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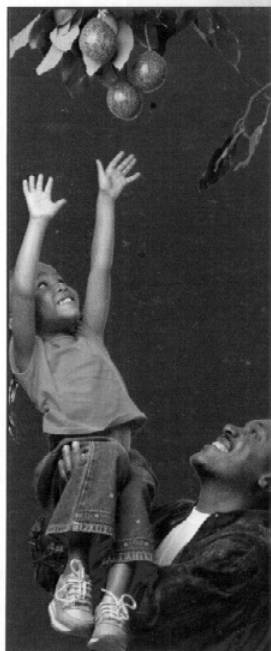
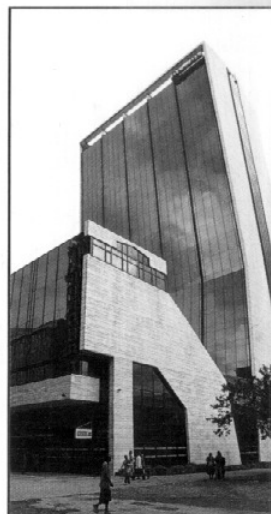
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CO-OPERATIVE
BANK OF KENYA
We are you

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CORPORATE INFORMATION

BOARD OF DIRECTORS

S. C. Muchiri	-	Chairman	E.K. Mbogo	
J. Riungu	-	Vice Chairman	D. Kiura	
H. Kiplagat	-	Retired on 27.02.03	PS Ministry of	
J. Sitienei	-	Appointed on 06.06.03, replacing H. Kiplagat	Finance	- J. Mackenzi (representing PS, Ministry of Finance-Appointed 02.01.2003)
G. Mwobobia	-	Retired on 01.11.03		
P. K. Githendu				
R. L. Kimanthi			MANAGING DIRECTOR	G. M. Muriuki
S. Ogamba				
J. B. Nthuku			SECRETARY	R. M. Githaiga (Mrs)
A. Khangati				
G.J.S. Wakasyaka, (Rtd Major)				
D.C. Kuria	-	Deceased 17.08.03		

REGISTERED OFFICE AND HEAD OFFICE

Co-operative House,
Haile Selassie Avenue
P O Box 48231,
Tel. 32076000
NAIROBI

SUBSIDIARIES

Co-optrust Investment Services Ltd
P O Box 48231,
Tel. 32076000
NAIROBI

Co-operative Consultancy
Services Ltd
P O Box 48231,
Tel. 32076000
NAIROBI

BRANCHES

Co-operative House Branch
P O Box 67881, Tel. 32076000
NAIROBI

Cannon House Branch
P O Box 67881, Tel. 228974/5
NAIROBI

Kisumu Branch
Oginga Odinga Road
P O Box 1511, Tel. 21751/20070
KISUMU

Co-op Card Centre
P O Box 21831, Tel. 222271/222505
NAIROBI

Mombasa Branch
Nkrumah Road
P O Box 87771, Tel. 315375/6/7
MOMBASA

Meru Branch
Tom Mboya Street
P O Box 1328, Tel. 20461/2
MERU

Nakuru Branch
Geoffrey Kamau Road
P O Box 2982, Tel. 211574/5
NAKURU

Industrial Area Branch
Nanyuki Road
P O Box 18119, Tel. 530881/2
NAIROBI

Kisii Branch
P O Box 2469, Tel. 31509 -11
KISII

Machakos Branch
Syo Kimau Road
P O Box 1250, Tel. 20215/6
MACHAKOS

Nyeri Branch
P O Box 12253, Tel. 30815/30751
NYERI

Kerugoya Branch
P O Box 635, Tel. 21586/7
KERUGOYA

Ukulima House Branch
Haile Selassie Avenue
P O Box 74956, Tel. 221240
NAIROBI

Nyahururu Branch
P O Box 307, Tel. 32132/52
NYAHURURU

Kiambu Branch
P O Box 1064, Tel. 20060/1
KIAMBU

2009/0098

CORPORATE INFORMATION

Eldoret Branch
P O Box 2948, Tel. 61167/62717
ELDORET

Homa Bay Branch
P O Box 406, Tel. 22766/7
HOMA BAY

Bungoma Branch
P O Box 1964, Tel. 30459/30701/2
BUNGOMA

Embu Branch
P O Box 1337, Tel. 30363/4
EMBU

Kericho Branch
P O Box 1742, Tel. 30414/6
KERICHO

Murang'a Branch
P O Box 954, Tel. 31174, 30503/4
MURANG'A

Karatina Branch
P O Box 931, Tel. 72855/6/7
NYERI

University Way Branch
P O Box 60800, Tel. 225400/11
NAIROBI

Chuka Branch
P O Box 101, Tel. 30461/2/3
CHUKA

Mumias Branch
P O Box 905, Tel. 41463, 41258/9
MUMIAS

Athi River Branch
P O Box 321, Tel. 22880/22875/6
ATHI RIVER

Stima Plaza Branch
P O Box 38764, Tel. 318880/318878 - 9
NAIROBI

Thika Branch
P.O. Box 815, Tel. 21658/21815/8
THIKA

NACICO Branch
P O Box 866, Tel. 228371/228072
NAIROBI

Kimathi Street Branch
P.O Box 7512-00200, Tel. 315435/6/7/8
NAIROBI

Kitale Branch
P.O Box 1058-30200, Tel. 054 31611/31602/31603
KITALE

Kariobangi Branch
P O Box 252, Tel. 781258
NAIROBI

Staff Training Centre
P O Box 15355, Tel. 891187/890132/3
LANGATA, NAIROBI

AGENCIES

Magwagwa Agency
c/o Kisii Branch
P O Box 2469
KISII

Muhoroni Agency
c/o Kisumu Branch
P O Box 1511
KISUMU

Kawangware Agency
P O Box 46904, Tel. 576587
NAIROBI

Makutano Agency
c/o Meru Branch
P O Box 1328, Tel.20421
MERU

Maua Agency
c/o Meru Branch
P O Box 1328, Tel.21548
MERU

BANKERS

Central Bank of Kenya
P O Box 60000
NAIROBI

LAWYERS

Various
A list is available at the Bank

AUDITORS

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

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THERE WILL BE AN ANNUAL GENERAL MEETING OF THE CO-OPERATIVE BANK OF KENYA LIMITED TO BE HELD ON 28th MAY 2004 AT 11.00 A.M. AT THE CO-OPERATIVE BANK STAFF TRAINING CENTRE, KAREN.

Proposed Agenda:

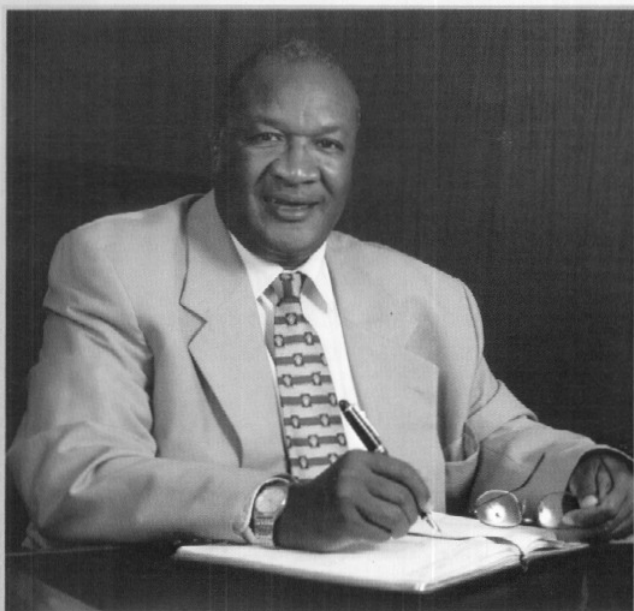
1. Chairman's Report.
2. Presentation of Awards.
3. Address and Opening of the Annual General Meeting by the Guest of Honour.
4. Confirmation of the minutes of the Annual General Meeting held on 30th May 2003.
5. Consideration and adoption of the Annual Report and Financial Statements for the year ended 31st December 2003, together with the Directors' and Auditors' Reports.
6. Confirmation of the Auditors for the next financial year.
7. Election of Directors.
8. Any other business for which 15 days notice has been given.


GIDEON MURIUKI
MANAGING DIRECTOR

14th April 2004


Coop 24hr
CashPoint

CHAIRMAN'S STATEMENT



I am greatly honoured to present to you our Annual Report and Financial Statements for the year ended 31 December 2003.

REVIEW OF THE ECONOMY

Kenya's economy experienced a slow recovery in 2003 to post an estimated growth of 1.4 percent compared to 0.7 percent in 2002 and minus 0.8 percent achieved in 2001.

The agricultural sector grew by a marginal 1.3% with the tea and coffee sector registering a growth of 0.7% and 38%, respectively. The slight improvement in tea production was attributed to favourable weather conditions while the impressive upturn in coffee output reflected improved crop husbandry and favourable weather conditions. The slump in world prices, high production costs and inefficiency in marketing, however, continues to hurt this sub-sector.

Albeit remaining in the single digits, inflation increased to 8.3% for the year compared to 4.1% the previous year. The upward trend on the overall inflation largely reflected pressures from prices of basic foodstuffs and petroleum products.

The foreign exchange market was fairly stable in the course of the year. The Kenya shilling appreciated slightly against the US dollar to exchange at an annual average of Kshs. 75.90 compared to Kshs. 78.70 the previous year. The shilling, however, lost against the Sterling Pound, the Euro and 100 Japanese Yens by 4.9%, 15.4% and 4.2% to exchange at an average of Kshs. 124.10, Kshs. 85.90 and Kshs. 65.60 per 100 Japanese Yens, respectively. The appreciation of the Kenya shilling against the US dollar was mainly due to positive sentiments resulting from the peaceful general elections, the peaceful political transition and the resumption of funding from the IMF/World Bank and other developmental partners.

The banking sector's total assets increased by 9.3% during the year. Loans and advances, accounting for 54% of all the assets increased by 5.3% to Kshs. 265.1 billion. The ratio of total non-performing loans to total loans declined to 27.7% from 29.8%. Deposit liabilities increased by 12.4% to Kshs. 392.8 billion mainly attributed to increased flow of donor aid to support free primary school and other Government development programmes. Capital and reserves of the banking system increased by 12.2% with Capital adequacy ratio improving to 17.3% from 16.6% which was above the minimum level of 12%. Profitability of the sector increased substantially by 79.2% mainly as a result of greater focus on non-funded income which increased by 18.9%. Also contributing to this was a reduction in interest expense by 30.4% and significant reduction in bad debts charge and salaries and wages.

BANK'S PERFORMANCE

I am delighted to announce that the Bank has registered an impressive profit before tax of Kshs. 180.5 million, a commendable increase of 23% over the performance for year 2002. The Board of Directors have recommended a 3% dividend pay out. This is significantly the first time in six years that the Bank has been able to make a dividend payout, following the losses suffered in previous years mainly as a result of the tragic bomb blast in 1998, and concerted efforts to clean up the loan book. These impressive results are attributable to on-going business and operational restructuring focused on broadening our revenue generation base especially on non-funded income, cost management and improvement of the quality of the loan book. The following are significant highlights: -



CHAIRMAN'S STATEMENT

- Non-funded income increased by Kshs. 290 million above the level of year 2002.
- Gross earnings from Foreign Exchange activities improved by an impressive 72% over the performance of 2002.
- Our cost of funds continued to reduce through better cost of funds management. Consequently, therefore, interest expense decreased by Kshs. 431 million during the year. Through proper cost rationalisation, we were able to maintain our operating expenses to no more than 5% above the levels of 2002 despite growth in business and opening of new sites during the period under review.
- With improved Credit Risk Management, recoveries of non-performing loans increased from Kshs. 581.2 million in 2002 to Kshs. 723.8 million.
- We continued to expand our deposit catchment base resulting in a shift to less expensive, more stable retail deposits which are also a source of substantial amount of fees and commissions.

It is noteworthy that these results were achieved despite the difficult trading conditions, characterised by a high level of interest suspended on non-performing loans.

Our customer deposits grew by a commendable Kshs. 4.8 billion to Kshs. 25.7 billion from Kshs. 20.9 billion achieved in year 2002. This was possible through our aggressive business growth and repositioning in our chosen market segments.

During the same period Gross Advances stood at Kshs. 29.8 billion compared to Kshs. 28.1 billion in 2002. Total assets of the Group grew to stand at Kshs. 32.4 billion compared to Kshs. 28.6 billion in 2002.

Despite weakened outlook for global economic recovery, the country's economic growth is expected to recover in 2004/5 owing to the resumption of donor inflows following the successful negotiation of an IMF Poverty Reduction and Growth facility for Kenya. Progress is also expected in a number of fronts, notably; agricultural growth will accelerate, assuming normal rainfall, while new investment projected in the road network and improved electricity supply should boost growth in the manufacturing sector. As a result, the performance of our core customers, the Co-operative sector is expected to improve significantly and consequently improve the performance of their business with us. This shall greatly enhance our performance.

STRATEGY

We continue to closely pursue our strategic focus of managing the cost base while enhancing operational efficiency and revenue generation.

H. E. The President of the Republic of Kenya Hon. Mwai Kibaki C.G.H., M.P, signing the visitors' book during the re-opening Ceremony of the Co-operative Bank House.



