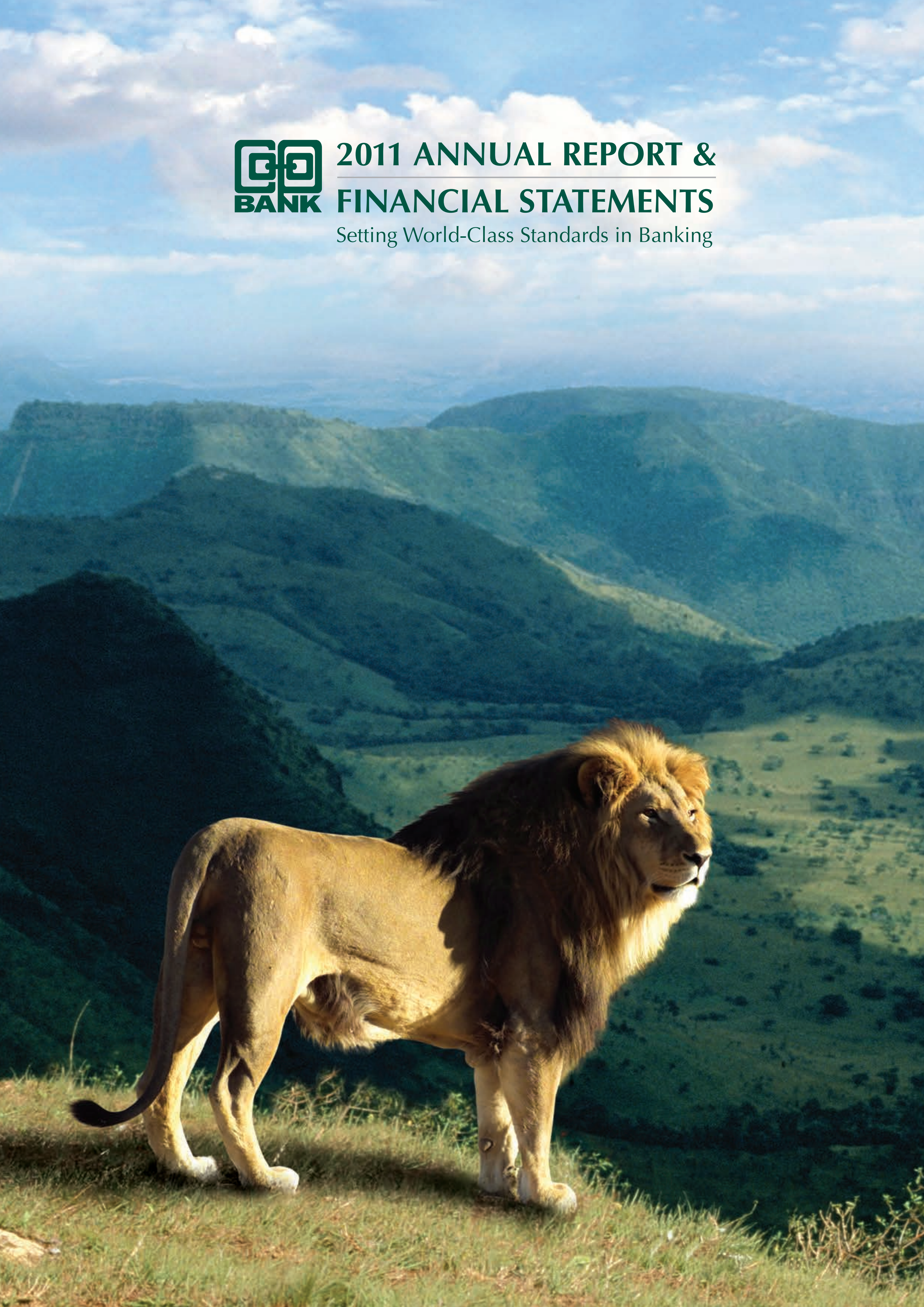
2011 ANNUAL REPORT & FINANCIAL STATEMENTS

Setting World-Class Standards in Banking



Asanteni sana...

For the second year in a row, The Co-operative Bank of Kenya has been awarded ***'Bank of the Year in Kenya'*** in the Global Bank Awards 2011 by The Financial Times of London.

Also in the year, Co-op Bank was recognized with ***'Best Company in Corporate Governance Award'*** at the annual Financial Reporting (FiRe) Awards.

A big Thank You to all our customers and stakeholders for continuing to believe in the ***'Kingdom Bank'.***

Indeed, ***We are You!***

CONTENTS

REGISTERED OFFICE AND HEAD OFFICE

Co-operative Bank House,
L.R. No. 209/4290 (IR No. 27596)
Haile Selassie Avenue
P.O. Box 48231 - 00100
Tel: 020 3276000
NAIROBI

SUBSIDIARIES

Co-optrust Investment Services Ltd
P.O. Box 48231 - 00100
Tel: 020 3276000
NAIROBI

Co-op Consultancy & Insurance Agency Ltd
(formerly Co-operative Consultancy Services Kenya Ltd)
P.O. Box 48231 - 00100
Tel: 020 3276000
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Co-operative House Ltd
P.O. Box 48231 - 00100
Tel: 020 3276000
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Kingdom Securities Ltd
P.O. Box 48231 - 00100
Tel: 020 3276000
NAIROBI

COMPANY SECRETARY

Rosemary Majala Githaiga (Mrs)
Co-operative Bank House, Haile Selassie Avenue,
P.O. Box 48231 – 00100,
NAIROBI

SHARES REGISTRAR

The Co-operative Bank of Kenya Limited
Shares Registry Services,
Co-operative Bank House, Haile Selassie Avenue,
P.O. Box 48231 – 00100
NAIROBI

LAWYERS

Various
A list is available at the Bank

AUDITOR

Ernst & Young
Kenya-Re Towers, Upper-hill
Off Ragati Road
P.O. Box 44286 - 00100
NAIROBI

Kenya Launches UN International Year of Cooperatives 2012

H.E. President Mwai Kibaki arrives at the KICC Grounds to preside over the launch of the UN International Year of Cooperatives 2012 and is received by the Minister for Co-operatives Development and Marketing Hon Joseph Nyagah (right) and the Vice President of the International Cooperatives Alliance and Group Chairman Co-op Bank Mr. Stanley Muchiri. The UN declared 2012 The International Year of Cooperatives with the theme ***Cooperative Enterprises Build a Better World*** to raise public awareness of the invaluable contributions of cooperative enterprises to poverty reduction, employment generation and social integration.

EIB-Co-op Bank Facility to Finance SMEs

European Investment Bank (EIB) Vice President Plutarchos Sakellaris and Co-op Bank Group CEO Dr. Gideon Muriuki exchange documents to mark the signing of two loan agreements between the two institutions. Co-op Bank secured a EUR 50 Million under EIB's Private Enterprise Finance Facility III to co-finance the expansion, modernisation or start-up investment costs of SMEs, and an additional EUR 20 Million under IEB's East African Community Microfinance Facility to provide both local currency funding and technical assistance to SMEs.

MasterCard-Co-op Bank Deal to Expand Card Business

Co-op Bank Group CEO Dr. Gideon Muriuki and MasterCard Worldwide President for International Markets, Watt Macnee display a dummy Co-op Bank MasterCard soon after signing a partnership deal that grants the Bank mandate to issue MasterCard debit and credit cards.

Partnership Enables PSV Saccos to Upgrade their Fleets

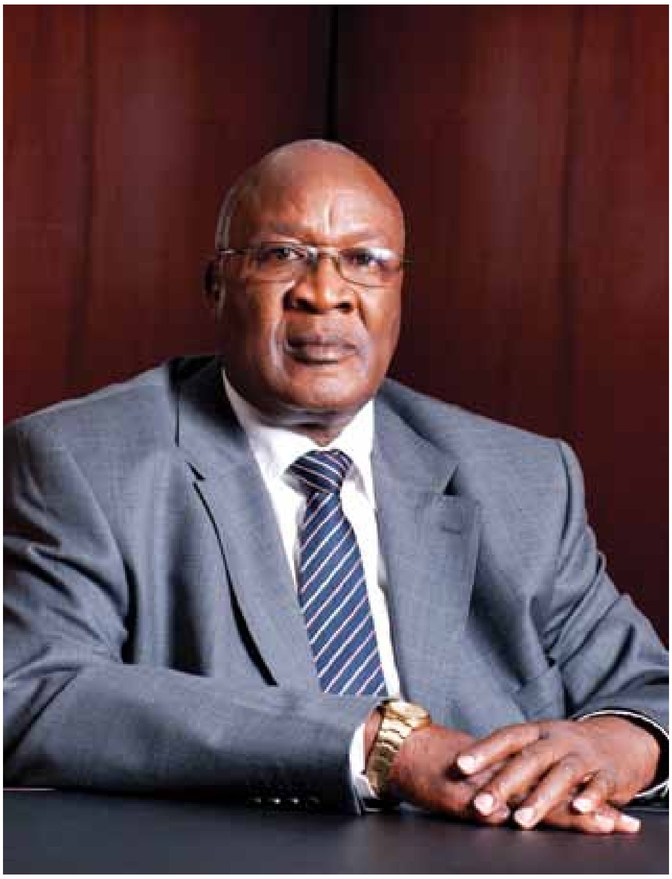
Minister for Co-operatives Development and Marketing Hon. Joseph Nyagah (second left) together with Co-op Bank Director of Co-operatives Banking, Catherine Munyiri (left), General Motors East Africa Managing Director Rita Kavashe (centre), Managing Director Thika Motor Dealers George Wambugu (second right) and Chania Travellers Sacco Chairman Joseph Mbugua (right) flag off the brand new fleet of buses acquired by Chania Travellers Sacco with financing from Co-op Bank in partnership with the three institutions. Co-op Bank is providing financing to enable PSV Saccos and transport companies to upgrade their fleets to higher capacity buses.

AFD-Co-op Bank Partnership to Finance Renewable Energy Projects

Agence Française de Development (AFD) Director for East Africa Regional Office Yves Terracol (left) and Co-op Bank Group CEO Dr. Gideon Muriuki exchange documents after signing an MoU for a Kshs 3.9 billion AFD line of credit to finance clean energy projects in Kenya. Co-op Bank will apply the funds for onward lending to businesses that wish to invest in renewable energy projects. Looking on is French Ambassador to Kenya H.E Etienne de Poncins (centre).

Group Chairman's Statement

It is my pleasure to present to you the Annual Report and Audited Financial Statements of Co-operative Bank Group for the year ended December 31, 2011.



Economic and Business Environment

The year 2011 will be remembered as one of significant turbulence for the Kenyan economy. Coming on the heels of a remarkable recovery in 2010, the first half of the year showed robust performance but the rest of the year was marked by declines in key economic indicators.

Domestic inflation rose from 5.2% in January 2011 to 18.9% as at December 2011 mainly due to sustained rises in food costs and energy prices. At the same time, the local currency depreciated from Kshs 80 to the US dollar at the beginning of the year to a historic low of Kshs 107 to the US Dollar before recovering to Kshs 85 to the US Dollar at the close of the year. In response to these trends, the Monetary Policy Committee increased the Central Bank Rate (CBR) to 18% through a series of revisions particularly in the last quarter of the year. The CBR changes had a direct impact on short term interest rates as reflected in the 91 Day Treasury bill rate which rose from 2.36% in January 2011 to 18.95% at the end of December 2011.

The productive sectors of the economy realized mixed performance during the year with manufacturing in particular being heavily impacted by rising energy costs and increasing cost of imported inputs against a backdrop of declining purchasing power. The Construction sector was relatively strong mainly due to the effect of the ongoing infrastructure upgrade projects and the continued development of housing units. Other sectors such as agriculture, trade and telecommunications were largely flat during the year.

The net effect of these economic outcomes was a decline in GDP growth rate from 5.6% in 2010 to 4.3% (estimated) in 2011.

Banking Sector Developments

The banking sector continued to exhibit resilience in the face of a challenging operating environment. In response to the Central Bank Rate increase, banks adjusted their base rates upwards in the third and fourth quarters of the year to levels above 20%, which were last seen in the early 2000s. The Co-operative Bank undertook to cushion its existing customers from the rate increases for as long as possible before finally adjusting the rates in line with market conditions in the fourth quarter. Owing to the high rates, the banks through Kenya Banker's Association undertook to ease the burden to the customers by extending loan tenures among other raft of measures.

The Banking Sector continued to be driven by innovations such as mobile banking, internet banking and agency banking which offer exciting new channels for serving customers and extending outreach to the Kenyan population.

Sector players continued to grow as the benefits of branch expansions undertaken in 2010 and early 2011 began to bear fruit. The confidence to invest in expanding branch and ATM networks was rewarded with strong earnings driven by commission based revenues as the number of customers continued to grow across the industry.

Bank's Performance

In the Financial Year ended December 31, 2011, the bank recorded good performance and an improvement on the previous year's financial results. The bank reported a good Profit before Tax of KShs 6.36 billion for the year ended December 31, 2011. This represented a remarkable 10.2% increase in profits before tax compared to KShs 5.77 billion recorded in the year 2010.

In line with the new constitution, we performed a strategic positioning of our outlets and realised the need for additional 42 branches/outlets. 7 were opened during the year 2011 and the rest are on course to be opened in 2012. The expansions target strategic locations based on their profiles and business potential from our chosen market segments. We grew our customer base to 2.3 million customers from 1.6 million representing 44% growth. During the year, the bank increased its shareholding in

CIC Insurance Group Limited to 26.5% continuing to be the single largest shareholder. Our subsidiaries, Co-op Trust Investment Services Ltd, now the largest locally owned fund management company, Kingdom Securities Ltd, our stock broking subsidiary also contributed to the group profitability. The establishment of Co-operative Bank of Southern Sudan as a joint venture has already been approved by the Government of South Sudan and discussions on the shareholding structure and roll out are at final stages.

Your Bank continues to be feted globally and for the 2nd year in a row, we were awarded the ***'Bank of the Year in Kenya'*** in ***'The Banker Awards 2011'*** by the Financial Times of London. This is a coveted annual International award which recognizes exceptional performance by financial institutions in each country, worldwide. The Bank received the Bankers Global Award on the basis of its sound management policies, strong business performance and a demonstrated commitment to customer satisfaction, in the face of increased competition in the banking industry. Locally, the Bank was the overall FiRe Award winner in the special category of Corporate Governance, demonstrating our commitment to sound corporate governance practices and excellence in financial reporting.

Dividend

In view of the bank's good performance, the Board of Directors is recommending retention of the same dividend paid in 2010 of 40 cents per share. This is in line with our balance sheet growth strategy.

The Board has also recommended approval of a bonus share issue of one (1) share for every five (5) ordinary shares held subject to approval by the regulators.

Corporate Social Responsibility

The Bank has continued to play its corporate social responsibility role through various activities. The Co-operative Bank Foundation targets bright but needy students and is now paying full secondary school fees for over 1,400 students and 28 students in the Universities. The top students are selected from all over the country.

The Foundation will with effect from this year be paying University fees for an additional 28 top students making a total of 56 sponsored in the university. The students sponsored through University are chosen from a pool of secondary sponsored students who perform exemplary well.

The University graduates have a chance of being absorbed by the Group upon completion of their studies.

In doing this, the bank has recognized the needs of the wider society making the lives of many Kenyans meaningful & contributing to economic growth.

Future Outlook

The Co-operative Bank is well positioned to grow and thrive in the economic turbulence that is expected to manifest itself over the medium term as the world grapples with the effects of the economic crisis in the Euro zone and the political unrest in the Middle East that threatens to affect oil prices.

We expect to see increased competition in all market segments but we look forward to growing our market share robustly in the coming years.

We will thus utilize our financial resources to continue investing in the country and the region, innovate more products, and offer excellent customer service to position our bank for sustainable growth and profitability.

Our strong partnership with the Co-operative movement will continue to be our mainstay as we invest in continuously improving our services to the Kenyan people.

Acknowledgement

On behalf of the Board of Directors, I wish to recognize and extend my sincere appreciation to our esteemed customers who have chosen to bank with us and supported us over the years. I also would like to appreciate our other business partners and service providers who worked with us during the year to attain our objectives.

I also sincerely thank the management and staff of the bank for their dedicated service and achievements in implementing successful strategies in an extremely challenging and competitive banking environment during the year. I also thank my fellow Board Members for their support, diligence and commitment as we work towards achieving the bank's objectives of realizing full potential.

To our shareholders, we are sincerely grateful for supporting the bank's initiatives in realizing its full potential through sustainable growth. I am confident that with continued focus, the great efforts will yield even higher returns on our investment in the years to come.

Finally, I want to recognize and thank the Kenya Government and our regulators, the Central Bank of Kenya, Capital Markets Authority, Nairobi Securities Exchange and Retirement Benefits Authority for providing an enabling business environment and for their co-operation and guidance during the year.

Stanley C. Muchiri, EBS
Group Chairman

Taarifa ya Mwenyekiti

Nina furaha kuu kuwasilisha kwenu taarifa ya kila mwaka na hesabu ya fedha iliyokaguliwa ya kundi la Benki ya Co-operative katika kipindi kilichomalizika tarehe 31, Disemba 2011.

Uchumi na Mazingira ya Biashara

Mwaka 2011 utakumbukwa kuwa mwaka wenye changamoto si haba kwa uchumi wa nchi hii.

Ikizingatiwa ukuaji ulioshuhudiwa mwaka 2010, robo ya kwanza ya mwaka 2011 iliandikisha ukuaji madhubuti, lakini kipindi cha mwaka kilichosalia kikaonyesha ishara za kufifia kwa shughuli katika sekta muhimu za uchumi.

Gharama ya maisha ilipanda kutoka asilimia 5.2 mwezi Januari mwaka 2010 hadi asilimia 18.9 mnamo mwezi Disemba mwaka 2011, hii ni kutokana na mfumko wa bei ya chakula na kawi. Katika kipindi hicho hicho, thamani ya Shilingi ya Kenya dhidi ya dola ya Marekani pia ilipungua kutoka Shilingi 80 kwa dola moja mwanzoni mwa mwaka, hadi kiwango cha chini zaidi katika historia cha Shilingi 105 kwa dola moja, kabla ya kuimarika tena na kufika shilingi 85 kwa dola moja kufikia mwisho wa mwaka.

Na ili kudhibiti hali hiyo, kamati ya sera za fedha ya Benki Kuu iliongeza kiwango cha riba ya mikopo kwa benki za biashara hadi asilimia 18, hii ni baada ya tathmin kadhaa, hasa robo ya mwisho ya mwaka. Mabadiliko haya ya benki yaliathiri pakubwa viwango vya riba vya muda mfupi, kama ilivyobainika kupitia hati za dhamana za siku 91, ambazo kiwango chake cha riba kiliongezeka kutoka asilimia 2.36 mwezi Januari mwaka 2011, hadi asilimia 18.95 mwezi Disemba mwaka 2011.

Katika kipindi hicho, sekta muhimu za uchumi zilinakili matokeo mseto ya biashara, huku sekta ya utengenezaji wa bidhaa ikiathirika pakubwa kutokana na gharama ghali ya nguvu za umeme, na bei iliyoendelea kupanda ya pembejeo zinazoagizwa kutoka nje, ikizingatiwa thamani iliyopungua ya sarafu ya Kenya.

Sekta ya ujenzi hata hivyo iliendelea kunawiri kutokana na miradi mingi inayotekelezwa ya upanuzi wa miundo msingi, pamoja ujenzi wa nyumba. Sekta nyingine kama vile kilimo, biashara na mawasiliano ya simu hata hivyo hazikushuhudia mabadiliko makubwa.

Hali hizi za kiuchumi zilisababisha kupungua kwa kiwango cha ukuaji wa uchumi kutoka asilimia 5.6 mnamo mwaka 2010 hadi asilimia 4.3 (makisio) mnamo mwaka 2011.

Matukio Katika Sekta ya Benki

Sekta ya benki iliendelea kuonyesha ukakamavu katika kipindi hicho, licha ya changamoto zinazohusiana na mazingira ya biashara. Katika kukabiliana na hatua ya benki kuu ya kuongeza kiwango cha riba kwa benki za biashara, benki za biashara pia zililazimika kuongeza viwango vyake vya riba, katika robo ya tatu na nne mwaka huo, hadi zaidi ya asilimia 20, viwango vya juu vilivyoshuhudiwa hapa nchini kwa mara ya mwisho mapema miaka ya 2000. Benki ya Co-operative hata hivyo iliamua kuwakinga wateja wake dhidi ya athari ya viwango hivyo vya juu vya riba kadri ilivyoweza. Hata hivyo benki hii sawia na benki nyingine za biashara pia ililazimika kuongeza kiwango chake cha riba, katika robo ya nne ya mwaka huu, kufuatia hali iliyojiri katika sekta ya benki hapa nchini kwa jumla.

Licha ya changamoto hizo, sekta ya benki iliendelea kushuhudia msisimuko mkubwa kutokana na uvumbuzi wa huduma badala ya benki, kama vile huduma za benki kupitia simu za rununu (Mobile Banking) na maajenti (Agency Banking), huduma ambazo zimeiwezesha sekta ya benki kuwafikia Wakenya wengi zaidi.

Wadau wengine pia waliendelea kunufaika na ukuaji huo, huku manufaa ya mpango wa upanuzi wa matawi yetu na mitambo ya ATM yakianza kuonekana. Uamuzi wa benki wa kuwekeza zaidi katika upanuzi wa matawi na mitambo ya ATM, umechangia kuongezeka kwa mapato yanayotokana na ada za huduma, huku idadi ya wateja wetu ikiendelea kuongezeka kote nchini.

Matokeo ya Kibiashara

Katika kipindi cha fedha kilichomalizika tarehe 31, Disemba 2011, benki yetu iliandikisha matokeo bora ya biashara ikilinganishwa na mwaka uliotangulia. Benki yetu ilipata faida ya Shilingi bilioni 6.36 kabla ya kulipa ushuru kwa kipindi kilichomalizika tarehe 31, Disemba 2011. Hii ni nyongeza ya faida ya asilimia 10.2 kabla ya kulipa ushuru, ikilinganishwa na shilingi bilioni 5.77 ambazo benki hii ilipata katika mwaka wa 2010.

Kuambatana na katiba mpya, tulifanya utafiti kuhusu utendakazi wa matawi yetu, na ikabainika kuwa tunahitaji matawi 42 zaidi. Matawi 7 yalifunguliwa mwaka 2011, na mengine yanatarajiwa kufunguliwa mwaka huu wa 2012. Upanuzi huo unalenga maeneo fulani, kwa kuzingatia mahitaji ya huduma za benki katika maeneo hayo kuambatana na utafiti wetu. Idadi ya wateja wetu katika kipindi hicho pia iliongezeka kutoka million 1.6 hadi million 2.3, hii ikiwa nyongeza ya asilimia 44. Aidha umiliki wetu wa asilimia 26.57 katika kampuni ya C.I.C (K) Ltd, umechangia zaidi ya shilingi million 153.9 kwa faida yetu. Kampuni ya huduma za uwekezaji ya Co-op Trust Investment Services Ltd, ambayo kwa sasa ndiyo kampuni kubwa zaidi ya uwekezaji ya umiliki wa humu nchini, ilipata faida ya shilingi milioni 27 kabla ya kulipa ushuru katika kipindi kilichomalizika tarehe 31, Disemba 2011, huku kampuni yetu ya udalali wa hisa ya Kingdom Securities ikichangia shilingi milioni 13.5 kwa faida yetu. Ombi la kufungua benki ya Co-operative nchini Sudan

Kusini kwa pamoja na serikali ya nchi hiyo pia limeidhinisha, huku majadiliano kuhusu mfumo wa umiliki wa hisa na ufunguzi rasmi yakikaribia kukamilika.

Benki yenu imeendelea kutuzwa kimataifa, na kwa mwaka wa pili mfulizo, ilituzwa benki bora nchini Kenya, kwa tuzo la The Banker Awards 2011 na gazeti la Financial Times la Uingereza. Tuzo hilo tajika la kimatiafa, hutolewa kwa taasisi ya kifedha inayotoa huduma bora katika kila nchi, kote duniani. Benki yenu ilipokea tuzo hilo kwa sababu ya sera zake bora za usimamizi, uthabiti wake kibiashara na kujitolea kwake kuwaridhisha wateja, licha ya ushindani mkali katika sekta ya benki. Hapa nchini, benki yenu ilishinda tuzo la FiRe katika kitengo maalum cha uadilifu kwa usimamizi, hii ikiwa dhihirisho la uongozi bora, na ustadi wake katika utayarishaji na uwasilishaji taarifa za kifedha.

Mgao wa Faida

Kufuatia matokeo hayo bora ya biashara, halmashauri ya wakurugenzi wa benki yenu imependekeza mgao wa faida wa senti 40 kwa kila hisa, sawa na mwaka 2010. Hii ni kwa madhumuni ya kuiwezesha benki hii kudumisha mtaji thabiti wa kuiwezesha kuendeleza mipango yake ya upanuzi.

Halmashauri ya wakurugenzi pia imeidhinishwa kutolewa kwa hisa moja (1) ya ziada kwa kila hisa tano (5) za kawaida zinazomilikiwa, kutegemea idhini ya wadhibiti wa sekta ya benki.

Wajibu wetu kwa Jamii

Benki ya Co-operative imeendelea kutoa mchango mkubwa kwa maswala ya jamii kupitia njia tofuati. Benki hii kupitia kwa wakfu wake, huwasaidia wanafunzi waerevu kutoka familia zenye mahitaji, na imekuwa ikilipia karo kamili kwa zaidi wanafunzi 1,400 wa shule za upili, na wengine 28 katika vyuo vikuu vya hapa nchini na ng'ambo. Wanafunzi wanaopata ufadhili huu huchaguliwa kutoka pembe zote za nchi hii. Wakfu huo mwaka huu utawalipia karo wanafunzi wengine 28 wa vyuo vikuu, na hivyo kufikisha 56 idadi jumla ya wanafunzi wa vyuo vikuu wanaofaidika na msaada huo wa masomo. Wanafunzi wa vyuo vikuu wanaopokea msaada huo huchaguliwa kutoka kwa orodha ya wanafunzi wa shule za upili wanaofadhiliwa na wakf huo, wanaofanya vyema kwenye mtihani. Baadhi ya mahafili hubahatika kuajiriwa na kundi la benki ya Co-operative pindi wanapokamilisha masomo yao.

Benki hii inatilia maanani maslahi ya jamii nzima, na ndiyo sababu inachangia uboreshaji wa maisha ya usoni ya chipukizi hao.

Matarajio ya Baadaye

Benki ya Co-operative imejiwekea msingi thabiti wa kuiwezesha kustahimili changamoto za kiuchumi zinazotarajiwa kuchipuza huku dunia ikikabiliana na athari za matatizo ya kiuchumi yanayosakama mataifa ya Ulaya, na mzozo wa eneo la Mashariki ya Kati, ambao unaotishia kuathiri bei ya mafuta katika soko la kimataifa. Tunatarajia ushindani mkali katika vitengo vyote vya sekta ya benki, lakini tuna imani kupitia mikakati tulioiweka kwamba, benki yetu itaendelea kuimarika hata zaidi katika miaka ijayo.

Ushirikiano wetu thabiti na vyama vya ushirika pia umeendelea kuwa nguzo kwa shughuli zetu, hata tunapowekeza zaidi katika mipango ya kutuwezesha kutoa huduma bora kwa Wakenya.

Shukrani

Kwa niaba ya halmashauri ya wakurugenzi, natoa shukrani zangu za dhati kwa wateja wetu ambao wameendelea kutuunga mkono kwa kuweka pesa zao kwenye benki hii. Pia nawashukuru washirika wetu wa biashara na watoaji huduma wengine, waliofanya kazi nasi katika kipindi hicho na kutuwezesha kuafikia malengo yetu. Kadhalika nawashukuru wasimamizi na wafanyikazi wetu kwa bidii na ufanisi wao katika utekelezaji mikakati yetu, licha ya kufanya kazi katika mazingira yenye ushindani na changamoto za kila aina. Pia nawashukuru wanachama wenzangu wa halmashauri ya wakurugenzi kwa msaada na juhudi zao tunapokaza mwendo kuafikia malengo ya benki yetu.

Kwa wenyehisa wetu, tunawashukuru sana kwa kuunga mkono juhudi za benki yenu, na nina imani kuwa juhudi hizo zitaiwezesha benki hii kuafikia upeo mkubwa kibiashara na hata kunakili matokeo bora zaidi katika miaka ijayo.

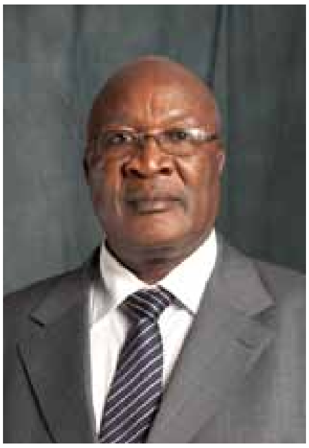
Hatimaye, ningependa kutambua na kuishukuru serikali ya Kenya na wadhibiti wetu, benki kuu ya Kenya, halmashauri ya kusimamia soko la hisa, soko la hisa la Nairobi na halmashauri ya kusimamia hazina za malipo ya uzeeni, kwa kuhakikisha kwamba kuna kuzingira bora ya kufanya biashara, ushirikiano na pia ushauri wao katika kipindi hicho.

Asanteni.

Stanley C. Muchiri, EBS
Mwenyekiti, Co-operative Bank

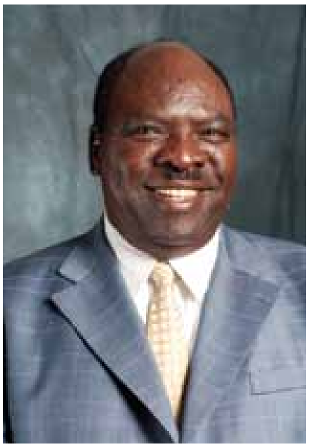
The Board of Directors

All directors are non-executive, except for the Group Managing Director who is executive.



Stanley C. Muchiri, (65), EBS, Group Chairman

Has served the Board as Director since 1986 and Chairman since 2002. He is the Chairman of Kingdom Securities Limited, Co-op trust Investment Services Limited and Co-op Consultancy & Insurance Agency Limited, all subsidiaries of the bank. He is also the Chairman of Co-op Holdings Co-operative Society Limited. Holds a Diploma in Co-operative Management from Turin, Italy, a Certificate in Co-operative Administration (CCA), and Banking course from the Co-operative College of Kenya. He has served Kenya's cooperative movement in various capacities for over 30 years. He is Chairman of the Co-operatives Alliance of Kenya (CAK), Vice-President of the International Cooperative Alliance (ICA) and President of the International Co-operative Alliance, Africa. He was decorated with the award of Elder of the Burning Spear (EBS) in the year 2005 for his outstanding service to the nation.



Julius Riungu, (63), Vice Chairman

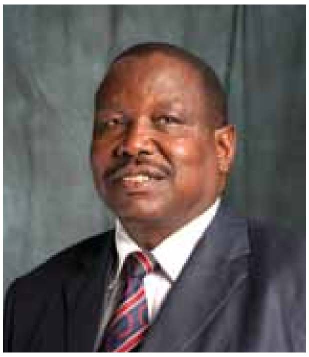
A businessman and leading educationist with over 20 years experience in the teaching profession. He has previously served as a Director in Coffee Board of Kenya and Coffee Research Foundation. He is Vice Chairman of Co-op Holdings Co-operative Society Limited and has served the co-operative movement in various capacities for over 15 years.

