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Five-Year Financial Review

	Minimum statutory requirement	2003 Shs'000	2002 Shs'000	2001 Shs'000	2000 Shs'000	1999 Shs'000
Interest income		743,296	680,915	615,298	547,167	523,864
Non-fund based income		185,899	110,826	81,063	68,192	50,943
Total income		929,195	791,741	696,361	615,359	574,807
Operating expenses		282,286	233,015	191,741	148,838	128,663
Impairment losses on loan and advances		30,472	46,446	69,376	92,360	66,952
Profit before tax		253,879	187,480	147,618	112,810	101,564
Net profit for the year		175,021	127,377	101,635	78,094	65,885
Profit margin		27.32%	23.68%	21.20%	18.33%	17.67%
Non-fund based income to total income		20.01%	14.00%	11.64%	11.08%	8.86%
Earnings per share - basic and diluted		Shs 350	Shs 255	Shs 203	Shs 156	Shs 132
Dividends per share		Shs 100	Shs 87.50	Shs 100	-	-
Dividend pay out ratio		28.57%	27.48%	34.44	-	-
Loans and advances to customers (gross)		3,357,445	3,206,006	2,992,864	2,169,738	1,883,647
Provisions for impaired loans and advances		(274,640)	(274,445)	(267,640)	(248,095)	(161,865)
Unearned interest		(186,292)	(345,761)	(340,424)	-	-
Loans and advances to customers (net)		2,896,513	2,585,800	2,384,800	1,921,643	1,721,782
Cash and short-term funds		1,221,869	940,906	632,555	566,268	558,010
Government securities		620,624	496,984	494,739	454,580	349,150
Property and equipment		181,584	157,437	132,985	71,397	31,693
Total assets		4,920,590	4,181,127	3,645,079	3,013,188	2,660,635
Customer and banking institutions deposits		3,902,703	3,381,548	2,988,233	2,428,652	2,181,981
Other liabilities		225,781	147,494	97,138	127,163	98,675
Total liabilities		4,128,484	3,529,042	3,085,371	2,555,815	2,280,656
Shareholders' funds		792,106	652,085	559,708	458,073	379,979
Contingent liabilities		885,450	731,624	381,931	345,609	124,545
Performance ratios:						
Return on core capital		34.80%	31.46%	30.04%	25.41%	27.30%
Return on total assets		5.58%	4.79%	4.43%	3.98%	3.87%
Impairment charges to net advances		9.48%	10.61%	11.22%	12.91%	9.40%
Balance sheet ratios						
Gross advances to deposits		86.03%	94.81%	100.15%	89.34%	86.33%
Gross advances to deposits and shareholders funds		71.51%	79.48%	84.35%	75.16%	73.52%
Non performing advances less provisions to total advances		0.86%	0.27%	0.43%	2.73%	2.61%
Liquidity	20%	25.00%	27.00%	26.00%	32.00%	34.00%
Core capital to customer deposits	8%	18.69%	17.62%	16.44%	18.28%	17.05%
Core capital to risk weighted assets	8%	24.88%	21.26%	20.06%	22.70%	22.38%
Total capital to total risk weighted assets	12%	26.84%	23.11%	22.00%	24.73%	24.44%
Other information						
Gross non-performing advances		303,679	283,006	280,510	307,224	211,000
Number of branches		5	4	3	2	2
Number of employees		107	89	84	61	57
Expenditure on intangible assets and property and equipment		53,759	50,877	83,005	53,592	11,108

BOARD OF DIRECTORS

Directors Name	Age	Nationality	Position	Date of Appointment	Other Directorships	Qualifications	Percentage of Individual Share Holding in the Bank
Mr. Alnashir Popat	52	Kenyan	Chairman	24th Dec 1992	Simba Colt Motors Ltd. Downtown Hire Purchase Co. Ltd.	BA in Business Studies	2.40%
Mr. Abdulmalek Janmohamed	44	Kenyan	Managing Director	24th Dec 1992	Janco Investments Ltd. Downtown Hire Purchase Co. Ltd.	BSC in Finance & Management Data Systems	10.80%
Mr. Anwar Hajee	47	Kenyan	Non-Executive	15th Nov 1993	African Business Consortium Ltd. Interconnect Ltd. Abdulmal Investments Ltd. Downtown Hire Purchase Co. Ltd.	ACMA CPA (K)	7.00%
Mr. Jinit Shah	47	Kenyan	Non-Executive	3rd Nov 1997	Kenblest Ltd. Kifaru Textiles Mills Ltd. Nav Plastics Ltd. Mcneel Millers Ltd. Deepna Industries Ltd.	Higher National Diploma in Business Studies	2.50%
Mr. Mukesh Kumar Patel	45	Kenyan	Non-Executive	3rd Nov 1997	Automatic Controls Ltd. Switch Gear & Controls Ltd. Hard Tech. Ind. Supplies Ltd. Tausi Assurance Co. Ltd. Momentum Holdings Ltd.	O'Levels	6.25%
Mr. Vishnu Dhutia	44	Kenyan	Non-Executive	15th Feb 1995	East African Motor Industries Ltd. East African Motor Industries (Sales & Services) Ltd.	Diploma in Business Administration	5.50%
Mr. Hanif Mohamed Amirali Somji	48	Kenyan	Non-Executive	31st July 2002	Freight Forwarders Kenya Ltd. The Combined Warehouses Ltd. Reynolds & Co. Ltd. Craysell Investments Ltd.	BA (Economics & Accounting)	5.60%

Company Information

CONTINUED

PRINCIPAL SHAREHOLDERS

Simba Colt Motors Limited	14%
Abdulmal Investment Limited	14%
Janco Investments Limited	13.5%
Rex Motors Limited	12.5%
Kenblest Limited	12.5%
Momentum Holdings Limited	12.5%
E.A. Motor Industries (Sales & Services) Limited	11%
Reynolds & Company Limited	10%

There has not been any movement in the shareholding during the year.

COMPANY SECRETARIES

Equatorial Secretaries and Registrars
Certified Public Secretaries
P.O. Box 47323, 00100, Nairobi, Kenya

AUDITORS

KLSA Pannell Kerr Forster
Certified Public Accountants
Kalamu House, Waiyaki Way
P.O. Box 47323, 00100, Nairobi, Kenya

PRINCIPAL VALUERS

Hass Consult Real Estate
CB Richard Ellis
Knight Frank Kenya Limited
RR Oshwald & Co
Halifax Estate Agency Limited
Lloyd Masika Limited
Tysons Limited

LEGAL ADVISERS

Hamilton, Harrison & Mathews
Kairu & McCourt
Kapila, Anjarwalla & Khanna
Shapely Barret & Co
Theuri Wanjohi & Co
Mohamed Madhani & Co
Pramod Patel
Shah & Shah Advocates

PRINCIPAL CORRESPONDENTS

United Kingdom: Citibank N.A., London
United States of America: Citibank N.A., New York
India: Citibank N.A., Mumbai
South Africa: Citibank N.A., South Africa

PRINCIPAL OFFICERS

Pramila Aggarwal (Ms.) *(General Manager)*
Naeem Shah *(Senior Manager)*
Nina Shah (Ms.) *(Treasury Manager)*
James Kaburu *(Finance Manager)*
Mustaq Dar *(Branch Manager - Mombasa)*

REGISTERED OFFICE

LR. Plot No. 209/11623
Bunyala Road, Upper Hill
P.O. Box 44905, 00100, Nairobi, Kenya
Telephone: 2719617, 342380
Fax: 2719498, 2719705
E-mail: info@imperialbank.co.ke

BRANCH NETWORK

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E-mail: info@imperialbank.co.ke

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Tel: (020) 252175-8, 252184/5, 225060
Fax: (020) 230994, 250137
E-mail: infoips@imperialbank.co.ke

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Fax: (020) 3752325
E-mail: infoparklands@imperialbank.co.ke

Mombasa Branch
4th Floor, Furaha Plaza, Nkrumah Road
P.O. Box 16460, 80100, Mombasa, Kenya
Tel: (041) 228915
Fax: (041) 227588, 229304
E-mail: infomombasa@imperialbank.co.ke

Malindi Branch
Galana Centre, Lamu Road
P.O. Box 319, Malindi, Kenya
Tel: (042) 30054
Fax: (042) 30680
E-mail: infomalindi@imperialbank.co.ke

BOARD COMMITTEES

The board committees as at the date of this report comprise:

Executive Committee

Composition

Six non-executive and one executive director

Chairman

Alnashir Popat

Members

Abdulmalek Janmohamed
Anwar Hajee
Vishnu Dhutia
Mukesh Patel
Jinit Shah
Hanif Somji

Board Audit Committee

Composition

Three non-executive directors

Chairman

Anwar Hajee

Members

Jinit Shah
Mukesh Patel

Credit Committee

Composition

Executive director, general manager and senior manager

Chairman

Abdulmalek Janmohamed

Members

Pramila Aggarwal (Ms.)
Naeem Shah

Automation Committee

Composition

Non-executive director, executive director and general manager

Chairman

Anwar Hajee

Members

Abdulmalek Janmohamed
Pramila Aggarwal (Ms.)

Asset and Liability Committee

Composition

Executive director, general manager, senior manager, treasury manager and finance manager

Chairman

Abdulmalek Janmohamed

Members

Pramila Aggarwal (Ms.)
Naeem Shah
Nina Shah (Ms.)
James Kaburu

Human Resources Committee

Composition

Executive director, non-executive director and general manager

Chairman

Abdulmalek Janmohamed

Members

Jinit Shah
Pramila Aggarwal (Ms.)

Ethics Committee

Composition

Non-executive director, executive director, general manager, senior manager, treasury manager and finance manager

Chairman

Anwar Hajee

Members

Abdulmalek Janmohamed
Pramila Aggarwal (Ms.)
Naeem Shah
Nina Shah (Ms.)
James Kaburu

Corporate governance is the process by which companies are directed and controlled with the objective of increasing shareholders value and satisfying shareholders. This is achieved by establishing a system that clearly defines authority and responsibility resulting in a system of internal controls that is regularly tested to ensure effectiveness.