CHAIRMAN'S STATEMENT



This strategy will continue to be one of our main emphases in the year 2004 with particular focus on business process flow re-engineering. Some of the key measures we put in place during the year 2003 include:

- In line with our new corporate image, incorporating our slogan "**We are you**", we have continued re-branding and changing the outlay of our branches to give them a more customer-friendly and focused look. The customer service areas in the banking halls have, also, been expanded and the Customer Service Officers relocated here for better customer service. The changes are in tandem with our focus on the customer who we endeavour to satisfy.
- We have enhanced capacity in various high income generating products among them the following:
 - **Co-opnet**: This is a home banking product enabling our customers to transact on their bank accounts at their locations.
 - **Jumbo Link**: An electronic bulk payments system.
 - **Mobile banking**: This has been successfully launched and customers are able to access their balances and also top up their mobile phones with air-time.
 - **Bankers' Cheques**: Your Bank's cheques are being sold directly by the SACCOs on behalf of the Bank for shared fees. Through this initiative the Bank is able to reach a wider market through the SACCO network.
- In the Co-operative sector, our core market segment, we have continued to implement the relationship management concept, where our customers have dedicated business managers to serve them. This has not only enhanced customer service to this crucial segment, but has also created an excellent cross selling opportunity for the Bank where we have successfully built our business on this key market segment.
- Successful installation of 18 ATMs during the year, bringing the total to 21. An additional 20 ATMs are in the process of being installed this year. This will greatly enhance customer satisfaction at the same time decongesting our banking halls. It will, also, eventually increase transaction based fee income.
- We, also, secured an appointment by Moneygram as their Super Agent in Kenya, ensuring that we shall continue to lead in service delivery in this area.
- The small and micro lending unit continues to be a major contributor to our overall performance and the results so far achieved are overwhelming while maintaining a very low percentage of delinquent accounts.
- Our strengthening of Institutional Banking and Liabilities Management enabled us to further diversify our deposits sources. We focussed aggressively on sourcing deposits from such sectors as Non-Governmental organisations, Insurance companies, Schools, Churches and Universities. In particular, our Education Partnership accounts significantly improved our deposit retention as outflows in terms of school fees loans were channelled back to these accounts.
- The Co-operative Financial Services Franchise project is a major milestone in Kenya as it aims to enable the SACCOs offer basic banking services. Our vision is to see the Co-operative Financial Sector as a truly integrated financial system in order to better harness all the resources within the sector. The pilot phase has been commenced. The project when substantially implemented will enable the Bank better support the SACCOs in offering value added services for the mutual benefit of the Bank and the respective SACCOs. It will also help in decongesting our banking halls.

We shall continue to improve the productivity and efficiency of our staff as well as increase customer satisfaction by enhancing appropriate IT based service delivery systems.

PERFORMANCE OF SUBSIDIARY COMPANIES

Co-optrust Investment Services Limited, one of the Bank's wholly owned subsidiaries, also, performed extremely well. The Fund under its management grew substantially from Kshs. 2.8 billion in year 2002 to Kshs. 4.2 billion in 2003, which represents a 50% growth. The company also achieved a commendable performance in profitability, returning an operating profit of Kshs. 6.3 million in 2003 from Kshs. 1.3 million in 2002.



CHAIRMAN'S STATEMENT

Co-operative Consultancy Services Limited began operations in September 2002 having taken over the advisory services previously done at Co-operative Merchant Bank Limited. It was incorporated primarily to provide support to the Co-operative Movement through building of suitable institutional capacities of the co-operative societies which form the core clientele of the Bank. In addition, the company has a key objective of enhancing the fee based income of the Group. During the period under review this subsidiary undertook key corporate finance restructuring mandates in sugar and coffee sectors among others generating revenues in excess of Kshs. 25 million in 2003. We expect an even better performance from this subsidiary as it entrenches itself in the market.

The results of these subsidiaries have been incorporated in these accounts.

DIVIDENDS

With the continued impressive turnaround of the Bank, which your Board of Directors believes is sustainable, the Board is happy to recommend to you as indicated earlier, for the first time in six years, payment of a dividend of Kshs. 3.00 per share to be paid to you, the shareholders. Going into the future, we expect to pay even more dividends as your Bank continues to perform well.

CORPORATE GOVERNANCE

On behalf of the Board, I wish to confirm to you that we are committed to ensuring that corporate governance at the Bank and the Group measures to international best practices. The key function of the Board is the identification of current and future business risks and to ensure that the necessary systems and controls are in place to enable such risks to be monitored and effectively managed. The Board has appointed various sub-committees to which it has empowered certain responsibilities with the chairpersons of the sub-committees reporting to the Board. It, however, retains the overall responsibility for financial and operating decisions, and monitoring performance.

BOARD OF DIRECTORS AND MEMBERS OF STAFF

The team spirit between the Board of Directors and the Management and staff of the Bank has been the main contributing factor for this successful turnaround which has seen the Bank move from a loss position of Kshs. 2 billion in year 2000 to the current level of profitability of Kshs. 180.5 million, leading to the declaration of a dividend. It is, therefore, my privilege to appreciate this immense contribution of your Board of Directors, Management and staff in achieving these impressive results.

APPRECIATION TO CLIENTS, INDIVIDUALS AND ORGANISATIONS

I would, also, like to extend our acknowledgement to our customers who have continued to patronise our services and especially the co-operative societies who are our core customers. I wish to assure them that we will continue to provide quality and efficient service as evident in our branch network. Our appreciation, also, goes to the Government of Kenya, the Government of the United States of America through USAID, the Department for International Development (UK), the Swedish Co-operative Centre and various Non-Governmental Organisations (NGO's) for their continued support to the Co-operative Movement through the Bank and to the Bank itself.

Finally, I would like to register my deep appreciation to the President of the Republic of Kenya His Excellency Hon. Mwai Kibaki, CGH, MP for his immense support to the Co-operative Movement.

Long live the Co-operative Movement.
Long live The Co-operative Bank.

S. C. MUCHIRI
CHAIRMAN.



Jumbo Junior Savers Celebrations: The Bank Chairman, Mr. S. C. Muchiri cuts a cake to mark the occasion. Looking on are the Bank's Vice-Chairman Mr. J. Riungu (right) and Managing Director, Mr. G. Muriuki (centre).

Nahisi nimetunukiwa heshima kubwa kuwatolea ripoti yetu ya hesabu za mwaka uliomalizika tarehe 31 Disemba 2003.

UCHAMBUZI WA HALI YA UCHUMI

Uchumi wa Kenya uliendelea kupata nafuu, japo taratibu, katika mwaka wa 2003 na kufikia ukuaji wa takriban asilimia 1.4 ikilinganishwa na asilimia 0.7 katika 2002 na asilimia - 0.8 iliyofikiwa katika 2001.

Sekta ya kilimo ilidhihiri ukuaji wa kiwango duni cha asilimia 1.3, ile ya kilimo cha majani chai na ya kahawa ikionyesha ukuaji wa asilimia 0.7 na asilimia 38, mtawalia. Nafuu kidogo iliyofikiwa katika ukuzaji majani chai ilitokana na hali nzuri ya hewa nayo mavuno bora ya kuridhisha katika sekta ya kahawa yalitokana na kuimarishwa kwa njia za ukulima na vile vile hali nzuri ya hewa. Licha ya hali hii, kuanguka kwa bei duniani, kuongezeka kwa gharama ya uzalishaji na uzembe katika mauzo bado kunaendelea kudhuru sekta hii ndogo.

Licha ya kubaki katika tarakwimu moja, viwango vya gharama ya maisha vilizidi hadi asilimia 8.3 katika mwaka tunaozungumzia ikilinganishwa na asilimia 4.1 ya mwaka uliotangulia. Kwenda juu kwa gharama ya maisha kwa ujumla kulitokana hasa na shinikizo la kupanda bei kwa vyakula vya kawaida na mafuta ya petroli.

Kwenye kipindi hicho hali katika soko la ubadilishanaji wa pesa za kigeni ilikuwa tulivu. Shilingi ya Kenya iliimarika dhidi ya dola ya Marekani ikibadilishwa kwa wastani wa Shilingi 75.90 ikilinganishwa na Shilingi 78.70 katika mwaka uliotangulia. Hata hivyo Shilingi haikufanya vizuri dhidi ya Pauni ya Uingereza, Euro (sarafu ya Ulaya) na Yen 100 za Japani kwa asilimia 4.9, 15.4 na 4.2 ikibadilishwa kwa wastani wa Shilingi 124.10, Shilingi 85.90 na Shilingi 65.60 kwa Yen 100 za Japani, mtawalia. Kuimarika kwa Shilingi ya Kenya dhidi ya dola ya Marekani kulitokana zaidi na hisia maridhawa baada ya uchaguzi uliofanyika kwa amani, upokezanaji salama wa utawala na kuanza tena kwa IMF/Benki ya Dunia na washirika wafadhili kuleta fedha.

TAARIFA YA MWENYEKITI

Jumla ya rasilimali katika sekta ya mabanki iliongezeka kwa asilimia 9.3 katika kipindi cha mwaka tunaozungumzia. Utoaji mikopo, ikiwa ni asilimia 54 ya rasilimali zote iliongezeka kwa asilimia 5.3 hadi Shilingi bilioni 265.1. Uwiano wa jumla wa mikopo ambayo haikutimizika na jumla ya mikopo ambayo haikukubaliwa kufikia asilimia 27.7 kutoka asilimia 29.8. Dhima ya uwekaji fedha benki iliongezeka kwa asilimia 12.4 na kufikia Shilingi bilioni 392.8 ongezeko ambalo zaidi lilidhaniwa limetokana na wingi wa misaada ya wafadhili kuunga mkono mfumo wa elimu ya bure na mipango mingine ya serikali ya kuleta maendeleo.

Mtaji na akiba katika mfumo wa benki uliongezeka kwa asilimia 12.2 ambapo uwiano wa mtaji toshelevu uliimarika hadi asilimia 17.3 kutoka asilimia 16.6 hii ikiwa imezidi kiwango cha chini cha asilimia 12. Uwezo wa kupata faida katika sekta hii uliongezeka sana kwa asilimia 79.2 hasa kutokana na kujishughulisha zaidi na mapato yasiyo na gharama ambayo yaliongezeka kwa asilimia 18.9. Vile vile kupungua kwa gharama ya riba kwa asilimia 30.4 na kupungua zaidi kwa madeni yasiyolipwa pamoja na mishahara na ujira.

MAFANIKIO YA BENKI

Nina furaha kuwaripotia kuwa Benki ilipata faida nzuri ya Shilingi milioni 180.5 kabla ya kulipa kodi, mafanikio yanayostahili sifa kwa vile ni ongezeko la asilimia 23 kuliko ilivyokuwa mwaka wa 2002. Bodi ya Wakurugenzi inapendekeza mgao wa faida wa asilimia 3 kwa kila hisa. Hili ni tukio muhimu sana kwa vile ni kwa mara ya kwanza katika muda wa miaka sita ambapo Benki inalipa mgao wa faida, miaka iliyopita ilikuwa ni ya hasara hasa baada ya pigo la mlipuko wa bomu la mwaka wa 1998, na juhudi za kusafisha vitabu vya hesabu ya mikopo. Mafanikio haya ya kupendeza yalitokana na shughuli inayoendelea ya kubuni njia mpya za utendaji kazi zikilenga mapato yasiyohitaji gharama kubwa pamoja na njia mpya za utoaji bora wa mikopo. Matokeo muhimu yaliyopatikana ni kama yafutavyo:

- Mapato yasiyohitaji gharama yaliongezeka kwa Shilingi milioni 290 ikiwa ni zaidi kuliko kiwango kilichofikiwa mwaka wa 2002.
- Jumla ya faida kutokana na ubadilishanaji pesa za kigeni uliimarika kwa asilimia 72 zaidi ya ilivyokuwa mwaka wa 2002.
- Gharama za uwekaji hazina ziliendelea kupungua kutokana na usimamizi bora wa gharama hizo. Usimamizi huo bora vile vile ulisababisha upungufu wa gharama za riba kwa Shilingi Milioni 431 katika mwaka huo. Kupitia mikakati sawa ya usimamizi, tuliweza kuzuia ongezeko la gharama kutozidi asilimia 5 zaidi ya ilivyokuwa 2002, licha ya kupanuka kwa shughuli zetu na kubuniwa kwa matawi zaidi katika mwaka tunaoutazama.
- Kukiwa na usimamizi bora wa dhima ya mikopo, kupata malipo ya mikopo iliyokuwa imekwama kuliongezeka kutoka Shilingi milioni 581.2 katika mwaka wa 2002 hadi Shilingi milioni 723.8.

*Kimathi Street
branch:
An ultra modern
branch in the
Central
Business
District of
Nairobi opened
during the year.*



TAARIFA YA MWENYEKITI

- Kiini cha biashara yetu ni uwekaji akiba wa fedha za wateja. Shughuli hii iliendelea kukua vyema kutokana na badiliko la mwenendo wa uwekaji akiba kutokuwa ghali na uwekaji akiba wa rejareja ulio thabiti ambao ni njia yetu ya mapato kutokana na ada na ujira tunaotoza.

Ni muhimu kutaja hapa kuwa matokeo haya ya kuvutia yalipatikana licha ya kuwoko kwa hali ngumu ya kibiashara iliyoongeza gharama kubwa ya kutotoza riba mikopo iliyoshinda kulipwa.

Akiba ya wateja wetu iliongezeka kwa kiwango cha kustahili cha Shilingi bilioni 4.8 hivyo basi kufikia Shilingi bilioni 25.7 kutoka Shilingi bilioni 20.9 ilivyokuwa katika 2002. Mafanikio haya yote yaliwezekana kutokana na hima na bidii yetu kukuza biashara na kujibuni upya katika sehemu tuliojiweka katika soko. Katika kipindi hicho hicho jumla ya fedha tulizokopesha zilifikia Shilingi bilioni 29.8 ikilinganishwa na Shilingi bilioni 28.1 katika mwaka wa 2002. Jumla ya rasilimali ya Kundi iliongezeka hadi Shilingi bilioni 32.4 ikilinganishwa na Shilingi bilioni 28.6 katika mwaka wa 2002.

Licha ya kufikia kwa matarajio ya kufufuka kwa uchumi wa dunia, uchumi wetu hapa nchini unatarajiwa kupata afueni katika kipindi cha mwaka wa 2004/5, sababu kubwa ikiwa ni kurudiwa tena kuletwa kwa misaada ya kifedha baada ya makubaliano na shirika la IMF, mrengo wa kupunguza umaskini na kuleta maendeleo. Maendeleo vile vile yanatarajiwa katika nyanja mbali mbali muhimu;

Ukuaji katika sekta ya ukulima unatarajiwa kupata kasi, ikiwa mvua itanyesha vizuri, na huku vitega uchumi katika urekebishaji wa barabara na kuimarika kwa usambazaji wa nguvu za umeme kukitarajiwa kusaidia ukuaji katika sekta ya viwanda. Kwa ujumla haya yote yatasaidia zaidi maendeleo ya wateja wetu wakuu, sekta ya ushirika, kwani kuendelea kwa sekta hii kunamaanisha maendeleo ya biashara yetu. Hii itaongeza zaidi fursa yetu ya kupata mafanikio.

MIKAKATI

Tunaendelea kufuatilia kwa makini mikakati ya kusimamia gharama huku tukitafuta mbinu za kutuwezesha kuzalisha mapato.