Dr. Gideon Muriuki, MBS, (47), Group Managing Director & CEO

Appointed Managing Director in 2001 and has presided over the Bank's turnaround from a massive loss position of KShs. 2.3 billion in the year 2001, to a profit before tax of KShs. 6.3 billion in 2011. Joined the Bank in 1996 as a Senior Corporate Manager then became Director, Corporate and Institutional Banking in 1999 before his appointment as Managing Director in 2001 with a clear mandate to return the Bank into profitable trading. Holds a Bachelor of Science degree in Mathematics, is a Fellow of the Kenya Institute of Bankers and was awarded an Honorary Doctorate in Business Management in year 2011. He has over 22 years experience in banking and finance.

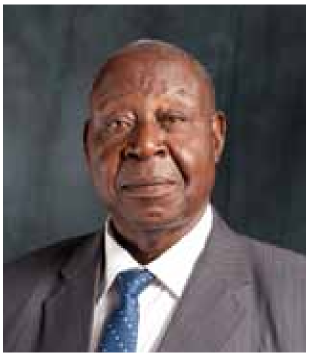
He is also the Managing Director of Co-optrust Investment Services Limited and Co-op Consultancy & Insurance Agency Limited – both subsidiaries of the Bank. He is a Director of Kingdom Securities Limited, Vice-President Africa – International Co-operative Banking Alliance (ICBA), and Chairman, Governing Council of the Africa International University.

He was decorated in 2005 with the award of Order of the Grand Warrior (OGW) and in 2011 with the award of The Moran of the Order of the Burning Spear (M.B.S) in recognition of his successful turnaround of the Bank and exemplary service to the nation. He is also a recipient of a decoration of Chevalier de L'orde National du Burkina Faso by the President of Burkina Faso in recognition of his outstanding contribution to development of rural finance in Africa.



Julius Sitienei, (57), Director

Joined in 2003. He is a business man and an educationist with over 20 years experience in the teaching profession before he took leadership positions in the management of co-operative societies. He is a Director of Co-op Holdings Co-operative Society Limited.

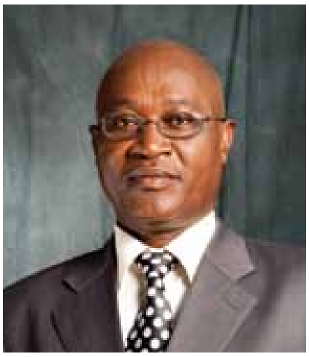


Major (Rtd) Gabriel J. S. Wakasyaka, (69), Director

Joined in 1998. He is a business man, having retired as a Major from the Kenya Army where he had a dedicated career majoring in supplies and logistics with diverse relevant international exposure. He is a Director of Co-op Holdings Co-operative Society Limited.

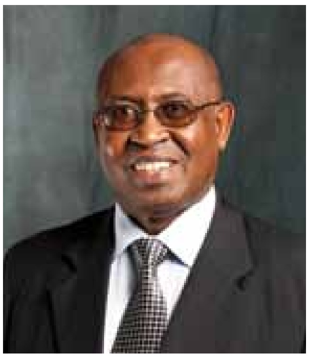
Macloud Malonza, (43), Director

Joined in 2005. Holds a Bachelor of Arts degree, a Masters in Organizational Change and Development, post-graduate Diploma in Management and Information Systems, Certificate in Strategic Planning and Management and CPS 1. He has served in various positions in the Civil Service and is Chairman of Harambee Co-operative Society Limited that serves employees of the various Government departments under the Office of the President.



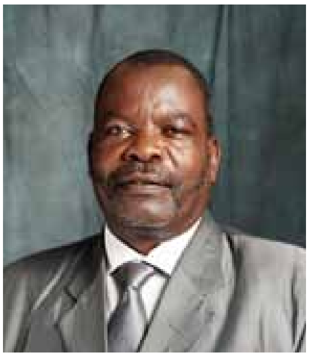
Richard L. Kimanthi, (55), Director

Joined in 1994. He is a businessman and has served in various leadership positions in the co-operative movement for a considerable period. He holds a Diploma in Co-operative Management. He is a Director of Co-op Holdings Co-operative Society Limited.



John K. Murugu, (61), (Representing Permanent Secretary, Treasury), Director

Joined in 2008 as an appointee representing the Government of Kenya's Permanent Secretary, Treasury. He has had over 25 years of banking experience at the Central Bank of Kenya Limited. He holds a Bachelor of Education degree and Masters of Arts in Economics. He is Director – Debt Management, Ministry of Finance. He has previously been an alternate director for the Permanent Secretary – Treasury, in Kenya Commercial Bank, Industrial Development Bank and at Jomo Kenyatta University of Agriculture and Technology.

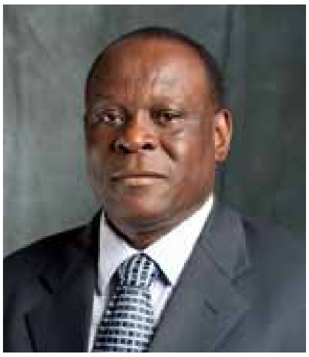


Wilfred Ongoro, (57), Director

Joined in 2006. He is an educationist with over 20 years experience and has served the co-operative movement in various positions. He is currently the Chairman of one of the largest Teachers Saccos in Kenya. He is a Director of Co-op Holdings Co-operative Society Limited.

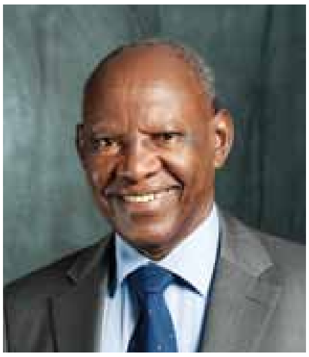
Rose Simani (Mrs), (53), Director

Joined on 29th May 2009. She is a Human Resource Consultant, and is currently the Managing Partner, Simcorp Human Resources Solutions. She over 28 years of broad experience in human resources management and previously served for 9 years as the Director of Human Resources at Housing Finance and also with British-American Tobacco (BAT) in senior positions in Manpower and Planning. She holds a Bachelor of Arts in Social Sciences and is undertaking a Masters in Human Resources. She is a Fellow Member of the Institute of Human Resources and is on the Governing Council of Africa International University.



Fredrick F. Odhiambo, (58), MBS, Commissioner for Co-operatives Development and Marketing, Director

Joined in 2005. He is the current Government of Kenya Commissioner for Co-operatives Development and Marketing. He was decorated with the award of Moran of the Burning Spear (MBS) in 2005 in recognition of his successful leadership that has translated to growth of the co-operative sector. He holds a Bachelor of Science degree. He is a Director in Kenya Union of Savings and Credit Co-operatives (KUSCCO), Co-op Holdings Co-operative Society Limited and Kenya Co-operative Coffee Exporters.



Donald K. Kibera, (64), Director

Joined in 2009. He is a former Government of Kenya Director of External Resources Department at the Ministry of Finance and served in various other capacities like Deputy Secretary Cabinet Office – Office of the President and Chairman of the National Youth Service Task Force. He holds a Bachelor of Arts Degree and is a consultant at the Ministry of Finance, is Chairman of the Financial Committee of the Humanitarian Fund for Mitigations of Effects and Resettlement of victims of Post-2008 election violence, and also Chairman of the Government Task Force on Transport Policy.

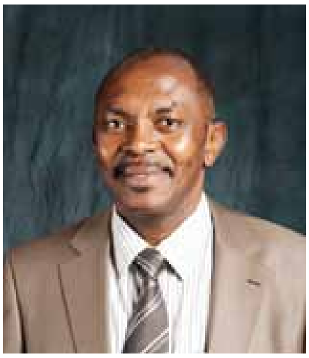
Rosemary Majala Githaiga (Mrs), (48), Company Secretary

Rosemary Majala Githaiga has over 23 years experience as a lawyer and prior to joining Co-op Bank in 1996, worked for Hamilton Harrison and Mathews Advocates. She is an Advocate of the High Court of Kenya, a member of the Institute of the Certified Public Secretaries (CPS) (K), an Associate Member of the Chartered Institute of Arbitrators. As the Company Secretary of the Co-op Bank Group, she has responsibility for overall provision of legal counsel and company secretarial services, fraud prevention and investigations, and information security. She is also the Trust Secretary for the Co-operative Bank Foundation, the corporate social responsibility vehicle of the bank. She is also a Director of CIC Insurance Group Limited.

Board of Directors of Subsidiary Companies

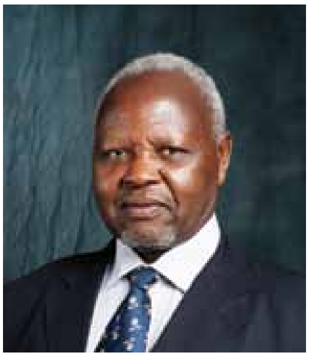
(Co-optrust Investment Services Limited and Co-op Consultancy & Insurance Agency Limited)

The Group Chairman, Stanley Muchiri, and the Group Managing Director & CEO, Dr. Gideon Muriuki, serve on the boards of the subsidiary companies. The other directors are:



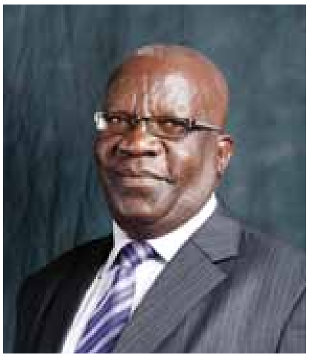
Dr. James M. Kahunyo, (57), Director

Joined the boards of the subsidiaries in 2009. He is a leading educationist and currently a Lecturer at the Kabete Campus of the University of Nairobi. He holds a Bachelor of Veterinary Medicine degree and a Master of Science degree, and is also involved in providing leadership at Chuna Co-operative Savings and Credit Society. He is a Director of Co-opholdings Cooperative Society Limited.



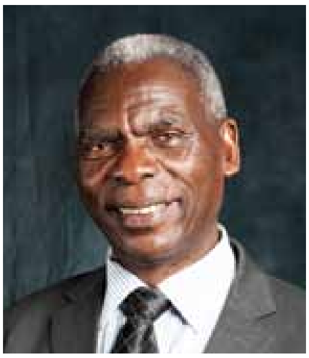
Elijah K. Mbogo, (68), Director

Joined the boards of the subsidiaries in 2009. He is a businessman having also had a career in accounting, and has vast experience is the management of co-operatives, particularly in Aembu Farmers Co-operative Society Limited. He has previously served as Director – Kenya Planters Cooperative Union Limited. He is a Director of Co-opholdings Cooperative Society Limited.



Patrick K. Githendu, (58), Director

Joined the board of Co-optrust Investment Services Limited in 1998 and Co-op Consultancy & Insurance Agency Limited in 2009. He is a businessman, with vast experience particularly in the coffee industry. He is a Director of Co-opholdings Cooperative Society Limited.

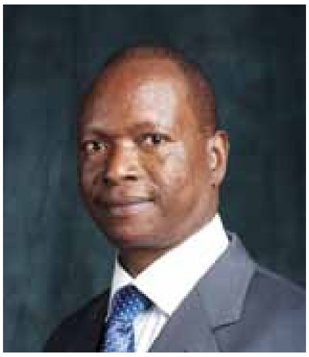


Cyrus N. Kabira, (69), Director

Joined the board of Co-operative Consultancy Services in 2005 and the board of Co-optrust Investment Services in 2009. He is a business man and has served as Chairman of Bingwa Sacco (Kirinyaga Tea Sacco), - the first Sacco to start a FOSA in Central Province - for over 20 years. He has been a Director of Kenya Tea Development Authority (KTDA). He is a Director of Co-opholdings Cooperative Society Limited.

Scholastica Odhiambo (Mrs), (51), Director

Joined the boards of the subsidiaries in 2009. She continues to work with the Kenya Revenue Authority as a Revenue Officer, where she has served for over 10 years. She holds a Bachelor of Business Administration and is currently undertaking a diploma course on Corporate Governance offered by the KCA University. She is a Director of Co-opholdings Cooperative Society Limited.



Godfrey Mburia, (55), Director

Joined the boards of the subsidiaries in 2004. He is an Accountant by profession and served as Head of Finance, Meru Central Farmers Union. He is a Director of Co-opholdings Cooperative Society Limited.

Induction for the Pioneer Beneficiaries of Co-op Bank Foundation University Scholarships

The Co-op Bank Foundation has expanded the Scholarship Program to cover university education for the best performers from among the secondary school scholarship beneficiaries. From the pioneer scholarship class who joined Form One in 2007, the Foundation selected the top 28 performers when they completed Form Four in 2010, and awarded them full university scholarships.

The 28 can be seen in this photo during their induction at the bank's Management Training Centre, which was followed by an internship with the bank. Co-op Bank Group CEO Dr. Gideon Muriuki (seated, centre), Co-op Bank Foundation Trustee Rosemary Githaiga (seated to the CEO's left) and Director Human Resources Weda Welton (standing, right), among other bank staff facilitated the induction program.


Do your banking hapo tu kwa jirani.
The Co-operative Bank has partnered with businesses to bring banking services to your neighbourhood through Co-op Kwa Jirani - our agency banking service. You can now make cash deposits & withdrawals, pay school fees and utility bills, apply for a loan plus much more closer to home. All you need to transact is your Co-op Cash or Sacco Link card. Co-op Kwa Jirani. Karibu wakati wowote!
JIRANI
OFFICIAL CO-OPERATIVE BANK AGENT
SPECIMEN
Coop Cash
For more information, call our Contact Center on 020 277 6000, 0703 027 000, 0736 690 101, SMS 2020 or email us at customerservice@co-opbank.co.ke.

Group Managing Director & CEO's Report

Introduction

The year 2011 was characterized by a difficult macro-economic environment especially second half of the year with Kenya's economic growth declining to an estimated 4.3% compared to 5.6% in 2010. The reaction by the regulator was thus to increase the Central Bank Rate (CBR) to 18% to control inflation and weakening of the Kenya Shilling. Owing to the high interest rate regime the interest rates on loan products subsequently went up across the banking industry.

Despite the hard economic times the bank repositioned itself for future growth and aligned to the county government structure increasing the branch network to 100 branches and 426 ATM locations. Under the Agency Banking Model 1800 Agents were operationalised in the year and we continue with the roll out.

Financial Performance

I am pleased to report to you that the bank made a good profit before tax of Kshs 6.36 billion for the year ended 31st December 2011. Whereas the growth for the first half of the year was higher, the second half of the year was slower owing to inflation, weakening of the Kenya shilling and eventual tightening of the monetary policy by Central Bank of Kenya (CBK). Profit before tax however continued on an upward trend registering a 10.2% growth from Kshs 5.77billion in year 2010. Our growth was mainly underpinned by the strong balance sheet as supported by growth in deposit liabilities, loans and the customer base.

During the year, our customer deposits grew from Kshs. 123 billion to Kshs. 142.6 billion, a 15% growth. The growth was as a result of an increase in the number of accounts to over 2.3 million as we confined focus on increasing financial access to the majority of Kenyans.

Loan and advances registered a 26% growth from Kshs 86.6 billion in 2010 to Kshs 109.4 billion in 2011. This was as a result of extensive marketing, prudent credit risk management and an efficient loan processing system. Given the constrained economic activity due to inflation, the bank continued to enforce strict credit risk management policies and also made adequate provisions for bad and doubtful debts.

Our Total Operating Income increased from Kshs. 15.67 billion to Kshs. 18.34 billion a 17 % growth mainly backed by commission income. Interest income grew by 29% to Kshs 11.89 billion up from Kshs 9.19 billion in 2010. Our fees and commissions increased by over Kshs.2 billion from Kshs 5.6 billion in 2010 to Kshs 7.60 billion in 2011. The good performance is attributable to the mobile banking commissions, forex commissions, newly implemented auto banking centres, Co-op Kwa Jirani agents and the additional offsite ATMs.

Total operating expenses increased by a modest 24% to Kshs 11.42 billion. We invested in our distribution network that saw us open seven new branches and refurbish existing ones. We also invested in new products and staff development that saw our staff numbers increase by 15%.

The bank continues to strengthen its supermarket model by providing insurance services in addition to fund management and stock brokerage services. Co-op Trust Investment Services Ltd, the largest locally owned fund management company made a profit before tax of Kshs 38.9 million in 2011. Kingdom Securities Ltd registered a profit before tax of 20.2 million while our investment in CIC Insurance Group Ltd. contributed over Kshs 153.9 million to our profits. We thus continue to provide a diversified investment portfolio to our shareholders.

Our continued improved performance is thus a clear indication of our commitment to increase shareholders return. The board of directors is thus recommending a dividend of 40 cents per share and a bonus share issue of one (1) share for every five (5) ordinary shares held subject to approval by the regulators and the shareholders.

Business Development

Since inception, the cooperative movement has been our core customer base. It is our firm belief that the cooperatives are a strategic vehicle for sustainable delivery of banking services to the vast majority. We thus continue to provide corporate finance capacity support through our subsidiary Cooperative Consultancy and Insurance Agency Limited (CCIA) with an aim of increasing the number of Sacco FOSAs. Currently, over 418 FOSAs are operational enabling us to provide retail banking services to over 8 million Co-operative movement members thus increasing our financial deepening. The bank also continues to share its extensive ATM network with the Co-operative movement through the SaccoLink facility. SACCO members are able to access cash through our ATMs and pay for goods and services at VISA branded outlets.

Using CCIA and in partnership with CIC Insurance Group Limited we are offering Banc-assurance in all our branch outlets. This is expected to increase commission incomes significantly.

To grow our transaction based income, we launched the most aggressive agency banking platform "Co-op Kwa Jirani". Its aim was to ensure we take our banking services closer to the people. It entails cash deposit taking, cash withdrawals, school fees payments, utility payments, balance enquiry, mini statements and other banking services. Co-op Kwa Jirani agents can be used by all Co-op bank customers and SaccoLink members.

During the year we successfully recruited and obtained approval from Central Bank of Kenya for over 2400 agents and over 1800 were operational by the end of 2011. The agency banking POS platform has been superbly received in the market recording significant number of transactions per day. We target continued investment in the Agents to increase penetration to the wider Kenyan population.

In line with the constitution, we also performed a strategic positioning of our outlets and realized a need for additional 42 branches. Seven of these branches were opened in 2011 and the rest will be opened in the current year. We also further enhanced our service delivery to customers by expanding our ATM outlets to 426 service points. The expansion targets strategic locations based on their profiles and business potential. Implementation of the county banking structure will ensure the bank sustains its growth momentum by offering increased and efficient financial services through country wide presence.

We remain focused on doing business in the region by expanding operations in Uganda, Tanzania and Southern Sudan. Our regional expansion is on course with the establishment of the Co-operative Bank of Southern Sudan as a joint venture with the Southern Sudan Co-operative movement already approved by the Government. Final discussions are underway on the shareholding structure and roll out.

Human capital

At Co-operative Bank we value human capital. We consider investment in our people a key competitive edge.

We are committed to the development of staff through local and overseas training, leadership building and skills enrichment. We have e-learning which facilitates self learning by bringing information to the office desk. We also undertake induction for new staff and on job training at the Cooperative Bank Management Centre in Karen.

Our bank also encourages employees to design their own careers through an in house recruitment system whereby vacancies are advertised for application on a voluntary basis. Our staffs are also encouraged to commit themselves to lifelong learning in both their professional and personal endeavours. Towards this objective the bank offers interest free loans to employees for use in their preferred learning or certification program. Training remains a key target for each staff member.

In line with best practices the bank continues to use performance measurement systems that stimulate superior performance and reward high achievers for their contribution.

In Conclusion

Despite the challenging economic times in 2011, the bank recorded impressive results and we are confident of better performance in the year 2012.

I take this opportunity to thank all staff for their commitment, dedication and support particularly their service to our customers.

I sincerely thank the Group Chairman, Mr. S. C. Muchiri and the Board of Directors for the oversight and guidance they have given to the bank. I commend their commitment, support and contribution to the long term growth of the Kingdom Bank.

I also wish to express my deep gratitude to our customers and business partners for their unwavering support in the year 2011. We look forward to continuing to serve and work with you in the year 2012.

Thank you and may God richly bless you all.

Dr. Gideon Muriuki, MBS
Group Managing Director & CEO

Taarifa ya Mkurugenzi Mkuu

Matokeo ya Kifedha

Nafurahi kutangaza kwamba, kufikia tarehe 31 Disemba 2011 biashara yetu kama benki ilikuwa imetupatia faida ya shilingi bilioni 6 nukta 36, kabla ya kukatwa ushuru. Hadi mwisho wa Juni 2011, faida hii ilikuwa tayari imefikia kiwango cha kutia moyo cha shilingi bilioni 4 nukta 2, lakini kutoka Julai hadi mwisho wa mwaka jana kuliibuka changamoto nyingi za kifedha ambazo zilikuwa ni pamoja na ongezeko la bei za bidhaa, shilingi ya Kenya kupoteza thamani yake na hatua za dharura zilizochukuliwa na Benki Kuu kuhakikisha uchumi hautaporomoka. Changamoto hizi kwa pamoja ndizo zilipunguza kasi ya ukuaji wa faida hii. Hata hivyo faida yetu ya mwaka 2011, kabla ya kukatwa ushuru, iliongezeka kwa kiasi cha asili mia 10 na nukta 2 ukilinganisha na faida ya shilingi bilioni 5 na nukta 77 ambayo tulipata mwaka wa 2010.

Ongezeko letu la faida limechangiwa na malipo ya mikopo na idadi kubwa wa wateja.

Mikopo ya aina zote iliongezeka kwa kiwango cha asili mia 26 kutoka shilingi bilioni 86 nukta 6 mwaka wa 2010 na kufikia shilingi bilioni 109 nukta 4 mwisho wa mwaka wa 2011 kwa sababu ya uuzaji mzuri wa huduma zetu na uangalifu mwingi katika utoaji na usimamizi wa mikopo. Kutokana na hali mbaya ya uchumi ambayo ililetwa na ongezeko la bei za bidhaa, benki yetu ilichukua hatua zinazofaa ili kupunguza kabisa azari za mikopo kutolipwa na kuona kwamba kumewekwa mikakati ya kushughulikia madeni ambayo yalikuwa yamefikia kiwango cha shilingi milioni 710 mwisho wa mwaka wa 2011 na ambayo yalikuwa na dalili zote za kutoweza kulipika.

Ingawa kupata pesa kulikuwa na gharama zake kubwa, hata hivyo kiwango wateja wetu walichoweka kwa benki yetu kiliongezeka kwa asili mia 15 kutoka shilingi bilioni 123 mwaka wa 2010 hadi shilingi bilioni 142 nukta 6 mwaka wa 2011. Hii ilitokana na ongezeko la idadi ya wateja na mikakati ya serikali na benki yenyewe ya kuhakikisha ukuaji huu uliwezekana hata katika hali mbaya ya kiuchumi.

Mwaka wote wa 2011 tulikuwa tumeendelea na harakati zetu ambazo zililenga kuongeza idadi ya wateja. Harakati hizi, ambazo pia zilihusisha wafanyi kazi wetu, ziliwezesha idadi ya wateja wetu kuongezeka kutoka milioni 1 nukta 6 hadi milioni 2 nukta 3. Ongezeko hili la wateja ziliifanya benki kupata pesa zaidi katika kuishughulikia idadi hii kubwa ya wateja.

Shughuli zetu za kuwahudumia wateja ziliongezeka sana mwaka wa 2011. Hii iliimarisha pato letu la pesa kotoka kwa faida na malipo ya wateja kwa huduma nyingi walizopokea. Faida kutoka kwa riba ilongezeka kwa asili mia 29 na kufikia shilingi bilioni 11 nukta 89 kutoka shilingi bilioni 9 nukta 19 mwaka wa 2010. Malipo kutoka kwa huduma zingine yaliongezeka kwa kiwango cha asili mia 32, kutoka shilingi bilioni 5 nukta 01 mwaka wa 2010 hadi shilingi bilioni 6 nukta 60 mwaka wa 2011. Kazi hii nzuri ilitokana na uanzilishi wa vituo vipya vinavyomwezesha mteja kujipatia huduma za benki yeye mwenyewe, huduma ya Co-op Kwa Jirani na ya ATM ambayo yamewekwa katika sehemu ambazo si za kawaida kuwa na ATM. Pato letu kutoka kwa shughuli zinazohusiana na pesa za kigeni liliongezeka kwa asili mia 63 kutoka shilingi milioni 620 mwaka wa 2010 hadi shilingi bilioni 1 nukta 01 mwaka wa 2011. Pato lote la benki yetu liliongezeka na kufikia shilingi bilioni 18 nukta 34 kutoka bilioni 15 nukta 67 mwaka wa 2010, sawa na ongezeko la asili mia 17.

Gharama zote za utenda kazi ziliongezeka kwa kiwango cha kadri tu cha asili mia 24 na kufikia shilingi bilioni 11 nukta 42. Tuliwekeza pesa katika uanzilishi wa matawi mapya 7 na katika ukukarabati wa yale yaliyoko. Tuliwekezea pia kwa huduma mpya kwa wateja na mafunzo na uajiri kwa wafanyi kazi. Wafanyi kazi waliongezeka kwa kiwango cha asili mia 15.

Benki imeendelea kuthibiti shughuli zake za ki-supermarket kwa kutoa bima pamoja na huduma za usimamizi wa fedha. Co-op Trust Investment Services Ltd, ni kampuni kubwa zaidi nchini inayomilikiwa na wenyeji na ambayo inatoa huduma za aina hiyo. Mwaka wa 2011 ilipata faida ya shilingi milioni 38 na nukta 9 kabla ya kukatwa ushuru. Kingdom Securities Ltd ilikuwa na faida ya shilingi milioni 20 nukta 2 kabla ya kukatwa ushuru. Nao mtaji wetu katika kampuni ya CIC Insurance Group Ltd ulitupatia mgao wa faida wa shilingi milioni 153 nukta 9. Hili ni thibitisho kwamba bado tunaendelea kuwapatia wanahisa wetu nafasi tofauti tofauti bora za kuwekezea.

Utenda kazi wetu unaondelea kuboreka wakati wote na ni dalili kubwa inayoonyesha kujitolea kwetu kuhakikisha wanahisa wanapata faida kubwa zaidi kwa hisa zao. Wakurugenzi wenu wamependekeza malipo ya senti 40 kwa kila hisa na bonus ya hisa 1 kwa kila hisa 5 ambazo tayari uko nazo. Pendekezo hili litategemea kukubaliwa na wanaosimamia soko la hisa na wenye hisa wenyewe.

Maendeleo ya Biashara

Tangu mwanzo, vyama vya ushirika na washirika wenyewe wamekuwa ndiyo ngome ya wateja wetu. Tunaamini kabisa kwamba vyama vya ushirika na washirika wao ni njia moja ya kudumu ambayo watu wengi wanaweza kupokea huduma za benki. Ndio sababu bado tunaendelea kutoa pesa kupitia kwa shirika letu la Cooperative Consultancy and Insurance Agency Ltd tukiwa na lengo la kuongeza idadi ya Sacco za FOSA. Mpaka sasa kuna FOSA 418 ambazo tayari zinafanya kazi na kutuwezesha kuwahudumia zaidi ya wanachama milioni 7 wa Sacco, jambo ambalo linaongezea kwa kiasi kikubwa pesa ambazo benki inapokea kutoka kwa huduma za aina hii. Benki pia inaruhusu wanachama wa SaccoLink kutumia mtandao wao wa ATM. Wanachama wa Sacco wana uwezo wa kutoa pesa kutoka kwa ATM hizi na kulipia ununuzi na huduma nyingine ambazo zinaruhusu matumizi ya kadi ya VISA. Mwaka wa 2011 tulipeana kadi za SaccoLink 420,000 na tunatarajia kutoa zingine 600,000 mwaka 2012.

Ili kuongezea pato letu linalotokana na huduma kwa wateja, tumeanzisha shughuli na kuwapelekea wateja huduma za benki karibu na nyumbani kupitia kwa ajenti wa Co-op Kwa Jirani. Huduma za ajenti ni pamoja na kutoa na kuweka pesa, kulipia karo, malipo ya maji na taa, kujulishwa baki ya pesa na kupewa stakabadhi fupi inayoonyesha hali ya akaunti kwa muda, na pia huduma zingine vile utakavyoshauriwa, Maajenti wote wa Co-op Kwa Jirani wanakubaliwa kuwahudumia wateja na pia wasio wateja wa Cooperative Bank, wateja wa MCU, SME na wanachama wa SaccoLink.

Mwaka jana tulichagua maajenti 2400 na wote wakaidhinishwa na Benki Kuu ya Kenya. Zaidi ya 1800 walikuwa tayari wanaendesha kazi kufikia mwisho wa mwaka wa 2011. Mfumo huu wa huduma za Ajenti umepokelewa vizuri na tayari maajenti wa Co-op Kwa Jirani wanashughulikia huduma 60,000 za aina hiyo kwa siku. Tumeweza pia kufungua vituo 30 ambako wateja wanaweza kujihudumia wenyewe kuweka pesa. Hii inawawezesha wateja wetu kupata huduma za benki wakati wo wote wa siku.

Kufuatana na katiba, tumetayarisha mpangilio mpya wa matawi yetu nchi nzima ambao unaonyesha mahitaji ya kuwa na matawi 42. Saba kati ya haya yalifunguliwa mwaka wa 2011 na mengine yatafunguliwa mwaka 2012. Tumepanua pia uwezo wetu wa kutoa huduma kwa wateja kwa kuongeza vituo vyetu vya ATM na hadi kufikia vituo 426. Vituo hivi viko katika sehemu ambazo zimechunguzwa na zinaonyesha zitapatia ATM hizi biashara ya kutosha. Serikali za Kaunti zikianza kufanya kazi, benki hii itahakikisha inadumisha kasi zake za kuzihudumia Kaunti zote nchi nzima kwa njia bora zaidi na haraka.

Bado tunalenga kupanua biashara katika eneo lote la Afrika Mashariki. Tumelenga Uganda, Tanzania na South Sudan. Malengo yetu ya kuanzisha biashara katika nchi hizi yanaendа vyema na tayari tumefungua Cooperative Bank of Southern Sudan kama mradi wa pamoja kati yetu na Southern Sudan Cooperative Movement. Serikali ya Southern Sudan imeidhinisha jambo hilo na majadiliano yanaendelea kuhusu vile hisa zitamilikiwa na ni lini kazi itaanza.

Watendakazi

Katika Co-op Bank, tunawachukulia wafanya kazi wetu kama kiwekezo cha thamani kubwa.

Tumejitolea kukuza talanta za wafanyi kazi wetu kwa kuwapatia nafasi za kujiendeleza kikazi na kibinafsi. Tumewapatia nafasi ya kuendeleza kisomo chao hapo hapo afisini zao kupitia kwa mtandao. Wafanyi kazi wapya huwa wanapelekwa Cooperative Management Centre Karen kwa mazoezi ya ki-kazi katika mazingira sawa na yale watakutana nayo wakianza kazi.