At Imperial, the board places a high degree of importance on maintaining a sound control environment and applying the highest standards of business integrity and professionalism in all areas of the bank's activities. The board has adopted the Code of Best Practice for Corporate Governance issued by the Centre of Corporate Governance as its benchmark in developing the Corporate Governance principles.

RESPECTIVE RESPONSIBILITIES

The shareholders' role is to appoint the board of directors and the external auditors. This role is extended to holding the board accountable and responsible for efficient and effective governance.

The board of directors is responsible for the governance of the bank, and to conduct the business and operations of the bank with integrity and in accordance with generally accepted corporate practices, in a manner based on transparency, accountability and responsibility.

BOARD OF DIRECTORS

The composition of the board is set out on page 3. The board is chaired by a non-executive chairman and includes a managing director and five other non-executive directors. All non-executive directors are independent of management. Directors are required to disclose all areas of conflict of interest to the board and are excluded from voting on such areas. The board members have extensive business and banking experience. The board has delegated the authority for day to day management to the managing director. It however retains the overall responsibility for financial and operating decisions, and monitoring performance of senior management.

The board meets on a monthly basis and has a formal schedule of matters reserved to it. The board has access to the company secretary and legal counsel. The key function of the board is the identification of current and future business risks and to ensure that the necessary systems and controls are in place to enable such risks to be monitored and effectively managed. The board has appointed various sub-committees to which it has delegated certain responsibilities with the chairman of the sub-committees reporting to the board. The composition of the sub-committees is set out on page 6.

All new directors undergo a formal induction process to ensure that they are fully familiar with the bank's policies, organization structure and corporate governance principles. The bank is currently working on a formal development and sucession plan for directors.

EXECUTIVE COMMITTEE

The committee is chaired by a non-executive director and whose other members are the managing director and five non-executive directors. The committee meets on a monthly basis and is responsible for:

- Establishing and maintaining a system of internal controls. This includes developing written policies and procedures to ensure that business is conducted within a developed control framework.

- Developing a framework for the monitoring of the banking risks including operational, liquidity, maturity, interest rate and exchange rate risks, and management of assets and liabilities to ensure that adequate resources are available to meet anticipated funds demands.

BOARD AUDIT COMMITTEE

The committee is chaired by a non-executive director and comprises of two other non-executive directors. The committee meets on a quarterly basis. The functions of the committee include:

- Monitoring and strengthening the effectiveness of management information and internal control systems.
- Review of financial information and improving the quality of financial reporting.
- Strengthening the effectiveness of internal and external audit functions, and deliberating on significant issues arising from internal and external audits, and inspections carried out by the Bank Supervision Department of Central Bank of Kenya.
- Increasing the stakeholders' confidence in the credibility and stability of the institution.
- Monitoring instances of non-compliance with the International Financial Reporting Standards, applicable legislation and Central Bank of Kenya Prudential Regulations and other pronouncements.

CREDIT COMMITTEE

The committee is chaired by the managing director. Members include the general manager and the senior manager. The functions of the committee include appraisal and approval of credit applications. Facility approvals to a group of over 5% of the bank's core capital require board approval. The committee reviews the credit portfolio and also monitors and reviews non-performing advances and ensures that adequate provision for impairment losses are held. The committee meets on a need basis.

AUTOMATION COMMITTEE

The committee is chaired by a non executive director. Members include the managing director and general manager. The committee develops the long term automation plan for the board's approval. It also appraises the capital budgets for all hardware and software purchases for recommendation to the board. The committee meets on a need basis.

ASSETS AND LIABILITIES COMMITTEE

The managing director has appointed a committee comprising the functional managers and is chaired by him. This committee meets on a weekly basis to discuss operational issues and to monitor and manage the balance sheet including liquidity risk, maturity risk, interest rate risk, foreign currency risk and compliance with all statutory requirements.

HUMAN RESOURCES COMMITTEE

The committee is chaired by the executive director and comprises another non-executive director and the general manager. Its main function is to set and review human resources, training, and development policies. It also approves senior management appointments. The committee meets on a need basis.

ETHICS COMMITTEE

To strengthen the Corporate Governance structures, the Ethics Committee was formed during the year with the mandate of setting and reviewing the ethical standards for the board and management. It is chaired by a non-executive director and includes the managing director and senior management staff. The committee meets on a need basis.

Alnashir Popat
Chairman

20 March 2004

It gives me immense pleasure to present to you the bank's annual report and financial statements for the year ended 31 December 2003.

REVIEW OF THE KENYAN ECONOMY

The year 2003 posed its own challenges. It was the first year of the new government with people having high expectations for change. Secondly, the issues faced by the economy in 2002, namely the slow down in the key economic sectors, suspension since 2000 of budgetary support by the Bretton Woods Institutions, high cost of doing business, insecurity, lack of investor confidence, high cost of production and the threat of terrorism and its impact on the local tourism industry continued their spill over into 2003. The economy remained depressed for the seventh straight year growing at 1.8% compared to 1.2% in 2002. The modest recovery is attributed to the impact of improvements in the political and economic governance, stable macro economic environment, low inflation and interest rates.

Overall the economic growth can be traced to the agricultural and service sectors. On a sector basis agricultural, manufacturing, trade and tourism, financial services and transport and communication sectors grew by 1.5%, 1.4%, 1.4%, 3.0% and 1.5% respectively, while the building and construction sector grew by 2.2%. Coffee, horticulture and sisal recorded strong growths in output of 6.7%, 10.1% and 13.2% respectively, while tea recorded modest growth of 2.3%. While outputs increased, the depressed market price for most agricultural commodities continued to impact earnings. Horticulture provided the silver lining with increased demands following the expansion into the non-traditional markets of the Middle East, United States of America and Australia.

The budget deficit for the first half of 2003/4 declined to Shs 1.8 billion from Shs 20.6 billion in the previous financial year. The decrease was mainly due to restructuring of domestic debt and a freeze in award of new contracts and procurement of goods and services by the government. This freeze will however have a long term effect on the economy particularly if the revenue out-turn does not improve and donor funding is not resumed. The tight monetary policy pursued by the Central Bank of Kenya resulted in money supply growing by 11.7%.

The overall inflation increased from 1.9% to 9.8% against a target of 3.5%. The upward trend resulted from increase in prices of basic foodstuff, increase in global petroleum prices and the devaluation of the Kenya Shilling against the Sterling Pound and Euro during the second half of 2003.

Interest rates, with the restructuring of domestic debt, continued their steady decline. The benchmark 91 day treasury bill rate declined from 8.4% in December 2002 to 0.8% in September 2003, before rising to 1.5% at the end of 2003. Total public debt increased from Shs 629.5 billion in December 2002 to Shs 711.3 billion. Total domestic debt also increased from Shs 259.8 billion to Shs 301.2 billion during the same period. While the total stock of treasury bills declined from Shs 82.9 billion to Shs 76.7 billion, the stock of treasury bonds increased from Shs 130.5 billion to Shs 178.4 billion. The high debt overhang continued to deprive the private sector of cheaper credit.

The Shilling appreciated against the US Dollar exchanging at an average rate of Shs 76.0 in December 2003 compared to Shs 79.5 in December 2002. It however depreciated against the Sterling Pound, Japanese Yen and Euro by 5.4%, 8.3% and 15.2% respectively. The depreciation was as a result of the weakening of the US Dollar against these currencies in the international currency market. On the regional front, the Shilling appreciated by 13.0% and 9.9% against the Tanzania and Uganda Shilling respectively, making Kenyan goods further uncompetitive in the region. The import cover improved from 3.4 months to 4.1 months.

Although the financial performance did not meet expectations, the government laid a foundation for future growth. The enactment of the Public Officers and Ethics Act, and Economic Crimes and Prevention of Corruption Act will no doubt go a long way in reducing corruption in the civil service. On the social front, the provision of free primary education, though posing a big financial burden to the treasury initially, will go a long way in building up the human resource capacity in the country and improving the social well being of Kenyans.

REVIEW OF THE BANKING SECTOR

Total assets stood at Shs 501.7 billion from Shs 462.2 billion, an increase of 8.5%, while deposits grew by 12.1% from Shs 363.0 billion to Shs 407.1 billion. Average liquidity in December was 49%. Overall, the average liquidity remained well over the minimum levels during the year. Pre-tax profits increased by 65.9% from Shs 8.8 billion to Shs 14.6 billion. The increase was mainly due to reduction in provisions for impairment on advances.

High levels of non-performing advances remained the greatest challenge. Gross non-performing advances reduced from Shs 77.3 billion in 2002 to Shs 71.4 billion in 2003. Provisions for impaired advances increased from Shs 31.8 billion in 2002 to Shs 36.7 billion in 2003. Taking into account the realisable value of securities of Shs 32.6 billion on these accounts, the uncovered exposure still remained at Shs 4.1 billion. Total non-performing advances as a percentage of total advances reduced from 30.2% in 2002 to 26.1%, still far higher than the accepted benchmark of 5%.

REVIEW OF PERFORMANCE

I am pleased to report that the bank continued with its exceptional all round performance in 2003.

Pre tax profit increased from Shs 187.5 million in 2002 to Shs 253.9 million in 2003. This was largely attributed to increase in non-fund based income and strong credit policies which resulted in reduction in provision for impairment on advances. Total income grew from Shs 791.7 million in 2002 to Shs 929.2 million in 2003, with non-fund based income growing by Shs 75.1 million, an increase of 67.8%. Overall total operating expenses as a percentage of total income remained fairly constant at 30.4%, below the industry average of approximately 50%.

Despite the general business uncertainties that prevailed in 2003 and the volatility in the currency market, the performance of our foreign trade operations was commendable. Our client service objective of offering personalized service at competitive rate led to 164.1% increase in our foreign exchange income, which grew from Shs 23.4 million in 2002 to Shs 61.8 million in 2003. Income from fixed income securities reduced by 55.6% mainly due to the substantial reduction in interest rates on these securities. The average interest rate on advances also reduced from 17% in 2002 to 13% in 2003. The increase in non fund activities contributed to a 43.0% increase in fees and commissions income which grew from Shs 85.4 million in 2002 to Shs 122.1 million in 2003.

The bank achieved an increase in earnings per share of Shs 350.0 from Shs 255.0 in 2002. Return on core capital and return on gross assets stood at 34.8% and 5.6% respectively, well above the industry averages.