Mikakati hii bado itaendelea kupewa umuhimu katika mwaka wa 2004, kitovu hasa kikiwa ni kubuni taratibu mpya za utendaji kazi. Miongoni mwa hatua muhimu zilizochukuliwa katika mwaka wa 2003 ni pamoja na:

- Kuambatana na sura mpya ya shirika, ikihusisha mwito wetu mpya wa "Tuko pamoja nawe" (We are you), tumeendelea kujibuni upya na kubadili sura ya matawi yetu ili yawavutie wateja. Sehemu za huduma bora kwa wateja katika matawi vile vile zimepanuliwa na kumewekwa maafisa wa uhusiano mwema ili kuwahudumia wateja. Mabadiliko haya yote yanaenda sambamba na mipango yetu ya kumtosheleza na kumpa umuhimu mteja.
- Tumeboresha uwezo wetu wa kuzalisha faida zaidi kupitia huduma mbali mbali zikiwa ni kama zifuatazo:-

- **Co-opnet:** Hii ni huduma ya benki ya nyumbani inayowawezesha wateja wetu kuendesha akaunti zao pale walipo.
- **Jumbo Link:** Mfumo wa kulipa kiasi kikubwa kupitia mtandao.
- **Mobile banking:** Huduma hii ya kutumia simu ya kiunga mbali ilianzishwa na kufaulu sana, kupitia kwayo wateja wanaweza kujua baki ya akaunti na vile vile kuweza kujaza senti za mazungumzo katika simu hizo.
- **Bankers' Cheques:** Unaweza kujinunulia hundi iliyodhaminiwa na Benki moja kwa moja kutoka kwa vyama vya ushirika vilivyo karibu nawe kwa kulipa ada ndogo. Kwa huduma hii Benki inapata nafasi ya kuongeza soko lake kupitia vyama vya ushirika.

TAARIFA YA MWENYEKITI

- Katika sekta ya Ushirika, ambayo ndiyo kiini cha biashara yetu, tunaendelea kutekeleza fikra ya huduma kwa uhusiano thabiti, ambapo wateja wanapatiwa meneja wanaotambua vyema mahitaji yao kuwahudumu. Hii imebuni fursa muafaka kwa Benki kujiuza hasa katika sehemu hii muhimu ambayo tumefaulu kujenga biashara yetu.
- Uwekaji uliofaulu sana wa mashine 18 za ATM katika kipindi cha mwaka tunaozungumzia, ilijumlisha idadi yake kuwa 21. Kuna mpango wa kuweka ATM 20 zaidi katika mwaka huu. Hii itaboresha zaidi huduma kwa wateja na kupunguza milolongo katika kumbi za benki yetu. Vile vile, hatimaye, itatuletea mapato kutokana na ada inayotozwa.
- Vile vile, tulifaulu kuteuliwa kama maajenti wakuu wa Moneygram hapa Kenya, hivyo basi kupata fursa ya kuendelea kuongoza katika kutoa huduma kwenye sehemu hiyo.
- Ukopeshanaji wa mikopo midogo unaendelea kuchangia pakubwa katika mafanikio yetu na kufikia hivi sasa tumefaulu kabisa huku tukidumisha asilimia ndogo sana ya akaunti batilifu.
- Kutilia kwetu nguvu uwekaji akiba wa idara na usimamizi wa deni ulituwezesha kuwa na nia tofauti za kupata akiba. Tuliweka shinikizo la kutafuta akiba za sekta ya mashirika yasiyo ya kiserikali (NGOs), Kampuni za bima, Shule, Makanisa na Vyuo Vikuu. Hasa zaidi, akaunti zetu za ushirikiano katika elimu (Education Partnership Accounts) ziliendeleza sana uwezo wetu wa kuwa na akiba iliyodumu kwa vile malipo ya mikopo ya shule huwa yanarudi kupitia akaunti hizi.
- Mradi wa Co-operative Financial Services Franchise ni jambo muhimu sana hapa Kenya kwa vile unavipatia uwezo vyama vya ushirika kutoa huduma ndogo za benki. Maono yetu ni kuhakikisha sekta ya ushirika inapata uwezo wa kujihusisha kikamilifu katika mfumo na shughuli za kifedha na kutumia rasilimali zilizomo katika sekta hii. Awamu ya majaribio tayari imeanzishwa. Hatimaye mradi huu utakapoteklezwa kabisa utawezesha benki kuhimili vizuri vyama vya ushirika kutoa huduma za ziada kwa manufaa ya benki na vyama vya ushirika vyenyewe. Vile vile itasaidia kupunguza msongamano katika kumbi za benki yetu.

Tutaendelea kuimarisha utendaji kazi bora wa wafanyikazi wetu na vile vile tutazidi kutoa huduma bora kwa wateja kupitia mifumo ifaayo ya teknolojia za kompyuta.

MAFANIKIO YA MAKAMPUNI WASHIRIKA

Co-optrust Investment Services Limited, moja ya kampuni washirika, inayomilikiwa na Benki, ilikuwa na matokeo mazuri kabisa. Hazina iliyosimamiwa na kampuni hii iliongezeka kwa kiasi kikubwa kutoka Shilingi bilioni 2.8 katika mwaka wa 2002 hadi Shilingi bilioni 4.2 katika 2003, hii ikiwa ni ukuaji wa asilimia 50. Kampuni vile vile ilipata faida ya kuridhisha ya Shilingi milioni 6.3 katika mwaka wa 2003 kutoka Shilingi milioni 1.3 katika 2002.

H. E. President Mwai Kibaki CGH, MP, presents the trophy for the Best Bank to the Chairman, Co-operative Bank, Mr. Stanley Muchiri during the Mombasa ASK International Show.



TAARIFA YA MWENYEKITI

Co-operative Consultancy Services Limited ilianza shughuli zake mnamo Septemba 2002 baada ya kurithi shughuli za kutoa ushauri ambazo mbeleni zilikuwa zinafanywa na Co-operative Merchant Bank Limited. Ilianzishwa hasa kusaidia mfumo wa ushirika kwa kuhakikisha vyama vya ushirika, ambao ni wateja wakuu wa benki, vinaanzisha idara za kujiendeshea shughuli zao. Pamoja na hivyo, Kampuni hii ina jukumu la kuongeza wateja wa kulipa ada kwenye Kundi. Katika kipindi tunachozungumzia kampuni hii ilianzisha mageuzi muhimu ya kifedha yanayohusu sekta ya ukulima wa miwa na kahawa, miongoni mwa nyingine, na hivyo basi kuweza kupata faida iliyozidi Shilingi milioni 25 katika mwaka wa 2003. Tunatarajia matokeo mazuri zaidi kutoka kwa kampuni hii ndogo inapoendelea kujiimarisha katika soko.

Matokeo ya kampuni hizi ndogo washirika zimehusishwa kwenye hii hesabu.

MGAO WA FAIDA

Kukiwa na mwelekeo huu wa Benki kupata faida, ambao Bodi yenu ya Wakurugenzi inaamini utaendelea, Bodi ina furaha kupendekeza kwenu kama ilivyotajwa mbeleni, kwa mara ya kwanza katika muda wa miaka sita, mulipwe mgao wa faida wa Shilingi 3.00 kwa kila hisa. Katika siku zijazo tunatarajia kuwalipa mgao wa faida mkubwa wakati Benki inapoendelea kufanya vizuri.

UONGOZI WA SHIRIKA

Kwa niaba ya Bodi, ningependa kusesitiza kwenu kuwa tumejitolea kuhakikisha usimamizi wa Benki na wa Kundi unafikia viwango bora zaidi vya kimataifa. Jukumu muhimu la Bodi ni kutambua na kujasiri mwelekeo wa biashara sasa na siku zijazo na kuhakikisha mahitaji yote ya utenda kazi yametimizwa ili kufanikisha biashara. Bodi imetua kamati ndogo ndogo na kuzipatia majukumu huku viongozi wa kamati hizo wakitakiwa kuripoti mara kwa mara kwa Bodi.

Hata hivyo, kwa ujumla, Bodi ndiyo yenye jukumu lote la usimamizi wa maswala ya kifedha na utendaji kazi.

BODI YA WAKURUGENZI NA WAFANYAKAZI

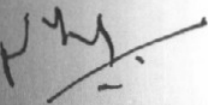
Moyo wa kushirikiana pamoja uliopo kati ya Bodi ya Wakurugenzi na Halmashauri pamoja na Wafanyakazi wa Benki umechangia pakubwa kuleta mafanikio yaliyopatikana yaliyoiteza Benki kujitoa kutoka nafasi ya kupata hasara ya Shilingi bilioni 2 mwaka wa 2002 hadi kufikia kiwango cha kupata faida ya Shilingi milioni 180.5, iliyopeleka kutangaza faida ya mgao. Hivyo basi, kwa heshima kubwa, natoa shukrani zangu kwa Bodi ya Wakurugenzi, Halmashauri na Wafanyakazi kwa mchango wao mkubwa uliotuwezesha kufikia matokeo haya ya kuvutia.

SHUKRANI KWA WATEJA WA KIBINAFSI NA MASHIRIKA

Vile vile, natoa shukrani zetu kwa wateja ambao mara kwa mara wameendelea kutumia huduma zetu hasa wale wa vyama vya Ushirika ambao ndio kiini cha biashara yetu. Nina wahakikishia kuwa tutaendelea kuwapatia huduma bora zaidi kama ilivyo katika matawi ya benki yetu. Shukrani zetu vile vile zinaenda kwa serikali ya Kenya, serikali ya Marekani kupitia USAID, idara ya International Development (UK), kituo cha Swedish Co-operative Centre na mashirika mbali mbali yasiyo ya kiserikali(NGOs) kwa kuendelea kufadhili vyama vya Ushirika kupitia Benki na hata Benki yenyewe.

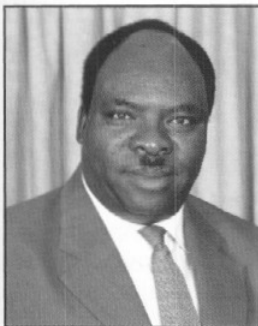
Mwisho, natoa shukrani za dhati kwa Rais wa Jamhuri ya Kenya, Mheshimiwa Mwai Kibaki, CGH, MP kwa kuunga mkono kabisa vyama vya Ushirika.

Maisha marefu kwa Vyama vya Ushirika.
Maisha marefu kwa Benki ya Ushirika.

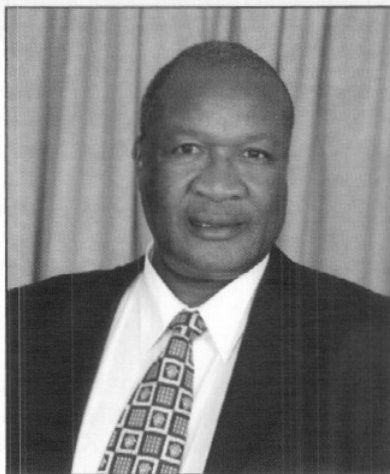


S.C. MUCHIRI
MWENYEKITI.

BOARD OF DIRECTORS



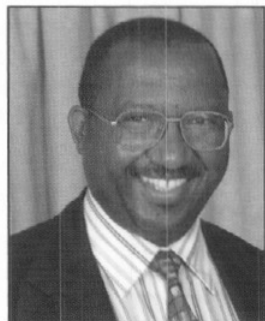
*Vice-Chairman:
Mr J. Riungu*



Chairman: Mr S. C. Muchiri



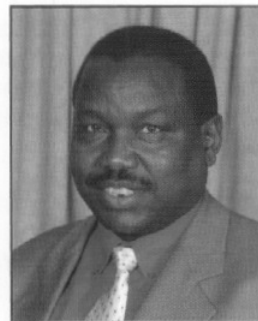
*Managing Director:
Mr G. Muriuki*



Mr J. Mackenzi



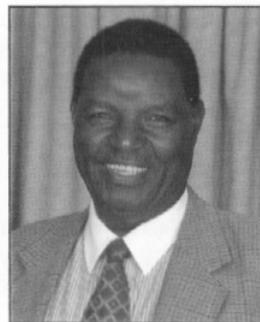
Mr A. Khangati



Mr J. Sitienei



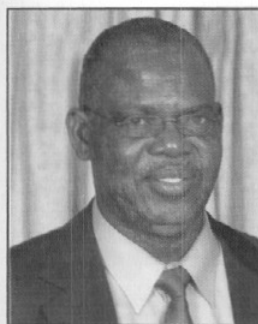
Mr P. Githendu



Mr D. Kiura



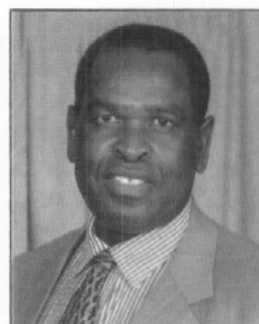
*Major (Rtd) G. J. S.
Wakasyaka*



Mr J. B. Nthuku



Mr. R. L. Kimanthi



Mr S. Ogamba



Mr E. K. Mbogo

REPORT OF THE DIRECTORS



REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report together with the audited Financial Statements for the year ended 31 December 2003, which show the state of the Group and the Bank's affairs.

PRINCIPAL ACTIVITIES

The Bank offers an extensive range of banking, financial and related services and is licensed under the Banking Act.

GROUP OPERATIONS

The operations of the Bank were merged with those of its subsidiary, Co-operative Merchant Bank Limited in the year 2002. A new subsidiary company, Co-operative Consultancy Services Limited, was formed in 2002, and took over the financial advisory services previously carried out by Co-

operative Merchant Bank Limited. Co-operative Consultancy Services Limited commenced operations on 28 September 2002. The results of its 15 months operations to 31 December 2003 have been consolidated with those of the other Group companies. The results of Co-optrust Investment Services Limited, a subsidiary company involved in the business of fund management have, also, been included in these Group Financial Statements.

RESULTS

The results of the Group and the Bank are set out on pages 23 and 25, respectively.

DIVIDEND

The Directors recommend the payment of a dividend of Kshs. 3.00 per share (2002 – nil).

BONUS ISSUE

The Directors do not recommend issuance of bonus shares for the year ended 31 December 2003.

RESERVES

The movement in the Bank's reserves is shown on page 26 of these financial statements.

DIRECTORATE

The Bank has a directorship of 15 Board members of whom 13 represent the Co-operative Movement, 1 represents the Government and a Managing Director. The Board is responsible for all policy decisions within the framework of the Bank's by-laws. It meets regularly to consider loan applications and to determine policy issues for the guidance of management. Since the last Director's report, the Board of Directors who served during the year and to the date of this report are shown on page 2.