Co-op Bank pia huwa inawapa nafasi wafanya kazi kujichagulia aina ya kazi inayowafaa zaidi kwa kuwatangazia nafasi za kazi zinazotokea mara kwa mara. Wafanyi kazi pia wanashauriwa kuendeleza elimu yao wakati wote, kikazi au kibinafsi. Kuwasaidia wale ambao wameamua kuendeleza taaluma zao, Co-op Bank huwa inawapatia wafanyi kazi mikopo ambayo haina riba kulipia masomo hayo. Masomo ya kuongeza ujuzi ni lengo la kila mfanyi kazi wetu. Kulingana na inavyofanyika mahali pengi, Cooperative Bank hutumia njia za kisasa za kupima utenda kazi wa wafanyi kazi ili kuwatia motisha na wale shupavu kuzawadiwa kwa kazi yao nzuri.

Kwa Kutamatisha

Ingawa hali ya uchumi ilikuwa na changamoto nyingi mwaka wa 2011, tuliweza kupata faida ambayo inaridhisha na tunatarajia mwaka wa 2012 utakuwa mzuri zaidi.

Nachukua nafasi hii kuwashukuru wafanyi kazi wetu wote kwa kujitolea kazini na kwa kuwahudumia wateja wetu vyema.

Ningependa pia kuwashukuru kwa moyo wangu wote Wakurugenzi wetu kwa uongozi wao bora katika shughuli zetu zote. Nawapa heko kwa kujitolea na juhudi zao za kuikuza na kuidumisha Kingdom Bank.

Shukurani zangu pia nazitoa kwa wateja wetu wote na washiriki wetu kibiashara kwa kutuunga mkono vilivyo mwaka wa 2011. Tuna imani kwamba tutaendelea kufanya kazi pamoja mwaka wa 2012.

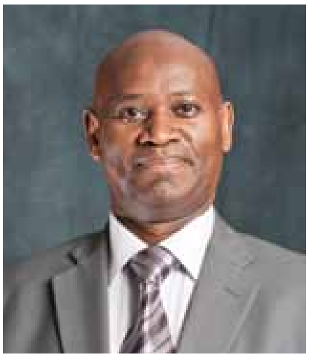
Asanteni na Mungu awabariki nyote

Dr. Gideon Muriuki, MBS
Mkurugenzi Mkuu

Board of Management

Dr. Gideon Muriuki, MBS, (47), Group Managing Director & CEO

Appointed Managing Director in 2001. Joined the bank in 1996 as a Senior Corporate Manager then Director, Corporate and Institutional Banking in 1999. Holds a Bachelor of Science degree in Mathematics, a Fellow of the Kenya Institute of Bankers and an Honorary Doctorate in Business Management. He has over 22 years experience in banking and finance. He is also the Managing Director of Co-optrust Investment Services Limited and Co-op Consultancy & Insurance Agency Limited – both subsidiaries of the Bank. He is a Director of Kingdom Securities Limited, Vice-President Africa – International Co-operative Banking Alliance (ICBA), and Chairman, Governing Council of the Africa International University.

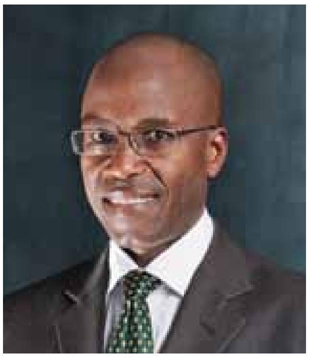


Zachary Chianda, (54), Director, Operations Division

A career banker with 31 years experience in banking and has worked in various senior positions in the Co-operative Bank of Kenya including Director Co-operatives Banking and Director Corporate & Institutional Banking He holds a Bachelor of Science Degree in Financial Services from the University of Manchester Science & Technology (UMIST) and is an Associate of Chartered Institute of Bankers (ACIB) of UK. He also holds a diploma in general management from Jutland Technology Institute Aarhus Denmark and a Certificate in bank management from Odense Business School, Odense, Denmark. He has served in other capacities in the Bank in the past including as a trustee of the Bank's Pension Fund.

Rosemary Majala Githaiga (Mrs), (48), Company Secretary

Rosemary Majala Githaiga has over 23 years experience as a lawyer and prior to joining Co-op Bank in 1996, worked for Hamilton Harrison and Mathews Advocates. She is an Advocate of the High Court of Kenya, a member of the Institute of the Certified Public Secretaries (CPS) (K), an Associate Member of the Chartered Institute of Arbitrators. As the Company Secretary of the Co-op Bank Group, she has responsibility for overall provision of legal counsel and company secretarial services, fraud prevention and investigations, and information security. She is also the Trust Secretary for the Co-operative Bank Foundation, the corporate social responsibility vehicle of the bank. She is also a Director of CIC Insurance Group Limited.

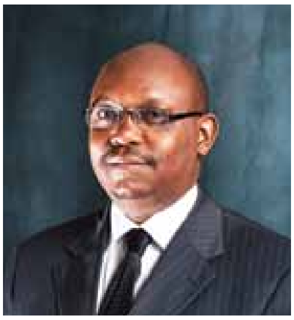


Samuel Birech, (48), Director, Retail Banking Division

Has extensive banking experience spanning over 20 years having joined the bank in 2002. He has spent his banking career in Retail Banking across several banks in the country. He holds a Bachelor of Commerce degree and has attended various local and international courses. He is a Board Member at Pan Africa Christian University.

Weda Welton, (54), Director, Human Resources Division

Has 29 years experience in Human Resource Management in the Banking and Financial Sectors. She holds a Bachelors degree in Sociology, a Diploma in International Law & Diplomacy and a Masters Degree in Human Resources Management & Development from Manchester University, UK. She is a member of the Human Resources Committee of Kenya Bankers Association and a member of IPM (K) as well as Kenya Institute of Management. She is also a Trustee of the Bank's Pension Fund.



Anthony Mburu, (46), Director, Credit Management

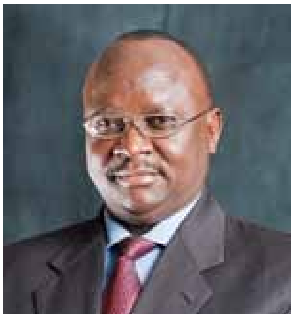
A career banker with over 20 years of banking experience both in Kenya and the region. Most of these years were spent in the line of Credit and Risk Management. He holds a Bachelors degree in Commerce and has attended various proprietary and international credit courses. He is also a Director of KCCE Limited.

Patrick Nyaga, (44), Director, Finance & Administration Division

Has over 20 years working experience mainly in auditing and banking. Previously served at KPMG (EA), with the main focus being audit of financial institutions mainly banks in Kenya and the region. He then joined main line banking where he has worked for over 10years. He holds an MBA from Strathmore Business School, a Bachelor of Commerce degree in Accounting, is a Certified Public Accountant (K) and a member of ICPAK. He is also a Director of CIC General Insurance Limited.

Catherine Munyiri, (48), Director, Co-operatives Division

Joined the bank in 2002 and is a Corporate Banker with a wide range of experience, having worked in several banks in the industry and region. She holds a Bachelor of Business Education degree and has attended various local and international courses.



Willis Osir, (51), Director, Special Projects

Has served the bank for over ten (10) years and holds a Bachelors degree in Financial Services, is an Associate of the Chartered Institute of Bankers, and holds a Diploma in Mortgage Lending from the same institute. Prior to joining the bank, he held senior positions in both local and international banks in Kenya for over fifteen (15) years.

Tom Kariuki, (39), Director, Corporate & Institutional Banking Division

Joined the bank in 2002 and has over 15 years of banking experience, mostly spent in Corporate Banking, Trade Finance and Treasury Management. Holds a Bachelor of Science degree and an MBA (Finance) from the United States International University - Africa. He is a certified ACI professional.

Geoffrey Odundo, (43), Managing Director, Kingdom Securities Ltd

Has been with the bank for over thirteen (13) years and oversaw the transformation of Co-optrust Investment Services Ltd and Co-op Consultancy Services Ltd into leading asset management and financial advisory companies respectively. He holds a Bachelors degree in Mathematics and Economics and a Masters in Business Administration (Strategic Management). Previously he was a Senior Manager at British American Insurance Company. He is a Director of the Nairobi Securities Exchange (NSE), a Director/Secretary of the Kenya Association of Stockbrokers and Investment Banks (KASIB); represents the Banking Sector in the Financial Standards Committee of the Kenya Bureau of Standards and is its current Chairman.

Business Review

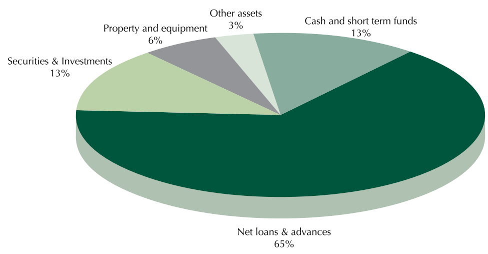
Five Year Financial Review	2007	2008	2009	2010	2011
Statement of Financial Position			**KShs million**		
Cash and short term funds	9,140	11,770	13,194	20,775	21,616
Loans & Advances to Customers (gross)	45,412	60,418	66,620	90,965	114,101
Impairment losses on loans & advances	(7,367)	(7,509)	(4,346)	(4,346)	(4,692)
Government & other Securities	12,945	12,857	26,498	34,391	22,237
Property and equipment	3,263	4,302	6,192	6,943	9,336
Other assets	1,931	1,648	2,420	5,611	5,714
Total Assets	**65,324**	**83,486**	**110,678**	**154,339**	**168,312**
Customer Deposits	56,198	67,159	92,529	129,226	144,514
Other liabilities	2,666	2,718	1,857	4,518	2,847
Total liabilities	**58,864**	**69,877**	**94,386**	**133,744**	**147,361**
Net assets/Shareholders Equity	6,460	13,609	16,292	20,595	20,951
Income Statement					
Net Interest Income	4,850	5,696	7,054	9,503	12,370
Non-Interest Income	3,426	3,954	4,664	6,168	5,966
Operating Expenses	(5,257)	(5,888)	(7,354)	(9,231)	11,417
Provision for loans impairment	(700)	(403)	(628)	(799)	(710)
Share of profit of associate	-	-	-	130	154
Profit before Tax	**2,319**	**3,359**	**3,736**	**5,771**	**6,363**
Profit after tax	**1,550**	**2,374**	**2,968**	**4,580**	**5,363**
Earnings per share	0.54	0.80	0.85	1.31	1.53
Dividend per share	0.08	0.10	0.20	0.40	0.40
Key Ratios (%)					
Cost-Income Ratio (%)	64%	61%	63%	59%	62%
Return on Shareholders Equity (%)	24%	17%	18%	22%	25%
Return on Total Assets (%)	2%	3%	3%	3%	3%
Impairment provisions/Gross loans & advances (%)	16%	12%	7%	5%	0.6%
Gross loans to deposits ratio (%)	81%	90%	72%	70%	79%

Co-opTrust appointed Fund Manager for Mbao Pension Plan, the pioneer retirement benefits scheme for the unbanked

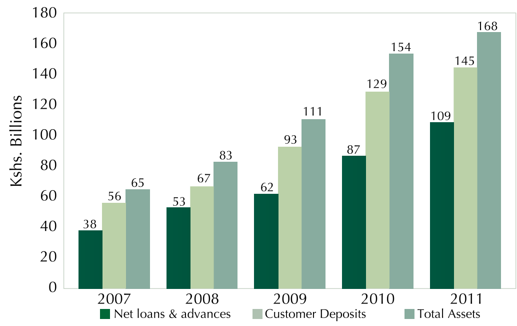
Doris Lekaldero from Samburu is introduced to the ***Mbao Pension Plan*** by Titus Karanja, Head of Cooptrust Investment Services (right) and John Murugu, representative of the Permanent Secretary Ministry of Finance, at the launch of Mbao. CoopTrust was appointed Fund Manager of Mbao, the new and innovative retirement benefits plan for the low-income and the self-employed.

Usitupe Mbao; Jipange na Mbao Pension Plan.

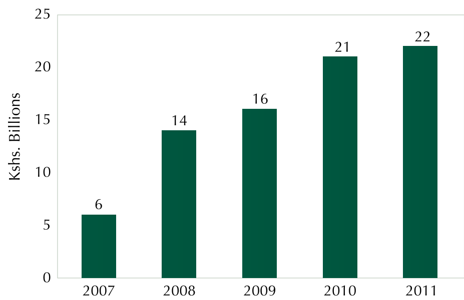
Balance Sheet



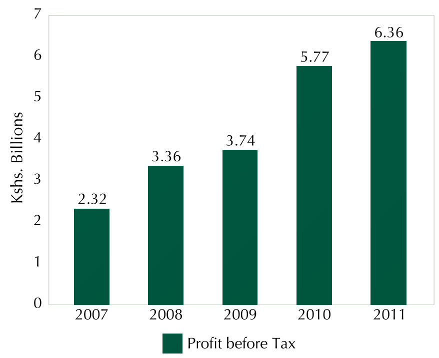
Loans, Customer Deposits and Total Assets



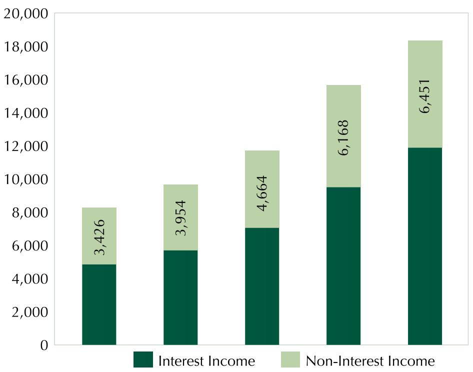
Growth in Shareholders' Equity



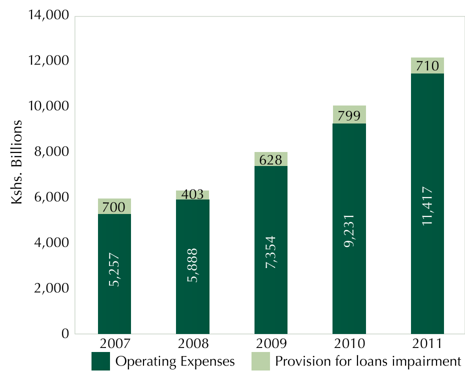
Sustainable Profitability



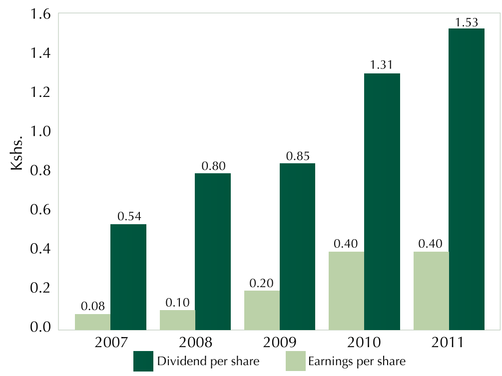
Operating Income



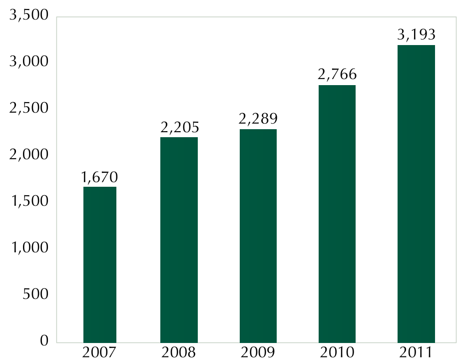
Operating Expense & Provision for loan impairment



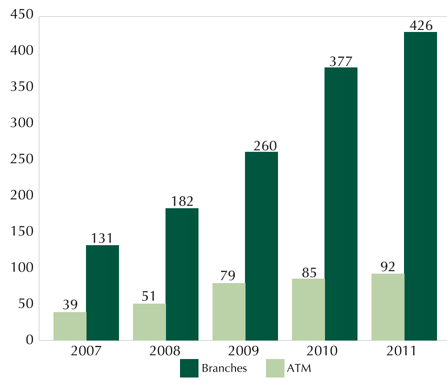
Dividend & Earnings Per Share



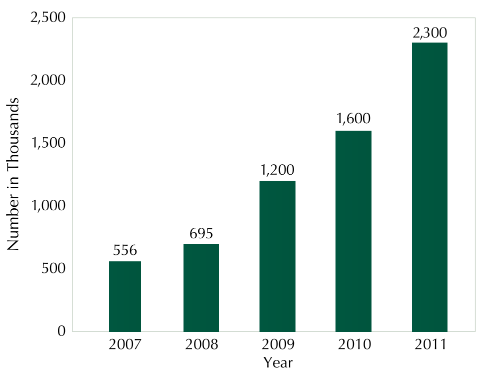
Staff numbers



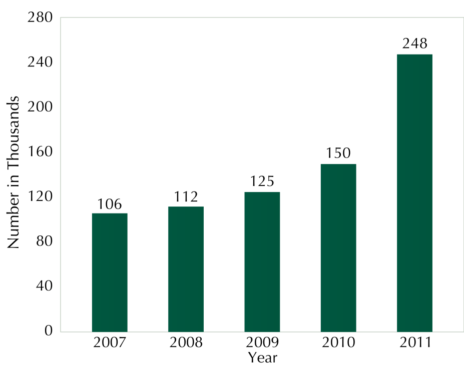
Branch and ATM network



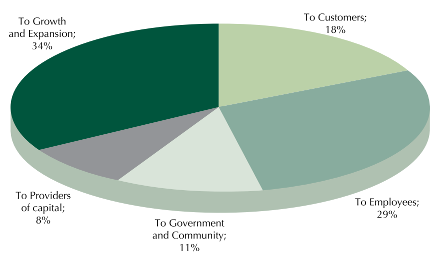
Customer numbers



Number of borrowers



Value Distribution



Sustainability Review

The Co-operative Bank was formed in 1965 at a time when Kenya was a newly born country and indigenous Kenyans were only beginning to enjoy equal access to opportunities of financial freedom and wellbeing. At this time, the banking sector was dominated by multinationals that were reluctant to lend to indigenous individuals and institutions. With this challenge in mind, a group of visionary Kenyans came together to start a bank that would cater for the growing members of the co-operative movement comprising mostly of peasant farmers. Despite widespread ridicule and doubts on the viability of a 'peasant' bank, Co-operative Bank began on a sound footing and has grown over the decades to become a leading financial institution.

The original dream of its founders has not been lost and a core part of our vision is to financially empower Kenyans primarily by supporting the co-operative movement through mobilisation and facilitation of access to financial resources. Co-operative societies and SACCOs directly impact on millions of Kenyans and our bank is proud to be an active stakeholder in this movement. The bank has placed itself in step with Kenya's diverse needs and fulfilling this key responsibility has required the balanced creation of value to customers and the market, shareholders, the environment, society and employees. We contribute to overall economic growth and poverty reduction through sustainable development of the society as a whole.

Our bank is guided by a vision, mission and core values as outlined below:

Vision:

To be the leading and dominant Kenyan bank with a strong countrywide presence, playing a central role in the co-operative movement and providing relevant and innovative financial services to our customers for the optimum benefit of all our stakeholders.

Mission:

To offer value-added financial services to our chosen market segments with special emphasis on the co-operative movement through a highly effective network of service points, excellent customer service and a highly motivated team of qualified personnel.

Our core values:

- We Are Proud To Be The Co-operative Bank;
- We Value Our Bank's Reputation;
- We Employ Best Practices;
- We Value Our Customers;
- We Execute At Speed;
- We Grow Our People;

Enhancing access to innovative & value-adding financial services

Sacco-Link & FOSA Partnerships

The bank offers retail banking and related products through front-office service points (FOSAs) located at Sacco premises and to date over 418 have been enlisted. Through Co-op Consultancy Services Ltd, the group assists Saccos in the establishment and management of FOSAs and in the year 2011 16 Saccos were supported in this regard.

SaccoLink Switch has integrated the bank's and SACCOs' financial systems, providing a solution through which ATMs, mobile banking, point of sale (POS) channels and internet banking is facilitated. In this partnership, we offer wholesale banking services to co-operative bodies which then provide to their members retail services complete with full technological capabilities. To date, over 135 SACCOs are enlisted in this partnership and over 420,000 ATM cards issued to co-operative members.

Corporate Capacity-Building

Co-op Consultancy has professionals in its staff complement to offer support to the co-operative movement in formulation and review of society by-laws, corporate strategic and tactical plans and operating manuals. This in addition to consultancy services on microfinance, lease negotiation, business advisory, restructuring and turn-around, performance management, staff training and recruitment, forensic audits and information technology systems procurement as well as assessment for risk-control. In 2011 we provided these specialised services to 151 Saccos.

The bank's Management Centre conducts training to the co-operative movement as part of its commitment to this significant sector of Kenya's economy. Advanced courses ran include board seminars on corporate governance, Central Management Committee (CMC) workshops, co-operatives management & compliance, delegates training, credit administration, customer service, FOSA operations, frauds & forgeries, strategic planning, business process re-engineering, marketing, performance management, supervisory skills, office administration and team-building exercises. In 2011, the Management Centre carried out 74 courses in which over 200 Saccos participated and more than 3,500 members trained.

One-Stop-Shop Financial Supermarket

We have positioned our business model to offer a 'one-stop-shop' financial services supermarket. Services offered include securities management, trust services, custody services, stock brokerage, financial, investment in addition to management consultancy and much more will be offered to customers as the regulatory framework is set-up. Kingdom Securities has now taken stock

Enhancing access to innovative & value-adding financial services

brokerage services to members of the co-operative movement through over 125 institutional agents countrywide. In 2010 the bank increased its shareholding in Co-operative Insurance Company (CIC) to 21% and further to 26% in 2011, thereby becoming the single largest shareholder in the company. Over and above diversification of investments, this partnership will facilitate creation of synergy in distributing products jointly as well as venturing into regional countries in co-operation.

Agent & Point of Sale (POS) Banking

Through harnessing capabilities of emerging technologies, the bank is broadening the concept of branchless banking and enhanced access to financial services through point-of-sale (POS) banking. Under this concept, special gadgets connected to the bank's systems are placed at supermarkets and other major outlets to facilitate access to banking services through the ATM card. The product was superbly received in the market in 2011 and is already handling over 60,000 transactions per day even as we endeavour to install over 4,000 POS countrywide before the end of 2012.

The Central Bank of Kenya (CBK) has encouraged the concept of agent banking and our bank has already recruited 1,800 agents. Under this model, the bank appoints and vets agents who are then issued with POS machines. Agents, who will include co-operative societies, ordinary shops, petrol stations among other outlets enable customers access banking services including making deposits beyond official banking hours. Due to the greater geographical area covered by agents, customers also enjoy better convenience as services come closer to their most preferred location.

Customer-focussed Product Offerings

Our bank's products and brand propositions are designed to far exceed customer expectations and respond to diversification and sophistication of customer needs as well as changes in the business environment. Our mobile phone services product M-banking which also facilitates seamless two-way funds transfer between bank accounts and money transfer solutions offered by mobile telecommunication firms now has an active client base of over 769,000 customers. The bank's internet-banking solution CoopNet has contributed to growth in customer base especially for Kenyans in the diaspora and already serves over 9,200 clients.

In 2011 the bank began commodity financing that provides short-term, self-liquidating finance facilities to businesses with liquid terminal markets for the underlying commodity. We have facilitated deals involving steel, base metals, energy and petroleum products, maize, rice, cosmetics, machinery, motor vehicles, tyres, sugar and other agricultural commodities. With enactment of the new constitution and introduction of a new county government set-up, the bank is in the process of reviewing products with a view to enhance potential of our clients, especially small and microenterprises (SMEs) as they endeavour to take advantage of new opportunities arising.

Excellence in Customer Service

Our customer service program is designed around the concept of delivering enhanced customer value and experiences as well as excellence in service under the theme of 'We are You''. We engage in continuous re-engineering of business processes to make them simpler and more efficient without diminishing their integrity. We have invested in modern customer relationship management (CRM) software to facilitate timely and exceptional client satisfaction. Our Call Centre facility has boosted efficiency in customer interactions through efficient logging, tracking and monitoring of enquiries to conclusion. In the recent past we have increased business channels and branches substantially in appreciation of increased customer numbers and to maintain customer delight.

Regional Expansion on course

Through the Co-operative Alliance of Kenya (CAK), the bank is active in International Co-operative Alliance Africa whose primary objective is to promote the welfare and growth of co-operative societies in the continent. The bank is expanding operations in Uganda, Tanzania and Southern Sudan in partnership with co-operative movements in those countries. The first regional operation will be in Southern Sudan where The Co-operative Bank of Southern Sudan has been registered as a joint venture with their government which will hold shares on behalf of the movement. Negotiations for similar strategic partnerships are underway in Uganda and Tanzania.

Caring For The Environment

Reducing Environmental Impact & Sustainable Consumption Goal

Protecting the global environment is one of the most critical issues of our time as a result of global warming which has been blamed for regular drought, famine and challenges in access to water by millions. Our bank's environmental policy is aimed at conducting business in a responsible manner through conservation, optimal use of resources, energy saving mechanisms and reduction of waste. Our bank has established a programme to sell items that can be re-used as a means of enhancing efficient use of scarce global resources. This includes disposal of idle assets and sale of shredded paper to recycling plants. Kenya is a water scarce country and the Bank will enhance means of water harvesting at its properties to reduce reliance on public utility firms and free that capacity for access to currently un-connected citizenry. In our march forward in pursuit of a carbon-neutral operation, we migrated from diesel-powered generators to electric inverters as backup for ATM machines. Reduction in paper consumption conserves forest cover and we have actualised this through use of information communication technology (ICT) and implementation of modern business processes to facilitate computerisation of operations, thereby eliminating the need for paper-work.

Green Partnerships

We seek to establish partnerships with industry members, government agencies, relevant environmental bodies, suppliers, customers and the general public to promote and achieve a high standard of environmental care. It is pursuant to this objective that the bank has entered into agreement with the French Agency for Development (AFD) towards financing of Renewable Energy and Energy Efficiency projects in the country. The EUR 30 Million (USD 39 Million) credit agreement signed in 2011 will enable the Bank on-lend to its customers undertaking projects targeting diversification of energy resources and transition towards renewable energy solutions.

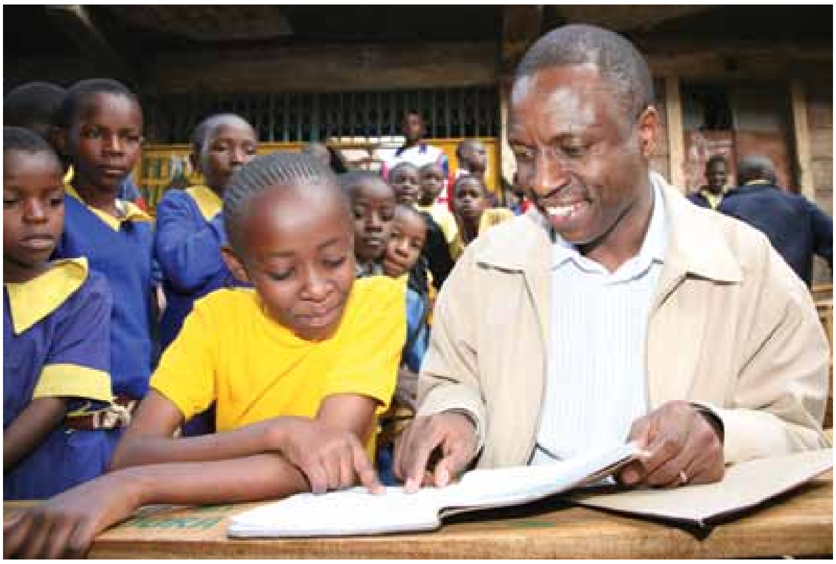
Similarly, the bank has a long-standing link with the Nairobi City Council to maintain green-gardens around Co-operative House and the commuter area of Railways bus stage. We have also collaborated with schools and government agencies in tree-planting activities in support of Kenya's effort to increase forest cover to the recommended 10% of area. Assessed individually, these may look like modest efforts, but the collective impact of many other companies doing the same will change the direction of environmental degradation that the world faces today.

Growing human capital

Employer of Choice & Principle of Diversity

Our bank has made it a priority to create an energetic and enjoyable workplace with a reputation to attract and retain the best talent in the market through high levels of employee satisfaction and fair terms of engagement. Our competitive remuneration systems stimulate superior performance and reward high achievers for their contribution. We respect employee individuality within practices of our corporate culture and brand image as a means of enhancing personal fulfilment. We appreciate the need for staff to balance work and personal commitments and have created a mutually acceptable environment that as far as possible is sensitive to the different needs of individuals. In this regard, we support staff in child-rearing responsibilities by providing time off work for male and female staff in line with existing labour laws. We continue with our policy that allows nursing mothers have shorter working days to enhance convenience in child care.

The bank endeavours to preserve gender and cultural diversity in our employee mix and takes pride as an equal opportunity employer for all qualified persons. This has created an inclusive environment where individuals and teams harness strengths in diversity to maximise potential and excel in performance. By way of departmental forums, the bank raises employee understanding of strength in diversity and ascertains the spirit of patriotism and oneness to maintain all-round staff wellbeing.



Supporting Community Programmes

Catherine Njoki, a pupil at Rehema Street Children Rehabilitation Centre in Dandora, Nairobi gets help with her classwork from Albert Njiru, Branch Manager Co-op Bank Dandora when the branch visited the Centre and donated foodstuff and other personal effects as part of the Bank's service to the community.

Staff Profile:

	Year 2011	%	Year 2010	%
No. of employees:	**3,193**	**100%**	**2,759**	**100%**
Male	1,777	56%	1,551	56%
Female	1,416	44%	1,208	44%
No. of employees of age 35 or under:	**2,561**	**100%**	**2,144**	**100%**
Male	1,461	57%	1,241	58%
Female	1,100	43%	903	42%
No. of senior management positions:	**65**	**100%**	**69**	**100%**
Male	44	68%	45	65%
Female	21	32%	24	35%
Average years of service:	**5.25**	**-**	**5**	**-**
Male	4.8	-	4	-
Female	5.7	-	6	-
Employees taking leave for child-rearing:	**307**	**-**	**261**	**-**
Male	178	-	147	-
Female	129	-	114	-

Building Pride & Passion as We Grow Our People

We have developed an environment to create passion and individual team-member responsibility towards making us a market leader. We promote generation of new ideas and approaches to business with the confidence that staff views are recognised, insights acted upon and innovativeness rewarded. Our people-management processes operate under open-door policy where information to and from employees flows freely, thus creating an environment of confidence, satisfaction and security. Each year we conduct a Staff Satisfaction Survey that provides feedback from staff on a candid evaluation of their relationship with the bank.

We believe that human capital is the most valuable asset of a great company, hence our commitment to the development and success of team-members through first-class training, leadership-building and skills enrichment. Our policy is aimed at creating a more powerful business culture that inspires our people to see the world from our clients' perspective in delivery of world-class customer experiences. We encourage our people to commit themselves to lifelong learning in both their professional and personal endeavours. Towards this objective, the bank offers interest-free education loans to employees for use in their preferred learning or certification program.