The continued slow economic recovery in 2003 did little to spur lending to the private sector. Despite this, net loans and advances to customers grew by 12.0% to Shs 2.897 billion in 2003. The bank continued to maintain strict credit control policies. Lending was focused on the private sector. While lending to all economic sectors was generally on an increase, there were reductions in lending to the agriculture and building and construction sectors due to the credit risks associated with these sectors. Effective recovery procedures on delinquent accounts resulted in a reduction in impairment losses on advances from Shs 46.4 million in 2002 to Shs 30.5 million in 2003, of which specific provisions reduced from Shs 42.2 million in 2002 to Shs 24.4 million in 2003. Gross non-performing advances stood at Shs 303.7 million. After a specific provision of Shs. 217.2 million, the carrying value of these advances is Shs 86.5 million. Non-performing advances less provisions to total advances stood at 0.86%, making the asset quality of the bank strong.

Total assets grew by 17.7% from Shs 4.181 billion in 2002 to Shs 4.921 billion in 2003. The increase was largely attributed to a 24.9% increase in government securities which stand at Shs 620.6 million and a 12%

increase in advances. The growth was funded by a 15.0% increase in customer deposits which grew from Shs 3.362 billion in 2002 to Shs 3.865 billion in 2003 and a 20.3% increase in core capital. The sustained growth in our customer deposit base is largely attributed to the level of confidence our customers have in our bank.

Average liquidity through the year remained at 25% while the year end liquidity was 36.1%, well in excess of the Central Bank of Kenya requirement of 20%. The capital base strengthened with retention of Shs 125.0 million from the current years profits to stand at Shs 742.1 million. During the year, the bank capitalized Shs 100.0 million from revenue reserves, increasing the paid up capital from Shs 400.0 million in 2002 to Shs 500.0 million in 2003.

The ratio of core capital to total risk weighted assets and total capital to total risk weighted assets stood at 24.9% and 26.8% respectively, in excess of the statutory requirement of 8% and 12% respectively.

Off balance sheet items also grew by 21% from Shs 731.6 million in 2002 to Shs 885.5 million in 2003. In an economy with continued low growth, the above reflects a strong performance in all areas of the bank's activities.

CORPORATE GOVERNANCE

The bank continued with its efforts to strengthening the corporate governance principles applicable to the bank. During the year, the Ethics Committee was formed with a mandate of setting and reviewing the ethical standards for the board and management. Also formed was the Human Resources committee.

The bank for the second year running won the first prize in the overall category and the banking category for the 2002 Annual Report and Financial Statements in the Financial Reporting for Excellence Award from the Institute of Certified Public Accountants of Kenya and the Capital Markets Authority. In both these categories, we were the only non-quoted company amongst the prize winners, demonstrating strong financial reporting structures adopted by the bank.

The bank fully complies with International Financial Reporting Standards 32 and 39.

The Central Bank of Kenya now requires all banking institutions to complete a Daily Compliance Return. This requirement will complement the off site supervision of banking institutions by the Central Bank.

SOCIAL RESPONSIBILITY AND STAFF WELFARE

At Imperial, we believe in contributing to the society at large within which we operate and improving our staff welfare.

During the year, the bank developed a staff training and development policy which was approved by the board in March 2004. This policy will ensure that staff training needs are identified and that staff are promoted internally. In addition to this, the bank has set annual objectives against which staff will be appraised. This, we believe, will motivate staff.

During the year, the bank contributed Shs 1.8 million to the feeding programme of three schools. The bank also sponsored the education of a student who was admitted to a national school with excellent grades but could not afford school fees.

In addition, the bank contributed Shs 1.2 million to various other projects including donations to churches, mosques, other charitable organizations, fencing of the Arbedare Forest and sponsoring the Nairobi Marathon and the FIRE Award.

HIV / AIDS was declared a national disaster in 1999 and the current government has placed a lot of emphasis on prevention of the spread of the virus. This pandemic is destroying families thus leaving behind destitute children and the bank strongly believes that this will have a negative impact on the economy of this country. In this respect our bank also made donations to street children rehabilitation funds and children orphanage homes.

As a manifestation of the banks concern for the environment and the natural heritage of this country, it has become a corporate member of the Friends of the Nairobi Arboretum which is part of the East Africa Natural History Society. The bank now sends correspondence and/or statements through e-mail in order to reduce the usage of paper. This will in a small way contribute to reduction in the destruction of forests. The bank is in the process of formulating a policy on lending to clients who are directly involved in the preservation of the environment.

OTHER DEVELOPMENTS

In August 2003, we opened a branch in Malindi. This is in line with our long-term strategy to expand our branch networks to smaller business centres in Kenya.

With the increase in our branch network, we have recruited a head of branch operations and a head of marketing and product development. These positions will ensure compliance to our operating procedures and develop and implement a marketing strategy.

FUTURE DEVELOPMENTS

In my last year's statement, I had mentioned the construction of a modern custom-built, state-of-the-art branch in Mombasa. The building is expected to be completed in October 2004.

The bank has acquired the Visa licence for both debit and credit cards and has recruited a Visa card manager to oversee the operation. Operations are expected to commence in September 2004. This is a proud achievement as we are the only medium sized bank which is licenced directly by Visa.

Our upgrading of the banking software in currently underway. The full system with net-based banking is expected to go live in January 2005. As an extension to this, the bank is currently considering investing in automated teller machines which will facilitate customer service after banking hours.

Economic growth is expected to recover in 2004 owing to the expected inflow of resources under the Poverty Reduction and Growth Facility. The uncertainties on the political front, high level of insecurity, increasing government borrowing, corruption and high cost of doing business in Kenya will continue to hamper the private sector growth.

The challenge in 2004 will remain to focus on developing alternative avenues of income from non-fund based activities and product development. The bank is geared towards this challenge by adopting structures to support its growth and the client service objectives.

APPRECIATION

The success of the bank would not have been possible without the continued support of our customers. On behalf of the board, I take this opportunity to once again extend my gratitude to them for their valuable support and confidence in our bank.

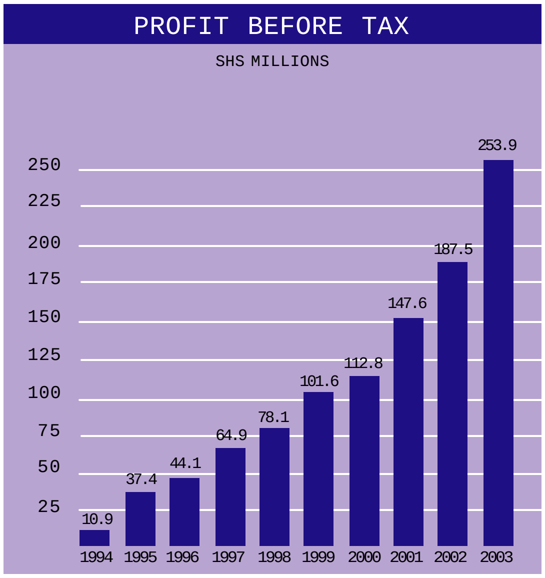
I would like to thank the managing director in particular and all the staff for their dedication and commitment that has ensured that the bank maintains a sound position in Kenya's banking industry.

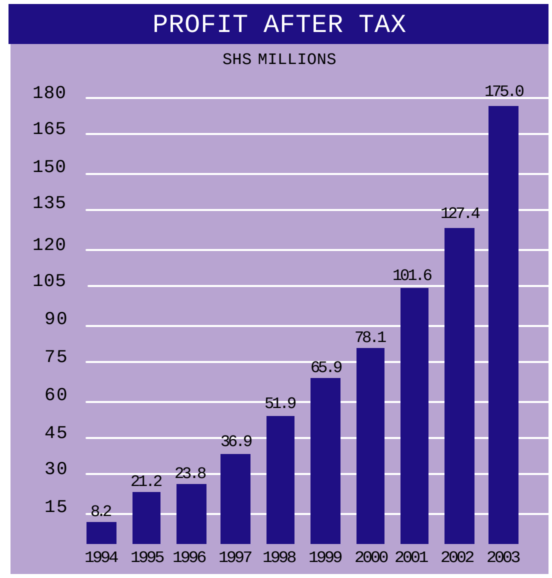
I would like to thank my fellow board members for their vision and the support they have accorded to me and the bank.