STAFF AND TRAINING

During the year, the average number of staff increased by 14% from 947 to 1,083. This was due to the opening of additional 2 branches and 2 agencies and the need to position ourselves properly in order to meet the challenges ahead of us. The move has generated positive results as indicated by the Bank's performance during the year under review. The Bank has continued to lay emphasis on training of staff, as manpower is one of the main resources of the Bank's operations. The emphasis in training is put in order to prepare our staff to exceed our customers' expectations. Our staff training centre, consequently, has focused on customer care and team building programmes in realisation of the fact that only as a team can we succeed.

REPORT OF THE DIRECTORS

BRANCHES

The Bank has 32 branches and 5 agencies, which are spread out all over the country with a concentration in the economically high potential areas.

AUDIT COMMITTEE

The Bank's Audit Committee consists of: -

Mr. J. Riungu - Chairman

Mr. J.B. Nthuku

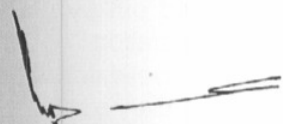
Mr. J. Mackenzi – Appointed 02.01.2003

Mr. S. Bundotich - Retired 02.01.2003

AUDITORS

The Auditors of the Bank, Ernst & Young, have expressed their willingness to continue in office in accordance with Section 25(3) of the Co-operative Societies Act. The directors recommend their reappointment subject to the approval of Central Bank of Kenya under section 24(1) of the Banking Act.

By order of the Board



G. M. MURIUKI
MANAGING DIRECTOR
18th March, 2004





RIPOTI YA WAKURUGENZI

Wakurugenzi wanafuraha kuwakilisha ripoti yao ikiambatana na taarifa ya fedha iliyokaguliwa katika kipindi cha mwaka uliomalizika 31 Disemba 2003, ambayo inaonyesha hali ya shughuli za Kundi na Benki.

SHUGHULI MUHIMU

Shughuli muhimu ya Benki ni kutoa huduma za kawaida za benki, za kifedha na nyingine nyingi zenye uhusiano na hizi na ina leseni kuambatana na sheria za benki.

UTENDAJI KAZI WA KUNDI

Shughuli za Benki zililetwa pamoja na zile za kampuni ndogo mshirika, Co-operative Merchant Bank Limited katika mwaka wa 2002. Kampuni nyingine ndogo mshirika, Co-operative Consultancy Services Limited, ilianzishwa katika mwaka wa 2002, na kuchukua shughuli za kutoa ushauri wa kifedha zilizokuwa zinafanywa na Co-operative Merchant Bank Limited. Kampuni ya Co-operative Consultancy Services Limited ilianza rasmi shughuli zake mnamo tarehe 28 Septemba 2002. Matokeo ya shughuli zake katika kipindi cha miezi 15 hadi kufikia tarehe 31 Disemba 2003 yamewekwa pamoja na yale ya kampuni zote zinazomilikiwa na Kundi. Matokeo ya Co-optrust Investment Services Limited, kampuni ndogo inayoshughulikia usimamizi wa rasilimali, vile vile imejumuishwa katika taarifa hii ya fedha ya Kundi.

MATOKEO

Matokeo ya Kundi na ya Benki yamo katika kurasa 23 na 25, mtawalia.

MGAO

Wakurugenzi wanapendekeza kulipwa kwa mgao wa faida wa Shilingi 3.00 kwa kila hisa (2002 – Hapakuwa na kitu)

TOLEO LA ZIADA

Wakurugenzi hawapendekezi kutolewa kwa hisa za ziada katika mwaka uliomalizika tarehe 31 Disemba 2003.

AKIBA

Mwenendo wa akiba ya Benki ni kama unavyoonyeshwa katika ukurasa wa 26 wa taarifa hii ya fedha.

UKURUGENZI

Benki ina Wakurugenzi 15 katika Halmashauri yake, ambao 13 wanawakilisha vyama vya Ushirika, 1 ni mwakilishi wa serikali na Mkurugenzi Mkuu. Jukumu la Halmashauri hii ni kutoa muongozo wote kwa mujibu wa kuendesha shughuli chini ya sheria za Benki.

Hukutana mara kwa mara kuangalia maombi ya mikopo na kuyakinisha mipango itakayoleta uongozi barabara. Tangu ripoti ya wakurugenzi iliyopita, Halmashauri ya Wakurugenzi iliyowatumikia katika mwaka huo hadi kufikia sasa wakati wa ripoti hii ni kama wanavyoonyeshwa kwenye ukurasa wa 2.

RIPOTI YA WAKURUGENZI

WAFANYAKAZI NA MAFUNDISHO YAO

Katika kipindi cha mwaka huo, idadi kadiri ya wafanya kazi iliongezeka kwa asilimia 14 kutoka 947 hadi 1,083. Hii ilitokana na ongezeko la matawi mawili na vituo viwili zaidi vya uwakilishi ikiwa ni pamoja na haja yetu ya kujitayarisha vizuri kupambana na ushindani unaotukabili. Hatua hii imeleta natija nzuri kama inavyodhihirika katika matokeo bora ya kipindi cha mwaka tunaozungumzia. Benki inaendelea kisisitiza mafunzo kwa wafanyakazi, kwa vile wafanyakazi wetu ndio rasilimali kubwa katika shughuli za Benki. Mafunzo yanasisitizwa zaidi ili kuwawezesha wafanyakazi kuyatimiza vilivyo matarajio ya wateja wetu. Kwa sababu hii, kituo chetu cha kuwafunza wafanyakazi, kinatilia mkazo zaidi utunzaji bora wa wateja na mipango ya kubuni makundi ya kufanya kazi pamoja kwa vile kufaulu kwetu kutapatikana tu kama tutafanya kazi kama kundi moja, lenye lengo moja.

MATAWI

Benki ina matawi 32 na vituo 5 vya uajenti, ambayo yameenea kote nchini kukiwa na mkazo zaidi katika sehemu zenye uwezekano mkubwa wa kuwa na hali bora ya kiuchumi.

KAMATIYA KUKAGUA HESABU

Ifuatayo ndiyo kamati ya Benki ya kukagua hesabu: -

Bw. J. Riungu – Mwenyekiti

Bw. J.B. Nthuku

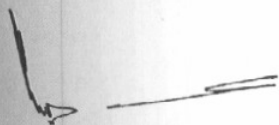
Bw. J. Mackenzi – Alichaguliwa tarehe 2.1.2003

Bw. S. Bundotich – Alistaafu tarehe 2. 1.2003

WAKAGUZI WA HESABU

Wakaguzi wa hesabu za Benki, Ernst & Young , wamedhihirisha kukubali kwao kuendelea kuwa wakaguzi wa hesabu kwa mujibu wa kifungu cha sheria nambari 25(3) za Vyama vya Ushirika. Wakurugenzi wanapendekeza kuchaguliwa kwao tena ikiwa pendekezo hili litaidhinishwa na Benki Kuu ya Kenya chini ya kifungu cha 24(1) cha sheria za benki.

Kwa amri ya Halmashauri

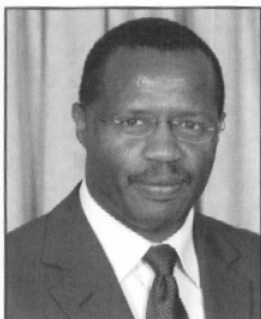


G.M. MURIUKI
MKURUGENZI MKUU
18 Machi, 2004.

BOARD OF MANAGEMENT



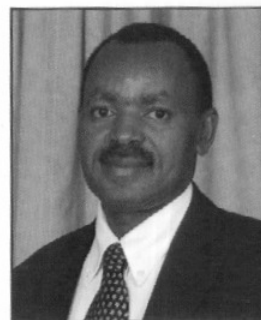
*Mr. G. M. Muriuki
Managing Director*



*Mr. P. Munyiri
General Manager,
Operations*



*Mr. L. C. Karissa
General Manager,
Finance &
Administration*



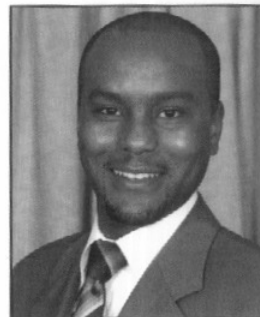
*Mr. S.G. Mutungi
General Manager,
Retail Banking*



*Mrs. R. Githaiga
Company Secretary*



*Mr. Z. Chianda
General Manager,
Corporate &
Institutional Banking*



*Mr. T. Kabiru,
Head, Treasury &
Planning*

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Signed by:

S. C. Muchiri	-	Chairman
J. Riungu	-	Vice-Chairman
G. M. Muriuki	-	Managing Director
R. M. Githaiga (Mrs.)	-	Company Secretary

REPORT OF THE INDEPENDENT AUDITORS

We have audited the financial statements on pages 22 to 51, which have been prepared on the basis of the accounting policies set out on pages 28 to 30. We obtained all the information and explanations which we considered necessary for our audit.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE INDEPENDENT AUDITORS

As stated on page 20, the directors are responsible for the preparation of financial statements which give a true and fair view of the state of the affairs of the Group and the Bank and of their operating results. Our responsibility is to express an independent opinion on the financial statements based on our audit and to report our opinion to you.

BASIS OF OPINION

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

OPINION

In our opinion, proper books of account have been kept and the financial statements, which are in agreement therewith, give a true and fair view of the state of the financial affairs of the Group and the Bank at 31 December 2003 and of the profit and cash flows of the Group and the Bank for the year then ended and comply with Co-operative Societies Act, the Companies Act and the International Financial Reporting Standards.

 **ERNST & YOUNG**

CERTIFIED PUBLIC ACCOUNTANTS

Nairobi.

18 March 2004.

CONSOLIDATED BALANCE SHEET

	Note	2003 KShs'000	2002 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	3	2,713,563	2,745,281
Deposits and balances due from banks	4	870,163	782,742
Trading investments	5	5,258,319	2,765,554
Amounts due from subsidiary company	6(a)	-	28,002
Non trading investments	7	541,108	458,864
Loans and advances to customers	8	18,094,478	17,896,572
Tax recoverable	9(b)	54,968	114,946
Other assets	10	1,771,700	681,671
Intangible assets	11	124,731	167,937
Prepaid lease rentals	12	44,629	45,346
Property and equipment	13(a)	2,340,007	2,375,269
Deferred tax	14	<u>580,512</u>	<u>612,846</u>
TOTAL ASSETS		<u>32,394,178</u>	<u>28,675,030</u>
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and balances due to banks	15	1,336,653	2,361,556
Customers' deposits	16	25,814,297	20,950,791
Loans	17	1,918,161	1,893,661
Other liabilities	18	<u>1,189,357</u>	<u>1,145,167</u>
TOTAL LIABILITIES		<u>30,258,468</u>	<u>26,351,175</u>
EQUITY			
Share capital	19	1,211,566	1,210,931
Reserves	20	131,746	307,088
Capital grants	21	756,051	805,836
Proposed dividends	22	<u>36,347</u>	<u>-</u>
TOTAL EQUITY		<u>2,135,710</u>	<u>2,323,855</u>
TOTAL LIABILITIES AND EQUITY		<u>32,394,178</u>	<u>28,675,030</u>

The financial statements were approved by the Board of Directors on 18 March 2004 and signed on its behalf by: -

S.C. Muchiri - Chairman

J. Riungu - Vice-Chairman

G.M. Muriuki - Managing Director

R.M. Githaiga (Mrs) - Company Secretary

CONSOLIDATED INCOME STATEMENT

	Note	2003 Kshs.'000	2002 KShs.'000
Interest income	23	2,135,869	2,217,383
Interest expense	24	<u>702,869</u>	<u>1,133,438</u>
NET INTEREST INCOME		1,433,000	1,083,945
Commissions		1,311,343	1,021,111
Foreign exchange gain		156,811	93,622
Net gains/(losses) from disposal of investments		71,073	(5,374)
Changes in fair value of investment securities		22,258	36,474
Other income	25	<u>149,565</u>	<u>737,070</u>
OPERATING INCOME		<u>3,144,050</u>	<u>2,966,848</u>
Provision for bad and doubtful debts	8(d)	464,231	411,409
Other operating expenses	26	<u>2,499,298</u>	<u>2,408,575</u>
OPERATING EXPENSES		<u>2,963,529</u>	<u>2,819,984</u>
PROFIT BEFORE TAXATION	27	180,521	146,864
TAX (CHARGE) CREDIT	9(a)	<u>(25,529)</u>	<u>17,920</u>
PROFIT FOR THE YEAR		<u>154,992</u>	<u>164,784</u>
Earnings per share (Kshs)	28	<u>12.79</u>	<u>13.61</u>

BANK BALANCE SHEET

	Note	2003 Kshs.'000	2002 Kshs.'000
ASSETS			
Cash and balances with Central Bank of Kenya	3	2,713,563	2,745,281
Deposits and balances due from banks	4	870,163	782,796
Trading investments	5	5,231,858	2,765,554
Amount due from subsidiary company	6(a)	1,668	28,002
Non trading investments	7	591,109	460,799
Loans and advances to customers	8	18,094,478	17,896,572
Tax recoverable	9(b)	55,567	114,936
Other assets	10	1,755,081	676,661
Intangible assets	11	120,614	162,483
Prepaid lease rentals	12	44,629	45,346
Property and equipment	13(b)	2,339,384	2,375,163
Deffered tax	14	578,088	613,765
TOTAL ASSETS		32,396,202	28,667,358
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and balances due to banks	15	1,336,653	2,361,556
Customers' deposits	16	25,823,979	20,950,791
Loans	17	1,918,161	1,893,661
Amount due to subsidiary company	6(b)	1,318	-
Other liabilities	18	1,185,717	1,143,715
TOTAL LIABILITIES		30,265,828	26,349,723
EQUITY			
Share Capital	19	1,211,566	1,210,931
Reserves	20	126,410	300,868
Capital grants	21	756,051	805,836
Proposed dividends	22	36,347	-
TOTAL EQUITY		2,130,374	2,317,635
TOTAL LIABILITIES AND EQUITY		32,396,202	28,667,358

The financial statements were approved by the Board of Directors on 18 March 2004 and signed on its behalf by: -

S. C. Muchiri	-	Chairman
J. Riungu	-	Vice-Chairman
G. M. Muriuki	-	Managing Director
R. M. Githaiga (Mrs)	-	Company Secretary

