such sum as may be demanded by you up to a maximum sum of Kenya Shillings _____ without your needing to prove or to show grounds or reasons for your demand or the sum specified therein.

This Guarantee will remain in force up to and including 5.00 p.m. on **[11 August 2010]** and any demand in respect thereof should reach us not later than the above date and time.

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

[due execution by authorized signatories]

2 Appendix: Form of PAL

Serial No:

KCB PROVISIONAL ALLOTMENT LETTER

AUTHORIZED AGENT STAMP	AUTHORIZED AGENT CODE	PROVISIONAL ALLOTMENT LETTER (PAL) NO.	
<small>This document is of value and is negotiable. Please consult your preferred advisor and read the Information Memorandum dated 2 June 2010 available on KCB's Website/ Authorised Agent . Refer to the notes on the reverse of this page.</small>		CDS / SHARES ACCOUNT NUMBER	<small>Ordinary Shares Registered in Your Name As At Record Date</small>
		1 JULY 2010	ENTITLEMENT Number of New Shares Provisionally Allotted To You
<small>DETAILS OF ELIGIBLE SHAREHOLDER</small>			
A) FULL ACCEPTANCE OF NEW SHARES			AMOUNT PAYABLE (Kshs)
<small>I/We hereby accept in full, subject to the terms of the Information Memorandum, this PAL and the Memorandum and Articles of Association of KCB, the number of New Shares specified above and hereby make payment (see box on the right):</small>			
B) APPLICATION FOR ADDITIONAL SHARES AND THE TOTAL NEW SHARES			
<small>ADDITIONAL SHARES</small> Having accepted all of my original allotment of New Shares as set out above, I/We hereby apply for the number of Additional Shares in the appropriate box on the right, subject to the terms of the Information Memorandum, this PAL and the Memorandum and Articles of Association of KCB:	<small>ADDITIONAL SHARES</small> (in multiples of 100)	<small>AMOUNT PAYABLE</small> (Kshs)	<small>Guarantee</small> (tick) <input type="checkbox"/>
<small>TOTAL NEW SHARES</small>	<small>TOTAL NEW SHARES</small> Full acceptance plus additional	<small>TOTAL AMOUNT PAYABLE (Kshs)</small>	
<small>Having accepted all of my original allotment of New Shares and applied for the Additional Shares as set out above, I/We have applied for the total New Shares and hereby make total payment accordingly. (see box on the right):</small>			
C) PARTIAL ACCEPTANCE OF NEW SHARES			
<small>I/We hereby accept in part, subject to the terms of the Information Memorandum, this PAL and the Memorandum and Articles of Association of KCB, the number of partial New Shares as indicated in the box on the right:</small>		<small>PARTIAL ACCEPTANCE</small> <small>(In multiples of 100)</small>	<small>AMOUNT PAYABLE (Kshs)</small>
D) PAYMENT DETAILS			
<small>WHERE PAYMENT IS FINANCED-CDS PLEDGE FORM 5 SERIAL NO.</small>			
<small>BANKERS CHEQUE</small>	<small>BANK CODE</small>	<small>BRANCH NAME</small>	<small>BRANCH CODE</small>
			<small>CHEQUE NO.</small>
			<small>GLOBAL PAYMENT VIA AUTHORIZED AGENT</small> (tick as appropriate) <input type="checkbox"/>
E) REFUND OPTIONS (Tick as appropriate)			
<input type="checkbox"/> (tick) EFT as per existing Bank Mandate		<input type="checkbox"/> (tick) Cheque - to be collected from Authorized Agent/Stockbroker	
F) POWER OF ATTORNEY		RENUNCIATION VIA PRIVATE TRANSFER	
<small>Eligible Shareholders who wish to appoint an Attorney to deal with the Rights Issue are required to fill in Form Z (Appointment of Attorney) available from an Authorized Agent</small>		<small>Eligible Shareholders who wish to renounce all or part of their entitlement above to a close relative via private transfer are required to fill in Form R (Form of Renunciation for Private transfers) and CDS Form 7 (if immobilized shares) available from an Authorized Agent</small>	
G) IMMOBILIZATION FOR TRADING IN THE RIGHTS (Tick as appropriate)			
<small>Having been provisionally allotted the New Shares in certificate form as set out on my/our PAL, I/We hereby accept, subject to the terms of the Information Memorandum, this PAL and the Memorandum and Articles of Association of KCB, to immobilize and sell my entitlement on the Stock Exchange via my authorized Agent and I enclose completed CDS Form 1 and CDS Form 2 for this purpose and hereby indicate as follows: <input type="checkbox"/> (tick)</small>			
H) SIGNATURE OF ELIGIBLE SHAREHOLDER (where applicable, the authorized Attorney)			
1) Signature or Thumbprint	2) Signature or Thumbprint	3) Witness to Thumbprint	4) Company Seal
<small>Date</small>	<small>Date</small>	<small>Date</small>	
<small>ID/PP No</small>	<small>ID/PP No</small>	<small>ID/PP No</small>	
<small>Tel No:</small>	<small>Tel No:</small>	<small>Tel No:</small>	