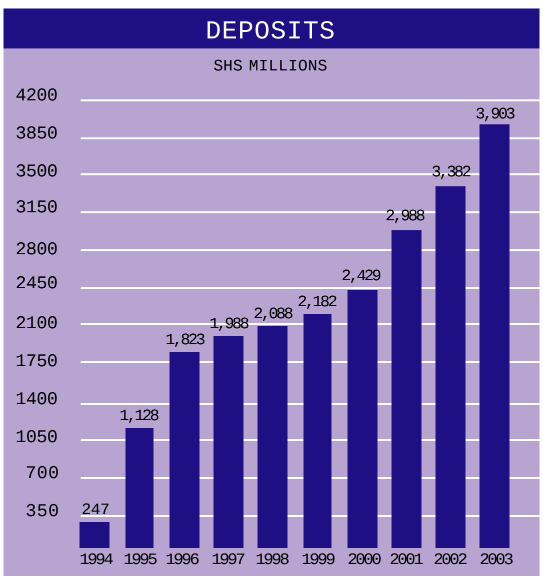
Alnashir Popat
Chairman

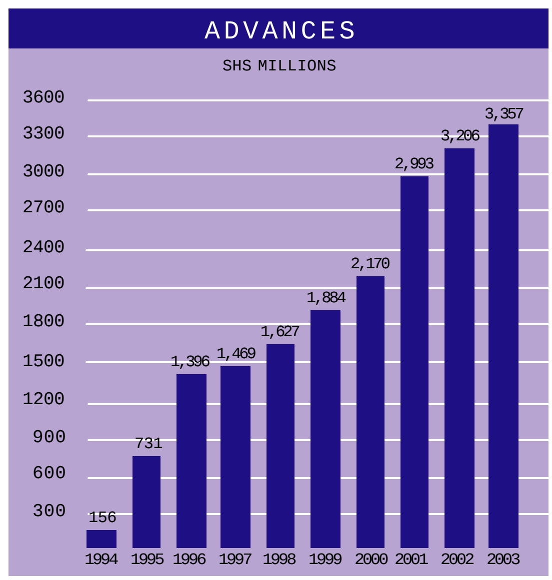
20 March 2004

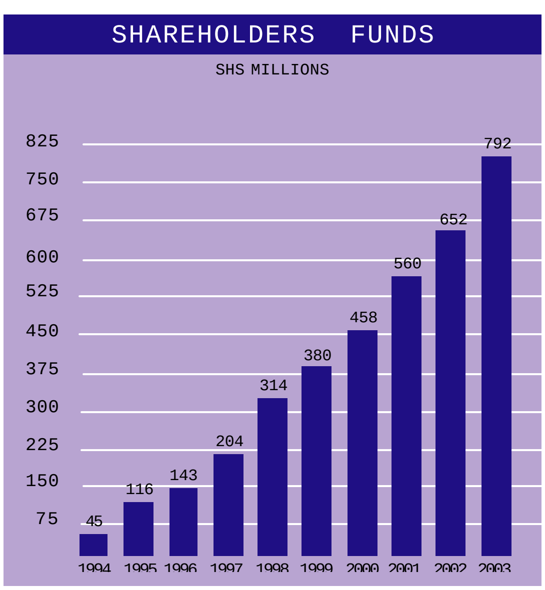
Financial Highlights

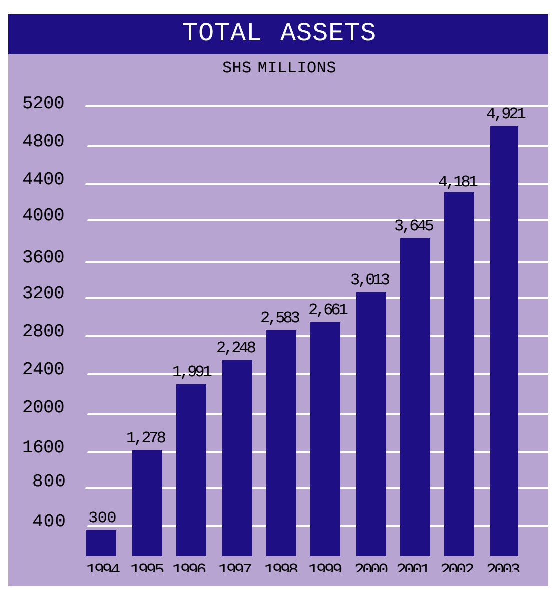






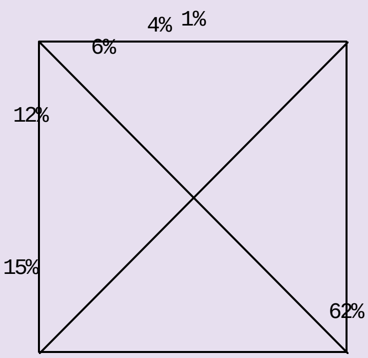




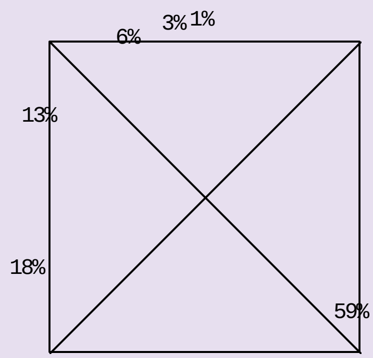


DISTRIBUTION OF ASSETS

2002



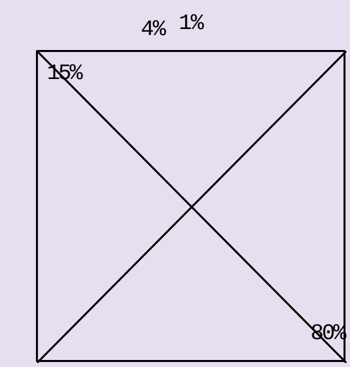
2003



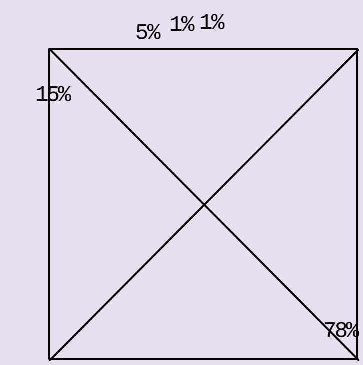
	2002	2003
Loans and advances to customers	2,586	2,897
Deposits with banking institutions	633	875
Government securities	497	621
Cash and Central Bank of Kenya balances	265	280
Property and equipment	157	181
Other assets	43	67
	4,181	4,921

LIABILITIES, SHAREHOLDERS AND EQUITY COMPOSITION

2002



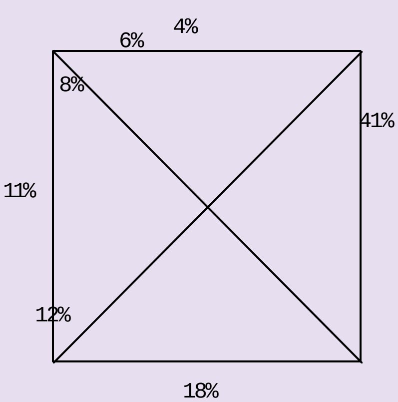
2003



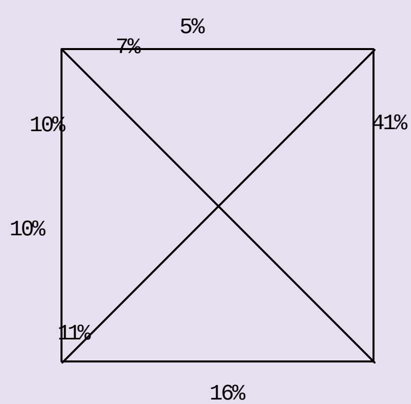
	2002	2003
Customer deposits	3,362	3,865
Core capital	617	742
Other liabilities	147	226
Proposed dividends	35	50
Deposits from banking institutions	20	38
	4,181	4,921

DISTRIBUTION OF INCOME

2002



2003



	2002	2003
Interest expense	325	363
Other operating expenses	140	151
Staff expenses	93	131
Retention	92	125
Government	60	79
Impairment losses	46	30
Shareholders dividends	35	50
	791	929

Report of the Directors

FOR THE YEAR ENDED 31 DECEMBER 2003

The directors submit their report together with the audited financial statements for the year ended 31 December 2003, in accordance with Section 22 of the Banking Act and Section 157 of the Companies Act, which disclose the state of affairs of the company.

INCORPORATION

The company is incorporated in Kenya under the Companies Act and is domiciled in Kenya.

PRINCIPAL ACTIVITIES

The company is licensed under the Banking Act and provides banking, financial and related services.

RESULTS

The net profit for the year was Shs 175.021 million (2002: Shs 127.377 million).

DIVIDENDS

The directors propose a final dividend of Shs 100 per share amounting to Shs 50 million (2002: Shs 35 million).

SHARE CAPITAL

Authorised share capital was increased on18 May 2003 from 400,000 ordinary shares of Shs 1,000 each to 500,000 ordinary shares of Shs 1,000 each.

At an extraordinary general meeting held on 18 May 2003, issued share capital was increased by Shs 100 million through a bonus issue of 1 share for every 4 shares held, through issuance of additional 100,000 ordinary shares of Shs 1,000 each from retained earnings.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's activities expose it to a variety of financial risks, including credit risk and the effects of changes in liquidity, foreign currency exchange rates and interest rates. The company's overall risk management programme focuses on the acceptable level of risk and the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance. The company has policies in place to ensure that banking services are availed to customers with performance and credit history.

DIRECTORS

The names of the directors who held office during the year to the date of this report are set out on page 3.

In accordance with the company's Articles of Association, no director is due for retirement by rotation.

AUDITORS

KLSA Pannell Kerr Forster continue in office in accordance with Section 159(2) of the Companies Act (Cap 486), subject to approval by the Central Bank of Kenya in accordance with section 24(1) of the Banking Act (Cap 488).

By Order of the Board
Company Secretaries

Nairobi
20 March 2004

Statement of Directors' Responsibilities

FOR THE YEAR ENDED 31 DECEMBER 2003

The Companies Act (Cap. 486) requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its operating results for the year. It also requires the directors to ensure that the company maintains proper accounting records which disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates consistent with prior years and in conformity with International Financial Reporting Standards and the requirements of the Companies Act (Cap. 486). The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company as at 31 December 2003 and of its operating results for the year then ended. The directors further confirm the accuracy and completeness of the accounting records maintained by the company which have been relied upon in the preparation of the financial statements, as well as on the adequacy of the systems of internal financial controls.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the twelve months from the date of this statement.

Approved by the board of directors on 20 March 2004 and signed on its behalf by:

Alnashir Popat
Chairman

Abdulmalek Janmohamed
Managing Director

TO THE MEMBERS OF IMPERIAL BANK LIMITED

We have audited the financial statements set out on pages 18 to 44. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of the financial statements as set out on page 16. Our responsibility is to express an independent opinion on the financial statements based on our audit.

BASIS OF OPINION

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by the management, as well as an evaluation of the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, proper books of account have been kept and the financial statements, which are in agreement therewith, give a true and fair view of the state of the financial affairs of the company as at 31 December 2003 and of its profit and cash flows for the year then ended and comply with the Companies Act (Cap. 486) and the International Financial Reporting Standards.