BANK INCOME STATEMENT

	Note	2003 Kshs.'000	2002 KShs.'000
Interest income	23	2,131,686	2,215,119
Interest expense	24	<u>702,869</u>	<u>1,133,438</u>
NET INTEREST INCOME		1,428,817	1,081,681
Fees and commissions		1,267,531	1,021,111
Foreign exchange trading		156,811	93,622
Net gains from disposal of investments		71,073	(5,374)
Changes in fair value of investment securities		22,258	36,474
Other income	25	<u>149,516</u>	<u>727,388</u>
OPERATING INCOME		<u>3,096,006</u>	<u>2,954,902</u>
Provision for bad and doubtful debts	8(d)	464,231	411,409
Other operating expenses	26	<u>2,448,355</u>	<u>2,397,962</u>
OPERATING EXPENSES		<u>2,912,586</u>	<u>2,809,371</u>
PROFIT BEFORE TAXATION	27	183,420	145,531
TAX (CHARGE) CREDIT	9(a)	(27,545)	18,001
PROFIT FOR THE YEAR		<u>155,875</u>	<u>163,532</u>
Earnings per share (KShs)	28	<u>12.86</u>	<u>13.50</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital KShs '000	Capital reserve KShs '000	Co-operative development fund KShs '000	General reserve KShs '000	Share transfer fund KShs '000	Share fractions KShs '000	Accumulated losses KShs '000	Total KShs '000
	(Note 19)	(Note 20)	(Note 20)	(Note 20)	(Note 20)	(Note 20)	(Note 20)	
Balance at January 2002								
As previously stated	1,210,324	521,975	10,292	3,100	551	62	(776,700)	969,604
Prior year adjustments (note 29 c)	-	(199,382)	-	-	-	-	(9,505)	(208,887)
As restated	1,210,324	322,593	10,292	3,100	551	62	(786,205)	760,717
Revenue grants for the year	-	-	-	-	-	-	552,212	552,212
Deferred tax	-	39,698	-	-	-	-	-	39,698
Realisation of revaluation surplus	-	(28,388)	-	-	-	-	28,388	-
Net transfer of shares	607	-	-	-	-	1	-	608
Profit for the year	-	-	-	-	-	-	164,784	164,784
Balance at 31 December 2002	<u>1,210,931</u>	<u>333,903</u>	<u>10,292</u>	<u>3,100</u>	<u>551</u>	<u>63</u>	<u>(40,821)</u>	<u>1,518,019</u>
Balance at 1 January 2003								
As previously stated	1,210,931	521,975	10,292	3,100	551	63	53,187	1,800,099
Prior year adjustments (note 29):								
a) Trading investments	-	-	-	-	-	-	44,037	44,037
b) Deferred tax losses	-	-	-	-	-	-	(156,211)	(156,211)
c) Adoption of IAS 17	-	(188,072)	-	-	-	-	18,166	(169,906)
As restated	1,210,931	333,903	10,292	3,100	551	63	(40,821)	1,518,019
Realisation of revaluation surplus	-	(4,368)	-	-	-	-	4,368	-
Net movement in revenue grants for the year	-	-	-	-	-	-	(283,370)	(283,370)
Deferred tax	-	(10,600)	-	-	-	-	-	(10,600)
Net transfers	635	-	10,292	-	(17)	-	10,292	618
Profit for the year	-	-	-	-	-	-	154,992	154,992
Proposed Dividends	-	-	-	-	-	-	(36,347)	(36,347)
At 31 December 2003	<u>1,211,566</u>	<u>318,935</u>	<u>-</u>	<u>3,100</u>	<u>534</u>	<u>63</u>	<u>(190,886)</u>	<u>1,343,312</u>

CONSOLIDATED CASH FLOW STATEMENT

	2003 KShs.'000	2002 KShs.'000
CASH FLOWS FROM OPERATING ACTIVITIES:-		
Profit before taxation	180,521	146,864
Adjustments for:		
Depreciation	277,127	273,911
Amortisation of prepaid lease rentals	717	717
Provision for diminution in value of investment	1,400	1,400
Amortisation of intangible assets	51,488	48,802
Amortisation of capital grants	(49,785)	(27,285)
Gain on disposal of fixed assets	(7,540)	(1,590)
Foreign exchange gain	(155,890)	(93,622)
Unrealised gains on re-measurement of investments	(26,194)	(44,037)
Dividend income	(110)	(92)
Impairment of property and equipment	-	107,795
Cash flows from operating activities before working capital changes.	271,734	412,863
Advances to customers	(370,851)	(3,095,475)
Other assets	(991,403)	(308,916)
Deposits from customers	3,838,603	4,517,363
Other liabilities	69,190	(151,178)
Amount due from subsidiary companies	28,002	(28,002)
Central Bank of Kenya cash ratio	(293,217)	(216,502)
Trading investments	(2,435,173)	(2,079,341)
Cash generated / (consumed) by operating activities	116,885	(949,188)
Tax paid	(3,615)	-
Net cash flows from operating activities	113,270	(949,188)
CASH FLOWS FROM INVESTING ACTIVITIES:-		
Purchase of property and equipment	(247,583)	(470,795)
Purchase of software	(62,872)	-
Proceeds from disposal of property and equipment	13,258	27,833
Dividends received	18	92
Investment in subsidiary company	-	(30,000)
Net cash flows from investing activities:-	(297,179)	(472,870)
CASH FLOWS FROM FINANCING ACTIVITIES:-		
Proceeds from issue of share of capital	635	753
Proceeds from grants	-	739,116
Proceeds from loans	24,500	-
Grant refunded to donor	(121,889)	-
Share transfer fund	(17)	(146)
Net cash flows from financing activities	(96,771)	739,723
DECREASE IN CASH AND CASH EQUIVALENTS	(280,680)	(682,335)
Cash and cash equivalents at the beginning of the year	2,623,483	3,212,196
Foreign exchange gain	156,811	93,622
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (NOTE 30)	2,499,614	2,623,483

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

a) Basis of preparation

The consolidated financial statements are prepared under the historical cost convention as modified for the measurement at fair value of trading and available for sale investment securities.

The accounting policies are consistent with those used in prior years.

These consolidated financial statements are prepared in accordance with and comply with International Financial Reporting Standards.

b) Income recognition

Interest income on all advances is recognised on the accrual basis. Interest income is not recognised where recoverability of the advances of the Bank's own funds is uncertain. Interest on the Government and Donor funds is recognised as income on accrual basis. Dividends from equity investments are recognised when received.

c) Property and equipment

Property and equipment are stated at cost or valuation less accumulated depreciation. Depreciation on property and equipment is calculated on straight-line basis; at annual rates estimated to write off carrying values of the assets over their expected useful lives.

The annual depreciation rates in use are:-

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

d) Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

e) Intangible assets and amortisation

Intangible assets are stated at cost, less accumulated amortization. Amortization is calculated on straight-line basis at annual rates estimated to amortise the carrying values of the assets over their expected useful lives.

f) Bad and doubtful debts

i) An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific loan or advance may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognised in the statement of income. A general provision is made at the rate of 1% of net advances over and above the specific provision.

ii) No provision has been made for advances made from Government and Donor funds, since these are disbursed on an agency basis.

iii) Advances are written off/down when the directors are of the opinion that their recoverability will not materialise.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

g) Foreign currency transactions

Transactions in foreign currencies are translated at the rates ruling on the transaction dates. Balances in foreign currencies are translated at the Central Bank of Kenya rates ruling on the balance sheet date. Any resulting gains or losses on exchange are dealt with in the income statement in the period in which they arise.

h) Investments

Trading investments are initially recognised at cost and subsequently remeasured at fair value. All related realised and unrealised gains and losses are included in net trading income.

Non-trading investments are classified as:

- Held to maturity,
- Available for sale and
- Originated by the bank.

All non trading investments are initially recorded at cost, being the fair value of the consideration given including acquisition costs. Premiums and discounts on non trading investments are amortised using the effective interest rate method and taken to income.

Investments which have fixed or determinable payments which are intended to be held to maturity are carried at cost, less provision for impairment in value.

Investments in debt securities where the Bank provides funds directly to the issuer are stated at amortised cost, adjusted for provision for impairment.

i) Fair values

For financial instruments traded in an organised financial market, fair value is determined by reference to quoted market prices. For unquoted equity investments fair value is determined by reference to the market value of a similar investment where applicable.

j) Consolidation

The results of Co-optrust Investment Services Limited, and Co-operative Consultancy Services Limited both wholly owned subsidiaries of the Bank, have been incorporated in the financial statements. The consolidated financial statements include the results and cash flows of Co-operative Consultancy Limited for the 15 months period from the date it commenced operations on 28 September 2002.

k) Employee benefits

The Group contributes to a defined benefits pension scheme for its employees. Pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who value the pension plan once every three years. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities that have terms to maturity approximating the terms of the related liability. All actuarial gains and losses are spread over the average remaining service lives of the employees.

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

l) Taxation

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

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

m) Grants

Grants related to property and equipment are presented in the Balance Sheet as capital grants and utilised in the reduction of the carrying amounts of the related assets during their useful lives. Grants related to financing specific projects identified by donors are held in reserves and reduced by provisions against specific projects that are considered bad or doubtful.

n) 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, government securities and deposits with banks and other financial institutions.

o) Repurchase agreement transactions

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the balance sheet. Amounts paid under these agreements are included in deposits and balances due from banking institutions and balances with Central Bank of Kenya. The difference between purchase and resale price is treated as interest income and accrued over the life of repurchase agreement using the effective yield method.

2. CENTRAL BANK OF KENYA (AMENDMENT) ACT 2000

The Kenya Bankers Association (KBA), on behalf of its members, filed an application in the Constitutional Court challenging the operational legality of Central Bank of Kenya (Amendment) Act 2000 (the Act), which had received Assent on 6 August 2001. The Court delivered its judgement on 24 January 2002.

A decree to confirm the judgement was extracted on 22 February 2002; the Decree declared that the Act was null and void, unconstitutional and ultra vires the Constitution and, therefore, not binding on the members of KBA.

On 17 April 2002, the Attorney General filed an application to vary the Decree on the matter of the Act being ultra vires the Constitution. A consent order to vary the Decree was granted but soon after challenged by both the Central Bank of Kenya and KBA. Subsequent to financial year-end, the Central Bank of Kenya withdrew from the court action to challenge the Decree. The matter has yet to be determined by the Court.

The directors, based on legal advice from the Company's lawyers and guidance from the KBA, have interpreted the Court decision to mean that the Act is not operational for 2003, and will therefore not have any adjusting implications on the financial statements for the year.

NOTES TO THE FINANCIAL STATEMENTS

3. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	GROUP		BANK	
	2003 KShs'000	2002 KShs'000	2003 KShs'000	2002 KShs'000
Cash in hand	810,663	709,558	810,663	709,558
Central Bank of Kenya	<u>1,902,900</u>	<u>2,035,723</u>	<u>1,902,900</u>	<u>2,035,723</u>
	<u>2,713,563</u>	<u>2,745,281</u>	<u>2,713,563</u>	<u>2,745,281</u>

4. DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

	GROUP		BANK	
	2003 KShs'000	2002 KShs'000	2003 KShs'000	2002 KShs'000
Due from other banks under repurchase agreement	-	100,000	-	100,000
Commercial banks	349,000	(54)	349,000	-
Foreign banks	<u>521,163</u>	<u>682,796</u>	<u>521,163</u>	<u>682,796</u>
	<u>870,163</u>	<u>782,742</u>	<u>870,163</u>	<u>782,796</u>

5. TRADING INVESTMENTS

	GROUP		BANK	
	2003 KShs'000	2002 KShs'000	2003 KShs'000	2002 KShs'000
Treasury bonds maturing within 91 days of the balance sheet date	-	127,383	-	127,383
Treasury bonds maturing after 91 days of the balance sheet date	5,258,319	2,634,921	5,231,858	2,634,921
East African Development Bank bond	<u>-</u>	<u>3,250</u>	<u>-</u>	<u>3,250</u>
	<u>5,258,319</u>	<u>2,765,554</u>	<u>5,231,858</u>	<u>2,765,554</u>

Investments in government treasury bonds are classified as held for trading financial assets and are initially recognised at cost and subsequently remeasured at fair value. Related realised and unrealised gains or losses are included in net trading income for the year. Interest earned is included in interest income.

The weighted average effective interest rate on treasury bonds as at 31 December 2003 was 10.5% (2002- 8.43%).

NOTES TO THE FINANCIAL STATEMENTS

6 (a) AMOUNTS DUE FROM SUBSIDIARY COMPANIES

	GROUP		BANK	
	2003 KShs'000	2002 KShs'000	2003 KShs'000	2002 KShs'000
Co-op Consultancy Services Limited	-	28,002	1,668	28,002

(b) AMOUNTS DUE TO SUBSIDIARY COMPANIES

	BANK	
	2003 KShs'000	2002 KShs'000
Co-optrust Investment Services Limited	1,318	-

Interest is not levied on amounts due to / from group companies.

7. NONTRADING INVESTMENTS

	GROUP		BANK	
	2003 KShs'000	2002 KShs'000	2003 KShs'000	2002 KShs'000
a) Held to maturity Investments				
Government treasury bills maturing within 91 days of the balance sheet date	458,809	345,165	458,810	327,100

The weighted average effective interest rate on treasury bills as at 31 December 2003 was 1.21% (2002-8.43%)

b) Unquoted investments

	GROUP		BANK	
	2003 KShs'000	2002 KShs'000	2003 KShs'000	2002 KShs'000
i) Investment in subsidiaries:-				
Ownership				
Co-operative House Ltd (note 7(a))				
1,020,000 'A' ordinary shares of KShs. 20 each	20,400	20,400	20,400	20,400
980,000 'B' ordinary shares of KShs. 20 each	19,600	19,600	19,600	19,600
Co-op Consultancy Services Ltd	100% -	30,000	30,000	30,000
Co-optrust Investment Services Ltd	100% -	-	20,000	20,000
	40,000	70,000	90,000	90,000

NOTES TO THE FINANCIAL STATEMENTS

7. NON TRADING INVESTMENTS (continued)

	GROUP		BANK	
ii) Available for sale equity shares	2003 KShs '000	2002 KShs '000	2003 KShs '000	2002 KShs '000
Consolidated Bank of Kenya Ltd:-				
135,000 ordinary shares of KShs.20 each	2,400	2,400	2,400	2,400
580,000 4% non-cumulative preference shares of KShs.20 each	11,600	11,600	11,600	11,600
Co-operative Insurance Services Ltd:-				
54,500 ordinary shares of KShs.20 each	1,090	1,090	1,090	1,090
Kenya National Federation of Co-operatives Ltd:-				
82 shares of KShs.100 each	8	8	8	8
Kenya National Housing Co-operative Union Ltd:-				
1 share of KShs.1,000	1	1	1	1
Menno Plaza Ltd 12.39%	30,000	30,000	30,000	30,000
	45,099	45,099	45,099	45,099
Less provision for diminution in value of investment in Consolidated Bank of Kenya Ltd	(2,800)	(1,400)	(2,800)	(1,400)
	42,299	43,699	42,299	43,699
Total non trading investments	541,108	458,864	591,109	460,799

iii) Co-operative House Limited is a non-trading, wholly owned subsidiary of the Bank. Co-operative Consultancy Services Limited is a wholly owned subsidiary formed in the previous year. The 15 months results of this subsidiary have been consolidated in the Group financial statements in the current year.