Our training arrangement begins with an induction course for new staff which consists of knowledge on bank products, processes, customer service expectations and general corporate culture characteristics. This training is carried out in-house at our dedicated Management Centre in Karen. Thereafter we undertake to grow talent through mentoring, on-job-training and structured programs both locally and abroad designed to meet specific skill requirements. Further, we have set up an e-learning facility and robust intranet that facilitates self-learning by bringing information right to the office desk. To encourage employees design their own careers through personal initiative, we operate an in-house recruitment system whereby vacancies are advertised for application on a voluntary basis.

Staff Welfare and HIV/Aids Policy

At this bank, we view each other as part of one big family and each member's welfare is our collective responsibility. We continue to invest in out-of-office staff activities such as sports events and team-building in reflection of our deep commitment to staff welfare. Our men and women's basketball teams are formidable competitors in the respective Premier Leagues with the mens' team being overall winners in 2011. The team was also 1st runners up in the East and Central Africa Club Championship. The bank also supports a volleyball team for men in the Premier League.

A safe and secure working environment is a key priority and work-spaces are specifically designed with this in mind. Adequate dressing and equipment arrangements are in place for employees whose work necessitates this, thus facilitating high staff productivity. As part of our broader wellness programme, we facilitate staff access to professional advisors and counsellors on matters relating to work, health, relationships and general social wellbeing. This enhances staff productivity and has a direct impact on business performance.

Our bank has developed a HIV/AIDS policy based on the understanding that we are a caring institution with staff welfare at heart. As a policy, the bank does not screen for HIV during employee recruitment. Additionally, the bank does not discriminate in any way against HIV positive staff and such cases are treated like any other health condition for purposes of medical cover. Our HIV/AIDS policy ensures that infected staff members enjoy equal health and social discretion, including confidentiality, prevention of stigmatisation and discrimination. Further, emphasis is made to provide information on preventive measures through external professional counsellors and trainers. Structured informal discussions at office level are also managed through the Peer Education Programme to promote sharing of awareness information and material.

Safeguarding Financial System Security

Raising Fraud Awareness Among Staff

It is prudent to focus more efforts on prevention and frustration of financial crimes than on investigation albeit both being important. Branch and front-line staff are our first line of defence and have been adequately equipped for this role through regular training and refresher courses. The training is based on Know Your Customer (KYC) principles to ensure bank processes capture adequate customer information that facilitates positive customer identification during transactions and protection of customer details. This training includes updates on bank processes specifically designed to prevent fraud. Through these measures and high level of vigilance, our staff have frustrated many high-value attempts of fraud.

The bank has in place a whistle-blowing program through which staff can report cases of fraud or suspected fraud and any other potential risk. The program includes procedures to pass information to relevant authority for action in a secure manner that protects their identity. There is a dedicated email address set up to receive anonymous e-messages from staff.

Customer Awareness

The security and privacy of customers' financial information is a bank's important responsibility. While we have invested in world-class and sophisticated Information Communication Technology (ICT) infrastructure, the customer is in custody of key documents that could facilitate fraudulent activity if accessed by those with criminal intent. We are committed to raise customer awareness on protection of confidential personal information and documents such as cheque books, debit and credit cards.

In an effort to help clients protect themselves against financial crime, customers are encouraged to routinely review their credit card and bank statements and make enquiries on them. Through in-house training and tailor-made courses at our Management Centre, the bank trains customers with high-value and large-volume transactions on operational strategies to tackle financial fraud. We reiterate to customers that the bank does not request for sensitive personal information through email or mobile phone communication. We enlighten clients that legitimate online transactions can only be accessed through our official website and if in doubt, reference should be made using official telephone contacts including our Call Centre.

Co-operative Bank Foundation

The welfare of the people, communities, organisations and the environment in which they operate are interlinked to the extent that true prosperity is acknowledged only when there is collective success. In 2007, the Co-operative Bank Foundation was set up as the bank's social responsibility vehicle focussing mainly in the areas of education, health, environment, social welfare and agriculture.

Enhancing access to education

Lack of education has been observed as a key contributor to poverty in the society. Our bank has devoted considerable resources towards enhancing access to school, leading to a vibrant, well educated society that will propel Kenya to the envisaged middle-income economy. Since the inception of Co-op Foundation, the bank has funded it with over Kshs. 150 Million to reduce disparities and inequalities in access to education for disadvantaged children. The funding is a full secondary school and college scholarship which caters for school fees, uniforms and text books. The Foundation spent over Ksh.45 Million in this regard in 2011 and is currently supporting more than 1,400 students in over 450 schools across Kenya. Every year the top 28 performers in Kenya Certificate of Secondary Education (KCSE) examination from the batch of students sponsored in the course of their secondary school will also benefit from a scholarship throughout their university studies. During college holidays the bank will offer internship experience to beneficiaries of this program to equip them for the job-market. Thereafter and upon graduation from university, the bank has committed to absorb them as permanent employees. Every year, the Foundation also offers a scholarship package of Ksh. 100,000 per student to at least two (2) disadvantaged students of the Co-operative College of Kenya who upon graduation will contribute to the leadership and management of the co-operative movement.

In our commitment of service to vulnerable groups, the bank supported various schools across the country in infrastructure development and participated in the school feeding program of Olepolos area. To boost progression of secondary school leavers to institutions of higher learning, the bank partnered with Strathmore Business School, Pan-African Christian University and Africa International University in construction and expansion projects worth over Sh.5 Million.

Staff Community Activities

Our employees are involved in at least one community development program each year. With bank support, our staff participate in a wide range of community programmes, giving their time and resources towards projects focusing on education, environment, child welfare and poverty alleviation initiatives. We run a shilling-for-shilling program wherein staff contribute towards projects of their choice, after which the bank matches amounts raised. Staff therefore have the liberty to identify, own and drive projects as they volunteer time and services. Across the country, staff made a positive impact to HIV/AIDS groups, children centres, schools, medical funds, sports events, youth groups, education days, charities, environmental clean-up events, hospitals, prisons, self-help groups and facilities for the physically challenged.

National Projects & Economic Development

As part of the wider community in which we operate, the bank collaborates with various stakeholders involved in poverty eradication, advancement of education and activities addressing local challenges such as inadequate access to health services. In this regard, the bank spent over Sh.35 Million in 2011. In an effort to improve the nutritional wholesomeness of food consumed in drought-striken areas, we collaborated with like-minded citizens under the Kenya-for-Kenya initiative to invest over Sh.10 Million. To develop the quality of health services offered, the bank partnered with the Kenya Diabetes Management and Information Centre as well as the African Cancer Foundation. The bank is active in activities of national importance and we contributed towards the Kenya National Assembly Prayer Day, the Kenya Prison Sports Council as well as the Association for Physically Disabled of Kenya. In an endeavour to mentor today's youth towards overcoming tomorrow's challenges, the bank supported Emerging Leadership Initiative in its activities. In the international front, the bank collaborated with the International Co-operative Alliance in response to the Japan Disaster Fund.

Corporate Governance

Statement on Corporate Governance

Corporate governance is the system through which corporations are directed, controlled and operated as power is exercised over its assets and resources. Our bank considers corporate governance to be a critical issue towards maintenance of business integrity and stakeholders' trust and is therefore an integral part of our business philosophy. Our corporate governance values are founded on the pillars of responsibility, accountability, fairness and transparency.

Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya set out corporate governance requirements which listed companies should adhere to. Of particular interest is the composition and role of the Board, qualifications and experience of directors, board committees and general corporate governance. As a listed company, the bank continues to adhere to best practice in corporate governance and also report on its compliance on a regular basis. Our high standards of corporate governance are not an exercise in compliance, but as means of driving the performance of the business in accordance with international best practise whilst managing and mitigating risk.

The Board is responsible for the bank's corporate governance practices and has in place mechanisms to fully comply with the provisions and principles of good corporate governance as set out in the Prudential Guidelines from the Central Bank under the Banking Act.

Code of Conduct

The Board has approved a Code of Conduct which requires that stakeholders assign the utmost value to maintaining trust and abide by all relevant laws and regulations, uphold high ethical standards and act fairly and sincerely in the best interests of the company. The Code guides activities in dealing with directors, managers, employees, customers, suppliers, competitors, shareholders, regulators, government and the community at large. This code is in addition to compliance with the Central Bank of Kenya Code of Conduct as set out in the Prudential Guidelines.

The bank's policy on insider trading is that directors, management, staff members and related parties should not trade their bank's shares while in possession of any insider information not available to the public. This is specifically applicable in the period between the end of a reporting period and publication of results for the period.

The Board

Board composition

The bank is governed by a Board of Directors appointed by shareholders. The Board consists of twelve directors who are non-executive except for the Managing Director who is executive. Notably, seven members of the Board are elected from the co-operative movement and represent the strategic and majority shareholder in the bank - Co-opHoldings Cooperative Society Limited. In accordance with the company's Articles of Association, the Board should include the Commissioner of Co-operative Development appointed under the Co-operative Societies Act and the Permanent Secretary to the Treasury appointed under Permanent Secretary to the Treasury (Incorporation) Act. The Board is composed of directors with a diverse mix of skills, experience and competencies in the relevant fields of expertise and is well placed to take the business forward.

Appointments and induction to the Board

Directors are appointed in accordance with the company's Articles of Association. At every Annual General Meeting, one third of directors are eligible to retire by rotation and may offer themselves for re-election. On appointment, directors receive an induction covering the bank's business and operations. As part of this process, the bank organises for regular training on corporate governance and modern trends in directorship at Centre for Corporate Governance and other executive trainers. Directors are advised of the legal, regulatory and other obligations of a director of a listed company and updated on industry and regulatory developments as they take place. All directors also have access to the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable laws and regulations are complied with.

Board responsibilities

The Board of Directors is responsible for providing overall management and leadership to the bank and is primarily accountable to shareholders as regards the company's performance. The Board's duties and responsibilities include:

- Setting the strategic direction of the bank and putting in place appropriate policies, systems and structures for their successful implementation;
- Establishing and maintaining the Bank's overall systems of planning, accounting and internal controls that facilitate prudent risk assessment and management;
- Setting policy guidelines for management and ensuring competent management of the business including the selection, supervision and remuneration of Senior Management;
- Ensuring that the business of the Bank is conducted in compliance with relevant laws and regulations; and
- Monitoring the bank's performance and reporting this to shareholders especially at the Annual General Meeting.

Board meetings

An annual plan of scheduled board meetings is prepared each year, including meetings for the sub-committees. The full Board meets at least six times a year and special meetings may be convened when need arises. Boards of subsidiaries of the bank meet on a quarterly basis. Guidelines are in place concerning the content, presentation and delivery of papers for each Board meeting to ensure that directors have adequate information and sufficient time for appropriate briefing ahead of each meeting.

Board Chairman and Managing Director

The roles and responsibilities of the Chairman of the Board and the Managing Director are distinct and separate. The Chairman provides overall leadership to the Board in line with principles of collective responsibility for Board decisions. The Managing Director is responsible to the Board and takes charge of executive management in the course of effective and efficient running of the bank on a day-to-day basis. The Board has delegated to the Managing Director authority to implement Board decisions with assistance from Board of Management which he chairs.

Board Performance Evaluation

The Board is responsible for ensuring that an evaluation of its performance and that of its committees and individual directors is carried out each year. This involves a self review of the Board's capacity, functionality and effectiveness of performance against its set objectives. Evaluation enables directors to suggest how Board procedures may be improved by assessing strengths and weaknesses and addressing its balance of skills, knowledge and experience. This is done by way of both peer and self evaluations, after which results are submitted to the Central Bank of Kenya (CBK). The Board and all its committees conducted evaluations during the year and no material concerns were expressed.

Directors' remuneration

The remuneration of all directors is subject to regular review to ensure that levels of emoluments and compensation are appropriate. This is after considering industry benchmarks and international practices. Non-executive directors are paid a monthly fee as well as a sitting allowance for every meeting attended. The directors are not eligible for pension scheme membership and do not participate in the bank's remuneration schemes. Information on the aggregate amount of emoluments and fees paid to directors are disclosed in notes to the financial statements.

Internal control

The Board has collective responsibility for establishment and management of appropriate systems of internal control and for reviewing their effectiveness. The system of internal control in place has defined procedures with operational and financial controls to ensure that assets are safeguarded, transactions authorised and recorded properly, and that material errors and irregularities are either prevented or detected within a reasonable period of time. The business performance of the Bank is reported regularly to its management and the Board through performance trends, forecasts and actual performance analysis against budgets and prior periods for close monitoring.

The Board reviews effectiveness of internal control systems in place by taking into account results of work carried out to audit and review activities of the Group by both external and internal assurance providers. Internal assurance is carried out by an independent Internal Audit Department that reports to the Board Audit Committee and provides confirmation that the bank's business standards, policies and procedures as set by the Board are being complied with.

The Board has reviewed the Group's system of internal control and is satisfied that the system is effective. However, the Board recognises that any system of internal control can provide only reasonable and not absolute assurance against material misstatement or loss.

Conflict of interest

The Board's policy provides that directors, their immediate families and companies where directors have interests in only do business with the bank at arms length. Where a matter concerning the bank may result in a conflict of interest, the director is obliged to declare the same and exclude themselves from any discussion or vote over the matter in question. Business transactions with directors and related parties are disclosed in notes to the financial statements.

Board Sub-committees

To enhance the breadth and depth of achieving Board responsibilities, the Board has delegated authority to various sub-committees although the Board retains ultimate collective accountability for performance and corporate governance. Committees of the Board are as follows:

i. Audit Committee;
ii. Staff and Nomination Committee; and
iii. Risk and Finance Committee.

These committees have formally determined terms of reference with defined scope of authority, set by the Board of Directors which are from time to time refreshed to synchronise them with new developments and requirements of Central Bank (CBK) Prudential Guidelines.

Audit Committee

In line with regulatory requirements, membership of this committee consists of three non-executive members of the Board who are independent of day-to-day management of the Bank. Current members are:

- Mr. Julius Riungu – Chairman
- Mrs. Rose Simani
- Mr. John Murugu

The terms of reference for this committee are to review and evaluate the financial status of the bank, review internal controls, consider performance and findings of internal auditors and recommend appropriate remedial action, nominate external auditors for appointment by shareholders, review management reports and reports from external auditors concerning deviations and weaknesses in accounting and operational controls; coordinate between the internal audit function and external auditors, monitor the ethical conduct of the institution and consider the development of ethical standards and requirements, including effectiveness of procedures for handling and reporting complaints, review any related party transactions that may arise within the banking institution.

Staff and Nomination Committee

The mandate of this committee is to review human resource policies, aligning these to best market practice and the need to attract, retain and fairly reward staff. It also appoints managers to senior positions and determines remuneration packages for senior management. The Committee also administers development and succession planning initiatives for senior management positions. In addition, it has the responsibility of reviewing and vetting names for directorship positions which are then recommended to the Board of Directors for consideration. This Committee also assesses the performance and effectiveness of directors of the bank. The current members are:

- Mr. Stanley Muchiri – Chairman
- Mr. Julius Riungu
- Mr. Fredrick F. Odhiambo
- Mr. Julius Sitienei
- Major (Rtd) Gabriel Wakasyaka

Risk and Finance Committee

The current members are:

- Mr. Stanley Muchiri – Chairman
- Mr. Macloud Malonza
- Mr. Wilfred Ongoro
- Mr. Richard L Kimanthi
- Mr. Donald K. Kibera

This committee has the overall responsibility for development of the bank's risk management strategy and implementing principles, frameworks, policies and limits. This includes managing risk decisions and monitoring risk levels.

Management Committees

The Board has put in place key Management Committees with defined terms of reference and scope of authority and reporting structure. The current Management Committees are as follows;

The Board of Management – This is the Executive Committee constituted to assist the Managing Director in day-to-day management of the bank's business, including formulation and implementation of business strategy and policy. This Committee is chaired by the Managing Director and includes Division Directors and other senior managers co-opted from time to time.

The Credit Board of Management – Its mandate is to receive, review and consider material, high-value and sensitive credit cases and matters. It currently has membership of all Division Directors.

The Asset and Liability Committee (ALCO) - This Committee is responsible for assisting the Board of Management in the overall management and strategy on the balanced mix of assets and liabilities, encompassing interest rates structures, liquidity, foreign exchange exposure, investment of surplus funds and capital adequacy.

Business Support Committee (BUSCO) - This is the Operational Risk Committee of the Bank that has the responsibility of overall monitoring and control of Operating, Regulatory and Market Risks facing the Bank.

The Expenditure Management Committee - This is the Tender Committee of the Bank that has as its primary mandate to receive, consider and approve capital and recurrent expenditure with reference to approved budget limits and annual cost efficiency targets.

The Staff Disciplinary Committee - This committee receives and reviews staff disciplinary cases referred by Human Resources Development and makes recommendations to the Chief Executive as is appropriate.

Schedule of attendance of Board meetings during the period is as below:

Director	Co-operative Bank Group			Board Sub-committees		
	Co-operative Bank	Co-op Consultancy	Co-optrust Investment Services	Audit Committee	Staff and Nomination Committee	Risk and Finance Committee
Schedule of meetings:	**7**	**6**	**6**	**4**	**1**	**3**
S. C. Muchiri, EBS – Group Chairman	7	6	6	-	1	3
J. Riungu - Vice Chairman	7	-	-	4	1	-
Dr. G. Muriuki, MBS – Group Managing Director & CEO	7	6	6	4	1	3
J. Sitienei	7	-	-	-	1	-
F. Odhiambo – Commissioner of Co-operatives	7	-	-	-	0	-
P. K. Githendu	-	6	6	-	-	-
G. Mburia	-	6	6	-	-	-
R. L. Kimanthi	7	-	-	-	-	3
E.K. Mbogo	-	6	6	-	-	-
G.J.S. Wakasyaka, Rtd Major	7	-	-	-	1	-
M. Malonza	7	-	-	-	-	2
S. Odhiambo (Mrs)	-	6	6	-	-	-
Dr. J. Kahunyo	-	6	6	-	-	-
C. Kabira	-	6	6	-	-	-
W. Ongoro	6	-	-	-	-	3
D. Kibera	7	-	-	-	-	3
J. Murugu – Representing PS Ministry of Finance	4	-	-	2	-	-
R. Simani (Mrs)	7	-	-	4	-	-

Attendance is shown only where director is a member of a particular board or committee.

All directors are non-executive, except for the Managing Director who is executive.

Communication with Shareholders

Extensive information about the bank and its activities is provided in the audited Annual Report and Financial Statements which is available to all shareholders. The bank's results are published in daily newspapers every quarter in line with the requirements of the Central Bank of Kenya (CBK) and are also available on the company's website: www.co-opbank.co.ke.

Shareholders have direct access to the Company Secretary. There is regular dialogue with individual and institutional investors on matters relating to their shareholding and activities of the business. Enquiries are welcome and are dealt with in an informative and timely manner. The Bank has engaged the services of a professional Registrar to facilitate appropriate responses to shareholder queries and smooth transfer of shares.

Shareholders are encouraged to attend the Annual General Meeting (AGM) to discuss the progress of their bank and utilise the opportunity to ask questions as well as meet directors informally after the meeting. To safeguard the interests of minority shareholders, they may nominate directors for election into the bank's Board in line with the Company's Articles and Memorandum of Association.

Shareholding Information:

	2011	2010
The number of shareholders as at 31 December:	154,942	107,554

The top 10 shareholders, based on the Bank's share register as at 31st December 2011 were as follows:

	2011		
	NAME	**NO. OF SHARES**	**%**
1	Co-opholdings Co-operative Society Limited	2,254,592,500	64.56
2	Dr. Gideon Maina Muriuki	50,121,000	1.43
3	NIC Custodial Services A/C 077	27,789,300	0.8
4	Kenya Commercial Bank Nominees Limited A/C 771A	26,616,500	0.76
5	Co-operative Bank SACCO Limited	16,723,800	0.48
6	Standard Chartered Nominees A/C 9230	15,976,800	0.46
7	CfC Stanbic Nominees Kenya Ltd A/C R57601	12,629,900	0.36
8	CFC Stanbic Nominees Kenya Ltd A/C NR1030682	10,012,920	0.29
9	Insurance Company of East Africa Limited - Pooled	8,966,100	0.26
10	Standard Chartered Nominees A/C 9098AC	8,906,000	0.25
	TOTAL	**2,432,334,820**	**69.65**

Co-opHoldings Co-operative Society Limited is the strategic and majority shareholder in the bank representing the block strategic shareholding by the Kenyan Co-operative Movement with 3,817 (Yr 2010-3,810) Co-operative Societies covering millions of Kenyans.

The top ten (10) shareholders of Co-opHoldings Co-operative Society Limited as at 31 December 2011 were as follows:

	2011		
	NAME	**NO. OF SHARES**	**%**
1	Harambee Co-op Savings & Credit Society Ltd	86,224,900	3.82
2	Afya Co-op Savings & Credit Society Ltd	66,306,900	2.94
3	Masaku Teachers Co-op Savings & Credit Society Ltd	65,314,900	2.9
4	Telepost Co-op Savings & Credit Society Limited	64,853,800	2.88
5	Kipsigis Teachers Co-op Savings & Credit Society Ltd	60,414,000	2.68
6	H & M Co-op Savings & Credit Society Ltd	57,885,400	2.57
7	Kenya Police Sacco Society Ltd	52,539,200	2.33
8	K-UNITY Savings & Credit Co-operative Society Limited	51,408,700	2.28
9	Embu Farmers Sacco Society Ltd	41,341,200	1.83
10	Nandi Teachers Co-op Savings & Credit Society Ltd	38,161,800	1.69
	TOTAL	**584,450,800**	**25.92**

Directors' interest in the ordinary share capital of the Company on 31 December 2011 was as follows:

2011		
DIRECTOR	**NO. OF SHARES**	**%**
S.C. Muchiri, EBS - Chairman	5,300,000	0.15
Julius M Riungu - Vice Chairman	5,099,700	0.15
Dr. G. Muriuki, MBS Group Managing Director & CEO	50,121,000	1.43
M. Malonza	5,110,000	0.15
S. Odhiambo (Mrs)	2,189,300	0.06
P.K. Githendu	3,173,700	0.09
G. Mburia	4,500,000	0.13
E.K. Mbogo	3,212,900	0.09
Dr. J. Kahunyo	3,140,000	0.09
J. Sitienei	5,000,000	0.14
C. Kabira	4,090,100	0.12
F. Odhiambo – Commissioner of Co-operatives	2,750,000	0.08
R.L. Kimanthi	2,010,000	0.06
G.J.S. Wakasyaka, Rtd Major	2,300,000	0.07
W. Ongoro	1,400,000	0.04
D. Kibera	-	-
R. Simani (Mrs)	-	-
J. Murugu – Representing PS Ministry of Finance	1,053,000	0.03
R. Githaiga (Mrs) – Company Secretary	4,689,700	0.13
TOTAL	**105,139,400**	**3.01**

Shareholding distribution Schedule:

2011			
Category	**No. of shareholders**	**NO. OF SHARES**	**%**
1-500 shares	6,493	81,850,419	0.05
501-5,000 shares	127,616	220,922,893	6.33
5,001-10,000 shares	13,040	115,510,948	3.32
10,001-100,000 shares	7,112	173,174,597	4.96
100,001-1,000,000 shares	520	150,760,180	4.32
1,000,001 shares and over	161	2,830,150,863	81.02
TOTAL	**154,942**	**3,492,369,900**	**100**

Shareholder profile:

2011			
Category	**No. of shareholders**	**NO. OF SHARES**	**%**
Kenyan individual investors	151,660	845,383,107	24.20
Kenyan institutional investors	3,177	2,588,043,927	74.11
East African individual investors	NIL	NIL	NIL
East African institutional investors	NIL	NIL	NIL
Foreign individual investors	82	353,700	0.01
Foreign institutional investors	23	58,589,166	1.68
TOTAL	**154,942**	**3,492,369,900**	**100**

Induction Program for Scholarship Beneficiaries of the Co-op Bank Foundation

Co-op Bank Group CEO Dr. Gideon Muriuki initiates the induction program for the 28 pioneer beneficiaries of the Co-op Bank Foundation University Scholarship Program at the bank's Management Development Centre. The scholarship program has expanded to include both secondary and university education. Currently, the Foundation is sponsoring 1,400 bright and needy students for secondary education and another 28 at universities.

The Co-operative Bank of Kenya Limited and Subsidiaries

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2011

The directors submit their report together with the audited financial statements for the year ended 31 December 2011, which show the state of the Group's and the Bank's affairs. This is in accordance with Section 22 of the Banking Act (Cap 488) and Section 157 of the Kenyan Companies Act (Cap 486).

1. Principal Activities

The Group offers banking and related services and is licensed under the Banking Act.

2. Group Operations

The operating results of the Bank's subsidiaries, Co-optrust Investment Services Limited, Co-op Consultancy & Insurance Agency Limited, Kingdom Securities Limited and Co-operative House Limited have been included in the Group financial statements excluding Co-operative Merchant Limited. Co-op Consultancy & Insurance Agency Limited offers financial advisory services. Co-optrust Investment Services Limited is involved in the business of fund management. Kingdom Securities Limited provides stock broking and investment advisory services. Co-operative House Limited and Co-operative Merchant Limited are dormant.

3. Results

The results of the Group for the year are set out on page 38.

4. Dividend & Bonus Share Issue

The directors recommend payment of a dividend of KShs. 0.40 (2010 - KShs 0.40) for every ordinary share of KShs 1. The dividends will be paid on or about 22nd June 2012 to the shareholders registered on the Bank's Register at the close of business on 28th May 2012. The register will remain closed for one day on 29th May 2012 for the preparation of dividend warrants.

The directors have also approved and recommended a bonus share, one (1) for every five (5) ordinary share held. The bonus issue subject to Capital Markets Authority approval will be credited to the share holders on the register as at close of business on 15th June 2012.

5. Reserves

The movement in the Group's reserves is shown on page 44 of these financial statements.

6. Group Directors

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

S. C. Muchiri, EBS	- Group Chairman
J. M. Riungu	- Vice Chairman
Dr. G. Muriuki, MBS	- Group Managing Director & CEO
J. Sitienei	
R. L. Kimanthi	
Major (Rtd) G.J.S. Wakasyaka, OGW	
M. Malonza	
S. Odhiambo (Mrs)	
Dr. J. Kahunyo	
C. Kabira, HSC	
P.K. Githendu	
G. Mburia	
E.K. Mbogo	
W. Ongoro, HSC	
D. Kibera	
R. Simani (Mrs)	
J. Murugu	- Representing PS, Ministry of Finance
F. Odhiambo, DSM, MBS	- Commissioner of Co-operative Development

7. Auditor

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

8. Approval of Financial Statements

The financial statements were approved by the Board of Directors on 7th March 2012.

By order of the Board

Group Managing Director & CEO

The Co-operative Bank of Kenya Limited and Subsidiaries

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2011

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

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

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

GROUP CHAIRMAN

VICE CHAIRMAN

GROUP MANAGING DIRECTOR & CEO

COMPANY SECRETARY

27 March 2012

Supporting the Movement

The Minister for Co-operatives Development and Marketing Hon. Joseph Nyagah (right) presents the ***Loan Services to Saccos Award*** to Co-op Bank Group Chairman Stanley Muchiri during the 2011 Ushirika Day celebrations held at KICC. Co-op Bank has remained a key financier and steadfast supporter of the Co-operative Movement for over 40 years.

Report of Independent Auditors

TO THE MEMBERS OF THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES

Report on the Financial Statements

We have audited the accompanying financial statements of The Co-operative Bank of Kenya Limited and its subsidiaries, which comprise the statement of financial position as at 31 December, 2011 and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 38 - 107.

Directors' Responsibility for the Financial Statements

The directors of the Bank and group are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act and for such internal controls as the directors determine is necessary to enable the preparation of financial statements that are free of material misstatements, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Co-operative Bank of Kenya Limited and Subsidiaries as at 31 December, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other Legal Requirements

The Kenyan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) In our opinion, proper books of account have been kept by the Group and the Bank, so far as appears from our examination of those books;

iii) The Group's and the Bank's statement of financial position and statement of comprehensive income are in agreement with the books of account.

Ernst & Young

Nairobi

27 March 2012

The Movement Donates Kshs 22 Million to Kenyans for Kenyans Famine Relief Fund

Kenya Red Cross Secretary General, Abbas Gullet (left) receives a cheque worth Kshs 22million being the pooled contribution by Kenya's Co-operative Movement in collaboration with MasterCard towards the ***Kenyans for Kenyans*** famine relief campaign. The cheque is presented by Co-op Bank Group CEO Dr. Gideon Muriuki (centre) and Vice President and Market Manager for East Africa and Indian Ocean Islands for MasterCard Worldwide Charlton Goredema (right). Looking on is the Minister for Cooperatives Development & Marketing Hon. Joseph Nyagah and his Assistant Minister Hon. Dr. Jebii Kilimo.

Tree Planting to celebrate Ushirika Day

Kenya's Co-operative Movement marked the 2011 annual day for co-operatives - Ushirika Day – by planting trees at the Agriculture Society of Kenya grounds at Jamhuri Park, Nairobi. The International Co-operative Alliance (ICA) Vice President and Co-op Bank Group Chairman Stanley Muchiri is seen watering a tree he just planted, as did other leaders in the movement including the Chairman, National Council for 2011 Ushirika Day celebrations, Japhet Magomere (in white shirt).

Catholic University completes key Institutional Development with Coop Bank Financing

Archbishop Emeritus of Lusaka Zambia, His Eminence Medrado Cardinal Mazombwe, (right) unveils the plaque to to officially open the Catholic University of Eastern Africa's ***Pope Paul VI Learning Resource Centre*** that was financed by Co-op Bank. Looking on is Co-op Bank Corporate Relationship Manager, Jacqueline Waithaka (centre) and Catholic University of Eastern Africa Vice Chancellor, Rev. Prof. John C. Maviiri. Co-op Bank is a leading financier of the education sector in Kenya and offers support to both public and private education institutions across the country.

Supporting Sports and Community Programmes to nurture Talent

The Senior Deputy Commissioner Marketing and Communication at Kenya Revenue Authority (KRA) Kennedy Onyonyi (left) and the Mwea Classic Marathon Chairman, Nderitu Wachira (centre) receive a dummy cheque from Co-op Bank Head of Marketing and PR Ngumo Kahiga (right) in support of the ***Mwea Classic Marathon 2011*** co-sponsored by KRA. Co-op Bank widely supports sports activities in an effort to nurture talent.