KLSA Pannell Kerr Forster
Certified Public Accountants
Nairobi

23 March 2004

Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 Shs'000	2002 Shs'000
Interest income	1	**743,296**	680,915
Interest expense	2	**(362,558)**	(324,800)
NET INTEREST INCOME		**380,738**	356,115
Fees and commission income		**122,144**	85,429
Foreign exchange trading income		**61,823**	23,437
Dividend income	3	**16**	40
Fair value gain on investment securities	4	**492**	27
Other income	5	**1,424**	1,893
OPERATING INCOME		**566,637**	466,941
Less: Operating expenses			
Impairment losses on loans and advances	6	**(30,472)**	(46,446)
Other operating expenses	7	**(282,286)**	(233,015)
PROFIT BEFORE TAX		**253,879**	187,480
Tax	8	**(78,858)**	(60,103)
NET PROFIT		**175,021**	127,377
EARNINGS PER SHARE			
Basic and diluted	9	**Shs 350**	Shs 255
DIVIDEND			
Proposed dividend for the year	10	**50,000**	35,000
DIVIDEND PER SHARE	10	**Shs 100**	Shs 87.5

The accounting policies on pages 22 to 24 and the notes on pages 25 to 44 form an integral part of the

Balance Sheet

AS AT 31 DECEMBER 2003

ASSETS	*Note*	***2003 Shs'000***	*2002 Shs'000*
Cash in hand		**57,660**	26,979
Balances with Central Bank of Kenya	11	**222,027**	237,815
Government securities	12	**620,624**	496,984
Placements with and loans and advances to other banking institutions	13	**874,966**	632,933
Other assets	14	**27,184**	20,908
Loans and advances to customers	15	**2,896,513**	2,585,800
Investment securities	16	**806**	314
Property and equipment	17	**143,411**	138,521
Prepaid operating lease rentals	18	**18,612**	18,916
Capital work in progress	19	**19,561**	-
Deferred tax	20	**39,226**	21,957
TOTAL ASSETS		**4,920,590**	4,181,127
LIABILITIES			
Customer deposits	21	**3,864,500**	3,361,673
Deposits from other banking institutions	22	**38,203**	19,875
Other liabilities	23	**191,408**	144,823
Current tax		**34,373**	2,671
TOTAL LIABILITIES		**4,128,484**	3,529,042
SHAREHOLDERS' EQUITY			
Share capital	24	**500,000**	400,000
Retained earnings		**242,106**	217,085
Proposed dividend	10	**50,000**	35,000
TOTAL SHAREHOLDERS' EQUITY		**792,106**	652,085
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**4,920,590**	4,181,127

The financial statements on pages 18 to 44 were approved for issue by the board of directors on 20 March 2004 and were signed on its behalf by:

Alnashir Popat - *Chairman*
Abdulmalek Janmohamed - *Managing Director*
Anwar Hajee - *Director*
Equatorial Secretaries and Registrars - *Company Secretaries*

The accounting policies on pages 22 to 24 and the notes on pages 25 to 44 form an integral part of the

Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2003

Year ended 31 December 2002	Note	*Share capital Shs'000*	*Retained earnings Shs'000*	*Proposed dividend Shs'000*	*Total Shs'000*
At start of year		350,000	174,708	35,000	559,708
Net profit for the year		-	127,377	-	127,377
Bonus issue of shares	24	50,000	(50,000)	-	-
Dividends:					
- 2001 dividend paid during the year		-	-	(35,000)	(35,000)
- proposed for 2002	10	-	(35,000)	35,000	-
At end of year		400,000	217,085	35,000	652,085
Year ended 31 December 2003					
At start of year		400,000	217,085	35,000	652,085
Net profit for the year		-	175,021	-	175,021
Bonus issue of shares	24	100,000	(100,000)	-	-
Dividends:					
- 2002 divided paid during the year		-	-	(35,000)	(35,000)
- proposed for 2003	10	-	(50,000)	50,000	-
At end of year		**500,000**	**242,106**	**50,000**	**792,106**

The accounting policies on pages 22 to 24 and the notes on pages 25 to 44 form an integral part of the

Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2003

CASH FLOWS FROM OPERATING ACTIVITIES	Note	2003 Shs'000	2002 Shs'000
Interest receipts		**793,550**	650,609
Interest payments		**(325,917)**	(328,606)
Fees and commission receipts		**183,967**	108,866
Loans and advances written off		**(401)**	-
Payments to employees and suppliers		**(248,321)**	(195,574)
Tax paid		**(64,425)**	(57,262)
Cash flows from operating activities before changes in operating assets and liabilities		**338,453**	178,033
Changes in operating assets and liabilities:			
- loans and advances		**(369,614)**	(220,799)
- other assets		**(472,191)**	(45,385)
- customer deposits		**441,301**	398,609
- other liabilities		**41,173**	39,893
NET CASH (USED IN)/FROM OPERATING ACTIVITIES		**(20,878)**	350,351
Cash flows from investing activities			
Purchase of property and equipment	17	**(34,198)**	(40,936)
Investment in capital work in progress	19	**(19,561)**	-
Operating lease rentals	18	**-**	(9,941)
Dividends received		**16**	40
Proceeds from disposal of property and equipment		**2,438**	2,175
NET CASH (USED IN) INVESTING ACTIVITIES		**(51,305)**	(48,662)
Cash flows (used in) financing activities			
Dividend paid		**(35,000)**	(35,000)
NET CASH (USED IN) FINANCING ACTIVITIES		**(35,000)**	(35,000)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(107,183)**	266,689
CASH AND CASH EQUIVALENTS AT START OF THE YEAR	25	**1,154,686**	887,997
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	25	**1,047,503**	1,154,686

The accounting policies on pages 22 to 24 and the notes on pages 25 to 44 form an integral part of the

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of Preparation:
The financial statements are prepared in accordance with and comply with International Financial Reporting Standards, and are prepared under the historical cost convention as modified by fair value adjustment to certain investments and securities.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reporting amounts of revenues and expenses during the reporting period. These estimates are based on the directors' best knowledge of current events and actions, but the actual results may differ from those estimates.

(b) Revenue Recognition:
Interest income is recognised on an accruals basis in the income statement using the effective yield on the asset. Interest income includes coupons earned on fixed income investment securities and accrued discount on treasury bills and bonds. When financial assets become impaired, interest income is thereafter recognised at rates used to discount future cash flows for the purposes of measuring the recoverable amount. Finance lease income is recognised to reflect a constant rate of return on the investment and is accrued over the agreement period using the reducing balance method.

Fees and commissions income and hire purchase option fees are recognised at the time of effecting the transaction.

Dividend income is recognised when declared.

Revenue is recognised only when it is probable that the economic benefit associated with the transaction will flow to the bank.

(c) Foreign Currencies:
Transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the income statement in the year in which they arise.

(d) Property and Equipment:
Property and equipment is stated at historical cost less accumulated depreciation.

Depreciation is calculated on a straight line basis to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

	Rate - %
Building	2.5
Office renovations	Over the lease period
Computers, copiers and faxes	30
Motor vehicles	25
Furniture and fittings	12.5
Office equipment	20

Property and equipment are periodically reviewed for impairment.

Where the carrying amount of property and equipment is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains or losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

(e) Pension Obligations:
The bank operates a defined contribution pension scheme for its employees, the assets of which are held in a separate trustee administered guaranteed scheme managed by an insurance company. The pension plan is funded by contributions from the employees and the company. The bank's contributions are charged to the income statement in the year to which they relate.

The employees and the bank also contribute to the National Social Security Fund, a national retirement benefit scheme. Contributions are determined by local statute and the company's contributions are charged to the income statement in the year to which they relate.

(f) Employee Entitlements:
Employee entitlements to long term service awards are recognised when they accrue to employees.

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

(g) Loans and provisions for loan impairment:
Loans and advances are recognised when cash is advanced to borrowers and are subsequently carried at amortised cost less provision for impairment losses.

A specific credit risk provision for loan impairment is established to provide for management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. In arriving at such provisions, present value of future expected cash flows, including amounts recoverable from securities, discounted at effective interest rates of loans are taken into account.

A general provision for loan impairment is established to cover losses that are adjudged to be present in the lending portfolio at the balance sheet date but which have not been specifically impaired as such. The provision is based on the directors' assessment of the latent risk of default known to be present in the portfolio of the bank's advances.

Where a loan or an advance is deemed uncollectible, it is written off against the related provision for impairment. Subsequent recoveries of amounts previously written off are credited to the income statement in the year of recovery.

(h) Leases:

Finance leases as a lessor

Leases of property and equipment including hire purchase agreements where the company transfers substantially all the risks and rewards incident to ownership are classified as finance leases. Assets held under finance leases are recognised as receivables at the amount equal to the net investment in the lease. Subsequently, the net investment in leases is carried at amortised cost, less provision for impairment losses. Each lease repayment is treated as repayment of principal and finance income so as to reflect a constant rate of return on the investment. At the end of the lease term the lessee has an option to purchase the asset.

Operating leases as a lessee

Leases of assets where a significant proportion of the risks and reward of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the lease period.

Prepaid operating lease rentals are recognised as an asset and are subsequently amortised over the lease period.

(i) Taxation:

Current tax

Current tax is provided on the basis of the results for the year, adjusted in accordance with tax legislation.

Deferred tax

Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates at the balance sheet date are used to determine deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

(j) Financial Instruments:

The bank's financial instruments which include investment securities, government securities and purchased loans and receivables fall into the following four categories:

- Held for trading - financial instruments that are required or incurred principally for the purpose of generating a profit from short term fluctuation in price or dealer's margin. Such instruments are carried at fair value where fair value gains or losses are included in the income statement for the period.

- Held to maturity - financial instruments with fixed or determinable payments and fixed maturity where the management have the positive intent and ability to hold to maturity. Such instruments are carried at amortised cost using the effective interest rate method.

- Originated loans and receivables-financial instruments that are created by the company by providing money or products directly to a debtor other than those with the intent to be sold immediately or in the short term. Such instruments are carried at amortised cost using the effective interest rate method.

- Available for sale-financial instruments that are held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rate. Such instruments are carried at fair value where fair value gains or losses are included in the income statement for the period.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the assets carrying amount and the present values of expected future cash flows, including security realisation, discounted at the financial instrument's effective interest rate. Impairment losses are taken into account for determining operating profit.

Management classifies investments as follows:

(i) Cash in hand and balances with Central Bank of Kenya and other banking institutions are classified as originated loans and are carried at amortised cost.

(ii) Government securities acquired on first issue directly from the government are classified as originated loans whereas those acquired from the secondary trading market are classified as held to maturity as the company has the intention and ability to hold these to maturity. Both categories of government securities are carried at amortised cost.

(iii) Loans and advances to customers are classified as originated loans and are carried at amortised cost.

(iv) Investment securities are classified as available for sale and are carried at fair value.

Financial liabilities
Financial liabilities are recognised initially at cost and subsequently measured at amortised cost.

Customer deposits are classified as financial liabilities and are carried at amortised cost.