Serial No:

KCB PROVISIONAL ALLOTMENT LETTER

	CDS / SHARES ACCOUNT NUMBER
	<small>New Shares Provisionally Allotted</small>
	<small>Amount</small>
<small>DETAILS OF ELIGIBLE SHAREHOLDER</small>	<small>AUTHORIZED AGENT STAMP</small>

NOTES TO THE ELIGIBLE SHAREHOLDER

1. If you have sold or transferred all your ordinary shares in KCB, please forward this Provisional Allotment Letter to the purchaser or transferee, or to the stockbroker or agent through whom the sale or transfer was transacted, for delivery to the purchaser or transferee.
2. Eligible Shareholders should read the Information Memorandum posted on the KCB Official website: www.kcbbankgroup.com or obtain a copy from an authorized selling agent before deciding whether to take up their Rights and exercising the options available to them. Terms defined in the Information memorandum shall, where applicable, apply herein.
- 3 **Instructions for Completion** (Refer to Section 6 of the Information Memorandum for detailed information)
 - a) To accept your Entitlement in full, use section (A) of this PAL make payment (including Kshs. 30/- if you have a CDS Account), sign at the bottom and deliver to your Authorized Agent on or before 3:00 p.m. on 23 July 2010.
 - b) To accept your Entitlement in full and apply for Additional Shares (in multiples of 100), use section (B) of this PAL, fill in the number of Additional Shares and the corresponding Amount Payable (by multiplying by Kshs. _____ per Additional Share). Then fill in the Total New Shares section (add Entitlement and no. of Additional Shares) and Total Amount Payable (add Amount Payable in Full Acceptance of New Shares and Amount Payable for Additional Shares), make total payment (including Kshs. 30/- if you have a CDS Account), complete the Refund Option Section (E), sign at the bottom and deliver to your Authorized Agent on or before 3:00 p.m. on 23 July 2010. If payment for Additional Shares is via an irrevocable bank guarantee (see Appendix II of the Information Memorandum), tick the appropriate box in Additional Shares, make a photocopy of the guarantee for yourself and staple the guarantee to this PAL when handing over to the Authorized Agent.
 - c) To accept your Entitlement in part and do nothing with the balance, use section (C) of this PAL, fill in Partial Acceptance of New Shares (in multiples of 100) and the corresponding Amount Payable (by multiplying by Kshs. _____ per Partial New Share). Then make payment (including Kshs. 30/- if you have a CDS Account), sign at the bottom and deliver to your authorized Agent on or before 3:00 pm on 23 July 2010.
 - d) To accept your Entitlement in part and renounce part to a close relative via private transfer, refer to section (F) of this PAL but ask your Authorized Agent for a Form R and a CDS Form 7 (where applicable for CDS account holders only), fill in all the required details and deliver to your Authorized Agent on or before 3:00 p.m. on 9 July 2010. Fill in the Partial Acceptance of New Shares section (d) on this PAL (in multiples of 100) and the corresponding Amount Payable (by multiplying Kshs. _____ per Partial New Share), make payment (including Kshs. 30/- if you have a CDS Account), sign at the bottom and deliver to your Authorized Agent on or before 3:00 p.m. on 23 July 2010.
 - e) To accept your Entitlement in part and sell the balance (or portion of the balance) Rights on the Stock Exchange use section (G) of this PAL and fill in Partial Acceptance of New Shares section (C) on this PAL (in multiples of 100) and the corresponding Amount Payable (by multiplying by Kshs. _____ per partial New Share, make payment (including Kshs. 30/- if you have a CDS Account), sign at the bottom and deliver to your Authorized Agent on or before 3:00 p.m. on 23 July 2010. If you already have a CDS account give a sale order to your Authorized Agent (last date for trading in Rights is 3:00 p.m. on 12 July 2010). If you do not have a CDS account, place a tick in the box provided for immobilization for Trading in the Rights section (G) on this PAL, obtain and complete the CDS Form 1 (CDS Account Opening) and CDS Form 2 (Immobilization) from your Authorized Agent in order to effect immobilization (last date for immobilization is 3:00 p.m. on - 6 July 2010) and give a sale order to your Authorized Agent (subject to the immobilization being successful).
 - f) To accept your entitlement in part and renounce part to a close relative via private transfer and sell the balance (or portion of the balance) Rights on the Stock Exchange, refer to both (C) and (F) above and act accordingly.
 - g) To sell all your Rights on the Stock Exchange and you already have a CDS account give a sale order to your Authorized Agent (last date for trading in Rights is 3:00 p.m. on 12 July 2010) and hand over this PAL. If you do not have a CDS account, place a tick in the box provided under immobilization for Trading in Rights section (G) on this PAL, obtain and complete the CDS Form 1 and CDS Form 2 from your Authorized Agent in order to effect immobilization (last date for immobilization is 3:00 p.m. on 6 July 2010), give a sale order to your Authorized Agent (subject to the immobilization being successful) and hand over this PAL.
 - h) If you take no action on or before 3:00pm on 23 July 2010 the Rights will lapse.
 - i) If a banker's cheque is not being used to make payment then tick Global Payment via Authorized Agent section.
 - j) If a Lender is financing the take-up of Rights, then fill in the CDS Pledge Form 5 Serial No in the payment Details section (D), make a photocopy for your records and staple the form to this PAL.