The Co-operative Bank of Kenya Limited and Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Note	2011 KShs'000	2010 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	7	14,151,049	14,033,477
Deposits and balances due from banks	8	7,464,735	6,741,854
Held-for-trading investments	9	165,067	4,062,391
Held-to-maturity investments	10	193,447	9,954,855
Available-for-sale investments	11	21,878,907	20,374,111
Loans and advances to customers	12(a)	109,408,815	86,618,311
Investment in associate	14	1,028,159	256,441
Other assets	15	3,840,431	5,315,727
Intangible assets	16(a)	613,042	586,939
Prepaid lease rentals	17	39,478	40,091
Property and equipment	18	8,683,473	6,355,794
Deferred tax asset	19	845,036	-
TOTAL ASSETS		**168,311,639**	**154,339,991**
LIABILITIES			
Deposits and balances due to banks	20	1,881,284	5,348,291
Customer deposits	21(a)	142,632,308	123,878,422
Loans	22	227,563	138,556
Tax payable	23(b)	63,702	175,582
Provisions	24	48,156	56,126
Other liabilities	25	1,911,964	4,012,728
Capital grants	26	595,164	615,611
Deferred tax liability	19	-	134,177
TOTAL LIABILITIES		**147,360,141**	**134,359,493**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT			
Share capital	27	3,492,370	3,492,370
Share premium	28	4,286,736	4,286,736
Reserves	29	11,651,310	10,685,700
Proposed dividends	30	1,396,948	1,396,948
		20,827,364	19,861,754
Non-controlling interest		124,134	118,744
TOTAL EQUITY		**20,951,498**	**19,980,498**
TOTAL LIABILITIES & EQUITY		**168,311,639**	**154,339,991**

The financial statements were approved by the Board of Directors on 7 March 2012 and signed on its behalf by: -

S.C. Muchiri, EBS - Group Chairman

J.M. Riungu - Vice Chairman

Dr. G. Muriuki, MBS - Group Managing Director & CEO

R. M. Githaiga (Mrs.) - Company Secretary

The notes on pages 48 - 107 form an integral part of these financial statements.

The Co-operative Bank of Kenya Limited and Subsidiaries

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 KShs'000	2010 KShs'000
Interest income	31	16,875,486	12,140,640
Interest expense	32	(4,505,915)	(2,638,132)
NET INTEREST INCOME		**12,369,571**	**9,502,508**
Fees and Commission income	33	5,569,407	4,384,518
Foreign exchange gain		1,013,213	621,201
(Loss) / Gain on sale of financial instruments		(651,085)	594,651
Changes in fair value of financial instruments held for trading		(24,853)	197,406
Amortisation of financial instruments		(136,135)	-
Amortisation of capital grants	26	20,447	20,447
Other income	34	175,286	351,183
OPERATING INCOME		**18,335,851**	**15,671,914**
Operating expenses:-			
Net impairment losses on loans and advances	12(e)	709,903	798,666
Other operating expenses	35	11,417,329	9,230,607
OPERATING EXPENSES		**12,127,232**	**10,029,273**
OPERATING PROFIT	36	**6,208,619**	**5,642,641**
Share of profit of an associate	14	153,943	129,977
PROFIT BEFORE TAX		**6,362,562**	**5,772,618**
INCOME TAX EXPENSE	23(a)	(999,960)	(1,191,920)
PROFIT FOR THE YEAR		**5,362,602**	**4,580,698**
Attributable to:-			
Equity holders of the parent entity		5,357,212	4,568,580
Non-controlling interest		5,390	12,118
		5,362,602	**4,580,698**
Basic earnings per share (KShs)	37	1.53	1.31
Diluted earnings per share (KShs)	37	1.28	1.09

The notes on pages 48 - 107 form an integral part of these financial statements.

The Co-operative Bank of Kenya Limited and Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 KShs'000	2010 KShs'000
PROFIT FOR THE YEAR		**5,362,602**	**4,580,698**
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Change in fair value of available-for-sale investments	38	(3,075,139)	278,607
Other comprehensive income of an associate		3,601	3,762
OTHER COMPREHENSIVE INCOME, NET OF TAX		(3,071,538)	282,369
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF INCOME TAX		**2,291,064**	**4,863,067**
Attributable to:-			
Equity holders of the parent entity		2,285,674	4,850,949
Non-controlling interest		5,390	12,118
		2,291,064	**4,863,067**

The notes on pages 48 - 107 form an integral part of these financial statements.

The Co-operative Bank of Kenya Limited

BANK STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Note	2011 KShs'000	2010 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	7	14,151,043	14,033,477
Deposits and balances due from banks	8	7,437,716	6,671,257
Held-for-trading investments	9	164,192	3,971,005
Held-to-maturity investments	10	3,850	9,954,855
Available-for-sale investments	11	21,878,102	20,372,355
Loans and advances to customers	12(a)	109,408,815	86,618,311
Investment in subsidiaries	13	280,000	280,000
Investment in associate	14	755,118	121,090
Other assets	15	3,777,929	5,241,975
Intangible assets	16(b)	359,197	333,422
Prepaid lease rentals	17	39,478	40,091
Property and equipment	18	8,672,350	6,345,695
Deferred tax asset	19	844,600	-
TOTAL ASSETS		**167,772,390**	**153,983,533**
LIABILITIES			
Deposits and balances due to banks	20	1,881,284	5,348,291
Customer deposits	21(a)	142,704,593	124,012,039
Loans	22	227,563	138,556
Tax payable	23(b)	65,054	171,120
Provisions	24	48,156	56,126
Other liabilities	25	1,874,121	3,922,008
Capital grants	26	595,164	615,611
Deferred tax liability	19	-	132,940
TOTAL LIABILITIES		**147,395,935**	**134,396,691**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT			
Share capital	27	3,492,370	3,492,370
Share premium	28	4,286,736	4,286,736
Reserves	29	11,200,401	10,410,788
Proposed dividends	30	1,396,948	1,396,948
TOTAL EQUITY		**20,376,455**	**19,586,842**
TOTAL LIABILITIES & EQUITY		**167,772,390**	**153,983,533**

The financial statements were approved by the Board of Directors on 7 March 2012 and signed on its behalf by: -

S.C. Muchiri, EBS - Group Chairman

J.M. Riungu - Vice Chairman

Dr. G. Muriuki, MBS - Group Managing Director & CEO

R. M. Githaiga (Mrs.) - Company Secretary

The notes on pages 48 - 107 form an integral part of these financial statements.

The Co-operative Bank of Kenya Limited and Subsidiaries

BANK INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 KShs'000	2010 KShs'000
Interest income	31	16,858,803	12,130,088
Interest expense	32	(4,505,915)	(2,638,132)
NET INTEREST INCOME		**12,352,888**	**9,491,956**
Fees and Commission income	33	5,307,982	4,179,940
Foreign exchange gain		1,013,213	621,201
(Loss) /gain on sale of financial instruments		(657,104)	596,606
Changes in fair value of financial instruments held-for-trading		(24,853)	153,193
Amortisation of financial instruments		(136,889)	-
Amortisation of capital grants	26	20,447	20,447
Other income	34	195,140	340,205
OPERATING INCOME		**18,070,824**	**15,403,548**
Operating expenses:-			
Net impairment losses on loans and advances	12(e)	709,903	798,666
Other operating expenses	35	11,193,153	9,045,854
OPERATING EXPENSES		**11,903,056**	**9,844,520**
PROFIT BEFORE TAX	36	**6,167,768**	**5,559,028**
INCOME TAX EXPENSE	23(a)	(981,425)	1,179,798)
PROFIT FOR THE YEAR		**5,186,343**	**4,379,230**
Basic earnings per share (KShs)	37	1.49	1.25
Diluted earnings per share (KShs)	37	1.24	1.04

The notes on pages 48 - 107 form an integral part of these financial statements.

The Co-operative Bank of Kenya Limited and Subsidiaries

BANK STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 KShs'000	2010 KShs'000
PROFIT FOR THE YEAR		**5,186,343**	**4,379,230**
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Change in fair value of available-for-sale investments	38	(3,075,123)	278,537
OTHER COMPREHENSIVE INCOME, NET OF TAX		(3,075,123)	278,537
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		**2,111,220**	**4,657,767**

The notes on pages 48 - 107 form an integral part of these financial statements.

The Co-operative Bank of Kenya Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2011

	Share Capital KShs'000	Share Premium KShs'000	Revaluation Reserves KShs'000	Statutory Reserves KShs'000	Fair Value Reserve KShs'000	Proposed Dividends KShs'000	Retained Earnings KShs'000	Attributable to equity holder of the company KShs'000	Non-controlling interest KShs'000	Total equity KShs'000
Balance at 1 January 2010	**3,492,370**	**4,286,736**	**354,039**	**203,019**	**-**	**698,474**	**6,514,270**	**15,548,908**	**106,626**	**15,655,534**
Total comprehensive income										
Profit for the year	-	-	-	-	-	-	4,568,580	4,568,580	12,118	4,580,698
Other comprehensive income	-	-	-	-	282,393	-	-	282,393	-	282,393
Reclassification of fair value	-	-	-	-	(24)		24	-		-
Realisation of revaluation surplus	-	-	(9,071)	-	-	-	9,071	-	-	-
Deferred tax on realisation of revaluation surplus	-	-	1,814	-	-	-	-	1,814	-	1,814
Prior year deferred tax	-	-	-	-	-	-	1,814	1,814	-	1,814
Net movement in revenue grants for the year	-	-	-	-	-	-	156,719	156,719	-	156,719
Transfers to revenue reserve	-	-	-	1,935	-	-	(1,935)	-	-	-
2009- Dividends paid	-	-	-	-	-	(698,474)	-	(698,474)	-	(698,474)
Proposed dividends	-	-	-	-	-	1,396,948	(1,396,948)	-	-	-
Balance at 31 December 2010	**3,492,370**	**4,286,736**	**346,782**	**204,954**	**282,369**	**1,396,948**	**9,851,595**	**19,861,754**	**118,744**	**19,980,498**
Balance at 1 January 2011	**3,492,370**	**4,286,736**	**346,782**	**204,954**	**282,369**	**1,396,948**	**9,851,595**	**19,861,754**	**118,744**	**19,980,498**
Total comprehensive income										
Profit for the year	-	-	-	-	-	-	5,357,212	5,357,212	5,390	5,362,602
Other comprehensive income	-	-	-	-	(3,071,538)	-	-	(3,071,538)	-	(3,071,538)
Reversal through income statement	-	-	-	-	(276,994)	-	-	(276,994)	-	(276,994)
Realisation of revaluation surplus	-	-	(9,071)	-	-	-	9,071		-	
Deferred tax on realisation of revaluation surplus	-	-	1,814	-	-	-	-	1,814	-	1,814
Net movement in revenue grants for the year	-	-	-	-	-	-	352,064	352,064	-	352,064
Transfers to revenue reserve	-	-	-	1,024	-	-	(1,024)	-	-	-
2010-Dividends paid	-	-	-	-	-	(1,396,948)	-	(1,396,948)	-	(1,396,948)
Proposed dividends	-	-	-	-	-	1,396,948	(1,396,948)	-	-	-
Balance at 31 December 2011	**3,492,370**	**4,286,736**	**339,525**	**205,978**	**(3,066,163)**	**1,396,948**	**14,171,970**	**20,827,364**	**124,134**	**20,951,498**

The notes on pages 48 - 107 form an integral part of these financial statements.

The Co-operative Bank of Kenya Limited and Subsidiaries

BANK STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2011

	Share Capital KShs'000	Share Premium KShs'000	Revaluation Reserve KShs'000	Statutory Reserve KShs'000	Fair value Reserve	Proposed Dividends KShs'000	Retained Earnings KShs'000	Total KShs'000
Balance at 1 January 2010	**3,492,370**	**4,286,736**	**354,039**	**203,019**	**-**	**698,474**	**6,432,563**	**15,467,201**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	4,379,230	4,379,230
Other comprehensive income	-	-	-	-	278,537	-	-	278,537
Realisation of revaluation surplus	-	-	(9,071)	-	-	-	9,071	-
Deferred tax on realisation of revaluation surplus	-	-	1,814	-	-	-	-	1,814
Net movement in revenue grants for the year	-	-	-	-	-	-	156,719	156,719
Prior year deferred tax	-	-	-	-	-	-	1,814	1,814
Transfer to retained earnings	-	-	-	1,935	-	-	(1,935)	-
2009-Dividends paid	-	-	-	-	-	(698,474)	-	(698,474)
Proposed dividends	-	-	-	-	-	1,396,948	(1,396,948)	-
Balance at 31 December 2010	**3,492,370**	**4,286,736**	**346,782**	**204,954**	**278,537**	**1,396,948**	**9,580,514**	**19,586,841**
Balance at 1 January 2011	**3,492,370**	**4,286,736**	**346,782**	**204,954**	**278,537**	**1,396,948**	**9,580,514**	**19,586,841**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	5,186,343	5,186,343
Other comprehensive income	-	-	-	-	(3,075,123)	-	-	(3,075,123)
Reversal through income statement	-	-	-	-	(278,537)	-	-	(278,537)
Realisation of revaluation surplus	-	-	(9,071)	-	-	-	9,071	-
Deferred tax on realisation of revaluation surplus	-	-	1,814	-	-	-	-	1,814
Net movement in revenue grants for the year	-	-	-	-	-	-	352,064	352,064
Transfer to retained earnings	-	-	-	1,024	-	-	(1,024)	-
2010-Dividends paid	-	-	-	-	-	(1,396,948)	-	(1,396,948)
Proposed dividends	-	-	-	-	-	1,396,948	(1,396,948)	-
Balance at 31 December 2011	**3,492,370**	**4,286,736**	**339,525**	**205,978**	**(3,075,123)**	**1,396,948**	**13,730,021**	**20,376,455**

The notes on pages 48 - 107 form an integral part of these financial statements.

The Co-operative Bank of Kenya Limited and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

CASH FLOWS FROM OPERATING ACTIVITIES:-	Note	2011 KShs'000	2010 KShs'000
Profit before tax		**6,362,562**	**5,772,618**
Adjustments for:-			
Depreciation	18(a)	1,120,188	853,354
Amortization of prepaid lease rentals	17	613	613
Net impairment on property, equipment and intangible assets		2,769	16,713
Net movement in revenue grants		352,064	156,719
Movement in provisions		345,737	345
Amortization of intangible assets	16(a)	118,485	96,917
Amortization of capital grants	26	(20,447)	(20,447)
Gain on disposal of property and equipment		(3,573)	(4,173)
Net foreign exchange differences		(95,864)	-
Changes in fair value of financial instruments held-for-trading		24,853	(197,406)
Share of profit in associate		(153,943)	(129,977)
Amortisation of financial instruments held-to-maturity		136,135	-
Cash flows from operating activities before working capital changes		**8,189,579**	**6,545,276**
Advances to customers		(23,136,241)	(24,344,462)
Other assets		1,665,889	(2,891,264)
Deposits from customers		18,753,886	32,359,689
Deposits from banks		(3,467,007)	4,338,075
Other liabilities		(2,117,086)	2,530,974
Central Bank of Kenya cash reserve ratio		(2,159,046)	(1,432,502)
Held-for-trading investments		3,871,371	245,899
Available-for-sale investments		(5,763,669)	(8,451,076)
Equity investments held-for-trading		1,100	1,100
Cash (used in) / generated by operating activities		**(4,161,224)**	**8,901,709**
Tax paid		(1,310,283)	(980,723)
Net cash flows (used in) /from operating activities		**(5,471,507)**	**7,920,986**
CASH FLOWS FROM INVESTING ACTIVITIES:-			
Purchase of property and equipment	18(a)	(3,482,813)	(1,602,903)
Purchase of software	16(a)	(118,426)	(142,591)
Proceeds from disposal of property and equipment		9,589	32,625
Purchase of held-to-maturity investments	10	(193,447)	9,954,855
Maturity of held-to-maturity investments	10	9,954,855	9,238,779
Purchase of additional shares in associate	14	(634,028)	(100,000)
Dividends from associate		19,854	-
Net cash flows generated from / (used in) investing activities:-		**5,555,584**	**(2,528,945)**
CASH FLOWS FROM FINANCING ACTIVITIES:-			
Loan received		122,000	-
Dividends paid		(1,396,948)	(698,474)
Loans paid		(32,993)	(70,271)
Net cash flows used in financing activities		**(1,307,941)**	**(768,745)**
Net movement in cash and cash equivalents		**(1,123,864)**	**4,623,296**
Cash and cash equivalents at the beginning of the year		15,863,967	11,240,671
Net foreign exchange differences		95,864	-
Cash and cash equivalents at 31 December	39	**14,735,967**	**15,863,967**

The notes on pages 48 - 107 form an integral part of these financial statements.

The Co-operative Bank of Kenya Limited and Subsidiaries

BANK STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

CASH FLOWS FROM OPERATING ACTIVITIES:-	Note	2011 KShs'000	2010 KShs'000
Profit before tax		**6,167,768**	**5,559,028**
Adjustments for:-			
Depreciation	18(b)	1,116,023	849,647
Amortization of prepaid lease rentals	17	613	613
Net impairment on property, equipment and intangible assets		2,769	16,713
Net movement in revenue grants		352,064	156,719
Movement in provisions		345,737	345
Amortization of intangible assets	16(b)	116,710	95,623
Amortization of capital grants	26	(20,447)	(20,447)
Net foreign exchange differences		(95,864)	-
Gain / (loss) on disposal of property and equipment		(3,573)	(4,173)
Changes in fair value of financial instruments held-for-trading		24,853	(153,193)
Amortisation of financial instruments		136,889	-
Cash flows from operating activities before working capital changes		**8,143,542**	**6,500,875**
Advances to customers		(23,136,241)	(24,344,235)
Other assets		1,654,639	(2,840,498)
Deposits from customers		18,692,554	32,459,531
Deposits from banks		(3,467,007)	4,338,075
Other liabilities		(2,063,096)	2,433,065
Central Bank of Kenya cash reserve ratio		(2,159,046)	(1,432,502)
Held-for-trading investments		3,780,860	200,731
Available for sale investment		(5,765,057)	(8,449,431)
Equity investments held-for-trading		1,100	1,100
Cash (used in) / generated by operating activities		**(4,317,752)**	**8,866,711**
Tax paid		(1,287,217)	(979,446)
Net cash flows (used in) / generated from operating activities		**(5,604,969)**	**7,887,265**
CASH FLOWS FROM INVESTING ACTIVITIES:-			
Purchase of property and equipment	18(b)	(3,477,625)	(1,588,670)
Purchase of software	16(b)	(116,323)	(142,591)
Proceeds from disposal of property and equipment		9,589	6,663
Purchase of held-to-maturity investments	10	(3,850)	(9,954,855)
Maturity of held-to-maturity investments	10	9,954,855	9,238,779
Purchase of additional shares in subsidiaries		-	(30,000)
Purchase of additional shares in associate	14	(634,028)	(100,000)
Net cash flows generated / (used in) investing activities		**5,732,618**	**(2,570,674)**
CASH FLOWS FROM FINANCING ACTIVITIES:-			
Loans received		122,000	-
Dividends paid		(1,396,948)	(698,474)
Loans paid		(32,993)	(65,418)
Net cash flows (used in)/ from financing activities		**(1,307,941)**	**(763,892)**
Net movement in cash and cash equivalents		**(1,180,292)**	**4,552,699**
Cash and cash equivalents at the beginning of the year		15,793,370	11,240,671
Net foreign exchange differences		95,864	-
Cash and cash equivalents at 31 December	39	**14,708,942**	**15,793,370**

The notes on pages 48 - 107 form an integral part of these financial statements.

The Co-operative Bank of Kenya Limited and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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1. General Information

The Co-operative Bank of Kenya Limited is a financial institution incorporated in Kenya under the Companies Act (Chapter 486) as a public limited liability company, licensed under the Kenyan Banking Act (Chapter 488) and domiciled in Kenya. The consolidated financial statements comprise the Bank and its subsidiaries together referred to as "the Group". The Group is primarily involved in corporate and retail banking, investment and asset management services in various parts of Kenya. Shares of the Bank are listed on the Nairobi Stock Exchange (NSE). The group information is included on page 2 of these financial statements.

2. Accounting Policies

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

a) Basis of preparation

The consolidated financial statements are prepared under the historical cost convention as modified by the measurement at fair value of trading investment securities, revaluation of land and intangible assets. The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS).

b) Basis of Consolidation

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

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

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

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

c) Changes in accounting policies and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year.

Amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 1 First-time Adoption transitional provisions of IFRS 7 disclosures (Amendment) – 1 July 2010
- IAS 24 Related party disclosures (Amendment) – 1 January 2011
- IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment) – 1 February 2010
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments – 1 July 2010
- IFRIC 14 Prepayments of a minimum funding requirement (Amendment)
- Improvements to IFRSs (issued in May 2010)

The adoption of the standards or interpretations is described below:

IFRS 1 First-time Adoption of International Financial Reporting Standards (Amendment)

The amendment to IFRS 1 is effective for annual periods beginning on or after 1 July 2010. The amendment allows first-time adopters to utilise the transitional provisions of IFRS 7 Financial Instruments: Disclosures as they relate to the March 2009 amendments to the standard. These provisions give relief from providing comparative information in the disclosures required by the amendments in the first year of application. To achieve this, the transitional provisions in IFRS 7 were also amended. This is not applicable to the Group as it is not a first-time adopter.

IAS 24 Related Party Disclosures (Revised)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified and simplifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The adoption of the amendment did not have any impact on the financial position or performance of the Group as the definitions were already applied according to these amendments and the Group is not government related.

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IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The amendment had no effect on the financial position or performance of the Group because the Group does not have these type of instruments.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. This interpretation had no impact on the Group, as the Group didn't issue any equity instruments as payment for financial liabilities.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment corrects an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The group does not have any defined benefit plans and as such were not impacted by this Amendment.

Improvements issued in May 2010

IFRS 1 First-time Adoption of International Financial Reporting Standards

- Accounting policy changes in the year of adoption - The amendment clarifies that, if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34 Interim Financial Reporting, it has to explain those changes and update the reconciliations between previous GAAP and IFRS.
- Revaluation basis as deemed cost - The amendment allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition, but before the first IFRS financial statements are issued. When such re-measurement occurs after the date of transition to IFRS, but during the period covered by its first IFRS financial statements the adjustment is recognised directly in retained earnings (or if appropriate, another category of equity).

IFRS 3 Business Combinations (effective from 1 July 2010):

- Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS. - The amendment clarifies that the amendments to IFRS 7 Financial Instruments: Disclosures, IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008). The amendment is applied retrospectively.
- Measurement of non-controlling interests (NCI) - The amendment limits the scope of the measurement choices only to the components of NCI that are present ownership interests which entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation. Other components of NCI are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS.
- Un-replaced and voluntarily replaced share-based payment awards - The amendment requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether by obligation or voluntarily), i.e., split between consideration and post-combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence

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of the business combination, these are recognised as post-combination expenses.

- IFRS 7 Financial Instruments — Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group reflects the revised disclosure requirements in the notes.
- IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment is applied retrospectively.
- IAS 27 Consolidated and Separate Financial Statements (effective from 1 July 2010): The amendment clarifies that the consequential amendments from IAS 27 made to IAS 21 The Effect of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures apply prospectively for annual periods beginning on or after 1 July 2009 or earlier when IAS 27 is applied earlier. The amendment is applied retrospectively.
- IFRIC 13 Customer Loyalty Programmes - Fair value of award credit

  The amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme is to be taken into account. The amendment is applied retrospectively. This is not applicable to the Group as the Group does not enter into customer loyalty programmes.
- IAS 34 Interim Financial Statements - Significant events and transactions

  The amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around circumstances likely to affect fair values of financial instruments and their classification.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective. The Group expects that adoption of these standards, amendments and interpretations in most cases not to have any significant impact on the Group's financial position or performance in the period of initial application but additional disclosures will be required. In cases where it will have an impact the Group is still assessing the possible impact.

IAS 1 Financial statement presentation - Presentation of Items of Other Comprehensive Income (Amendment)

The amendment is effective for annual periods beginning on or after 1 January 2012 and requires that items of other comprehensive income be grouped in Items that would be reclassified to profit or loss at a future point and items that will never be reclassified. The amendment does not change the nature of items that are currently recognised in OCI, nor does it impact the determination of whether items of OCI are reclassified through profit or loss in future periods. The amendment becomes effective for annual periods beginning on or after 1 July 2012. In terms of classification the revaluation reserve would not be reclassified and the available-for-sale reserve would.

IAS 12 Income taxes (Amendment)

The amendment is effective for annual periods beginning on or after 1 January 2012 and introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognised on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. If consumed a use basis should be adopted. This amendment will have no impact on the Group after initial application as the Group does not hold investment properties.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013 and does not impact the accounting in separate financial statements.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013 and will have no impact on the Group as the revised standard does not change the rules in applying equity accounting and the Group does not have any interests in joint arrangements.

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IAS 32 Financial Instruments: Presentation (Amendment) – Offsetting Financial Assets and Financial Liabilities

The IASB issued an amendment to clarify the meaning of "currently has a legally enforceable right to set off the recognised amounts" (IAS 32.42(a)). This means that the right of set-off:

- must not be contingent on a future event; and
- must be legally enforceable in all of the following circumstances:
  - the normal course of business;
  - the event of default; and
  - the event of insolvency or bankruptcy of the entity and all of the counterparties.

The amendment is effective for annual periods beginning on or after 1 January 2014 and the Group is still in the process of determining how it will impact the Statement of Financial Position and Income Statement upon adoption.

IFRS 7 Financial Instruments: Disclosures - Transfer of financial assets (Amendment)

The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, where:

- Financial assets are derecognised in their entirety, but where the entity has a continuing involvement in them (e.g., options or guarantees on the transferred assets)
- Financial assets are not derecognised in their entirety - The amendments may be applied earlier than the effective date and this fact must be disclosed. Comparative disclosures are not required for any period beginning before the effective date.

IFRS 7 Financial Instruments: Disclosures (Amendment) – Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendment amends the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendment is effective for annual periods beginning on or after 1 January 2013 and the Group is still in the process of determining how it will impact the note disclosures upon adoption.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 32. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the Board will address impairment and hedge accounting. The completion of this project is expected during the first half of 2013. The adoption of the first phase of IFRS 9 will primarily have an effect on the classification and measurement of the Group's financial assets but will potentially have no impact on classification and measurements of financial liabilities. The Group is currently assessing the impact of adopting IFRS 9, however, the impact of adoption depends on the assets held by the Group at the date of adoption, it is not practical to quantify the effect.

IFRS 10 Consolidated Financial Statements; IFRS 11 Joint Arrangements; IFRS 12 Disclosure of Interest in Other Entities.

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model with a new definition of control that applies to all entities.

Control exists when an investor has:

- Power over the investee (defined in IFRS 10 as when the investor has existing rights that give it the current ability to direct the relevant activities)
- Exposure, or rights, to variable returns from its involvement with the investee

And

- The ability to use its power over the investee to affect the amount of the investor's returns

IFRS 10 also provides a number of clarifications on applying this new definition of control, including the following key points:

- An investor is any party that potentially controls an investee; such party need not hold an equity investment to be considered an investor.
- An investor may have control over an investee even when it has less than a majority of the voting rights of that investee (sometimes referred to as de facto control).
- Exposure to risks and rewards is an indicator of control, but does not in itself constitute control.
- When decision-making rights have been delegated or are being held for the benefit of others, it is necessary to assess whether a decision-maker is a principal or an agent to determine whether it has control.
- Consolidation is required until such time as control ceases, even if control is temporary.

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The changes will require management to make significant judgement to determine which entities are controlled and therefore required to be consolidated by the parent. Therefore, IFRS 10 may change which entities are within a Group. This standard becomes effective for annual periods beginning on or after 1 January 2013 and the Group is assessing the impact upon adoption of this new standard.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all the disclosures that were previously required relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities as well as a number of new disclosures. An entity is now required to disclose the judgements made to determine whether it controls another entity.

The Group will need to consider the new definition of control to determine which entities are controlled or jointly controlled and then to account for them under the new standards. IFRS 10, 11 and 12 will be effective for the Group 1 July 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single framework for all fair value measurement (financial and non-financial assets and liabilities) when fair value is required or permitted by IFRS. IFRS 13 does not change when an entity is required to use fair value but rather describes how to measure fair value under IFRS when it is permitted or required by IFRS. There are also consequential amendments to other standards to delete specific requirements for determining fair value. The Group will need to consider the new requirements to determine fair values going forward. IFRS 13 will be effective for the Group 1 July 2013.

d) Significant accounting estimates and assumptions

The preparation of the Group's financial statements requires directors to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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 profit or loss. 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 may result to future changes in impairment charge.

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.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangibles are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, directors must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of available–for–sale investments

The Group reviews its debt securities classified as available–for–sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Group also records impairment charges on available–for–sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

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

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a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

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.

e) Recognition of income and expenses

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

i) Interest and similar income and expenses

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available–for–sale and financial instruments designated at fair value through profit or loss, interest income or expense is recognised at the effective interest rate (EIR), 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 calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial assets or financial liabilities 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 are recognised as interest income or expense.

Interest income is recognised in profit or loss for all interest bearing instruments on an accrual basis taking into account the effective yield on the asset. Interest income is not recognised where recoverability of the advances of the Group's own funds is uncertain. Interest on the Government and Donor funds is recognised as income on accrual basis.

ii) Fee and commission income

Fee and commission income arises from financial services provided by the Group. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Fees earned for the provision of services over time are accrued over that period. These fees include commission income, custody management, investment and advisory services.

iii) Dividend income

Dividends from equity investments are recognised when the Group's right to receive payment is established.

iv) Rental income

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

f) Property and equipment

Recognition and measurement

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Any revaluation surplus is recognised as other comprehensive income in the assets revaluation reserve (a separate component of equity), except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the revaluation reserve. Revaluation surpluses are not distributable.

Other categories of property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Cost includes costs incurred to acquire the asset, costs incurred to bring the asset to working condition for its intended use and the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met. Additions and improvements that result in future benefits are capitalised. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs incurred to keep assets in normal operating condition are recognised in profit or loss as incurred. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

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An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Depreciation

Depreciation is calculated on a straight line basis over the useful life of the asset as follows:

Buildings	2.5%
Fixtures	12.5%
Furniture and equipment	20.0%
Motor vehicles	20.0%
Office machinery	20.0%
Computers	20.0%

Leasehold land is depreciated over the remaining period of the lease. Buildings on leasehold land are depreciated over the remaining period of the lease subject to a maximum of forty years. Buildings on freehold land are depreciated over forty years. Freehold land is not depreciated. The asset's residual values, useful lives and methods of depreciation are reviewed, and prospectively adjusted as a change in estimate if appropriate, at each financial year end.

g) Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 January 2010

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquire were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

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Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

h) Intangible assets

The Group's other intangible assets comprise the value of computer software licenses and separately identifiable intangible items acquired in business combinations.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their 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.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. 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 are 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 profit or loss in the expense category consistent with the function of the intangible asset.

(a) Computer software licences

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

(b) Other intangible assets

Other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. Other intangible assets consist of Nairobi Stock Exchange (NSE) seat.

Other intangible assets are stated fair value less amortisation and provisions for impairment, if any, plus reversals of impairment, if any. They are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows.

i) Investment in an associate

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

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

The consolidated income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of an associate is shown on the face of the consolidated income statement. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of profit of an associate' in the consolidated income statement.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair

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value of the retaining investment and proceeds from disposal is recognised in profit or loss.

j) Finance and operating leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

i) Operating leases:

Where:-

- Group is the lessee

  Leases, where a significant portion of the risk and rewards of ownership are retained by the lessor, are classified as operating leases. The total payments made under operating leases are charged to the profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

- Group is the lessor

  Leases where the Group does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

ii) Finance leases:

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is classified as a finance lease within loans and advances. All other leases are classified as operating leases. 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.