Included under available for sale investments are unquoted equity investments, which are carried at cost amounting KShs 42.3 million due to lack of comparable quoted company which could have been used as a basis for 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.

Investment in treasury bills have fixed payments and are intended to be held to maturity and are carried at amortised cost. Discount on treasury bills is amortised on a pro rata basis.

8. LOANS AND ADVANCES TO CUSTOMERS	2003 KShs'000	2002 KShs'000	2003 KShs'000	2002 KShs'000
Overdrafts	2,390,432	2,981,045	2,390,432	2,981,045
Commercial loans	23,398,037	21,161,956	23,398,037	21,161,956
Government/donor funded loan schemes	3,106,798	3,147,289	3,106,798	3,147,289
Credit cards	606,133	619,191	606,133	619,191
Micro enterprises	288,170	165,741	288,170	165,741

NOTES TO THE FINANCIAL STATEMENTS

	GROUP		BANK	
	2003	2002	2003	2002
	KShs.000	KShs.000	KShs.000	KShs.000
Gross loans and advances	29,789,570	28,075,222	29,789,570	28,075,222
Provision for impairment of loans and advances (note 8c)	<u>(11,695,092)</u>	<u>(10,178,650)</u>	<u>(11,695,092)</u>	<u>(10,178,650)</u>
Net loans and advances	<u>18,094,478</u>	<u>17,896,572</u>	<u>18,094,478</u>	<u>(17,896,572)</u>
b) Sectorial analysis:-				
Agriculture	8,439,455	8,503,730	8,439,455	8,503,730
Manufacturing	79,709	120,320	79,709	102,320
Construction	2,362,123	2,933,434	2,362,123	2,933,434
Service	9,334,344	7,471,587	9,334,334	7,471,587
Other	<u>9,573,939</u>	<u>9,064,151</u>	<u>9,573,939</u>	<u>9,064,151</u>
	<u>29,789,570</u>	<u>28,075,222</u>	<u>29,789,570</u>	<u>28,075,222</u>
c) Provisions for impairment of loans and advances:-				
(i) Specific provisions:				
Balance at the beginning of the year	4,520,309	4,487,737	4,520,309	3,437,134
Acquired from Co-operative Merchant Bank Ltd	-	-	-	845,298
Additional provisions made during the year	464,231	367,494	464,231	367,494
Provisions written back	<u>(8,239)</u>	<u>(334,922)</u>	<u>(8,239)</u>	<u>(129,617)</u>
Balance at the end of the year	<u>4,976,301</u>	<u>4,520,309</u>	<u>4,976,301</u>	<u>4,520,309</u>
(ii) General provisions:				
Balance at the beginning of the year	179,226	135,311	179,226	132,438
Acquired from Co-operative Merchant Bank Ltd	-	-	-	2,873
Provisions made during the year	-	43,915	-	43,915
	<u>179,226</u>	<u>179,226</u>	<u>179,226</u>	<u>179,226</u>
(iii) Interest suspended:				
Balance at the beginning of the year	5,479,115	3,879,625	5,479,115	3,113,298
Acquired from Co-operative Merchant Bank Ltd	-	-	-	1,348,076
Interest suspended during the year	1,105,063	1,723,619	1,105,063	1,141,870
Interest in suspense written back	<u>(44,613)</u>	<u>(124,129)</u>	<u>(44,613)</u>	<u>(124,129)</u>
	<u>6,539,565</u>	<u>5,479,115</u>	<u>6,539,565</u>	<u>5,479,115</u>
Balance at the end of the year	<u>11,695,092</u>	<u>10,178,650</u>	<u>11,695,092</u>	<u>10,178,650</u>

d) Loans and advances include an amount of KShs 11.565 billion (2002 KShs. 9.037 billion) on which interest is not being accrued as these advances are classified as non performing.

e) The weighted average effective interest rate at 31 December 2003 on loans and advances was 17.73% (2002 - 15.99%)

NOTES TO THE FINANCIAL STATEMENTS

9. TAXATION	GROUP		BANK	
	2003 KShs'000	2002 KShs'000	2003 KShs'000	2002 KShs'000
a) Income statement :-				
Current tax at 30% (2002 - 30%) on the taxable profit for the year	3,795	1,289	2,468	637
Over-provision in previous years	-	(289)	-	-
Deferred tax	<u>21,734</u>	<u>(18,920)</u>	<u>25,077</u>	<u>(18,638)</u>
Tax charge/(credit)	<u>25,529</u>	<u>(17,920)</u>	<u>(27,545)</u>	<u>(18,001)</u>
b) Balance sheet:-				
Balance brought forward	114,946	(114,924)	114,936	(83,649)
Acquired from Co-operative Merchant Bank Ltd	-	-	-	(31,924)
Charge for the year	(3,794)	1,289	(2,468)	637
Over-provision in previous years	(59,799)	(289)	(59,799)	-
Paid during the year	<u>3,615</u>	<u>(1,022)</u>	<u>2,898</u>	<u>-</u>
	<u>54,968</u>	<u>114,946</u>	<u>55,567</u>	<u>114,936</u>
c) Reconciliation of taxation expense to tax based on accounting profit:-				
Accounting profit before taxation	<u>180,521</u>	<u>146,581</u>	<u>183,420</u>	<u>145,531</u>
Tax applicable rate of 30%(2002- 30%)	54,156	44,059	55,026	43,659
Tax effects on items not deducted for tax	<u>(28,627)</u>	<u>(61,979)</u>	<u>(27,481)</u>	<u>(61,660)</u>
	<u>25,529</u>	<u>(17,920)</u>	<u>27,545</u>	<u>(18,001)</u>
10. OTHER ASSETS				
	2003 KShs'000	2002 KShs'000	2003 KShs'000	2002 KShs'000
Interest receivable	133,912	72,643	133,391	72,643
Deposits with default financial institutions	43,552	43,552	43,552	43,552
Deferred clearing	1,214,791	295,635	1,214,791	295,635
Sundry debtors and prepayments	<u>422,997</u>	<u>313,393</u>	<u>406,899</u>	<u>308,383</u>
	1,815,252	725,223	1,798,633	720,213
Provision for deposits with default financial institutions	<u>(43,552)</u>	<u>(43,552)</u>	<u>(43,552)</u>	<u>(43,552)</u>
	<u>1,771,700</u>	<u>681,671</u>	<u>1,755,081</u>	<u>676,611</u>

NOTES TO THE FINANCIAL STATEMENTS

	GROUP		BANK	
11. INTANGIBLE ASSETS				
Software in use by the group companies				
Cost at 1 January	249,151	362,269	235,445	347,763
Additions	8,282	131,364	6,525	131,364
Adjustments/write off	-	(244,483)	-	(244,300)
Transfers from Co-operative Merchant Bank Limited	-	-	-	618
Disposals	-	-	-	-
At 31 December	<u>257,433</u>	<u>249,150</u>	<u>241,970</u>	<u>235,445</u>
Accumulated amortisation at 1 January	81,214	202,056	72,962	195,286
Adjustments/write off	-	(169,645)	-	(169,645)
Transfers from Co-operative Merchant Bank Limited	-	-	-	232
Amortisation for the year	<u>51,488</u>	<u>48,802</u>	<u>48,394</u>	<u>47,089</u>
Accumulated amortisation at 31 December	<u>132,702</u>	<u>81,213</u>	<u>121,356</u>	<u>72,962</u>
Net amount at 31 December	<u>124,731</u>	<u>167,937</u>		<u>162,483</u>

	GROUP AND BANK	
	2003 KShs'000	2002 KShs'000
12. PREPAID LEASE RENTALS		
Cost		
At 1 January and 31 December	<u>55,568</u>	<u>55,568</u>
Amortisation:		
At 1 January		
Charge for the year	(10,222)	(9,505)
	<u>(717)</u>	<u>(717)</u>
At 31 December	<u>(10,939)</u>	<u>(10,222)</u>
Net book value at 31 December	<u>44,629</u>	<u>45,346</u>

13 (a) PROPERTY AND EQUIPMENT	Freehold land and buildings Kshs'000	Capital work-in-progress Kshs'000	Fixtures Kshs'000	Office machinery Kshs'000	Furniture and equipment Kshs'000	Motor vehicles Kshs'000	Computers Kshs'000	Total Kshs'000
GROUP								
COST/VALUATION								
At 1 January 2003	1,147,276	849,570	387,016	49,318	353,043	149,714	1,016,732	3,952,669
Prior year adjustment (note 29 c)	(71,422)	-	-	-	-	-	-	(71,422)
Reclassification	(55,568)	-	-	-	-	-	-	(55,568)
Additions	427	84,422	18,026	7,950	30,519	12,956	107,051	261,351
Disposals	(650)	-	-	-	(82)	(31,360)	(173)	(32,265)
Transfers/ write offs	-	(13,498)	-	(1,362)	-	-	-	(14,860)
At 31 December 2003	<u>1,020,063</u>	<u>920,494</u>	<u>405,042</u>	<u>55,906</u>	<u>383,480</u>	<u>131,310</u>	<u>1,123,610</u>	<u>4,039,905</u>
Comprising:								
Cost	548,888	920,494	405,042	55,906	383,480	131,310	1,123,610	3,568,730
Valuation	<u>471,175</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>471,175</u>
	<u>1,020,063</u>	<u>920,494</u>	<u>405,042</u>	<u>55,906</u>	<u>383,480</u>	<u>131,310</u>	<u>1,123,610</u>	<u>4,039,905</u>
DEPRECIATION								
At 1 January 2003	107,613	-	296,719	31,780	308,276	99,511	606,511	1,450,410
Charge for the year	10,075	-	32,522	7,045	23,198	14,245	190,043	277,128
Adjustments/ write offs	-	-	-	(1,030)	-	-	-	(1,030)
Disposals	-	-	-	-	(78)	(26,428)	(104)	(26,610)
At 31 December 2003	<u>117,688</u>	<u>-</u>	<u>329,241</u>	<u>37,795</u>	<u>331,396</u>	<u>87,328</u>	<u>796,450</u>	<u>1,699,898</u>
NET BOOK VALUE								
At 31 December 2003	<u>902,375</u>	<u>920,494</u>	<u>75,801</u>	<u>18,111</u>	<u>52,084</u>	<u>43,982</u>	<u>327,160</u>	<u>2,340,007</u>
At 31 December 2002	<u>912,673</u>	<u>849,570</u>	<u>90,297</u>	<u>17,538</u>	<u>44,767</u>	<u>50,203</u>	<u>410,221</u>	<u>2,375,269</u>

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

ii.Buildings were revalued in February 1996 by Gatheru, Irungu and Mugo Professional Valuers on the basis of open market value. The resulting surplus on revaluation was transferred to capital reserve (Note 19).

iii.Assets with an estimated net book value of KShs.513,253,500, which were destroyed during the 7 August 1998 bomb blast, were written off in 1998. There is a memorandum of understanding, dated 14 January 1999, between the United States Government and the Bank where the former is to assist in the rehabilitation of facilities destroyed as a result of the bomb attack. The rehabilitation work on the Co-operative Bank House is in progress with un-certified work amounting to KShs 842 million as at 31 December 2003 (2002- KShs 740 million). These costs are included in the capital work-in-progress. The House was ready for occupation during the third quarter of 2002.

iv.Freehold land and buildings include an amount of KShs. 60,590,498 (2002- KShs 60,590,498) against which no depreciation has been charged, as these are not in use.

v.Freehold land of KShs 35,904,459 in Karen Staff Training Centre has not been depreciated. This is because its occupancy is for unspecified period.

vi.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. 667, 707,753 (2002 - KShs.512, 527,000), 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.

122,676,590 (2002 - KShs. 98,603,000). Included in these fully depreciated assets is KShs 19,065,158 representing idle assets in the process of being disposed.

vii.The reclassification of KShs.55,568,000 relate to prepaid lease rentals on leasehold land (note 12), which have now been shown separately on the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

13(b). PROPERTY AND EQUIPMENT BANK

	Leasehold land and buildings Kshs'000	Capital work-in- progress Kshs'000	Office machinery Kshs'000	Furniture and equipment Kshs'000	Motor vehicles Kshs'000	Fixtures Kshs'000	Computers Kshs'000	Total Kshs'000
COST/VALUATION								
At 1 January 2003	1,147,276	849,570	49,318	352,804	149,714	387,016	1,016,483	3,952,181
Prior year adjustment (note 29 c)	(71,422)	-	-	-	-	-	-	(71,422)
Reclassification	(55,568)	-	-	-	-	-	-	(55,568)
Additions	427	84,422	7,950	30,210	12,956	18,026	106,635	260,626
Disposals	(650)	-	-	(82)	(31,360)	-	(173)	(32,265)
Transfers/ write offs	-	(13,498)	(1,362)	-	-	-	-	(14,860)
At 31 December 2003	<u>1,020,063</u>	<u>920,494</u>	<u>55,906</u>	<u>383,932</u>	<u>131,310</u>	<u>405,042</u>	<u>1,122,945</u>	<u>4,038,692</u>
Comprising:								
Cost	548,888	920,494	55,906	382,932	131,310	405,042	1,122,945	3,567,517
Valuation	<u>471,175</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>471,175</u>
	<u>1,020,063</u>	<u>920,494</u>	<u>55,906</u>	<u>382,932</u>	<u>131,310</u>	<u>405,042</u>	<u>1,122,945</u>	<u>4,038,692</u>
DEPRECIATION								
At 1 January 2003	107,613	-	31,781	308,049	99,511	296,719	606,355	1,450,028
Adjustments/write offs	-	-	(1,031)	-	-	-	-	(1,031)
Charge for the year	10,075	-	7,045	23,124	14,245	32,522	189,910	276,921
Disposal	-	-	-	(78)	(26,428)	-	(104)	26,610
At 31 December 2003	<u>117,688</u>	<u>-</u>	<u>37,795</u>	<u>331,095</u>	<u>87,328</u>	<u>329,241</u>	<u>796,161</u>	<u>1,699,308</u>
NET BOOK VALUE								
At 31 December 2003	<u>902,375</u>	<u>920,494</u>	<u>18,111</u>	<u>51,837</u>	<u>43,982</u>	<u>75,801</u>	<u>326,784</u>	<u>2,339,384</u>
At 31 December 2002	<u>912,673</u>	<u>849,570</u>	<u>17,537</u>	<u>44,755</u>	<u>50,203</u>	<u>90,297</u>	<u>410,128</u>	<u>2,375,163</u>