4. Authorized Agents

KCB has appointed Authorized Agents in connection with the Rights Issue. These Authorized Agents have signed agency agreements with KCB which contain various terms and conditions that each Authorized Agent is required to comply with. The Authorized Agents are (a) Members of the NSE that are issued with licenses by the CMA and (b) KCB and other Licensed Commercial Banks. These Authorized Agents are listed in Section 15 of the Information Memorandum.



KCB

Making the
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3 Appendix: Group and Bank un-audited results for the quarter ended 31 March 2010

3.1 Balance Sheets

The Balance Sheets for the Group and the Bank for the quarter ended 31 March 2009, year ended 31 December 2009 and the quarter ended 31 March 2010 are as follows:

Table 43: Balance Sheets for the Group and Bank as at 31 March 2009, 31 December 2009 and 31 March 2010

BALANCE SHEET	GROUP				BANK	
	31-Mar-09 Kshs 000 Un-Audited	31-Dec-09 Kshs 000 Audited	31-Mar-10 Kshs 000 Un-Audited	31-Mar-09 Kshs 000 Un-Audited	31-Dec-09 Kshs 000 Audited	31-Mar-10 Kshs 000 Un-Audited
ASSETS						
Cash	5,003,116	7,066,591	7,153,060	3,820,223	4,760,954	4,949,832
Balances due from Central Bank of Kenya	5,614,993	12,804,287	11,077,153	5,614,993	8,751,021	9,425,310
Kenyan Government securities	21,213,327	20,837,600	35,103,877	19,813,327	20,837,600	35,103,877
Foreign Currency Treasury Bills and Bonds	1,002,724	646,538	765,659	-	-	-
Deposits and balances due from local banking institutions	340,000	1,700,000	8,998,989	340,000	1,700,000	7,890,000
Deposits and balances due from banking institutions abroad	18,801,534	7,367,840	8,672,649	13,123,001	4,236,128	3,830,986
Government and other securities held for dealing purposes	3,594,044	2,628,843	1,990,363	3,594,044	2,628,843	1,990,363
Tax recoverable	124,029	509,370	540,366	-	494,903	536,960
Loans and advances to customers (net)	99,242,564	120,467,051	125,924,045	82,881,774	96,557,588	116,181,788
Investment securities	457,066	1,921,277	1,921,277	457,066	1,921,277	1,921,277
Balances due from group companies	-	-	-	7,059,346	9,370,024	-
Investments in associates	-	-	-	125	125	1,125
Investments in subsidiaries	-	-	-	4,426,947	5,188,725	5,674,023
Property and equipment	6,140,126	7,980,332	8,082,702	4,955,097	5,827,993	6,089,690
Prepaid lease rentals	166,571	147,958	147,948	164,252	145,674	145,674
Intangible assets	1,220,695	1,354,478	1,259,496	1,220,695	1,354,478	1,259,496
Deferred tax asset	661,485	107,280	94,918	502,521	-	13,011
Other assets	7,543,200	9,472,103	8,932,612	6,494,689	8,608,795	7,117,900
TOTAL ASSETS	171,125,474	195,011,548	220,665,114	154,468,100	172,384,128	202,131,312
LIABILITIES						
Customer deposits	129,202,949	162,544,539	185,358,738	117,419,560	137,967,920	167,053,854
Deposits and balances due to local banking institutions	6,234,112	3,048,635	763,376	6,234,112	7,209,548	447,550
Deposits and balances due to foreign banking institutions	8,019,013	3,619,753	5,349,628	7,179,991	2,100,158	4,500,465
Balances due to group companies	-	-	-	-	-	658,334
Tax payable	1,261,695	110,361	616,488	1,132,729	-	592,135
Deferred tax liability	-	12,363	-	-	12,225	-
Other liabilities	3,886,828	2,871,972	4,544,346	1,401,378	2,696,362	3,581,350
TOTAL LIABILITIES	148,604,597	172,207,623	196,632,576	133,367,770	149,986,213	176,833,688
SHAREHOLDERS' EQUITY						
Paid up capital	2,217,778	2,217,778	2,217,778	2,217,778	2,217,778	2,217,778
Share premium	7,297,986	7,297,986	7,297,986	7,297,986	7,297,986	7,297,986
Revaluation reserves	768,686	581,621	581,621	342,997	347,908	347,908
Retained earnings/(Accumulated losses)	10,018,649	10,503,989	11,835,799	9,023,791	10,230,250	13,129,959
Statutory loan loss reserve	-	104,670	104,670	-	86,215	86,215
Proposed dividends	2,217,778	2,217,778	2,217,778	2,217,778	2,217,778	2,217,778
Translation reserves	-	(119,897)	(223,094)	-	-	-
TOTAL SHAREHOLDERS' EQUITY	22,520,877	22,803,925	24,032,538	21,100,330	22,397,915	25,297,624
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	171,125,474	195,011,548	220,665,114	154,468,100	172,384,128	202,131,312