Minimum lease payments made under finance leases are apportioned between the finance income and the reduction of the outstanding asset. The finance income is allocated to each period during the lease term so as to produce a constant rate of interest on the remaining balance of the asset.

k) Financial assets

All financial assets are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

The classification of financial assets at initial recognition depends on the purpose and the management's intention for which the financial assets were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss (which include financial assets held-for-trading).

i) Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held-for-trading and financial assets designated by the Group as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Financial assets held-for-trading consist of treasury bonds and equity instruments. They are recognised in the consolidated statement of financial position as 'Held for trading instruments'.

Subsequent to initial recognition, financial assets at fair value through profit or loss are re-measured at fair value. Gains and losses arising from changes in fair value are included directly in profit or loss. Interest income and expense and dividend income and expenses on financial assets held-for-trading are included in profit or loss respectively

ii) Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the investments

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are derecognised or impaired, as well as through the amortisation process. Held-to maturity investments are treasury bills, treasury bonds and corporate bonds.

iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

iv) Available-for-sale financial assets

Available-for-sale investments are financial assets that are 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 or that are not classified as loans and receivables, held to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value with gains and losses being recognised as other comprehensive income and accumulated in the available-for-sale reserve (a separate component of equity), until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is recognised through other comprehensive income into profit or loss in the consolidated statement of comprehensive income.

v) Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the end of reporting period. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

vi) Amortised cost

Amortised cost is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

l) Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(1) Financial assets carried at amortised cost

Financial assets carried at amortised cost include amounts due from banks, loans and advances to customers as well as held-to-maturity investments.

For loans and advance impairment losses are computed based on:

i) Central Bank of Kenya Prudential Guidelines

The Group reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognised in the profit or loss. 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.

A collective allowance for impairment is made at the rate of 1% of loans and advances classified under normal and 3% for watch categories as per the Central

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Bank Kenya Prudential Guidelines. Advances are written off/down when the directors are of the opinion that their recoverability will not materialise.

ii) International Accounting Standard (IAS) 39

Financial assets accounted for at amortised cost are assessed for objective evidence of impairment and required allowances are estimated in accordance with IAS 39. Impairment exists if the book value of a claim or a portfolio of claims exceeds the present value of the cash flows actually expected in future periods discounted at the financial asset's original effective interest rate. These cash flows include scheduled interest payments, principal repayments, or other payments due (for example from guarantees), including liquidation of collateral where available.

The total allowance for recognised financial assets consists of two components: specific counterparty impairment losses and collectively assessed impairment losses. The specific counterparty component applies to claims evaluated individually for impairment and is based upon directors' best estimate of the present value of the cash flows which are expected to be received. In estimating these cash flows, directors make judgments about counterparty's financial situation and the net realizable value of any underlying collateral or guarantees in the Group's favour.

Each impaired financial asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk Department. Collectively assessed impairment losses on loans and advances cover credit losses inherent in portfolios of claims with similar economic characteristics where there is objective evidence to suggest that they contain impaired claims but the individual impaired items cannot yet be identified. In assessing the need for collective allowance on impairment losses, directors consider factors such as credit quality, portfolio size, concentrations, and economic factors.

In order to estimate the required allowance for impairment, assumptions are made to define inherent losses model and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance for impairment made depends on how well estimates are made for future cash flows for specific allowances for impairment and the model assumptions and parameters used in determining collective allowances for impairment. While this necessarily involves judgment, directors believe that their impairment allowances are reasonable and supportable.

If impairment charges computed under International Accounting Standard (IAS) 39 are lower than allowances required under CBK Prudential Guidelines, the excess allowances are treated as appropriations of retained earnings and not expenses in determining profit and loss. Similarly any credits resulting from the reduction of such amounts results in an increase in retained earnings and are not included in the determination of profits or loss. Where the impairment charges computed under IAS 39 are higher than allowances required under this guideline, the impairment charges are considered adequate as per Prudential Guidelines.

(2) Financial assets classified as available-for-sale

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from the available-for-sale reserve and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss but recognised as other comprehensive income and accumulated in the available-for-sale reserve (a separate component of equity). If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

(3) Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before

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the modification of terms and 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 subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

The impairment test can also be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

m) Derecognition of financial assets

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired.
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either:
- the Group has transferred substantially all the risks and rewards of the asset, or
- the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the bank's continuing involvement in the asset. In that case, the bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

n) Financial liabilities

a) Customer deposits

Customer deposits include call, fixed, current account and savings deposits. The fair value of savings, deposits and current accounts with no specific maturity is assumed to be the amount payable on demand at end of the reporting period, i.e. their carrying values at this date. The fair values of time deposits are estimated using discounted cash flow calculations based upon interest rates currently being offered for similar contracts with maturities consistent with those being valued. The carrying amounts of variable-rate deposits approximate their fair values at the reporting date.

b) Deposits from/ to other banks

Deposits from other banks include inter-bank placements and deposits. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.

Placements with other banks include inter-bank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.

c) Other borrowed funds and borrowing costs

Borrowings are financial liabilities and measured initially at fair value and subsequently at amortised cost using the effective interest rate method. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised.

d) Financial guarantee contracts

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. These are written by the Group to support performance by a customer to third parties. The Group will only be required to meet these obligations in the event the customer defaults. Financial

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guarantee contracts are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee contracts are subsequently carried at the higher of the amortised amount and the present value of any expected payment when a payment under the guarantee has become probable. These obligations are not accounted for in the statement of financial position but are disclosed as contingent liabilities.

e) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

o) 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.

p) Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within 'Other assets'.

q) Foreign currency

Transactions in foreign currencies are translated at the rates ruling on the transaction dates. Monetary balances in foreign currencies are translated at the Central Bank of Kenya rates ruling at the end of the reporting period. Any resulting gains or losses on exchange are dealt with in profit or loss in the period in which they arise. Non monetary items carried at cost are translated using the exchange rate at the date of the transaction, whilst assets carried at fair value are translated at the exchange rate when the fair value was determined.

r) Employee benefits

The Group operates a defined contribution retirement scheme for its employees. The assets of the scheme are held in a separate trustee administered fund which is funded by contributions from both the Group and employees. The Group contributions to the scheme are charged to the profit or loss in the year to which they relate. 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.

Short-term benefits consist of salaries, bonuses and any non-monetary benefits such as medical aid contributions and free services.

The monetary liability for employees' accrued annual leave entitlement at the end of reporting period is recognised as an expense accrual.

s) Taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of reporting period. Current tax relating to items recognised outside profit or loss is recognised outside profit or loss. Current tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

(i) where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

(i) where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset

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(ii) or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(iii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each end of the reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of reporting period. Deferred income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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 Kenya Revenue Authority (KRA), 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, KRA is included as part of accounts receivables or payables in the statement of financial position.

t) Grants

Grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and released to income in equal annual amounts over the expected useful life of the related asset.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable.

Where the Group receives non-monetary grants, the asset and that grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the relevant asset by equal annual instalments. Grants related to property and equipment are deferred and utilised in the reduction of the carrying amounts of the related assets over their useful lives.

u) Cash and cash equivalents

Cash and cash equivalents comprise balances with maturities of less than 91 days from the date of acquisition and include cash and balances with Central Bank of Kenya excluding cash reserve ratio, items in the course of collection, government securities and deposits and balances due from banking institutions. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Cash and cash equivalents are measured at amortised cost.

v) Repurchase agreement transactions

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) are recognised in the statement of financial position and are measured in accordance with accounting policies for non-trading investments. The liability for amounts under these agreements is included in deposits and balances due to banks and balances with Central Bank of Kenya. The difference between sale and repurchase price is treated as interest expense using the effective yield method.

w) Dividends

Dividends on ordinary shares are charged to equity in the year in which they are declared. Proposed dividends are shown as a separate component of equity until they have been ratified at the Annual General Meeting.

x) Fiduciary assets

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

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y) Segmental reporting

The Bank's segmental reporting is based mainly on the Retail banking and wholesale banking.

3. Financial Risk Management

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk & Finance Committee, which is responsible for developing and monitoring Group risk management policies in their specified areas. All Board committees, with exception of Board Audit Committee 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 Board Audit Committee is responsible for monitoring compliance with the Group's risk policies and procedures, and for reviewing their adequacy. The Board Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk controls and procedures, the results of which are reported to the Board Audit committee.

The Group has exposure to the following risks from its use of financial instruments:

A. Credit risk
B. Liquidity risk
C. Market risks
D. Operational risks

Below is the information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. There is no significant difference between the Group and Bank balances in assessment of the various risks facing the Group.

(A) 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 and other banks and investment securities. 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 Board's Risk and Finance Committee. A separate Credit Risk Department, reporting to the Board's Risk and Finance Committee, is responsible for oversight of the Group's credit risk, including:

a. 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.
b. Establishing the authorisation structure for the approval and renewal of credit facilities.
c. Reviewing and assessing credit risk.
d. 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.
e. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types.
f. 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 Group credit policies and procedures, with credit approval authorities delegated from the Board's Risk and Finance 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.

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Exposure to credit risk on loans and advances to customers is as follows:

	Note	Group 2011 KShs'000	2010 KShs'000
Carrying amount		**114,101,180**	**90,964,939**
Individually assessed for impairment			
Grade 5: Loss category		849,215	617,132
Grade 4: Doubtful category		2,292,169	2,422,981
Gross amount		3,141,384	3,040,113
Allowance for impairment		(2,591,391)	(2,830,039)
Carrying amount		**549,993**	**210,074**
Collectively assessed for impairment			
Grade 1: Normal		104,844,916	83,243,323
Grade 2: Watch list		4,048,431	2,818,852
Gross amount		108,893,347	86,062,175
Allowance for impairment		(1,433,882)	(917,089)
Carrying amount		**107,459,465**	**85,145,086**
Past due but not impaired loans (Grade 3 - Substandard)			
Past due up to 30 days		1,813,738	1,480,263
Past due 31-60 days		13,263	245,515
Past due 61-90 days		16,146	30,119
Past due 91-150 days		223,303	106,755
Gross amount		2,066,450	1,862,652
Allowance for impairment		(667,093)	(599,501)
Carrying amount		**1,399,357**	**1,263,151**
Net carrying amount	**12 (a)**	**109,408,815**	**86,618,311**

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Maximum exposure to credit risk before collateral held:

	2011 KShs '000	%	2010 KShs '000	%
Items recognised in the statement of financial position:				
Items in the course of collection	556,899	0%	366,306	0%
Deposits and balances due from banking institutions	7,464,735	5%	6,741,854	5%
Financial assets:				
-Held-to-maturity	193,447	0%	9,954,855	7%
-Held-for-trading	165,067	0%	4,062,391	3%
-Available-for-sale	21,878,907	15%	20,374,111	14%
Interest receivable	1,468,190	1%	1,011,081	1%
Loans and advances to customers	109,408,815	74%	86,618,311	60%
	133,114,426	90%	129,128,909	89%
Items not recognised in the statement of financial position	14,962,504	10%	15,718,941	11%
	148,076,930	**100%**	**144,847,850**	**100%**

Maximum exposure to credit risk before collateral held represents the worst-case scenario of credit risk exposure without taking account of any collateral held or any other credit enhancements attached. While collateral is an important means to mitigate against credit risk, the Group's primary policy is to issue loans after establishing capacity of the customer to repay. Unsecured facilities amount to KShs 43,728 Million (2010- KShs 46,054 Million). All other facilities are secured by collateral in the form of charges over cash, land and buildings, marketable securities, plant and machinery among others.

Impaired loans

Impaired loans are loans for which the Bank 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. These loans are graded 4 to 5 in the Bank's internal credit risk grading system.

Past due but not impaired loans

These are loans where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/ collateral available and/ or the stage of collection of amounts owed to the Bank.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it may remain in this category or may be re-graded depending on performance after restructuring.

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The carrying amount of renegotiated financial assets that would otherwise be past due or impaired is as follows:

	2011 KShs'000	2010 KShs'000
Due from banks	-	-
Financial assets at fair value through profit or loss	-	-
Loans and advances to customers:-	-	-
Finance lease receivables	-	-
Overdrafts	-	-
Commercial loans	463,281	472,793
Government/Donor funded loan schemes	-	-
Credit card balances	-	-
Micro enterprises	-	-
	463,281	**472,793**

Allowances for impairment

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

Write-off policy

The Bank writes off a loan balance as and when Board of directors 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. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Collateral on loans and advances

The Bank holds collateral against loans and advances to customers in the form of cash, mortgage interests over residential, commercial and industrial properties, other registered securities over assets, motor vehicles, plant and machinery, marketable securities, bank guarantees and letters of credit. 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. Collateral is generally not held over loans and advances to banks and against investment securities.

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

	2011 KShs'000	2010 KShs'000
i) Categorised by loans & advances:		
Doubtful & loss categories	679,151	578,683
Past due but not impaired (Sub-standard) category	1,611,947	721,194
Normal & watch categories	67,169,783	55,132,030
	69,460,881	**56,431,907**
ii) Categorised by nature of collateral:		
Land & buildings	53,326,711	41,702,490
Cash & other pledges	4,777,412	3,197,271
Motor vehicles	4,676,813	3,621,131
Hypothecation of stock	1,121,683	1,033,390
Debentures & guarantees	5,558,263	5,467,965
Other chattels	5,558,263	1,409,660
	69,460,881	**56,431,907**

Concentration of Risk

Concentration indicates the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. Excessive concentration arises when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

To avoid excessive concentration of risk, the Bank's policies and procedures include specific guidelines that ensure maintenance of a diversified portfolio across bank products, industry sectors, geographic spread, credit ratings, customer segments and exposure to single or related counterparties. Concentrations of credit risk which have been identified are controlled and managed accordingly.

Loans and advances:-	**2011 KShs '000**	**%**	**2010 KShs '000**	**%**
i) Concentration by sector:				
Agriculture	6,134,913	5	4,129,992	5
Manufacturing, energy & water	6,976,047	6	7,475,931	9
Financial services	23,287,520	20	19,058,315	21
Tourism & hospitality	1,078,846	1	1,014,183	1
Wholesale and retail trade	13,234,195	12	8,747,482	10
Transport and communication	4,341,757	4	2,242,473	2
Real Estate, building & construction	7,019,197	6	2,570,253	2
Consumer & household	52,028,705	46	45,726,310	50
	114,101,180	**100**	**90,964,939**	**100**
ii) Concentration by business:				
Corporate	39,849,840	35	29,621,047	33
Mortgage & Asset Finance	9,408,119	8	2,288,889	3
Small, Medium and Microenterprises	8,533,295	7	11,918,487	13
Retail	52,405,626	46	41,914,424	46
Agribusiness	3,904,300	3	5,222,092	6
	114,101,180	**100**	**90,964,939**	**100**

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Customer deposits:-	**2011 KShs '000**	**%**	**2010 KShs '000**	**%**
Private enterprises	47,056,424	33	40,935,521	33
Non-profit institutions	9,768,258	7	7,003,827	6
Individuals	37,815,818	26	30,146,642	24
Others	48,064,093	35	45,926,049	37
	142,704,593	**100**	**124,012,039**	**100**

Settlement Risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash or other assets as contractually agreed. For some transactions, settlement risk is mitigated by conducting settlements through a settlement/clearing agent to ensure that a transaction is settled only when both parties have fulfilled their contractual obligations. Where this arrangement is not available, this risk is controlled through settlement limits which form part of the credit approval and limit monitoring process under the Bank's risk management mechanisms. This requires transaction-specific or counterparty-specific assessment to ensure the Bank deals with highly rated counterparties and implements other measures such as holding collateral.

(B) Liquidity risk

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

Management of liquidity risk

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.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then 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. In addition to internally set liquidity buffers and trigger ratios, compliance with the regulatory framework is also monitored consistently. Liquidity management is regularly reviewed in order to ensure appropriate reactions to shifts in general conditions, and special importance is attached to diversification of liquidity resources. All liquidity policies and procedures are subject to review and approval by Board Risk & Finance Committee which also receives regular risk reports.

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Exposure to liquidity risk

The table below analyses the Group's assets and liabilities into relevant groupings based on the remaining period at 31 December to the contractual maturity dates:

31 December 2011	Available immediately and up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
FINANCIAL ASSETS	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cash and balances with Central Bank of Kenya	14,151,049	-	-	-	-	14,151,049
Deposits and balances due from banks	6,614,054	-	850,681	-	-	7,464,735
Investment in financial instruments	297,232	49,756	1,669,576	9,018,743	11,338,249	22,373,556
Loans and advances to customers	6,541,941	2,330,518	8,782,551	57,961,244	32,402,778	108,019,032
Other assets	2,566,236	663,300	610,895	-	-	3,840,431
Total undiscounted financial assets	**30,170,512**	**3,043,574**	**11,913,703**	**66,979,987**	**43,741,027**	**155,848,803**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	1,614,833	256,451	10,000	-	-	1,881,284
Customers' deposits	111,871,489	20,648,189	8,468,061	589,968	-	141,577,707
Loans	-	-	-	224,983	-	224,983
Other financial liabilities	685,925	663,300	610,895	-	-	1,960,120
Total undiscounted financial liabilities	114,172,247	21,567,940	9,088,956	814,951	-	145,644,094
Net liquidity gap at 31 December 2011	**(84,001,735)**	**(18,524,366)**	**2,824,747**	**66,165,036**	**43,741,027**	**10,204,709**
Assets not recognised in statement of financial position	**6,625,288**	**1,025,737**	**6,059,842**	**1,287,434**	**-**	**14,998,300**
Liabilities not recognised in statement of financial position	**6,625,288**	**1,025,737**	**6,059,842**	**1,287,434**	**-**	**14,998,300**

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31 December 2010	**Available immediately and up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
FINANCIAL ASSETS	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cash and balances with Central Bank of Kenya	8,755,807	-	-	-	-	8,755,807
Deposits and balances due from banks	2,567,802	4,174,052	-	-	-	6,741,854
Investment in financial instruments	3,777,846	5,836,542	6,231,145	9,697,534	8,326,455	33,869,522
Loans and advances to customers	4,860,606	968,737	9,135,990	52,309,620	19,343,358	86,618,311
Other assets	484,714	1,615,700	809,300	-	-	2,909,714
Total undiscounted financial assets	**20,446,775**	**12,595,031**	**16,176,435**	**62,007,154**	**27,669,813**	**138,895,208**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	5,082,791	265,500	-	-	-	5,348,291
Customers' deposits	81,285,150	31,346,471	11,310,477	-	-	123,942,098
Loans	-	-	-	142,713	-	142,713
Other financial liabilities	2,691,509	-	-	-	-	2,691,509
Total undiscounted financial liabilities	89,059,450	31,611,971	11,310,477	142,713	-	132,124,611
Net liquidity gap at 31 December 2010	**(68,612,675)**	**(19,016,940)**	**4,865,958**	**61,864,441**	**27,669,813**	**6,770,597**
Assets not recognised in statement of financial position	**6,174,628**	**3,672,974**	**5,520,113**	**351,226**	**-**	**15,718,941**
Liabilities not recognised in statement of financial position	**6,174,628**	**3,672,974**	**5,520,113**	**351,226**	**-**	**15,718,941**

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

	2011	**2010**
	%	**%**
At 31 December	27.2	39.4
Average for the year	33.6	39.6
Maximum for the year	41.5	43.7
Minimum for the year	24.4	34.5
Statutory minimum ratio	20.0	20.0

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(C) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, and foreign exchange rates will affect the Bank's income or value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk

The Bank separates its exposure to market risk between trading and held to maturity portfolios. Trading portfolios are managed on a mark to market basis. Overall authority for market risk is vested in Asset and Liability Committee (ALCO). Risk Management Department is responsible for the development of detailed risk management policies and for the day to day review of their implementation.

Exposure to market risk – trading portfolios

The Bank measures its market risk exposure for the trading portfolio through marking to market on a monthly basis.

Exposure to interest rate risk – non- trading portfolios

The principal risk to which held to maturity portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands to minimise the impact of movements in market interest rates on its net interest margin. Maturity gap analysis of assets and liabilities, whereby interest rate re-pricing based on time (periodic) buckets is used to measure potential income effects arising from interest rate changes. The Bank critically evaluates overall risk and return profiles and objectives, including monitoring compliance through ALCO in conjunction with Risk Management Department for day-to-day activities.

The table below summarises the exposure to interest rate risks. Included in the table are the group's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. The sensitivity computations assume that financial assets maintain a constant rate of return from one year to the next. The Group bases its sensitivity analysis on the interest sensitivity gap.

31 December 2011	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non interest bearing**	**Total**
ASSETS	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cash and balances with Central Bank of Kenya	14,151,049	-	-	-	-	-	14,151,049
Deposits and balances due from banks	6,614,054	-	850,681	-	-	-	7,464,735
Investment in financial instruments	297,232	49,756	1,669,576	9,018,743	11,202,114	-	22,237,421
Loans and advances to customers	6,541,941	2,330,518	8,782,551	57,961,244	33,792,561	-	109,408,815
Other assets	-	-	-	-	-	15,049,579	15,049,579
Total assets	**27,604,276**	**2,380,274**	**11,302,808**	**66,979,987**	**44,994,675**	**15,049,579**	**168,311,599**
LIABILITIES							
Deposits and balances due to banks	1,614,833	256,451	10,000	-	-	-	1,881,284
Customers' deposits	112,926,090	20,648,189	8,468,061	589,968	-	-	142,632,308
Loans	-	-	-	227,563	-	-	227,563
Other financial liabilities	-	-	-	-	-	23,570,444	23,570,444
Total liabilities	**114,540,923**	**20,904,640**	**8,478,061**	**817,531**	**-**	**23,570,444**	**168,311,599**
Interest sensitivity gap	**(86,936,647)**	**(18,524,366)**	**2,824,747**	**66,162,456**	**44,994,675**	**(8,520,865)**	**-**

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31 December 2010	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non interest bearing	Total
ASSETS	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cash and balances with Central Bank of Kenya	14,033,477	-	-	-	-	-	14,033,477
Deposits and balances due from banks	6,657,745	84,109	-	-	-	-	6,741,854
Investment in financial instruments	3,836,052	5,926,467	6,327,150	9,846,946	8,454,742	-	34,391,357
Investment in associate	-	-	-	-	-	260,531	260,531
Loans and advances to customers	4,860,606	968,737	9,135,990	52,309,620	19,343,358	-	86,618,311
Other assets	-	-	-	-	-	12,297,450	12,297,450
Total assets	**29,387,880**	**6,979,313**	**15,463,140**	**62,156,566**	**27,798,100**	**12,557,981**	**154,342,980**
LIABILITIES							
Deposits and balances due to banks	4,017,695	1,130,530	200,066	-	-	-	5,348,291
Customers' deposits	81,285,150	31,320,371	11,272,901	-	-	-	123,878,422
Loans	-	-	-	138,556	-	-	138,556
Other liabilities	-	-	-	-	-	4,378,715	4,378,715
Share capital & Reserves	-	-	-	-	-	20,598,996	20,598,996
Total liabilities	**85,302,845**	**32,450,901**	**11,472,967**	**138,556**	**-**	**24,977,711**	**154,342,980**
Interest sensitivity gap	**(55,914,965)**	**(25,471,588)**	**3,990,173**	**62,018,010**	**27,798,100**	**(12,419,730)**	**-**

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Interest rate risk sensitivity analysis

With all other variables held constant, the effect of 1% increase or decrease in interest rates on financial assets and liabilities on the group profit before tax and equity would be as follows:

	2011			2010		
ASSETS	**Carrying amount**			**Carrying amount**		
	KShs'000	1% increase	1% decrease	**KShs'000**	1% increase	1% decrease
Cash and CBK balances	**14,151,049**	141,510	(141,510)	**14,033,477**	140,335	(140,335)
Deposits and balances due from banks	**7,464,735**	74,647	(74,647)	**6,741,854**	67,419	(67,419)
Held-for-trading investments	**165,067**	1,651	(1,651)	**4,062,391**	40,624	(40,624)
Held to maturity investments	**193,447**	1,934	(1,934)	**9,954,855**	99,549	(99,549)
Loans and advances to customers	**109,408,815**	1,094,088	(1,094,088)	**86,618,311**	866,183	(866,183)
		1,313,830	**(1,313,830)**		**1,214,110**	**(1,214,110)**
LIABILITIES & EQUITY						
Balances due to Central Bank of Kenya	**-**	-	-	**2,699,244**	26,992	(26,992)
Deposits and balances due to banks	**1,881,284**	18,813	(18,813)	**2,649,047**	26,490	(26,490)
Customers' deposits	**142,632,308**	1,426,323	(1,426,323)	**123,878,422**	1,238,784	(1,238,784)
Loans	**227,563**	2,276	(2,276)	**138,556**	1,386	(1,386)
		1,447,412	(1,447,412)		1,293,653	(1,293,653)
Effect on profit before tax		**(133,582)**	**133,582**		**(79,543)**	**79,543**
As percentage of profit before tax (%)		**(2.10%)**	**2.10%**		**(1.40%)**	**1.40%**
Effect on equity						
Available- for-sale investments	**21,878,907**	**218,789**	**(218,789)**	**20,374,111**	**203,741**	**(203,741)**

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ii) Exposure to currency risk

Currency risk is the potential for losses as a result of adverse exchange rate movements during a period in which it has an open position, either spot or forward, or a combination of the two, in an individual foreign currency. Currently, the Bank operates in 13 foreign currencies (namely USD, GBP, JPY, CHF, AUD, CAD, SEK, NOK, DKK, INR, ZAR, EUR and AED), but USD is the most significant exposure. The Bank strives to minimize the potential impact of movements in exchange rates on its risk bearing capacity by having currency position and stop loss limits. Also developed are the key risk indicators which are used to pro-actively manage and monitor foreign exchange risk.

The table below summarises foreign currency exposure to the Bank as at close of period.

CURRENCY TYPE	**USD**	**GBP**	**EURO**	**JPY**	**CHF**	**ZAR**	**OTHERS**	**TOTAL**
EXCHANGE RATE	**85**	**131**	**110**	**1**	**90**	**10**		
31 December 2011	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Foreign Currency Assets:								
Cash and balances with banks abroad	2,242,899	2,359,867	3,483,648	3,830	47,367	10,780	32,373	8,180,764
Loan and advances	6,408,092	51,345	73,890	-	-	2	-	6,533,328
Other foreign assets	11,525,360	1,320,810	2,118,502	19,461	75,628	9,960	16,632	15,086,354
Total statement of financial position items	20,176,352	3,732,022	5,676,040	23,291	122,994	20,742	49,005	29,800,446
Items not recognised in statement of financial position	10,177,850	644,284	1,404,871	6,431	-	43,748	100,724	12,377,907
Total Foreign Assets	**30,354,201**	**4,376,305**	**7,080,910**	**29,722**	**122,994**	**64,491**	**149,729**	**42,178,353**
Foreign Currency Liabilities:								
Balances due to banks abroad	1,514,238	104	5,566	-	-	-	569	1,520,477
Deposits	6,711,254	2,386,386	3,412,991	1,291	22	3,360	8,256	12,523,560
Other foreign liabilities	11,679,946	1,327,901	2,092,547	19,461	75,679	6,136	18,383	15,220,054
Total statement of financial position items	19,905,438	3,714,391	5,511,103	20,753	75,701	9,496	27,208	29,264,091
Items not recognised in statement of financial position	10,177,850	644,284	1,404,871	6,431	-	43,748	100,724	12,377,907
Total Foreign liabilities	**30,083,288**	**4,358,675**	**6,915,974**	**27,183**	**75,701**	**53,244**	**127,932**	**41,641,998**
Net Exposure at 31 December 2011	**270,913**	**17,630**	**164,936**	**2,539**	**47,293**	**11,246**	**21,797**	**536,355**

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CURRENCY TYPE	**USD**	**GBP**	**EURO**	**JPY**	**CHF**	**ZAR**	**OTHERS**	**TOTAL**
EXCHANGE RATE	**81**	**125**	**108**	**1**	**86**	**12**		
31 December 2010	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Foreign Currency Assets:								
Cash and balances with banks abroad	2,740,476	54,906	3,004,038	5,948	18,188	208,177	28,610	6,060,343
Loan and advances	3,072,851	42,134	27,833	-	-	2	31	3,142,851
Other foreign assets	10,433,740	164,215	5,892,589	17,586	15,977	31,671	8,101	16,563,879
Total statement of financial position items	16,247,067	261,255	8,924,460	23,534	34,165	239,850	36,742	25,767,073
Items not recognised in statement of financial position	8,251,886	125,176	5,446,568	-	-	134,175	107,843	14,065,648
Total Foreign Assets	**24,498,953**	**386,431**	**14,371,028**	**23,534**	**34,165**	**374,025**	**144,585**	**39,832,721**
Foreign Currency Liabilities:								
Balances due to banks abroad	168,288	593	-	-	2	-	1	168,884
Deposits	4,962,283	100,357	2,986,347	1,167	-	16,467	6,438	8,073,059
Other foreign liabilities	11,015,822	176,260	5,925,802	21,790	17,543	219,084	11,951	17,388,252
Total statement of financial position items	16,146,393	277,210	8,912,149	22,957	17,545	235,551	18,390	25,630,195
Items not recognised in statement of financial position	8,251,886	125,176	5,446,568	-	-	134,175	107,843	14,065,648
Total Foreign liabilities	**24,398,279**	**402,386**	**14,358,717**	**22,957**	**17,545**	**369,726**	**126,233**	**39,695,843**
Net Exposure at 31 December 2010	**100,674**	**(15,955)**	**12,311**	**577**	**16,620**	**4,299**	**18,352**	**136,878**

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Currency risk sensitivity analysis

With all other variables held constant, the effect of 10% appreciation or depreciation of the shilling against major trading currencies on profit would be as follows:

	2011 Carrying amount KShs'000	**10% appreciation**	**10% depreciation**	**2010 Carrying amount KShs'000**	**10% appreciation**	**10% depreciation**
Foreign Currency Assets:						
USD	**30,354,201**	(3,035,420)	3,035,420	**24,498,953**	(2,449,895)	2,449,895
GBP	**4,376,305**	(437,631)	437,631	**386,430**	(38,643)	38,643
EURO	**7,080,910**	(708,091)	708,091	**14,371,028**	(1,437,102)	1,437,102
JPY	**29,722**	(2,972)	2,972	**23,534**	(2,353)	2,353
CHF	**122,994**	(12,299)	12,299	**34,165**	(3,416)	3,416
ZAR	**64,491**	(6,449)	6,449	**374,024**	(37,402)	37,402
Other currencies	**149,729**	(14,973)	14,973	**144,585**	(14,458)	14,458
		(4,217,835)	**4,217,835**		**(3,983,269)**	**3,983,269**
Foreign Currency Liabilities:						
USD	**30,083,288**	3,008,329	(3,008,329)	**24,398,280**	2,439,828	(2,439,828)
GBP	**4,358,675**	435,868	(435,868)	**402,385**	40,238	(40,238)
EURO	**6,915,974**	691,597	(691,597)	**14,358,717**	1,435,871	(1,435,871)
JPY	**27,183**	2,718	(2,718)	**22,957**	2,295	(2,295)
CHF	**75,701**	7,570	(7,570)	**17,545**	1,754	(1,754)
ZAR	**53,244**	5,324	(5,324)	**369,726**	36,972	(36,972)
Other currencies	**127,932**	12,793	(12,793)	**126,235**	12,623	(12,623)
		4,164,200	(4,164,200)		3,969,581	(3,969,581)
Effect on profit before tax		**(53,636)**	**53,636**		**(13,688)**	**13,688**
As percentage (%) of profit before tax		**(0.84%)**	**0.84%**		**(0.2%)**	**0.2%**

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(D) Operational risk

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

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank'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 Bank standards for the management of operational risk in the following areas:

a) requirements for appropriate segregation of duties, including the independent authorisation of transactions
b) requirements for the reconciliation and monitoring of transactions
c) compliance with regulatory and other legal requirements
d) documentation of controls and procedures
e) requirements for the yearly assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
f) requirements for the reporting of operational losses and proposed remedial action
g) development of contingency plans
h) training and professional development
i) ethical and business standards
j) risk mitigation, including insurance where this is effective

Compliance with Bank standards is supported by a programme of regular reviews undertaken by both the Internal Audit and Compliance departments. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Board Audit Committee and senior management of the Bank.