NOTES TO THE FINANCIAL STATEMENTS

14. DEFERRED TAX

CMA-LIBRARY

The Group	2003 KShs'000	Movement relating to the income statement KShs'000	Movement relating to equity KShs'000	2002 KShs'000
Deferred tax liability:				
Accelerated tax depreciation	<u>40,681</u>	<u>(27,987)</u>	<u>10,600</u>	<u>58,068</u>
Deferred tax assets:				
Tax losses carried forward	(563,234)	42,317	-	(605,551)
Loan losses disallowed for tax purposes	(53,768)	-	-	(53,768)
Provisions and other deferred tax assets	<u>(4,191)</u>	<u>7,404</u>	<u>-</u>	<u>(11,595)</u>
Gross deferred tax assets	<u>(621,193)</u>	<u>49,721</u>	<u>-</u>	<u>(670,914)</u>
Net deferred tax asset	<u>(580,512)</u>	<u>21,734</u>	<u>10,600</u>	<u>(612,846)</u>
The Bank				
Deferred tax liability:				
Accelerated tax depreciation	<u>40,347</u>	<u>(27,402)</u>	<u>10,600</u>	<u>57,149</u>
Deferred tax assets:				
Tax losses carried forward	(560,499)	45,052	-	(605,551)
Loan losses disallowed for tax purposes	(53,768)	-	-	(53,768)
Provisions and other deferred tax assets	<u>(4,168)</u>	<u>7,427</u>	<u>-</u>	<u>(11,595)</u>
Gross deferred tax assets	<u>(618,435)</u>	<u>52,479</u>	<u>-</u>	<u>(670,914)</u>
Net deferred tax asset	<u>(578,088)</u>	<u>25,077</u>	<u>10,600</u>	<u>(613,765)</u>

15. DEPOSITS AND BALANCES DUE TO BANKS

	GROUP		BANK	
	2003 KShs'000	2002 KShs'000	2003 KShs'000	2002 KShs'000
Payable on demand	705,793	2,043,592	705,793	2,043,592
Payable within 30 days	71,106	219,824	71,106	219,824
Payable after 30 days but within 1 year	<u>559,754</u>	<u>98,140</u>	<u>559,754</u>	<u>98,140</u>
	<u>1,336,653</u>	<u>2,361,556</u>	<u>1,336,653</u>	<u>2,361,556</u>

NOTES TO THE FINANCIAL STATEMENTS

16. CUSTOMER DEPOSITS	GROUP		BANK	
	2003 KShs'000	2002 KShs'000	2003 KShs'000	2002 KShs'000
a) Call deposits	2,510,611	894,943	2,510,611	894,943
Fixed deposits	7,206,495	7,465,309	7,206,495	7,465,309
Savings accounts	9,568,573	7,335,869	9,568,573	7,335,869
Current accounts	5,760,690	4,079,671	5,770,372	4,079,671
Foreign current deposits	<u>767,928</u>	<u>1,174,999</u>	<u>767,928</u>	<u>1,174,999</u>
	<u>25,814,297</u>	<u>20,950,971</u>	<u>25,823,979</u>	<u>20,950,971</u>
b) From government and parastatals:-				
Payable on demand	1,595,629	291,950	1,595,629	291,950
Payable within 30 days	1,845,506	571,481	1,845,506	571,481
Payable after 30 days but within 1 year	<u>2,513,235</u>	<u>1,708,348</u>	<u>2,513,235</u>	<u>1,708,348</u>
	<u>5,954,370</u>	<u>2,571,779</u>	<u>5,954,370</u>	<u>2,571,779</u>
From private sector and individuals:-				
Payable on demand	4,352,741	4,158,935	4,362,423	4,158,935
Payable within 30 days	733,146	7,549,215	733,146	7,549,215
Payable after 30 days but within 1 year	<u>14,774,040</u>	<u>6,670,862</u>	<u>14,774,040</u>	<u>6,670,862</u>
	<u>19,859,927</u>	<u>18,379,012</u>	<u>19,869,609</u>	<u>18,379,012</u>
	<u>25,814,297</u>	<u>20,950,791</u>	<u>25,823,979</u>	<u>20,950,791</u>

The weighted average effective interest rate on interest bearing customer deposits as at 31 December was 2.45% (2002 - 4.50%)

17. LOANS	GROUP AND BANK	
	2003 KShs'000	2002 KShs'000
Intergrated Agricultural Development Project:-		
• Loan	30,183	30,183
• Transportation Fund	86	86
• Union Transport Phase II	1,000	1,000
• Loan II	12,000	12,000
United States Agency for International Development		
• Crop Production	26,296	26,296
• New Seasonal Credit Scheme	112,333	112,333
Smallholder Coffee Improvement:-		
• Project Phase I	291,678	291,678
• Project Phase II	1,348,514	1,348,514

NOTES TO THE FINANCIAL STATEMENTS

GROUP AND BANK

	2003 KShs.'000	2002 KShs.'000
Ministry of Co-operative Development:-		
• Cotton Processing and Marketing	15,369	15,369
• Special Rural Development Project Loan	615	615
Swedish International Development Authority Technical Assistance Loan	9,606	9,606
Netherland Poultry Development Project Loan	4,481	4,481
Machakos Intergrated Agicultural Development Project	8,789	8,789
Kreditanstalt Fuer Wiederaufbau (General Loan)	21,793	21,793
Ministry of Agriculture:-		
International Coffee Organisation		
Dairy Development Project Loan	788	788
Kreditanstalt Fuer Wiederaufbau:-		
• Mitunguu Irrigation Scheme	394	394
• Taita Horticulture	3,597	3,597
Danish International Development Agency		
Farm Input Supplies Scheme (FISS)	6,139	6,139
International Fund for Agricultural Development:-		
Eastern Province Horticultural and Traditional Food Crops Project	24,500	-
	<u>1,918,161</u>	<u>1,893,661</u>
	860,042	781,319
Repayable within one year	<u>1,058,119</u>	<u>1,112,342</u>
Repayable after one year	<u>1,918,161</u>	<u>1,893,661</u>

These are donor funds held by the Bank on an agency basis to on lend to various schemes as per the donor-bank agreements. The weighted average effective interest rate on loans as at December 2003 was 8% (2002 - 8%).

18. OTHER LIABILITIES	GROUP		BANK	
	2003 KShs.'000	2002 KShs.'000	2003 KShs.'000	2002 KShs.'000
Interest Payable	464,233	391,065	464,233	391,065
Transfers in transit	25,650	57,422	25,650	57,422
Sundry creditors and accruals	420,052	432,533	416,588	431,081
Other creditors	<u>279,422</u>	<u>264,147</u>	<u>279,246</u>	<u>264,147</u>
	<u>1,189,357</u>	<u>1,145,167</u>	<u>1,185,717</u>	<u>1,143,715</u>

19. SHARE CAPITAL

	2003 KShs.'000	2002 KShs.'000
GROUP AND BANK		
Authorised:-		
An unlimited number of shares of Kshs.100 each.	-	-
Issued and fully paid:-		
Class A Shares	779,194	779,229
B Shares	431,737	431,095

NOTES TO THE FINANCIAL STATEMENTS

	2003 KShs'000	2002 KShs'000
19. Share transfers		
Class A Shares transferred to Class B	-	(642)
Transfers from Class A to B	-	642
Class B Shares transferred to Class A	(20)	-
Transfers from Class B to A	20	-
Class A shares repurchased	-	(146)
Issue of new shares:-		
Class A Shares	635	-
Class B Shares	-	753
	<u>1,211,566</u>	<u>1,210,931</u>

Share capital information:

- The authorised share capital of the Bank is to issue an unlimited number of shares of each class.
- Class A shares of the Bank are issued to registered Co-operative Societies in the country.
- Class B shares of the Bank are issued to individuals who are members of registered Co-operative Societies in the country.

20. RESERVES

	GROUP		BANK	
	2003 KShs'000	2002 KShs'000	2003 KShs'000	2002 KShs'000
Capital reserve	318,935	333,903	318,935	333,903
Co-operative Development Fund	-	10,292	-	10,292
General reserve	3,100	3,100	3,100	3,100
Share transfer fund	534	551	534	551
Share fractions	63	63	63	63
Accumulated losses	<u>(190,886)</u>	<u>(40,821)</u>	<u>(196,222)</u>	<u>(47,041)</u>
	<u>131,746</u>	<u>307,088</u>	<u>126,410</u>	<u>300,868</u>

The movement in reserves is shown on page 26.

21. GRANTS

Fair value of grant receipts
Capital grants:-

	GROUP AND BANK	
	2003 KShs'000	2002 KShs'000
Fair value at 1 January	875,450	686,322
Received during the year	<u>-</u>	<u>189,128</u>
Balance at 31 December	<u>875,450</u>	<u>875,450</u>
At fair value less amortisation		
Grant net of amortisation at beginning of the year	805,836	643,993
	<u>-</u>	<u>189,128</u>
Additions	805,836	833,121
Amortisation for the year	<u>(49,785)</u>	<u>(27,285)</u>
At 31 December	<u>756,051</u>	<u>805,836</u>

NOTES TO THE FINANCIAL STATEMENTS

Capital grants relate to: -

- i) Computers donated by the British Government's Department for International Development after the 7 August 1998 bomb blast.
- ii) Computers, fixtures and equipment donated by USAID, in the previous year, in respect of the Bank's Micro Finance Project and rehabilitation work on Co-operative Bank House financed by USAID.

22. PROPOSED DIVIDENDS

	GROUP AND BANK	
	2003 KShs.'000	2002 KShs.'000
Final dividends - proposed	<u>36,347</u>	<u>-</u>
Dividend per share (KShs)	<u>3</u>	<u>-</u>

- (i) A final dividend of KShs. 3 per share (totalling KShs.36.3 million) has been proposed and the amount has been shown as a separate component of equity at 31 December 2003. The dividend will be submitted for formal approval at the Annual General Meeting.
- (ii) Dividend per share is arrived at by dividing the total dividends by the number of shares in issue at the balance sheet date.

23. INTEREST INCOME

	GROUP		BANK	
	2003 KShs.'000	2002 KShs.'000	2003 KShs.'000	2002 KShs.'000
Loans and advances	1,852,550	1,914,461	1,852,550	1,914,461
Government securities	276,114	248,098	271,980	248,098
Deposits and placements with banks	<u>7,205</u>	<u>54,824</u>	<u>7,156</u>	<u>52,560</u>
	<u>2,135,869</u>	<u>2,217,383</u>	<u>2,131,686</u>	<u>2,215,119</u>

24. INTEREST EXPENSE

	GROUP		BANK	
	2003 KShs.'000	2002 KShs.'000	2003 KShs.'000	2002 KShs.'000
Short call deposits	63,393	151,768	63,393	151,768
Fixed deposits	333,442	642,259	333,442	642,259
Savings accounts	113,054	139,318	113,054	139,318
Interbank borrowings	38,111	63,578	38,111	63,578
Government loans	<u>154,869</u>	<u>136,515</u>	<u>154,869</u>	<u>136,515</u>
	<u>702,869</u>	<u>1,133,438</u>	<u>702,869</u>	<u>1,133,438</u>

The Bank acts as an agent for various credit schemes funded and guaranteed by the Government of Kenya. During the year 2001, the Bank stopped recognising interest expense on loans related to non-performing advances funded from these funds. This was on the basis that the loans advanced were not performing and the Bank should, therefore, not continue incurring interest expense without any compensating interest income.

NOTES TO THE FINANCIAL STATEMENTS

In the year 2002, the Bank reversed interest payable accrued in the previous years amounting to KShs 438 million. In the current year, the Bank has reversed KShs 12 million being the balance of interest that had been accrued in the previous years.

25. OTHER INCOME

	GROUP		BANK	
	2003	2002	2003	2002
	KShs'000	KShs'000	KShs'000	KShs'000
Dividend income	110	92	110	92
Gain on disposal of property and equipment	7,540	1,590	7,540	1,590
Rental income (net)	8,826	4,605	8,826	4,605
Amortisation of capital grants	49,786	27,285	49,785	27,285
Miscellaneous	83,303	703,498	83,255	693,816
	<u>149,565</u>	<u>737,070</u>	<u>149,516</u>	<u>727,388</u>

26. OPERATING EXPENSES

Staff costs	1,080,501	965,763	1,051,433	959,494
Directors' emoluments	26,855	24,623	21,720	24,623
Depreciation on property and equipment	277,127	273,911	276,920	273,831
Amortisation of leasehold land	717	717	717	717
Amortisation of intangible assets	51,488	48,802	48,394	47,089
Auditors' remuneration	5,374	4,885	4,950	4,500
Contribution to Deposit Protection Fund	29,474	28,767	29,474	28,767
Other administrative expenses	567,639	521,426	557,232	520,634
Other	460,123	539,681	457,515	538,307
	<u>2,499,298</u>	<u>2,408,575</u>	<u>2,448,355</u>	<u>2,397,962</u>

27. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging:-

	GROUP		BANK	
	2003	2002	2003	2002
	KShs'000	KShs'000	KShs'000	KShs'000
Staff costs	986,243	896,917	957,175	890,648
Directors' emoluments	26,855	24,623	21,720	24,623
Depreciation on property and equipment	277,127	237,911	276,920	273,831
Amortisation of leasehold land	717	717	717	717
Amortisation of intangible assets	51,488	48,802	48,394	47,089
Auditors' remuneration	5,374	4,885	4,950	4,500
Provision for bad and doubtful Debts	464,231	411,409	464,231	411,409
Contribution to Deposit Protection Fund	29,474	28,767	29,474	28,767
Contribution to staff retirement benefits scheme	94,258	68,846	94,258	68,846

NOTES TO THE FINANCIAL STATEMENTS

	GROUP		BANK	
	2003	2002	2003	2002
	KShs'000	KShs'000	KShs'000	KShs'000
and after crediting:-				
Foreign exchange gain	156,811	93,622	156,811	93,622
Gain on sale of fixed assets	-	1,590	-	1,590
Net rental income	8,826	4,605	8,826	4,605
Dividend income	110	92	110	92
Amortisation of capital grants	<u>49,785</u>	<u>27,285</u>	<u>49,785</u>	<u>27,285</u>

28. EARNINGS PER SHARE

The calculation of earnings per share for the Group and the Bank is based on the year's profit and on the weighted average number of shares in issue during the year.