3.2 Income Statements

The Income Statements for the Group and the Bank for the quarter ended 31 March 2009, year ended 31 December 2009 and the quarter ended 31 March 2010 are as follows:

PROFIT AND LOSS ACCOUNT	GROUP			BANK		
	31-Mar-09 Kshs 000 Un-Audited	31 Dec-09 Kshs 000 Audited	31-Mar-10 Kshs 000 Un-Audited	31-Mar-09 Kshs 000 Un-Audited	31-Dec-09 Kshs 000 Audited	31-Mar-10 Kshs 000 Un-Audited
INTEREST INCOME						
Loans and advances	3,202,202	14,483,274	4,064,646	2,742,858	11,823,622	3,722,072
Government securities	817,477	3,122,695	884,244	754,943	2,952,520	862,207
Deposits and placements with banking institutions	179,417	362,486	116,072	173,238	468,330	96,127
Total Interest income	4,199,097	17,968,455	5,064,962	3,671,039	15,244,472	4,680,406
INTEREST EXPENSES						
Customer deposits	541,079	3,136,547	1,096,801	461,971	2,553,410	989,072
Deposits and placements from banking institutions	152,772	363,187	94,761	125,791	322,702	79,153
Total interest Expenses	693,850	3,499,734	1,191,562	587,762	2,876,112	1,068,225
NET INTEREST INCOME	3,505,247	14,468,721	3,873,400	3,083,277	12,368,360	3,612,181
OTHER OPERATING INCOME						
Fees and commissions on loans and advances	611,258	3,576,402	751,911	551,535	2,635,520	708,148
Other fees and commissions	733,486	2,273,266	722,137	562,372	2,177,462	529,433
Foreign exchange trading income	646,270	1,648,227	440,127	521,828	1,332,444	301,044
Dividend income	-	1,138	664	-	387,138	664
Other income	182,900	1,792,434	704,012	182,154	1,768,843	686,353
Total Non-Interest Income	2,173,914	9,291,467	2,618,851	1,817,888	8,301,407	2,225,642
TOTAL OPERATING INCOME	5,679,160	23,760,188	6,492,251	4,901,165	20,669,767	5,837,823
OTHER OPERATING EXPENSES						
Loan loss provision	348,900	1,574,201	497,165	341,506	1,156,701	482,084
Staff costs	1,946,784	7,144,078	2,098,618	1,718,379	6,099,659	1,796,557
Directors' emoluments	36,584	104,147	28,536	32,608	90,409	21,912
Rental charges	85,513	544,054	122,677	35,914	164,321	51,713
Depreciation on property and equipment	229,761	1,080,077	303,437	197,983	873,422	240,412
Amortisation charges	68,686	303,966	88,766	68,686	303,966	88,757
Other operating expenses	1,234,320	6,709,304	1,449,306	1,017,193	5,555,731	1,182,943
Total Other Operating Expenses	3,950,548	17,459,827	4,588,505	3,412,269	14,244,209	3,864,378
Profit before tax and exceptional items	1,728,612	6,300,361	1,903,746	1,488,896	6,425,558	1,973,445
Exceptional items	-	-	-	-	-	-
Profit after exceptional items	1,728,612	6,300,361	1,903,746	1,488,896	6,425,558	1,973,445
Current tax	(530,123)	(1,652,425)	(605,177)	(446,669)	(1,358,133)	(592,135)
Underprovision in previous year	-	2,503	-	-	-	-
Deferred tax	-	(566,568)	33,241	-	(514,746)	-
Profit after tax and exceptional items	1,198,489	4,083,871	1,331,810	1,042,227	4,552,679	1,381,310

Table 44: Income Statements for the Group and the Bank for the quarter ended 31 March 2009, year ended 31 December 2009 and quarter ended 31 March 2010