Risk Management is charged with the role of overall planning, coordination, and monitoring of operational risk from a centralized operational risk management department. The department is responsible for collecting and collating all data on operational risk loss events, risk indicators, and developing risk matrices aimed at reducing the Bank's Operational Risk Capital Charge.

4. Capital Management

Regulatory capital

The Central Bank of Kenya sets and monitors capital requirements for the Banking industry as a whole. The statutory minimum core capital is KShs 700 million. In implementing current capital requirements The Central Bank of Kenya requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

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

a. Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
b. Tier 2 capital, which includes 25% of asset revaluation reserves which have received prior Central Bank approval, subordinated debt and other capital instruments approved by Central Bank.

Various limits are applied to elements of the capital base; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There also are restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital.

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

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

	2011	2010
Tier I Capital:	**KShs'000**	**KShs'000**
Ordinary share capital	3,492,370	3,492,370
Share premium	4,286,736	4,286,736
Retained earnings	13,730,021	9,580,515
Other reserves	595,163	615,610
Less: Investments in equity of other institutions	(1,020)	(2,120)
Core Capital	**22,103,270**	**17,973,111**
Tier II Capital:		
Revaluation reserves (25%)	84,881	86,696
Term subordinated debt	227,563	138,556
Loan loss provisions	205,978	204,954
Supplementary capital	518,422	430,206
Total regulatory capital	22,621,692	18,403,317
Total risk weighted assets	**137,792,005**	**111,233,493**
Capital ratios:		
Core capital to Total deposit liabilities (CBK minimum 8%)	15.3%	14.4%
Core capital to Total risk weighted assets (CBK minimum 8%)	16.0%	16.2%
Total capital to Total risk weighted assets (CBK minimum 12%)	16.4%	16.5%

Capital Allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes.

The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Group Risk and Group Credit, and is subject to review by the Group Credit Committee or ALCO as appropriate. Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision-making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

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5. Segment Reporting

For management purposes, the Bank is organised into two main operating segments based on products and services as follows:

1. Retail Banking: Includes loans deposits and other transactions and balances with retail customers;
2. Wholesale Banking: Includes loans deposits and other transactions and balances with corporate and institutional customers.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

Income taxes are managed on a group basis and are not allocated to operating segments.

The Group's segment operations are all financial with a majority of revenues deriving from interest. The management relies primarily on net interest revenue to assess the performance of the segment. Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not gross income and expenses. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2011 or 2010.

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments. All the revenue shown is from external customers.

Profit or loss for the year ended 31 December 2011	**Wholesale Banking KShs'000**	**Retail Banking KShs'000**	**Un-allocated KShs'000**	**Total KShs'000**
Net interest income	3,915,574	8,000,143	453,854	12,369,571
Non-funded income	3,444,223	2,204,984	317,073	5,966,280
Operating income	7,359,797	10,205,127	770,927	18,335,851
Depreciation	(17,440)	(779,579)	(323,168)	(1,120,187)
Amortisation	(40)	(18,313)	(100,746)	(119,099)
Other operating expenses	(770,522)	(6,440,755)	(3,676,669)	(10,887,946)
Operating profit	6,571,795	2,966,480	(3,329,656)	6,208,619
Share of profit in associate	-	-	153,943	153,943
Profit before tax	**6,571,795**	**2,966,480**	**(3,175,713)**	**6,362,562**

Profit or loss for the year ended 31 December 2010	**Wholesale Banking KShs'000**	**Retail Banking KShs'000**	**Un-allocated KShs'000**	**Total KShs'000**
Net interest income	3,901,606	5,231,760	369,142	9,502,508
Non-funded income	2,678,482	3,034,122	456,802	6,169,406
Operating income	6,580,088	8,265,882	825,944	15,671,914
Depreciation	(13,679)	(279,736)	(559,939)	(853,354)
Amortisation	(44)	(6,789)	(90,084)	(96,917)
Other operating expenses	(708,542)	(5,331,758)	(3,038,702)	(9,079,002)
Operating profit	5,857,823	2,647,599	(2,862,781)	5,642,641
Share of profit in associate	-	-	129,977	129,977
Profit before tax	**5,857,823**	**2,647,599**	**(2,733,848)**	**5,772,618**

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Statement of financial position as at 31 December 2011	**Wholesale Banking KShs'000**	**Retail Banking KShs'000**	**Un-allocated KShs'000**	**Total KShs'000**
Assets:				
Segment assets	68,459,172	83,589,932	-	152,049,104
Unallocated assets	-	-	16,262,535	16,262,535
Total assets	**68,459,172**	**83,589,932**	**16,262,535**	**168,311,639**
Liabilities and equity:				
Segment liabilities	108,054,114	52,791,204	-	160,845,318
Unallocated liabilities	-	-	7,466,321	7,466,321
Inter-segment lending	(39,594,942)	30,798,728	8,796,214	-
Total liabilities and equity	**68,459,172**	**83,589,932**	**16,262,535**	**168,311,639**

Statement of financial position as at 31 December 2010	**Wholesale Banking KShs'000**	**Retail Banking KShs'000**	**Un-allocated KShs'000**	**Total KShs'000**
Assets:				
Segment assets	45,548,472	88,460,677	-	134,009,149
Unallocated assets	-	-	20,330,842	20,330,842
Total assets	**45,548,472**	**88,460,677**	**20,330,842**	**154,339,991**
Liabilities and equity:				
Segment liabilities	100,101,472	58,892,126	-	158,993,597
Unallocated liabilities	-	-	(4,650,617)	(4,650,617)
Inter-segment lending	(54,553,000)	29,568,552	24,981,458	(2,990)
Total liabilities and equity	**45,548,472**	**88,460,677**	**20,330,841**	**154,339,991**

6. Fair Value of Financial Instruments

a) Determination of fair value and fair value hierarchy

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

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes treasury and corporate bonds listed in Nairobi Stock exchange (NSE).

Level 2 – other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments.

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The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy. This hierarchy requires the use of observable market data where available. The Group considers relevant and observable market prices in its valuations where possible:

As at 31 December 2011	**Level 1 KShs'000**	**Level 2 KShs'000**	**Level 3 KShs'000**	**Total KShs'000**
Held-for-trading investments:				
Treasury bonds	134,038	-	-	134,038
Unquoted equities		-	31,029	31,029
Available-for-sale investment		**-**	**-**	**-**
Treasury bonds	16,793,111	-	-	16,793,111
Corporate bonds	5,085,796	-	-	5,085,796
	22,012,945	**-**	**31,029**	**22,043,974**
As at 31 December 2010				
Held-for-trading investments:				
Treasury bonds	4,030,262			4,030,262
Unquoted equities	-	-	54,319	54,319
Available-for-sale investment				
Treasury bonds	16,188,611	-	-	16,188,611
Corporate bonds	4,185,500	-	-	4,185,500
	24,404,373	**-**	**54,319**	**24,458,692**

The movement in financial instruments under level 3 is shown under note 9 (b).

b) Fair value of financial assets and liabilities not carried at fair value

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's consolidated statement of financial position at their fair value. This table does not include the fair values of non-financial assets and non-financial liabilities.

Financial assets	**2011 Carrying amount KShs'000**	**Fair value KShs'000**	**2010 Carrying amount KShs'000**	**Fair value KShs'000**
Cash and balances with Central Bank of Kenya	14,151,049	14,151,049	14,033,477	14,033,477
Deposits and balances due from other banks	7,464,735	7,464,735	6,741,854	6,741,854
Held-to-maturity investments	193,447	151,937	9,954,855	9,954,855
Loans and advances to customers	109,408,815	109,408,815	86,618,311	86,618,311
	131,218,046	**131,176,536**	**117,348,497**	**117,348,497**
Financial liabilities				
Deposits and balances due to banks	1,881,284	1,881,284	5,348,291	5,348,291
Customer deposits	142,632,308	142,632,308	123,878,422	123,878,422
Loans	227,563	227,563	138,556	138,556
	144,741,155	**144,741,155**	**129,365,269**	**129,365,269**

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The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

(i) Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to inter-bank placements, demand deposits, and savings accounts without a specific maturity and treasury bills held to maturity.

(ii) Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. The fair value of loans and advances to customers cannot be determined reliably because of a lack of a developed market for securitised assets.

(iii) Deposits from banks and due to customers

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity. A substantial proportion of deposits mature within six months and hence the carrying amounts approximate fair value. Loans

The estimated fair value of fixed interest bearing loans is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

7. Cash and Balances with Central Bank of Kenya

	2011 KShs'000	2010 KShs'000
Cash on hand	6,072,339	5,298,211
Central Bank of Kenya:		
Restricted balances (Cash Reserve Ratio)	7,436,716	5,277,670
Unrestricted balances available for use by the Group	641,994	3,457,596
	14,151,049	**14,033,477**

The Cash Reserve Ratio is non-interest earning and is based on the value of deposits as adjusted by Central Bank of Kenya requirements. At 31 December 2011, the Cash Reserve Ratio requirement was 5.25% (2010 – 4.5%) of all deposits. These funds are not available for use by the Group in its day to day operations.

8. Deposits and Balances Due from Banks

	Group		Bank	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Local banks	1,746,713	1,958,487	1,719,694	1,887,890
Foreign banks	5,718,022	4,783,367	5,718,022	4,783,367
	7,464,735	**6,741,854**	**7,437,716**	**6,671,257**

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9. Held-for-trading Investments

	Group		Bank	
	2011	2010	2011	2010
a) Treasury bonds	KShs'000	KShs'000	KShs'000	KShs'000
Maturing within 91 days of reporting date	-	86,052	-	86,052
Maturing after 91 days of reporting date	134,038	3,944,210	133,163	3,852,824
	134,038	**4,030,262**	**133,163**	**3,938,876**
b) Equity Investments				
Consolidated Bank of Kenya Ltd:-				
135,000 ordinary shares of KShs 20 each	2,700	2,700	2,700	2,700
580,000 4% non-cumulative preference shares of KShs 20 each	11,600	11,600	11,600	11,600
Kenya National Federation of Co-operatives Ltd:-				
82 shares of KShs100 each	8	8	8	8
Kenya National Housing Co-operative Union Ltd:-				
1 share of KShs 1,000	1	1	1	1
Menno Plaza Limited:-				
9,340 ordinary shares (12.39% ownership)	30,000	30,000	30,000	30,000
	44,309	44,309	44,309	44,309
Less: Provision for diminution in value of investment in Consolidated Bank of Kenya Ltd	(13,280)	(12,180)	(13,280)	(12,180)
	31,029	32,129	31,029	32,129
Total held-for-trading Investments	**165,067**	**4,062,391**	**164,192**	**3,971,005**
MOVEMENT IN THE YEAR:				
At 1 January 2011	**4,062,391**	**4,362,481**	**3,971,005**	**4,270,140**
Disposals and maturities	(3,871,371)	(496,396)	(3,780,860)	(451,228)
Provision for diminution in value	(1,100)	(1,100)	(1,100)	(1,100)
Change in fair value	(24,853)	197,406	(24,853)	153,193
At 31 December 2011	**165,067**	**4,062,391**	**164,192**	**3,971,005**

The weighted average effective interest rate on government and other securities held-for-trading at 31 December 2011 was 9.51% (2010- 8.35%).

Equity investments are not quoted hence are carried at cost due to lack of comparable quoted investments which could have been used as a basis for the determination of fair value. In the opinion of the directors, the above investments would, if sold, realise not less than the amounts at which they are stated. The change in carrying amount in the year is as shown below:

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10. Held-to-maturity Investments

	Group		Bank	
	2011	**2010**	**2011**	**2010**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Government treasury bills:				
Maturing within 91 days of the reporting date	2,850	7,978,591	2,850	7,978,591
Maturing after 91 days of the reporting date	1,000	1,976,264	1,000	1,976,264
Treasury bonds:				
Maturing within 91 days of the reporting date	-	-	-	-
Maturing after 91 days of the reporting date	189,597	-	-	-
	193,447	**9,954,855**	**3,850**	**9,954,855**
MOVEMENT IN THE YEAR:				
At start of the year	**9,954,855**	**22,081,293**	**9,954,855**	**22,081,293**
Additions	193,447	9,954,855	3,850	9,954,855
Reclassification to available for sale	-	(12,842,514)	-	(12,842,514)
Maturities	(9,954,855)	(9,238,779)	(9,954,855)	(9,238,779)
	193,447	**9,954,855**	**3,850**	**9,954,855**

The weighted average effective interest rate on held-to-maturity investments as at 31 December 2011 was 16.03% (2010- 3.24%).

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11. Available-for-sale Investments

	Group		Bank	
	2011	**2010**	**2011**	**2010**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Treasury bonds:				
Maturing within 91 days of the reporting date	346,396	1,721,612	346,396	1,721,612
Maturing after 91 days of the reporting date	16,446,715	14,466,999	16,445,910	14,465,243
Corporate bonds:				
Maturing after 91 days of the reporting date	5,085,796	4,185,500	5,085,796	4,185,500
	21,878,907	**20,374,111**	**21,878,102**	**20,372,355**
MOVEMENT IN THE YEAR:				
At start of the year	**20,374,111**	**12,842,514**	**20,372,355**	**12,842,514**
Additions	13,242,213	15,283,233	13,242,984	15,281,588
Disposals and maturities	(7,406,549)	(8,099,918)	(7,408,273)	(8,099,918)
Change in fair value	(4,193,979)	348,282	(4,192,075)	348,171
Amortisation of premiums and discounts	(136,889)	-	(136,889)	-
	21,878,907	**20,374,111**	**21,878,102**	**20,372,355**

The weighted average effective interest rate on available for sale investments as at 31 December 2011 was 9.55% (2010- 3.24%).

In 2010, the Bank disposed significant amount of corporate bonds held-to-maturity. Consequently, all treasury and corporate bonds held-to-maturity were reclassified to available-for-sale-investments category. The related change in fair value was recognised as other comprehensive income.

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12. Loans and Advances to Customers

	Group		Bank	
	2011	2010	2011	2010
a) Net loans and advances	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Finance lease receivables (note 12 d)	4,266,862	2,667,353	4,266,862	2,667,353
Overdrafts	7,613,221	7,035,320	7,613,221	7,035,320
Commercial loans	96,477,491	77,145,602	96,477,491	77,145,602
Government/Donor funded loan schemes	2,436,123	1,316,526	2,436,123	1,316,526
Credit card balances	646,270	554,731	646,270	554,731
Micro enterprises	2,661,213	2,245,407	2,661,213	2,245,407
Gross loans and advances	114,101,180	90,964,939	114,101,180	90,964,939
Impairment losses on loans and advances (note 12 e)	(4,692,365)	(4,346,628)	(4,692,365)	(4,346,628)
	109,408,815	**86,618,311**	**109,408,815**	**86,618,311**
b) Aging:				
Repayable on demand	8,328,110	3,986,206	8,328,110	3,986,206
1-3 months	3,820,610	1,843,137	3,820,610	1,843,137
3-12 months	11,461,830	9,135,990	11,461,830	9,135,990
1-5 years	56,393,350	52,550,610	56,393,350	52,550,610
Over 5 years	34,097,280	23,448,996	34,097,280	23,448,996
Gross loans and advances	**114,101,180**	**90,964,939**	**114,101,180**	**90,964,939**

	Group and Bank	
c) The weighted average effective interest rate at 31 December was:	**2011**	**2010**
	%	%
Finance lease receivables	22.2	12.7
Overdrafts	18.8	13.7
Commercial loans	17.9	10.9
Government/Donor funded loan schemes	6.6	5.2
Credit card balances	13.8	42.0
Micro enterprises	25.2	25.6

	Group and Bank	
d) Analysis of finance lease receivables:	**2011**	**2010**
	KShs'000	**KShs'000**
Repayable on demand	211,105	108,858
1-3 months	421,754	217,716
3-12 months	1,856,795	979,379
1-5 years	4,674,157	2,504,340
Gross investment in finance leases	7,163,811	3,810,293
Unearned future finance income	(2,896,949)	(1,142,940)
Present value of minimum lease payments receivable	**4,266,862**	**2,667,353**

Finance lease receivables relate to a lending product (Co-op Asset Finance) that focuses on self secured financing in which the asset financed becomes the security for the facility. The lease arrangements allow a flexible repayment period of up to 48 months. The Bank offers financing of all types of moveable assets such as laptops, computers, printers, saloon cars, pickups, tractors, prime movers, school buses, generators and medical equipment.

The unguaranteed residual values of assets leased under finance leases are estimated at nil (2010: nil). The accumulated allowances for uncollectible minimum lease payments receivable are nil (2010: nil).

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e) Impairment losses on loans and advances:

Group and Bank	**Specific impairment losses KShs'000**	**Collective impairment losses KShs'000**	**Total KShs'000**
Balance at 1 January 2011	3,429,539	917,089	4,346,628
Impairment losses during the year through profit or loss	457,090	252,813	709,903
Interest on impaired loans not recognised as income	120,605	-	120,605
Amounts released to income	(484,771)	-	(484,771)
Balance at 31 December 2011	**3,522,463**	**1,169,902**	**4,692,365**
Balance at 1 January 2010	3,702,192	644,091	4,346,283
Impairment losses during the year through profit or loss	525,668	272,998	798,666
Interest on impaired loans not recognised as income	19,788	-	19,788
Impairment losses written off during the year	(504,215)	-	(504,215)
Amounts released to income	(313,894)	-	(313,894)
Balance at 31 December 2010	**3,429,539**	**917,089**	**4,346,628**

f) The Bank continues to carry classified impaired and delinquent accounts on its books even after making allowances for impairment in accordance with IAS 39. Interest is accrued on these accounts for contractual/ litigation purposes only and accordingly not taken to income. The carrying amount of such accounts/loans at year end was KShs.5.2 billion (2010-KShs 4.9 billion).

13. Investment in Subsidiaries

The following subsidiaries are owned by the Bank:-

Company	**Ownership**	**Status**	**2011 KShs'000**	**2010 KShs'000**
Co-operative House Ltd:	100%	Dormant		
1,020,000 'A' ordinary shares of KShs 20 each			20,400	20,400
980,000 'B' ordinary shares of KShs 20 each			19,600	19,600
Co-op Consultancy & Insurance Agency Ltd	100%	Active	70,000	70,000
Co-optrust Investment Services Ltd	100%	Active	20,000	20,000
Kingdom Securities Limited	60%	Active	150,000	150,000
			280,000	**280,000**

The investment in the above subsidiaries is carried at cost. All the subsidiaries are unlisted, incorporated in Kenya and have the same year-end as the Bank. Co-operative Merchant Limited, excluded from the above list, is a dormant Company with no assets or liabilities.

The Co-operative Bank of Kenya Limited and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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14. Investment in Associate

Since 2010, the Bank has invested KShs. 734 million in CIC Insurance Group Limited hence becoming the single largest shareholder with a stake of 26.57%. CIC Insurance Group Limited is a private entity incorporated in Kenya whose principal activity is insurance business and fund management. The company is not listed on any public exchange.

	Group		Bank	
	2011 KShs'000	**2010 KShs'000**	**2011 KShs'000**	**2010 KShs'000**
At 1 January	256,441	21,090	121,090	21,090
Additional shares	634,028	100,000	634,028	100,000
Share of profit	153,943	129,977	-	-
Other comprehensive income	3,601	5,374	-	-
Dividends received	(19,854)	-	-	-
Balance as at 31 December	**1,028,159**	**256,441**	**755,118**	**121,090**

The following table illustrates summarised financial information of the Group's investment in Co-operative Insurance Company Limited.

	2011 KShs'000	**2010 KShs'000**
Share of the associate's statement of financial position:		
Total assets	2,516,938	1,449,415
Total liabilities	(1,376,830)	(954,134)
Equity	**1,140,108**	**495,281**
Share of the associate's revenue and profit:		
Revenue	1,599,512	-
Profit after tax	**153,943**	-

15. Other Assets

	Group		Bank	
	2011 KShs'000	**2010 KShs'000**	**2011 KShs'000**	**2010 KShs'000**
Interest receivable	1,468,190	1,011,081	1,468,190	1,011,081
Items in the course of collection from other banks	556,899	366,306	556,899	366,306
Deposits with default financial Institutions	43,052	43,052	43,052	43,052
Prepaid expenses	233,405	179,910	233,405	179,910
Sundry debtors and prepayments	1,581,937	3,758,430	1,519,435	3,684,678
	3,883,483	5,358,779	3,820,981	5,285,027
Impairment losses on deposits with default financial institutions	(43,052)	(43,052)	(43,052)	(43,052)
	3,840,431	**5,315,727**	**3,777,929**	**5,241,975**

The Co-operative Bank of Kenya Limited and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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16. Intangible Assets

(a) Group

			2011			2010
	Computer Software	Other intangible assets	Total	Computer Software	Other intangible assets	Total
	KShs'000	KShs'000	KShs'000			KShs'000
Cost/Valuation at 1 January	638,108	251,000	889,108	495,517	251,000	746,517
Transfers from Work in Progress	26,162	-	26,162	-	-	-
Additions	118,426	-	118,426	142,591	-	142,591
Write down of value	(29,766)	-	(29,766)	-	-	-
Cost at 31 December	**752,930**	**251,000**	**1,003,930**	**638,108**	**251,000**	**889,108**
Accumulated amortisation at 1 January	302,169	-	302,169	205,252	-	205,252
Write back of amortisation	(29,766)	-	(29,766)	-	-	-
Amortisation for the year	118,485	-	118,485	96,917	-	96,917
Accumulated amortisation at 31 December	390,888	-	390,888	302,169	-	302,169
Net carrying amount at 31 December	**362,042**	**251,000**	**613,042**	**335,939**	**251,000**	**586,939**

Other intangible assets consist of NSE seat in Kingdom Securities Limited. The NSE seat was revalued to KShs 251 million as at 31 December 2008 by the Board of Nairobi Stock Exchange based on the last open market purchase price for a seat at the Nairobi bourse.

(b) Bank

	2011	2010
	KShs'000	KShs'000
Cost at 1 January	615,618	473,027
Transfers from Work in Progress	26,162	-
Additions	116,323	142,591
Write down of value	(29,766)	-
Cost at 31 December	**728,337**	**615,618**
Accumulated amortisation at 1 January	282,196	186,573
Write back of amortisation	(29,766)	-
Amortisation for the year	116,710	95,623
Accumulated amortisation at 31 December	369,140	282,196
Net carrying amount at 31 December	**359,197**	**333,422**

Amortisation has not been charged in arriving at the results for the year in respect of certain fully amortised software assets with a cost of KShs.96,509,248 (2010- KShs.57,776,468), which are still in use. If amortisation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs. 19,301,849 (2010- KShs 11,555,293).

The Co-operative Bank of Kenya Limited and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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17. Prepaid Lease Rentals

	Group and Bank	
	2011	**2010**
	KShs'000	**KShs'000**
Cost at 1 January	54,568	54,568
Cost at 31 December	54,568	54,568
Amortisation at 1 January	14,477	13,864
Charge for the year	613	613
At 31 December	15,090	14,477
Net carrying amount at 31 December	**39,478**	**40,091**

Prepaid lease rentals relate to the lease payments for leasehold land.

The Co-operative Bank of Kenya Limited and Subsidiaries

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18. (a) Property and Equipment-Group

COST/VALUATION	Freehold land & buildings KShs'000	Capital work-in progress KShs'000	Fixtures KShs'000	Office machinery furniture & equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
At 1 January 2011	**1,470,997**	**738,326**	**3,268,341**	**1,211,616**	**146,660**	**2,548,598**	**9,384,538**
Additions	-	2,680,950	9,089	196,559	26,202	570,013	3,482,813
Disposals	-	-	-	(40,320)	(11,337)	(41,041)	(92,698)
Impairment	-	(1,146)	(14,764)	-	-	-	(15,910)
Transfer from WIP	-	(854,246)	695,873	10,022	-	122,189	(26,162)
At 31 December 2011	**1,470,997**	**2,563,884**	**3,958,539**	**1,377,877**	**161,525**	**3,199,759**	**12,732,582**
Comprising:							
Cost	1,271,413	2,563,884	3,958,539	1,377,877	161,525	3,199,759	12,732,582
Valuation	199,584	-	-	-	-	-	-
	1,470,997	**2,563,884**	**3,958,539**	**1,377,877**	**161,525**	**3,199,759**	**12,732,582**
DEPRECIATION							
At 1 January 2011	93,703	-	762,578	628,662	76,472	1,467,328	3,028,744
Charge for the year	46,852	-	446,723	201,731	27,318	397,564	1,120,188
Disposals	-	-	-	(39,896)	(11,337)	(35,449)	(86,682)
Impairment	-	-	(13,141)	(5)	-	2	(13,141)
At 31 December 2011	140,555	-	1,196,160	790,492	92,454	1,829,445	4,049,109
NET CARRYING AMOUNT At 31 December 2011	**1,330,442**	**2,563,884**	**2,762,379**	**587,385**	**69,072**	**1,370,314**	**8,683,473**

i. Capital work-in-progress represents ongoing construction work at the various branches of the Bank.

ii. Land and Buildings were revalued on open market value basis by professional valuers (Manclem Valuers) as at 31 December 2008. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve.

iii. Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs. 38,926,467 (2010- KShs38,926,467) against which no depreciation has been charged, as these are pieces of land.

iv. No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs. 1,334,843,289 (2010- KShs 1,121,093,974), which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs.265,239,734 (2010- KShs. 222,889,265).

v. The management carries out an impairment review and the resultant impairment loss recognised in the profit or loss.

The Co-operative Bank of Kenya Limited and Subsidiaries

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18. (a) Property and Equipment-Group

COST/VALUATION	Freehold land & buildings KShs'000	Capital work-in progress KShs'000	Fixtures KShs'000	Office machinery furniture & equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
At 1 January 2010	**1,470,997**	**1,181,020**	**1,918,957**	**1,034,825**	**154,285**	**2,087,419**	**7,847,503**
Additions	-	989,230	100,995	177,365	12,939	322,374	1,602,903
Disposals	-	-	(26,862)	(529)	(20,564)	(1,200)	(49,155)
Impairment	-	(16,713)	-	-	-	-	(16,713)
Reclassifications	-	-	-	(45)	-	45	-
Transfer from WIP	-	(1,415,211)	1,275,251	-	-	139,960	-
At 31 December 2010	**1,470,997**	**738,326**	**3,268,341**	**1,211,616**	**146,660**	**2,548,598**	**9,384,538**
Comprising:							
Cost	1,271,413	738,326	3,268,341	1,211,616	146,660	2,548,598	9,184,954
Valuation	199,584	-	-	-	-	-	199,584
	1,470,997	**738,326**	**3,268,341**	**1,211,616**	**146,660**	**2,548,598**	**9,384,538**
DEPRECIATION							
At 1 January 2010	**46,852**	**-**	**451,813**	**453,384**	**71,388**	**1,172,656**	**2,196,093**
Charge for the year	46,851	-	311,810	175,677	23,868	295,148	853,354
Disposals	-	-	(1,045)	(399)	(18,783)	(476)	(20,703)
At 31 December 2010	**93,703**	**-**	**762,578**	**628,662**	**76,473**	**1,467,328**	**3,028,744**
NET CARRYING AMOUNT At 31 December 2010	**1,377,294**	**738,326**	**2,505,763**	**582,954**	**70,187**	**1,081,270**	**6,355,794**

i. Capital work-in-progress represents ongoing construction work at the various branches of the Bank.

ii. Land and Buildings were revalued on open market value basis by professional valuers (Manclem Valuers) as at 31 December 2008. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve

iii. Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs38,926,467 (2010- KShs38,926,467) against which no depreciation has been charged, as these are pieces of land.

iv. No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs 1,121,093,974 (2010- KShs 803,230,910), which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs. 222,889,265 (2010- KShs 160,646,182).

v. The management carries out an impairment review and the resultant impairment loss recognised in the profit or loss.