(k) Dividends:
Dividends are recognised as a liability in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

(l) Cash and Cash Equivalents:
For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 91 days maturity from the date of acquisition and include cash and balances with the Central Bank of Kenya (excluding cash reserve ratio), government securities and deposits and balances due to and from banking institutions.

(m) Contingent Liabilities:
Letters of credit, acceptances, guarantees and performance bonds are accounted for as off balance sheet transactions and disclosed as contingent liabilities. Estimates of the outcome and of the financial effect of contingent liabilities is made by the management based on the information available up to the date the financial statements are approved for issue by the directors. Any expected loss is charged to the income statement.

Foreign exchange forward contracts are marked to market and are carried at their fair value. Gains and losses on foreign exchange forward contracts are dealt with on a net basis in the income statement in the year in which they arise.

(n) Sale and Repurchase Agreements:
Securities sold under sale and repurchase agreements (Repos) are retained in the financial statements with the counter party liability included in amounts due to banking institutions.

Securities purchased under agreement to resell (Reverse Repos) comprise of treasury bills that are held until maturity of the Reverse Repo agreement after which they are re-sold and as such they are not negotiable/discountable during the tenure of the Reverse Repo agreement. These are included in government securities.

Cash flows from Repo agreements are included as part of cash flows from operating activities.

(o) Offsetting:
Financial assets and liabilities are offset and stated at net amounts in the balance sheet when there is a legally enforceable right to set off, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(p) Provisions:
Provisions are recognised when the bank has a present legal or constuctive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

(q) Comparatives:
Where necessary comparative figures have been adjusted to conform with changes in presentation in the current year.

	2003 Shs'000	2002 Shs'000
1. INTEREST INCOME		
Loans and advances including finance lease income	717,543	631,041
Government securities	20,060	45,182
Placements with and loans and advances to other banking institutions	3,228	3,050
Others	2,465	1,642
	743,296	680,915
2. INTEREST EXPENSE		
Customer deposits	347,520	308,848
Deposits from other banking institutions	15,034	15,946
Others	4	6
	362,558	324,800
3. DIVIDEND INCOME		
Divided from investment securities	16	40
4. FAIR VALUE GAIN ON INVESTMENT SECURITIES		
Increase in fair value of investment securities	492	27
5. OTHER INCOME		
Gain on disposal of property and equipment	1,424	1,893
6. IMPAIRMENT LOSSES ON LOANS AND ADVANCES		
Loans and advances to customers:		
- net increase in specific provision (Note 15 (b))	24,431	42,239
- net increase in general provision (Note 15 (b))	5,640	4,207
Loans and advances written off	401	-
	30,472	46,446

7. *(a) OTHER OPERATING EXPENSES*

			2003 Shs'000	2002 Shs'000
Staff costs (Note 7(b))			**130,646**	93,351
Directors' emoluments	- fees	(Note 31 (e))	**10,500**	10,500
	- other	(Note 31 (e))	**7,026**	6,856
Administrative expenses			**134,114**	122,308
			282,286	233,015
Administrative expenses are comprised of:				
Depreciation on property and equipment (Note 17)			**28,294**	25,311
Amortisation of prepaid operating lease rentals (Note 18)			**304**	832
Auditors' remuneration	- current year		**1,740**	1,768
	- (Over)/under provision in prior year		**(169)**	252
Contribution to Deposit Protection Fund			**4,128**	3,768
Operating lease rentals			**8,674**	8,321
Other costs			**91,143**	82,056

(b) STAFF COSTS

The following items are included in staff costs:

		2003	2002
Staff leave accrual		**3,422**	1,541
Pension costs	- defined contribution scheme	**6,810**	4,728
	- National Social Security Fund	**247**	204

The number of persons employed by the company at the year end was 107 (2002: 89).

8. *TAX*

	2003 Shs'000	2002 Shs'000
Current tax	**96,277**	56,427
(Over) provision of tax in prior year	**(150)**	-
Deferred tax (credit)/charge (Note 20)	**(17,269)**	3,676
	78,858	60,103
Tax on the company's profit differs from the theoretical amount that would arise using the basic tax rate as follows:		
Profit before tax	**253,879**	187,480
Tax calculated at a rate of 30%	**76,164**	56,244
Expenses not deductible for tax purposes	**3,423**	9,884
(Over) provision of tax in prior year	**(150)**	-
Income not subject to tax	**(579)**	(6,025)
Tax charge	**78,858**	60,103

9. *EARNINGS PER SHARE*

Basic earnings per share is calculated on the profit attributable to the shareholders and on the weighted average number of shares outstanding during the period adjusted for the effect of the bonus share issue during the year.

	2003	*2002*
Net profit for the year attributable to shareholders (Shs '000)	**175,021**	127,377
Adjusted weighted average number of ordinary shares in issue	**500,000**	500,000
Basic earnings per share (Shs)	**350**	255

There were no potentially dilutive shares outstanding at 31 December 2003 and 31 December 2002.

10. *DIVIDEND*

At the forthcoming annual general meeting a final dividend in respect for the year ended 31 December 2003 of Shs 100 per share, amounting to Shs 50 million (2002: Shs 87.50 per share amounting to Shs 35 million), is to be proposed.

Where applicable, payment of qualifying dividends is subject to deduction of withholding tax at a rate of 5%.

11. *BALANCES WITH CENTRAL BANK OF KENYA*

	2003	*2002*
	Shs'000	*Shs'000*
Balances with Central Bank of Kenya		
- cash reserve ratio	**218,933**	160,150
- other	**3,094**	77,665
	222,027	237,815

The cash reserve ratio balance is non interest bearing and is based on the value of customer deposits as adjusted in accordance with Central Bank of Kenya requirements. As at 31 December 2003 the cash reserve ratio requirement was 6% (2002: 10%) of all customer deposits. These funds are not available to finance the company's day to day operations.

12. GOVERNMENT SECURITIES

	2003 Shs'000	2002 Shs'000
Treasury bills	**149,986**	415,734
Treasury bonds - held to maturity	**470,638**	81,250
	620,624	496,984
Comprising		
Maturing within 91 days of the date of acquisation (Note 25)	**149,986**	436,984
Maturing after 91 days of the date of acquisation	**470,638**	60,000
	620,624	496,984

13. PLACEMENTS WITH AND LOANS AND ADVANCES TO OTHER BANKING INSTITUTIONS

	2003 Shs'000	2002 Shs'000
Balances with banking institutions in Kenya	**159,664**	200,950
Balances with banking institutions abroad	**69,031**	99,050
Term deposits with banking institutions in Kenya	**194,833**	168,975
Term deposits with banking institutions abroad	**163,698**	-
Items in course of collection from banking institutions	**287,740**	163,958
	874,966	632,933

14. OTHER ASSETS

	2003 Shs'000	2002 Shs'000
Receivables and prepayments	**13,634**	11,005
Foreclosed assets	**13,550**	9,903
	27,184	20,908

Foreclosed assets comprise moveable properties (motor vehicles) recovered following default of contractual terms of the loans and advances to customers. These are held for sale. In the opinion of the directors, adequate allowance has been made for impairment of the values of these assets.

15. LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

	2003 Shs'000	2002 Shs'000
Overdrafts	**1,716,332**	1,089,817
Commercial loans	**629,273**	965,283
Bills discounted	**126,044**	90,140
Gross investment in finance leases (Note 15 (d))	**885,796**	1,060,766
Gross loans and advances to customers	**3,357,445**	3,206,006
Less		
Unearned interest	**(186,292)**	(345,761)
Provision for impairment of loans and advances (Note 15(b))	**(274,640)**	(274,445)
Loans and advances to customers net of provision for impairment	**2,896,513**	2,585,800

(b) Provisions for impaired loans and advances

Year ended 31 December 2003	Specific provision Shs '000	General provision Shs '000	Total Shs '000
At start of year	222,676	51,769	274,445
New provisions	42,977	5,640	48,617
Increased provisions	20,889	-	20,889
Provisions no longer required	(39,435)	-	(39,435)
Net increase in provision for impairment charged to income statement	24,431	5,640	30,071
Provision utilised during the year for write off	(29,876)	-	(29,876)
At end of year	217,231	57,409	274,640

15. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Provisions for impaired loans and advances (continued)

Year ended 31 December 2002	*Specific provision Shs '000*	*General provision Shs '000*	*Total Shs '000*
At start of year	220,078	47,562	267,640
New provisions	35,877	4,207	40,084
Increased provisions	10,145	-	10,145
Provisions no longer required	(3,783)	-	(3,783)
Net increase in provision for impairment charged to income statement	42,239	4,207	46,446
Provisions utilised during the year for write off	(39,641)	-	(39,641)
At end of year	222,676	51,769	274,445

Loans and advances have been written down to their recoverable amount. Non performing loans and advances on which provisions for impairment have been recognised amount to Shs 303.679 million (2002: Shs 283.006 million). These are included in the balance sheet net of provisions at Shs 86.447 million (2002: Shs 60.330 million). In the opinion of the directors sufficient securities are held to cover the exposure on such loans and advances. Interest income is not recognised on net advances amounting to Shs 134.042 million (2002: Shs 93.735 million) as the management feel no economic benefit of interest on such loans will flow to the bank.

15. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Concentration

Economic sector risk concentrations within the loans and advances portfolio are as follows:

	2003 Shs'000	2003 %	2002 Shs'000	2002 %
Manufacturing	389,327	12	470,114	15
Wholesale, retail trade and hotels	952,144	28	867,851	27
Transport and communications	402,560	12	391,410	12
Agriculture	63,478	2	191,323	6
Hire purchase and insurance	7,926	-	9,259	-
Business services	131,755	4	66,490	2
Building, construction and real estate	145,358	4	260,072	8
Social, community and personal service	33,230	1	30,513	1
Others	1,231,667	37	918,974	29
	3,357,445	100	3,206,006	100

(d) Finance leases

The loans and advances to customers include finance lease receivables, which may be analysed as follows:

	2003 Shs'000	2002 Shs'000
Gross investment in finance leases:		
- maturing not later than 1 year	381,256	342,603
- maturing later than 1 year and not later than 5 years	504,540	718,163
	885,796	1,060,766
Unearned future finance income	(111,775)	(132,136)
Net investment in finance leases	774,021	928,630
The net investment in finance leases may be analysed as follows:		
- not later than 1 year	326,675	243,609
- later than 1 year and not later than 5 years	447,346	685,021
	774,021	928,630

15. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Credit risk

The bank undertakes an exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The bank structures the levels of credit risk it undertakes by placing limits on amounts of risk accepted in relation to one borrower or groups of borrowers. Such risks are monitored on a revolving basis and subject to annual or more frequent review.