29. PRIOR YEAR ADJUSTMENTS

- In 2002, the Bank classified treasury bonds as held to maturity financial instruments. Subsequent to year-end, the Bank sold a significant portion of these investments to meet its obligations to customers. In compliance with International Accounting Standard (IAS) Number 39, the Bank subsequently reclassified these assets as held for trading and remeasured them at fair value. A prior year adjustment has been passed restating trading investments and revenue reserves by increasing both by KShs 44 million.
- In the previous year the Bank included in its deferred assets tax losses amounting to KShs 521 million relating to Co-operative Merchant Bank, a subsidiary company whose operations were merged with those of the Bank. Subsequent to year-end, the directors obtained advice that such tax losses are specific to Co-operative Merchant Bank and could therefore not be taken over. Consequently, the Bank has passed a prior year adjustment to remove deferred tax losses amounting to KShs 156 million by debiting revenue reserves and crediting deferred tax assets by the same amount.
- The Bank has reclassified the cost of leasehold land amounting to KShs 56 million from property and equipment to prepaid lease rentals so as to comply with International Accounting Standard (IAS) number 17 and in particular, the treatment of leasehold land. As part of the reclassification, the revaluation surplus on leasehold land of KShs 71 million has been reversed from capital reserves. Comparative figures have been amended accordingly to reflect change in accounting policy. In restating the results of 2002 on the basis of the new policy, the profit for that year has been reduced by KShs 716,724 being amortisation charge on leasehold land. The accumulated amortisation amounting to KShs 9.5 million relating to the year 2001 and prior years has been charged against accumulated losses as at 1 January 2002. Revaluation surplus relating to buildings has been subjected to deferred tax resulting in deferred tax of KShs 128 million being charged against capital reserves at 1 January 2002. In 2002, deferred tax credit of KShs 40 million has been credited to the capital reserves.

NOTES TO THE FINANCIAL STATEMENTS

30. CASH AND EQUIVALENTS

Cash and equivalents included in the cash flow statement comprise the following balance sheet amounts:-

	GROUP	
	2003 KShs'000	2002 KShs'000
Cash on hand	810,663	709,558
Cash with Central Bank of Kenya	1,902,900	2,035,723
Deposits and balances due from banking institutions	870,163	782,742
Government securities and		
Other investments maturing within 91 days	458,810	345,165
	4,042,536	3,873,188
Less CBK cash ratio	(1,542,922)	(1,249,705)
	<u>2,499,614</u>	<u>2,623,483</u>

31. RELATED PARTY TRANSACTIONS

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

The following amounts were advanced to directors, employees of the Bank and other related parties in the ordinary course of business.

	GROUP	
	2003 KShs'000	2002 KShs'000
Directors	30,519	244,543
Employees	756,580	651,009
Other institutions where the Bank has equity	16,774	46,557
	<u>803,873</u>	<u>942,109</u>

The weighted average interest on loans to related parties during the year was 4.92% (2002-4.64%)

(b) Inter-company balances:-

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

	GROUP	
	2003 KShs'000	2002 KShs'000
Due from:-		
Balances due from subsidiary companies (note 6)	1,668	28,002
Due to:-		
Deposits from subsidiary companies	9,682	-
Other balances (note 6)	1,318	-
	<u>11,000</u>	<u>-</u>

These transactions with related parties were at arm's length. No interest is charged on transactions between parent company and its subsidiaries.

32. GROUP INTEREST RATE RISK

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels on market interest rates on its financial position and cash flows. The table below summarises the exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

ASSETS	Up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Non interest bearing KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	-	-	-	-	-	2,713,563	2,713,563
Deposits and balances due from banks	870,163	-	-	-	-	-	870,163
Trading investments	-	460,300	259,050	2,693,500	1,819,008	-	5,231,858
Amount due from subsidiary company	-	-	-	-	-	1,668	1,668
Non trading investments	-	-	-	-	-	591,109	591,109
Loans and advances to customers	1,370,850	1,114,784	2,234,723	7,109,813	1,646,410	4,617,898	18,094,478
Tax recoverable	-	-	-	-	-	55,567	55,567
Other assets	-	-	-	-	-	1,755,081	1,755,081
Intangible assets	-	-	-	-	-	120,614	120,614
Prepaid lease rentals	-	-	-	-	-	44,629	44,629
Property and equipment	-	-	-	-	-	2,339,384	2,339,384
Deferred tax	-	-	-	-	-	578,088	578,088
Total Assets	2,241,013	1,575,084	2,493,773	9,803,313	3,465,418	12,817,601	32,396,202
LIABILITIES							
Deposits and balances due to banks	905,905	326,326	-	104,422	-	-	1,336,653
Customer deposits	12,463,203	6,957,877	430,562	421,822	-	5,550,515	25,823,979
Loans	-	-	-	-	1,918,161	-	1,918,161
Amount due to subsidiary company	-	-	-	-	-	1,318	1,318
Other liabilities	-	-	-	-	-	1,185,717	1,185,717
Share Capital	-	-	-	-	-	1,211,566	1,211,566
Reserves	-	-	-	-	-	126,410	126,410
Capital grants	-	-	-	-	-	756,051	756,051
Proposed dividends	-	-	36,347	-	-	-	36,347
Total liabilities and shareholders' funds	13,369,108	7,284,203	466,909	526,244	1,918,161	8,831,577	32,396,202
Interest Sensitivity Gap at 31 December 2003	(11,128,095)	(5,709,119)	2,026,864	9,277,069	1,547,257	3,986,024	-
Interest Sensitivity Gap at 31 December 2002	(4,052,958)	(2,642,803)	3,278,529	2,263,492	(744,676)	1,898,416	-

NOTES TO THE FINANCIAL STATEMENTS

33. GROUP LIQUIDITY RISK MANAGEMENT

The Bank manages the liquidity structure of assets, liabilities and commitments so that cash flows are appropriately matched to ensure that all funding obligations are met when due. The table below analyses the banks' assets and liabilities into relevant groupings based on the remaining period at 31 December 2003 to the contractual maturity dates.

	Up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
ASSETS						
Cash and balances with Central Bank of Kenya	1,170,641	-	-	-	1,542,922	2,713,563
Deposits and balances due from banks	870,163	-	-	-	-	870,163
Trading investments	-	460,300	259,050	2,693,500	1,819,008	5,231,858
Amount due from subsidiaries	1,668	-	-	-	-	1,668
Non trading investments	-	-	-	-	591,109	591,109
Loans and advances to customers	5,939,550	1,114,784	2,234,723	7,109,813	1,695,608	18,094,478
Tax recoverable	-	-	-	55,567	-	55,567
Other assets	1,384,182	-	370,899	-	-	1,755,081
Intangible assets	-	-	-	-	120,614	120,614
Prepaid lease rentals	-	-	-	-	44,629	44,629
Property and equipment	-	-	-	-	2,339,384	2,339,384
Deferred tax	-	-	-	578,088	-	578,088
Total Assets	9,366,204	1,575,084	2,864,872	10,436,968	8,153,274	32,396,202
LIABILITIES						
Deposits and balances due to banks	905,905	326,326	-	104,422	-	1,336,653
Customer deposits	18,013,718	6,957,877	430,562	421,822	-	25,823,979
Loans	-	-	-	-	1,918,161	1,918,161
Amount due to subsidiary company	1,318	-	-	-	-	1,318
Other liabilities	25,650	416,588	279,245	464,234	-	1,185,717
Share Capital	-	-	-	-	1,211,566	1,211,566
Reserves	-	-	-	-	126,410	126,410
Capital Grants	-	-	-	-	756,051	756,051
Proposed dividends	-	-	36,347	-	-	36,347
Total liabilities and shareholders' funds	18,946,591	7,700,791	746,154	990,478	4,012,188	32,396,202
Interest Sensitivity Gap at 31 December 2003	(9,580,387)	(6,125,707)	2,118,518	9,446,490	4,141,086	-
Interest Sensitivity Gap at 31 December 2002	(5,806,131)	(2,898,385)	3,278,529	3,794,038	1,631,949	-

34. FOREIGN CURRENCY EXPOSURE

GROUP AND BANK

CURRENCY TYPE	USD	GBP	EURO	JPY	ZAR	OTHERS	TOTAL
EXCHANGE RATE	76.139	135.505	95.621	0.712	11.451		
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Foreign Currency Assets:							
Cash & balances with banks abroad	458,093	82,566	17,996	923	4,562	7,409	571,549
Loan and advances	425,921	-	29,653	-	-	-	455,574
Other foreign assets	945,883	2,799	94,111	-	117	129	1,043,039
Off-balance sheet items	35,028	-	(33,467)	-	(3,779)	-	(2,218)
Total Foreign Assets	1,864,925	85,365	108,293	923	900	7,538	2,067,944
Foreign Currency Liabilities:							
Loans and advances & Other foreign liabilities	1,841,579	84,511	105,199	838	230	5,542	2,037,889
Off-balance sheet items	-	-	-	-	-	-	-
Total Foreign Liabilities	1,841,579	84,511	105,199	838	230	5,542	2,037,899
Net Exposure at 31 December 2003	23,346	854	3,094	85	670	1,996	30,045
Net Exposure at 31 December 2002	28,004	908	188	(546)	33	944	29,531

NOTES TO THE FINANCIAL STATEMENTS

35. SEGMENT INFORMATION

The Bank's main business is banking and accounts for more than 99% of the total income. There are therefore no material distinct business segments to necessitate detailed disclosures.

36. COMMITMENTS

	GROUP		BANK	
(a) Capital:-	2003 KShs'000	2002 KShs'000	2003 KShs'000	2002 KShs'000
i) Authorised and Contracted for	<u>73,369</u>	<u>21,602</u>	<u>73,369</u>	<u>21,602</u>
ii) Loans committed, not disbursed at year end	<u>779,058</u>	<u>542,578</u>	<u>779,058</u>	<u>542,578</u>

37. CONTINGENT LIABILITIES

i) Letters of credit, guarantees and other engagements entered into on behalf of Customers	<u>1,272,431</u>	<u>1,186,529</u>	<u>1,272,431</u>	<u>1,186,529</u>
(ii) Pending legal suits: -				

(a) One of the Bank's customers has sued it for failure to write off a debt contrary to the Government's request and for failing to award it a loan for development and as a result of which the customer suffered losses from 1995. The customer is seeking compensation amounting to KShs 1.074 billion. The Bank has lodged a counter-claim and the directors believe that the Bank has a strong defence against the plaintiff.

(b) A former customer has sued the Bank seeking special damages amounting to KShs 26 million plus general damages to be quantified by the court. The suit arises from the Bank's action whereby a banker's cheque for KShs 1.1 million issued against the plaintiff's account was stopped. Thereafter the payee terminated the business relationship it had with the Bank. In the opinion of the directors, the judgement is likely to be in favour of the Bank as it has a strong defence. No liability is therefore expected to crystallise.

(c) Former employees have sued the Bank for wrongful dismissal in 2003. The Bank is in the process of preparing and filing in court its defence. If the suit is successful, the Bank will be required to pay approximately KShs 3.5 million. The Bank has lodged a counter-claim against this suit.

NOTES TO THE FINANCIAL STATEMENTS

37. CONTINGENT LIABILITIES (continued)

(d) A former employee who was sacked on 31 March 2003 has sued the Bank for wrongful dismissal. The Bank's lawyers have estimated settlement in the event that the suit succeeds against the Bank, at KShs 10 million. The matter is still in court and the directors are of the opinion that the case will be decided in favour of the Bank.

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

38. EMPLOYEES

	GROUP		BANK	
	2003	2002	2003	2002
The average number of employees during the year was	<u>1,083</u>	<u>947</u>	<u>1,071</u>	<u>943</u>

39. COMPARATIVES

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, the comparative figures have been adjusted to take into account the effect of the prior year adjustment.

40. INCORPORATION

The Bank is incorporated in Kenya under the Co-operative Societies Act.

41. CURRENCY

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

FACTS YOU NEED TO KNOW ABOUT THE CO-OPERATIVE BANK OF KENYA LIMITED

- 1) Co-operative bank is 100% privately owned by over 57,000 Kenyan shareholders countrywide who include Co-operative and individual members of Co-operatives.
- 2) The Bank's Directors are elected by the Co-operative Movement through a grassroots national delegates system and they represent all the 8 provinces of Kenya.
- 3) The Bank impacts on the livelihood of over 5 million members of the co-operative movement directly and over 20 million Kenyans indirectly, ranking it as the single biggest business partner to co-operatives in Africa.
- 4) We not only serve Co-operatives but we also offer services to corporate and commercial customers. We also cater for other unique banking needs like Institutional Banking (e.g schools, NGOs & religious organizations), Treasury and Foreign Exchange Business, Small and Medium sized Enterprises and Personal and Business Banking.
- 5) The Co-operative Bank is creating the opportunity for the vast majority of Kenyans to get access to financial services by assisting co-operatives to provide Front Office banking services (FOSAs) to their members.
- 6) The bank has made heavy investment in Information Technology giving it a competitive business edge in the use of best-of-breed customer service systems. The Bank, therefore, offers jumbo-link, (a mass payment system) Moneygram, SWIFT and other e-banking services using Fontis.
- 7) We offer on-line real-time centralized banking because all our 32 branch outlets are electronically connected. This ranks us among the top few banks in Kenya offering one stop branch-less banking.
- 8) The bank is the largest issuer of Visa-Electronic debit cards in Kenya and ranks among the top credit cards issuers.
- 9) With the support of our customers the Bank has achieved financial and operational turn-around after a process of system re-engineering and shared commitment of the Board of Directors, Management Team and staff.
- 10) Our Co-operative Bank House building, which was damaged during the 1998 bomb blast, has now been fully refurbished. We commissioned our ultra modern Co-operative House Branch and relocated our Head office to the building.
- 11) The Bank offers specialized services ranging from Financial Advisory Services, Share Registration services, Fund Management, Co-operative Consultancy Services among others through our fully owned subsidiaries, namely, Co-optrust Investments Services Limited and Co-operative Consultancy Services (Kenya) Limited.
- 12) To serve our customers better, all branches are open six days a week including **ALL Saturdays**.
- 13) The Bank is proud to be fully owned by Kenyans, managed by Kenyans in the service of all Kenyans and all other communities.

This is why We are you !

Find more information about us on our website: www.co-opbank.co.ke