The Co-operative Bank of Kenya Limited and Subsidiaries

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18. (b) Property and Equipment-Bank

COST/VALUATION	Freehold land & buildings KShs'000	Capital work-in progress KShs'000	Fixtures KShs'000	Office machinery furniture & equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
At 1 January 2011	**1,470,997**	**738,326**	**3,268,341**	**1,202,954**	**142,894**	**2,539,350**	**9,362,862**
Additions	-	2,680,950	8,763	195,864	26,202	565,846	3,477,625
Disposals	-	-	-	(40,320)	(11,337)	(41,041)	(92,698)
Impairment	-	(1,146)	(14,764)	-	-	-	(15,910)
Transfer from WIP	-	(854,246)	695,873	10,022	-	122,189	(26,162)
At 31 December 2011	**1,470,997**	**2,563,884**	**3,958,213**	**1,368,520**	**157,759**	**3,186,344**	**12,705,717**
Comprising:							
Cost	1,271,413	2,563,884	3,958,213	1,368,520	157,759	3,186,344	12,691,227
Valuation	199,584	-	-	-	-	-	-
	1,470,997	**2,563,884**	**3,958,213**	**1,368,520**	**157,759**	**3,186,344**	**12,691,227**
DEPRECIATION							
At 1 January 2011	**93,703**	**-**	**762,579**	**624,388**	**75,218**	**1,461,279**	**3,017,167**
Charge for the year	46,852	-	446,189	200,594	26,565	395,824	1,116,023
Disposals	-	-	-	(39,896)	(11,337)	(35,449)	(86,682)
Impairment	-	-	(13,141)	-	-	-	(13,141)
At 31 December 2011	**140,555**	**-**	**1,195,627**	**785,086**	**90,446**	**1,821,654**	**4,033,367**
NET CARRYING AMOUNT At 31 December 2011	**1,330,442**	**2,563,884**	**2,762,586**	**583,434**	**67,313**	**1,364,690**	**8,672,350**

The Co-operative Bank of Kenya Limited and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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18. (b) Property and Equipment-Bank

COST/VALUATION	Freehold land & buildings KShs'000	Capital work-in progress KShs'000	Fixtures KShs'000	Office machinery furniture & equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
At 1 January 2010	**1,470,997**	**1,181,020**	**1,904,628**	**1,026,771**	**150,519**	**2,078,862**	**7,812,797**
Additions	-	989,230	88,462	176,429	12,939	321,610	1,588,670
Disposals	-	-	-	(246)	(20,564)	(1,082)	(21,892)
Impairment	-	(16,713)	-	-	-	-	(16,713)
Transfer from WIP	-	(1,415,211)	1,275,251	-	-	139,960	-
At 31 December 2010	**1,470,997**	**738,326**	**3,268,341**	**1,202,954**	**142,894**	**2,539,350**	**9,362,862**
Comprising:							
Cost	1,271,413	738,326	3,268,341	1,202,954	142,894	2,539,350	9,163,278
Valuation	199,584	-	-	-	-	-	199,584
	1,470,997	**738,326**	**3,268,341**	**1,202,954**	**142,894**	**2,539,350**	**9,362,862**
DEPRECIATION							
At 1 January 2010	**46,852**	**-**	**450,769**	**450,430**	**70,886**	**1,167,985**	**2,186,922**
Charge for the year	46,851	-	311,810	174,136	23,115	293,735	849,647
Disposals	-	-	-	(178)	(18,783)	(441)	(19,402)
At 31 December 2010	93,703	-	762,579	624,388	75,218	1,461,279	3,017,167
NET CARRYING AMOUNT At 31 December 2010	**1,377,294**	**738,326**	**2,505,762**	**578,566**	**67,676**	**1,078,071**	**6,345,695**

The Co-operative Bank of Kenya Limited and Subsidiaries

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19. Deferred Tax

Deferred tax movement and balances are analysed as follows:

GROUP - 2011	2011 KShs'000	Profit or loss KShs'000	OCI* KShs'000	Equity KShs'000	2010 KShs'000
Collective allowance for impairment disallowed for tax purposes	(233,980)	50,562	-	-	(183,418)
Revaluation surplus	66,817	-	-	1,814	68,631
Excess of tax wear and tear allowance over depreciation	(93,912)	143,110	-	-	49,198
Unrealised exchange gains	189,562	(78,757)	-	-	110,805
Other temporary differences	(4,647)	22,320	-	-	17,673
Change in fair value on available for sale	(768,875)	69,675	770,488	-	71,288
	(845,036)	**206,910**	**770,488**	**1,814**	**134,177**

BANK - 2011	2011 KShs'000	Profit or loss KShs'000	OCI* KShs'000	Equity KShs'000	2010 KShs'000
Collective allowance for impairment disallowed for tax purposes	(233,980)	50,562	-	-	(183,418)
Revaluation surplus	66,817	-	-	1,814	68,631
Excess of tax wear and tear allowance over depreciation	(93,556)	143,245	-	-	49,689
Unrealised exchange gains	189,562	(78,757)		-	110,805
Other temporary differences	(4,661)	22,260	-	-	17,599
Change in fair value on available for sale	(768,781)	69,635	768,780	-	69,634
	(844,600)	**206,945**	**768,780**	**1,814**	**132,940**

GROUP - 2010	2010 KShs'000	Profit or loss KShs'000	OCI* KShs'000	Equity KShs'000	2009 KShs'000
Collective allowance for impairment disallowed for tax purposes	(183,418)	54,600	-	-	(128,818)
Revaluation surplus	68,631	-	-	1,814	70,445
Accelerated depreciation over wear and tear	49,198	(63,277)	-	-	(14,079)
Unrealised exchange gains	110,805	(110,805)	-	-	-
Other temporary differences	19,487	(26,646)	-	-	(7,159)
Change in fair value on available for sale	71,288	-	(71,288)	-	-
	134,177	**(146,128)**	**(71,288)**	**1,814**	**(79,611)**

BANK - 2010	2010 KShs'000	Profit or loss KShs'000	OCI* KShs'000	Equity KShs'000	2009 KShs'000
Collective allowance for impairment disallowed for tax purposes	(183,418)	54,600	-	-	(128,818)
Revaluation surplus	68,631	-	-	1,814	70,445
Accelerated depreciation over wear and tear	49,689	(62,925)	-	-	(13,236)
Unrealised exchange gains	110,805	(110,805)	-	-	-
Other temporary differences	19,413	(26,448)	-	-	(7,035)
Change in fair value on available for sale	69,634	-	(69,634)	-	-
	132,940	**(145,578)**	**(69,634)**	**1,814**	**(78,644)**

*OCI – Other Comprehensive Income

Other temporary differences consist of fair value of financial instruments held-for-trading and provisions for leave liabilities.

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20. Deposits and Balances due to Banks

	Group and Bank	
	2011 KShs'000	**2010 KShs'000**
Balances due to Central Bank	-	2,699,244
Deposits and balances due to other banks	1,881,284	2,649,047
	1,811,284	**5,348,291**

In the ordinary course of business, the Group borrows from Central Bank of Kenya as is deemed necessary. On 31 December 2011 the effective interest rate was 24% (2010-1.5%).

The weighted average effective interest rate on deposits from other banks at 31 December 2011 was 12.4% (2010- 6.64%)

21. Customer Deposits

	Group		Bank	
a) Deposit type	**2011 KShs'000**	**2010 KShs'000**	**2011 KShs'000**	**2010 KShs'000**
Call deposits	10,167,259	7,515,994	10,167,259	7,515,994
Fixed deposits	36,984,458	36,675,247	36,984,458	36,675,247
Transaction accounts	39,844,928	33,901,293	39,844,928	33,901,293
Savings accounts	3,005,556	2,111,929	3,005,556	1,802,056
Current accounts	41,294,585	35,715,382	41,294,585	36,158,872
Foreign currency deposits	11,335,522	7,958,577	11,407,807	7,958,577
	142,632,308	**123,878,422**	**142,704,593**	**124,012,039**
b) From government and parastatals:-				
Payable on demand	13,967,460	6,720,191	13,967,460	6,720,191
Payable within 30 days	4,782,823	2,016,971	4,782,823	2,016,971
Payable after 30 days but within 1 year	9,585,550	19,940,767	9,585,550	19,940,767
	28,335,833	**28,677,929**	**28,335,833**	**28,677,929**
c) From private sector and individuals:-				
Payable on demand	81,149,979	64,467,863	81,222,264	64,601,480
Payable within 30 days	13,495,021	5,619,546	13,495,021	5,619,546
Payable after 30 days but within 1 year	19,651,475	25,113,084	19,651,475	25,113,084
	114,296,475	**95,200,493**	**114,368,760**	**95,334,110**
	142,632,308	**123,878,422**	**142,704,593**	**124,012,039**

Included in customers' deposits is an amount of KShs 1,700 Million (2010- KShs 2,492 Million) that has been pledged to the Bank by customers as security for loans and advances. The weighted average effective interest rate on interest-bearing customer deposits as at 31 December was 6.32% (2010-2.08%).

The Co-operative Bank of Kenya Limited and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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22. Loans

	Group		Bank	
	2011 KShs'000	**2010 KShs'000**	**2011 KShs'000**	**2010 KShs'000**
IFAD	30,000	30,000	30,000	30,000
European Investment Bank	-	14,493	-	14,493
AFD Microfinance	135,563	32,063	135,563	32,063
Women Enterprise Fund	62,000	62,000	62,000	62,000
	227,563	**138,556**	**227,563**	**138,556**

International Fund for Agricultural Development (IFAD)
The loan agreement was entered into in 2003 between the Government of Kenya-Ministry of Agriculture and The Co-operative Bank of Kenya Limited for a loan of KShs 30 million under the Eastern Produce Horticultural and Traditional Food Crops Project. The loan amount and interest shall be repaid to the government in one lumpsum one year after the project is over (on the tenth year). The loan attracts a fixed interest of 3% p.a

European Investment Bank
A loan agreement was entered into on 25 November 2003 between the European Investment Bank and The Co-operative Bank of Kenya Limited for a total of KShs 220 million, which was to be disbursed on demand at a fixed interest rate of 5.8% per annum to be on lent to a number of co-operative societies on a performance related basis. The loan was fully repaid in 2011.

AFD Microfinance
The loan agreement was entered into on 14 February 2008 between the Government of Kenya and The Co-operative Bank of Kenya Limited for a limit of KShs 249,682,294, to promote financial deepening by on lending to Micro Finance Institutions and Saccos at 6% p.a. The closing day for funds disbursement was 31 December 2011. The loan is advanced based on customer demand and is to be repaid within a period of 4 years.

Women Enterprise Fund
The loan agreement was entered into on 11 December 2008 between the Government of Kenya, Ministry of Gender and The Co-operative Bank of Kenya Limited for a sum of KShs 92,000,000 advanced in 3 disbursements for on-lending to women. The loan is offered at a fixed interest rate of 1% p.a. payable quarterly. The loan is to be repaid in one bullet payment 3 years after the date of disbursement.

The Co-operative Bank of Kenya Limited and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

23. Income Tax Expense

	Group		Bank	
a) Income Statement:-	**2011 KShs'000**	**2010 KShs'000**	**2011 KShs'000**	**2010 KShs'000**
Current tax at 20% (2010 - 20%) on the taxable profit for the year	1,206,870	1,048,153	1,188,370	1,036,580
Over-provision in previous years	-	(2,361)	-	(2,361)
Deferred tax (credit)/ charge	(206,910)	146,128	(206,945)	145,578
	999,960	**1,191,920**	**981,425**	**1,179,797**
b) Statement of financial position:-				
Balance brought forward	175,582	110,843	171,120	116,347
Over-provision in previous years	(8,466)	(2,691)	(7,219)	(2,361)
Charge for the year	1,206,869	1,048,153	1,188,370	1,036,580
Paid during the year	(1,310,283)	(980,723)	(1,287,217)	(979,446)
	63,702	**175,582**	**65,054**	**171,120**
c) Reconciliation of tax expense to tax based on accounting profit:-				
Accounting profit	6,167,768	5,772,618	6,167,768	5,559,028
Tax applicable rate (Bank 20%, Subsidiaries 30%)	1,251,293	1,139,854	1,233,554	1,111,806
Over-provision in previous years	-	(2,691)	-	(2,361)
Tax effect of items not eligible for tax	(251,333)	54,757	(252,129)	70,352
Tax in the statement of comprehensive income	**999,960**	**1,191,920**	**981,425**	**1,179,797**

The corporation tax rate applicable to the Bank was changed from 30% in 2008 to 20% in 2009 following its listing in Nairobi Stock Exchange. The income tax rate applicable to the Groups' subsidiaries and associates remained at 30 %.

24. Provisions

	Group and Bank	
	2011 KShs'000	**2010 KShs'000**
Leave liability	48,156	56,126
Balance at 1 January	56,126	59,176
Provisions arising during the year	11,193	33,053
Provisions utilised during the year	(19,173)	(36,103)
Balance at 31 December	**48,146**	**56,126**

The Co-operative Bank of Kenya Limited and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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25. Other Liabilities

	Group		Bank	
	2011 **KShs'000**	**2010** **KShs'000**	**2011** **KShs'000**	**2010** **KShs'000**
Interest payable:				
Customer deposits	1,054,602	446,403	1,054,602	446,403
Loans and borrowings	6,377	2,287	6,377	2,287
Sundry creditors and accruals	850,985	3,564,038	813,142	3,473,318
	1,911,964	**4,012,728**	**1,874,121**	**3,922,008**

Interest payable is settled on the basis of terms and conditions outlined in different Bank products. Sundry creditors and accruals are payable on demand and are non-interest bearing.

26. Capital Grants

	Group and Bank	
	2011 **KShs'000**	**2010** **KShs'000**
Grant net of amortisation at 1 January	**615,611**	**636,058**
Amortisation for the year	(20,447)	(20,447)
At 31 December	**595,164**	**615,611**

Capital grants relate to rehabilitation work on Co-operative House financed by USAID following the August, 1998 bomb blast.

27. Share Capital

	Group and Bank	
	2011 **KShs'000**	**2010** **KShs'000**
Authorised :-		
5,000,000,000 (2010: 3,700,000,000) ordinary shares of KShs 1 each.	5,000,000	3,700,000
Issued and fully paid:-		
3,492,370,900 (2010: 3,492,370,900) ordinary shares of KShs 1 each.	3,492,370	3,492,370

28. Share Premium

These reserves arose in 2008 when the Bank issued 557,242,300 new shares through an Initial Public Offering. The shares, with a par value of KShs 1 were issued at KShs 9.50. These reserves may be applied towards capital in the future.

The Co-operative Bank of Kenya Limited and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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29. Reserves

	Group		Bank	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Revaluation reserve	339,525	346,782	339,525	346,782
Retained earnings	14,171,970	9,851,595	13,730,021	9,580,515
Available for sale reserve	(3,066,163)	282,369	(3,075,123)	278,537
Statutory reserve	205,978	204,954	205,978	204,954
	11,651,310	**10,685,700**	**11,200,401**	**10,410,788**

Revaluation Reserve
The revaluation reserve is used to record increases in the fair value of land and buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity. Revaluation reserves are not distributable.

Retained earnings
This reserve includes both the capitalised portion of interest from grant loans and retained earnings.

Statutory reserve
Where impairment losses required by legislation or regulations exceed those computed under International Financial Reporting Standards (IFRS), the excess is recognised as a statutory reserve and accounted for as an appropriation of retained earnings. This reserve is not distributable. These reserves are not distributable.

Available for sale reserve
This comprises changes in fair value of available-for-sale investments, excluding impairment losses, until the net investment is derecognised.

30. Proposed Dividends and Dividends Per Share

	Group and Bank	
	2011 KShs'000	2010 KShs'000
Proposed dividends	**1,396,948**	**1,396,948**

(i) Dividend per share is arrived at by dividing the total dividends by the weighted average number of shares in issue during the year.

(ii) Proposed dividends are accounted for as a separate component of equity at year end until they are ratified at an Annual General Meeting (AGM). At the AGM to approve year 2011 financial statements, a first and final dividend in respect of year 2011 of KShs.0.40 (2010 - KShs 0.40) for every ordinary share of KShs 1 is to be proposed by the directors and is subject to approval by shareholders.

(iii) Payment of dividend is subject to withholding tax at the rate of 5% for residents and 10% for non-resident shareholders.

The Co-operative Bank of Kenya Limited and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

31. Interest Income

	Group		Bank	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Loans and advances to customers	12,811,086	8,980,117	12,811,086	8,980,117
Finance leases	486,520	294,794	486,520	294,794
Investment securities:				
-Held-to-maturity	254,418	1,008,432	237,735	1,008,432
-Available for sale	2,498,787	1,261,271	2,498,787	1,257,917
-Held-for-trading	252,094	249,496	252,094	243,211
Deposits and balances due from other banks	87,810	32,636	87,810	31,723
Interest on previously impaired loans	484,771	313,894	484,771	313,894
	16,875,486	**12,140,640**	**16,858,803**	**12,130,088**

32. Interest Expense

	Group and Bank	
	2011 KShs'000	2010 KShs'000
Call deposits	620,513	232,515
Fixed deposits	2,541,798	1,558,028
Savings accounts	249,184	202,519
Current accounts	439,802	417,051
Deposits and balances due to banks	457,079	83,322
Loans	197,539	139,893
Other borrowings	-	4,804
	4,505,915	**2,638,132**

33. Fees and Commissions

	Group		Bank	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Fees and commissions on loans and advances	1,435,796	908,280	1,435,796	908,280
Ledger fees & service charges	628,653	563,422	628,653	563,422
Other fees and commissions	3,504,958	2,912,816	3,243,533	2,708,238
	5,569,407	**4,384,518**	**5,307,982**	**4,179,940**

34 Other Income

	Group		Bank	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Gain on disposal of property and equipment	3,573	4,173	3,573	4,173
Dividend income	470	6,563	20,325	6,563
Rental income	69,335	55,291	69,335	55,291
Loan recoveries	16,367	24,325	16,367	24,325
Miscellaneous	85,540	260,831	85,540	249,853
	175,286	**351,183**	**195,140**	**340,205**

The Co-operative Bank of Kenya Limited and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

35 Other Operating Expenses

	Group		Bank	
	2011	2010	2011	2010
	KShs'000	KShs'000	KShs'000	KShs'000
a) Salaries and wages (35 b)	5,511,355	4,493,620	5,418,058	4,417,583
Depreciation on property and equipment	1,120,187	853,354	1,116,023	849,647
Rent and maintenance costs for branch premises	692,363	551,904	683,501	545,761
Motor vehicle running & other equipment maintenance	565,896	426,008	564,982	425,136
Stationery & printing	405,484	311,826	404,516	309,918
Travelling & insurance	252,132	279,670	231,108	260,252
Telephone, postage, electricity & water	428,585	413,652	428,054	412,852
Contribution to Deposit Protection Fund	162,727	120,892	162,727	120,892
Amortisation of intangible assets	118,485	96,917	116,710	95,623
Amortisation of leasehold land	613	613	613	613
Directors' emoluments	100,472	89,887	81,551	71,619
Other operating & administrative expenses	2,059,030	1,592,264	1,985,310	1,535,958
	11,417,329	**9,230,607**	**11,193,153**	**9,045,854**
b) Salaries and wages:				
Basic salaries	4,269,241	3,750,066	4,189,416	3,689,320
Allowances	240,764	113,855	239,948	111,642
Pension scheme contribution	522,775	432,333	517,419	426,315
Medical expenses	238,088	123,468	234,773	121,304
Others	240,488	73,898	236,503	69,002
	5,511,355	**4,493,620**	**5,418,058**	**4,417,583**

36. Profit Before Tax

	Group		Bank	
	2011	2010	2011	2010
	KShs'000	KShs'000	KShs'000	KShs'000
Profit before tax is stated after charging:-				
Staff costs	5,511,355	4,493,620	5,418,058	4,417,583
Directors' emoluments:				
-Fees	87,770	79,608	76,081	66,243
-Others	10,269	10,279	5,469	5,376
Depreciation on property and equipment	1,120,187	853,354	1,116,023	849,647
Amortisation of leasehold land	613	613	613	613
Amortisation of intangible assets	118,485	96,917	116,710	95,623
Auditors' remuneration	10,250	9,485	8,200	7,600
Impairment of loans and advances	709,903	798,666	709,903	798,666
Contribution to Deposit Protection Fund	162,727	120,892	162,727	120,892
Contribution to staff retirement benefit scheme	522,775	432,333	517,419	426,315
and after crediting:-				
Foreign exchange gains	1,013,213	621,201	1,013,213	621,201
Gain / (loss) on disposal of property and equipment	3,573	4,173	3,573	4,173
Net rental income	89,659	55,291	89,659	55,291
Amortisation of capital grants	20,447	20,447	20,447	20,447
Interest on previously impaired loans	484,771	313,894	484,771	313,894

The Co-operative Bank of Kenya Limited and Subsidiaries

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37. Basic and Diluted Earnings per Share

The calculation of basic earnings per share for the Group and the Bank is based on the year's profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The Bank is proposing to existing shareholders a bonus share in the proportion of one new ordinary share of KShs 1 each for every 5 ordinary shares then held. This will result in capitalisation of KShs 698,474,000 out of share premium of the Bank, to create 698,474,000 bonus shares to be distributed among the ordinary shareholders. The bonus issue will be subject to the Bank receiving all requisite approvals including approvals from the Capital Markets Authority and the shareholders of the Bank.

	Group		**Bank**	
	2011 KShs'000	**2010 KShs'000**	**2011 KShs'000**	**2010 KShs'000**
Profit for the year attributable to shareholders (KShs'000)	5,357,212	4,568,580	5,186,343	4,379,230
Weighted average number of ordinary shares for basic earnings per share (KShs'000)	3,492,370	3,492,370	3,492,370	3,492,370
Weighted average number of ordinary shares for diluted earnings per share (KShs'000)	4,190,844	4,190,844	4,190,844	4,190,844
Basic earnings per share (KShs)	1.53	1.31	1.49	1.25
Diluted earnings per share (KShs)	1.28	1.09	1.24	1.04

38 Components of other Comprehensive Income

	Group		**Bank**	
	2011 KShs'000	**2010 KShs'000**	**2011 KShs'000**	**2010 KShs'000**
Available for sale investments				
(Loss) / profit arising during the year	(4,193,909)	348,282	(4,192,075)	348,171
Reclassification to income statement	348,282	-	348,171	-
Income tax on other comprehensive income	770,488	(69,675)	768,781	(69,634)
	(3,075,139)	**278,607**	**(3,075,123)**	**278,537**

The Co-operative Bank of Kenya Limited and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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39. Cash and Cash Equivalents

Cash and cash equivalents include in the statement of cash flow comprise the following amounts:-

	Group		Bank	
	2011	**2010**	**2011**	**2010**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Cash on hand	6,072,339	5,298,211	6,072,339	5,298,211
Cash with Central Bank of Kenya	8,078,710	8,735,266	8,078,704	8,735,266
Deposits and balances due from banking institutions	7,464,735	6,741,854	7,437,716	6,671,257
Items in the course of collection from other Banks	556,899	366,306	556,899	366,306
	22,172,683	21,141,637	22,145,658	21,071,040
Less: CBK Cash reserve ratio	(7,436,716)	(5,277,670)	(7,436,716)	(5,277,670)
Cash and cash equivalents	**14,735,967**	**15,863,967**	**14,708,942**	**15,793,370**

40. Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

(a) Loans due from directors, staff and other related parties:-

Balances outstanding at the close of period as advanced to directors, employees of the Bank and other related parties in the ordinary course of business is as follows :

	2011	**2010**
	KShs'000	**KShs'000**
Directors	150,036	152,102
Employees	4,777,870	4,116,202
	4,927,906	**4,268,304**

The weighted average interest on loans to directors and bank employees during the year was 4.8% (2010-4.7%). The loans are secured by mortgage property mortgage and are repayable in a period less than 25 years. The interest income earned on loans and advances to directors, employees and associates amounted to KShs. 211,428,988 (2010-KShs 179,608,624). No impairment losses have been recorded against balances outstanding during the period and no specific allowance has been made for impairment losses on balances at period end (2010-Nil).

The Co-operative Bank of Kenya Limited and Subsidiaries

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(b) Inter-company balances and transactions:-

The financial statements include the following balances relating to transactions entered into with other group companies:

	Relationship	Bank 2011 KShs'000	2010 KShs'000
Due from:-			
Kingdom Securities Limited	Subsidiary	2,170	1,812
Co-optrust Investment Services Limited	Subsidiary	1	-
Co-op Consultancy & Insurance Agency Limited	Subsidiary	72	-
Co-opholdings Co-operative Society Limited	Parent	32,686	19,433
		34,929	21,245
Due to:-			
Co-op Consultancy & Insurance Agency Limited	Subsidiary	**2,986**	**17,422**
Interest expenses:-			
Directors and staff		23,667	15,119
Insurance premium:-			
Co-operative Insurance Company Limited	Associate	**262,015**	**266,294**

Deposits held with the Bank as at 31 December 2011 for subsidiaries and associate companies amounted to KShs 967,443,938 (2010-KShs. 1,092,255,640). Deposits from directors and staff amounted to KShs 648,664,723 (2010 – KShs. 250,980,533).

(c) Compensation of key management personnel

	Group 2011	Group 2010	Bank 2011	Bank 2010
	KShs'000	KShs'000	KShs'000	KShs'000
Directors	90,741	89,887	56,528	71,619
Senior managers	**592,828**	**636,786**	**568,346**	**611,811**

(d) Co-operative Bank Foundation

The Foundation is a registered trust established to assist bright needy students from the co-operative movement in paying school fees. In 2011, KShs 45 million (2010- KShs 38 million) was disbursed to the Foundation. At 31 December 2011, the Foundation held deposits of KShs 33,012,708 (2010- KShs 22,715,319) with the Bank.

(e) Co-operative Bank of Kenya Limited Staff Retirement Contribution Scheme

This is a defined contribution scheme and provides, under the rules of the scheme, retirement benefits for the staff of Co-operative Bank of Kenya Limited and its subsidiaries. The Group contributed KShs. KShs.522,775,000 (2010- KShs. 420,165,165) as at 31 December 2011. Under the terms of their appointment, Co-optrust Investment Services Limited is responsible for the investment of funds and is a related entity to the Scheme by virtue of shareholding.

The Co-operative Bank of Kenya Limited and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(e) Co-operative Bank of Kenya Limited Staff Retirement Contribution Scheme

Transactions during the year are as highlighted below and were at similar terms and conditions as those offered to other customers:

	2011 KShs'000	2010 KShs'000
Rent paid to the scheme on leased property	3,744	4,480
Scheme Administration fees paid by the Bank	-	3,691
Dividends paid by the Bank's ordinary shares	7,484	3,061

(f) The number of employees at the year end was:

	Group and Bank	
	2011 KShs'000	2010 KShs'000
Management	319	301
Supervisory and unionisable	2,825	2,414
Others	49	51
	3,193	**2,766**

41. Operating Lease Commitments

As lessor:

The total future minimum lease receivables due from tenants are as follows:

	Group and Bank	
	2011 KShs'000	2010 KShs'000
Within one year	67,730	76,831
Between 2 and 5 years	207,525	282,466
Over 5 years	1,648	40,188
	276,903	**399,486**

Leases are negotiated for an average term of six (6) years and rentals are reviewed every two (2) years.

As lessee:

The total future minimum lease payments due to third parties under non-cancellable operating lease are as follows:

	Group and Bank	
	2011 KShs'000	2010 KShs'000
Within one year	487,738	315,575
Between 2 and 5 years	1,102,666	792,118
Over 5 years	79,090	66,419
	1,669,494	**1,174,112**

Lease commitments relate to lease rentals payable by the group for its leasehold properties and are negotiated for an average term of six (6) years.

The Co-operative Bank of Kenya Limited and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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42. Commitments

	Group and Bank	
	2011 KShs'000	2010 KShs'000
i) Capital: Authorised and contracted for	84,295	481,234
ii) Capital: Authorised and not contracted for	4,083,353	2,419,160
iii) Loans committed but not disbursed at year end	20,731,085	831,573

43. Contingent Liabilities

a) Not recognised in statement of financial position	Group and Bank	
	2011 KShs'000	2010 KShs'000
Letters of credit, guarantees, acceptances, and other engagements entered into on behalf of customers	14,962,504	15,718,941

Guarantees are documents written by the Bank to support performance by a customer to third parties. The bank will only be required to meet these obligations in case of the customer's default.

Letters of credit commit the Bank to make payment to third parties, on production of documents, which are subsequently reimbursed by customers.

An acceptance is an undertaking by the Bank to pay a bill of exchange on a customer. Most acceptances are presented and reimbursement by the customer is almost immediate.

b) Pending legal suits

i) Raki Investments Limited

This is a claim against the Bank for general and special damages amounting to KShs 638,546,737. The plaintiff, which is a coffee exporting company, had been granted overdraft facilities with USD 2 million and KShs 5 million in October 1998. They claim that the Bank over time failed to remit the agreed upon funds to Coffee Board of Kenya thereby causing the collapse of their coffee export business due to delayed shipments and therefore dissatisfied customers. There were additional claims relating to unauthorized transfers, application of excessive interest rates and failure to offset borrowings with the fixed deposit as instructed by the plaintiff.

ii) Kenya Continental Holdings

This is a claim for KShs 193,814,764 against the Bank seeking injunction against sale of company's security alleging fraud and misrepresentation on the part of the Bank. The Bank has a counterclaim amounting to KShs 521,318,439 against the debtor.

iii) Boaz Mathews Ouma Awiti & three others

This is a claim for KShs 31,864,120 against the Bank relating to the sale and purchase of shares in Bob Mathews Stock Brokers Ltd (now Kingdom Securities Limited). The Bank has applied for a stay of proceedings and referral of the matter to arbitration.

iv) Alice Anyona Mumo & Others vs. RBA & Co-operative Bank of Kenya Limited Retirement Benefit Scheme, 2007 RBA Tribunal appeal no. 8 of 2011 (NBI)

This is an appeal against the RBA ruling dated 26.05.2011 confirming that member benefits were duly paid in accordance with the applicable Trust Deed and Rules. The ruling is in regard to the initial claim filed with the Retirement Benefits Authority (RBA) under section 46 of the RBA Act alleging that the scheme had not computed and paid the ex-staff the correct amounts. They claimed that the estimated amount allegedly due to them is KShs 2 billion. The ex-staff being dissatisfied with the ruling appealed against the same citing various grounds of appeal. The matter is pending for determination before the Tribunal. Based on advice received from the Scheme Administrators and the Actuaries, no liability is expected to arise in future in respect of this claim.

No provision has been made in these financial statements for the above pending suits as the directors are of the opinion that no liabilities are expected to arise in future in respect of these claims.

The Co-operative Bank of Kenya Limited and Subsidiaries

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44. Fiduciary Activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. These financial instruments comprise deposits with financial institutions, government securities and quoted and unquoted securities, among others. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. These services give rise to the risk that the Group will be accused of maladministration or under-performance.

The Group at Custodial Services department holds asset security documents on behalf of customers with a value of KShs. 14,437 million (2010 – KShs 12,200 million). The Group, through Co-op Trust Investment Services manages securities with a value of KShs 21,908 million (2010- KShs 30,843 million) on behalf of customers.

45. Assets Pledged as Security

As at 31 December 2011, there were no assets pledged by the Group to secure liabilities.

46. Holding Entity

The holding entity of The Co-operative Bank of Kenya Limited is Co-opholdings Co-operative Society Limited incorporated in Kenya under the Co-operative Societies Act.

47. Incorporation

The Bank is incorporated in Kenya under the Companies Act.

48. Currency

These financial statements are presented in Kenya Shillings (KShs), and are rounded to the nearest KShs 1,000.

We are **FiRe**d up!

The Co-operative Bank is proud to have been voted
Best in Corporate Governance at the **2011 FiRe Awards.**

The Financial Reporting (FiRe) Awards is an initiative promoted jointly by the Nairobi Securities Exchange (NSE), the Institute of Certified Public Accountants of Kenya (ICPAK), and the Capital Markets Authority (CMA) to recognize excellence in Financial Reporting by corporate bodies in East Africa.

We are truly honoured by this recognition.

Supporting Regional Community Programmes

Co-op Bank Head of Institutional Banking, Lydia Rono (right) presents a cheque worth Kshs. 700,000 to Kenya Episcopal Conference Director for Canon Law, Father Ferdinand Lugonzo (left) in support of the ***17th Association of Member Episcopal Conferences in Eastern Africa (AMECEA) Plenary Session*** held in Nairobi in 2011. The Conference brings together top leadership of the Catholic Church to discuss pastoral and socio-economic issues that affect the region. Looking on is Co-op Bank Westlands Branch Manager, Winnie Kinoti.

Support to Sports Activities of the Kenya Defence Forces

Co-op Bank's Director of Retail Banking, Sam Birech (in red tie) presents medals to the winners of the ***Armed Forces Annual Athletics Championships 2011***. Co-op Bank was the main sponsor of the event.

Support to Sports Activities of the Police Service

Co-op Bank's Director of Retail Banking, Sam Birech (right) presents a Kshs. 600,000 cheque to the Police Commissioner, Mathew Iteere in support of the ***Kenya Police Annual Athletics Championships 2011***. Co-op Bank was the lead sponsor of the Kenya Police Annual Athletics which seeks to nurture and showcase talent in the Police Service.

Support to Sports Activities of the Prisons Service

Co-op Bank Head of Personal & Business Banking, Joyce Kimondo (left) hands over a cheque to Assistant Minister for Home Affairs, Hon. Beatrice Kones. The money went towards the support of ***2011 Kenya Prisons Athletics Championships*** held at the Nyayo National Stadium. Looking on is Commissioner of Prisons, Isaiah Osugo.

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