The exposure to any one borrower including banks is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the liability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral, corporate and personal guarantees. Credit risk is spread over a diversity of personal and commercial customers as set out in note 15 (c). The credit risk exposure relating to contingencies and commitments is further outlined in note 26.

16. INVESTMENT SECURITIES

	2003	2002
	Shs'000	*Shs'000*
Quoted equity investments:		
At start of year	**314**	287
Fair value gain	**492**	27
End of the year	**806**	314

The above quoted equity investments are stated at fair value based on listed stock exchange prices at the balance sheet date.

17. PROPERTY & EQUIPMENT

	Building Shs '000	*Office renovations Shs '000*	*Computers, copiers & faxes Shs '000*	*Motor vehicles Shs '000*	*Furniture & fittings Shs '000*	*Office equipment Shs '000*	*Total Shs '000*
COST							
At start of year	65,363	15,107	37,942	21,548	68,476	26,990	235,426
Additions	-	-	4,437	10,395	14,227	5,139	34,198
Disposals	-	-	(109)	(3,853)	(4,662)	(830)	(9,454)
At end of year	**65,363**	**15,107**	**42,270**	**28,090**	**78,041**	**31,299**	**260,170**
DEPRECIATION							
At start of year	3,100	15,107	30,190	12,873	20,589	15,046	96,905
Charge for the year	1,634	-	6,176	6,140	9,714	4,630	28,294
On disposal	-	-	(109)	(2,900)	(4,632)	(799)	(8,440)
At end of year	**4,734**	**15,107**	**36,257**	**16,113**	**25,671**	**18,877**	**116,759**
NET BOOK VALUE							
At 31 December 2003	**60,629**	**-**	**6,013**	**11,977**	**52,370**	**12,422**	**143,411**
At 31 December 2002	62,263	-	7,752	8,675	47,887	11,944	138,521

In the opinion of directors there is no impairment of property and equipment. Property and equipment with a cost of Shs 54.849 million (2002: Shs 51.308 million) was fully depreciated at the balance sheet date. The depreciation charge in respect of these assets for the year would have been Shs 10.652 million (2002: Shs 8.837 million) had they not been fully depreciated.

18. PREPAID OPERATING LEASE RENTALS

Amounts paid on acquisition of leasehold land are classified under prepaid operating lease rentals. The movement in prepaid operating lease rentals during the year was as follows:

	2003	*2002*
	Shs'000	*Shs'000*
Cost		
At start of year	**19,748**	9,807
Additions	**-**	9,941
At end of year	**19,748**	19,748
Amortisation		
At start of year	**832**	-
Amortisation	**304**	832
At end of year	**1,136**	832
Net book value	**18,612**	18,916

19. CAPITAL WORK IN PROGRESS

At start of year	**-**	-
Additions	**19,561**	-
At end of year	**19,561**	-

Capital work in progress relates to ongoing construction of bank premises in Mombasa.

20. DEFERRED TAX

Deferred tax is calculated on all temporary timing differences under the liability method using a principal tax rate of 30%. The movement on the deferred tax account is as follows:

	2003	*2002*
	Shs'000	*Shs'000*
At start of year	**21,957**	25,633
Credited/(charged) to income statement	**17,269**	(3,676)
At end of year	**39,226**	21,957

Deferred tax assets (liabilities) and deferred tax credited/(charged) to the income statement are attributable to the following:

	At 1 January 2003 Shs'000	***Credited/ (charged) to income statement Shs'000***	***At 31 December 2003 Shs'000***
Deferred tax assets			
Excess depreciation over capital allowances	**5,352**	**634**	**5,986**
General provision for bad and doubtful debts	**15,531**	**1,692**	**17,223**
Provision for staff leave accrual	**1,074**	**1,040**	**2,114**
Other general provisions	**-**	**13,903**	**13,903**
	21,957	**17,269**	**39,226**

21. CUSTOMER DEPOSITS

	2003 Shs'000	2002 Shs'000
Call deposits	**88,298**	100,649
Current and demand accounts	**416,830**	289,801
Savings accounts	**688,152**	360,560
Term deposits	**1,879,666**	2,076,023
Foreign currency deposits	**791,554**	534,640
	3,864,500	3,361,673

Analysis of customer deposits by maturity:

	2003 Shs'000	2002 Shs'000
Payable within 90 days	**3,274,983**	**3,312,899**
Payable after 90 days and within one year	**589,517**	**48,774**
	3,864,500	**3,361,673**

Concentration:

The economic sector concentrations within the customer deposits portfolio were as follows:

	2003 Shs'000	2003 %	2002 Shs'000	2002 %
Non private institutions and individuals	**2,625,658**	**68**	2,198,010	65
Private companies	**1,199,556**	**31**	965,021	29
Insurance companies	**17,156**	**-**	139,793	4
Hire purchase companies	**22,130**	**1**	27,990	1
Non-financial public institutions	**-**	**-**	30,334	1
Co-operative societies	**-**	**-**	525	-
	3,864,500	**100**	3,361,673	100

22. DEPOSITS FROM OTHER BANKING INSTITUTIONS

	2003 Shs'000	2002 Shs'000
Call deposits	**35,541**	-
Current and demand accounts	**2,662**	3,868
Term deposits	**-**	16,007
	38,203	19,875

23. OTHER LIABILITIES

	2003 Shs'000	2002 Shs'000
Outstanding bankers cheques	**54,707**	94,434
Staff leave accrual	**7,048**	3,581
Sundry creditors	**129,653**	46,808
	191,408	144,823

24. SHARE CAPITAL

	No. of ordinary shares		Issued and paid up capital	
	2003	2002	**2003**	2002
	'000	'000	**Shs'000**	Shs'000
At start of year	**400**	350	**400,000**	350,000
Bonus issue of shares	**100**	50	**100,000**	50,000
At end of year	**500**	400	**500,000**	400,000

Authorised share capital was increased on 18 May 2003 from 400,000 ordinary shares of Shs 1,000 each to 500,000 ordinary shares of Shs 1,000 each.

At an extraordinary general meeting held on 18 May 2003, issued share capital was increased by Shs 100 million through a bonus issue of 1 share for every 4 shares held, through issuance of additional 100,000 ordinary shares of Shs 1,000 each from retained earnings.

25. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	2003	2002	**Changes during the year**
	Shs'000	Shs'000	Shs'000
Cash in hand	**57,660**	26,979	30,681
Balances with Central Bank of Kenya	**3,094**	77,665	(74,571)
Government securities	**149,986**	436,984	(286,998)
Deposits and balances due from banking institutions	**874,966**	632,933	242,033
Deposits and balances due to banking institutions	**(38,203)**	(19,875)	(18,328)
	1,047,503	1,154,686	(107,183)

26. OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS

In common with banking business, the bank conducts business involving acceptances, guarantees, performance bonds and letters of guarantees. The majority of these facilities are offset by corresponding obligations from third parties.

	2003	2002
Off balance sheet items include:	**Shs'000**	Shs'000
Letters of credit	**197,321**	180,737
Letters of guarantees	**397,051**	322,423
Acceptances	**291,078**	228,464
	885,450	731,624

26. OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

An acceptance is an undertaking by a bank to pay a bill of exchange on a specified due date. The bank expects most acceptances to be presented and reimbursement by the customer is normally immediate. Letters of credit commit the bank to make payments to third parties on production of credit compliant documents which are subsequently reimbursed by customers.

Guarantees are generally written by a bank to support the performance of a customer to third parties. The bank will only be required to meet these obligations in the event of the customers' default.

Based on the estimate of the financial effect of the contingencies and the corresponding obligations from third parties, no loss is anticipated.

The bank has open lines of credit facilities with correspondent banks. The liability outstanding at the year end is Shs 502.801 million (2002: Shs 317.476 million). These facilities are unsecured.

Commitments	***2003***	*2002*
	Shs'000	*Shs'000*
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**434,311**	173,224

Commitments to lend are agreements to lend to customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The Bank may withdraw from its contractual obligation for the undrawn portion of agreed facilities by giving reasonable notice to the customer.

Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is as follows:

	2003	*2002*
	Shs'000	*Shs'000*
Property and equipment	**75,000**	-

Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

	2003	*2002*
- not later than 1 year	**8,422**	7,653
- later than 1 year and not later than 5 years	**16,881**	17,414
- later than 5 years	**-**	204
	25,303	25,271

The directors are of the view that future net revenues and funding will be sufficient to cover these commitments.

27. *CURRENCY RISK*

The bank operates wholly within Kenya and its assets and liabilities are reported in the local currency. It conducts trade with correspondent banks and takes deposits and lends in other currencies.

The bank's currency position and exposure are managed within the exposure guideline of 20% of the core capital as stipulated by the Central Bank of Kenya. This position is reviewed on a daily basis by the management. The significant currency positions are detailed below:

At 31 December 2003	*US$ Shs'000*	*GB£ Shs'000*	*Euros Shs'000*	*Indian Rupee Shs'000*	*South African Rand Shs'000*	*Others Shs'000*	*Total Shs'000*
Assets							
Cash and bank balances	157,729	43,028	4,455	-	-	12	205,224
Balances with banks abroad	167,312	18,290	44,950	1,203	251	723	232,729
Loans and advances to customers	297,711	26,134	31,872	-	-	-	355,717
Other assets	4,641	136	-	-	-	-	4,777
Total assets	627,393	87,588	81,277	1,203	251	735	798,447
Liabilities							
Customer deposits	620,302	114,778	56,354	-	120	-	791,554
Deposits from other banking institutions	35,541	-	2,662	-	-	-	38,203
Other liabilities	11,263	3,577	9,827	-	-	-	24,667
Total liabilities	667,106	118,355	68,843	-	120	-	854,424
Net balance sheet position	(39,713)	(30,767)	12,434	1,203	131	735	(55,977)
Off balance sheet net notional position	483,627	67,799	36,154	-	-	21,413	608,993
At 31 December 2002							
Total assets	687,341	105,025	92,332	948	2,958	9,764	898,368
Total liabilities	719,265	133,392	84,413	-	45	9,764	946,879
Net balance sheet position	(31,924)	(28,367)	7,919	948	2,913	-	(48,511)
Off balance sheet net notional position	329,591	54,474	15,372	-	-	9,764	409,201

28. INTEREST RATE RISK

The bank is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on its financial position and cash flows. The management closely monitors the interest rate trends to minimise the potential adverse impact of interest rate changes. The table below summarises the exposure to interest rate risk at the balance sheet date. Included in the table are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The bank does not have any derivative financial instruments. The company does not bear an interest rate risk on off balance sheet items.

At 31 December 2003	Upto 1 month Shs'000	1-3 months Shs'000	3-12 months Shs'000	1-5 years Shs'000	Over 5 years Shs'000	Non interest bearing Shs'000	Total Shs'000
ASSETS							
Cash in hand	-	-	-	-	-	57,660	57,660
Balances with Central Bank of Kenya	-	-	-	-	-	222,027	222,027
Government securities	152,679	2,737	21,724	295,150	148,334	-	620,624
Placements with and loans and advances to other banking institutions	874,966	-	-	-	-	-	874,966
Other assets	-	-	-	-	-	27,184	27,184
Loans and advances to customers	2,762,471	-	-	-	-	134,042	2,896,513
Investment securities	-	-	-	-	-	806	806
Property and equipment	-	-	-	-	-	143,411	143,411
Prepaid operating lease rentals	-	-	-	-	-	18,612	18,612
Capital work in progress	-	-	-	-	-	19,561	19,561
Deferred tax	-	-	-	-	-	39,226	39,226
Total assets	**3,790,116**	**2,737**	**21,724**	**295,150**	**148,334**	**662,529**	**4,920,590**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Customer deposits	1,748,244	888,358	589,517	-	-	638,381	3,864,500
Deposits from other banking institutions	38,203	-	-	-	-	-	38,203
Other liabilities	-	-	-	-	-	191,408	191,408
Current tax	-	-	-	-	-	34,373	34,373
Shareholders' equity	-	-	-	-	-	792,106	792,106
Total liabilities and shareholders' equity	**1,786,447**	**888,358**	**589,517**	**-**	**-**	**1,656,268**	**4,920,590**
On balance sheet interest sensitivity gap	**2,003,669**	**(885,621)**	**(567,793)**	**295,150**	**148,334**	**(993,739)**	**-**
At 31 December 2002							
Total assets	2,992,996	218,741	-	60,000	-	909,390	4,181,127
Total liabilities and shareholders' equity	1,229,488	1,660,239	48,042	-	-	1,243,358	4,181,127
On balance sheet interest sensitivity gap	**1,763,508**	**(1,441,498)**	**(48,042)**	**60,000**	**-**	**(333,968)**	**-**

28. INTEREST RATE RISK (CONTINUED)

The table below summarises the effective interest rates calculated on a weighted average basis, by major currencies for monetary financial assets and liabilities:

	2003				*2002*			
	Shs	**US$**	**GP£**	**Euro**	**Shs**	**US$**	**GP£**	**Euro**
	%	**%**	**%**	**%**	%	%	%	%
Government securities	**10**	**-**	**-**	**-**	10	-	-	-
Deposits and balances due from banking institutions	**2**	**2**	**3**	**3**	10	2	4	3
Loans and advances to customers	**16**	**6**	**7**	**7**	18	7	8	10
Customer deposits	**7**	**3**	**3**	**3**	8	3	3	3
Deposits and balances due to banking institutions	**4**	**2**	**4**	**3**	9	2	4	-

29. LIQUIDITY RISK

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturity of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the liquidity of the bank and its exposure to changes in interest and exchange rates.

The company does not maintain cash resources to meet all liabilities as they fall due as experience shows that a minimum level of reinvestment of maturing funds can be predicted with high level of certainty. The management has set limits on the minimum portion of maturing funds available to meet such withdrawals and on the level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The management reviews the maturity profile on a weekly basis and ensures that sufficient liquidity is maintained to meet maturing deposits. The bank fully complies with the Central Bank of Kenya's minimum cash reserve ratio (6%) and liquidity ratio (20%) requirements, with the average liquidity maintained at 25% (2002: 27%) during the year.

The table below analyses assets and liabilities into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date:

At 31 December 2003	*Upto 1 month Shs'000*	*1-3 months Shs'000*	*3-12 months Shs'000*	*1-5 years Shs'000*	*Over 5 years Shs'000*	*Total Shs'000*
ASSETS						
Cash in hand	57,660	-	-	-	-	57,660
Balances with Central Bank of Kenya	138,302	50,327	33,398	-	-	222,027
Government securities	152,679	2,737	21,724	295,150	148,334	620,624
Placements with and loans and advances to other banking institutions	874,966	-	-	-	-	874,966
Other assets	16,593	2,736	5,556	-	2,299	27,184
Loans and advances to customers	677,515	57,523	1,320,783	836,060	4,632	2,896,513
Investment securities	-	-	806	-	-	806
Property and equipment	-	-	-	-	143,411	143,411
Prepaid operating lease rentals	-	-	-	-	18,612	18,612
Capital work in progress	-	-	-	-	19,561	19,561
Deferred tax	-	-	-	-	39,226	39,226
Total assets	**1,917,715**	**113,323**	**1,382,267**	**1,131,210**	**376,075**	**4,920,590**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Customer deposits	2,386,625	888,358	589,517	-	-	3,864,500
Deposits from other banking institutions	38,203	-	-	-	-	38,203
Other liabilities	179,724	6,476	4,580	628	-	191,408
Current tax	-	-	34,373	-	-	34,373
Shareholders' equity	-	-	-	-	792,106	792,106
Total liabilities and shareholders' equity	**2,604,552**	**894,834**	**628,470**	**628**	**792,106**	**4,920,590**
Net liquidity gap	**(686,837)**	**(781,511)**	**753,797**	**1,130,582**	**(416,031)**	**-**
At 31 December 2002						
Total assets	1,810,367	369,333	758,565	999,219	243,643	4,181,127
Total liabilities and shareholders' equity	1,818,090	1,660,239	50,713	-	652,085	4,181,127
Net liquidity gap	**(7,723)**	**(1,290,906)**	**707,852**	**999,219**	**(408,442)**	**-**

Experience indicates that customer deposits are maintained for longer periods than the contractual maturity dates. The deposit base is considered to be of a stable and long term nature.

30. CENTRAL BANK OF KENYA (AMENDMENT) ACT, 2000

The Central Bank of Kenya (Amendment) Act 2000 (The Act) received presidential assent on 6 August 2001. The Act has a commencement date of 1 January 2001.

Subsequent to the date of the presidential assent, the Kenya Bankers Association (KBA), on behalf of its members, filed an application at the High Court of Kenya challenging the legality of the said Act. The court delivered its judgement on the matter on 24 January 2002.

On 22 February 2002, the KBA extracted a Decree which declared the entire Act *ultra vires* the Constitution and therefore null and void and not binding on the member banks represented by KBA. On 17 April 2002 the Attorney General filed an application to vary the decree to declare the Act void only to the extent it is retroactive and penal. The Court granted the consent to vary the decree, which was challenged by KBA and the Central Bank of Kenya. However, the matter is yet to be determined by the Court.

The KBA, based on legal advice from its lawyers have issued guidance to member banks. The directors have relied on the legal advice obtained by KBA, interpreting this to mean the Act is *ultra vires* the Constitution of Kenya and is therefore null and void in its entirety. The financial statements have accordingly been prepared based on this interpretation.

31. RELATED PARTY TRANSACTIONS

Included in loans and advances and customer deposits are amounts advanced to/received from certain directors and companies in which directors are involved either as shareholders or directors (related companies). In addition, contingent liabilities (Note 26) include guarantees and letters of credit which have been issued to related companies.

The following transactions were carried out with related parties:

	2003	*2002*
(a) Interest received from loans and advances to:	***Shs'000***	*Shs'000*
Directors	**-**	-
Related companies	**37,259**	26,987
	37,259	26,987
(b) Interest paid on deposits from:		
Directors	**4,765**	3,883
Related companies	**15,418**	15,532
	20,183	19,415

31. RELATED PARTY TRANSACTIONS (CONTINUED)

	Directors		Related companies	
	2003	2002	**2003**	2002
(c) Outstanding loans and advances:	**Shs'000**	Shs'000	**Shs'000**	Shs'000
At start of year	**-**	-	**154,946**	181,519
Advances during the year	**-**	-	**593,040**	506,109
Interest charged	**-**	-	**37,259**	26,987
Repayments during the year	**-**	-	**(559,543)**	(559,669)
At end of year	**-**	-	**225,702**	154,946
Contingent liabilities	**-**	-	**26,288**	39,828

As at 31 December 2003 loans and advances to staff amounted to Shs 19.636 million (2002: Shs 14.686 million).

The loans and advances to related parties are performing and are not fully secured. No provisions have been recognised in respect of the loans and advances to directors, related parties or staff.

	Directors		Related companies	
	2003	2002	**2003**	2002
(d) Deposits:	**Shs'000**	Shs'000	**Shs'000**	Shs'000
At start of year	**46,854**	19,456	**371,670**	73,541
Deposits received during the year	**652,454**	49,293	**823,343**	937,709
Interest paid during the year	**4,765**	3,883	**15,418**	15,532
Withdrawals during the year	**(511,204)**	(25,778)	**(592,432)**	(655,112)
At end of year	**192,869**	46,854	**617,999**	371,670

	2003	2002
(e) Directors emoluments:	**Shs'000**	Shs'000
-Fees	**10,500**	10,500
-Others	**7,026**	6,856
	17,526	17,356

All transactions with related parties were at arms length and at terms and conditions similar to those offered to other major customers.

32. COUNTRY OF INCORPORATION

The bank is incorporated in Kenya under the Companies Act and is domiciled in Kenya.

33. CURRENCY

The financial statements are presented to the nearest thousand Kenya Shillings (Shs' 000)